Finance, Resources, Audit and Governance Committee

Friday 26 June 2015

9:30am, Colman Room
South Norfolk House, Long Stratton, Norfolk, NR15 2XE

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

Contact Sue Elliott on 01508 533943 or democracy@s-norfolk.gov.uk
Members of the Finance, Resources, Audit and Governance Committee:

Mr G Wheatley (Chairman)
Mr P Hardy (Vice-Chairman)
Mr L Dale
Mr C Hudson
Mr W Kemp
Mr T Lewis
Mr R Savage

This meeting may be filmed, recorded or photographed by the public; however anyone who wishes to do so must inform the chairman and ensure it is done in a non-disruptive and public manner. Please review the Council's guidance on filming and recording meetings available in the meeting room.
Agenda

1. To report apologies for absence and to identify substitute members;

2. Any items of business which the Chairman decides should be considered as a matter 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 – page 5)

4. To confirm the minutes of the FRAG Committee held on 6 March 2015; (attached – page 6)

5. Local Audit Committee Briefing; (report attached – page 11)

6. Progress Report on Internal Audit Activity; (report attached – page 22)

7. Follow Up Report on Internal Audit Recommendations; (report attached – page 46)
8. Annual Report and Opinion for 2014/15, including Review of the Effectiveness of Internal Audit;
   (report attached – page 52)

9. FRAG Work Programme;
   (attached – page 65)
DECLARATIONS OF INTEREST AT MEETINGS

Members are asked to declare any interests they have in the meeting. 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 on the matter.
- 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.
- In any case, members have the right to remove themselves from the meeting or the voting if they consider, in the circumstances, it is appropriate to do so.

Should Members have any concerns relating to interests they have, they are encouraged to contact the Monitoring Officer (or Deputy) or another member of the Democratic Services Team in advance of the meeting.
FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE

Minutes of a meeting of the Finance, Resources, Audit and Governance Committee of South Norfolk Council held at South Norfolk House, Long Stratton, on Friday 6 March 2015 at 9.30 am.

Committee Members Present: Councillors: M Edney, L Dale, D Goldson, T Palmer and L Webster

Apologies: Councillor: K Billig

Substitute: Councillor: K Tilcock

Cabinet Member Present: Councillor: G Wheatley

Officers in Attendance: The Accountancy Manager (M Fernandez-Graham) and the Internal Audit Consortium Manager (E Hodds)

Also in Attendance: Tina Meyer and Rob Murray (Ernst & Young)
77 MINUTES

The minutes of the meeting held on 24 October 2014 were confirmed as a correct record and signed by the Chairman.

Arising from Minute No 74, the Committee was pleased to note that the transfer of the Council’s banking services successfully went live during February 2015, with no complications. The Accountancy Manager advised members that nplaw had confirmed that the Council was protected against losses in the event of a catastrophic ratings reduction which might force the bank or the Council to withdraw prior to the expiry date of the contract.

78 CERTIFICATION OF CLAIMS & RETURNS ANNUAL REPORT FOR 13/14

Tina Meyer from Ernst & Young presented her report which detailed the certification work for the Housing Benefit subsidy claim for the financial year 2013/14. Members were advised that the certification work had identified no errors which required amendment by the Council.

Following a brief discussion regarding quality checking and manual amendments, it was:


79 EXTERNAL AUDIT PLAN

Rob Murray presented the External Audit Plan for 2013/14, advising the Committee of the key risks identified and the planned audit strategy.

Members were advised that, as the Council became more entrepreneurial and commercial in its business ventures, the risk factor would increase, although this did not currently present any significant concerns.

The Committee considered the timetable for the audit for 2014/15 and was advised that an early closure of the Council’s accounts would again be sought.

There was a brief discussion regarding fees, and members were advised that there had been a slight increase in audit fees payable in the last year but all fees were in line with the Audit Commission’s published scale of fees.
80 PROGRESS ON INTERNAL AUDIT ACTIVITY

The Internal Audit Consortium Manager presented the Committee with a report to advise it of the progress made between 16 October 2014 and 24 February 2015 in relation to delivery of the Annual Audit Plan for 2014/15, and summarising the five completed audits undertaken during this period.

Members were advised of the changes to the Audit Plan, which included the addition of Wymondham Leisure Centre and the decision not to carry out a review of corporate governance due to the impending election, but were reassured that all five of the audits completed had been awarded positive assurances.

In response to a member’s question regarding the Council’s need to comply with HMRC requirements in relation to self-employed contractors and consultants, the Internal Audit Consortium Manager advised the Committee that the Council’s responsibility was purely to ensure that contractors and consultants were made aware of their own tax obligations and that they signed a statement to confirm their agreement and understanding.

Following a discussion during which officers clarified a number of minor queries, it was:

RESOLVED: to note the outcomes of the five completed audits finalised in the period 16 October 2014 to 24 February 2015 and the progress made to date against the Annual Audit Plan.

81 STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS 2015/16

The Internal Audit Consortium Manager presented her report which provided members with an overview of the stages followed prior to the formulation of the Strategic Audit Plan for 2015/16 to 2017/18 and the Annual Internal Audit Plan for 2015/16. Members were advised that the Plans had been simplified and were invited to ask questions.

In response to a query concerning the intention to delay the next review of property management until 2016/17, members were informed that due to the changes which would be occurring around property development, it was not deemed advisable to carry out a review until the arrangements had evolved and developed. The Internal Audit Consortium Manager reassured members that she would be checking the progress and that she would carry out an earlier review if she felt this was necessary.
It was then

RESOLVED: to note the performance measures for the new Internal Audit Contractor;

and

to recommend that Cabinet approve:

a) the minor amendments to the Internal Audit Charter as noted in the report;

b) the Internal Audit Strategy for 2015/16;

c) the Strategic Internal Audit Plans 2015/16 to 2017/18; and

d) the Annual Internal Audit Plan 2015/16.

82 INTERNAL AUDIT CONTRACT AWARD

The Internal Audit Consortium Manager presented the Committee with the final update on the award of the Internal Audit Services Contract to TIAA Ltd, following its approval by Cabinet on 24 October 2014.

The Committee was pleased to note that all consortium members had decided to continue with the current arrangements and expressed their confidence in officers, thanking them for their hard work.

It was then

RESOLVED: to note the update report.
83 ANNUAL REPORT OF THE FRAG COMMITTEE

Members considered the report of the Internal Audit Consortium Manager which summarised the work of the Finance, Resources, Audit and Governance Committee during 2014/15.

After a brief discussion, it was:

RESOLVED: To note the contents of the report before its presentation at Full Council.

84 FINANCE, RESOURCES, AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

Members noted the Finance, Resources, Audit & Governance Committee’s work programme and the Chairman thanked the Committee and officers for their hard work over the past four years.

The meeting concluded at 10.25 am

____________________
Chairman
Local government audit committee briefing

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving. It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY’s national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY’s UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.
EY Item Club Spring 2015 Forecast

In its latest quarterly forecast the EY Item Club forecasts strong economic performance with GDP growth of 2.8% this year, rising to 3% in 2016. The Consumer Prices Index (CPI) Inflation is expected to average 0.1% for 2015, but expected to rise above 1% this winter, paving the way for possible base rate rises in spring 2016. Consumption is forecast to grow by 2.8% this year (mainly due to a real income increase of 3.7%) and strong growth over the medium term supported by buoyant incomes rather than borrowing. An additional driver for growth is the fall in the Euro against the pound. Business surveys indicate that the effect of this exchange rate move on export competitiveness has been countered by the strength of the European market.

The report highlights that its forecasts are far more positive than the Office of Budget Responsibility (OBR) which it accepts needs to be cautious, seeing room for expansion in the consumer and housing markets without significant adverse effect on household debt or house prices. Additionally long term output growth prospects are better than indicated by OBR projections. The forecast suggests that the outlook for the government post-election will be more positive than official statistics.

Manchester devolution

On the 27 February 2015, a memorandum of understanding was signed between Greater Manchester’s 10 local authorities, 12 NHS clinical commissioning groups and 15 NHS providers, as well as NHS England chief executive Simon Stevens and Chancellor George Osborne. This memorandum builds on the devolution settlement for Manchester which was signed in November 2014, and proposed the devolution of powers to Greater Manchester in various areas including transport, planning and housing.

NHS England worked with the Manchester bodies to develop a plan for further joined up and integrated health and social care. The next stage will be the development of a roadmap, followed by production of a business plan. Due for publication in October, the outline business plan will outline the scope for possible savings through integration; as well as setting out the capital investment that will be needed to deliver the proposed shift from acute care to the primary and community sectors.

Under the plan, a new joint decision-making process for all £6bn of health and social care spending will be developed. A Greater Manchester Strategic Health and Social Care Partnership Board will be set up, and will oversee the development of the health and care system. A joint commissioning board will be responsible for financial plans and budget proposals for the sizeable budget, which represents approximately a quarter of all public spending in the region.

George Osborne has said that this reform was “exactly what we want to see more of in our health care.”

Greater Manchester Combined Authority chair Lord Peter Smith confirmed his commitment to working with NHS colleagues in the city: “By ensuring that decisions about health for Greater Manchester are taken in Greater Manchester, we can ensure we have a system specifically tailored to the needs of people in our area.”
This radical change follows on from the Community Budget programme, of which Manchester was one of the four pilots. This programme was intended to pool funds to improve the effectiveness of public spending across the city’s 10 councils. An analysis from EY commissioned by the Local Government Association concluded that more than £4bn could be saved every year if all areas adopted a Community Budget approach and were able to cut the unnecessary waste, duplication and red tape. Of these, it was estimated 80% would come from the budgets of central government departments and agencies.

DWP Welfare Reforms
The NAO has produced a report which considers the changes made by the Department for Work & Pensions (DWP) over the past five years and its mixed record of implementation. The report is intended to provide the DWP and other readers with an opportunity to learn from experience. They have also produced a briefing with more general relevance – ‘Lessons for major service transformation’ which draws out broader principles from their DWP review.

Eleven lessons are identified which may be helpful for authorities seeking to transform services and processes in the face of budget constraints:

► Transformation programmes raise the greatest risks of failure
► Set realistic goals and be honest about what really matters
► Policy development must take account of implementation
► Don’t be tempted to score benefits early
► Do identify tangible short-term gains
► Recognise the (senior) organisational cost of transformation
► Don’t underestimate what you can learn from engagement
► Recognise the value of learning and market development
► Do anticipate the need to make changes in live running
► Recognise the opportunities and limits of technology
► Set out clear decision-making and challenge
Transport Infrastructure Assets

What are transport infrastructure assets (TIA) and why are they relevant to highway and non-highway authorities?

The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. The TIA Code classified TIA as:

- Carriageways
- Footways and Cycleways
- Structures
- Street Lighting
- Traffic Management Systems
- Street Furniture

The TIA Code also sought to provide the basis for improved financial information by setting out a move to valuation of such assets on a Depreciated Replacement Cost (DRC) basis, which in simple terms is the difference between the current costs of replacing an asset less an allowance (depreciation) for the age of the current asset.

Local Government continued to use depreciated historic cost (DHC) as the valuation approach for infrastructure assets when the Code of Practice on Local Authority Accounts in the United Kingdom (Accounting Code) moved to an IFRS basis effective from 1 April 2010. Thus one of the key elements for full implementation of the TIA Code, valuing assets using DRC, was not in place within Local Government.

Following consultations over a number of years, CIPFA initially announced through the 2014/15 Accounting Code, and confirmed in the 2015/16 Accounting Code, that TIA within local government will be valued at DRC with effect from 1 April 2016. It has been estimated centrally that this will add some £200bn to the net worth of local government balance sheets. Our work to date with clients suggests that this is a significant underestimate. At an individual client level the inclusion of TIA, at this different valuation basis, will transform the balance sheet.

