Finance, Resources, Audit and Governance Committee

Members of the Finance, Resources, Audit and Governance Committee:

Mr M Edney (Chairman)
Mrs K Billig
Mr L Dale
Mr D Goldson
Mr T Lewis
Mr T Palmer
Miss L Webster

If any member of the public wishes to speak on a non-confidential item, they may do so at the discretion of the Chairman.

Agenda

Date
Tuesday 3 September 2013

Time
2.00 p.m.

Place
Colman Room
South Norfolk House
Swan Lane
Long Stratton Norwich
NR15 2XE

Contact
Sue Elliott
tel (01508) 533663
South Norfolk District Council
Swan Lane
Long Stratton Norwich
NR15 2XE

Email: democracy@s-norfolk.gov.uk
Website: www.south-norfolk.gov.uk

If you have any special requirements in order to attend this meeting, please let us know in advance.

Large print version can be made available.
A G E N D A

1. To report apologies for absence and identify substitute voting members (if any);

2. Any items of business the Chairman decides should be considered as matters of urgency pursuant to Section 100B (4) (b) of the Local Government Act, 1972. Urgent business may only be taken if, "by reason of special circumstances" (which will be recorded in the minutes), the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency;

3. To Receive Declarations of Interest from Members;
   (Please see guidance form and flow chart attached – page 9)

4. Minutes of the meeting of the Finance, Resources, Audit and Governance Committee held on 28 June 2013;  
   (attached – page 11)

5. Finance, Resources, Audit and Governance Committee Self-Assessment Exercise  
   (attached - page 16)  
   (appendix 1 - page 20)

6. Annual Review of the Effectiveness of Internal Audit with Outcomes of FRAG Committee Self-Assessment Exercise for 2012/13  
   (attached - page 27)  
   (appendix 1 - page 31)  
   (appendix 2 - page 41)

7. Date of Next Meeting  
   26 September 2013
Glossary

**General Terms**

**AGS** – *Annual Governance Statement* – This is a statement prepared by the Council each year to summarise the governance and assurance framework, and highlight any significant weaknesses in that framework.

**BAD DEBT PROVISION** - To take account of the amount of debt which the Council estimates it will not be able to collect.

**CIPFA** – *the Chartered Institute of Public Finance and Accountancy* – the accountancy body for public services.

**CoCo** - *Code of Connection* – a list of security controls that the Council has to have in place in order to undertake secure transactions with other government bodies.

**CNC** - a joint venture established with Norwich City Council and Broadland Council to deliver the Council’s building control functions, ensuring buildings and developments comply with building regulations.

**CNC CS** – CNC consultancy services, the private company administered by CNC.

**CREDITOR** - A person or organisation which the Council owes money to for a service or goods.

**CSO** – *Contract Standing Orders* – outline the Council’s rules when entering into contracts and buying large value goods.

**GNDP** – *Greater Norwich Development Partnership* – a partnership with Norwich City and Broadland Councils that manages delivery of the Government’s growth strategies.

**JCS** – *Joint Core Strategy* – sets out the general vision and objectives for delivering the local development framework.

**JOURNAL** - The transfer of a transaction to either a different cost centre or a different categorisation within the finance system e.g. transfer of an item of expenditure between HR and Planning or the transfer of expenditure from electricity to water. These are used to correct input errors, share costs/income between cost centres or to record expenditure or income which has not yet been invoiced.

**KPI** - Key Performance Indicator.

**LASAAC** – *Local Authority (Scotland) Accounts Advisory Committee* – this Committee develops proper accounting practice for Scottish Local Authorities.

**LDF** – *Local Development Framework* - outlines the management of planning in the Council.

**LEDGER** - A module within the finance system e.g. Sales Ledger, Purchase Ledger, General Ledger.

**LGA** – *Local Government Association* – a lobbying organisation for local councils.

**LGPS** – *Local Government Pension Scheme* - Pension Scheme for all public sector employees.
**LGR - Local Government Reorganisation** – the process to redesign how public services operate within Norfolk Councils, through either a single tier (one large council) or multiple tier (2 or more councils) structure

**LSVT - Large Scale Voluntary Transfer** - the transfer of the Council’s housing stock to Saffron Housing Trust

**Moving Forward Together** – The Council’s internal programme to improve performance in a number of key areas

**NFI – National Fraud Initiative** – A national exercise to compare data across public sector organisation to aid identifying potential frauds

**NI – National Indicator** – a measure used to identify how the council is performing that is determined by central government

**NNDR – National Non-Domestic Rates** – commonly known as Business Rates

**PI – Performance Indicator** – measure used to identify how the council is performing

**RAD - Rent Assisted Deposit scheme.**

**RFG – Rules of Financial Governance** – the Council’s rules governing the day-to-day financial activities undertaken

**RSS – Regional Spatial Strategies** – this sets out the overall regional framework for planning development to inform the local development framework.

**SLA – Service Level Agreement** – an agreement that sets out the terms of reference for when a service is provided when one organisation provides a service to another

**MTP – Medium Term Plan** – sets out the future forecast financial position of the Council

**SOLACE – Society of Local Authority Chief Executives** – society promoting public sector management and development

**SPARSE – Sparsity Partnership for Authorities Delivering Rural Services** – an organisation that benchmarks and supports local rural councils

**SUNDRY DEBTOR** - A person who owes the Council money for a service they have received prior to payment, this excludes Council Tax or NNDR. The term can also refer to the system used to record money owed to the council e.g. The Sundry Debtors system which is a module within the financial system.

**TOTAL PLACE** – an initiative designed to review public services operating across a whole area, reducing duplication and encouraging involvement across a range of organisations.
Audit Terminology

**APB** – *Auditing Practices Board* – the body that sets the standards for auditing in the UK

**CAA** – *Comprehensive Area Assessment* – the approach adopted by the Audit Commission to evaluate the overall performance of Councils, suspended in 2010. The outcomes are recorded in the organisational assessment.

**COUNT** – *Count Once, Use Numerous Times* – a system used for data collection and analysing, which works to avoid duplication by assuming the principle that a piece of data should be recorded once but used several times in different ways.

**ISA** – *International Auditing Standard* – Provides external auditors with a required framework that dictates work to be undertaken before awarding an opinion on the statement of accounts.

**KLOE** – *Key Lines of Enquiry* – these are the standard criteria used to review the council within the use of resources assessment.

**UOR** – *Use of Resources* – this is an assessment method used to review how the Council performs in managing its assets, finance, staffing etc. It informs the value for money conclusion on the accounts as well as comprehensive area assessments.

**VFM Conclusion** – *Value for Money Conclusion* – the Audit Commission are required to give an annual conclusion on the Council’s arrangements for providing value for money in addition to the opinion given on the statement of accounts.
Accounting Terminology

BVACOP – *Best Value Accounting Code of Practice* – outlines how Council should classify income and expenditure across different services.

CFR – *Capital Financing Requirement* – a calculated figure that establishes the amount of money the Council needs to borrow.

Collection Fund – a separate account statement that records the transactions relating to the collection and redistribution of council tax and business rates.


GAAP – *Generally Accepted Accounting Practice* – this provides the overall framework for accounting principles prior to IFRS adoption in local government (also “UK GAAP” – specific to the United Kingdom).

HRA – *the Housing Revenue Account* – the account used to record transactions related to the Council’s housing stock, closed at 31/3/10.

IAS – *International Accounting Standards* – these were the precursors for international financial reporting standards (see below).

IFRS – *International Financial Reporting Standards* – these are replacing financial reporting standards to provide general guidance for accounting treatment.

IPSAS – *International Public Sector Accounting Standards* – these set out the accounting standards for public sector bodies, and are based on the international financial reporting standards.

MRP – *Minimum Revenue Provision* – the amount of money the Council needs to set aside each year to fund activities from revenue balances.

MTP – *Medium Term Plan* – sets out the future forecast financial position of the Council.

RSG – *Revenue Support Grant* - main source of Council funding from Central Government.

SORP – *Statement of Recommended Practice* – more detailed guidance on how Local Authorities should produce statements of accounts to ensure consistency.

SSAP – *Statement of Standard Accounting Practice* – preceded the financial reporting standards in the UK, however until replacement some still remain operating.

Virement – The process of transferring a sum of money from one part of the Council’s budget to another, subject to appropriate approval.

