

Audit Committee

Date: **Thursday 19 June 2014**

Time: **2pm**

Venue: **Colman Room, County Hall, Norwich**

Persons attending the meeting are requested to turn off mobile phones.

Membership: Mr B Bremner
Mr J Dobson
Mr A Gunson
Mr J Joyce
Mr I Mackie
Mr R Parkinson-Hare
Mr R Smith

Please note that the meeting will be preceded by an Audit Committee Member Training Session commencing at 1.30pm in the Colman Room.

A g e n d a

- 1 Election of Chairman**
- 2 Election of Vice-Chairman**
- 3 To receive apologies and details of any substitute members attending**

4 Minutes

To confirm the minutes of the meeting held on 24 April 2014.

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5 Members to Declare any Interests

If you have a **Disclosable Pecuniary Interest** in a matter to be considered at the meeting and that interest is on your Register of Interests you must not speak or vote on the matter.

If you have a **Disclosable Pecuniary Interest** in a matter to be considered at the meeting and that interest is not on your Register of Interests you must declare that interest at the meeting and not speak or vote on the matter

In either case you may remain in the room where the meeting is taking

place. If you consider that it would be inappropriate in the circumstances to remain in the room, you may leave the room while the matter is dealt with.

If you do not have a Disclosable Pecuniary Interest you may nevertheless have an **Other Interest** in a matter to be discussed if it affects

- your well being or financial position
- that of your family or close friends
- that of a club or society in which you have a management role
- that of another public body of which you are a member to a greater extent than others in your ward.

If that is the case then you must declare such an interest but can speak and vote on the matter.

- | | | |
|-----------|---|-------------------|
| 6 | To receive any items of business which the Chairman decides should be considered as a matter of urgency | |
| 7 | Email Outage Risk Report
Report by Interim Head of Finance and Head of ICT and Information Management. | (Page 11) |
| 8 | Monitoring Officer's Annual Report 2013-14
Report by the Interim Head of Finance | (Page 22) |
| 9 | Risk Management Policy and Framework
Report by the Interim Head of Finance | (To follow) |
| 10 | Risk Management Report (1st Quarter 2014/15)
Report by the Interim Head of Finance | (To follow) |
| 11 | Risk Management Report, Waste Management Risk Reporting
Report by the Interim Head of Finance | (To follow) |
| 12 | Norfolk Audit Services Quarterly Report for Quarter ended 31 March 2014.
Report by the Chief Internal Auditor on behalf of the Interim Head of Finance. | (Page 31) |
| 13 | Annual Internal Audit Report 2013-14
Report by the Chief Internal Auditor for the Interim Head of Finance | (Page 47) |
| 14 | Statement of Accounts 2013-14 – Verbal Update
Report by the Interim Head of Finance | |
| 15 | Anti-Fraud and Corruption Update
Report by the Interim Head of Finance. | (Page 70) |
| 16 | Norfolk Pension Fund – Governance Reports relevant to the Audit Committee
Report by the Interim Head of Finance | (Page 80) |

17 Audit Committee Work Programme
Report by the Interim Head of Finance

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Chris Walton
Head of Democratic Services
County Hall
Martineau Lane
Norwich
NR1 2DH

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Audit Committee
Minutes of the Meeting held on Thursday 24 April 2014 at 2pm
in the Colman Room, County Hall, Norwich

Present:

Mr I Mackie (Chairman)

Mr B Bremner

Mr J Dobson

Mr A Gunson

Mr J Joyce

Mr R Parkinson-Hare

Mr R Smith (Vice-Chairman)

Officers Present:

Mr R Murray

Mr S Rayner

Mr P Timmins

Mr A Thompson

Mrs J Mortimer

Ernst & Young (External Auditor)

Strategic Risk Manager

Interim Head of Finance

Chief Internal Auditor

Committee Officer

The Chairman welcomed Mr Parkinson-Hare to his first Audit Committee meeting. Mr Parkinson-Hare had replaced Mr M Smith on the Committee.

1 Apologies for Absence

- 1.1 No apologies for absence were received. Mr Joyce informed the Chairman that he would need to leave the meeting as he had been invited to attend a meeting with the Minister for Skills and Enterprise, the regional flood envoy, who was visiting Norfolk.

2 Minutes

- 2.1 The minutes of the meeting held on 30 January 2014 were agreed as a correct record and signed by the Chairman, subject to the following amendments:

- The list of attendees to read Ms N Smith instead of Ms N Young.
- Paragraph 5.1, second bullet point amended to read "When the proposed transfer had been completed, the Norse Group liability would reduce and Norfolk County Council would be eligible to receive an increase in its dividend on shares.

3 Declarations of Interest

There were no declarations of interest.

4 Matters of Urgent Business

- 4.1 The Committee were advised that Cabinet, at its meeting on 12 May would be receiving a report titled “Residual Waste Treatment Contract – funding options” about the risks surrounding the financing of the cancellation of the Willows contract.
- 4.2 The Committee expressed considerable concern about the recent corporate failure in ICT services, particularly with email accounts and the amount of time it was taking to resolve the problem. The Committee felt that this failure was a business continuity issue and asked that checks should be carried out to ascertain if risks were included within emergency planning procedures.

The Committee requested a report be brought to its June meeting, from the Head of ICT on its business continuity arrangements, particularly around email provision in the event of future service failure. The report to include information about whether the potential risks had previously been assessed and any actions that had been taken to mitigate those risks and what processes had been put in place to prevent similar occurrences in the future.

Members also requested that the risk register be checked to see if ICT failure had featured previously on the risk register.

5 Audit Commission – Protecting the Public Purse

- 5.1 The Committee received a report by the Head of Law, covering the Protecting the Public Purse (PPP) 2013 questions for members, the PPP checklist for Councillors and others charged with governance, and providing an update on the extended NFI Personal Budget pilot.

During the presentation of the report the Chief Internal Auditor confirmed that the overall checklist responses had been positive, which highlighted that the right areas were being covered.

- 5.2 The following points were noted in response to questions from the Committee:-
- District Councils were responsible for the collection of business rate payments, which meant that they would also be liable for any resultant fraudulent activities. The District Councils would be aware of their responsibilities in detecting and preventing fraud and it would be up to them to determine how much resource they wished to allocate to this responsibility.

Mr J Joyce left the meeting at 2.15pm.

- The Committee acknowledged that, although Norfolk County Council held the risks around the new proportional arrangement for pooling business rates, it had not been given the powers to raise business rates or council tax to cover this responsibility. It was also acknowledged that if a business appealed against its business rates, Norfolk County Council had no role in the appeal process but would have to fund any repayments awarded.

- 5.3 **RESOLVED** to note the report.

6 Risk Management Report (4th quarter 2013/14).

6.1 The Committee received the report by the Interim Head of Finance updating the Committee on the Corporate Risk Register and other related matters following the latest quarterly review conducted during the fourth quarter of 2013-14. The update included details of twenty risks proposed for inclusion within the Corporate Risk Register.

6.2 During the presentation of the report, it was noted that three new risks had been added to the report :-

RM14156 – Liability for legal challenge to procurements conducted by ESPO.

RM14154 – Introduction of committee system.

RM14155 – Embedding the committee system.

The Committee was also advised that it was the view of the Environment, Transport and Development department that risk RM14113 (Failure in the delivery of the Willows Power and Recycling Centre) should remain on the risk register until the contract had been officially terminated.

6.3 The Committee discussed the draft Terms of Reference which had been drawn up by the Chief Internal Auditor at the request of the Committee's Chairman, relating to the Internal Controls and Risk Management of the Payment of Costs and Associated Risks about the Willows Contract.

- The Committee requested that a report be brought to a future meeting of the Audit Committee, outlining the risks to Norfolk County Council from the inception of the project. The report should include when the risk had been identified and governance issues.
- The risks relating to the Willows had originally been identified in 2006 as a Group risk when Environment, Transport and Development department were considering solutions for dealing with the disposal of Norfolk's waste, particularly the risks surrounding the reduction in the amount of waste being sent to landfill. It was confirmed that the risk had been added to the Corporate Risk register in May 2006 and had been reviewed on a regular basis by the Audit Committee as well as Environment, Transport & Development O&S Panel.
- The risks relating to the waste management project had been added to the electronic risk management system in 2007. Members were reassured that those risks had been regularly reviewed by the Audit Committee and the Chief Officer Group. Senior Managers in Environment, Development & Transport department had reviewed the risk regularly and the ETD O&S Panel had also received regular reports relating to the Willows risk management. Cabinet Scrutiny Committee had also called-in matters relating to the Willows.
- The Committee requested that a report be brought to the next meeting of the Audit Committee outlining the history of the risks relating to the failure to divert waste from landfill.

6.4 The risk review “date updated” heading in the report was the date that the report had been compiled. The column to the far right of the register “date of review and/or update” was the date on which the risk owner actually undertook the review and made any appropriate comments or changes. It was noted that not all the risks would achieve their target score by the target date. The Committee **agreed** that future reports should include a commentary on whether the risks could meet the target dates, particularly if they had financial implications.

6.5 **RESOLVED** to:

- note the changes to the risk register.
- Note the twenty corporate risks
- Note that the arrangements for risk management were acceptable and fulfil Norfolk County Council’s “Well Managed Risk – Management of Risk Framework”.
- Actively endorse risk management training throughout the County Council.
- Agree to risk management training for members prior to the June meeting.

7 External Audit – Audit Plan

7.1 The Committee received a report by the Interim Head of Finance introducing the External Auditor’s (Ernst Young) Audit Plan. The Chairman welcomed Rob Murray from Ernst & Young to the meeting.

7.2 During the presentation of the report, the following points were noted:

- The wording included in paragraph 1.4, first bullet point would need to be updated to reflect the resilience following the decision made by Cabinet to terminate the Willows contract.
- The sum included in the report for materiality of 2%, had been agreed between the employing company and the accountants. Ernst & Young considered for Local Government that the materiality figure should be in the range of ½% and 2% of the gross expenditure of the company. At the time of drawing up the audit plan, the figure for materiality had not yet been agreed so this may reduce.
- The Value for Money (VfM) conclusion, completed as part of the audit, had formally concluded that Norfolk County Council had plans in place to safeguard financial resilience.
- The localisation of business rates risk related to the Norfolk County Council share of successful National Non-Domestic Rates (NNDR) appeals. It was difficult to predict the success rate of appeals so some provision needed to be made to cover any possible future liability, although the Committee noted that Norfolk County Council would face the liability of refunding business rates overpayments to those companies who had successfully appealed.
- The Pension Valuation was estimated by the Actuary. As a result of the large sums of money involved, the Audit Commission commissioned its own Actuary - Price WaterHouse Coopers (PWC). Ernst & Young also carried out their own review. The costs for this work were spread nationally across the audit regime so individual council costs were likely to be small. It was noted that there may

be increased costs in the future, although it was anticipated these would not be significant.

7.4 It was **RESOLVED** to note the report.

8 Norfolk Audit Services Quarterly Report for the quarter ended 31 December 2013.

8.1 The Committee received a report by the Interim Head of Finance summarising the results of recent work by Norfolk Audit Services (NAS) to give an overall opinion on the adequacy and effectiveness of risk management and internal control within the County Council and to give assurance that, where improvements were required, remedial action had been taken by Chief Officers.

8.2 The following points were noted during the discussion:

- Members of the Audit Committee had not been asked to complete the NAS Customer Satisfaction Questionnaire, although the Chief Internal Auditor stressed he would be happy to receive any adhoc individual feedback from any member of the Committee.

Mr J Joyce rejoined the meeting at 3.20pm

- The new High Priority Findings monitoring process would take time to embed and for the impact to be quantified. Due to the experience and knowledge of the Audit team, areas of greatest risk were identified; therefore the number of high priority findings noted in the report had not come as a surprise. The number of audits driving these totals had been spread out over the course of the year with varying timetables for actions to be completed. Future reports would be developed to include trends.

8.3 The committee considered the recommendations within the report. With 6 votes for and 1 vote against, it was **RESOLVED** to note:

- the overall opinion on the effectiveness of risk management and internal control being 'acceptable' and therefore considered 'sound'.
- The changes to the approved 2013-14 and 2014-15 internal audit plans, as set out in Appendix D of the report.
- The summary high priority findings results at 4.4, table 1 of the report being satisfactory.
- The satisfactory progress regarding the traded schools audits and the preparations for an Audit authority for the France Channel England Interreg Programme.

9 An Annual Update of the Audit Committee

9.1 The Committee received the report by the Chairman covering the work of the Audit Committee in the year ended 31 March 2014.

9.2 During the discussion the Chief Internal Auditor agreed to remove the entry at item 11 "non-advisory role" and to ascertain the exact definition of that part of the self assessment checklist.

- 9.3 **RESOLVED** to note that the Audit Committee:
- Was independent of the executive function and reported directly to full Council.
 - Terms of Reference were consistent with CIPFA's guidance and best practice.
 - Provided effective challenge across the Council and independent assurance on the system of internal control, including the management of risk, to members and the public.
 - Could demonstrate the impact and value of its work.
 - Was monitoring the Secretary of State's plans for the Future of Local Public Audit.
 - Had completed a best practice self-assessment checklist annually which confirmed good performance.

10 Norfolk County Council Summary – Statement of Accounts 2012-13

- 10.1 The Committee received a report by the Interim Head of Finance presenting the Summary Statement of Accounts 2012-13, details of which had been extracted from the 2012-13 Statement of Accounts approved by the Audit Committee on 26 September 2013.

- 10.2 **RESOLVED** to note the Summary Statement of Accounts for 2012-13.

11 NCC 2014-17 Budget Book

- 11.1 The Committee received the report by the Interim Head of Finance setting out the draft format of a Budget Book that presented details of the approved budget for 2014-15 and indicative budgets for 2015-16 and 2016-17.
- 11.2 The Chief Internal Auditor agreed to speak with the Interim Head of Finance about the apparent discrepancy in the figures quoted in Table 3 on pages 127 and 128 of the agenda papers. The Interim Head of Finance would email the response to the Committee.
- 11.3 In response to a question about the budget for the Corporate Programme Office in the draft budget book, it was confirmed that it had been established to provide a professional service and a central focal point in coordinating major change projects across the whole County Council and to ensure corporate priorities remained in focus. Prior to the establishment of the Corporate Programme Office, there had been no central collation of projects.
- 11.4 **RESOLVED** to note the draft Budget Book 2014-17.

12 Audit Committee Work Programme

- 12.1 The Committee received a report by the Interim Head of Finance setting out the work programme.
- 12.2 The following training topics were agreed:
- June 2014 – Risk Management.
 - September 2014 – Accounts approval.

12.3 Following the decision by the Committee, the following three items were added to the agenda for the June meeting:

- Report on the failure of ICT in April 2014 and what business continuity arrangements had been put in place to mitigate any future occurrences.
- Report on the risks surrounding the Energy for Waste project from its inception to the date Cabinet made its decision to cancel the contract.
- Report on Internal Controls and Risk Management of the Payment of Costs and Associated Risks about the Willows Contract.

12.4 **RESOLVED** to note the report.

The meeting ended at 3.50pm

CHAIRMAN



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E-mail Outage Risk Report

Report by Interim Head of Finance and Head of ICT and Information Management

This report provides information with respect to business continuity and risk management associated with the recent e-mail outage.

The Audit Committee should consider this report and comment on the effectiveness of business continuity and the risk management associated with this incident including the arrangements and mitigations going forward.

1 Introduction

- 1.1 The Audit Committee's Terms of Reference, Section C, include risk management. These Terms of Reference were reviewed by the Committee in January 2014.
- 1.2 At its meeting on 24 April the Committee expressed considerable concern about the recent corporate failure in ICT services, particularly with e-mail accounts and the amount of time it was taking to resolve the problem. The committee felt that this failure was a business continuity issue and asked that checks should be carried out to ascertain if risks were included within emergency planning procedures.

The Committee requested a report be brought to its June meeting, from the Head of ICT on its business continuity arrangements, particularly around e-mail provision in the event of future service failure. The report to include information about whether the potential risks had previously been assessed and any actions that had been taken to mitigate those risks and what processes had been put in place to prevent similar occurrences in the future.

Members also requested that the risk register be checked to see if ICT failure had featured previously on the risk register.

- 1.3 On the weekend prior to April 22rd a problem manifested itself on an e-mail server, running e-mail services for around 2000 NCC users. NCC staff worked with Microsoft to determine the reason for the failure, an issue with part of the mail system known as store.exe. A new e-mail environment was built and fixes applied. The new server was brought on-line on Friday April 25th. At which point the e-mail service should have returned to full operation.

However unknown to both Microsoft and NCC teams another issue had manifested itself.

It took until 18:00 Wednesday April 30th for this to be spotted, a change was made to address this issue and the service was brought on-line.

NCC teams worked around the clock and included Communications teams, Resilience teams and teams in ICT. Microsoft teams worked round the clock and HP also lent support from their messaging specialists.

Full service was resumed on May 2nd for e-mail use.

- 1.3 This report reviews the business continuity and risk management surrounding this failure.

2 Background

- 2.1 Since March 2007 there has been a generic risk with respect to a major incident at County Hall including reference to “delivery of IT and communications” identified on the Corporate Risk Register. In April 2013 a specific risk “loss of core or loss of key ICT systems, communications or utilities for a significant period could impact on delivery of critical services” was added to the Corporate Risk Register. The “journey” of these risks from 2007 to date is documented in Appendix A. The Audit Committee receives regular updates on the risks on the Corporate Risk Register.

- 2.2 The ICT Shared Services (High Level) risk register includes five departmental risks and two corporate risks which all relate to the possible causes and/or effects of uncertain events such as those associated with the recent e-mail outage. This risk register is reviewed regularly by ICT senior management.

The two corporate risks on this risk register, RM14100 Loss of key ICT systems (Business Continuity) and RM13968 Failure to follow data protection procedures (Information Management) are also reviewed regularly by COG in advance of each Audit Committee meeting.