Although the above will apply to all highway authorities there will also be a number of non-highway authorities who hold material TIA under the new valuation basis. In particular, cycleways, structures and roads on industrial estates may lead to material levels of TIA at non-highway authorities. It is important to note that for those non-highway authorities the full requirements of the TIA Code will have to be met.

What are the implications?

This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems design and operation. Early engagement and project planning were highlighted as core requirements in LAAP BULLETIN 100: Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17, to the effective delivery of this change within the tight timetable.

The change is to be applied retrospectively and thus will require valuations as at 1 April 2015 and comparative values for 2015/16. CIPFA issued specific Guidance Notes on TIA in May 2015 and have identified a number of proposed changes to the Accounting Code for 2016/17 that will be consulted upon over the summer.

Close working through the implementation period with external auditors is highlighted as being pivotal to successful implementation. We have identified a number of areas that are crucial to the delivery of this project and will be discussing these with officers over the coming months.
The additional audit work involved in this area was recognised by the Audit Commission in their 2015/16 fee consultation. It did not however, identify a fee; leaving that to local negotiation due to the scale of work required. Following local fee discussions we will be looking to have carried out initial detailed work for all audit clients by the end of the calendar year. This work could range from confirming with non-highway authorities that they do not have material TIAs and therefore do not have to implement the changes, to major systems reviews at highway authorities.

At all authorities with material TIA, further work will be required to address the results of the changes proposed in CIPFA’s consultation on the 2016/17 Accounting Code. Our intention is to have reviewed the remaining areas of implementation before the end of the 2015/16 financial year at all audit clients.

Working together
In addition to the work undertaken locally, following requests from clients, we will be running specific transport infrastructure assets workshops for officers of highway authorities across the country in July and August at the following venues:

► 28 July 2015 – London Becket House
► 29 July 2015 – EY Birmingham Office
► 5 August 2015 – London Becket House
► 6 August 2015 – EY Newcastle Office
► 13 August 2015 – EY Manchester Office
► 14 August 2015 – London MLP

Formal invitations will be issued in early June. If you have any questions regarding these events please contact Neil Gibson on ngibson@uk.ey.com.

For non-highway authorities with material TIA we will, in addition to our local work, facilitate contact between clients and, if there is demand, arrange similar workshops for them.

As with all major changes, early engagement with your local audit team will assist in a smooth implementation of the changes.

Thought leadership – board effectiveness
EY has worked with The Investment Association to produce a thought leadership report ‘Board effectiveness – continuing the journey’. The report is based on debates on board effectiveness held as a series of individual meetings and roundtables with leading chairmen, board directors and senior investors. Whilst the report recognises that all boards are different, it aims to identify leading practice and point to new ideas for boards to improve and demonstrate their effectiveness. It addresses board effectiveness across seven themes:

► Role of the chairman
► The role of non-executive directors (NEDs)
► Progress on diversity
► Board succession and the work of the nomination committee
► The purpose and impact of board evaluations
► Information flows to the board
► The role of investors

To encourage discussion between management, NEDs and stakeholders, the report includes a checklist of questions under each of the seven themes.
2015-16 work programme and scales of fees

Public Sector Audit Appointments Ltd (PSAA) has now confirmed the work programme and scale fees for the audit of the accounts for 2015-16 for local government, fire, police and health bodies.

For most local government, fire, and police bodies scale fees show a reduction of 25% to the fees applicable for 2014-15. This does not, however, apply to pension fund audits (where fee pressures have been rising due to the increasing complexity of the funds audited) or to local government audited bodies with 2014/15 scale audit fees below £20,000.

The current expectation is that these fee reductions will apply until the end of the audit contracts (subject to annual review).

The current contracts with audit suppliers run until 2017, with a possible extension for up to three years. Under its responsibility to manage the audit contracts, PSAA is required to consult on and set fees for 2016-17.

In addition to the core accounts audit work, auditors have a responsibility to satisfy themselves about an audited body’s arrangements to secure economy, efficiency and effectiveness in its use of resources, and in some cases certification of claims. Fees to cover the costs of any special investigations, (e.g., arising from disclosures under the Public Interest Disclosure Act 1998) are charged as a variation to the scale fee.

The scale audit fees for individual bodies and the work programme are published on the PSAA website, with the aim of supporting transparency and helping audited bodies compare their fees with those of similar bodies. They are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work is required than is represented in the scale fee, they are required under the audit contracts to seek approval from PSAA for a variation to the scale fee, and to agree the amount of this variation with the audited body. PSAA also consider the reasonableness of the explanations provided before agreeing to any variation to the scale fee.

Whole of Government Accounts: 2013-2014

The Comptroller and Auditor General, Amyas Morse, released his audit report on the 2013/14 Whole of Government Accounts at the end of March. This is the fifth year that the Treasury has produced the Whole of Government Accounts, which is intended to show in a single document the overall financial position of the UK public sector by consolidating the financial activities of more than 5,400 organisations across the public sector into a single set of audited accounts. The bodies that are consolidated include central and local government bodies, as well as other public corporations including the Bank of England.

The audit opinion has again been qualified this year on six counts:

► The application of the WGA accounting boundary
► Inconsistencies in the underlying accounting treatments within the WGA
► Disagreement on the accounting treatment of 3G/4G mobile licences
► Lack of evidence in support of the completeness and valuation of school assets
► Underlying material qualifications of the Department for Education and Ministry of Defence accounts
► Inaccuracies in the elimination of intragroup transactions and balances
Overall, Amyas Morse has commended the progress made by HM Treasury, whilst noting areas for improvement:

“We are strongly supportive of the way HM Treasury is moving forward with the Whole of Government Accounts project. The Department is improving the content of the WGA and the document has been produced faster than ever. This is welcome and represents a significant step forward for the WGA. The Department is also taking steps to make sure that more information is being given to taxpayers on how government spends their money and longer terms risks on the balance sheet are being highlighted. However, there are opportunities to exploit the WGA’s potential more fully and to improve the WGA to enable me to remove my qualifications. The Treasury also needs to work with the bodies that provide data to improve the timeliness and accuracy of the information that it receives. Furthermore, better analysis by the Department of trends in government’s assets and liabilities will help to demonstrate the full financial impact of changes in the delivery of public service in the next Parliament.”

Financial reporting simplification agenda

The need to simplify and streamline local government financial statements has been a topic of discussion since the introduction of International Financial Reporting Standards (IFRS) in 2010/11. In December 2013 CIPFA issued Financial Statements: A Good Practice Guide for Local Authorities which includes a chapter around materiality and clutter. The report highlighted the negative impact of two types of clutter identified by the Financial Reporting Council in their report Cutting Clutter, namely:

► Immaterial disclosures that inhibit the reader’s ability to identify and interpret relevant information
► Explanatory information that remains unchanged from year to year

Since the publication of the good practice guide, CIPFA carried out a specific consultation on the potential for simplifying and streamlining local authority accounts during the summer of 2014. As a result greater emphasis was placed in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and 2015/16 on removing immaterial disclosures. CIPFA also issued a second edition of its report How to Tell the Story: Local Authority Financial Statements, including this within the Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners 2014/15.

CIPFA/LASAAC and CIPFA remain committed to enable the financial reporting of local government bodies to relate a more streamlined story that is understandable to the varied users of their financial statements. It has been stated that the consultations on the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 will include more fundamental changes.

Key proposals are expected to include:

► New funding statement that more clearly reconciles the accounting and funding regimes
► Refocussing of the Comprehensive Income and Expenditure Statement
► Revision of the existing Movement in Reserves Statement

The progress on these changes will impact on the detailed approach that local government bodies make to achieve the earlier closedown requirements from 2018. Thus that work should be fully integrated with the streamlining agenda.

EY has also produced a think piece on earlier closedown; if you have not already received a copy, please contact your audit team for more information.
Regulation news

The Transparency Code

The Local Government Transparency Code 2014, intended to increase democratic accountability by giving people the tools and information they need to enable them to contribute to the local decision making process, was published by DCLG on 3 October 2014.

It is governed by three main principles:

► Demand led – new technology should support transparency and accountability. Public bodies should release data in a way that allows the public and other interested parties to use it

► Open – availability of public data should be promoted and publicised. Presentation should be helpful and accessible

► Timely – data should be made public as soon as possible following production

The Code is a statutory requirement for local government bodies; however, it does not apply to Police and Crime Commissioners. It sets out the minimum data and information that all local authorities must publish; the frequency at which it should be published and how it should be published.

One of the mandatory disclosures contained in the Code is the requirement to publish information on senior managers’ salaries. The Accounts and Audit (England) Regulations (2011) and section 3.4 of the Accounting Code set out the disclosure requirements in relation to senior management remuneration required for the financial statements.
Key questions for the audit committee

What questions should the Audit Committee be asking itself?

► Have we fully considered opportunities for integration with other local services and whether this could offer improvements to service delivery as well as cost savings?
► Have we reviewed the NAO briefing ‘Lessons for major service transformation’ and is there anything that could be taken from it to increase the likelihood of successful implementation of projects?
► Are we as an organisation fully aware of the implication of future accounting requirements for TIA and do we have a plan in place to meet these?
► Have we considered the EY report ‘Board effectiveness – continuing the journey’ and whether it can support the improvement and effectiveness of our Committee?
► Are we aware of the 2015–16 scale fee/work programme and confident that arrangements ensure that accounts provided for audit are materially correct and fully supported, and that it has sufficient resources to support the audit process?

What steps are we taking to plan for the earlier financial statement closedown arrangements for 2017/18?

► Have we critically reviewed the accounts and identified areas where they can be streamlined?
► Have we identified any disclosures or other areas which could be prepared early?
► Is resourcing within finance areas sufficient? Are there any areas which will need additional support?
► Do we have plans in place to start producing interim financial statements at month nine if this is something that we do not already do?
► Do we engage in early discussions with our auditors over working paper requirements and any proposed amendments to the accounts compared to the prior year?
► Do we engage in early discussions with our auditors over key areas of judgement and technical accounting areas well before closedown?
► Are we aware of the disclosure requirements contained in the transparency code and are we actively monitoring compliance?
► Have we engaged with our local communities to identify the areas where there is an appetite for more data to be shared?
► Do we publicise the access that is available to public data?
► Is the data that we make publicly available easily accessible both in terms of its location and its format?
**Find out more**

**EY Item Club spring 2015 forecast**

**Manchester devolution**
For a copy of the Memorandum of Understanding for Greater Manchester Health and Social Care devolution, see http://www.agma.gov.uk/cms_media/files/mou.pdf

**DWP Welfare Reforms**

**Transport Infrastructure Assets**
For more information about Transport Infrastructure Assets, please contact Neil Gibson for details of how to attend one of the EY courses.

**Thought leadership – board effectiveness**

**2015-16 work programme and scales of fees**

**Whole of Government Accounts: 2013–14**

**Financial reporting simplification**
For more information about the Financial reporting simplification agenda, please contact your local audit team.

**The Transparency Code**
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.
© 2015 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ed None

1997390.indd (UK) 06/15. Artwork by Creative Services Group Design.

In line with EY’s commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk
Progress Report on Internal Audit Activity

Internal Audit Consortium Manager

This report examines progress made between 25 February and 9 April 2015 in relation to delivery of the Annual Internal Audit Plan for 2014/15, and includes abbreviated executive summaries in respect of the audit reviews which have been finalised in the course of this period.

Cabinet member(s): Michael Edney
Ward(s) affected: All

Contact Officer, telephone number, and e-mail: Emma Hodds 01508 533791 ehodds@s-norfolk.gov.uk

1. Background

1.1. The Finance, Resources, Audit and Governance Policy Committee (FRAG) regularly receive updates on progress made against the annual internal audit plan.