WGA – *Whole of Government Accounts* – an exercise undertaken to consolidate all the accounting records of government bodies.
**International Accounting and Financial Reporting Standards Reference Numbers**

**IAS1** – *Presentation of Financial Statements* – sets out the prescribed format for statements of accounts

**IAS19** – *Employee Benefits* – essentially provides the basis for accounting for the pension fund

**IAS20** – *Accounting for Government Grants* – establishes the accounting treatment for receiving government grants

**IAS40** – *Investment Property* – how organisations should account for properties held as an investment

**IFRS1** - *First time adoption of IFRS* – sets out the procedures to follow when preparing the first IFRS statement of accounts

**IPSAS16** – *Investment Property* – how public sector organisations should account for properties held as an investment

**IPSAS23** – *Revenue from non-exchange transactions (taxes and transfers)* – this determines how monies from taxes should be treated in the accounts

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**Council Systems**

**ALBACS CS** – The Council’s system to make payments to other organisations

**AXIS** - Income receiving system which interacts directly with Integra

**Clubrunner** – System used to manage bookings and activities at the leisure centres

**eXpress** – the electoral registration system

**FAM** – the system used by the accountancy team to record the Council’s assets and associated transactions

**FLARE** – the system used by the environmental health team for their operations

**IBS** – the Revenues system, maintains all Council Tax, Business Rates and Benefits records

**Integra** – general ledger used to record all accounting transactions, including purchases made by the Council and income received by the Council

**LALPAC** – system used to record licensing details

**Northgate** – the system used by the planning and housing teams at the Council
Working Style of Cabinet Policy Committees

Member Leadership
Members of the Committees will take the lead in understanding the direction provided by Cabinet and delivering work to Cabinet requirements. Whilst recognising political allegiances, members will work in a collaborative manner with officers and cabinet portfolio holders to consider the relevant issues when developing Council policy.

Collaborative Working
All meetings of the Committees will be constructive and conducted in a spirit of mutual respect and trust. Officers will commit to supplying meetings with information relevant to making informed decisions on policies and matters. Members will commit to thoroughly reading and understanding papers, raising questions that are pertinent to the issues at stake. Members will, where feasible, agree definable actions to be taken forward by officers to develop policy, rather than having items for noting or simply to discuss.

Frequency and Nature of Meeting
Each Committee will have at least 3 formal, public meetings per year. In assessing items delegated by Cabinet for review, the Committee may decide that it wishes to meet on a more or less frequent basis. The Committee may also hold informal meetings should it require in order to progress specific items in detail. However, if the Committee is meeting to determine whether to refer items for Cabinet approval, the meeting should follow the Council’s Standing Orders and thus be subject to a formal agenda, be held in public and the meeting recorded. Informal meetings may be held in any manner suitable for conducting business (e.g. via meeting, conference call, circulation of information via e-mail, or site visits); while relevant information will be supplied by officers where appropriate, these meetings will not be subject to a formal agenda or minutes. Where business of the Committee is undertaken through informal meeting, all members of the Committee will be provided opportunity to participate. Members will expect to be able to participate in a free and frank exchange of views when deliberating subjects.

Training
Members commit to undertaking development – for example, attending formal training sessions, or reading relevant background material, in order to properly equip themselves to deliver their expected role fully.

Accountability
The Policy Committees will be accountable to Cabinet. They will not be able to make decisions themselves, but can recommend decisions to Cabinet. Cabinet may review whether the Committees are discharging their duties effectively, and may receive progress reports on how the Policy Committee is working to discharge its duties.

Work Programmes
The Work Programmes for the Policy Committee will be established by Cabinet. Members of the Committee will not be able to raise items to be included in the work programme. Where topics have been identified for inclusion in the work programme, the Committee will work to identify how it will discharge its responsibilities, including the resources required to do so.

Managing Time
However the Committee is meeting, it will attempt to conclude the business of each meeting in reasonable time. The Chairman will be responsible for ensuring the meeting stays focused on pertinent issue, and does not become side-tracked on issues that are not relevant to the policy under consideration, or those that should be discussed by a separate committee.
DECLARATIONS OF INTEREST AT MEETINGS

When declaring an interest at a meeting Members are asked to indicate whether their interest in the matter is pecuniary, or if the matter relates to, or affects a pecuniary interest they have, or if it is another type of interest. Members are required to identify the nature of the interest and the agenda item to which it relates. In the case of other interests, the member may speak and vote. If it is a pecuniary interest, the member must withdraw from the meeting when it is discussed. If it affects or relates to a pecuniary interest the member has, they have the right to make representations to the meeting as a member of the public but must then withdraw from the meeting. Members are also requested when appropriate to make any declarations under the Code of Practice on Planning and Judicial matters.

<table>
<thead>
<tr>
<th>Have you declared the interest in the register of interests as a pecuniary interest? If Yes, you will need to withdraw from the room when it is discussed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the interest directly:</td>
</tr>
<tr>
<td>1. affect yours, or your spouse / partner’s financial position?</td>
</tr>
<tr>
<td>2. relate to the determining of any approval, consent, licence, permission or registration in relation to you or your spouse / partner?</td>
</tr>
<tr>
<td>3. Relate to a contract you, or your spouse / partner have with the Council</td>
</tr>
<tr>
<td>4. Affect land you or your spouse / partner own</td>
</tr>
<tr>
<td>5. Affect a company that you or your partner own, or have a shareholding in</td>
</tr>
<tr>
<td>If the answer is “yes” to any of the above, it is likely to be pecuniary.</td>
</tr>
<tr>
<td>Please refer to the guidance given on declaring pecuniary interests in the register of interest forms. If you have a pecuniary interest, you will need to inform the meeting and then withdraw from the room when it is discussed. If it has not been previously declared, you will also need to notify the Monitoring Officer within 28 days.</td>
</tr>
<tr>
<td>Does the interest indirectly affect or relate any pecuniary interest you have already declared, or an interest you have identified at 1-5 above?</td>
</tr>
<tr>
<td>If yes, you need to inform the meeting. When it is discussed, you will have the right to make representations to the meeting as a member of the public, but must then withdraw from the meeting.</td>
</tr>
<tr>
<td>Is the interest not related to any of the above? If so, it is likely to be an other interest. You will need to declare the interest, but may participate in discussion and voting on the item.</td>
</tr>
<tr>
<td>Have you made any statements or undertaken any actions that would indicate that you have a closed mind on a matter under discussion? If so, you may be predetermined on the issue; you will need to inform the meeting, and when it is discussed, you will have the right to make representations to the meeting as a member of the public, but must then withdraw from the meeting.</td>
</tr>
</tbody>
</table>

FOR GUIDANCE REFER TO THE FLOWCHART OVERLEAF.
PLEASE REFER ANY QUERIES TO THE MONITORING OFFICER IN THE FIRST INSTANCE
What matters are being discussed at the meeting?

Do any relate to an interest I have?
A. Have I declared it as a pecuniary interest?
OR
B. Does it directly affect me, my partner or spouse’s financial position, in particular:
   - employment, employers or businesses;
   - companies in which they are a director or where they have a shareholding of more than £25,000 face value or more than 1% of nominal shareholding
   - land or leases they own or hold
   - contracts, licenses, approvals or consents

The interest is pecuniary – disclose the interest, withdraw from the meeting by leaving the room. Do not try to improperly influence the decision.

If you have not already done so, notify the Monitoring Officer to update your declaration of interests

The interest is related to a pecuniary interest. Disclose the interest at the meeting. You may make representations as a member of the public, but then withdraw from the room.

Does the matter indirectly affect or relate to a pecuniary interest I have declared, or a matter noted at B above?

YES

The Interest is not pecuniary nor affects your pecuniary interests. Disclose the interest at the meeting. You may participate in the meeting and vote.

Have I declared the interest as an other interest on my declaration of interest form? OR

Does it relate to a matter highlighted at B that impacts upon my family or a close associate? OR

Does it affect an organisation I am involved with or a member of? OR

Is it a matter I have been, or have lobbied on?