- 2.3 There is also a departmental ICT Shared Services risk register which is utilised by ICT at a departmental level. This register currently includes eighteen specific risks that feed into the five high level departmental risks as described above. These relate to:

- Loss of service or business operations – nine risks
- Loss of data – five risks
- Loss of internal communications – one risk
- Loss of external communications – one risk
- Loss of ability to develop business or services – two specific risks

- 2.4 Mitigation for all of these risks relies heavily on good Business Continuity (BC) and Disaster Recovery (DR) Plans in place to ensure continuity of service. Appendix B outlines the resilience processes in place which apply equally to the ICT services as to services to the public.

- 2.5 These risks were known and part of the longer term mitigation was
- envisaged in the initial proposals for the business case for the DNA programme which was presented to [Cabinet in April 2013](#) (Click for link),
 - referenced in the paper for the commencement of the procurement for the DNA programme presented to [Cabinet on 9 October 2013](#) (click for link) and
 - further development of the risks and the DNA mitigation for them was included under financial risks in the paper recently presented to Cabinet.

The latter report also makes the point that a catastrophic failure may take several weeks to recover and highlights our immediate risks and limited resilience which the DNA programme will eliminate.

3 The Problem and Actions taken to rectify it

- 3.1 After the problem was reported the server was isolated. The server was restarted which did not resolve the situation. Investigations as to whether any virus or other intrusion had taken place were made and there was no evidence of this. Diagnostic tests were applied by Microsoft, and the system restarted again, without gaining a lasting improvement in performance. Microsoft advised removing the mail stores from this server in order to protect the integrity of the actual e-mails and build a new server in disaster recovery (DR) mode. "Hotfixes" were applied by Microsoft to this (DR) server which was brought on-line on Friday April 25th. It appeared to be working satisfactorily when a few mailboxes were restored. Testing and bringing on to this DR server the mail stores continued over the weekend at which point the e-mail service should have returned to full operation. It didn't. Microsoft advised that a completely new server should be built from scratch which it was and still failed to resolve the situation.
- 3.2 Whilst reviewing the "low level" coding a member of the Norfolk County Council ICT team noticed an inconsistency between the memory allocation reported by Windows and the memory within that in the server. Change to this parameter resolved the situation.
- 3.3 Full service was resumed on May 2nd for e-mail use.
- 3.4 The support received by NCC from partners (MS & HP) was excellent and far exceeded expectations.
- 3.5 The Norfolk County Council Resilience and Communications Teams have been kept informed and have been supportive throughout this incident. Members and Senior Officers have been briefed at various stages during this period.
- 3.6 Resilience has improved in various ways throughout this period, for instance

- the use of group mailboxes was useful, and the ability to redirect from such boxes was effective,
- ICT now hold an additional exchange server which can be deployed at short notice should another incident of this nature occur and
- Mail forwarding for Members and Senior Officers was implemented and effective.

All of these could be used should an incident of this nature recur.

4 Mitigation

- 4.1 Short term mitigation included support provided through the Resilience Team and ICT team working closely from the outset of the incident and were in liaison 2/3 times a day from 22 April, with the provision of advice to the ICT team as required. A joint decision making process was also initiated at key points during the incident, which worked very well to ensure that the wider implications of any actions taken were considered in relation to the effect on service delivery.

As the situation escalated to major incident level a small core incident team was convened consisting of resilience team, ICT, democratic services and internal communications representatives, to ensure joined up incident management and communications. This core group ensured communications were produced for internal and external use as well as considering the implications on service delivery.

Joined up communications to the business were provided through the normal mechanisms via ICT service updates with specific business continuity advice supplied by the Resilience Team, which worked well to avoid duplication. This system was also linked into the Internal Communications team who regularly updated the Intranet. In addition to this the Resilience Team provided additional updates to the Resilience Reps network until such time that the situation meant global communications were needed.

In addition a visit from Anne Gibson and George Nobbs to the ICT team gave ICT full support.

The organisation worked well to continue providing services and continue business as usual, finding work around solutions for those affected so that work could continue. A number of public facing/critical group email boxes were successfully diverted to non-affected mailboxes ensuring that, from the public perspective, NCC business was continuing as normal. No NCC service critical activities were affected.

- 4.2 The longer term mitigation is set out in the risk registers. The key point is that implementation of the DNA programme which includes moving the servers to a virtual private cloud hosted by HP will have greater resilience.

Whilst this reduces our risk with respect to our “direct” provision of this service it generates different risks and there is a strand of the DNA programme that is examining this.

- 4.3 The DNA programme also includes provision for a quantum leap in our service levels, giving a very significant increase in assurance. These service levels are costed and hence will allow for a greater visibility and meaningful costing for departments.
- 4.4 The DNA programme, including external hosting, service levels, the desktop estate and the initiatives relating to information, information management information security as well as undergoing a restructure is a very significant part of our mitigation.

5 Equalities Impact, Resource and Other Implications

- 5.1 There are no external additional costs involved in support provision for this incident.
- 5.2 There are no direct implications with respect to equalities with respect to this report and there are no other implications.

6 Section 17 - Crime and Disorder Act

- 6.1 Under section 17 of the Crime and Disorder Act the Council has a statutory general duty to take into account the crime and disorder implications of all of its work, and to do all that it reasonably can to prevent crime and disorder in Norfolk.

7 Conclusions

- 7.1 Risks associated with this incident have been included in the corporate and departmental risk registers over a number of years, with action plans in place to mitigate these risks. These risks were realistic and the mitigations appropriate.
- 7.2 As the DNA project progresses through the Summer and Autumn it will largely remove the risks where this failure occurred. The moving of the servers to a virtual private cloud hosted by HP will have greater resilience and the improvement in service levels gives significant increase in assurance. As well as this implementation, in the short term, extra mitigation has been taken for the risks from the existing systems.
- 7.3 No data has been lost as a result of the incident.
- 7.4 The Resilience Team worked closely with the ICT team during this incident and business continuity plans were adopted, developed and refined throughout the organisation to mitigate the impact of this problem.

- 7.5 Whilst the services to these 2,000 members of staff were affected there was minimal impact on our services to the public. Teams worked together to ensure that disruption to the public was minimized. Further assessment of this will be made and reported appropriately elsewhere by the Resilience Team.

8 Recommendations

- 8.1 The Audit Committee should consider this report and comment on the effectiveness of the business continuity and risk management associated with this incident including the arrangements and mitigations going forward.

If you have any questions about matters contained in the report please get in touch with

Adrian Thompson
Chief Internal Auditor
Norfolk Audit Services
(01603) 222784

adrian.thompson@norfolk.gov.uk

Tom Baker
Head of ICT and Information Management
(01603) 222700

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History of ICT risk in the Corporate Risk Register

In May 2006, the corporate risk register contained a risk "Risk of major disruption to services delivered from County Hall following a major incident (e.g. fire, flood, explosion or loss of power)". The current control measures are noted as *"Project Watts which goes to support the upgrade of the generators/UPS to cover critical desktop systems & all IT network infrastructure/building infrastructure. Resilience of data network, telephone service, e-mail gateway and web content management system enhanced. Policy in place to ensure that in future contractors replace tiles & remove redundant cabling. Continuity plans in place for all teams at County Hall at all levels. Continuity plans also in place for all teams based at Carrow House. Other premises plans, including Adult Social Services Care Homes, under development. This includes plans for pandemic influenza. Project Artic Blast underway to protect servers from overheating"*.

In March 2007, the risk was rewritten as "Major incident at County Hall" the description was *"Risk of major disruption to services delivered from County Hall following a major incident (e.g. fire, flood, explosion or loss of power). Leads to County Hall being unavailable for use, which impacts on delivery of IT and communications and how they support service delivery"*.

In April 2008, the risk was reported as "Major incident at County Hall", with the full risk description as *"Risk of major disruption to services delivered from County Hall following a major incident (e.g. fire, flood, explosion or loss of power). Leads to County Hall being unavailable for use, which impacts on delivery of IT and communications and how they support service delivery"*. Progress was recorded as *"Failure of the Data Centre due to Air conditioning problems has been mitigated against via a new system. DR site is being established at Carrow House, this would support a very limited range of ICT services in the event of loss to the main data centre. There is a resilient power supply to the data centre and emergency services panel, this would ensure that core ICT would be protected and could operate in the event of loss to power CH in the short term"*.

On the October 2008 corporate risk register the risk continued to be recorded as "Major incident at County Hall" with the full risk description as *"Risk of major disruption to services delivered from County Hall following a major incident (e.g. fire, flood, explosion or loss of power)"*. The progress recorded was *"Action has been taken to ensure the resilience of the power supply to the data centre through upgrades to Emergency services panel, dedicated UPS systems and generators. Air conditioning in the Data Centre has been improved. DR site has been enlarged to accommodate additional services, further development of the ICT DR plans will be based on the Corporate Business Continuity work being completed"*.

March 2009 saw the risk remaining on the corporate risk register with the progress noted as *"Action has been taken to ensure the resilience of the power supply to the data centre through upgrades to Emergency services panel, dedicated UPS systems and generators. DR site at Carrow House has been enlarged. Server migration project currently being implemented will result in increased resilience for many business applications. Analysis of corporate BIA will identify further work and investment required to restore corporately defined 'critical activities' within agreed targets, this should be complete by Oct 09 and approved recommendations will feed into development of 2010/11 ICT MTP. Implementation of the Desktop Refresh Project during 2009 will increase the ease and ability for staff to relocate in event of unavailability of County Hall. Improved resilience of*

corporate data & voice network will be delivered with the re-let of the Corporate Data & Voice contract in April 09. The Work Area Recovery strategy for County Hall will be revisited with NPS once the BIA has been analysed”.

In March 2011 the risk “Loss of core infrastructure or resources for a significant period could impact on delivery of critical services”. The risk treatment is recorded as “The Emergency Management Strategy and Operational Procedures 2007 are under review to ensure they remain relevant and reflect the way the authority operates. The Corporate Business Continuity Management Framework, incorporating the Corporate Business Continuity Plan, has recently been developed to allow better planning for and management of future incidents. The bespoke business continuity software, LDRPS, is being upgraded to give greater resilience in planning for incidents. A work area recovery (WAR) site has been identified to be used for priority activities and personnel in the event of an incident preventing uses of a key building or site. Plans are in place to ensure this site is equipped with suitable infrastructure. Regular meetings of Business Continuity reps and Emergency Planning officers from departments helps to ensure that the corporate Business Continuity preparedness is evaluated and kept relevant. There is currently a review at COG level of how to increase the resilience and continuity of power supply and ICT resilience at County Hall and other key sites. All departments and service areas have identified their critical business activities and evaluated the impacts on them of likely incidents. These are regularly reviewed to ensure they continue to reflect the activities of the authority. This information is then consolidated up to identify the corporate critical activities so that all planning is properly integrated and targeted”.

This risk is predominantly about our ability to deliver a BC response to any failure and concentrated on the work recovery outcomes.

The risk remained on the corporate risk register until April 2013 when it was recognised that the single BC risk was split into the three constituent parts dealing with ICT, Staff and premises.

The ICT risk “Loss of core or loss of a key ICT systems, communications or utilities for a significant period could impact on delivery of critical services” was added to the corporate risk register in April 2013. At this stage there is no specific mention of servers or platforms however the progress does note “ICT Services use the corporately agreed critical activities data to inform the design, implementation and on-going administration of technical solutions and ICT service management processes. Further work is required to ensure there are robust ICT Continuity (Disaster Recovery) plans in place which support the business requirements. The ICT Continuity project has been agreed by the ICT board and COG and a project and PID is in the process of being established. 10.04.12 This will form part of the ICT Continuity project has been established and PID has been drafted. 10.04.12 Update November 2012 Project now established and running. PID agreed by COG”.

By May 2013, one of the mitigation tasks is recorded as “Ensure the increased availability of ICT platforms and services through planned migration of data centre services from County Hall and Carrow House to more appropriate and resilient environments”. The progress is recorded as “The provision of alternative physical server hosting facilities and cloud hosting services are included within the scope of the proposed DNA (Digital Norfolk

Ambition) programme, detail plans will be developed following formal approval of business case expected Sept 2013.

Interim measures to improve environmental management of data centres (e.g. managed power supply, air conditioning, and security) have been delivered as part of Data Centre Resilience Project”.

Clearly there has been a risk on the corporate risk register for a number of years that highlighted the need to have robust business continuity and disaster planning in place around ICT and the delivery of the ICT services. These have been reviewed regularly by COG and presented to Audit Committee throughout that period, including most recently to the Audit Committee meeting on 24 April 2014.

Steve Rayner
Strategic risk Manager
15 May 2014

Resilience

Introduction

Under the Civil Contingencies Act (2004), NCC has a duty to provide key services to the general public, as well as to prepare for and respond to emergencies affecting the County of Norfolk. This is both as a single agency, but also in cooperation and collaboration on a multi-agency basis as part of the Norfolk Resilience Forum (NRF).

Resilience activity is focussed on identifying and planning against risks that could affect the smooth running of NCCs service delivery, which includes; meeting its objectives, damage to its infrastructure and disruption or failure of service provision. This is in addition to its ability and responsibility to operate as a Category 1 responder as part of the wider multi-agency response (NRF) to civil emergencies affecting the County.

The short-term Resilience objective is to ensure that in the event of an incident or disruptive event, that at a minimum, all critical services may continue uninterrupted as far as possible and NCC is able to respond to the implications of any civil emergency.

The longer-term Resilience objective is to ensure that NCC can resume normal services as quickly as possible in the aftermath of any disruption and that the effects of any major incident are mitigated or minimised as far as is practicable. This is all with the aim of the County of Norfolk being able to return to a state of new normality as effectively and efficiently as possible.

Resilience measures to achieve requirements

- Regular audits of Resilience arrangements must be completed.
- Actions following audits, exercises and incident debriefs must be completed in a timely and competent manner.
- Resilience training and support for awareness events must be provided.
- Documentation (Business Impact Analysis (BIA), plans, Business Continuity (BC) policies, strategies, training records, exercise action logs etc.) must be updated and circulated within the specified timescales.
- Representatives from all departments must be involved in, support and contribute to the corporate Resilience programme.
- Production and management of a Resilience programme of activities including priorities/strategies.

A Business Impact Analysis (BIA) was completed in 2013 for all services delivered by the authority. This work produced a revised list of critical activities for NCC and the list of corporate critical activities were agreed through the Business Continuity Management Board and approved by the Chief Officers Group.

The Business Impact Analysis is completed every 2 years (unless good practice or legislation dictates otherwise).

The priorities for NCC BC work are set through the Corporate BC Risk Register where the following key areas of risk are identified:

- Failure of Supplier
- Shortage of personnel (through illness, sustained industrial action, etc. including loss of key senior personnel)
- Loss of/disruption key premises
- Failure to embed BC into the organisation
- Loss of key ICT systems

All of these risks have a series of allocated mitigation tasks which have been agreed through the BC Management Board (BCMB).

This register forms the BC work plan for NCC and is a living document, being reviewed and updated at quarterly intervals.

Critical Activities

The activities agreed as critical (i.e. the impact over time of these activities not being provided is scored as “major” or “extreme”) have been considered in more detail and are documented in the Strategic Business Continuity plan.

It is important to ensure that these critical activities (as a minimum) are as resilient as possible. When considering the response and recovery in an incident the impact to the critical activities should be considered as a priority.

Departments have considered risks to their critical activities. Many of these risks have already been captured and are being managed on risk registers. Departments in the process of developing or creating risk registers should ask “what could possibly present itself in the course of delivering our objectives that has the capacity to prejudice the successful delivery of the objective and affect our critical activities?” This process is outlined in the County Council’s Risk Management Policy and Framework.

John Ellis
Resilience Manager
13 May 2014

Monitoring Officer's Annual Report 2013/14

Report by the Head of Law and Monitoring Officer

The Monitoring Officer's Annual Report summarises the internal governance work carried out in 2013/14 and provides assurance that the organisation's control environment, in the areas which are the responsibility of the Monitoring Officer, is adequate and effective. This annual report supports the assurance statements included in the draft Annual Governance Statement for 2013/14, a draft of which is also before the Audit Committee today (the "Annual Governance Statement").

The Audit Committee is requested to note the contents of the report.

1 Introduction and background

- 1.1 The Practice Director for nplaw is also the Council's Head of Law and statutory Monitoring Officer.
- 1.2 The Monitoring Officer's Annual Report for 2013/14 supports assurance statements included in the draft Annual Governance Statement. It provides a review of the Monitoring Officer's work as part of the Council's governance arrangements and system of internal control.
- 1.3 The chief responsibilities of the Monitoring Officer, contained in the Monitoring Officer Protocol at Appendix 26 to the Constitution (as in force during 2013/14), can be summarised as follows:-
 - (a) a duty to report to the Council and the Executive in any case where the Monitoring Officer is of the opinion that any proposal or decision is or is likely to be illegal or to constitute maladministration. These matters are referred to in the Protocol as "reportable incidents";
 - (b) a range of functions relating to Member conduct; and
 - (c) specific functions under the Council's Constitution.
- 1.4 The ability of the Monitoring Officer to undertake this role effectively depends on excellent working relations with colleagues and Members and on the flow of information and access to debate particularly at early stages. The scope of the work also extends to joint arrangements.

2 Monitoring Officer Annual Report 2013/14

- 2.1 The key messages in the attached report include:

- that there have been no ‘reportable incidents’ during the period 2013/14;
- that the systems of internal control administered by the Monitoring Officer including the Code of Corporate Governance and the Council’s Constitution, were adequate and effective during 2013/14 for the purposes of the latest regulations; and
- that the Monitoring Officer meets twice yearly with the Standards Committee. The composition of the Standards Committee changed following the May 2013 elections and the Members of the new Standards Committee were all trained in matters of ethical conduct and in the procedures for standards complaints. In addition, standards training has been provided for all Members following the May 2013 elections. In November 2013 the Council resolved to change from an executive form of governance (a Leader and Cabinet model) to a committee system of governance. The committee system of governance came into effect in May 2014 and will be reported on as part of the Monitoring Officer’s Annual Report 2014/15.

3 Section 17 Crime and Disorder Act

- 3.1 Under section 17 of the Crime and Disorder Act the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 3.2 The Monitoring Officer’s work helps to deter crime, and/or make crime difficult, increasing the likelihood of detection and prosecution and thereby disincentivising crime.