1.2. This report forms part of the overall reporting requirements to assist the Council in discharging its responsibilities in relation to the internal audit activity.

1.3. The Public Sector Internal Audit Standards require the Chief Audit Executive (Internal Audit Consortium Manager) to report to the FRAG Committee the performance of internal audit relative to its agreed plan, including any significant risk exposures and control issues.

1.4. To comply with the above the report identifies:-

   Any significant changes to the approved Audit Plan;
   Progress made in delivering the agreed audits for the year;
   Any significant outcomes arising from those audits; and
   Performance Indicator outcomes to date.

2. Current Position and Issues

2.1. The current position and issues in relation to the delivery of the Internal Audit Annual Plan 2014/15 are shown within the report.
3. **Proposal and Reasons**

3.1. The Finance, Resources, Audit and Governance Committee are requested to receive and note the Progress Report. In doing so, the Committee is ensuring that the Internal Audit Service remains compliant with professional auditing standards.

4. **Relevant Corporate Priorities**

4.1. Driving services through being businesslike, efficient and customer aware.

5. **Implications and Risks**

5.1. Financial - The Internal Audit Plan is being delivered for the year within the approved budget for 2014/15.

5.2. Risks - Internal Audit reports identify risks and control weaknesses within the Council which are highlighted in this report, appropriate management action has been agreed to mitigate these risks within agreed timeframes.

6. **Conclusion**

6.1. The revised internal audit plan for 2014/15 has been completed, with all audits being finalised and being considered as part of the Annual Report and Opinion.

7. **Recommendations**

7.1. That members note the outcomes of the six completed audits finalised in the period covered by this report, and the completion of the annual internal audit plan for 2014/15.

**Appendices attached to this report:**

Progress Report on Internal Audit Activity
Eastern Internal Audit Services

SOUTH NORFOLK COUNCIL

Progress Report on Internal Audit Activity
Period Covered: 25 February 2015 to 9 April 2015
Responsible Officer: Emma Hodds – Internal Audit Consortium Manager (IACM)

CONTENTS
1. INTRODUCTION ............................................................................................................. 2
2. SIGNIFICANT CHANGES TO THE APPROVED AUDIT PLAN ...................................... 2
3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK ............................. 2
4. THE OUTCOMES ARISING FROM OUR WORK ........................................................... 2
5. PERFORMANCE INDICATOR OUTCOMES .................................................................. 5
APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK ............... 6
APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES ........................................ 8
1. INTRODUCTION

1.1 This report is issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.

1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive (known in this context as the Internal Audit Consortium Manager) to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Authority to determine.

1.3 To comply with the above this report includes:-

- Any significant changes to the approved Audit Plan;
- Progress made in delivering the agreed audits for the year;
- Any significant outcomes arising from those audits; and
- Performance Indicator outcomes to date.

2. SIGNIFICANT CHANGES TO THE APPROVED AUDIT PLAN

2.1 At the meeting on 7 March 2014, the Annual Internal Audit Plan for the year was approved, identifying the specific audits to be delivered. Since then, there have been some changes to the Plan which has previously been reported to the Committee. Since the meeting in March 2015, no further amendments have occurred.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

3.1 The current position in completing audits to date within the financial year is shown in Appendix 1 and progress to date is in line with expectations, with the 2014/15 plan of work now being complete.

4. THE OUTCOMES ARISING FROM OUR WORK

4.1 On completion of each individual audit an assurance level is awarded using the definitions shown in the table below.

<table>
<thead>
<tr>
<th>Assurance Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>There is a sound system of internal control designed to achieve the client’s objectives. The control processes tested are being consistently applied.</td>
</tr>
<tr>
<td>Adequate</td>
<td>While there is a basically sound system of internal control, there are weaknesses, which put some of the client’s objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client’s objectives at risk.</td>
</tr>
<tr>
<td>Limited</td>
<td>Weaknesses in the system of internal controls are such as to put the client’s objectives at risk. The level of non-compliance puts the client’s objectives at risk</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the...</td>
</tr>
</tbody>
</table>
4.2 Recommendations made on completion of audit work are prioritised using the definitions shown in the table below.

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>A fundamental weakness in the system that puts the Council at risk. To be addressed as a matter of urgency, within a 3 month time frame wherever possible, or, to put in place compensating controls to mitigate the risk identified until such time as full implementation of the recommendation can be achieved.</td>
</tr>
<tr>
<td>Medium</td>
<td>A weakness within the system that leaves the system open to risk. To be resolved within a 4 – 6 month timescale.</td>
</tr>
<tr>
<td>Low</td>
<td>Desirable improvement to the system. To be introduced within a 7 – 9 month period.</td>
</tr>
</tbody>
</table>

4.3 During the period covered by the report Internal Audit Services have issued 6 final reports and the Executive Summary of these reports are attached at Appendix 2. In summary the final reports issued conclude the following:

- **SNC/15/12 Housing Benefit and Council Tax Support**
  The scope of this audit was to review; procedures and legislation; receipt of applications; assessment of applications; payments of housing benefits; overpayments, arrears and write Offs; backdated claims; discretionary payments; appeals; and performance management.

  On conclusion of the review an **Adequate** assurance was awarded with three medium priority recommendations agreed to address risks in relation to testing of parameter changes, 4% sample checking of processing and reconciliations of overpayments, refunds & write offs to the general ledger. In addition four low priority recommendations were raised to improve the control environment.

- **SNC/15/14 Waste Management**
  The waste management service is provided in-house, with a Cultural Change programme underway, and a new management structure recently developed and recruited to. The service is now also delivered using an ‘Area Working’ model and the district has been divided into three geographical areas, each of which has a designated team leader. The scope of the review included; area working; refuse collection; recycling; street cleansing; commercial waste and performance management.

  On conclusion of the review an **Adequate** assurance opinion was awarded with four medium priority recommendations raised and agreed with management. Importantly the assurance opinion also recognises the overall stability of the control environment, which is encouraging considering the changes the service has undergone since the previous audit.

- **SNC/15/15 HR and Payroll**
  The scope of this audit reviews key controls in relation to HR and Payroll as well as specific areas warranting review, which this year included; officer expenses, car loan administration and ongoing suitability of staff i.e. DBS checks. This audit was also the
first time the new system – iTrent – has been reviewed by internal audit, providing assurance around the new arrangements.

The audit concluded with one medium and one low priority recommendation agreed with management, the medium recommendation having already been implemented, resulting in an Adequate assurance opinion. This is encouraging considering the move to the new IT system. The audit also noted a change in the control environment in relation to VAT receipts in support of mileage claims and different driver checks between the depot and all other staff.

- SNC/15/16 Work to Support the Annual Governance Statement
  This audit is undertaken annually and reviews the key controls within the fundamental financial systems that inform the Statement of Accounts for year end. The audit has reviewed those systems that were not separately reviewed within year, and also carries out top up testing for those areas that were, as appropriate. The Council’s assurance framework is also reviewed. Positive assurances were concluded in all areas and only one low priority recommendation was raised and agreed with management.

- SNC/15/19 Disaster Recovery
  This IT audit covered: adequacy of Disaster Recovery Provision; Disaster Recovery testing; alignment with the Business Continuity Plan; Disaster Recovery development for new systems; third party management; and continuous improvement.

  The audit recognised the improvements that have been made in this area since the last review, and an Adequate assurance was awarded, with two medium and one low priority recommendations agreed with management. The medium priority recommendations related to ensuring that the draft Disaster Recovery and associated risks are approved by senior management and that the Disaster Recovery test plan, strategy and lessons learnt are implemented.

- SNC/15/20 Leisure Review
  This review was requested by the Section 151 Officer to focus on the systems and controls operating around the vending machines, to ensure that going forwards this area is well controlled. The audit specifically reviewed the controls in place for Wymondham Leisure Centre, however the controls recommended mitigating the risks highlighted should also be applied at Diss Swim and Fitness Centre and Long Stratton.

  The high priority recommendation related to the finding that stock takes of vending machines hadn’t been undertaken regularly, which increases the risk of loss of revenue as any missing items will not be identified nor accounted for, and an increased risk of theft or fraud. Management agreed to carry out weekly stock checks with the related records retained as confirmation, with evidence retained in support of all shop stock checks. This recommendation has already been confirmed as implemented by management, with internal audit verifying this at year end.

  The three medium priority recommendations relate to the need to ensure that; stocktake documentation is up to date and supported by the relevant documentation, both staff members are present when cashing up takes place and sign the documents agreeing the cash totals and that trend analysis of stock turnover, income and profit as well as analysis of sales and profits on individual lines be undertaken for each Leisure Centre and between Leisure Centres.
4.4 As mentioned above only one high priority recommendations has been raised during the period covered by this report, and this has already been implemented by management.

4.5 It is also pleasing to note that 5 of the 6 audits concluded in a positive opinion being awarded, indicating a strong and stable control environment to date, the area whereby a limited assurance opinion was awarded had a high priority recommendation that needed addressing. This has now been addressed by management, and therefore no issues would need to be considered at year end and included in the Annual Governance Statement.

5. PERFORMANCE INDICATOR OUTCOMES

5.1 The Internal Audit Service is benchmarked against a number of Performance Indicators as part of the Internal Audit Contract with Mazars. Actual performance to date against these targets is summarised below.

5.2 Audit briefs should be issued 10 days in advance of an audit commencing, and for 65% of audits this target was met. Once underway, 82% of audits were completed on time, with reasons for overruns being notified to the Internal Audit Consortium Manager.
Draft reports should be issued within 15 working days of completion of the audit, with only 41% of reports meeting this deadline. Reasons for these delays have been reported to the Committee previously, and relate to the resourcing issues experienced in the second half of the contract with Mazars.
Finally, final report should be issued with 10 working days of issue of the draft report, and for 71% of the audits this was achieved. There have been a few issues in getting management responses to recommendations, and the introduction of exit meetings under the new contract should alleviate this issue.

5.3 On conclusion of all audits a feedback survey is issued to the key client. The survey asks for responses in relation to; audit staff, audit planning, delivery of the audit and audit reporting. On completion an overall score of poor (1) through to excellent (6) is reported. To date 11 surveys have been completed and an average score of good (5) achieved.