NO

You are unlikely to have an interest. You do not need to do anything further.
Finance, Resources, Audit and Governance Committee Self Assessment Exercise

Internal Audit Consortium Manager

The Chartered Institute for Public Finance and Accountancy (CIPFA) "Toolkit for Local Authority Audit Committees" identifies that it is good practice for Audit Committees to complete a regular self-assessment exercise and to assist this process, provides a checklist of operational requirements which it is recommended should be satisfied to ensure the Committee is performing effectively. This report comments on the outcomes of a self-assessment exercise undertaken with members of the Finance, Resources, Audit and Governance Committee on 2 August 2013, noting that the findings made will also be used to further inform the 2012/13 review of the Effectiveness of Internal Audit. The results of the exercise are included at Appendix 1 to this report. The completed checklist highlights where compliance with recognised practice has been achieved, instances where there has been deviation and why this has been case, and also identifies those areas where additional enhancements will be introduced to improve upon existing operational arrangements.

Cabinet member(s): Garry Wheatley
Ward(s) affected: All

Contact Officer, telephone number, and e-mail: Sandra C King 01508 533863 scking@s-norfolk.gov.uk

1. Background

1.1. The self-assessment exercise was previously undertaken by the Accounts, Audit and Governance Committee. However, the latter was disbanded in March 2012 and replaced by a Policy Sub Committee of Cabinet - the Finance, Resources, Audit and Governance Committee, which has been meeting on a regular basis since June 2012. The Policy Sub Committee has been subject to 3 formal meetings since it was constituted, and has also been convened on an informal basis, as and when required.

1.2. As the Policy Committee has been operating for over a year and given that aspects of the annual review of the effectiveness of Internal Audit undertaken in June 2013 recognised a need to recommence the self-assessment process, it was agreed that this exercise would be carried out informally in August 2013 with the outcomes reported formally in September 2013. It was also agreed that the findings of the self-assessment exercise would be incorporated into the annual review of the effectiveness of Internal Audit for 2012/13 which would then be
considered by the Policy Committee in September, prior to receiving the finalised version of the Annual Governance Statement for 2012/13. The completed CIPFA checklist resulting from the self-assessment exercise can be found in Appendix 1 to the report. A total of 66 individual aspects of operations were examined across 6 sub-headings as listed below:

- Establishment, Operation and Duties;
- Internal Control;
- Financial Reporting and Regulatory Matters;
- Internal Audit;
- External Audit; and
- Administration.

2. **Current Position and Issues**

2.1. Prior to performing the Audit Committee Self-Assessment, members were made aware that there has been a national move to introduce consolidated Public Sector Internal Audit Standards (PSIAS) with effect from 2013/14, whereas previously, public sector organisations were subject to a host of different internal audit standards, with local government internal audit provisions being required to mirror a published Code of Practice for Internal Audit produced by CIPFA.

2.2. Having reviewed the new Standards, there are implications for the role of Audit Committees and reporting arrangements to be observed going forward, however for the purposes of the review exercise conducted in August 2013, this has been performed to support the effectiveness of Internal Audit for 2012/13, and therefore, operational provisions have been reviewed in relation to the prescribed CIPFA Code of Practice obligations.

2.3. For future reference, the new PSIAS continue to call for Audit Committees to assess their remit and effectiveness in keeping with Standard 1000 – Purpose, Authority and Responsibility, in order to facilitate the work of such Committees.

2.4. Recent self-assessment work conducted, has confirmed that there were some deviations to good practice guidance and members have sought to respond to these particular items as follows:

2.4.1 The Policy Committee’s terms of reference do not cover all the core functions of an Audit Committee as identified in the CIPFA guidance. This is due to the revised Committee structure adopted by the Council from May 2012 onwards. Cabinet and the Finance, Resources, Audit and Governance Policy Committee collectively fulfil these requirements, and it is not envisaged that this arrangement will be amended in the future.

2.4.2 There is no current mechanism for providing formal annual reports on the Committee’s work and performance. It has been agreed that such reports will be produced annually going forward, which will be compiled in the final quarter of the financial year, so that the Committee receives this in March and it is considered
by Cabinet in May. This extra reporting requirement will be duly added to the Committee’s work plan.

2.4.3 New Committee members are not automatically invited to attend induction training. Arrangements will therefore be initiated in the event of new members joining the Committee to ensure they promptly receive appropriate training.

2.4.4 Although there are not formal arrangements in place to evaluate member skills and experience in order to determine and target identified gaps, where requests for training have been raised in Committee meetings, these have been speedily addressed, e.g. following discussions at the June meeting, it was agreed that members would receive linked training on the Statement of Accounts in early September, in advance of the final Accounts being made available at the end of September. A full skills assessment for all members is to be undertaken post elections in 2015.

2.4.5 The Committee does not review the authority’s strategic risk register at least annually. Cabinet is tasked with this responsibility of monitoring strategic risks, although the Committee is being consulted in September regarding development of a revised Risk Management Strategy and can additionally be given access to the Risk Register, if required. In May 2013, risk management related matters were transferred to the Portfolio Holder for Finance and Resources and in September 2013, the Committee’s terms of reference are scheduled to be expanded to reflect that it will now be maintaining an oversight of risk management processes.

2.4.6 It was also appreciated that the Committee has not held periodic private discussions with either the Internal or External Auditors during 2012/13. The consensus view of members was that timetabled annual sessions affording private discussions were not required, but there is opportunity to have this type of interaction, as and when needed at any time in the future.

3. Proposal and Reasons

3.1. Participation in the self-assessment exercise has permitted the Committee to verify the extent to which it has been complying with good practice advocated by CIPFA during 2012/13. Where there have been deviations recorded, members have taken a view on how they wish these matters to be managed from this point onwards, as recorded in section 2.4 of this report.

4. Other Options

4.1. Not applicable.

5. Relevant Corporate Priorities (delete the following as appropriate)

5.1. Driving services through being businesslike, efficient and customer aware.
6. **Implications and Risks**

6.1. Financial - None

6.2. Legal - None

6.3. Risks – As stated previously, members have considered CIPFA’s good practice requirements, and agreed on how they wish to respond to those elements where full compliance is not currently the case, with actions identified where further enhancements are sought.

7. **Conclusion**

7.1. Undertaking a review of its performance against good practice has ensured that the Committee has properly assessed the way in which it discharges its duties. The recent review of its remit and effectiveness has been comprehensively handled and where non-compliances have been realised, it has been recognised why they have arisen and confirmation then obtained as to how the Committee wishes to manage these issues on a future basis.

8. **Recommendations or Action Required**

8.1. Members of the Committee are requested to approve the summary report, the detailed checklist that was completed, resulting agreed actions to be progressed, and the referral of these documents and actions to Cabinet for its subsequent endorsement.

**Appendix 1** – Finance, Resources, Audit and Governance Committee’s completed Self-Assessment Checklist in relation to 2012/13
## South Norfolk Council - Audit Committee Self Assessment Checklist