4 Any other implications

- 4.1 Officers have considered all the implications which Members should be aware of. Apart from those listed in the report, there are no other implications to take into account.

5 Recommendation

- 5.1 It is recommended that the Audit Committee should consider the Monitoring Officer’s Annual Report for 2013/14 and in particular the key messages at paragraph 2.1.

Victoria McNeill
Practice Director
nplaw
01603 223415
Email: victoria.mcneill@norfolk.gov.uk

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**Monitoring Officer's
Annual Report
2013/14**

Section Numbers	Contents
1	Introduction
2	Key messages
3	Results of the Monitoring Officer's work in 2013/14
4	Review of effectiveness of systems of Internal Audit
5	Governance Statement
6	Section 17 Crime and Disorder Act
7	Overall opinion on the adequacy and effectiveness of the Governance framework

1. Introduction

- 1.1 The Monitoring Officer's Annual Report summarises the more important matters arising from the Monitoring Officer's work for the County Council in 2013/14 and comments on other current issues.
- 1.2 Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. It is founded on the fundamental principles of openness, integrity and accountability together with the overarching concept of leadership. In this respect, Norfolk County Council recognises the need for sound corporate governance arrangements and over the years has put in place policies, systems and procedures designed to achieve this. The County Council has adopted a Code of Corporate Governance as a means of drawing together all the positive elements of corporate governance which it already has in place. The Code is updated annually. During 2012/13 only minor changes have been made. No changes were made during 2013/14 and a full review will be carried out during 2014/15 to reflect adoption by the Council of the new committee system of governance.
- 1.3 The Monitoring Officer is appointed under Section 5 of the Local Government and Housing Act 1989 and has a number of statutory functions in addition to those more recently conferred under the Local Government Act 2000 and the Local Government and Public Involvement in Health Act 2007 and subsequent regulations governing local investigations into member conduct. The Localism Act came into force in 2011, with subsequent implementing regulations coming into force during 2012/13, and included a number of changes to rules relating to the standards regime including the establishment of Standards Committees, the assessment of complaints and the abolition of Standards for England.

2. Key messages

- 2.1 The key messages to note from the year are:
 - There have been no 'reportable incidents' during the period 2013/14.
 - That the systems of internal control administered by the Monitoring Officer including compliance with the Code of Corporate Governance and the Council's Constitution were adequate and effective during 2013/14 for the purposes of the latest regulations.
 - The Council has arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.
 - A Member and senior officer working group conducts an annual review of the Constitution. In November 2013 the Council resolved to change to a committee system of governance. A cross party steering group was set up to make proposals for the committee system and the relevant changes to the Constitution. These proposals were reviewed by the Constitution Advisory Group before going on to Council for approval.

- The County Council publishes on its website a summary of Members' declared interests, all the authority's expenditure over £500 and the expenses of Chief Officers.
- The Council is proactive in raising the standards of ethical conduct among members and staff, including the provision of ethics training and has put in place arrangements for monitoring compliance with standards of conduct across the Council including:
 - Standards of conduct and behaviour for officers
 - Code of Conduct for Members
 - Register of Discloseable Pecuniary Interests
 - Register of gifts and hospitality
 - Complaints procedure
- Following the May 2013 elections all Members completed a declaration of Discloseable Pecuniary Interests and these declarations were published on the Council's website.
- Following the May 2013 elections training on the Code of Conduct and registration and declaration of interests was held for all Members.
- A Training Workshop was organised by the Monitoring Officer for Independent Persons in November 2013 and this was attended by the Council's Independent Person, Stephen Revell.
- The Council can demonstrate that generally Members and staff exhibit high standards of personal conduct. During 2013/14 there were fewer standards complaints than in the two previous years. No hearings of the Standards Committee were required.
- Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and pecuniary interests. There is evidence that members and staff are making appropriate disclosures in the registers and that they are regularly reviewed.
- The Audit Committee receives an annual update on the Council's counter fraud and corruption policy applying to all aspects of the Council's business. This policy has been communicated throughout the Council. There are effective arrangements for receiving and acting upon fraud and corruption concerns and disclosures from members of the public.
- The Council has arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and fraud and corruption.
- The County Council's Anti-Fraud and Corruption Strategy updated to reflect changes in law and practice, and was approved by the Audit Committee in January 2014.

- There is a whistleblowing policy which is publicised and demonstrates the Council's commitment to providing support to whistleblowers and has been communicated to staff and those parties contracting with the council. The Council can demonstrate its staff, and staff within contracting organisations, have confidence in the whistleblowing arrangements and feel safe to make a disclosure. The policy was reviewed against best practice guidance from the Audit Commission during 2011, as reported to Audit Committee.
- nplaw achieved the Law Society's Lexcel quality standard and has arrangements in place to ensure the quality of the service provided.
- During the year regular reports are provided to the Standards Committee and ad hoc reports on major legislative and governance issues are provided to the Chief Officers Group.
- Money laundering requirements as stipulated in the Money Laundering Regulations 2007 and the Proceeds of Crime Act 2002 have been fully met.

3. Results of the Monitoring Officer's work in 2013/14

- 3.1 In order to ensure the effective undertaking of her responsibilities, the Monitoring Officer has a number of duties which are set out in the table below:-

DUTIES	EXAMPLES
Had regular meetings with each of the Managing Director, Chief Finance Officer and Head of Democratic Services in order to review current and likely future issues with legal, constitutional or ethical implications.	During the year the Constitution was updated to reflect changes in legislation, including updating standards matters, contract standing orders and financial regulations. The Monitoring Officer worked with the Head and Assistant Head of Democratic Services in advising the Constitution Advisory Group on updating the Constitution.
Maintained good liaison and working relations with the External Auditor.	The Monitoring Officer attended quarterly meetings with the External Audit team. Key issues were discussed with the External Auditor and the External Auditor would be consulted if reportable incidents arose.
Ensured that the County Council is kept up to date on new legislation and changes in the law which are relevant to the carrying out of the County Council's activities.	This will generally take the form of reports to Members and briefing notes to Chief Officers but where appropriate will involve training sessions for relevant Members and Officers. These activities are carried out in consultation and conjunction with relevant Chief Officers.

DUTIES	EXAMPLES
<p>The Monitoring Officer or her senior staff have been consulted at an early stage on new policy proposals and on matters, which have potentially significant legal implications.</p>	<p>The Monitoring Officer and her staff are regularly consulted by Chief Officers on new policy proposals. The Monitoring Officer is now a member of the Chief Officer Group ensuring early notification of policy proposals.</p>
<p>All draft reports to the Cabinet, Committees and Review Panels have as a matter of routine been cleared with the Monitoring Officer or her senior staff.</p>	<p>All reports were routinely forwarded to the Monitoring Officer and her staff by service departments and were reviewed for their legal and ethical implications.</p>
<p>The Monitoring Officer has been informed of all emerging issues of concern of a legal, ethical or constitutional nature.</p> <p>Similarly, Members have ensured that the Monitoring Officer is routinely informed and consulted in respect of new policy proposals.</p>	<p>Chief Officers are aware that they should consult the Monitoring Officer on legal, ethical or constitutional matters and they regularly do so.</p> <p>Members can rely on the fact that all reports are routinely reviewed by the Monitoring Officer or her senior staff, prior to their presentation at Cabinet, or other committees or panels.</p>
<p>The Monitoring Officer has sought to resolve any potential illegality by identifying alternative and legitimate means of achieving the objective of the proposal.</p>	<p>The Monitoring Officer, in her capacity as Head of Law, and her senior staff regularly advise on the legality and/or appropriateness of administrative procedures.</p>
<p>In cases where external lawyers are acting for the County Council, it will be necessary for the relevant Chief Officer and the Monitoring Officer to agree arrangements for ensuring that vires and constitutional issues are satisfactorily addressed.</p>	<p>No exceptions were raised during the period.</p>
<p>In appropriate cases, and to secure the rapid resolution of a potential reportable incident or avoid a separate statutory report, the Monitoring Officer will be entitled to add her written advice to the report of any other County Council Officer.</p>	<p>There have been no such incidents during 2013/14.</p>

DUTIES	EXAMPLES
Where the Monitoring Officer receives a complaint of a potential reportable incident, she must in appropriate cases seek to resolve the matter amicably, by securing that any illegality or failure of process is rectified. However, it is recognised that the Monitoring Officer may decide that the matter is of such importance that a statutory report is the only appropriate response.	There have been no incidents requiring a statutory report during 2013/14.

4. Review of effectiveness of systems of internal audit

- 4.1 The Accounts and Audit (England) Regulations 2011 require the Council to review annually the effectiveness of its system of internal audit. There is currently no guidance or good practice available for meeting this requirement. Informal advice from CIPFA and discussions with other local authorities provided various options for reviewing the effectiveness of the system of internal audit.
- 4.2 The elements of the Council's systems of internal audit and the assurance on their effectiveness include corporate control functions such as legal services. As endorsed by the Audit Committee on 24 April 2007, the option chosen is for the Audit Committee to review information on the effectiveness of the management processes and corporate control functions (legal, financial, health and safety and human resources services performed) as provided by self assessment, customer feedback and any existing external performance reviews.
- 4.3 nplaw's work was accredited by Lexcel, the Law Society's quality standard for all legal practices, in March 2014 and was commended for many good practice areas. There were no areas requiring improvement and the Monitoring Officer received positive feedback from the Lexcel assessor in relation to a number of good practice areas.

5. Governance Statement

- 5.1 In addition to the Council's own governance the Monitoring Officer provides legal advice to the following joint committees:
 - Norfolk Records Committee
 - Norfolk Joint Museums and Archaeology Committee
 - Eastern Shires Purchasing Organisation (ESPO)
 - Norwich Highways Agency Committee
 - Eastern Inshore Fisheries and Conservation Authority; and
 - Norfolk Parking Partnership Joint Committee.
- 5.2 The Council and each Joint Committee (save for the Norwich Highways Agency Committee) publishes its own Annual Governance Statement.

- 5.3 In addition the Monitoring Officer provides legal advice to the Pension Funds administered by the Council and to the Council's wholly owned companies.

6. Equalities Impact Assessment

- 6.1 There are no impacts arising from this report.

7. Section 17 Crime and Disorder Act

- 7.1 Under section 17 of the Crime and Disorder Act the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 7.2 The Monitoring Officer's work helps deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

8. Overall opinion on the adequacy and effectiveness of the Governance framework

- 8.1 That the systems of internal control administered by the Monitoring Officer including the Code of Corporate Governance and the Council's Constitution, were adequate and effective during 2013/14 for the purposes of the latest regulations.

Victoria McNeill
Practice Director
nplaw
01603 223415
Email: victoria.mcneill@norfolk.gov.uk

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**Norfolk Audit Services Quarterly Report
For the Quarter ended 31 March 2014**

Report by the Interim Head of Finance

Summary

The purpose of this report is to:

- summarise the results of recent work by Norfolk Audit Services (NAS), to give an overall opinion on the adequacy and effectiveness of risk management and internal control within the County Council and to give assurance that, where improvements are required, remedial action has been taken by Chief Officers.

- provide an update on:

Changes to the approved internal audit plan, traded Schools audits and the preparations for an Audit Authority for the France Channel England Interreg VA Programme.

Recommendation

The Audit Committee is asked to consider and comment on:

- the overall opinion on the effectiveness of risk management and internal control being 'Acceptable' and therefore considered 'Sound'

- the changes to the approved 2014-15 internal audit plan, described in Appendix D

- the summary High Priority Findings results at 4.7 Table 1, being satisfactory with action planned for outstanding findings

- satisfactory progress regarding the traded schools audits and the preparations for an Audit Authority for the France Channel England Interreg Programme.

1. Background

1.1 Audit work and reporting give assurance on the adequacy and effectiveness of Governance, Risk Management and Internal Control and forms part of the achievement of the Council's Plans and its Strategic Ambitions.

1.2 Internal Audit work on assurance for the fourth quarter, ended 31 March 2014, was set out in the third quarter Internal Audit Plan presented to Chief Officer Group and approved by the Audit

Committee at its June 2013 meeting and as amended at subsequent meetings. The Council has to undertake sufficient audit coverage to comply with the Accounts and Audit Regulations 2011. The allocation of audit time was based upon a risk assessment and this is continuously reviewed throughout the year.

- 1.3 The work undertaken by Internal Audit complements the work of the external auditors. There is a good working relationship between Internal and External Audit such that in total they give adequate audit coverage to all areas of the Council's activities. Internal Audit is responsible for communicating the final results of their audit work to parties who can ensure that the results are given due consideration.
- 1.4 This report summarises internal audit's work for the quarter ended 31 March 2014 and includes (as required by Financial Regulation 4.3.2 and the Audit Committee Terms of Reference):
 - an opinion on the adequacy and effectiveness of the Council's internal control and risk management arrangements,
 - any corporately significant issues arising and
 - an assurance that action has been taken as necessary.
- 1.5 The External Auditor is required to check that those charged with governance (the Audit Committee) oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control.
- 1.6 The Audit Committee oversees Chief Officer's arrangements for identifying and responding to the risks of fraud and the establishment of internal control. Norfolk Audit Services' work includes implicitly work that covers the prevention, detection and investigation of any fraud or corruption that may occur. Reports on the audit findings clearly set out those findings which increase the risk of fraud and who has responsibility for ensuring that recommendations are implemented and the risk of fraud minimised.
- 1.7 Awareness and understanding of the Anti Fraud and Corruption Strategy and associated documents by Members, staff and those we do business with is being promoted and is a key measure for their success.
- 1.8 After consideration of the risks from the austerity measures and organisational change, the Anti Fraud and Corruption planning and resources were considered sufficient.
- 1.9 We continually review our performance and costs. We participate in the CIPFA Internal Audit Benchmarking Club which compares us to similar County Council Internal Audit teams. No significant exceptions have been noted.

2. Work Completed during the quarter

- 2.1 Delivery of final reported audits for the quarter ended 31 March 2014 is considered satisfactory and sufficient and the internal audit target of 90% reports being draft or final has been met.

Report type	Quarter 4	Year to 31 Mar 2014*
Final audit reports (non-schools)	13	36
Final audit reports (schools)	0	18
Certified grant claims	8	30
Follow-up report	6	19

* The year to date figure refers to audits included in the 13-14 audit plan only.

- 2.2 No exceptions have been raised from the follow up work carried out in the quarter. A list of those reports is attached as Appendix B.
- 2.3 Audits of particular note for the quarter are described in detail at Appendix C and include the following:
- Unannounced Visits – Cash Spot Checks
 - Business Continuity Management
 - Emergency Planning
 - Treasury Management.
- 2.4 Norfolk Audit Services monitor the productive and non-productive time of the team on a regular basis to ensure delivery of an effective and efficient service. The target for time NAS staff spends on “productive” activities, ie work which contributes to and supports the opinion of the Chief Internal Auditor, has been set at 65% for the 2014-15 year. The proportion of productive time for the 2013-14 year was 60.58% and this is considered satisfactory.
- 2.5 There have been no reported instances in the quarter of non compliance by Members with the Members Allowances rules or Chief Officers with their Expenses rules.
- 2.6 From time to time Internal Audit is notified of allegations. Allegations are managed in two stages, a preliminary assessment and then, if required, a formal investigation. Preliminary assessments may require significant work and can lead to an assessment report. Formal investigations will have terms of reference and a time budget. Preliminary assessments are underway for four allegations received since the last quarter.

3. NAS Reports having Corporate Significance

- 3.1 The following criteria are used to assess whether reports are of corporate significance:

- The amount of money that is at risk, normally this will be material amounts
 - Any policy implications for the Council as a whole
 - Topical issues, having a potential political or public interest
 - Where it has not been possible at COG to reach agreement on significant issues or the action that is required to address the issues
 - Where agreed action has not been taken at the time of the follow-up audit.
- 3.2 There was no corporately significant report in the quarter ended 31 March 2014.

4. Changes to the Audit Plan 2014-15 and matters arising since the end of the quarter

- 4.1 Changes have been made to the Internal Audit Plan for 2014-15 agreed by the Audit Committee in January 2014. There are 84 days in the original plans that are subject to change. 60 days have been re-allocated into new priority audit work. The changes, which have been agreed with the Interim Head of Finance, are set out in Appendix D.
- 4.2 There have been no further changes made to the Audit Plan for 2013-14, since the report presented to the Audit Committee at its April meeting.
- 4.3 At its April meeting the Committee discussed the draft Terms of Reference which had been drawn up by the Chief Internal Auditor at the request of the Committee's Chairman, relating to the Internal Controls and Risk Management of the Payment of Costs and Associated Risks about the Willows Contract. Since that meeting Internal Audit has monitored the arrangements leading up to the interest rate and foreign exchange breakage deal and has confirmed that there were satisfactory internal controls and risk management in place. The arrangements for the settlement are in place and the funding for the new value of costs is to be reported to and agreed by members. No further audit work is planned.
- 4.4 The first traded schools audit was completed in April 2014. Further audits are to follow throughout the year as per ad-hoc requests and assessment of the resources available.
- 4.5 Since the December 2013 Chief Officers Group has received details of the High priority findings which are being managed by Heads of Service. At the end of May 2014 there are 152 (181 in March 2014) high priority findings, 48 (0) are Amber Rated, 28 (140) with a green rating and 76 (41) that were recommended and agreed for removal, rated 'AR'. The Amber rated findings include some where deadlines had been extended, to 31st March 2014, at the prompting of the Chief Internal Auditor. In all there are twenty nine less (six more) high priority findings than last time, 41 were taken out as agreed and 12 new findings have been added.

- 4.6 The overall trend is that there are more findings being removed than added. Staff absence or other pressures have held up resolving some findings which have been raised to Amber, as they are being monitored more closely.
- 4.7 The high priority findings will be reported to the Chairman of the Audit Committee for information.

Table 1: Summary table per department

Department	Amber Rated	Green Rated
ETD (ICT)	2	0 (0)
Children's Services	0	15 (50)
Community Services	2	2 (13)
Resources	40	11 (43)
NFRS	4	0 (4)
Total	49	27 (140)

- 4.8 In developing the ICT audit plan for the next three years it has been agreed with the Head of ICT that for the corporately significant DNA project Norfolk Audit Services would report quarterly to this Committee. At this time no audit work has been completed. A programme Board to manage the DNA programme has been established. We are alert to developments, governance, controls and risk management in the DNA programme and will maintain this in future internal audit planning and advice.