5.4 As mentioned in the previous progress report the balanced scorecard approach which will be taken in monitoring the contractors performance from 1 April 2015. This brings with it a much more practical approach to performance management and one which will ensure a high quality service is provided by the contractor.
## APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

<table>
<thead>
<tr>
<th>Audit No.</th>
<th>Description of Audit</th>
<th>Frequency of Audit Coverage</th>
<th>Original Days Planned</th>
<th>Revised Days Planned</th>
<th>Days Delivered</th>
<th>Scheduling</th>
<th>Status</th>
<th>Assurance Level applicable</th>
<th>Summary Report Details presented to Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC/15/01</td>
<td>Performance management</td>
<td>3 yearly</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>May</td>
<td>Final Report issued 6 June 2014</td>
<td>Adequate</td>
<td>FRAG 24 October 2014</td>
</tr>
<tr>
<td>SNC/15/02</td>
<td>Building control applications, inspections and completions, fees &amp; income</td>
<td>Ad hoc request by management</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>May</td>
<td>Final Report issued 23 July 2014</td>
<td>Adequate</td>
<td>FRAG 24 October 2014</td>
</tr>
<tr>
<td>SNC/15/04</td>
<td>Sports Facilities - Wymondham Leisure Centre</td>
<td>Each centre every 3 years</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>June</td>
<td>Final Report issued 12 August 2014</td>
<td>Adequate</td>
<td>FRAG 24 October 2014</td>
</tr>
<tr>
<td>SNC/15/05</td>
<td>Business Improvement</td>
<td>3 yearly</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>July</td>
<td>Audit cancelled</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/06</td>
<td>NPLaw arrangements</td>
<td>2 yearly</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>July</td>
<td>Final Report issued 31 July 2014</td>
<td>Adequate</td>
<td>FRAG 24 October 2014</td>
</tr>
<tr>
<td>SNC/15/07</td>
<td>Budgetary Control</td>
<td>Ad hoc request by management</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>October</td>
<td>Final Report issued 4 December 2014</td>
<td>Good</td>
<td>FRAG 6 March 2015</td>
</tr>
<tr>
<td>SNC/15/08</td>
<td>Creditors - Electronic Ordering &amp; Payments</td>
<td>2 yearly</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>October</td>
<td>Final Report issued 18 December 2014</td>
<td>Adequate</td>
<td>FRAG 6 March 2015</td>
</tr>
<tr>
<td>SNC/15/09</td>
<td>Development Control</td>
<td>3 yearly</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>October</td>
<td>Final Report issued 23 December 2014</td>
<td>Adequate</td>
<td>FRAG 6 March 2015</td>
</tr>
<tr>
<td>SNC/15/11</td>
<td>Corporate Governance and Risk Management</td>
<td>Annual</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>December</td>
<td>Audit deferred to 2015/16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/12</td>
<td>Housing Benefit &amp; Council Tax Support</td>
<td>2 yearly</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>December</td>
<td>Final Report issued 30 March 2015</td>
<td>Adequate</td>
<td>FRAG 26 June 2015</td>
</tr>
<tr>
<td>SNC/15/13</td>
<td>Community grants and SLA's</td>
<td>2 yearly</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>December  January</td>
<td>Audit deferred to 2015/16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/16</td>
<td>Work to Support the AGS</td>
<td>Annual</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>January</td>
<td>Final Report issued 2 April 2015</td>
<td>Various</td>
<td>FRAG 26 June 2015</td>
</tr>
</tbody>
</table>

### PLANNED SYSTEMS AUDIT WORK

<table>
<thead>
<tr>
<th>PLANNED SYSTEMS AUDIT WORK</th>
<th>TOTAL PLANNED SYSTEMS AUDIT WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>224 196 196 100%</td>
</tr>
<tr>
<td>SNC/15/17</td>
<td>Remote access (Supplier and User)</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>SNC/15/18</td>
<td>IDOX Uniform application</td>
</tr>
<tr>
<td>SNC/15/19</td>
<td>Disaster Recovery</td>
</tr>
<tr>
<td></td>
<td>Computer Audit Follow Up</td>
</tr>
</tbody>
</table>

**TOTAL PLANNED COMPUTER AUDIT WORK**

<table>
<thead>
<tr>
<th></th>
<th>30</th>
<th>30</th>
<th>30</th>
<th>100%</th>
</tr>
</thead>
</table>

**TOTAL PLANNED WORK**

<table>
<thead>
<tr>
<th></th>
<th>254</th>
<th>226</th>
<th>226</th>
<th></th>
</tr>
</thead>
</table>

**EXTRA WORK REQUESTED**

|-----------|--------------|---|---|----------|----------------------------------|---------|------------------|

**TOTAL OF EXTRA WORK UNDERTAKEN**

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>6</th>
<th>6</th>
<th>100%</th>
</tr>
</thead>
</table>

**GRAND WORK TOTAL**

<table>
<thead>
<tr>
<th></th>
<th>254</th>
<th>232</th>
<th>232</th>
<th>100%</th>
</tr>
</thead>
</table>
APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

Appendix 2(a)

Report No. SNC/15/12 – Final Report issued 30 March 2015

Audit Report on Housing Benefits and Council Tax Support

Audit Scope

The scope of the audit covered the following areas of Housing Benefits and Council Tax Support to help confirm that the control environment is operating adequately, effectively and efficiently in relation to:

- Procedures and Legislation;
- Receipt of Applications;
- Assessment of Applications;
- Payments of Housing Benefits;
- Overpayments, Arrears and Write Offs;
- Backdated Claims;
- Discretionary Payments;
- Appeals; and
- Performance Management.

Audit testing of key controls for this area has been subject to proportionate sampling between April and December 2014 with ‘top up’ testing to be completed in quarter four as part of the audit on the Work to Support the Annual Governance Statement (AGS) - (SNC/15/16) to provide the requisite levels of coverage throughout the whole financial year.

Assurance Opinion

<table>
<thead>
<tr>
<th>Unsatisfactory Assurance</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Good Assurance</th>
</tr>
</thead>
</table>

Rationale supporting the award of the opinion

The system of internal control is, overall, deemed Adequate in managing the risks associated with Housing Benefits and Council Tax Support that fall within the scope of this audit. The direction of travel indicator has not changed since arrangements were previously audited in 2012/13. The assurance opinion has been derived as a result of three medium and four low priority recommendations.

Medium priority recommendations have been made regarding the absence of documented testing of Civica system based controls regarding benefits payments, the lack of evidence of 4% sample checks being completed for all Housing Benefit and Council Tax Support processing, and the lack of reconciliations between overpayments, refund and write-offs to the general ledger.

The low priority recommendations relate to the absence of timely reconciliations between the Civica benefits system and the General Ledger, the lack of a regular check and review of outstanding arrears balances, the absence of a Backdated Claim Decision form to support backdated claims and the absence of a segregation of duties for discretionary payments relating to Council Tax assistance.

Positive Findings

We found that the Council has demonstrated the following areas where sound controls are in place and operating consistently:

Procedures and Legislation
• Procedures, key information and legislative changes for Housing Benefits and Council Tax Support are in place, updated regularly and communicated to staff in a timely manner;
• Staff training needs are subject to regular review by means of one to one meetings with Team Leaders where outcomes of quality control processes are assessed;
• Adequate restrictions are in place within the Civica benefits system where officer’s access levels are based on their job role and all required system provider, legislative and parameter updates have been made to the Civica system in a timely manner.

Receipt of Applications

• All postal information is securely received, valuable items are returned promptly, claimant details are input correctly with all supporting information retained and benefits claims are processed in a timely manner;

Appeals

• Policies exist regarding the appeals process and these policies are followed with regards to the review and authorisation of appeals against benefit awards; and

Performance Management

• Revenues and benefits performance information, including ‘Days to Process New Claims and Change in Circumstances’ targets, are accurately recorded and reported quarterly, including the submission and reporting of performance information to generate reports by the performance management system (CorVu), each quarter.

Control weaknesses to be addressed

During our work we have identified the following areas where we believe that the processes would benefit from being strengthened, and as a result of these findings, three medium priority recommendations have been made:

• All changes to the Civica system parameters should be supported by documented testing. In the absence of formal documented testing there is a risk that Housing Benefits applications will be assessed incorrectly.

• The Council should undertake 4% sample checking of all Housing Benefits and Council Tax Support processing to comply with DWP good practice. Outcomes of checking should be formally documented and be signed and dated by the officer completing the checks. In the absence of regular sample checks and evidence retained thereof, there is a risk of reputational damage where information has not been processed correctly or through inappropriate activity in other Housing Benefits / Council Tax Support processing e.g. checking Civica system based controls, timely reconciliations of Housing Benefit processing to General Ledger and outstanding arrears recovery action, these being areas where further weaknesses have been identified and therefore increase the level of risk.

• Reconciliations between overpayments, refunds and write-offs processing and the General Ledger should be produced and reviewed in a timely manner each month. There is a risk that errors or issues may not be identified and remedial action taken, if reconciliations are not performed or reviewed promptly.

During our work we have identified four areas where we believe that further enhancements could be made, in particular, reconciliations between the Civica Housing Benefits Systems and the General Ledger should be produced and reviewed in a timely manner, the regular and independent review of outstanding arrears balance reports, the requirement for backdated claims to be supported by a Backdated Claim Decision form and the absence of a segregation of duties for discretionary payments relating to Council Tax assistance.
Summary of the adequacy and effectiveness of controls

<table>
<thead>
<tr>
<th>Area of Scope</th>
<th>Adequacy of Controls</th>
<th>Effectiveness of Controls</th>
<th>Recommendations Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures and Legislation</td>
<td>Green</td>
<td>Green</td>
<td>-</td>
</tr>
<tr>
<td>Receipt of Applications</td>
<td>Green</td>
<td>Green</td>
<td>-</td>
</tr>
<tr>
<td>Assessment of Applications</td>
<td>Amber</td>
<td>Amber</td>
<td>2</td>
</tr>
<tr>
<td>Payments of Housing Benefits</td>
<td>Green</td>
<td>Amber</td>
<td>1</td>
</tr>
<tr>
<td>Overpayments, Arrears and Write Offs</td>
<td>Green</td>
<td>Amber</td>
<td>1</td>
</tr>
<tr>
<td>Backdated Claims</td>
<td>Green</td>
<td>Amber</td>
<td>-</td>
</tr>
<tr>
<td>Discretionary Payments</td>
<td>Green</td>
<td>Amber</td>
<td>-</td>
</tr>
<tr>
<td>Appeals</td>
<td>Green</td>
<td>Green</td>
<td>-</td>
</tr>
<tr>
<td>Performance Management</td>
<td>Green</td>
<td>Green</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

**High Priority Recommendations**

No high priority recommendations have been raised as a result of this audit.

**Management Responses**

Management have accepted the recommendations raised.

Audit Report on Waste Management

Audit Scope

The scope of the audit covered the following areas:

- Area Working:
- Refuse Collection;
- Recycling;
- Street Cleansing;
- Commercial Waste and
- Performance Management.

Assurance Opinion

<table>
<thead>
<tr>
<th>Assurance Opinion</th>
<th>Unsatisfactory</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Good Assurance</th>
</tr>
</thead>
</table>

Rationale supporting the award of the opinion

The system of internal control is, overall, deemed Adequate in managing the risks associated with Waste Management that fall within the scope of this audit. The assurance opinion has been derived as a result of four medium priority recommendations being raised upon conclusion of our work. The direction of travel has indicated that the overall level of assurance has remained unchanged since the previous audit was carried out in July 2012 (SNC/13/04), thus indicating a stable control environment.

The four medium priority recommendations relate to the need to: document checks undertaken on the discussion of issues and subsequent actions taken from Team Leader Weekly Reports; document all investigations of waste vehicle weight recordings over or under the 10% threshold level; document checks undertaken on the discussion of issues and subsequent actions taken from Weekly Sales Reports and ensure that a reconciliation is undertaken monthly between the Uniform and Integra systems for commercial waste services.

The assurance opinion also recognises the overall stability of the control environment through changes to the service has undergone since the previous audit.