### Appendix 1

<table>
<thead>
<tr>
<th>No.</th>
<th>Priority</th>
<th>issue</th>
<th>Yes</th>
<th>No</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>1</td>
<td>Does the audit committee have written terms of reference?</td>
<td>✓</td>
<td>✓</td>
<td>Yes within the Constitution.</td>
</tr>
<tr>
<td>1.2</td>
<td>1</td>
<td>Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?</td>
<td>✓</td>
<td>✓</td>
<td>Cabinet and FRAG collectively fulfil the requirements of an Audit Committee as expected by CIPFA.</td>
</tr>
<tr>
<td>1.3</td>
<td>1</td>
<td>Are the terms of reference approved by the council and reviewed periodically?</td>
<td>✓</td>
<td>✓</td>
<td>Last undertaken May 2019.</td>
</tr>
<tr>
<td>1.4</td>
<td>1</td>
<td>Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?</td>
<td>✓</td>
<td>✓</td>
<td>The Audit Committee has delegated approval to approve the accounts and the AGS.</td>
</tr>
<tr>
<td>1.5</td>
<td>1</td>
<td>Can the audit committee access other committees and full council as necessary?</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1.6</td>
<td>1</td>
<td>Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1.7</td>
<td>2</td>
<td>Does the audit committee periodically assess its own effectiveness?</td>
<td>✓</td>
<td>✓</td>
<td>Undertaken January 2013 by Accounts, Audit and Governance Committee and subsequently being undertaken today on behalf of FRAG (2 August 2019).</td>
</tr>
<tr>
<td>1.8</td>
<td>2</td>
<td>Does the audit committee make a formal annual report on its work and performance during the year to full council?</td>
<td>✓</td>
<td>✓</td>
<td>Annual report to be completed going forwards, to be taken to the AGM in May (to FRAG for March and then Cabinet for May). ACTION POINT</td>
</tr>
<tr>
<td>No.</td>
<td>Priority</td>
<td>Issue</td>
<td>Yes</td>
<td>No</td>
<td>Comments</td>
</tr>
<tr>
<td>-----</td>
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</tr>
<tr>
<td><strong>Membership, Induction and training</strong></td>
<td>1,9</td>
<td>1</td>
<td>Has the membership of the audit committee been formally agreed and a quorum set?</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1.10</td>
<td>1</td>
<td>Is the chair independent of the executive function?</td>
<td>✓</td>
<td></td>
<td>Although Cllr Edney is Deputy Portfolio Holder he is not able to deputise for Portfolio Holder at Cabinet.</td>
</tr>
<tr>
<td>1.11</td>
<td>1</td>
<td>Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?</td>
<td>✓</td>
<td></td>
<td>Training provided on these areas as the role has been developed has assisted in this.</td>
</tr>
<tr>
<td>1.12</td>
<td>1</td>
<td>Are new audit committee members provided with an appropriate induction?</td>
<td>✓</td>
<td></td>
<td>Training was provided upon formation of the Committee. Induction to be provided for new members. ACTION POINT</td>
</tr>
<tr>
<td>1.13</td>
<td>1</td>
<td>Have all members skills and experiences been assessed and training given for identified gaps?</td>
<td>✓</td>
<td></td>
<td>Procurement, Treasury Management and Audit Planning has been provided in the past. Full skills assessment to be undertaken post elections in 2015. Training would be beneficial on all of the accounts and how it is formed, to be tackled at the informal meeting in September. ACTION POINT</td>
</tr>
<tr>
<td>1.14</td>
<td>1</td>
<td>Has each member declared his or her business interests?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.15</td>
<td>2</td>
<td>Are members sufficiently independent of the other key committees of the council?</td>
<td>✓</td>
<td></td>
<td>Within TOR: “No more than 2 members of the Committee can also sit on the Scrutiny Committee”.</td>
</tr>
<tr>
<td><strong>Meetings</strong></td>
<td>1.16</td>
<td>1</td>
<td>Does the audit committee meet regularly?</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1.17</td>
<td>1</td>
<td>Do the terms of reference set out the frequency of meetings?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.18</td>
<td>1</td>
<td>Does the audit committee calendar meet the authority’s business needs, governance needs and the financial calendar?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.19</td>
<td>1</td>
<td>Are members attending meetings on a regular basis and if not, is appropriate action taken?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.20</td>
<td>1</td>
<td>Are meetings free and open without political influences being displayed?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.21</td>
<td>1</td>
<td>Does the authority’s S1E1 officer or deputy attend all meetings?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.22</td>
<td>1</td>
<td>Does the audit committee have the benefit of attendance of appropriate officers at its meetings?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No.</td>
<td>Priority</td>
<td>Issue</td>
<td>Yes</td>
<td>No</td>
<td>Comment</td>
</tr>
<tr>
<td>-----</td>
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<td>----------------------------------------------------------------------</td>
<td>-----</td>
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<td>---------</td>
</tr>
<tr>
<td>2.1</td>
<td>1</td>
<td>Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of internal audit?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>1</td>
<td>Does the audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>1</td>
<td>Does the audit committee consider how meaningful the Annual Governance Statement is?</td>
<td>✓</td>
<td></td>
<td>The Committee has asked for clarifications and changes at meetings in the past.</td>
</tr>
<tr>
<td>2.4</td>
<td>1</td>
<td>Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5</td>
<td>1</td>
<td>Has the audit committee considered how the audit integrates with other committees that may have responsibility for risk management?</td>
<td>✓</td>
<td></td>
<td>Draft Risk Management Strategy and ideas for the at an informal meeting of FRAG in September. Cabinet have responsibility for strategic risk and if they have any linked concerns they can then delegate this to FRAG for consideration. Currently TOR do not cover this. This will be expanded in September. ACTION POINT</td>
</tr>
<tr>
<td>2.6</td>
<td>1</td>
<td>Has the audit committee (with delegated responsibility) or the full council adopted &quot;Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?&quot;</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.7</td>
<td>1</td>
<td>Does the audit committee ensure that the &quot;Actions to Counter Fraud and Corruption&quot; are being implemented?</td>
<td>✓</td>
<td></td>
<td>It's considered through the AGS and the Annual Counter Fraud Report, and the recent update to Policy has been reviewed by the Committee, and will be taken to UCC, Cabinet and then Full Council.</td>
</tr>
<tr>
<td>2.8</td>
<td>2</td>
<td>Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.9</td>
<td>2</td>
<td>Does the audit committee review the authority's strategic risk register at least annually?</td>
<td>✓</td>
<td></td>
<td>The strategic risks are considered by Cabinet, but FRAG are responsible for developing the Strategy (September) and the Committee can see the register if they wish.</td>
</tr>
<tr>
<td>2.10</td>
<td>2</td>
<td>Does the audit committee monitor how the authority assesses its risk?</td>
<td>✓</td>
<td></td>
<td>September meeting will evaluate revised risk arrangements.</td>
</tr>
<tr>
<td>2.11</td>
<td>2</td>
<td>Do the audit committee's terms of reference include oversight of the risk management processes?</td>
<td>✓</td>
<td></td>
<td>At Council in May, Risk Management was transferred to Cllr. Wheatley, therefore TOR needs to be updated to reflect this. Will be updated in September. ACTION POINT</td>
</tr>
<tr>
<td>No.</td>
<td>Priority</td>
<td>Issue</td>
<td>Yes</td>
<td>No</td>
<td>Comments</td>
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<tr>
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</tr>
<tr>
<td>3.1</td>
<td>1</td>
<td>Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?</td>
<td>✓</td>
<td></td>
<td>Delegated responsibility.</td>
</tr>
<tr>
<td>3.2</td>
<td>1</td>
<td>Does the audit committee consider specifically:</td>
<td>✓</td>
<td></td>
<td>All individual responses are yes with the exception of write offs which are taken to Cabinet for approval, although their impact is noted in the final accounts which are considered by FPAC. Review draft accounts and draft AGS in June and approve final versions in September.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- the suitability of accounting policies and treatments;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- major judgements made;</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- large write-offs;</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- changes in accounting treatment;</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- the reasonableness of accounting estimates;</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- the narrative aspects of reporting?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.3</td>
<td>1</td>
<td>Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts or other issues arising from the audit?</td>
<td>✓</td>
<td></td>
<td>September report</td>
</tr>
<tr>
<td>3.4</td>
<td>1</td>
<td>Does the audit committee review management's letter of representation?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5</td>
<td>2</td>
<td>Does the audit committee annually review the accounting policies of the authority?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.6</td>
<td>2</td>
<td>Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.7</td>
<td>2</td>
<td>Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?</td>
<td>✓</td>
<td></td>
<td>Audit newsletter provided to all members of the Committee. Updates also provided to members as new legislation and regulatory issues arise.</td>
</tr>
<tr>
<td>No.</td>
<td>Priority</td>
<td>Issue</td>
<td>Yes</td>
<td>No</td>
<td>Comments</td>
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</tr>
<tr>
<td>4.1</td>
<td>1</td>
<td>Does the audit committee approve annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority’s significant risks?</td>
<td>✓</td>
<td></td>
<td>FRAG reviews and can recommend revisions, the plan will be approved by Cabinet and it too can suggest revisions to coverage.</td>
</tr>
<tr>
<td>4.2</td>
<td>1</td>
<td>Does internal audit have an appropriate reporting line to the audit committee?</td>
<td>✓</td>
<td></td>
<td>Feasibility of having extra meetings if required</td>
</tr>
<tr>
<td>4.3</td>
<td>1</td>
<td>Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4</td>
<td>1</td>
<td>Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.5</td>
<td>1</td>
<td>Does the audit committee hold periodic private discussions with the Head of Internal Audit?</td>
<td>✓</td>
<td></td>
<td>The structure is there for it, this can be set up going forwards so that the opportunity is there. Opportunity to have discussions with the Committee and do not involve management of the Council, these meetings are not minuted. This is seen as something that is already available. Periodic review not in place, but mechanism is there should it be required, Other sites undertake this annually before annual planning, If the need arises this will be taken forward as and when required.</td>
</tr>
<tr>
<td>4.6</td>
<td>1</td>
<td>Is there appropriate co-operation between the internal and external auditors?</td>
<td>✓</td>
<td></td>
<td>Briefing paper exists, next step is to develop a working protocol.</td>
</tr>
<tr>
<td>4.7</td>
<td>1</td>
<td>Does the audit committee review the adequacy of internal audit staffing and other resources?</td>
<td>✓</td>
<td></td>
<td>Yes through the TCR which is considered as part of the plans.</td>
</tr>
<tr>
<td>4.8</td>
<td>1</td>
<td>Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom?</td>
<td>✓</td>
<td></td>
<td>Annual Effectiveness Review to be considered in September.</td>
</tr>
<tr>
<td>4.9</td>
<td>2</td>
<td>Are internal audit performance measures monitored by the audit committee?</td>
<td>✓</td>
<td></td>
<td>As above.</td>
</tr>
<tr>
<td>4.10</td>
<td>2</td>
<td>Has the audit committee considered the information it wishes to receive from internal audit?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No.</td>
<td>Priority</td>
<td>Issue</td>
<td>Yes</td>
<td>No</td>
<td>Comments</td>
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<tr>
<td>EXTERNAL AUDIT</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>5.1</td>
<td>1</td>
<td>Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.2</td>
<td>1</td>
<td>Does the audit committee hold periodic private discussions with the external auditor?</td>
<td>✔</td>
<td></td>
<td>See comments made above re the question in relation to the question for Internal Audit at 4.5.</td>
</tr>
<tr>
<td>5.3</td>
<td>1</td>
<td>Does the audit committee review the external auditor’s annual report to those charged with governance?</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.4</td>
<td>1</td>
<td>Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?</td>
<td>✔</td>
<td></td>
<td>Management report back to the Committee in relation to progress made against these recommendations, a report was provided last June to reflect what is being undertaken in relation to the recommendations made. Will also subsequently be reviewed by External Audit.</td>
</tr>
<tr>
<td>5.5</td>
<td>1</td>
<td>Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission’s annual audit and inspection letter?</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.6</td>
<td>1</td>
<td>Does the audit committee assess the performance of external audit?</td>
<td>✔</td>
<td></td>
<td>External Audit were taken to task on the work that was undertaken on the Housing Subsidy claim. Annual Plan provided quite late this year, however this was challenged by the Committee.</td>
</tr>
<tr>
<td>5.7</td>
<td>1</td>
<td>Does the audit committee consider and approve the external audit fee?</td>
<td>✔</td>
<td></td>
<td>The fees can be considered by the Committee, but these are not strictly negotiable.</td>
</tr>
<tr>
<td>ADMINISTRATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agenda administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>1</td>
<td>Does the audit committee have a designated secretary from Committee/Member Services?</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.2</td>
<td>1</td>
<td>Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.3</td>
<td>2</td>
<td>Are outline agendas planned one year ahead to cover issues on a cyclical basis?</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.4</td>
<td>2</td>
<td>Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?</td>
<td>✔</td>
<td></td>
<td>However not applicable, as agenda always provided 5 days in advance.</td>
</tr>
<tr>
<td>No.</td>
<td>Priority</td>
<td>Issue</td>
<td>Yes</td>
<td>No</td>
<td>Comments</td>
</tr>
<tr>
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</tr>
<tr>
<td>Papers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.5</td>
<td>1</td>
<td>Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.6</td>
<td>2</td>
<td>Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Actions arising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.7</td>
<td>1</td>
<td>Are minutes prepared and circulated promptly to the appropriate people?</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>6.8</td>
<td>1</td>
<td>Is a report on matters arising made and minuted at the audit committee's next meeting?</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>6.9</td>
<td>1</td>
<td>Do action points indicate who is to perform what and by when?</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
Finance, Resources, Audit and Governance Committee  3 September 2013