5. The difference we are making

- 5.1 Audit findings have provided assurance or where necessary led to agreed actions to address any identified weaknesses in risk management and internal control. This demonstrates the Council's good Value for Money and thus supports the Council's Plan and its Strategic Ambitions. No actual savings or potential savings have been noted as a result of our audit work and grant claim certification in the last quarter.
- 5.2 Sufficient final and draft reports and follow up audits have been completed to inform the opinion detailed in paragraph seven below.
- 5.3 Norfolk Audit Services' work continues to give due consideration to the risk of fraud and corruption and to the controls in place to mitigate those risks.
- 5.4 Norfolk Audit Services have adopted a "Statement of Customer Pledge and Remedy" which is published on the Council's internet. NAS issues Customer Satisfaction Questionnaires with the draft reports and has received overall positive feedback from these questionnaires for the quarter ended 31 March 2014.

5.5 Feedback received was as follows:

Type of work	Questionnaires issued	Questionnaires received	
Standard audit	8	5	
Grants	13	0	
Analysis of results			
Number of questions	Very satisfied	Satisfied	Disappointed or Very Disappointed
49	48	1	0

5.6 The new simpler electronic “Survey Monkey” based questionnaire will be launched next quarter to increase the likelihood of returns. A Service Level Agreement is being drafted for our services.

6. The Service Transformation Programme

- 6.1 We have continued to work with colleagues in the Corporate Programme Office and provide advice, support and challenge in order to seek assurance on the continued good governance, internal controls and risk management of services that are subject to organisational change.
- 6.2 During 2013-14, the approach to gaining assurance on the governance of specific projects has been reviewed. The thematic approach has been stopped to reflect the volume and proportion of projects now coming to an end and becoming part of the way services are delivered. The focus of assurance is now through the audit of specific projects, looking at either governance arrangement in the project or looking at governance and controls post implementation.
- 6.3 In the quarter, the following audits have provided such assurance:
- Care Arranging Service
 - Safeguarding of Service Users in Receipt of Direct Payments
 - Public Health - Compliance with Key Financial Controls
 - Business Continuity Management
 - Emergency Planning
 - Migration of Data - Non Residential Care.
- 6.4 Norfolk Audit Services continues to review reporting to Chief Officer and Members and assess whether reported exceptions warrant more detailed audit work.

- 6.5 The programme has successfully delivered the planned savings of £14.44m by the end of March 14. Work is well under way on planning projects, which will deliver savings over the 2014-17 period.
- 6.6 The rating for the overall programme remains **Amber**, primarily due to timescales and some concerns around resources. There continue to be significant resourcing pressure within shared services due to the volume of activity underway across the authority, thus raising concerns over their ability to support the implementation of the changes within the service department, whilst also implementing changes within shared services themselves. The majority of shared services are facing challenges in providing resources to deliver projects and demand is being managed through reprioritisation of operational activities. The Corporate Programme Office project management and Business Process Re-engineering areas are facing particular resource challenges in delivering the transformation programme as the nature of project work is now requiring more significant process re-engineering and project management skills. Pressures are managed at a local level, and escalation procedures invoked where necessary.
- 6.7 My review of the reporting at March 2014 concludes that governance, controls and risk management for the service transformation programme are acceptable.

7. Overall Opinion

- 7.1 All audit reports contain an overall audit opinion on the adequacy and effectiveness of risk management and internal control, indicating whether the area concerned is either 'acceptable' or if 'key issues need to be addressed'.
- 7.2 My opinion is that the adequacy and effectiveness of risk management arrangements and internal control within the Council is '**Acceptable**' and therefore considered 'Sound'.
- 7.3 My opinion is based upon:
- Final reports issued in the quarter (representing a proportion of the planned audit coverage for the year).
 - The results of any follow up audits.
 - The results of other work carried out by internal audit.
 - The corporate significance of the reports.

8. Environmental Implications

- 8.1 Norfolk Audit Services makes every effort to reduce its carbon footprint. Distance travelled is taken into account when booking audits outside of the County Hall, booking auditors living closest to the venues. Our team uses all recycling facilities available to us working at County Hall in order to reduce consignment to landfill. We monitor our printing/photocopying usage half yearly and encourage people to reduce where they can.

- 8.2 This report does not contain any proposed change, which may have an environmental implication.

9. Equalities Impact, Resource and Other Implications

- 9.1 There are no direct implications with respect to equalities or resources with respect to this report and there are no other implications.

10. Section 17 – Crime and Disorder Act (1998) and Anti Fraud and Corruption

- 10.1 Under Section 17 of the Crime and Disorder Act (1998), the Council has a statutory general duty to take account of the crime and disorder implications of all its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 10.2 Internal Audit work helps with the aim of prevention of crime in Norfolk in that its work results in the likelihood of detection and prosecution increasing.
- 10.3 The profile of Anti Fraud and Corruption arrangements remains high and we are responding to the challenges that arise.
- 10.4 Two electronic learning courses have been produced by NAS and are available to all Members and staff of the Council. They are entitled 'An Introduction to Fraud Awareness' and 'Fraud Prevention and Detection (for Managers)'.

11. Risk Management

- 11.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

12. Conclusions

- 12.1 13 final reports, six follow-up reports and eight grant claims have been issued in the quarter to support the opinion that the adequacy and effectiveness of the risk management and internal control within the council is 'acceptable' and therefore considered sound.
- 12.2 The High Priority Findings are being managed and satisfactory action has either been completed or is planned.

- 12.3 NAS has received positive feedback on audits during the quarter ended 31 March 2014.
- 12.4 The preparations for the France Channel England Interreg Audit Authority are progressing satisfactorily.

13. Recommendation

13.1 The Audit Committee is asked to consider and comment on:

- the overall opinion on the effectiveness of risk management and internal control being 'Acceptable' and therefore considered 'Sound'
- the changes to the approved 2014-15 internal audit plan, described in Appendix D
- the summary High Priority Findings results, at 4.7 -Table 1, being satisfactory
- satisfactory progress regarding the preparations for an Audit Authority for the France Channel England Interreg Operational Programme

Officer Contact

If you have any questions about matters contained in this report please get in touch with:

Adrian Thompson
Chief Internal Auditor
Norfolk Audit Services
01603 222784
e-mail: adrian.thompson@norfolk.gov.uk



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Norfolk Audit Services Final Reports Issued in the Quarter Ended 31 March 2014

There were 13 final reports and 8 grant claims certified during the quarter. There were also 6 follow up reports completed in the quarter.

Final Reports

Children's Services

1. SEND(Special Educational Needs) Cluster Funding

Community Services

2. Care Arranging Service
3. Safeguarding of Service Users in Receipt of Direct Payments

Contracts and Procurement

4. Supplier Appraisals

Corporate Resources

5. Public Health - Compliance with Key Financial Controls

Environment, Transport and Development

6. Business Continuity Management
7. Emergency Planning

Finance

8. Migration of Data - Non Residential Care
9. Social Fund - Local Assistance Scheme
10. Treasury Management - Full Review
11. Unannounced Visits - Cash Spot Checks

Fire

12. Fire - Risk Management

Information Management

13. Norfolk Records Office

Grants claims certified

1. BDUK (Broadband)
2. COOL
3. Family Focus
4. Leader
5. Leader Final Mop Up
6. PRISMA
7. RINSE
8. RINSE Lead Partner

**Schedule of Follow Up Audits Completed in the
Quarter ended 31 March 2014**

Community Services

1. Adult Care Assessments

Schools

2. Diss CE VC Junior School
3. Earlham Early Years Centre
4. Hindringham CE VC Primary School
5. Roydon Primary School
6. St Peter & St Paul CE VC Primary School

Audits of Note

Unannounced Visits – Cash Spot Checks

The purpose of this audit was to provide assurance that cash held on site on behalf of residents in adult and children residential homes was secure and there was adequate controls in place to ensure balances could be verified. For children's homes, controls around the handling of the Council's cash were also reviewed.

Overall, controls were adequate to safeguard monies held on behalf of residents. In Children's Services establishments, controls needed to be significantly strengthened around the handling of petty cash. Although these issues were sporadic and did not relate to significant financial amounts, cash handling represents a key risk area for theft and fraud.

Five high priority findings were raised during the audit with a total of eight recommendations made.

Areas generating HPFs were:

- Authorisation of expenditure for petty cash
- Missing petty cash
- Access to petty cash
- Insufficient Spot checks for petty cash
- Use of Sub floats.

An action plan was agreed for the findings raised in the report.

Business Continuity Management and Emergency Planning

The purpose of this audit was to provide assurance that arrangement for non ICT related business continuity and emergency planning are suitable and embedded across the organisation.

Overall, arrangements were found to be adequate to ensure critical activities could be maintained and that business continuity management and emergency planning comply with the required legislative standards.

No high priority findings were generated.

Suitable action plans were received for five medium priority findings.

Treasury Management

The purpose of this audit was to provide assurance that the following activities, undertaken by Treasury, are operating effectively:

- Management of the Council's cash flows, money market and capital market transactions;
- The effective management of the risks associated with those activities; and

- The pursuit of optimum performance consistent with those risks.

Overall the Treasury management team works efficiently to ensure the controls in place for the treasury management process are operating effectively.

There were no findings raised as part of this audit and in turn no recommendations made.

Changes to the Internal Audit Plan 2014-15

Audit From Original Approved 2014-15 Plan	Department	Days Out	Reason For Change	New Audit Now in Plan	Days Re-applied	Reduction in the Approved Plan (days)
County Farms Management	Asset Management	10	The assurance has been met through the Member working group's achievements.	Contract Management - Children's Services audit deferred from 2013-14.	10	0
Accounts Payable - Non iProc	Finance	15	Coding grids have been successfully phased out in target areas and no concerns have been identified. Therefore there is no need for an audit at this time.	None	0	-15
MASH Governance	Children's Services	15	External review being conducted which will address identified risks	Contract Register audit deferred from 2013-14.	15	0
Strategic Planning	Corporate Governance	12	Changes in performance management, introduction of the committee system, new managing director starting in August and changes to PPP team means it is currently a period of change and it has been agreed that the audit will be better if undertaken later in the year.	Days reallocated to Quarters 3 and 4.	12	0
Sustainable Drainage Systems	ETD	15	Delayed to Quarter 4 due to delays in the issue of relevant legislation by the Parliament.	Days reallocated to Quarters 3 and 4.	15	0
Knowing Your Costs - Full Cost Recovery	Corporate Resources	17	Deferral to Q1 2015/16 due to external review requested by Interim Head of Finance in May-	Willows Termination Costs ETD (Request from the Chair of the	8	-9

			August 2014. Our deferred audit will then capture the new process.	Audit Committee)		
Totals		84			60	-24

Norfolk Audit Services
Annual Internal Audit Report 2013-14

Report by the Interim Head of Finance

This report introduces the Chief Internal Auditor's Annual Internal Audit Report for 2013-14.

It is recommended that the Audit Committee should consider the Annual Internal Audit Report 2013-14 (Appendix A) and the key messages that:

- based on this report the Interim Head of Finance can assure the Committee that the adequacy and effectiveness of the system of internal control including the arrangements for the management of risk during 2013-14 was acceptable and is therefore considered sound,
- internal audit was adequate and effective during 2013-14; and
- the work of Norfolk Audit Services for the year and the assurance provided assists the Committee to reasonably assess the risk that the Financial Statements are not materially mis-stated due to fraud. The risks of Fraud and Corruption have been reviewed and planning and resources are considered adequate.
- For 2014-15, the team have plans to strengthen controls over costs and to further develop our approach and skill sets to provide new perspectives on how we approach audits to add value, be independent but also a partner to the business and take an active role in transformational change through critical thinking and value creation.

1 Introduction

- 1.1 The Accounts and Audit (England) Regulations 2011 require that the Council must undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with proper practices and at least once in each year conduct a review of the effectiveness of its internal audit. The Committee made a resolution at its meeting on 26 September 2013 regarding that review. It was resolved that;

'the effectiveness of the management processes and corporate control functions being provided by self assessment, customer feedback and any existing external performance reviews, including periodic independent assurance on the application of the relevant internal audit

standards, thus developing the approach agreed in April 2007 and January 2009'.

- 1.2 The Chief Internal Auditor's Annual Report is attached as Appendix A which sets out how we comply with these requirements.

2 The Difference we are Making

- 2.1 The report sets out the key messages of the difference that the internal audit function is making, as reported to the Committee throughout the year.

3 Risk Management

- 3.1 This report has fully taken into account any relevant issues arising from the Council's policy, strategy and procedures for risk management and any issues identified in the corporate and departmental risk registers. There is a good relationship between internal audit and those responsible for monitoring and reporting on risk.

4 Equalities Impact, Resource and Other Implications

- 4.1 Resources available for the provision of internal audit in 2013-14 have been assessed as adequate, including the resources deployed to address the risk of fraud and corruption within the organisation.
- 4.2 Consequently, there are no equalities, resources or other implications arising from this report.

5 Section 17 Crime and Disorder Act

- 5.1 Under section 17 of the Crime and Disorder Act (1998) the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 5.2 Internal control help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risk of detection and prosecution and reducing the rewards from crime.
- 5.3 The Annual Report covers Internal Audits' responsibilities in relation to fraud at part 12 and TN7 in Appendix 2 to that report.

6 Conclusions

- 6.1 Our work provides an understanding of how the Council processes risk, controls and its underlying systems are related. Through our local government experience and by engaging specialist audit providers where appropriate, we can relate current developments, leading

practices and opportunities for improvement. We aim to further develop our approach and skill sets to provide new perspectives on how we approach audits to add value, be independent but also a partner to the business and take an active role in transformational change through critical thinking and value creation. We are developing our reporting in 2014 - 2015 to set, measure and highlight cost recovery, new growth opportunity, hour efficiency, redeployment savings or risk reduction with recommendations that make 'meaningful improvements'.

7 Recommendation

7.1 It is recommended that the Audit Committee should consider the Annual Internal Audit Report 2013-14 (Appendix A) and the key messages that

- based on this report the Head of Finance can assure the Committee that the adequacy and effectiveness of system of internal control including the arrangements for the management of risk during 2013-14 was acceptable and therefore considered sound,
- internal audit was effective during 2013-14
- the work of Norfolk Audit Services for the year and the assurance provided assists the Committee to reasonably assess the risk that the Financial Statements are not materially mis-stated due to fraud. The risks of Fraud and Corruption have been reviewed and planning and resources are considered adequate
- For 2014-15, the team have plans to strengthen controls over costs and to further develop our approach and skill sets to provide new perspectives on how we approach audits to add value, be independent but also a partner to the business and take an active role in transformational change through critical thinking and value creation.

Adrian Thompson
Chief Internal Auditor
(01603) 222784
Email: adrian.thompson@norfolk.gov.uk



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**Annual Internal Audit Report
2013 – 2014**

**Chief Internal Auditor
Norfolk Audit Services**

Norfolk Audit Services

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Appendix 1 – Internal Audit Work Summary

Appendix 2 – Technical Notes

Norfolk Audit Services

Annual Internal Audit Report 2013-14

1 Introduction

- 1.1 This annual internal audit report helps the Audit Committee to assess the performance of Norfolk Audit Services (NAS) and informs Chief Officers, clients and staff of our work and how we add value. This report also supports the Council's Annual Governance Statement with an assurance on the Council's system of internal control, which includes the arrangements for the management of risk. The report includes
- assurance that the system of internal control including the arrangements for the management of risk and anti-fraud and corruption arrangements exist and are sound, adequate and effective, in accordance with the relevant regulations;
 - the work we carried out in 2013-14 and the key messages
 - performance and the difference we are making.
 - our compliance with the Accounts and Audit Regulations and recognised standards including the United Kingdom Public Sector Internal Audit Standard (UKPSIAS)
 - the way ahead for the function.

2 Background and Audit Opinion Explained

- 2.1 The County Council's Finance Shared Service exists to provide a financial advisory, transactional and support service to the Council and its customers. The Shared Service is principally focused on delivery of its services to Norfolk County Council, to maintained schools in Norfolk and to the Norfolk and Suffolk Probation Trust.
- 2.2 Internal Audit is a Centre of Expertise within the Finance Shared Service and aims to support the Council's strategic ambitions and objectives. Work is planned and performed with reference to the Council's strategic ambitions. Our work is shaped by the significant organisational change and risk that continues to take place in the Council in response to the financial and demographic pressures it faces. The Council's commitment to new 'Ways of working' is an example of this.
- 2.3 During the 2013-14 year internal audit reported as follows:
- detailed reports to the relevant Chief Officers
 - reporting to the Chief Officers' Group on high priority findings from audits (Appendix 2 - TN3)
 - quarterly summary reports to the Chief Officers' Group ,
 - quarterly reports to the Audit Committee and
 - relevant topical reports to the Audit Committee as requested.

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- 2.4 The internal audit service of the County Council provided assurance to Council, the Cabinet, the Audit Committee, the Acting Managing Director, the Interim Head of Finance, the Monitoring Officer and other Chief Officers. Our role is explained in detail in the notes at Appendix 2 (at TN 1). The Council has adopted a new committee structure from 27/05/14, but the Audit Committee is unchanged.
- 2.5 The Accounts and Audit (England) Regulations 2011 require that the Council must undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with proper practices and at least once in each year conduct a review of the effectiveness of its internal audit. The Committee made a resolution at its meeting on 26 September 2013 regarding that review. It was resolved that;
- ‘the effectiveness of the management processes and corporate control functions being provided by self-assessment, customer feedback and any existing external performance reviews, including periodic independent assurance on the application of the relevant internal audit standards, thus developing the approach agreed in April 2007 and January 2009’.
- 2.6 As part of the overall Good Governance Framework, the Interim Head of Finance provides an annual opinion on the adequacy and effectiveness of the system of internal control including risk management. This informs the Council’s reporting of the draft Annual Governance Statement, which is published with the draft Annual Statement of Accounts in June each year.
- 2.7 The Chief Internal Auditor’s overall audit opinion is based on work undertaken during the year. Opinion definitions are explained in the notes at Appendix 2 (at TN 2).
- 2.8 The collective assurance roles of internal audit, other internal assurance providers and external audit are coordinated and optimized. The resourcing of the internal audit function, described at Table 1 below, is considered adequate.