Positive Findings

It is acknowledged there are areas where sound controls are in place and operating consistently, in particular:

Area Working

- Key policy and strategy decisions are documented and considered within a formal Waste Management Strategy;
- A community engagement plan and Area Working Plan is in place, documenting a clear area working structure;
- A mandatory documented training programme is in place for each staff member;
- All income due is collected on a timely basis and correctly accounted for in respect of waste services;

Refuse Collection
• All refuse collection staff have completed health and safety training with records updated and monitored;
• Monitoring of maintenance and servicing of waste vehicles is recorded on fleet management software or separately documented;
• Invoices are accurately raised for refuse bin renewals in line with original agreements and current charges;
• The Council has an approved charging policy in place for waste collection;
• The level of take up of green waste services is monitored monthly. This indicated approximately 19,500 users, exceeding the performance target by over 3,000 for the year to date;
• Green waste customers are made aware of discounts applicable through paying by Direct Debit;

Recycling

• A valid and approved profit sharing agreement (the agreement) for dry recyclable waste is in place between Norfolk County Council, five district Councils of Norfolk including South Norfolk District Council, and Norse Environmental Waste Services Limited that confirms operational responsibilities and risk ownership between all parties;
• The agreement documents the services to be delivered by the contractor, terms for the delivery of agreed services including partnership share of any surplus and withdrawal arrangements as well as the Council’s right to access information from the contractor relating to the agreed services and the provision of suitable and timely contingency arrangements;
• Governance arrangements, in the form of a Joint Venture Board, are formally documented along with approved terms of reference;
• The accuracy of recycling credits is validated and for charges paid for gate fees, which are subject to an agreed fixed annual rate;
• Each partner Council has agreed the key aspects of the service to be monitored by the lead Council, who provides information to partner Councils on issues relating to the agreement;
• Key recycling targets are supported by the Council’s communication of recycling initiatives to residents and are measured using the Waste Data Flow programme, to ensure they are realistic and in line with industry best practice;

Street Cleansing

• There are established rotas in place to determine the frequency of cleansing, which cover all areas of the district and are adhered to;

Commercial Waste

• A commercial waste customer list is maintained, updated promptly with changes and made available to collectors;
• Each year the commercial waste customers are sent a transfer note to be completed to demonstrate Duty of Care;
• Charges are fully costed, with financial ranges set and a process in place for price negotiations and agreements to confirm that the service is self-financing and to maximise income;
• The commercial waste sales person is aware of the financial ranges within which he can negotiate;
• The price matrix is not too rigid and allows efficient negotiation with appropriate management authorisation where needed, whilst also ensuring that the risk of fraud is minimised;
• Invoice Request Forms are sent to accounts receivable to be issued, raised and checked promptly and accurately; and

Performance Management

• Waste Management performance information, including 'Total percentage of Municipal Waste recycled' targets, are accurately recorded and reported quarterly, including the submission and reporting of performance information to generate reports by the performance management system (CorVu), each quarter.

Control weaknesses to be addressed
During our work we have identified the following areas where we believe that the processes would benefit from being strengthened, and as a result of these findings, four medium priority recommendations have been made:

- Documented checks on Weekly Team Leader Reports should be completed to help monitor consultations undertaken and agreements reached to resolve all issues raised and to ensure that all issues reported within the previous Team Leader Report had been sufficiently actioned and resolved. These reports highlight important issues raised within refuse collection service failures, street inspections and accidents and incidents. In absence of evidence that Weekly Team Leader Reports are checked and monitored, there is a risk that issues raised will not be identified and addressed and that Team Leaders will not be held accountable should issues remain outstanding and which adversely impact on service delivery.

- All waste vehicle weight recordings taken which are identified to be over or under the 10% threshold level when entered onto the Daily Worksheet Record should be promptly investigated. These investigations should document the reasons for the discrepancy and be dated and signed by the reviewing officer. Where investigations on a breach of weight limit over the threshold do not take place, there is a health and safety risk to the Council where vehicles become dangerous to operate if overloaded. In addition, there is a risk of financial loss where vehicles are under-loaded and fuel resources are expended in an inefficient manner.

- Documented checks on Weekly Sales Reports for commercial waste services should be undertaken to ensure that the sales representative is negotiating and concluding contracts within the sales targets set and that charges are agreed within the price matrix structure. In absence of evidence that Weekly Sales Reports are checked and monitored. In absence of evidence that Weekly Sales Reports are checked and monitored, there is a risk that commercial waste contracts will not be correctly agreed leading to incorrect charges being set up and potential disputes between parties.

- Monthly reconciliations should be undertaken and documented between commercial waste and bulky waste customer records maintained on the Uniform waste services system and those maintained on the Integra and receipting systems. Where a reconciliation of Uniform records to Integra or receipting records does not take place, there is a risk that the Council will be providing a service for a commercial waste or bulky waste customer who is not being charged for the service through the Integra or the receipting systems, leading to financial loss for the Council.

We also made three observations where the risks imposed remain outstanding. However, the Council has endeavoured to accept such risks as a result of the potential operational impact of implementing the controls. Implementation is deemed advisable and in line with the arrangements which currently exist within the Council. These issues are in respect of:

- Budget Assurance Statements should be completed by budget managers within the Environmental Services department and signed off each month, as they are across the other Directorates within the Council. This control was tested as part of the Budgetary Control audit, last carried out in October 2014 (SNC/15/08), which recognised the good practice and this now needs to be reflected within the Environment and Housing Directorate.

- We found that a rolling stock of refuse bins is ordered once a certain threshold of stock retained is depleted. There is an accepted risk that this could result in the retention of a large number of stock for a period of time until bin stock needs to be replenished.

- We found that prior to November 2014, no documentation was retained of any agreement made with commercial waste customers for the service. There was an accepted risk that customers could default on payment at any point. However, agreements were put in place for all cases since November 2014. Thus, any associated risks since this date have now been mitigated.
Summary of the adequacy and effectiveness of controls

<table>
<thead>
<tr>
<th>Adequacy and Effectiveness Assessments</th>
<th>Area of Scope</th>
<th>Adequacy of Controls</th>
<th>Effectiveness of Controls</th>
<th>Recommendations Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Area Working</td>
<td>Green</td>
<td>Amber</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Refuse Collection</td>
<td>Green</td>
<td>Amber</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Recycling</td>
<td>Green</td>
<td>Green</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Street Cleansing</td>
<td>Green</td>
<td>Amber*</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commercial Waste</td>
<td>Green</td>
<td>Amber</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Performance Management</td>
<td>Green</td>
<td>Green</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

High Priority Recommendations

No high priority recommendations have been raised as a result of this audit

Management Responses

Management have accepted the recommendations raised.
Audit Report on Payroll and Human Resources

Audit Scope

The objective of the audit was to review the systems and controls in place for Payroll, Human Resources, Car Loans and Officers’ Expenses to confirm that these are operating adequately, effectively and efficiently. The audit covered the following areas:

- Payroll (including; HMRC compliance, payment processing and reconciliations);
- Human Resources (staff verification checks and DBS);
- Officers’ Expenses; and
- Car Loans.

Assurance Opinion

<table>
<thead>
<tr>
<th>Unsatisfactory Assurance</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Good Assurance</th>
</tr>
</thead>
</table>

Rationale supporting the award of the opinion

The overall system of internal control is deemed adequate in managing the risks associated with Payroll, Human Resources, Car Loans and Officers’ Expenses, that fall within the scope of this audit.

The adequate assurance opinion has been derived as a result of one medium and one low priority recommendations being raised; hence the direction of travel indicator remains unchanged since the last audit visit (SNC/13/09).

The medium priority recommendation is in relation to performing and recording a check on new starter forms confirming details have been input correctly onto the payroll system.

Positive Findings

We found that the Council has demonstrated the following areas where sound controls are in place and operating consistently:

- All leavers tested had a termination form on file which was prepared and checked by different individuals to confirm the leaver was promptly removed from the iTrent system;
- BACS and third party payments are all checked for accuracy and independently authorised prior to payment;
- A cyclical process is in place which reviews and confirms the ongoing suitability of staff (e.g. triennial DBS checking);
- Expense claims, including travel claims, are verified and supported by relevant documentation, with evidence of authorisation of claims also retained;
- Car Loans comply with the scheme’s conditions, with required supporting documentation retained, including evidence of the approvals process; and
- Loan repayments are correctly calculated and promptly invoiced.

Control weaknesses to be addressed

During our work we have identified the following areas where processes relating to Payroll would benefit from being strengthened and as a result one medium priority recommendations has been made.
• New starter forms should be checked by an independent officer, following input into the iTrent system with this level of control being recorded on the starter form. If a new starter form is not checked, there is a risk that the information is inaccurate leading to incorrect or incomplete payroll records, which could lead to incorrect or fraudulent payments being made.

During our work we have also identified one area where we believe that further enhancements could be made, in particular, the need to review the Car Loan Policy which was last reviewed in 2006.

It was also noted that various variance reports in relation to staff pay are produced and reviewed on a monthly basis by the Payroll Manager, it has been agreed that going forwards these reports will be signed and dated (electronically) in order to evidence this review, however a recommendation has not been raised within this report.

Upon conclusion of our audit, which included checking submission of VAT receipts in support of reimbursement of mileage claims, we noted that the Council publicised a ‘Broadcast Message’ on 3rd February 2015, informing staff that with effect from 1st February 2015, they were no longer required to submit receipts for claiming back VAT on mileage claims, due to the cost effectiveness of the exercise. We subsequently established that the Council was no longer going to reclaim the VAT back from HMRC as a consequence of this decision.

We also noted that other than all staff working at the Council’s depots, who have their driver documents verified to confirm they have the requisite insurance, up to date licence and valid MOT each year, all other staff using their vehicles for official Council business are subject to sample check i.e. 20 each year. We accept that changes can arise following these checks e.g. change of car, driving offence, nevertheless, it is prudent for the Council to demonstrate it has taken all reasonable steps to make sure all its staff are compliant with these requirements.

**Summary of the adequacy and effectiveness of controls**

<table>
<thead>
<tr>
<th>Area of Scope</th>
<th>Adequacy of Controls</th>
<th>Effectiveness of Controls</th>
<th>Recommendations Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>Amber</td>
<td>Amber</td>
<td>0</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Green</td>
<td>Green</td>
<td>0</td>
</tr>
<tr>
<td>Officers’ Expenses</td>
<td>Green</td>
<td>Green</td>
<td>0</td>
</tr>
<tr>
<td>Car Loan Administration</td>
<td>Green</td>
<td>Amber</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>0 1 1</strong></td>
</tr>
</tbody>
</table>

**High Priority Recommendations**

No high priority recommendations have been raised as a result of this audit

**Management Responses**

Management have accepted the recommendations raised.
Appendix 2(d)

Report No. SNC/15/16– Final Report issued 2 April 2015

Audit Report on Work to Support the Annual Governance Statement

Assurance Opinions

<table>
<thead>
<tr>
<th>Key System</th>
<th>Covered in 2014/15</th>
<th>Date of Review</th>
<th>Audit Ref</th>
<th>Opinion</th>
<th>No. of recs</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Ledger Maintenance</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>N/A</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>N/A</td>
</tr>
<tr>
<td>Asset Management</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>1*</td>
</tr>
<tr>
<td>Fixed Assets (Property, Plant and Equipment)</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>N/A</td>
</tr>
<tr>
<td>Cash Income and Receipt (remittances)</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>N/A</td>
</tr>
<tr>
<td>Treasury Management</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>N/A</td>
</tr>
<tr>
<td>Assurance Framework</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>Adequate</td>
<td>N/A</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>Yes</td>
<td>October 2014</td>
<td>SNC/15/08</td>
<td>Adequate</td>
<td>4</td>
</tr>
<tr>
<td>Housing Benefit and Council Tax Support</td>
<td>Yes</td>
<td>December 2014</td>
<td>SNC/15/12</td>
<td>Adequate</td>
<td>8 **(3)</td>
</tr>
<tr>
<td>Council Tax</td>
<td>Yes</td>
<td>November 2014</td>
<td>SNC/15/10</td>
<td>Adequate</td>
<td>7 **(3)</td>
</tr>
<tr>
<td>National Non-Domestic Rates</td>
<td>Yes</td>
<td>November 2014</td>
<td>SNC/15/10</td>
<td>Adequate</td>
<td>7 **(3)</td>
</tr>
<tr>
<td>Budgetary Control</td>
<td>Yes</td>
<td>October 2014</td>
<td>SNC/15/07</td>
<td>Good</td>
<td>1</td>
</tr>
<tr>
<td>Payroll</td>
<td>Yes</td>
<td>February 2015</td>
<td>SNC/15/15</td>
<td>Adequate</td>
<td>4</td>
</tr>
</tbody>
</table>

* Denotes additional recommendations made in this AGS report.  
**( ) Denotes number of recommendations included in the systems reports which also relate to key controls within the AGS scope.