Cabinet

Agenda Item No. 6

Annual Review of the Effectiveness of Internal Audit for 2012/13

Internal Audit Consortium Manager

This report sets out the results of an annual review of the effectiveness of Internal Audit, undertaken to satisfy criteria in the Accounts and Audit Regulations 2011. Internal Audit’s performance and quality assurance framework has been examined to enable the Audit Committee to confirm whether Internal Audit Services are effective, and that the assurances provided in the Internal Audit Annual Report and Opinion can be relied upon, and used to inform the Council’s Annual Governance Statement for 2012/13. The outcomes of the review, attached at Appendix 1, demonstrate that due processes have been followed in relation to conducting an annual analysis of the effectiveness of Internal Audit, and on the basis of information generated in consequence, reliance can be placed on the opinions expressed by the Internal Audit Consortium Manager, which can then be used to inform the authority’s Annual Governance Statement.

Cabinet member(s): Garry Wheatley
Ward(s) affected: All

Contact Officer, telephone Sandra King 01508 533863
number, and e-mail: sking@s-norfolk.gov.uk

1. Background

1.1 CIPFA’s Statement on the Role of the Head of Internal Audit in Local Government states that “the Head of Internal Audit occupies a critical position in a local authority, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance”.

1.2 The Accounts and Audit Regulations 2011 further require that a Council the size of South Norfolk must undertake an annual review of the effectiveness of its internal audit function, and that this review be undertaken by the same body that reviews the effectiveness of the system of internal control. To assist this process, Internal Audit working practices until the end of 2012/13 have been required to comply with CIPFA’s Code of Practice for Internal Audit in Local Government in the United Kingdom (first published in 2006), and from 1 April 2013 onward, with new consolidated Public Sector Internal Audit Standards (PSIAS) developed expressly to ensure greater conformity across the public sector in relation to the delivery of Internal Audit Services. Hence, these
standards have effectively superseded CIPFA’s Code of Practice as far as the 2013/14 financial year is concerned. However, for the purposes of this effectiveness review looking back over 2012/13, the Code of Practice remains applicable and an assessment has been undertaken to verify the level of compliance achieved in relation to these obligations.

1.3 That said, the existing performance and quality assurance framework developed by the Internal Audit Consortium Manager to ensure adherence to CIPFA’s Code of Practice also meets much of the newly introduced PSIAS requirements, although the latter have also now created an obligation to arrange for an external assessment of the effectiveness of internal audit at least once every five years. The way in which external assessments should be conducted is covered in PSIAS No.1312 and summarised at Appendix 2 to this report, to give members early oversight regarding provisions that will need to be developed in the future.

2. Outcomes of Annual Review Process

2.1 With reference to the 2012/13 review of the service’s effectiveness however, members can be satisfied that the relevant assurances provided are reliable and based upon a firm foundation, and that the service itself is operating effectively.

2.2 The key review outcomes can be found at Appendix 1, and essentially benchmark the service against a range of 8 measures, whilst additional supporting information generated in the course of the review, has been supplied to the Council’s Section 151 Officer to afford independent verification of the detailed processes followed by the Internal Audit Consortium Manager as the authority’s Head of Internal Audit.

3. Proposal and Reasons

3.1. To ensure the Finance, Resources, Audit and Governance Policy Committee fulfils its obligations to review the effectiveness of the Internal Audit service, the Committee is being requested to note this report and approve its referral to Cabinet for its subsequent endorsement.

4. Other Options

4.1. None presented.

5. Relevant Corporate Priorities

5.1. The overall outcomes of this review seek to provide assurances to the Council that an effective Internal Audit Service is in place, and that the opinions given by the Internal Audit Consortium Manager can be fully relied upon. These opinions
Finance, Resources, Audit and Governance Committee

Cabinet

seek to support all aspects of the Council’s activities and the overall delivery of its corporate priorities.

6. Implications and Risks

6.1. None presented.

7. Conclusion

7.1 The outcomes of the Effectiveness Review confirm that Internal Audit:

- Is delivering against its aims and objectives.
- Is achieving compliance in a substantial number of areas of recognised good practice as specified in the CIPFA Code of Practice for Internal Audit in Local Government and the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations?
- Has satisfied the majority of its internal quality standards and where the performance of Deloitte, the Internal Audit Services Contractor has not met specified targets, a Workshop was held at the end of July 2013 to explore how working practices might be improved to speed up the completion of audits in 2013/14. A number of actions have been identified to correct issues identified as quickly as possible.
- Is supporting management in the monitoring and further development of the Council’s internal control environment, making practical audit recommendations and overseeing implementation of agreed actions.
- Is continually looking at ways of improving service delivery, adding value wherever possible.
- Is working closely with its External Audit colleagues to ensure they can place reliance on its work.
- Is supporting the Finance, Resources, Audit and Governance Committee in accordance with its terms of reference.