Table 1: Internal Audit Resources

	2012-13	2013-14	2014-15	2015-16
£’000 Budget Gross Expenditure	673	717	634	*697
Full Time Equivalents (FTE)	14.4	16.51	13.42	*15.32

*Includes staff for the France Channel England Programme - externally funded

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3 Key Messages

3.1 The key messages in this Chief Internal Auditor's Annual Report are that:

Opinion

- the Interim Head of Finance and the Audit Committee can be assured that the adequacy and effectiveness of the system of internal control including risk management for the Council is 'Acceptable' and is therefore considered 'sound'. Sufficient audits were performed and reported during 2013-14 to support this opinion. Details of our performance appear in part 4 and Appendix 1, Table 1

Good Practice

- the Interim Head of Finance promotes effective formal and informal communication with internal audit. The team promotes good practice through our professional advice, newsletters, reports and collaboration with other Council's Audit Services. High Priority Findings from our audit reports have been reported to Chief Officers and in summary to the Audit Committee. We have monitored the Council's Transformation Programme, DNA programme and reported our conclusions to the Audit Committee.

Savings and External Funding

- the team has exceeded the required savings during the year by operating within the approved team structure, organisational developments and put in place further efficiencies. Cost control is operating through cash budgets for audits during the year. Trading opportunities have been developed with traded schools audit work. The team's work have been reorganised to accommodate the France Channel England Audit Authority work bringing in external funding.

Standards and Compliance

- our self assessment confirms that the Internal Audit function is compliant with the 2013 UKPSIAS. Our CIPFA benchmarking confirms that we provide a value for money service compared with other Counties
- the role of the Chief Internal Auditor is compliant with CIPFA's published, 'role of the head of internal audit - in public service organisations'

Anti-Fraud

- there are Anti-Fraud and Corruption controls in place. The Anti Fraud and Corruption Strategy was updated and revised in January 2014, whereby the new strategy has been broken down in reader friendly sub-documents. Two e-learning courses were produced in May 2013 for NCC staff and managers. With the publication in April 2012 of 'Fighting Fraud Locally' expectations continue to rise and further strengthening of controls continues. There were

Norfolk Audit Services

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two frauds detected and reported during the year, one procurement fraud and one Social Care Fraud. These were reported in the Audit Commission's Protecting the Public Purse Survey for the year

- our work assists the Committee to reasonably assess the risk that the financial statements are not materially mis-stated due to fraud.

3.2 Other significant points to note are detailed in the notes in Appendix 2 (at TN 5).

3.3 Key future development areas for the team in 2014-15 and beyond are

Managing Costs

- A Costed Internal Audit Plan will be produced, Resource Planning will be based on cost, Terms of Reference including the cash budget, cash cost monitoring during and after audit. Cash costs reported in the report and committee reporting, also strengthening commercial behaviours and performance

Performance

- Achieving 100% of draft and final reports from the Annual Internal Audit Plan issued within the relevant financial year

Critical Thinking

- Developing the Critical Thinking approach to audits so that our work provides an understanding of how the Council processes risk, controls and its underlying systems are related. Through our local government experience and by engaging specialist audit providers where appropriate, we can relate current developments, leading practices and opportunities for improvement. We aim to further develop our approach and skill sets to provide new perspectives on how we approach audits to add value, be independent but also a partner to the business and take an active role in transformational change through critical thinking and value creation.

Impact

- Develop High Priority Findings reporting further to maximise impact and efficiency

Trading

- Engaging with Norfolk schools on a traded basis, completing a number of traded school audits to support the Council's income generation objectives;

External Funding

- Setting up the Audit Authority to oversee the adequacy of the management and control systems for the management of the FCE European funding programme by the ETD based Management Authority. The Audit Authority will

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also consider the adequacy of systems of internal controls around the certification of return made to the EU and the work of the Certifying Authority, hosted by the Finance Shared Services;

Collaboration

- Exploring stronger collaborative arrangements with the internal audit team of Suffolk County Council, in line with the corporate drive for collaboration at county level on support services functions;

Anti-Fraud

- Delivering on national developments, such as the 'Fighting Fraud Locally', developing leaner investigation processes and approaches

Customer Service

- We are establishing Service Level Agreements with customers to spell out our standards and we will also evaluate our Customer Satisfaction Questionnaires responses from the new simpler electronic "Survey Monkey" based questionnaire launched in 2014-15.

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4 Internal Audit Work, Benchmarking our Value for Money and Planning ahead

- 4.1 The internal audit work was performed through the delivery of the Annual Internal Audit Plan. Audit Committee approved the first half at the start of the audit year on 25 April 2013, quarter three on 24 June 2013 and quarter four on 26 September 2013. A summary of the work for 2013-14 is attached as Appendix 1, table 1. During the year it was appropriate to add some topics to the plan and to remove others on a risk assessed basis. The details of these changes were reported to the Audit Committee as part of the quarterly updates.
- 4.2 We reported on 100% of the planned schools audits.
- 4.3 For the Non-school audits 85% of expected draft and final reports were complete at year end. The remaining audits were 'work in progress' at year end. Of those work in progress audits all of them were started late in the year as planned. The 9 work in progress audits were carried forward into the current audit year and at the start of May 2014, 2 of those reports had reached draft stage and 3 had been issued as final. The remaining 4 audits are expected to be completed by the end of July 2014.
- 4.4 All of the grant certifications were completed during the year.
- 4.5 In addition to the work set out in Appendix 1 the team completed other adhoc work as follows:
- Advice reports for Chief Officers
 - Closer monitoring and reporting of progress on actions taken to address High Priority Findings identified by detailed audit work
 - The development of the new Anti-Fraud and Corruption Strategy and two e-learning courses in line with Fighting Fraud Locally recommendations
 - The development and delivery of training for Audit Committee Members
 - Investigation of allegations regarding potential financial or internal control matters.
- 4.6 Benchmarking of the internal audit function has shown that we perform well and that we provide value for money. The 2014 CIPFA Internal Audit Benchmarking concluded that for 2013-14 (actuals), compared to other County Internal Audit Teams we have
- an audit cost per £'m turnover of £412, which remains below the average cost of £422 per £'m gross turnover; and
 - a cost per chargeable day at £255, which is just above the average level of £253
- 4.7 The Internal Audit Team is a Centre of Expertise within the Finance Shared Service. The team had a plan to achieve up to £102,000 (12%) efficiency savings

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on the 2009-10 base, over three years. The overall cumulative saving requirement of £102,000 by the end of 2012-13 has been achieved through restructuring the number and mix of staff in the team, supported by better ways of working.

- 4.8 During the year we have continued to work with colleagues in the Corporate Programme Office (CPO) and provide advice, support and challenge in order to seek assurance on the continued good governance, internal controls and risk management of services that are subject to organisational change, through the Council's 'Transformation Programme'. To ensure a joined up approach, consistency and to avoid duplication, we are reporting to the Audit Committee our conclusions on the management of the change programme based upon our review of the existing reporting to Chief Officers and Members. If any exceptions are reported or we are requested by Chief Officers we will consider if more detailed audit work is required. The performance management framework for Norfolk County Council is reported to Cabinet. The achievements from and any risks for the change programme are reported to Members and Chief Officers via a monthly highlight report, risk registers and financial reporting. The key projects are supported and closely monitored by the relevant Finance Business Partners reporting to the Head of Finance.
- 4.9 Moreover, 19 specific audits have provided assurance throughout the year against risks associated to specific change projects, thus providing assurance on the adequacy of internal controls during and after significant changes have been introduced in processes or team structures. Key learning points have been brought to the attention of the Sponsoring departments and NAS will work with the CPO to ensure learning is disseminated across the organisation and is incorporated in future service designs. As a result of internal audit work, a significant initiative to improve the process for traded services has been launched.
- 4.10 Throughout the year, Norfolk Audit Services has provided continued and robust support to Project Managers of European grants and ensured compliance to the rules for all our grants work (first level control audit). The second level control audit on one of the council's E.C. grants confirmed the robustness of controls in place and identified no finding, following on from the first level control carried out by our team.
- 4.11 Our Quarterly Reporting to the Audit Committee has included updates on the France Channel England INTERREG Programme - Audit Authority preparations being satisfactory. As of February 2014, team member's roles and portfolio allocations have been redefined within the audit team, in order to free up resources, to be redeployed on the delivery of the FCE Audit Authority. In 2014-15 the redeployment of current resources will support a reduced net budget, through the increase of external income partially matched by existing resources and costs. Technical Assistance funding of £10,400 was claimed in respect of work completed up to December 2013.
- 4.12 Our work provides an understanding of how the Council processes risk, controls and its underlying systems are related. Through our local government experience and by engaging specialist audit providers, we can relate current developments,

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leading practices and opportunities for improvement. We aim to further develop our approach and skill sets to provide new perspectives on how we approach audits to add value, be a partner to the business and take an active role in transformational change through critical thinking and value creation. We are developing our reporting in 2014 - 2015 to set, measure and highlight cost recovery; new growth opportunity; hour efficiency; redeployment savings or risk reduction with recommendations that make 'meaningful improvements'.

5 Value for Money Assessment

5.1 New Value for Money criteria were established by the Audit Commission. Value for money is now measured through:

- Efficiency
- Financial Resilience

5.2 The Council received an unqualified value for money assessment for 2012-13. The next assessment, for 2013-14, is due in September 2014.

6 Review of effectiveness of systems of Internal Audit (including Risk Management)

6.1 The Council's system of internal audit during 2013-14 was sound, adequate and effective in accordance with the requirements of the Accounts and Audit (England) Regulations 2011. Details of the regulations and the approach taken are provided in Appendix 2 (at TN6)

6.2 Our work considers the Council's Risk Management arrangements which are reported to the Audit Committee by the Strategic Risk officer. The Council's Risk Management arrangements are considered acceptable.

7 Chargeable work

7.1 Our chargeable work continues to make a positive contribution to the Council generating £55,000 in 2013-14.

7.2 Internal Audit carried out chargeable work for the Norfolk Pension Fund and Eastern Inshore Fisheries and Conservation Authority (EIFCA) formerly the Eastern Sea Fisheries Joint Committee. This work helps overall to reduce the net cost of internal audit to the Council and allows internal audit staff to continue to develop valuable skills and build on experience. The clients benefit from a high standard of internal audit and we are also able to build good relationships with our local colleagues, helping to raise the profile of the County Council in the process.

7.3 Internal Audit also undertakes work on the Certification of Grant Claims including many that are EC sponsored.

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- 7.4 Preparation work started in 2013-14 for the setting up of the new Audit Authority to support the management of the FCE EU funded programme by Norfolk County Council. This work is funded through the aforementioned programme, and is expected to support future savings and efficiencies in the Internal Audit budget.
- 7.5 Schools have been engaged with to develop our offering of traded audits and although only one traded audit was delivered in 2013-14, bookings have been made for 14-15 and will be supported by the framework developed during 2013-14.

8 Quality Assurance

- 8.1 A Quality Strategy for Internal Audit is in place, which includes a Quality Assurance Improvement Programme. This was used to review completed audit projects during the year to ensure they met quality standards. Internal Audit procedures are subject to continuous review and are updated during the year. No significant exceptions were noted from that work.
- 8.2 Internal Audit reports progress on the audit plan and feedback from customer satisfaction questionnaires to the Chief Officer Group and the Audit Committee quarterly. NAS has received overall positive feedback during the year ended 31 March 2014. A new electronic Customer Satisfaction Questionnaire mechanism will be implemented for the year 2014-15.

9 Engaging Specialists

- 9.1 During 2013-14, we have continued to engage specialists from external sources to deliver audits for ICT and Health & Safety audits that require expertise that did not exist in the team. This ensured that these areas received high quality assurance whilst ensuring value for money.

10 Working with the External Auditors

- 10.1 The new external auditors, Ernst and Young, are auditing the Council's Statement of Accounts for 2013-14. Internal Audit maintains a very good working relationship with the audit team at Ernst and Young and NAS work is planned and co-ordinated to ensure that there is:
- no duplication of work
 - not an undue "audit burden" on clients at any one time during the year, and
 - an efficient "joint" assurance service to the Council.

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- 10.2 A specific piece of work is being delivered by Norfolk Audit Services in quarter 1 of 2014-15, with the prime objective of supporting the additional work needed to support the external auditors' audit methodology. Similar work was delivered by NAS in 2013-14 to support the external audit of the 2012-13 Financial Statements.

11 Annual Governance Statements

- 11.1 In addition to the Council's own Annual Governance Statement, to be reported to this Committee in June 2014, NAS internal audits provided assurances on the adequacy and effectiveness of internal controls and risk management for the following committees
- NCC Pensions Committee and
 - Norfolk Joint Museums and Archaeology Committee.
- 11.2 Each Joint Committee will receive and approve its own Annual Governance Statement for 2013-14, to be published with its own annual Statement of Accounts.
- 11.3 The Norfolk Records Committee and the Eastern Inshore Fisheries and Conservation Authority (EIFCA) (formally Eastern Sea Fisheries Joint Committee) are designated a "smaller relevant body" under the Accounts and Audit (England) Regulations 2011 and as such are subject to a simpler process and the governance arrangements and internal audit are included in a composite Annual Return by way of a questionnaire.

12 Responsibilities in relation to Fraud and Corruption

- 12.1 Under section 17 of the Crime and Disorder Act (1998) the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 12.2 Internal Audit work helps to deter crime, or increase the likelihood of detection by making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime. Internal audit's work is planned in order to cover the higher risk areas including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits.
- 12.3 An action plan has been agreed to continue the ongoing development of a strong anti-fraud culture within the Council. The Audit Committee receives six monthly Update reports on the Anti Fraud and Corruption Strategy. The Council meets the requirements of the International Standard on Auditing (ISA 240) as described in the notes in Appendix 2 (TN 7).
- 12.4 The Council had 2 cases of detected fraud during 2013-14. Detected fraud is defined as where an investigation of an allegation has assessed that, on the balance of probability, there was misconduct that led to an action by management,

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possibly including recovery of loss, disciplinary action or a prosecution. These cases were later reported to the Audit Commission in their Annual Fraud and Corruption Survey 2013-14.

13 Acknowledgements

- 13.1 I would like to thank Chief Officers, managers and staff for their co-operation and assistance during the year.
- 13.2 The Internal Audit team has worked with the Council's managers and staff to deliver assurance on the adequacy of the Council's internal controls and risk management. The team's work has been acknowledged as meeting required standards and savings at a time when expectations of quality both internally and externally are rising. I would like once again to acknowledge the commitment, efforts and achievements of the team over the year.

Adrian Thompson
Chief Internal Auditor
01603 222784
Email: adrian.thompson@norfolk.gov.uk



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Appendix 1

Table 1: Internal Audit Work Summary 2013-14 (2012-13)

	Approved Plan	Net Additions/ Cancelled/ Postponed In Year	Revised plan	Final Reports Issued	% Final	Draft Reports Issued	Total Reports Issued	Percentage Delivery of the revised 2013-14 (and 2012-13)
Audits in Approved Plan – Non Schools	66 (89)	-8(-19)	58 (70)	39 (36)	67 (51)	10 (11)	49 (47)	84% (67 %)
Audits in Approved Plan – Schools	22 (102)	(-)	22 (102)	22 (88)	100 (86)	0 (10)	22 (98)	100% (96 %)
Total excl. Grants	88 (191)	-8 (-19)	80 (172)	61 (124)	76 (72)	10 (21)	71 (145)	89% (84 %)
Grants	30 (32)	(-)	30 (32)	30 (32)	100 (100)	0 (0)	30 (32)	100% (100 %)
Overall Total	118 (223)	-8 (-19)	110 (204)	91 (156)	77 (78)	10 (21)	101 (177)	92% (87 %)

Notes for Table 1:

- 1 Follow up work was also undertaken during the year; generally the follow up audits are completed six months after the final reports are issued. For non-schools audit work, where there was an opinion of “key issues to be addressed” a process was adopted which placed a greater reliance on management assurances that appropriate action had been taken with respect to the reports. For schools audit work, the follow up reports were completed by the Children’s Services finance team and Norfolk Audit Services place reliance upon their work. With respect to follow up work, all points in the reports were addressed satisfactorily. Follow up work has been significantly reduced due to the introduction of High Priority Findings monitoring and reporting.
- 2 Preliminary Assessments of allegations were carried out during the year. Such work is reactive and cannot be forecast at the start of year when the plan is prepared. Investigations are reported to the Audit Committee in the quarterly reports when they are completed as reporting prior to then could prejudice the investigation and/or any criminal prosecutions that might ensue from such work.

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Appendix 2

Technical Notes:

TN1 Our service

NAS provides the internal audit service of the County Council to provide assurance to the Council, the Cabinet, the Audit Committee, the Chief Executive, the Head of Finance, the Monitoring Officer and other Chief Officers. Its role is to ensure that there is evidence of compliance with the Council's objectives, controls, rules and procedures. Where such compliance does not exist, internal audit makes recommendations to ensure that proper arrangements are in place. Some audits carried out are based on the perceived risk to the Council as assessed using the internal audit risk model, corporate and departmental risk registers and others are requested by Chief Officers or the Audit Committee. The scope of NAS's work also extends to partnership arrangements.

The Head of Finance and Interim Head of Finance have reported on the results of Internal Audit's work over the year and an opinion on the adequacy and effectiveness of the system of internal control including the management of risk and fraud and corruption both to the Chief Officers Group and to the Audit Committee during the year on a quarterly basis. Those periodic reports include details of the audit work on which the opinion is based. A sufficient number of audits from the Audit Plan were performed to support the Chief Internal Auditor's opinion. Action plans, agreed with the relevant Chief Officers and their staff, are included in final audit reports.

The approach NAS took to its role was set out in its Terms of Reference and Code of Ethics and Strategy. These are reviewed annually and were last approved by the Audit Committee at the meeting in January 2014.