Key Controls Testing

There are a number of key controls within the fundamental financial systems that the Internal Audit Consortium Manager required to be covered by Internal Audit each financial year.

Under the agreed Internal Audit Plan for 2014 / 15, a number of these material systems have been reported on in detail and those key controls have been addressed in each system reviewed. Recommendations have been raised in these individual audit reports and the issues identified in this report should be viewed in conjunction with those reports. This report provides the top up testing for these material systems, thus ensuring the systems are subject to full year testing.

In addition, the controls in the material system that were not covered as part of the agreed Internal Audit plan for 2014/15 have also been reviewed.
During the Internal Audit review the following key areas have been identified where processes / arrangements within Asset Management would benefit from being strengthened and as a result of these findings one low priority recommendation has been made, in particular, evidence of the timely completion and review of monthly reconciliations between the Fixed Asset Register and the General Ledger.

Assurance Framework Arrangements

A review of the assurance framework within the Council was also undertaken, this area focused on; the structure of the assurance statements, responsibility for completion, evidence retained, the mechanism for incorporating information into the Annual Governance Statement (AGS), senior officer and member review of the AGS and review and monitoring of subsequent action plans.

Assurance statements are issued to managers to provide assurance over the areas of their responsibility. Administration of the assurance statement process is undertaken by the Accountancy Manager / Deputy s.151 Officer. A sample of five assurance statements for 2014/15 was tested to confirm whether service heads had provided comments or details of evidence to support the assertions made within their assurance statement. We identified that in all five cases, all requisite information had been provided.
Report No. SNC/15/19 – Final Report issued 4 March 2015

Audit Report on Disaster Recovery

Audit Scope

The audit looked at the following areas:

- Adequacy of Disaster Recovery Provision;
- Disaster Recovery Testing;
- Alignment with the Business Continuity Plan;
- Disaster Recovery Development for New Systems;
- Third Party Management; and
- Continuous Improvement.

Assurance Opinion

<table>
<thead>
<tr>
<th>Unsatisfactory Assurance</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Good Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rationale supporting the award of the opinion

The system of internal control is, overall, deemed Adequate in managing the risks associated with Disaster Recovery (DR) that fall within the scope of this audit. The direction of travel demonstrates that the overall level of control has improved since previous audits where elements of Disaster Recovery were included.

Positive Findings

We found that the Council has demonstrated the following points of good practice as identified in this review:

- A draft Disaster Recovery Plan is in place;
- The draft plan reviewed for the audit incorporates appropriate processes and procedures required for such a plan to operate effectively;
- There is evidence to suggest that specifications for projects to implement new, or updated, systems include relevant DR requirements; and
- Third party vendor and support contract details were found to be present.

Control weaknesses to be addressed

During our work we have identified the following area(s) where we believe that the processes / arrangements for Disaster Recovery provision would benefit from being strengthened, and as a result of these findings medium priority recommendations have been made.

- The draft plan needs to be formally approved by Senior Management, together with the risks set out therein. Without formal approval, there is an increased risk that the plan will not adequately support the Council’s priority services and that the risks noted therein are not adequately managed or acknowledged.
- The Council should draft and agree an appropriate DR test plan and strategy, to include appropriate change controls processes to feed lessons learned back into the plan. The lack of test plan and strategy increases the risk that DR provision does not adequately support the Council’s service priorities.

During our audit we have also raised one low priority recommendation which will provide an enhancement to the current system in relation to Disaster Recovery provision.
Summary of the adequacy and effectiveness of controls

<table>
<thead>
<tr>
<th>Area of Scope</th>
<th>Adequacy of Controls</th>
<th>Effectiveness of Controls</th>
<th>Recommendations Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy of DR Provision</td>
<td>Amber</td>
<td>Amber</td>
<td>0 1 1</td>
</tr>
<tr>
<td>DR Testing</td>
<td>Amber</td>
<td>Amber</td>
<td>0 1 0</td>
</tr>
<tr>
<td>Alignment with BC Plans</td>
<td>Green</td>
<td>Green</td>
<td>0 0 0</td>
</tr>
<tr>
<td>DR Development for New Systems</td>
<td>Green</td>
<td>Green</td>
<td>0 0 0</td>
</tr>
<tr>
<td>Third Party Management</td>
<td>Green</td>
<td>Green</td>
<td>0 0 0</td>
</tr>
<tr>
<td>Ongoing Improvement</td>
<td>Amber</td>
<td>Amber</td>
<td>0 0 0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>0 2 1</td>
</tr>
</tbody>
</table>

High Priority Recommendations

No high priority recommendations have been raised as a result of this audit.

Management Responses

Management have accepted the recommendation raised.
Appendix 2(f)


Audit Report on Stock Control Review

Audit Scope

The objective of the audit is to review the systems and controls in place and operating for stock control of the vending machines, in particular at Wymondham Leisure Centre, to help confirm that these are operating adequately, effectively and efficiently.

Assurance Opinion

<table>
<thead>
<tr>
<th>Assurance Opinion</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Good Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rationale supporting the award of the opinion</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The system of internal control is, overall, deemed limited in managing the risks associated with the stock control of vending machines. The assurance opinion has been derived as a result of one high and three medium priority recommendations being raised upon conclusion of our work. The audit specifically reviewed the controls in place for Wymondham Leisure Centre, however the controls recommended to mitigate the risks highlighted should also be applied at Diss Swim and Fitness Centre and Long Stratton.

The one high priority recommendation relates to the need to complete regular stocktakes of vending machine stock.

The three medium priority recommendations relate to the need to ensure that stocktake documentation is up to date, to ensure that both staff members are present when cashing up takes place, and sign documents agreeing the cash totals and that trend analysis of stock turnover, income and profit as well as analysis of sales and profits on individual lines be undertaken for each Leisure Centre and between Leisure Centres.

Positive Findings

It is acknowledged there are areas where sound controls are in place and operating consistently, in particular:

- At Wymondham stock is held in a secure locked room, with access for a limited number of keyholders;
- Ordering of goods is via the Integra system, this requires authorisation from a second individual, and also records and retains the details of the order and the officer placing the order on the system.

Control weaknesses to be addressed

During our work we have identified the following area where we believe that the processes in place for stock control would benefit from being strengthened, and as a result of these findings, one high priority recommendations have been made, in particular;

- Vending machine stock checks should be carried out weekly, with the related records retained as confirmation. Evidence should also be retained in support of all shop stock checks. This recommendation supersedes a previous recommendation which has not been implemented to date. In the absence of regular stock checks and evidence retained thereof, there is an increased risk of loss of revenue as any missing items will not be identified nor accounted for, and an increased risk of theft or fraud.

During our work we have identified the following area where we believe that the processes in place for stock control would benefit from being strengthened, and as a result of these findings, three medium priority recommendation has been made, in particular;
• Vending machine stock checks should be supported by up to date documentation detailing the required procedures. In the absence of accurate documentation there is a risk that required procedures will not be properly communicated to staff.

• Both staff members present at the cash count should sign to agree the amount of cash taken from each vending machine and also the total figure cashed up from the tills. In the absence of a second sign off there is no confirmation that the amount of cash recorded for each vending machine and the total cash to be collected was correct.

• Trend analysis of stock turnover, income and profit should be completed for each Leisure Centre and between Centres to confirm relative performance. In addition, analysis of sales and profit figures for the various different products should be made. In the absence of trend analysis discrepancies within centres and between centres will be likely to go unnoticed. Lack of analysis of sales and profits for different stock items allows opportunities to maximise profits to be missed.

Summary of the adequacy and effectiveness of controls

<table>
<thead>
<tr>
<th>Area of Scope</th>
<th>Adequacy of Controls</th>
<th>Effectiveness of Controls</th>
<th>Recommendations Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vending Machines</td>
<td>Amber</td>
<td>Amber</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

High Priority Recommendations

One high priority recommendation has been raised as a result of this audit.

Recommendation - Vending machine stock checks should be carried out weekly with the related records retained as confirmation. Evidence should also be retained in support of all shop stock checks.

Management Response - Agreed. More regular stock counts have been introduced, from April these will be weekly. A consultant has been instructed to carry out a review and procedures will be updated in line with this.

Management Responses

Management have accepted the recommendations raised.
Follow Up Report on Internal Audit Recommendations

Internal Audit Consortium Manager

This report seeks to inform members as to the year position in relation to management’s implementation of agreed internal audit recommendations falling due by 31 March 2015.

<table>
<thead>
<tr>
<th>Cabinet member(s):</th>
<th>Ward(s) affected:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Edney</td>
<td>All</td>
</tr>
</tbody>
</table>

Contact Officer, telephone number, and e-mail:
Emma Hodds 01508 533791
ehodds@s-norfolk.gov.uk

1. **Background**

1.1 The Finance, Resources, Audit and Governance Policy Committee receive updates on management’s implementation of agreed internal audit recommendations.

1.2 This report forms part of the overall reporting requirements to assist the Council in discharging the responsibilities in relation to its Internal Audit Service.

1.3 The Public Sector Internal Audit Standards require the Chief Audit Executive (Internal Audit Consortium Manager) to establish a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action. The frequency of reporting and at South Norfolk Council is twice yearly.

1.4 To comply with the above this report includes the status of agreed actions.

2. **Current Position and Issues**

2.1. The current position and issues in relation to the implementation of Internal Audit recommendations is shown in the report attached.

3. **Proposal and Reasons**

3.1. The Finance, Resources, Audit and Governance Committee are asked to receive and note the current position in relation to the completion of agreed audit recommendations.

4. **Relevant Corporate Priorities**

4.1. Driving services through being businesslike, efficient and customer aware.
5. **Implications and Risks**  
5.1. Risks - Failure to implement or improve internal controls may lead to the risks associated with those controls materialising.

6. **Conclusion**  
6.1. Performance in relation to the implementation of internal audit recommendations continues to be steady, with management responses being provided in all cases, along with revised deadlines.

7. **Recommendations or Action Required**  
7.1. That members note the position in relation to the completion of agreed audit recommendations as at 31 March 2015.

**Appendices attached to this report:** 
Follow Up Report on Internal Audit Recommendations
SOUTH NORFOLK COUNCIL

Follow Up Report on Internal Audit Recommendations

Period Covered: 1 October 2014 to 31 March 2015

Responsible Officer: Emma Hodds – Internal Audit Consortium Manager

CONTENTS

1. INTRODUCTION .................................................. 2
2. STATUS OF AGREED ACTIONS ............................... 2
APPENDIX 1 – STATUS OF AGREED ACTIONS ................. 4
1. INTRODUCTION

1.1 This report is being issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.

1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive (known in this context as the Internal Audit Consortium Manager) to establish a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action. The frequency of reporting and the specific content are for the Authority to determine.

1.3 To comply with the above this report includes:
   - The status of agreed actions.

2. STATUS OF AGREED ACTIONS

2.1 As a result of audit recommendations, management agree action to ensure implementation within a specific timeframe and by a responsible officer. The management action subsequently taken is monitored by the Internal Audit Contractor on a regular basis and reported through to this Committee. Verification work is also undertaken for those recommendations that are reported as closed. Appendix 1 to this report shows the details of the progress made to date in relation to the implementation of the agreed recommendations.