The overarching findings of the annual effectiveness review indicate that reliance can be placed on the opinions expressed by the Internal Audit Consortium
Cabinet

Manager, which can then be used to inform the Council’s Annual Governance Statement, whilst also recognising that the Finance, Resources, Audit and Governance Policy Committee is still evolving and currently, new initiatives are in the offing to further enhance how it is responding to its specific audit related responsibilities.

8. Recommendations

8.1. The Committee is requested:

- To note the findings of the review and the evidence gathered in support of the effectiveness of the Internal Audit Service, and take these into consideration when receiving the Internal Audit Consortium Manager’s Annual Report and Opinion, and the Council’s Annual Governance Statement.

- To approve referral of the report to Cabinet for endorsement.

Appendices attached to the report:

**Appendix 1:** Annual Review of the Effectiveness of Internal Audit

**Appendix 2:** Public Sector Internal Audit Standards Requirements concerning External Assessments of the Effectiveness of Internal Audit
Outcomes of the Annual Review of the Effectiveness of Internal Audit

The Scope of this Review
This review is primarily about effectiveness, not process. In essence, the need for the review is to ensure that the opinion expressed by the Head of Internal Audit in the Annual Report may be relied upon as a key source of evidence in the Annual Governance Statement.

In order for South Norfolk Council to be able to place reliance on the opinions contained within the Annual Report and Opinion, the Head of Internal Audit has in place a performance and quality assurance framework to demonstrate that the Internal Audit Service is:

- Meeting its aims and objectives.
- Being compliant with the CIPFA Code of Practice for Internal Audit in Local Government.
- Being compliant with the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- Meeting internal quality standards, confirmed through performance indicators and post audit feedback received.
- Putting forward practical audit recommendations that are agreed with senior management and lead to ongoing improvements to the internal control environment at the Council, as evidenced by the subsequent implementation of agreed actions.
- Continually seeking to improve service delivery whilst also adding value and assisting the Council in meeting its objectives.
- Producing work which the External Auditor is able to place reliance upon.
- Supporting an effective Audit Committee.

Delivering the Aims and Objectives of Internal Audit

The aims and objectives of the Internal Audit Service are established in Internal Audit’s Terms of Reference, Internal Audit’s Strategy, Annual Audit Needs Assessment and Strategic and Annual Audit Plan, which are updated each year and submitted to the Audit Committee for formal approval.

There are essentially three main objectives which drive service delivery:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Means of delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation’s objectives.</td>
<td>In June each year, the Head of Internal Audit provides an annual opinion on the Council’s system of internal control, and its arrangements for corporate governance and risk management. Internal Audit’s Terms of Reference (Section 5 – Internal Audit’s Independence and Accountability) and Code of Ethics explain how the Council’s Internal Auditors are able to provide independent and objective opinions in relation to individual audit assignments.</td>
</tr>
</tbody>
</table>
and when developing an overarching annual opinion.

<table>
<thead>
<tr>
<th>To carry out an examination of the accounting, financial and other operations of the Council.</th>
<th>The Internal Audit Strategy and Terms of Reference demonstrate that Internal Audit reviews the full range of operations at the Council. All planned audit coverage is determined with the aid of a risk based annual audit needs assessment.</th>
</tr>
</thead>
</table>

| To assist management with the prevention, detection and investigation of fraud and abuse. | Through undertaking in-depth reviews of business operations, the Internal Audit Service supports management in minimising the risk of fraud and abuse. Moreover, the Council’s Counter Fraud, Corruption and Bribery Strategy and Whistleblowing Policy firmly establish the role of the Internal Audit Consortium Manager in counter fraud arrangements at the authority. |

In the course of the financial year, the Internal Audit Consortium Manager has had progress meetings with the Head of Finance (Section 151 Officer) to discuss the status of audit assignments featuring in the Annual Audit Plan and the quality of service delivery generally, and to debate and agree Draft Audit Plans for the following year, prior to their submission to Corporate Management Team and Corporate Leadership Team, the Finance, Resources, Audit and Governance Committee and then Cabinet – the latter is responsible for formally approving these documents.

The Head of Finance has also participated in 2 meetings of the Norfolk Internal Audit Consortium held in September 2012 and January 2013. These meetings are used to bring together Consortium members to review progress in relation to Annual Plans, discuss the performance of the contractor as well as any client officer issues arising, be appraised of any new developments/changes to working practices designed to improve service delivery and consider the future arrangements for the Internal Audit Service, when the contract with Deloitte & Touche Public Sector Internal Audit Ltd expires at the end of September 2014.

**Complying with CIPFA’s Code of Practice for Internal Audit in Local Government**

The CIPFA Code of Practice for Internal Audit in Local Government specifies suggested good practice operating standards for Internal Audit. In 2012/13, the Code of Practice self assessment checklist, completed by the Internal Audit Consortium Manager and submitted to the Head of Finance for independent validation, confirmed full compliance against 9 of 11 key criteria stated therein, with partial plus some elements of non-compliance recorded in relation to the 2 other subsets concerning Audit Committees/Audit Planning and Working Relationships.

In the past, the authority has consistently recorded full compliance against the 11 elements under scrutiny, but after May 2012, the reorganisation of the Council’s Committee structure resulted in the previously independent Audit Committee
(formerly operating as the Accounts, Audit and Governance Committee) being replaced by the Finance, Resources, Audit and Governance (FRAG) Policy Committee, which is a Sub Committee of Cabinet. This change has had implications for the authority in terms of the way that internal and external audit matters, risk management arrangements and other regulatory provisions are now reviewed by members. The change of approach when viewed in conjunction with CIPFA good practice has resulted in some weakening of governance processes, the extent to which are examined more fully below, albeit the Council has taken action to mitigate against anomalies now arising and is also in the process of rolling out further enhancements to the way that FRAG operates in the future.

The deviations are as follows:

**Maintenance of an Independent Audit Committee with appropriate Terms of Reference**

- CIPFA’s guidance on Audit Committees suggests that to be effective, the Audit Committee needs to independent from Executive and Scrutiny and, have the ability to challenge the authority’s executive on relevant issues and to be able to report on significant issues without interference. The FRAG Committee is a Policy Committee of Cabinet (the main decision making body of the organisation) and its Terms of Reference require it to deliver appropriate work as discharged/directed by Cabinet. The current arrangements at South Norfolk Council do not therefore replicate the governance provisions recommended by CIPFA, although the Council has ensured that its Policy Committee has been constituted such that its terms of reference enable it to function in much the same way as a separately constituted Audit Committee would do. The key operational difference however, is that FRAG and Cabinet share responsibility for monitoring audit/finance/regulatory matters, and it is Cabinet that gives final, formal approval to Audit Plans, Internal Audit Activity Reports and the Annual Report and Opinion. The External Auditors, on presentation of their Annual Governance Statement to the FRAG Committee on 27 September 2012, did raise concerns regarding the Council’s decision to place the FRAG Committee under Cabinet and in so doing, move away from best practice guidance. However, FRAG does still have delegated responsibility to approve External Audit’s Annual Governance Report and oversees all Internal Audit’s key outputs, as is explored further in the bullet point below.

- The FRAG Committee’s Terms of Reference have not been as explicit as of the Committee it preceded, and as such there is still some scope to develop the range of business brought to the Committee’s attention for due consideration, examination and challenge. The key issues where some expansion of reporting would be beneficial have been debated with members and following completion of a recent Audit Committee Self-Assessment exercise, a number of actions have been identified for delivery in 2013/14, including formulation of Annual Reports of the Committee, and increased Internal Audit Activity Reporting by the Internal Audit Consortium Manager.