The Internal Audit team has provided an effective, efficient and economic service during the year, supporting the Audit Committee, the Chief Officers Group and their Services. The team has championed the strengthening of internal control and anti-fraud arrangements and provided advice and assurance.

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TN 2 Opinion Definitions

Each report has one of two possible grades, which are set out in the table below:

Opinion	Assessment of internal control	Action required from the recipient – as agreed with the auditors
Acceptable	Few or no weaknesses, mostly insignificant	Remedial action required as risk assessed and agreed
Key issues that need to be addressed	A number of weaknesses, mostly significant or one or more major weaknesses	Remedial action required as risk assessed and agreed

TN 3 High Priority Findings reporting

As part of a drive to increase transparency and accountability, it was agreed by the Chief Officers' Group (COG) to introduce a new monthly report from December 2013 onwards. The report to COG includes all outstanding audit recommendations made as a result of "high priority" findings from detailed audit reports, together with their completion target date and an update on current status (Green – Amber – Red rating). Completed recommendations are reported separately and approved for removal by Chief Officers Group.

Any Red or Amber findings would be reported quarterly to the Audit Committee in summary, as part of the internal audit quarterly report. A Red rating is given to those findings, where the Amber target deadline has lapsed and the recommendation has not been completed. An Amber rating is given to a finding due to lack of progress against the recommended action.

TN 4 Other significant messages

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Other significant points to note are that:

- the Council's systems of internal audit were effective during 2013-14 for the purposes of the Accounts and Audit (England) Regulations 2011,
- contractors have continued to be used to deliver specialist audit services such as ICT audits and Health and Safety audits,
- chargeable work, for instance external clients and grant certification, continues to make a positive contribution,
- NAS has supported the work of Joint Committees to ensure that each relevant Joint Committee receives and approve their own Annual Governance Statement for 2013-14 to be included with their annual Statement of Accounts; and
- NAS has received overall positive feedback on audits during the year ended 31 March 2014 (see quarterly reports to the Audit Committee).

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TN 5 Internal Audit Work

A key performance indicator is the number of audits completed to a stage where relevant officers have been informed of the findings and an audit opinion can be formed. For 92% (87% in 2012-13) of audits this was the case. It is considered that this provides a reasonable basis to draw a representative audit opinion that a sufficient amount of audit work has been completed.

The team promoted good practice through our professional advice, newsletters and reports.

During the year as part of our efficiencies and to contribute to the Council's savings requirement we managed a number of vacancies and one **case of long-term absence**. This meant that it was necessary to review some lower priority work on the audit plan. It was considered to **not replace 8 audits** from the approved Annual Internal Audit Plan on a risk-assessed basis, as shown in Table 1 of Appendix 1 (Net Additions/Cancelled/Postponed in Year column). These changes were agreed with the Head of Finance/Interim Head of Finance and reported to the Audit Committee quarterly.

The work of NAS covers all areas of the Council's activities and continues to evolve and improve. Audits are generally carried out based on the perceived risk to the Council as assessed using the NAS risk model, the corporate and departmental risk registers or, they may be requested by Chief Officers or the Audit Committee. Internal Audit uses every opportunity to promote best practice as identified through professional networks and from our audit findings. Internal Audit produce and publish a termly Newsletter for Schools which covers topics such as changes to financial procedures, trends in audit findings and fraud risk alerts.

TN 6 Review of the Effectiveness of Systems of Internal Control

The Accounts and Audit (England) Regulations 2011 SI2011 No. 817 came into force on 31st March 2011 and apply to the year ending 31st March 2012 onwards. They require that:

- An adequate and effective internal audit of accounting records and of its system of internal control, in accordance with proper practices in relation to internal control, must be undertaken
- the effectiveness of the Council's systems of internal audit be reviewed annually.

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The method used in 2013-14 to review the effectiveness of the Council's systems of internal control was to review information on the effectiveness of the management processes and corporate control functions (legal, financial, health and safety and human resources) as provided by self assessment, customer feedback and any existing external performance reviews. From 2013-14, an annual assessment of compliance against the UKPSIAS is undertaken, which provides assurance on the effectiveness of the Council's system of internal audit.

The Council's system of internal control and the assurance on their effectiveness is as follows:

- internal audit – the annual plan and work of internal audit*; and
- management processes of checking, reconciliations, supervisions and controls.

*The annual internal audit plan includes the Council's main systems, and different elements of each system on a rotational basis and our opinion on these is "Acceptable" (see Section 3 above). The results of internal audit work for 2013-14 have been summarised in Table 1 of Appendix 1 of report.

TN 7 The Council's Financial Statements and Fraud (ISA 240)

During the year internal audit have reviewed the internal controls and risk management of the Council's main financial systems. Those systems cover the transactions, balances and assets of the Council. That work and the assurance it provides helps this Committee to reasonably assess the risk that the Council's Financial Statements are not materially misstated due to fraud.

Internal Audit has planned and delivered audits during the year, which include reasonable measures to detect fraud and to give assurance on internal controls that would prevent it. Reports on the audit findings clearly set out those findings which increase the risk of fraud and whose responsibility it is to ensure that recommendations are completed.

The Council has an Anti Fraud and Corruption Strategy, which covers the scope of this Committee. The Strategy has been applied where appropriate throughout the year and any significant fraud investigations have been reported where they have been completed. There have been a small number of preliminary assessments of allegations for the Council during the year. The Committee are therefore aware of the process for identifying and responding to the risks of fraud generally and of the specific risks of mis-statement in the financial statements when they are asked to approve the Annual Financial Statements at the end of the year.

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Actual fraud cases that have been fully investigated are reported in summary to the Audit Committee. The Chairman would be informed of any significant fraud which had implications for this Committee. The Committee is therefore aware of the arrangements in place for Chief Officers to report fraud to the Committee. The Committee has knowledge of actual or suspected fraud and the actions that Chief Officers are taking to address it when required.

The Anti-Fraud and Corruption Strategy, Whistle blowing Strategy, Money Laundering Policy and the Standards of Conduct are promoted through staff newsletters and on the Council's Intranet site as well as through training for non-financial managers. The Committee is aware, through the reports it receives, of the arrangements Chief Officers have in place for communicating with employees, members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour. The Council's Audit Committee has responsibility for reviewing the Anti-Fraud and Corruption arrangements. The Audit Committee approved a revised Anti-Fraud and Corruption Strategy in January 2014. This Committee also receives this Annual Internal Audit Report, Risk Management reports and other reports from the Audit Commission giving assurance on the adequacy and effectiveness of risk management an internal control, Anti Fraud and Corruption measures and of the Council's governance and value for money arrangements. These assurances support the Annual Governance Statement that this Committee considers and approves. The Committee therefore oversees management arrangements for identifying and responding to the risks of fraud and the establishment of internal control.

Anti-Fraud and Corruption Update

Report by the Practice Director Norfolk Public Law (NPLaw)

This report provides an update for the Committee on the Council's Anti-Fraud and Corruption activity for the period from January to May 2014

The Audit Committee should consider:

- the work to date and that there has been adequate progress,
- the plan for future work as set out in section 7.

1 Introduction

- 1.1 The Audit Committee approved the January 2014 edition of the Anti-Fraud and Corruption Strategy, its Policies and Guidance at the January 2014 meeting of the Committee.
- 1.2 This report provides an update for the Committee on Anti-Fraud and Corruption activity for the period from January to May 2014; The last update was presented to the Committee in January 2014.

2 Background

- 2.1 In November 2013 the Audit Commission published the latest edition of [Protecting the Public Purse](#), (click on text to view).

Two recommendations in that report have been completed:

- the checklist for Councilors and others charged with governance to review our counter-fraud arrangements was reviewed by the Committee at its meeting in January and
- actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI); the matches identified in the 2012 survey have largely been dealt with and preparations are under way for the 2014 survey (See Appendix A).

- 2.2 The Council is required to report annually to the Audit Commission as part of the Commission's Annual Fraud Survey with respect to fraud activity and did so in May 2014. We are required to report cases of fraud, with a value of over £10k, and we reported 2 cases with a total value of £90k; one with respect to procurement and one with respect to social care.

- 2.3 The National Fraud Authority, which sponsored Fighting Fraud Locally, closed on 31 March 2014; its role was transferred to various other bodies. A ministerial statement in respect of this was made on 13 December 2013 and [this can be viewed by clicking on this text](#).
- 2.4 There have been no changes to the Council's Whistle-blowing or Money Laundering policies.
- 2.5 From the 1 April 2013 the Council took over Public Health services. As part of the integration of the service a risk register has been drawn up and the fraud and corruption risks will be considered and if necessary included on the next review of the register.

3 Prevention

- 3.1 Anti-Fraud best practice continues to be sought. Norfolk Audit Services has membership of the London Audit Counter Fraud Group and the Eastern Fraud Forum and regularly reviews fraud updates, best practice advice from others parties such as CIPFA and Anti-fraud networks.
- 3.2 The enforcement of the "No Purchase Order No Payment" Policy by the Procurement team in December 2013 is now fully embedded across the Council (with the exception of Independence Matters and NPS related payments which will continue to be paid use coding grids). Use of the e-procurement system to enforce segregation of duties helps to prevent fraud. The use of coding grids and expenditure payment forms (EPF's) is no longer accepted for invoice payments (except for the two areas mentioned above).
- 3.3 The County Council has clear procedures for the checks that need to be performed on new members of staff including identity, right to work, references and qualifications.
- 3.4 We continue to use our Termly [Schools Newsletter](#) (click on text to view the latest edition) to promote Fraud and Corruption messages and information to schools. An [Anti-Fraud leaflet](#) is available in both hard copy and on our website (click on text to view).(copy attached as Appendix B)
- 3.5 The 'Key Financial Controls' course continues to be offered by the Schools Finance Team designed in conjunction with NAS. This course is for operational finance staff and contains guidance on anti-fraud and corruption for schools. Since Jan 2014 the course has been presented to 13 participants. A 'Protecting Public Money' course is also offered to School Governors and Headteachers which contains guidance on the Anti-fraud Strategy and Whistleblowing Policy. Since Jan 2014 the course has been presented to 52 delegates. Further courses of these are planned. There are no charges for these courses if the school has purchased a Finance Support Package.

- 3.6 The Strategic Risk, Insurance and Internal Audit teams continually assist Chief Officers to assess the risks from fraud and corruption. The Strategic Risk Manager will, when reviewing risk registers ensure that the risks from fraud and corruption have been considered by the risk owners. No specific additional fraud or corruption risks have been identified due to the impact of the recession and the economic climate in Norfolk. As part of the process to prevent and stop fraudulent claims, insurance claims are reviewed for potential fraud at key points during the claims handling process.
- 3.7 A review of the application of the Code of Conduct, the Register of Interests and the Gifts and Hospitality Register has been conducted for the period from December to May 2014 and no issues arose.
- 3.8 A new e-learning course 'Fraud Prevention and Detection' aimed particularly at Managers of NCC who have responsibilities for systems and controls has now been implemented. Also the e-learning package "Fraud Awareness in Local Government" launched in October 2013 has been renamed "Fraud Awareness" and updated to make it more user friendly. Both courses will be promoted through planned "road shows", emails, newsletters and internet updates throughout the year.
- 3.9 The Norfolk Audit Services intranet and internet pages were updated in March 2014 in respect of Anti-Fraud and Corruption to raise awareness.
- 3.10 Benchmarking confirmed for 2011 -12 that our prevention procedures were sound and actions are in place to meet best practice standards. However the benchmarking exercise did not take place for 2012-13. It will be reinstated for 2013-14.

4 Detection

- 4.1 Norfolk Audit Services' primary objective is for the delivery of the Internal Audit plan as agreed by the Audit Committee. Some of the audits included in the 2014-15 Internal Audit Plan will specifically include reviewing controls with respect to anti-fraud and corruption and as such may help to detect fraud or corruption.
- 4.2 The promotion of the responsibilities of Chief Officers and their managers in relation to detecting fraud and corruption is a key part of the prevention Strategy explained above and is clearly stated in internal audit reporting, and this role is now further supported with the availability of the 'Fraud Prevention and Detection' e-learning course.
- 4.3 The Cabinet Office has taken over the administration of the 2014/15 National Fraud Initiative exercise (NFI) from the Audit Commission to help detect fraud, overpayments and errors.

We participated in the 2012/13 NFI exercise and investigations are nearing completion and indicate a positive position for NCC.

Following the receipt of 2014/15 NFI Data Specifications at the end of April 2014, arrangements are being made to extract relevant data in a timely manner in order to meet the required deadline of 6 October 2014.

In February 2014 we participated in the Audit Commission NFI pilot scheme for data matching for personal budgets and results are reported in Appendix A.

- 4.4 We completed a review of Norfolk Museums income collection, banking and reconciliation processes; the audit commenced with unannounced cash checks, and included consideration of the management controls in place and how they support the Councils Anti-fraud and Corruption agenda in the prevention and detection of fraud.
- 4.5 We completed unannounced “Spot” visits on cash handling in 2013-14.
- 4.6 Internal Audit work does identify and specifically report control weaknesses in processes or systems that may increase the risk of fraud or corruption, however it provides only a very limited level of detection as sample sizes are generally small. Our Internal Audit planning is informed by best practice including the Fighting Fraud Locally Strategy. High Priority Findings are reported to Chief Officers Group and to this Committee to track their completion to deadlines that have been agreed.

5 Investigation

- 5.1 When allegations are made Norfolk Audit Services (NAS) undertake a preliminary assessment, in accordance with the NAS Fraud Response Plan, of the situation to assess what further action is required. There have been two new allegations where a preliminary assessment has been made for the five month period ended 31st May 2014.
- 5.2 Where requested by Chief Officers the team may use their experience and skills to support relevant ad-hoc disciplinary investigations or corporate complaints with a significant financial element, fulfilling an ‘Investigating Officer’ role. Lessons learned help inform the Council’s audit needs assessment planning. There were no such requests during the reporting period.
- 5.3 Preliminary assessments and investigations are managed by staff that are suitably trained or supervised. Investigations are subject to internal review by the Chief Internal Auditor who holds the CIPFA Certificate in Investigatory Practice. Training for Senior Auditors on specific aspects, such as investigative interview techniques, preparing statements and investigative reporting will be considered during 2014-15.

- 5.4 Investigations commenced from 2012 had an estimate of time to be spent and the time taken, potential results and actual results were to be reported to this committee. There is one completed investigation and the budget needed an extension due to additional witnesses being added to the terms of reference.

6 Benchmarking

- 6.1 The Cipfa benchmarking exercise will be re-instated reporting of 2013-14 activity.

7 The Plan

- 7.1 For each element of the Strategy there are various actions planned and these are set out below. Resources have been allocated to this plan from within the existing audit team and are considered adequate.

7.2 Prevention Actions include

- We have promoted the new Anti-Fraud and Corruption Strategy and associated policies during this reporting period and will continue you to do so.
- We completed an audit to review personal budget arrangements to ensure that safeguarding and whistleblowing arrangements are proportionate to the fraud risk, including strengthening links between the safeguarding team and Internal Audit;
- We are making preparations to provide relevant data on 6 October 2014 as part of the 2014/15 NFI exercise.
- We will be completing unannounced 'Spot' visits on cash handling in the 2014-15 audit planning
- audits of the 'Top 100 value' for Schools Procurement Cards will be reported in June 2014 through our schools newsletter.
- To continue to seek to improve our use of data, information and intelligence to further focus our counter-fraud work, in partnership with other teams within NCC, including the Strategic Risk team,
- continue to follow good practice and match the successes of others via networks and technical updates.
- investigate encouraging the introduction of Anti-Fraud and Corruption champions within departments,
- complete a member survey of anti-fraud and corruption arrangements during 2014,
- the Fraud Awareness course has been redesigned and will be re-launched. The Chairman of the audit Committee has suggested that this course should be undertaken by all employees and steps are in place to make this happen,
- The "Fraud Prevention and Detection" e-learning package for managers has been designed and is expected to be available before this committee meeting and a launch programme has been designed and will be implemented

- participate in the 2014 CIPFA benchmarking exercise to measure progress achieved during 2013-14, the Anti-Fraud benchmarking will be considered for any potential correlation of the proportion of incidents to the relative level of audit resources by March 2014
- complete a review of the internal audit web pages (both internet and intranet) anti-fraud and corruption content, particularly to promote the successes of the Strategy to raise awareness of the value it adds to the organisation, highlight specific aspects of the Strategy and provide examples on the Internal Audit website of how the Strategy affects behaviour at work; and
- continue to work with the wholly owned companies, including NorseCare Ltd, to maintain consistent prevention measures.
- further sessions are planned for ,The Anti-Fraud Briefing to a departmental management teams 'Red Flags and Rolled up Sleeves'

7.3 Detection Actions include resolution, with other departments of NCC of "matches" from the 2012-13 NFI exercise.

7.4 Investigations Actions include

- the a review of our investigation methodology and our reports, and
- a review the Fraud Response plans.

7.5 Sanctions Actions include to continue to progress, and where possible, complete loss recovery plans.

7.6 CIPFA have launched a consultation on a new counter fraud code. The code is voluntary and consists of high level principles of good counter fraud practice that they hope will be applicable across all the public services. The draft code, invitation to comment and a response form is available on the CIPFA website.

<http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-counter-fraud>

CIPFA is also planning more detailed guidance notes to support the implementation of the principles.

They would like to receive comments by **18 July**. They are hoping to receive comments from a range of sectors and from senior managers as well as counter fraud specialists

8 Impact of the Audit Committee's work and Adding Value

8.1 The Audit Committee plays a central role in providing good governance and ensuring that the Anti-Fraud and Corruption Strategy is effectively implemented. Our external auditors receive copies of final reports including investigations. Frauds over £10,000 are required to be

reported to the Audit Commission annually. We have reported two such findings during the period.