2.2 The summary position according to recommendation priority is shown in the table below:

| Status of Recommendations as at 30 September 2014 |
|---------------------------------|-----|-----|-----|-----|-----|
| Total                          | 30  | 33  | 27  | 61  | 49% |
| Complete                       | 0   | 16  | 14  | 30  | 49% |
| Outstanding                    | 1   | 17  | 13  | 31  | 51% |
| Unable to confirm status       |     |     |     |     |     |
| Total                          | 1   | 33  | 27  | 61  |     |

| Status of Recommendations as at 31 March 2015 |
|---------------------------------|-----|-----|-----|-----|-----|
| Total                          | 54  |     |     |     |     |
| Complete                       | 2   | 19  | 10  | 31  | 57% |
| Outstanding                    | 0   | 16  | 7   | 23  | 43% |
| Unable to confirm status       |     |     |     |     |     |
| Total                          | 2   | 35  | 17  | 54  |     |

Key:

H – High priority: A fundamental weakness in the system that puts the Council at risk. To be addressed as a matter of urgency, within a 3-month time frame wherever possible, or, to put in place compensating controls to mitigate the risk identified until such a time as full implementation of the recommendation can be achieved.

M – Medium priority: A weakness within the system that leaves the system open to risk. To be resolved within a 4 - 6 month timescale.

L – Low priority: Desirable improvement to the system. To be introduced within a 7 - 9 month period.

The tables provide two snapshots – one of the mid year position and one covering the position as year end. The figures are not cumulative but enable an overview to be maintained as to the nature of progress being made in relation to completing agreed actions at periodic intervals during the financial year.
2.4 Details of high priority recommendations which remain outstanding would usually be attached to this report, however there was only one high priority recommendation raised within the financial year, and one carried from 2013/14 financial year, both of which have now been implemented.

2.5 There continues to be a regular response provided by management during the follow up verification undertaken by the Contractor. Considered responses are received, and where a recommendation remains or has become outstanding, a realistic revised deadline date for implementation is recorded.

2.6 Of the 23 recommendations outstanding, 16 of these are of a medium priority, which indicates a weakness within the system that leaves the system open to risk. Having reviewed the management responses the majority of the revised deadline for these 16 recommendations is stated as 30 June 2015, with only a couple stating 30 September 2015. As previously mentioned the reasons for these delays are fully recorded by management in the response provided to the Contractor.

2.7 In relation to the implementation rate for recommendations, whilst although steady, it would be best practice to ensure that recommendations are implemented as per the original agreed deadline date. As part of the new contract which commenced on 1 April 2015, follow up by the new contractor will be more frequent i.e. monthly, (starting in quarter 2 of 2015/16) which it is hoped will help to keep audit recommendations live and ensure prompt implementation of these.

2.8 It is also worth noting that of the recommendations made to date in year, a further 28 recommendations are not yet due for implementation – see Appendix 1 for the audit areas to which these relate. As mentioned although the dates for completion have not yet been reached, until they are actioned, they represent weaknesses in the control environment which leave the authority open to risk.
## APPENDIX 1 – STATUS OF AGREED ACTIONS

<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
<th>Audit Opinion</th>
<th>Completed 1 October 2014 to 31 March 2015</th>
<th>Outstanding</th>
<th>Unable to confirm status</th>
<th>Total Outstanding</th>
<th>Not yet due to be implemented</th>
<th>Total Audit Recommendation s to be actioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNC/12/01</td>
<td>Building Control</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/12/04</td>
<td>Environmental Health</td>
<td>Limited</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/13/13</td>
<td>Exchequer Services</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/02</td>
<td>Sports Facilities - Long Stratton</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/07</td>
<td>Environmental Health Services Limited/Adequate</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/08</td>
<td>Elections and Electoral Registration</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/10</td>
<td>Sundry Debtors</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/11</td>
<td>Accountancy Services</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/12</td>
<td>Localism &amp; Communities</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/13</td>
<td>Data Protection and Freedom of Information</td>
<td>Good</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/01</td>
<td>Performance Management</td>
<td>Adequate</td>
<td>2</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/02</td>
<td>CNC Building Control</td>
<td>Adequate</td>
<td>2</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/04</td>
<td>Sports Facilities - Wymondham</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/06</td>
<td>Nplaw Arrangements</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/07</td>
<td>Budgetary Control</td>
<td>Good</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/08</td>
<td>Creditors</td>
<td>Adequate</td>
<td>2</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/09</td>
<td>Development Control</td>
<td>Adequate</td>
<td>2</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/10</td>
<td>CTAX and NNDR</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/11</td>
<td>HB and CTS</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/12</td>
<td>Waste Management</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/13</td>
<td>Payroll &amp; HR</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/14</td>
<td>AGS</td>
<td>N/A</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/15</td>
<td>Systems Audits Advertisement</td>
<td>Limited</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/20</td>
<td>Network Infrastructure and Security</td>
<td>Adequate</td>
<td>3</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/14/22</td>
<td>Virtualisation</td>
<td>Limited</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/17</td>
<td>Remote Access</td>
<td>Adequate</td>
<td>2</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/18</td>
<td>Uniform Application</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNC/15/19</td>
<td>Disaster Recovery</td>
<td>Adequate</td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Computer Audits</td>
<td></td>
<td>1</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annual Report and Opinion 2014/15

Internal Audit Consortium Manager

This report concludes on the Internal Audit Activity undertaken during 2014/15, it provides an Annual Opinion concerning the organisation’s framework of governance, risk management and control and concludes on the Effectiveness of Internal Audit and provides key information for the Annual Governance Statement.

Cabinet member(s): Michael Edney
Ward(s) affected: All
Contact Officer, telephone number, and e-mail: Emma Hodds 01508 533791 ehodds@s-norfolk.gov.uk

1. Background

1.1 In line with the Public Sector Internal Audit Standards, which came into force from 1 April 2013; an annual opinion should be generated which concludes on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control;

- A summary of the work that supports the opinion should be submitted;
- Reliance placed on other assurance providers should be recognised;
- Any qualifications to that opinion, together with the reason for qualification must be provided;
- There should be disclosure of any impairments or restriction to the scope of the opinion;
- There should be a comparison of actual audit work undertaken with planned work;
- The performance of internal audit against its performance measures and targets should be summarised; and,
- Any other issues considered relevant to the Annual Governance Statement should be recorded.

1.2 This report now also contains conclusions on the Review of the Effectiveness of Internal Audit, which includes;

- The degree of conformance with the PSIAS and the results of any quality assurance and improvement programme;
- The outcomes of the performance indicators; and,
- The degree of compliance with CIPFA’s Statement on the Role of the
Head of Internal Audit.

2. Current Position and Issues
2.1. The Annual Report and Opinion and the Review of the Effectiveness of Internal Audit are shown in the report attached.

3. Proposal and Reasons
3.1. The Finance, Resources, Audit and Governance Committee, in maintaining an overview as to the quality of systems of internal control in operation at the Council, is being requested to note this report, the adequate assurance opinion awarded and recommend that Full Council approves its content, and confirms that key information provided is carried across to the Council’s Annual Governance Statement, which is also considered on the agenda.

3.2. The Finance, Resources, Audit and Governance Committee, in ensuring it fulfils its obligations is being requested to review the effectiveness of the Internal Audit service, to note this report and approve its referral to Full Council for its subsequent endorsement.

4. Relevant Corporate Priorities
4.1. Driving services through being businesslike, efficient and customer aware.

5. Implications and Risks
5.1. Not applicable.

6. Conclusion
6.1 On the basis of Internal Audit work performed during 2014/15, the Internal Audit Consortium Manager is able to give an adequate opinion on the framework of governance, risk management and control at South Norfolk District Council.

6.2 The outcomes of the Effectiveness Review confirm that Internal Audit:
- Is compliant with the Public Sector Internal Audit Standards;
- Is continually monitoring performance and looking for ways to improve; and.
- Is complaint with CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.

6.3 These findings therefore indicate that reliance can be placed on the opinions expressed by the Internal Audit Consortium Manager, which can then be used to inform the Council’s Annual Governance Statement.

7. Recommendations
7.1 Consider and note the contents of the Annual Report and Opinion of the Internal Audit Consortium Manager and recommend that Full Council give its approval to the document.

7.2 Note that an adequate audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2015.

7.3 Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration, when developing and reviewing the Council’s Annual Governance Statement for 2014/15.
3. **Proposal and Reasons**  
   3.1. The Finance, Resources, Audit and Governance Committee are requested to receive and note the Progress Report. In doing so, the Committee is ensuring that the Internal Audit Service remains compliant with professional auditing standards.

4. **Relevant Corporate Priorities**  
   4.1. Driving services through being businesslike, efficient and customer aware.

5. **Implications and Risks**  
   5.1. Financial - The Internal Audit Plan is being delivered for the year within the approved budget for 2014/15.  
   5.2. Risks - Internal Audit reports identify risks and control weaknesses within the Council which are highlighted in this report, appropriate management action has been agreed to mitigate these risks within agreed timeframes.

6. **Conclusion**  
   6.1. The revised internal audit plan for 2014/15 has been completed, with all audits being finalised and being considered as part of the Annual Report and Opinion.

7. **Recommendations**  
   7.1. That members note the outcomes of the six completed audits finalised in the period covered by this report, and the completion of the annual internal audit plan for 2014/15.

**Appendices attached to this report:**  
Progress Report on Internal Audit Activity
CONTENTS

1. INTRODUCTION .................................................................................................................. 2

2. ANNUAL OPINION OF THE IACM ............................................................................. 2
   2.1 Roles and responsibilities ......................................................................................... 2
   2.2 The opinion itself ....................................................................................................... 3

3. AUDIT WORK UNDERTAKEN DURING THE YEAR ................................................. 3

4. THIRD PARTY ASSURANCES .................................................................................... 4

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT ...................... 4

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2014/15 .................................... 6

APPENDIX 2 ASSURANCE CHART ..................................................................................... 8

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES ............................................... 10
1. INTRODUCTION

1.1 The Council is required by the Accounts and Audit Regulations 2011 to maintain an adequate and effective system of internal audit of its accounting records and internal control systems in accordance with proper internal audit practices. (The Regulations were recently updated, which took effect from 1 April 2015, however these do not apply to this year end opinion, and future opinions will be updated accordingly.) Those proper practices are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013.

1.2 Those standards require the Chief Audit Executive (known in this context as the IACM) to provide a written report to those charged with governance (known in this context as the Finance, Resources, Audit and Governance Policy Committee) to support the Annual Governance Statement (AGS). This report must set out:

- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2014/15, together with reasons if the opinion is unfavourable;

- A summary of the internal audit work carried from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;

- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);

- The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA’s Statement on the Role of the Head of Internal Audit.

1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s Annual Governance Statement, but there are also a number of other important sources to which the Finance, Resources, Audit and Governance Policy Committee and statutory officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at Appendix 3.

2. ANNUAL OPINION OF THE IACM

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.

- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with Senior Leadership Team and key stakeholders and then approved by the Finance, Resources, Audit and Governance Policy Committee at its meeting on 7 March
2014. Any justifiable amendments that are requested during the year are discussed and agreed with the Section 151 Officer and senior management, and reported to the Finance, Resources, Audit and Governance Policy Committee as part of the regular Progress Reports on Internal Audit Activity. This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Finance, Resources, Audit and Governance Policy Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

- The overall opinion is that the framework of governance, risk management and control at South Norfolk Council is deemed to be adequate, representing a stable control environment. It is also encouraging that of the 17 audits completed within year all areas, apart from one, resulted in a positive assurance. The area whereby the significant control weakness was reported (vending machine stock control) has since been mitigated by management.

- In providing the opinion the Council’s risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management’s progress in addressing any control weaknesses identified therefrom have been taken into account.

- The opinion has been discussed with the Section 151 Officer prior to publication.

3. AUDIT WORK UNDERTAKEN DURING THE YEAR

3.1 Appendix 1 records the internal audit work delivered during the year on which the opinion is based. Detailed findings, conclusions and agreed management actions can be provided upon request. In addition Appendix 2 is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 The Finance, Resources, Audit and Governance Policy Committee approved the Annual Internal Audit Plan for 2014/15, which encompassed 19 audits totalling 254 days of work. Due to amendments to the plan in year, which were discussed with the Section 151 Officers, Senior Management and reported to the Committee in the Progress Reports provided in year, the actual work delivered was 17 audits, equating to 232 days.