- It has also been noted that the Chair of FRAG is a Deputy Portfolio Holder. This was originally seen as potentially undermining the Chair’s independence but it has since been established that the Chair is unable to deputise for the Finance and Resources Portfolio Holder at Cabinet, so there is no conflict of interests after all.
Audit Planning and Internal Audit Activity Reports

- The FRAG Committee, although not able to endorse Audit Plans, because Cabinet has been assigned this responsibility, is able to challenge all aspects of audit planning proposals and make recommendations to Cabinet which in turn, will influence the latter's response prior to formal acceptance and adoption of the new Strategic and Annual Audit Plans. Similarly, the Committee is able to question the content of Internal Audit Activity Reports and the Annual Report and Opinion, although formal approval of these documents likewise rests with Cabinet. It is therefore acknowledged that the FRAG Committee is limited in its decision making powers, but nevertheless, it still is able to exercise significant control over finalising audit related documentation and reviewing audit outputs.

Working Relationships

- With reference to Private Discussion sessions with the Committee, members acknowledged that there was a mechanism to facilitate such interaction but rather than setting rigid provisions for meeting in this way either annually or periodically throughout the year, elected to make the Internal or External Audit Managers responsible for convening such sessions, as and when they deemed these were necessary.
- It has also been acknowledged that although the FRAG Committee’s Terms of Reference indicate a cycle of 3 formal meetings per year, to ensure that members are kept up-to-date with audit related matters, it is feasible to convene additional formal, and where appropriate, informal meetings to disseminate information and canvass member views. Consequently, there is no impediment to the Internal Audit Consortium Manager being able to present information to Committee or liaise with members generally, in a timely manner.

Complying with CIPFA’s Statement on the Role of the Head of Internal Audit in Local Government

This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Head of Internal Audit needs to:

- Principle 1 - Champion best practice in governance, objectively assessing the adequacy of governance and management of risks, commenting on responses to emerging risks and proposed developments;
- Principle 2 - Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Principle 3 - Undertake regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;
- Principle 4 - Lead and direct an Internal Audit Service that is resourced to be fit for purpose;
- Principle 5 - Be professional qualified and suitably experienced.

Each principle has associated requirements (59 in total) to demonstrate how they should be employed in practice. The Internal Audit Service has been benchmarked against these criteria. Two items were not strictly applicable. However, in respect of the remaining 57 elements, there was 1 instance where no compliance was noted, and 2 occasions where partial compliance was recognised. The three items reiterate aspects of deviations reported above in relation to the Code of Practice, concern Principle 3 of CIPFA’s Statement and are itemised below:
• Establishing an Audit Committee in line with guidance and good practice - as already noted in the section covering CIPFA’s Code of Practice, the revised Committee Structure adopted by the Council since May 2012 means that a wholly independent Audit Committee, with decision making powers no longer operates at the Council, as responsibility for audit related matters is now shared between FRAG and the Cabinet. However, to mitigate this situation, measures have been put in place to ensure that FRAG actively supports Cabinet in the delivery of a suitable regulatory framework for audit, financial reporting, risk management and statement of account related matters.

• The Head of Internal Audit’s relationship with the Audit Committee and its Chair – initially, partial compliance was recorded because the independence of the Chair was called into question, given that he is a designated Deputy Portfolio Holder at the Council, but it has since been confirmed that this does not create a conflict of interests, as the Chair does not act as a substitute at Cabinet in the absence of the Portfolio Holder.

• Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements – partial compliance recorded. It was agreed previously that a self-assessment exercise should not go ahead until such time as the Committee had been operating for at least a year and could then evaluate its effectiveness on the basis of a year’s worth of meetings and corresponding business processed. Once this was achieved in June 2013, it was then considered appropriate to consult with members on the Committee’s remit and effectiveness before finalising the annual effectiveness review. This feedback was obtained in August 2013 and has recognised that some scope for improvement is feasible to the way in which the Committee is functioning.

N.B. The detailed assessment of the Head of Internal Audit’s compliance with the key governance requirements and core responsibilities as specified in the CIPFA Statement has been forwarded to the Head of Finance for independent verification.

Quality Standards applying to the Internal Audit Service

The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Audit Committee within the Terms of Reference for Internal Audit. Performance against these targets for the year is outlined within the table below:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Target</th>
<th>2012/13 Performance</th>
<th>2011/12 Performance</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of audit recommendations accepted</td>
<td>90%</td>
<td>100%</td>
<td>100%</td>
<td>This continues to exceed target.</td>
</tr>
<tr>
<td>% of high priority recommendations implemented</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>All high (4) priority recommendations due in year have been implemented.</td>
</tr>
<tr>
<td>Days between issue of audit brief and fieldwork commencing</td>
<td>More than 10 days (average)</td>
<td>11.9 47%</td>
<td>8.4 33%</td>
<td>Audit briefs are issued ahead of audit fieldwork commencing on site but the lead in time involved has varied significantly from 2 to 27 working days, which has</td>
</tr>
</tbody>
</table>
averaged out at 11.9 days. There has however been an improvement in this area, compared with the previous year.

| Number of days between expected fieldwork completion and actual | 0 days | 7.8 | 4.5 |
| | 100% | 35% | 53% |
| Number of days between completion of audit fieldwork and draft report issue | 10 days or less (average) | 19.2 | 13.7 |
| | 100% | 18% | 67% |
| Number of days between issue of draft and final reports | 15 days or less (average) | 16.9 | 17.1 |
| | 100% | 53% | 33% |
| Number of days between completion of fieldwork and final report issue | 25 days or less (average) | 36.1 | 30.8 |
| | 100% | 35% | 27% |
| Average score given to audit feedback | Adequate (4 out of 6) | Adequate (4.8) | Good (5.3) |

Performance in this area has decreased from the previous year, whereby completion dates for fieldwork are not being met for all audits.

After efforts by the contractor in 2011/12 to reduce the timeframes for turning around draft reports, the time taken has again increased. It is almost double the time it should take, and only 18% of draft reports were issued within the correct timeframe.

Again efforts were made in 2011/12 to improve performance in this area, but there has been little change in the performance level achieved in 2012/13. The contractual target is still not being fully met.

This is a further area where performance has failed to meet target, and the time taken has increased noticeably on the previous year.

Client satisfaction has deteriorated slightly, although we are still receiving positive feedback within targeted requirements.

The table clearly shows that performance by the Internal Audit Services Contractor has dropped in 2012/13, compared with the preceding 12 months.

After efforts were made in 2011/12 to improve service delivery, performance standards in a number of areas have deteriorated again and in some cases, are now at considerable variance with targeted requirements. However the percentage of audit recommendations agreed with management has remained consistently high, surpassing the target set, all high priority recommendations requiring action in year have been implemented, and post audit feedback has been positive albeit the average score now equates to an adequate assessment, whereas previously good had been obtained.
Performance monitoring information has indicated that there are fundamental issues with the timescales for completing audits, which will need to be properly addressed in 2013/14.

With reference to the formal circulation of audit briefs in advance of commencing fieldwork, only 47% of these were circulated to ensure that sufficient notice i.e. at least 10 days was provided to the key client officers. There were occasions where the Internal Audit Services contractor was responsible for the short lead-in times, although conversely there had been delays in receiving information from the clients and one instance where a revised brief was re-circulated following inclusion of observations received at a late stage from a key client, thus reducing the lead in-time to the commencement of audit fieldwork.

Once audit assignments were underway, there were then situations where the audit fieldwork overran, considerably so in 3 of the audits, whilst 1 audit was extended to cover testing of an additional risk that had been identified at other Consortium Council sites. In addition, Deloitte’s internal review processes to quality assure the work of junior staff impacted on the delays incurred and Deloitte’s clearance of Audit Management Team review points also led to instances where fieldwork took longer than initially expected.

The late progression of draft audit reports was in part due to the delayed finalisation of fieldwork; however the clearance of further review points raised by the Deloitte's Field Manager, Deloitte’s internal review process or the Audit Management Team also adversely impacted on performance at this point in the delivery of audits. It should be noted however, that the review process is essential to ensure the quality of audits delivered and that they meet professional and contractual standards set.

With reference to the extended timeframes between draft and final audit reports, these were largely as a result of late management responses and needing to obtain greater clarity regarding audit recommendations and management’s feedback in relation to them.