9 Equalities Impact, Resource and Other Implications

- 9.1 There are no direct implications with respect to equalities or resources with respect to this report and there are no other implications.
- 9.2 It is considered that with the proposed changes to Local Public Audit by the Government the scope of Internal Audit's work for public interest matters, such as fraud or corruption, may well become more significant as the External Auditor's role is limited through cost considerations to the mandatory and regulatory requirements.
- 9.3 Our resources for Anti Fraud Activity are set out in the Audit Plan agreed in January 2014. It includes 60 days for the "provision of advice and assistance", which is largely aimed at raising awareness and prevention. There is also provision of 40 days to provide specific audits that seek to detect Fraud. We have made no provision for investigations, although we may become involved in some during the course of the year and where we do we will in the first instance charge the relevant service, but there may be a charge on the contingency. Should there be a major investigation additional resource may be sought.

10 Section 17 - Crime and Disorder Act

- 10.1 Under section 17 of the Crime and Disorder Act the Council has a statutory general duty to take into account the crime and disorder implications of all of its work, and to do all that it reasonably can to prevent crime and disorder in Norfolk.
- 10.2 The Anti-Fraud and Corruption activity is directly aimed at fulfilling this statutory duty and this report sets out the activity for January to March 2014 and future plans with respect to this work.

11 Risk Management

- 11.1 This report has fully taken into account any relevant issues arising from the Council's policy and Strategy for risk management and any issues identified in the corporate and departmental risk registers.

12 Conclusions

- 12.1 This report has summarised the Anti Fraud and Corruption work of the Committee and officers between January 2014 and May 2014, confirmed that the approach is consistent with best practice, that it meets both internal measures and external inspection requirements and has demonstrated effectiveness.

- 12.2 The Committee continues to develop its role and impact on Anti-Fraud and Corruption governance through ongoing member training and the development of the Committee's work programme.
- 12.3 Elements of the on-going plan completed and in-progress are set out in paragraph 7 of this report. Anti Fraud and Corruption resources have been considered. Resources have been allocated to the plan from within the existing audit team and are considered to be adequate (9.2).
- 12.4 There was an annual report to this Committee detailing an assessment against the Local Government Strategy – Fighting Fraud Locally and the checklist provided in April 2014.
- 12.5 The risk of fraud and corruption is specifically considered in the Council's overall risk management process.
- 12.6 The Council has put in place controls to detect fraud and corruption and this is reported to the Committee.
- 12.7 The Council has put in place arrangements for Codes of Conduct, Register of Interests and a Gifts and Hospitality Register. Members and staff are aware of the disclosures that need to be made.
- 12.8 Suitable vetting arrangements are in place.
- 12.9 Weaknesses revealed by fraud are looked at and fed back to Departments to fraud proof systems.

13 Recommendations

- 13.1 The Audit Committee should consider
- the work to date and that there has been adequate progress,
 - the plan for future work as set out in section 7,

If you have any questions about matters contained in the report please get in touch with

Adrian Thompson
Chief Internal Auditor
Norfolk Audit Services
(01603) 222784
adrian.thompson@norfolk.gov.uk

If you need this Report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.



NFI Update May 2014

The National Fraud Initiative (NFI) is a national exercise every two years and requires data to be extracted for matching with other authorities data to identify possible fraudulent activities.

In April 2014 the data specifications for 2014/15 were issued. The Audit Commission has added Personal Budgets (Direct payments) to the mandatory data sets for 2014/15. Other mandatory data sets remain unchanged and include Payroll, Pensions, Private Residential Care Homes, Blue Badges, Concessionary Travel, Insurance Claimants and Trade Creditors standing data and payments history.

Arrangements are in place to identify appropriate staff within departments to provide data set information to ensure timely and complete submission of on 6 October 2014. Appropriate staff will also be identified and nominated within departments and to investigate matches,

In February 2014 NCC participated, at no cost, in the extended pilot for matching personal budget data against DWP deceased person's data. Fourteen potential matches were returned. All matches have been investigated and in two cases we were not aware that the Direct Payment User had died. As a result there is a potential recovery of £7,317.03 which the Direct Payments Team are actively pursuing.

Data matches for the 2012/13 NFI exercise are nearing completion and results have shown no irregularities, which may result in Fraud or Corruption, or lead to a financial or reputational loss to the Council

Conclusion:

Plans are in place to meet the 2014/15 NFI data specification and timetable requirements.

Participation in the extended Personal Budget pilot has given NCC the opportunity to consider its controls and processes as a result of the matching results, and could potentially lead to recovery of overpayments, which may have otherwise not been identified timely, and led to a loss of money to the authority.

No actual or suspected over payments , irregularities or frauds have been identified from the 2012/13 data matching exercise at the time of this report. Progress for investigating outstanding matches continues to be made in line with Audit Commission deadlines and guidance.

Amanda Howell, Senior Auditor, Norfolk Audit Services
(Key Contact for NFI)
01603 223445
amanda.howell@norfolk.gov.uk

Anti-Fraud Leaflet



Do you Suspect Fraud?



Guidance for
Employees, Members and
Contractors

Norfolk Audit Services

What is fraud?

'Fraud' can be defined as:

A dishonest action designed to facilitate gain (personal or for another) at the expense of the Council, the residents of Norfolk or the Public Sector.

This definition can cover various offences including: bribery, collusion, concealment of material facts, conspiracy, deception, embezzlement, extortion, false representation, forgery, giving or accepting of an advantage, misappropriation or theft.

Why should you read this leaflet?

Fraud costs the Public Sector billions of pounds per year and is a problem which undermines the stability and financial health of Local Authorities. It is not a victimless crime, but one which places additional costs on us as consumers, denies us the quality of public services which we pay for as taxpayers and undermines our job security and morale as employees.

One pound lost to fraud or corruption means one pound less for public services and the achievement of NCC ambitions.

How can you help?

NCC is committed to the eradication of fraud, corruption and bribery; and to the promotion of high standards of integrity – a **zero tolerance approach**.

Everyone within the Council has a responsibility for the prevention and detection of fraud and corruption; and any concerns should be reported.

How will your concerns be dealt with?

All concerns of fraud, or other irregularities, will be treated seriously and confidentially. You can choose to remain anonymous but this may significantly limit investigations into your concerns.

The Public Interest Disclosure Act 1998 will protect employees from any sanctions as long as you meet the rules when reporting concerns.

The act has rules for making a protected disclosure.

- You must disclose the information in good faith.
- You must believe it to be substantially true.
- You must not act maliciously or make false allegations.
- You must not seek personal gain.

Acting upon your suspicions the do's and don'ts

If you suspect fraud or malpractice within the workplace, there are few simple guidelines that should be followed:

Do:

- ✓ **Make an Immediate note of your concerns.**
Note all relevant details, such as what you saw or was said in a telephone or other conversations, the date, time and the names of any parties involved.
- ✓ **Convey your suspicions to someone with the appropriate authority and experience.**
This is usually your line manager or the Chief Internal Auditor (see Who can I contact?).
- ✓ **Deal with the matter promptly**
Any delay might cause the Council to suffer further financial loss.

Don't:

- ✗ **Do nothing.**
- ✗ **Be afraid of raising your concerns.**
You must not suffer any sanction from your employer as a result of voicing a reasonably held suspicion of fraud or malpractice.
- ✗ **Approach or accuse individuals directly.**
- ✗ **Try and investigate the matter yourself.**
There are special rules surrounding the gathering of evidence for use in criminal and other cases. Any attempt to gather evidence by people who are unfamiliar with these rules may destroy the case.
Internal Audit Staff are trained in handling investigations in a proper manner.
- ✗ **Share your suspicions with anyone other than those with the proper authority.**

Where can I find out more?

The Norfolk Audit Services web page www.norfolk.gov.uk/auditservices provides links to:

The Anti-Fraud and Corruption Strategy which sets out the Council's approach to Anti-Fraud and Corruption.

The Council's Whistleblowing Policy which outlines individuals responsibilities, and the processes to be followed in instances of suspecting fraud and corruption.

Who can I contact?

If you are worried about anonymity you can contact: **Public Concern at Work**
020 7404 6609 www.pcaw.co.uk

Your Manager

The Chief Internal Auditor

☎ 01603 222777
✉ chief.internal.auditor@norfolk.gov.uk
☒ Norfolk Audit Services, County Hall,
Martineau Lane, NORWICH, NR1 2DH

The Monitoring Officer/Practice Director NpLaw

☎ 01603 223415
✉ victoria.mcneill@norfolk.gov.uk
☒ Norfolk Public Law, County Hall,
Martineau Lane, NORWICH, NR1 2DH

NCC Customer Service Centre

☎ 0344 600 8020
✉ information@norfolk.gov.uk

Norfolk Pension Fund – Governance reports relevant to the Audit Committee

Report by the Interim Head of Finance

The purpose of this report is to brief members on Norfolk Pension Fund governance reports relevant to the Audit Committee in accordance with the Audit Committee's Terms of Reference.

The Audit Committee is recommended to consider and comment on the report and note that there are no exceptions to report.

1 Background

- 1.1 The Audit Committee's Terms of Reference include that 'Following presentation to the Pensions Committee and with due regard to any comments and observations made, consider the relevant Governance reports of the Norfolk Pension Fund'.
- 1.2 This report advises the Committee of relevant matters reported to the Norfolk Pension Fund Committee between January 2014 and June 2014.

2 Relevant governance reports of the Norfolk Pension Fund

- 1.3 The Norfolk Pension Fund Committee meet on a quarterly basis and during the year have received reports on audits and matters of governance which are considered relevant governance reports to be reported to and considered by the Audit Committee.

1.4 The relevant parts of the agendas are:

Pension Committee Date	Report
February 2014	Public Sector Pension Reform – Verbal report by the Interim Head of Finance and Head of Pensions
June 2014	Administration Report – Report by Interim Head of Finance and Head of pensions Risk Register – Report by Interim Head of Finance and Head of Pensions External Audit Plan Year End 31 March 2014 – Report by External Auditors - Appendix A to this report NAS Annual Internal Audit Report 2013-14 – Report by Interim Head of Finance, no exceptions were noted - Appendix B to this report

1.5 No significant governance matters were raised in the minutes of the February 2014 meeting.

1.6 The minutes of the June 2014 Pension Committee meeting have not been published at the time of reporting.

2 Section 17 Crime and Disorder Act

2.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.

2.2 Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

3 Risk Management

4.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

4 Equalities Impact Assessment and other implications

4.1 There are no direct equalities impacts or other implications arising from this report.

5 Conclusion

5.1 There are no exceptions to report to the Audit Committee.

6 Recommendation

6.1 The Audit Committee is recommended to consider and comment on the report and note that there are no exceptions to report.

Adrian Thompson
Chief Internal Auditor
01603 222784
e-mail: adrian.thompson@norfolk.gov.uk.

If you would like this report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson on telephone 01603 222784 or 01603 223833 (minicom) and we will do our best to help.



Audit Plan

Year end 31 March 2014

Norfolk Pension Fund

April 2014

Ernst & Young LLP



Building a better
working world



INVESTOR IN PEOPLE

Audit Committee & Pension Fund Committee
Norfolk County Council
County Hall
Martineau Lane
Norwich
Norfolk
NR1 2DH

April 2014

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit & Pension Fund Committees with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for Norfolk Pension Fund and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you during April 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Peter O'Neill
For and behalf of Ernst & Young LLP
Enc

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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with our audit opinion on whether the financial statements of Norfolk Pension Fund ('the Pension Fund') give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Pension Fund.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit. We also outline our plans to address these risks.

Details of our audit process and strategy are set out in Section 3.

2. Financial statement risks

We outline below our assessment of the financial statement risks facing Norfolk Pension Fund, identified through our knowledge of the entity's operations and discussion with members and officers.

During discussions, we will seek to validate this with you.

Significant risks (including fraud risks)	Our audit approach
Management override	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; and ▶ Evaluating the business rationale for significant unusual transactions.

In addition, our areas of audit emphasis have been identified as:

- ▶ Completeness, existence, ownership and valuation of year end investments.
- ▶ Completeness, occurrence and measurement of investment income and change in market value.
- ▶ Completeness, existence, ownership and valuation of cash balances.
- ▶ Completeness, measurement and timeliness of contributions.
- ▶ Occurrence and measurement of pensions.
- ▶ Presentation of and disclosures in the financial statements are compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We will provide an update to the Audit & Pension Fund Committees on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Pension Fund's financial statements.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

3.2 Audit process overview

Our approach is to assess the Pension Fund's level of internal controls and to place reliance upon those controls where appropriate and efficient to do so. In doing so, we will look to rely on the work of Internal Audit as much as possible whilst complying with the requirements of auditing standards.

Processes

Our initial assessment of the key processes across the entity has identified the contributions process where we will seek to test and rely on key controls. Benefits payable, investments and cash balances will be tested substantively at year end.

We will also undertake work in accordance with the Audit Commission's IAS 19 protocol in order to provide information to the auditors of the relevant admitted bodies of the Norfolk Pension Fund, on which reliance can be placed when auditing the admitted bodies' financial statements.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken at Norfolk Pension Fund. We will reflect the findings from these reports, together with reports from other work completed in the year, in our Audit Results Report, where issues are raised that could impact the year-end financial statements.

Use of experts

In producing the financial statements, management will place reliance on the work undertaken by a small number of experts. We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We also anticipate relying on the work of the experts commissioned by the Audit Commission in respect of the work undertaken by the pension scheme actuary appointed by Norfolk Pension Fund.

Where appropriate, we may utilise the specialist EY pensions resource to help us to form a view on judgments made in the pension fund financial statements.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements, in particular disclosures relating to financial instruments.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Pension Fund's corporate performance management and financial management arrangements and reporting on these arrangements.

3.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

We have determined that overall materiality for the financial statements of Norfolk Pension Fund is £24.8 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £1.25 million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

3.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Pension Fund is £27,099. Further information is provided in Appendix A.

3.5 Your audit team

The engagement team is led by Peter O'Neill who leads EY's pension's assurance team. Peter is supported by Philip King who is responsible for the day-to-day direction of audit work, and who is the key point of contact for your finance and pension teams. Peter is planning to retire later this year at which point we will update the Audit & Pension Fund Committees on the new engagement partner for Norfolk Pension Fund.

Rob Murray is the director leading our overall engagement with Norfolk County Council and our relationship with the Audit Committee.

3.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the Audit and Pension Fund Committee cycles in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit Committee and Pension Fund Committee in September incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter for Norfolk County Council and Norfolk Pension Fund in order to communicate to the Council, Fund and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning:	April 2013		Audit Fee letter
Risk assessment and setting of scopes	January to April 2014	Audit Committee & Pension Fund Committee	Audit Plan
Testing of routine processes and controls	March/April 2014		
Year-end audit	June to July 2014		
Reporting	September 2014	Audit Committee & Pension Fund Committee	Report to those charged with governance Audit report (including our opinion on the financial statements). Audit completion certificate
	October 2014		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

We have considered the relevant guidance and confirm there are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

We have considered the relevant guidance and confirm there are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

We have considered the relevant guidance and confirm there are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

We have considered the relevant guidance and confirm there are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Peter O'Neill, your audit engagement partner and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2012/13
	£'000	£'000
Total Audit Fee – Code work	27,099	27,099

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ Our accounts opinion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ Effective control environment and system controls.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

UK required communications with those charged with governance.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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**Norfolk Audit Services
Annual Internal Audit Report 2013-14
on the Norfolk Pension Fund**

Report by the Interim Head of Finance

This report introduces and summarises the Chief Internal Auditor's Annual Internal Audit Report for 2013-14 and the key messages it contains, in accordance with relevant regulations.

It is recommended that the Pensions Committee should consider the Annual Internal Audit Report 2013-14 (Appendix A), including the 2014-15 internal audit plan and the key messages that:

- Based on an analysis of the audit work carried out and reports issued, the Interim Head of Finance can assure the Committee that the adequacy and effectiveness of the systems of internal control including the arrangements for the management of risk during 2013-14 was acceptable and is therefore considered sound
- internal audit was adequate and effective during 2013-14 for the purpose of the latest regulations
- the work of Norfolk Audit services (NAS) for the year and the assurance provided assists the Committee to reasonably assess the risk that the Financial Statements are not materially mis-stated due to fraud. The risks of Fraud and Corruption have been reviewed and planning and resources are considered adequate.

1 Introduction

- 1.1 NAS is responsible for the internal audit of the Norfolk Pension Fund. Its role is to ensure that there is evidence of compliance with the Pension Fund's objectives, rules and procedures. Where such compliance does not exist, NAS makes recommendations to ensure that proper controls are in place. Some audits carried out are based on the perceived risk to the Pension Fund as assessed using the NAS risk model, whilst others are requested by the Pension Fund.
- 1.2 The External Auditors are responsible for the external audit of the Norfolk Pension Fund. NAS has a very good working relationship with the External Auditors and NAS work is planned and co-ordinated to ensure that there is no duplication of work, the "audit burden" is minimised and that an efficient "joint" assurance service is provided to the Pension Fund. The collective assurance roles of internal audit,

other internal assurance providers and external audit are coordinated and optimised.

2 NAS Annual Report

- 2.1 The Annual Internal Audit Report appears at Appendix A. The key message included in the report is that the adequacy and effectiveness of the system of internal control including the arrangements of the management of risk within the Pension Fund is “acceptable” and is therefore considered sound.
- 2.2 The Pension Fund relies on some systems provided by the County Council as host to the fund and the Council’s own Internal Audit Plan contains audits that cover those main financial systems of the Council that feed into the Annual Statement of Accounts. Those audits are reported separately to the County Council’s Audit Committee. Together these completed audits provide assurance on the adequacy and effectiveness of internal controls for the Pension Fund.
- 2.3 The report also comments briefly on the adequacy and effectiveness of the arrangements for anti-fraud and corruption.
- 2.4 A proposed audit plan for 2014-15 has been prepared on a risk assessed basis in consultation with the Head of Norfolk Pension Fund and has been considered by the Interim Head of Finance and the External Auditor (see section 5 of the report). The plan takes account of the significant changes taking place for Pensions Funds and the associated risks and controls.

3 Risk Management

- 3.1 This report has fully taken into account any relevant issues arising from the Pension Fund’s policy, strategy and procedures for risk management and any issues identified in the Pension Fund’s risk register. There is a good relationship between internal audit and those responsible for monitoring and reporting on risk.