3.3 Internal audit work is divided into 4 broad categories;

- Annual opinion audits;

- Fundamental financial systems that underpin the Council’s financial processing and reporting;

- Other systems identified as worthy of review by the risk assessment processes within internal audit;

- Significant computer systems which provide the capability to administer and control the Council’s main activities.

3.4 In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that 23 recommendations remain outstanding, 16 of which are medium priority, representing a weakness within the system that leaves it open to risk. The remaining 7 recommendations are low priorities which highlight desirable improvement to the system. It is encouraging to note that only one high priority recommendation was agreed with management within the financial year, and this has been implemented, as has the high priority recommendation which was carried forward from
2013/14. Further detail in relation to the implementation of internal audit recommendations, can be found elsewhere on the agenda.

3.5 Internal Audit work has not identified any weaknesses that are significant enough for disclosure within the Annual Governance Statement.

4. THIRD PARTY ASSURANCES

4.1 In arriving at the overall opinion reliance has not been placed on any third party assurances.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Degree of compliance with Public Sector Internal Audit Standards (PSIAS)

5.1.1 A checklist for conformance with the PSIAS and the Local Government Application Note has been completed for 2014/15. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

5.1.2 The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme (which includes both internal and external assessment).

5.1.3 The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

5.1.4 On conclusion of completion of the checklist full conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

5.1.5 In relation to the Attribute Standards it is recognised that in order to achieve full conformance an external assessment is required. This must be done within 5 years of the PSIAS coming into force, i.e. 31 March 2018. As part of the new contract with TIAA Ltd for the provision of Internal Audit Services it has been agreed that this will be undertaken in January 2016, with the results being shared with the IACM.

5.1.6 In relation to the Quality Assurance and Improvement Programme, internal assessments are undertaken on a regular basis and performance is regularly assessed and reported upon, in relation to the contractor.

5.1.7 The detailed checklist has been forwarded to the Director for Business Development (Section 151 Officer) for independent scrutiny and verification.

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Finance, Resources, Audit and Governance Committee. Actual performance against these targets for the financial year is detailed below:

5.2.2 Audit briefs should be issued 10 days in advance of an audit commencing, and for 65% of audits this target was met. Once underway, 82% of audits were completed on time, with reasons for overruns being notified to the Internal Audit Consortium Manager.
Draft reports should be issued within 15 working days of completion of the audit, with only 41% of reports meeting this deadline. Reasons for these delays have been reported to the Committee previously, and relate to the resourcing issues experienced in the second half of the contract with Mazars.

Finally, final report should be issued with 10 working days of issue of the draft report, and for 71% of the audits this was achieved. There have been a few issues in getting management responses to recommendations, and the introduction of exit meetings under the new contract should alleviate this issue.

5.2.3 On conclusion of all audits a feedback survey is issued to the key client. The survey asks for responses in relation to; audit staff, audit planning, delivery of the audit and audit reporting. On completion an overall score of poor (1) through to excellent (6) is reported. To date 11 surveys have been completed and an average score of good (5) achieved.

5.2.4 Going forwards the performance of the new internal audit contractor – TIAA Ltd – will be measured using the balanced scorecard approach, from 1 April 2015. This brings with it a much more practical approach to performance management and one which will ensure a high quality service is provided by the contractor.

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 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 Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

5.3.2 Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

5.3.3 The detailed checklist has been forwarded to the Director for Business Development (Section 151 Officer) for independent scrutiny and verification.
APPENDIX1 – AUDIT WORK UNDERTaken DURING 2014/15

<table>
<thead>
<tr>
<th>Description of the audit</th>
<th>Assurance level awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual opinion audits</strong></td>
<td></td>
</tr>
<tr>
<td>Work to Support the Annual Governance Statement – the assurance levels shown here are in respect of these fundamental financial systems not subject to full audit review during the year. For the remainder of those systems please see the individual entries elsewhere in this table.</td>
<td>Adequate</td>
</tr>
<tr>
<td>• General Ledger, Accounts Receivable, Asset Management, Fixed Assets, Cash Income &amp; Receipt, Treasury Management</td>
<td></td>
</tr>
<tr>
<td><strong>Fundamental financial systems</strong></td>
<td></td>
</tr>
<tr>
<td>Budgetary Control</td>
<td>Good</td>
</tr>
<tr>
<td>Creditors</td>
<td>Adequate</td>
</tr>
<tr>
<td>Council Tax and National Non-Domestic Rates</td>
<td>Adequate</td>
</tr>
<tr>
<td>Housing Benefit and Council Tax Support</td>
<td>Adequate</td>
</tr>
<tr>
<td>Payroll and Human Resources</td>
<td>Adequate</td>
</tr>
<tr>
<td><strong>Other systems</strong></td>
<td></td>
</tr>
<tr>
<td>Performance Management</td>
<td>Adequate</td>
</tr>
<tr>
<td>Building Control</td>
<td>Adequate</td>
</tr>
<tr>
<td>Property Management and Valuation</td>
<td>Adequate</td>
</tr>
<tr>
<td>Sports Facilities</td>
<td>Adequate</td>
</tr>
<tr>
<td>NPLaw Arrangements</td>
<td>Adequate</td>
</tr>
<tr>
<td>Development Control</td>
<td>Adequate</td>
</tr>
<tr>
<td>Waste Management</td>
<td>Adequate</td>
</tr>
<tr>
<td>Leisure Review</td>
<td>Limited</td>
</tr>
<tr>
<td><strong>Computer systems</strong></td>
<td></td>
</tr>
<tr>
<td>Remote Access (Supplier and User)</td>
<td>Adequate</td>
</tr>
<tr>
<td>IDOX Uniform System</td>
<td>Adequate</td>
</tr>
<tr>
<td>Disaster Recovery</td>
<td>Adequate</td>
</tr>
</tbody>
</table>

**Assurance level definitions**

<table>
<thead>
<tr>
<th>Assurance level</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOOD</td>
<td>1</td>
</tr>
<tr>
<td>ADEQUATE</td>
<td>15</td>
</tr>
</tbody>
</table>

There is a sound system of internal control designed to achieve the client’s objectives. The control processes tested are being consistently applied.

While there is a basically sound system of internal control, there are weaknesses, which put some of
the client’s objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client’s objectives at risk.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIMITED</td>
<td>Weaknesses in the system of internal controls are such as to put the client’s objectives at risk. The level of non-compliance puts the client’s objectives at risk</td>
<td>1</td>
</tr>
<tr>
<td>UNSATISFACTORY</td>
<td>Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse</td>
<td>0</td>
</tr>
</tbody>
</table>
### APPENDIX 2 ASSURANCE CHART

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance and Risk Management</td>
<td></td>
<td></td>
<td></td>
<td>Carried forward to 2015/16</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>Adequate</td>
<td>Good</td>
<td>Good</td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGS - Assurance Statement</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
</tr>
</tbody>
</table>

**Key - AGS relates to Work to Support the preparation of the Annual Governance Statement. This work scrutinises key controls only, rather than providing for an in-depth review of systems in their entirety and because of this, the type of assurance that we are able to give is restricted to adequate or limited.**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Benefits and Local Council Tax Support</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGS - Housing Benefits and Local Council Tax Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council Tax and National Non Domestic Rates</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGS - Council Tax and National Non Domestic Rates</td>
<td>Adequate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGS - Sundry Debtors</td>
<td></td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>Accountancy Services</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>AGS - Fixed Assets</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>AGS - General Ledger</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>AGS - Cash</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>AGS - Treasury Management</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>AGS - Budgetary Control</td>
<td>Adequate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary Control</td>
<td></td>
<td></td>
<td></td>
<td>Good</td>
</tr>
<tr>
<td>Treasury Management</td>
<td></td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Asset Module on Integra</td>
<td></td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors - Electronic ordering and payments</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGS - Creditors - Electronic ordering and payments</td>
<td></td>
<td></td>
<td></td>
<td>Adequate</td>
</tr>
<tr>
<td>Receipt, handling and banking of Remittances</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll and Human Resources</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
</tr>
<tr>
<td>AGS - Payroll and Human Resources</td>
<td></td>
<td></td>
<td></td>
<td>Adequate</td>
</tr>
<tr>
<td>Service Area Reviews</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Management</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Focus, including reception, equalities, marketing, etc.</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freedom of Information and Data Protection</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elections and Electoral Registration</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Valuation and Management</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nplaw Arrangements</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td>Limited</td>
<td>Good</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sports Facilities</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock Control Review</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CNC transfer to South Norfolk DC host</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Control applications, inspections and completions, fees and income</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homelessness, Housing Strategy</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Homes Bonus / Affordable Housing / Home Options</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car Parks</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste Management</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fleet Vehicles</td>
<td>Limited</td>
<td>PWS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental Health</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Standards including Aids and Adaptations</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants, Safe and Warm Grants and Disabled Facilities</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Management</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnerships</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Localism and Communities</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Audits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Back Ups</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Centre, Back Ups and Disaster Recovery</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet, Anti Virus and Spyware</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Continuity</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Application</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance Application</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Governance, Policy and Strategy</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Website (Content) Management</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network Security and Infrastructure</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virtualisation</td>
<td>Limited</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remote Access (Supplier and User)</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDOX Uniform application</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disaster Recovery</td>
<td>Adequate</td>
<td>Adequate</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor’s work

The Internal Audit Annual Report has been prepared and Mazars (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2014/15 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit briefs and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation’s policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit’s assessment of controls relating to South Norfolk Council is for the year ended 31 March 2015. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

The Internal Audit Consortium Manager has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and Mazars examinations as the Council’s internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.
## Agenda Item 9

### FRAG Work Programme

<table>
<thead>
<tr>
<th>Meeting Date</th>
<th>Agenda Item</th>
<th>Officer Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>27/07/2015</td>
<td>Statement of Accounts 2014-15 including group accounts</td>
<td>Debbie Lorimer</td>
</tr>
<tr>
<td></td>
<td>Annual Governance Statement 2014-15</td>
<td>Debbie Lorimer</td>
</tr>
<tr>
<td></td>
<td>Audit Results Report</td>
<td>External Audit</td>
</tr>
<tr>
<td></td>
<td>Annual Report on Counter Fraud Activity 2014/15</td>
<td>Leah Mickleborough</td>
</tr>
<tr>
<td>04/09/2015</td>
<td>Internal Audit Activity Report</td>
<td>Emma Hodds</td>
</tr>
<tr>
<td>27/11/2015</td>
<td>Internal Audit Activity Report</td>
<td>Emma Hodds</td>
</tr>
<tr>
<td></td>
<td>Internal Audit Follow Up Report</td>
<td>Emma Hodds</td>
</tr>
<tr>
<td></td>
<td>Self Assessment of the FRAG Committee</td>
<td>Emma Hodds</td>
</tr>
<tr>
<td></td>
<td>Annual Audit Letter</td>
<td>External Audit</td>
</tr>
<tr>
<td></td>
<td>External Audit Plan 15/16</td>
<td>External Audit</td>
</tr>
<tr>
<td>Mar-16</td>
<td>Certification of Claims and Returns Annual Report 14/15</td>
<td>External Audit</td>
</tr>
<tr>
<td></td>
<td>Internal Audit Activity Report</td>
<td>Emma Hodds</td>
</tr>
<tr>
<td></td>
<td>Strategic and Annual Internal Audit Plans 2015/16</td>
<td>Emma Hodds</td>
</tr>
<tr>
<td></td>
<td>Annual Report of the FRAG Committee</td>
<td>Emma Hodds</td>
</tr>
</tbody>
</table>