In view of the issues highlighted above affecting the progress of audits, in the course of the last quarter of the year, the Audit Management Team has worked closely with both management and Deloitte to ensure that the Annual Audit Plan was finished in sufficient time to provide an Annual Report and Opinion based on completed audits. Moreover, as a consequence of the issues encountered with 4 audits, which impacted on performance with regards to both these reviews and subsequent audits, steps were taken to remove 2 members of Deloitte’s staff from working on the Internal Audit Services Contract in the future.

A workshop between the Audit Management Team and Deloitte took place in July 2013 to investigate how working practices should be refined to achieve a shortening of the timescales involved in delivering audit assignments. The workshop considered a range of solutions that might be implemented, and already improvements have been made in this area.
**Strengthening the Council’s Systems of Internal Control**

Our work has confirmed that assurance levels for individual audits carried out in 2012/13 have been predominantly positive, with 4.3% receiving good assurance, 78.3% subject to adequate assurance (hence, 82.6% were in receipt of positive audit opinions) and the remaining 17.4% were awarded limited assurance. This is an improvement on 2011/12, where 78.6% of our opinions were positive and the residual 21.4% involved limited assurances.

With reference to two reviews completed in 2012/13, there had also been some movement in assurance levels applicable. In the case of Corporate Governance arrangements, we have acknowledged that operational arrangements have improved compared to the position noted in 2011/12. Indeed, our re-examination of provisions led to an upgrading of the former adequate assurance recorded in 2011/12 to a good assurance level, confirmed on 22 January 2013 when we issued our final audit report in this area. When we concluded this audit, we effectively recognised that the provisions evaluated, were mirroring best practice. Conversely, our work in relation to Property Valuation and Management plus Council Tax and National Non Domestic Rates identified some deterioration in their respective systems of internal control, as the adequate assurances noted in 2010/11 were replaced by limited assurances in 2012/13. Upon conclusion of these 2 audits, 9 audit recommendations were agreed with management for implementation, comprising 2 high, 6 medium and 1 low priority ratings.

Our year end audit verification work concerning the status of agreed audit recommendations has also provided a further insight into the changing nature of the internal control environment at the Council. Here, we have established that 70 recommendations have been cleared during the year, equating to 86.4% of the total number of recommendations due to be actioned in 2012/13 (a much improved achievement on the 2011/12 figure of 69.8%), with a further 7.4% in progress and 6.2% yet to be progressed. All high priority recommendations due for implementation in year had also been processed by management.

**Improving Service Delivery and Adding Value**

We constantly strive to improve the Internal Audit Service, with reference to the way we operate and the quality of our outputs, and in the pursuit of this ethos, during the year, the Audit Management Team has redeveloped the audit brief and reporting templates, to enhance the contractor’s approach taken to the scoping of projects and communication of audit findings, together with submitting greater justification for audit opinions given. Furthermore, we now require Deloittes to provide us with individual opinions on core financial systems, when carrying out work to support the preparation of the Annual Governance Statement.

The continuing production of Audit Newsletters over the course of the year and our ongoing membership of the Norfolk Chief Auditors Group – an excellent forum where we are able to network with our peers, discuss developments within the sphere of auditing and share best practice, represent additional ways in which we seek to add value for our clients.

Finally, another key marker of our willingness to demonstrate added value has been the flexibility we have been able to show with regards to the Annual Audit Plan, i.e. rescheduling work to ensure a more meaningful audit is delivered later in the year as was the case with our review of Homelessness (Audit No. SNC/13/03). Upon being
advised that a new IT system was being put in place, we agreed to defer the audit from June 2012 to January 2013, and when finally carrying out the requisite audit planning, having been appraised that there was currently no appetite for a regional Housing Strategy and thus no new Strategy had been developed, we dropped this previously intended area for scrutiny from our scope and reduced the job budget by 2 days to reflect our amended audit coverage, thereby generating a cost saving for the authority. We had also planned to carry out an audit of Partnership arrangements but after detailed discussions with management, it was agreed to split the job budget to afford an audit of Nplaw Arrangements (Audit No. SNC/13/08) in 2012/13, and perform a more detailed audit of Partnership provisions in the following financial year. The outcomes of our work in relation to Nplaw were also actually delivered in a shorter timescale than contractual targeted timeframes to ensure the resultant audit report was available to inform a Scrutiny Committee report subsequently taken forward in December 2012.

**External Audit’s Reliance on Internal Audit’s Work**

We continue to maintain good working relationships with the Council’s External Auditors, i.e. the Audit Commission and thereafter, Ernst and Young. We have always advocated close ties with our External Audit counterparts, in order to deliver effective and efficient integrated auditing provisions for the Council. As a consequence, throughout the year, we have had regular meetings and periodic email exchanges with our External Audit colleagues to discuss progress with the Annual Audit Plan, plus any key findings and issues arising from our work.

Since Ernst and Young assumed responsibility for External Audit at Great Yarmouth Borough Council, we have explored the feasibility of establishing an Audit Joint Working Protocol with them. We have been advised that such a Protocol cannot be finalised until their interim financial work has been completed in June 2013, after which we have been told that they will be in a position to confirm key controls they will be expecting us to test in the future as part of our review work, upon which they will then place reliance. However, for the time being, we have adopted their audit sampling requirements with reference to all 2012/13 financial audits - all samples being fully compliant with their specifications. We have also supported External Audit in drawing up a Briefing Paper to clarify how they will use our work.

At year end, we were additionally asked to provide Ernst and Young with a written response regarding our Objectivity, Competence and Due Professional Care, with evidence supplied in support of statements made. This was sought to enable them to form a view on our effectiveness. A copy of this document has been made available to the Head of Finance.

More recently, we have also been responding on another information request from Ernst and Young relating to the Risk of Fraud at the authority and the quality of provisions in place to safeguard the Council from fraudulent acts that could potentially be committed against it. The Head of Finance has similarly been a recipient of the final reply that we submit to External Audit.
Supporting an Effective Audit Committee

The Internal Audit Consortium Manager and Deputy Audit Manager have had interaction with the Chair and members of the FRAG Committee over the course of the year. This has been via scheduled Committee meetings. Moreover, Internal Audit reports have featured on Committee agendas and been the subject of member debate.

With reference to CIPFA’s Code of Practice for Internal Audit and the Statement on the Role of the Head of Internal Audit, there have been some issues regarding compliance with recommended good practice. However, these have been explored in detail via the recent Audit Committee Self-Assessment exercise, and mitigating action has been taken to minimise any potential adverse impact caused by current arrangements, whilst additional enhancements have/will be taken to further strengthen operational provisions.
Additional Requirements specified by the Public Sector Internal Audit Standards (PSIAS) concerning External Assessments of the Effectiveness of Internal Audit

1. The requirement for an external assessment to be carried out at least once every 5 years may be satisfied by either arranging for a ‘full’ external assessment or by undertaking a self-assessment with independent validation.

2. PSIAS 1312 states that the Head of Internal Audit must discuss the format of the external assessments with the Audit Committee and therefore the Head of Internal Audit will have to consider the pros and cons for each type of external assessment before presenting the outcomes of such a deliberation to the Audit Committee.

3. If a local authority Head of Internal Audit elects to carry out a validated self-assessment, CIPFA’s Local Government Application Note is recommended for externally validated self-assessments although other available checklists may be used to inform the process.

4. An independent person or team must be sourced to validate that self-assessment in order to meet the requirements set out in the PSIAS that arrangements are put in place to avoid conflict of interest and impairment to objectivity.

5. In ascertaining whether the external assessor or assessment team are appropriately qualified to carry out the full assessment or independent external validation of the self-assessment, it is key that the two areas of competence as set out in the PSIAS are met. This is particularly important where a system of peer review is set up to provide the external assessment.

6. Although it is possible that a local authority’s external auditor may be appropriately independent to act as the external assessor or assessment team, the reviews that may already be carried out by the external auditor for placing reliance on the work of the internal audit activity, for example, do not automatically correspond with the requirements laid out in the PSIAS and CIPFA’s Local Government Application Note.

7. The Head of Internal Audit must also set out, and discuss with senior management and the Audit Committee, the qualifications and independence of the external assessor or assessment team in accordance with both the main standard and the public sector requirement which go into detail on how an external assessor or assessment team should demonstrate their competence.

8. The public sector requirement mandates that local authorities must find an appropriate sponsor and suggests that this could be another officer within the organisation (for example the Chief Finance Officer or Chief Executive Officer). This is intended to further safeguard the independence of the external assessment process.