4 Equalities Impact, Resource and Other implications

- 4.1 Resources available for the provision of internal audit in 2013-14 have been assessed as adequate, including the resources deployed to address the risk of fraud and corruption within the organisation.
- 4.2 Consequently, there are no equalities, resources or other implications arising from this report.

5 Section 17 Crime and Disorder Act

- 5.1 Under section 17 of the Crime and Disorder Act, the County Council and its Committees, including the pensions Committee has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.

- 5.2 Internal controls help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risk of detection and prosecution and reducing the rewards from crime.

6 Recommendation

6.1 It is recommended that the Pension Committee should consider the Pension Fund Annual Internal Audit Report for 2013-14 (Appendix A), including the 2014-15 internal audit plan and the key messages that:

- Based on an analysis of the audit work carried out and reports issued, the Interim Head of Finance can assure the Committee that the adequacy and effectiveness of the systems of internal control including the arrangements for the management of risk during 2013-14 was acceptable and is therefore considered sound
- internal audit was adequate and effective during 2013-14 for the purpose of the latest regulations
- The work of NAS for the year and the assurance provided assists the Committee to reasonably assess the risk that the Financial Statements are not materially mis-stated due to fraud. The risks of Fraud and Corruption have been reviewed and planning and resources are considered adequate.

Adrian Thompson
Chief Internal Auditor
(01603) 222784
Email: adrian.thompson@norfolk.gov.uk

If you need this report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson on telephone 01603 222784 or fax 01603 222781 and we will do our best to help.



Appendix A
Norfolk Pension Fund
Norfolk Audit Services (NAS)
Annual Internal Audit Report 2013-14

Section Numbers	Contents
1	Introduction
2	Background and Audit Opinion Explanation
3	Key Messages
4	Pension Fund Internal Audit Work
5	2014-15 Audit Plan
6	Review of effectiveness of systems of Internal Audit
7	Quality Assurance
8	Engaging Specialists
9	Annual Governance Statement
10	Responsibilities in relation to fraud
11	Acknowledgement
12	Appendix - Audit Plan

1. Introduction

- 1.1 The Interim Head of Finance is responsible for the administration and financial accounting of the Pension Fund. The Pensions Committee is formally briefed by the Interim Head of Finance and Head of Norfolk Pension Fund on a quarterly basis.
- 1.2 NAS produces this annual report for the Pension Committee. This Annual Internal Audit Report details the overall opinion on the system of internal control including the arrangements for the management of risk and details the level of audit coverage for the year.
- 1.3 During the year internal audit made detailed reports on every audit to the relevant Manager, including where necessary, an audit opinion and an agreed action plan.
- 1.4 Internal Audit's role is to ensure that there is evidence of compliance with the Pension Funds objectives, rules and procedures. Where such compliance does not exist, internal audit makes recommendations to ensure that proper controls are in place. Some audits carried out are based on the perceived risk to the Pension Fund as assessed using the internal audit risk model, whilst others are requested by the Pension Fund.
- 1.5 The approach NAS takes to its role is set out in its own Terms of Reference, Code of Ethics and Strategy, as approved by the County Council's Audit Committee in January 2014.
- 1.6 The Internal Audit team, as part of the system of internal control, has provided an effective, efficient and economic function during the year, supporting Pension Committee, the Pension Fund Management Team and the service.

2. Background and Audit Opinion Explanation

- 2.1 The County Council's Finance Shared Service exists to provide a financial advisory, transactional and support service to the Council and its customers. The Shared Service is principally focused on delivery of its services to Norfolk County Council, including the Norfolk Pension Fund.
- 2.2 Internal Audit is a Centre of Expertise within the Finance Shared Service and aims to support the Council's strategic ambitions and objectives, including those of the Norfolk Pension Fund. Work is planned and performed with reference to these strategic ambitions.
- 2.3 During the year internal audit reported as follows:
 - Detailed reports to the relevant Chief Officers
 - Monthly reporting to the Chief Officers' Group on high priority findings from audits
 - Quarterly summary reports to the Chief Officers' Group
 - Quarterly reports to the Audit Committee and
 - Relevant topical reports to the Audit Committee as requested

- Annual report to the Pensions Committee
- Half yearly update to the Pensions Committee

- 2.4 As part of the overall Good Governance Framework, the Interim Head of Finance provides an annual opinion on the adequacy and effectiveness of the system of internal control including risk management. This informs the reporting of the Annual Governance Statement for the Fund.
- 2.5 The Chief Internal Auditor's overall audit opinion, that the adequacy and effectiveness of the system of internal control including risk management for the Norfolk Pension Fund is 'Acceptable' and therefore considered 'sound', is based on work undertaken during the year.
- 2.6 The collective assurance roles of internal audit, other internal assurance providers and external audit are coordinated and optimized. The resourcing of the internal audit function is considered adequate.

3. Key messages

- 3.1 The key message for the Pension Fund for 2013-14 are that:
- Based on an analysis of the audit work carried out and reports issued, NAS can assure the Pension Committee that the adequacy and effectiveness of the system of internal control including the arrangement for the management of risk for the Pension Fund during 2013-14 was 'Acceptable' and therefore considered sound. Sufficient audits were performance to support my opinion.
 - The Fund's systems of internal audit were effective during 2013-14 for the purposes of the latest regulations.
 - NAS has received overall positive feedback on audits during the year ended 31 March 2014.
 - As a result of the audits undertaken during the year the Interim Head of Finance and Head of Norfolk Pension Fund clearly understand which of the Pension Fund control systems are operating satisfactorily and where and why strengthening is required.
 - Our self assessment confirms that the Internal Audit function is compliant with the 2013 UK Public Sector Internal Audit Standards. Our CIPFA benchmarking confirms that we provide a value for money service compared with other Counties.
- 3.2 The work of NAS continues to evolve to cover all areas of risk as well as traditional financial audit. Some audits are carried out based on the perceived risk to the Pension Fund as assessed using the NAS risk model, the Pension Fund risk register whilst others are requested by the Pension Fund Management Team. For more information on how NAS approach audits please see the NAS Annual Report to Norfolk County Council 2013-14.

3.3 Other significant points to note were that:

- The Pensions Management Team undertake fraud preventative work to reduce the risk of fraud and corruption within the Pension Fund. Further details can be found at part 10 of this report.
- All NPF staff received an up to date information security and confidentiality policy as part of the appraisal process conducted during April to June 2013 and undertake Data Protection training.
- A risk register is regularly reviewed by the Management Team and presented to the Pensions Committee every six months.

4. Pension Fund Internal Audit Work

- 4.1 The internal audit work was performed through the Annual Internal Audit Plan approved by the then Head of Finance and the Head of Pensions at the start of the year.
- 4.2 Details of planned and finalised audits are given in the table below, we are pleased to report that all fieldwork for the audits was completed and draft reports issued before the year end:

Audits for 2013/14	Final report issued
Data Quality	✓
Dynamic currency hedging arrangements	✓
Internal control reports	✓
Information Security	✓
National LGPS Procurement frameworks	✓
Member benefit payments (payables)	8 April 2014
Review of Website on-line services for Employers	Postponed: Slippage of the NPF implementation plan for employers has resulted in this being moved to the 2014-15 audit plan.

- 4.3 It is considered that the above work (4.2) provides a reasonable basis to draw a representative opinion as on a risk assessed basis a sufficient amount of work has been completed.
- 4.4 Assurance on risk management has been gained through the risk register being reviewed and monitored by the Pension Fund and Pension Committee on a regular basis.

- 4.5 On a risk based assessment the total number of planned audit days was reduced from 107 to 92 due to one low risk audit; Review of Website on-line services for Employers being postponed and moved to 2014-15 audit plan. The actual days delivered was further reduced to 66 days by efficiencies within the planning, organisation and delivery of the audits.

5. 2014-15 Audit Plan

- 5.1 A review of internal audit needs and the development of a medium term internal audit plan were undertaken during 2013-14. A three year Internal Audit plan (see Appendix A) was agreed in consultation with the Head of the Pension Fund and was considered by the Interim Head of Finance and External Audit. This three year plan was reviewed as part of the 2014-15 planning process and has informed the Internal Audit plan for 2014-15.
- 5.2 Taking into consideration the continued economic conditions faced by the Pension Fund and after giving full consideration to the risks after reviewing the audit needs assessment and three year plan (5.1), we believe that sufficient audit coverage can be achieved with 80 days, however the Internal Audit needs for 2014-15 will be re-assessed during the year as part of next years planning process. The plan takes account of the significant changes taking place for Pensions Funds and the associated risks and controls.
- 5.3 The following audits are proposed for the 2014-15 audit plan:
- Governance arrangements assurance
 - Transaction Life Cycles; Receivables (contributions, Additional Voluntary Contributions (AVCs), Additional Pension Contributions (APCs), transfer values, other receivables and recharges)
 - NFI (National Fraud Initiative)
 - Local Government Pension Scheme legislative changes from April 2014 (retirements and leavers)
 - Replacement Pension and payroll System Assurance that key controls are in place and changeover managed effectively.
 - Review of website On-Line services - new system and process for Employers
 - Investment Management – Performance Monitoring
 - Private Equity – processes for procedures for drawing down distributions etc

6. Review of effectiveness of systems of internal audit

- 6.1 The Accounts and Audit (Amendment) (England) Regulations 2011 require the effectiveness of the Pension Funds systems of internal audit to be reviewed annually.
- 6.2 The method used in 2013-14 to review the effectiveness of the Pension Funds systems of internal control was to review information on the effectiveness of the Pension Funds management processes and corporate control functions of NCC (legal, financial (including External Audit reporting), health and safety and human resources) as provided by self assessment.

- 6.3 The Pension Funds system of internal audit during 2013-14 was sound, adequate and effective in accordance with the requirements of the Accounts and Audit (England) Regulations 2011.

7. Quality Assurance

- 7.1 A Quality Strategy for Internal Audit is in place, which includes a Quality Assurance Improvement Programme. This was used to review completed audit projects during the year to ensure they met quality standards. Internal Audit procedures are subject to continuous review and are updated during the year. No significant exceptions were noted from that work.
- 7.2 Internal Audit reports progress on the audit plan and feedback from customer satisfaction questionnaires to the Chief Officer Group and the Audit Committee quarterly. NAS has received overall positive feedback from the Pension Fund audits during the year ended 31 March 2014.

8. Engaging Specialists

- 8.1 NAS did not engage any specialists from external sources to deliver audits for the Pension Fund.

9. Annual Governance Statements

- 9.1 NAS internal audits undertaken for the Pension Fund provide assurances on the adequacy and effectiveness of internal controls and risk management for the Pensions Committee. The Pensions Committee will receive and approve its own Annual Governance Statement for 2013-14.

10. Responsibilities in relation to Fraud

- 10.1 Under section 17 of the Crime and Disorder Act the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 10.2 Internal Audit work helps to deter crime, or increase the likelihood of detection by making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime. Internal audit work is planned in order to cover the higher risk areas including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits.
- 10.3 An action plan has been agreed to continue the ongoing development of a strong anti-fraud culture within the Council. The Pension Fund has adopted the County Council's Anti Fraud and Corruption Strategy and culture. The Audit Committee receives six monthly update reports on the Anti Fraud and Corruption Strategy. The Council meets the requirements of the International Standard on Auditing (ISA 240).

- 10.4 Actual fraud cases that have been fully investigated would be reported to the Council's Audit Committee. The Chairman would be informed of any significant fraud which had implications for this Committee. There have been no such cases during the last year. The Pension Committee are therefore aware of the arrangements in place for Chief Officers to report about fraud to the Committee. The Committee and the Council's Audit Committee would therefore have knowledge of actual or suspected fraud and the actions that Chief Officers are taking to address it if it were required.
- 10.5 The Anti Fraud and Corruption Strategy, Whistle blowing Strategy, Money Laundering Policy and the Standards of Conduct are promoted through staff newsletters and on the Council's Intranet site as well as through training for non financial managers. Through the training, inductions and briefings provided by the Head of Pensions, the Committee will be aware of the arrangements Chief Officers have in place for communicating with employees, members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour.
- 10.6 The Pensions Management Team have undertaken fraud preventative work to reduce the risk of fraud and corruption within the Pension Fund, examples include taking part in the annual Club Vita mortality data matching exercise and the annual data matching with the Department of Work and Pensions, checking of child's pension entitlements, posting of monthly payslips and annual benefits statements to identify goneaways.
- 10.7 NPF staff carry out monthly mortality matching for pensioners. This involves checking data with national registers just before payroll runs to avoid any unnecessary overpayments for recently deceased pensioners.
- 10.8 All NPF staff received up to date information security and confidentiality policies as part of the appraisal process April to June 2013 and undertake Data Protection training.
- 10.9 Online services continue to be developed to improve data quality on submission. This has further enhanced security for the communication of personal information between employers/members and the Fund.

11. Acknowledgement

- 11.1 The Internal Audit team has worked with the Pension Fund to deliver assurance on the adequacy of their internal controls and risk management and I would like to thank all the managers and staff of the Pension Fund for their co-operation and assistance during the year.

Adrian Thompson
Chief Internal Auditor
01603 222784
Email: adrian.thompson@norfolk.gov.uk

If you need this report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson on telephone 01603 222784 or 01603 223833 (minicom) and we will do our best to help.



APPENDIX A

Members are asked to consider and endorse the Internal Audit Plan for 2013-17.

Norfolk Pension Fund - Internal Audit Plan 2014-15.

AUDIT UNIVERSE	AUDIT PLAN					
	2013-14		2014-15		2015-16	2016-17
	Actual No. of days	Cost £	Planned No. of days	Cost £	Planned No. of days	Planned No. of days
Governance and Strategy						
Risk Management. 2012-13					10	
Governance arrangements assurance (included in half yearly report to Pensions Committee December 2013). 2013-14	2	616	4	1,232		
Compliance with CIPFA code of practice on public sector pensions finance knowledge and skills – Watching brief.						10
Total for Governance and Strategy	2	616	4	1,232	10	10

AUDIT UNIVERSE	AUDIT PLAN					
	2013-14		2014-15		2015-16	2016-17
	Actual No. of days	Cost £	Planned No. of days	Cost £	Planned No. of days	Planned No. of days
Admin processes and systems						
Transaction Life Cycles:						
Receivables - contributions, (AVCs, APCs) transfer values, other receivables, recharges. 2011-12			10	3,080		10
Review of Life Certificates. 2011-12.					10	
NFI	0.5	154	2	616	1	2
Payables -regular payroll benefit payments, lump sums, transfers, death in service, other. 2013-14	13	4,004			10	
Data Quality: record keeping and record management. 2013-14	8	2,464				
National LGPS Procurement Frameworks. 2013-14	10	3,080				
LGPS legislative changes from April 2014 (retirements/leavers)			15	4,620		
Systems:						
Business Continuity Planning / Disaster Recovery. 2012-13					10	
Information Security – unannounced visit. 2013-14	7	2,156				
Replacement Pension and Payroll System– Assurance that key controls are in place and the changeover has been managed effectively			15	4,620		
Review of website On-Line services - new system and process cfwd from 2013-14.			5	1,540		
Plus other audits to be agreed within this area.					9	28
Total Admin Processes and Systems	38.5	11,858	47	14,476	40	40
AUDIT UNIVERSE	AUDIT PLAN					

	2013-14		2014-15		2015-16	2016-17
	Actual No. of days	Cost £	Planned No. of days	Cost £	Planned No. of days	Planned No. of days
Investment Management						
Investment management – Performance Monitoring. 2011-12			10	3,080		
Pension Fund Bank Account Reconciliation. 2012-13					10	
Dynamic Currency Hedging arrangements. 2013-14	10	3,080				
Internal Control reports. 2013-14	6	1,848				
Private Equity –Processes and procedures for drawing down distributions etc			10	3,080		
Plus other audits to be agreed within this area.					10	20
Total Investment Management	16	4,928	20	6,160	20	20
Audit Management						
Advice, planning and monitoring meetings						
Committee reporting						
Training and Seminars						
Total Audit Management	9	2,772	9	2,772	10	10
Total number of audit days in the plan and costs	65.5	20,174	80	24,640	80	80

N.B. we are mindful there will be changes to the Committee structure from April 2015 and further information regarding how this should be implemented will be available later in the year.

We will keep a watching brief prior to implementation and obtain agreement if, based on a risk assessed basis, it is deemed necessary to undertake any audit assurance work prior to the implementation.

Work Programme

Report by Interim Head of Finance

The Committee should consider the programme set out below. The September 2014 meeting will be preceded by training for Members on the Statement of Accounts and Annual Governance Statement approval.

September 2014	
NAS Quarterly Report Quarter ended 30 June 2014	Interim Head of Finance
Risk Management Report	Interim Head of Finance
Statement of Accounts 2013-14 for Approval	Interim Head of Finance
Letter of Representation for Statement of Accounts 2013-14, Annual Governance Report and Draft Annual Audit Letter	Interim Head of Finance/External Auditors
Internal Audit Plan for the second half of 2014-15	Interim Head of Finance
Audit Committee Work Programme	Chairman
January 2015	
NAS Quarterly Report Quarter ended 30 September 2014	Interim Head of Finance
Risk Management Report	Interim Head of Finance
Norfolk Audit Services: Review of Internal Audit Terms of Reference, Code of Ethics and Strategy	Interim Head of Finance
A Half yearly update of the Audit Committee	Chairman
Internal Audit Plan for the first half of 2015-16	Interim Head of Finance
Anti-Fraud and Corruption Update	Interim Head of Finance

Certificate of Claims and Returns Annual Report 2013-14	Interim Head of Finance/External Audit
External Audit Update Report	Interim Head of Finance/External Audit
Audit Committee Work Programme	Chairman
April 2015	
NAS Quarterly Report Quarter ended 31 December 2014	Interim Head of Finance
Risk Management Report	Interim Head of Finance
External Audit - Audit Plan	Interim Head of Finance/External Audit
Audit Committee Work Programme	Chairman

Officer Contact:

If you have any questions about matters contained in this report please get in touch with:

Adrian Thompson, Chief Internal Auditor

01603 222784 e-mail: adrian.thompson@norfolk.gov.uk



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