

# Audit Committee

Date: **Monday 29 July 2019**

Time: **10am**

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

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

Membership:

Cllr Ian Mackie – Chairman  
Cllr Judy Oliver – Vice-Chairman

Cllr Steffan Aquarone  
Cllr Colin Foulger  
Cllr Chris Jones  
Cllr Haydn Thirtle  
Cllr Karen Vincent

**Please note that the meeting will be preceded by an Audit Committee Member Training Session commencing at 9.15am in the Edwards Room.**

**Under the Council's protocol on the use of media equipment at meetings held in public, this meeting may be filmed, recorded or photographed. Anyone who wishes to do so must inform the Chairman and ensure that it is done in a manner clearly visible to anyone present. The wishes of any individual not to be recorded or filmed must be appropriately respected.**

## A g e n d a

**1 To receive apologies and details of any substitute members attending**

**2 Minutes**

To confirm the minutes of the meeting held on 18 April 2019.

Page **5**

**3 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, to a greater extent than others in your division

- Your wellbeing or financial position, or
- that of your family or close friends
- Any body -
  - Exercising functions of a public nature.
  - Directed to charitable purposes; or
  - One of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union);

Of which you are in a position of general control or management.

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

**4 To receive any items of business which the Chairman decides should be considered as a matter of urgency**

**5 Annual Statement of Accounts and Annual Governance Statement 2018-19**

Report by the Executive Director of Finance & Commercial Services.  
Annex 2 – Statement of Accounts

Page **15**

**To follow**

**6 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2019**

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Report by the Executive Director of Finance & Commercial Services

- Norfolk County Council EY Audit Results Report 2018-19
  - Norfolk Pension Fund EY Audit Results Report 2018-19
- To follow  
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- 7 Audit Letters of Representation 2018-19** Page **88**  
Report by the Executive Director of Finance & Commercial Services.
- 8 Anti-Fraud, Bribery and Corruption Progress Report.** Page **105**  
Report by the Executive Director of Finance and Commercial Services;  
and Chief Legal Officer
- 9 Norfolk Audit Services Report for the Quarter ending 30 June 2019** Page **146**  
Report by the Executive Director of Finance & Commercial Services
- 10 Work Programme** Page **155**  
Report by the Executive Director of Finance & Commercial Services

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

Date Agenda Published: 19 July 2019



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**Audit Committee**  
**Minutes of the Meeting held on Thursday 18 April 2019 at 2pm**  
**in the Edwards Room, County Hall, Norwich**

**Present:**

Mr I Mackie – Chairman

Mr S Aquarone

Mr A Jamieson

Mr S Morphew

Mr H Thirtle

Mrs K Vincent

Mr A White

**1 Apologies for Absence**

- 1.1 An apology for absence was received from Mr C Foulger (Mr A White substituted).

**2 Minutes**

- 2.1 The minutes from the Audit Committee meeting held on 31 January 2019 were agreed as an accurate record by the Committee and signed by the Chairman.

**3 Declaration of Interests**

Mr H Thirtle declared an other interest in agenda item 5 (Norfolk Pension Fund Governance Arrangements 2018-19) as he was in receipt of a Norfolk County Council Pension and Chairman of the Broads Authority, who as an employer, subscribed to the Norfolk Pension Fund.

Mrs K Vincent declared an interest in agenda item 5 (Norfolk Pension Fund Governance Arrangements 2018-19) as she was an ex-employee of Norfolk County Council and a member of the Norfolk Pension Fund.

Mr S Morphew declared an other interest as his wife was a Member of the Norfolk Pension Fund.

Mr A Jamieson declared an interest as a representative of the Norse Shareholder Committee.

**4 Items of Urgent Business**

- 4.1 There were no items of urgent business, although the Chairman wished to place on record his thanks to all NCC Officers for the security arrangements they had put in place at public meetings.

- 4.2 The Chairman confirmed that the Terms of Reference for the Audit Committee under the new governance arrangements would remain the same. The exact details could be found in the latest working draft of the Constitution as described in item 13 of the agenda.

## **5 Norfolk Pension Fund Governance Arrangements 2018-19**

- 5.1 The Committee received the report by the Executive Director of Finance & Commercial Services outlining the ongoing governance arrangements of the Norfolk Pension Fund.

- 5.2 The following points were noted in response to questions from the Committee:

- 5.2.1 When the LGPS Guidance was published, one important feature of the ACCESS (A collaboration of Central, Eastern and Southern Shires) pooling arrangement was that each Fund should retain sovereignty for its own asset allocation, which was why the 11 Funds in the Access Pool remained singly responsible for their own investment strategies. The Pension Committee continued to make key decisions, deciding how much to invest in asset classes, with the Access Pool providing the investment vehicles to implement those decisions.

- 5.2.2 The drop in the number of NCC members of the Norfolk Pension Fund was mainly due to the number of schools that had moved from Norfolk County Council control to become academies. The Chief Investment Manager advised that there were no concerns about the fall in the NCC membership. Overall membership of the scheme had held up, which was particularly attributed to auto enrolment and the staffing practices of academy schools.

The Chief Investment Manager added that of the 369 contributing employers, approximately 250 were academy schools which was a real growth area.

- 5.2.3 It was requested that the purpose of the Pension Fund and the roles of Norfolk County Council as Administering Authority and the Pensions Committee be captured in the minutes of the meeting as follows:

Norfolk County Council was defined as an Administering Authority under the statutory local government pension scheme (LGPS) regulations. Under these regulations it was charged with administering a funded pension arrangement under statutory regulations for its own employees and those of other eligible employers in its appropriate geographic area (generally the county of Norfolk). The Fund was currently administered on behalf of around 400 participating employers and nearly 90,000 scheme members. Scheme members may be current employees, employees that had left an eligible employer but were yet to draw their pension, those in receipt of pension or dependents of former members. Collectively, this group were the beneficiaries of the fund.

The County Council delegated LGPS pension matters to the Pensions Committee. The Pensions Committee had a fiduciary responsibility to the beneficiaries of the scheme and a duty of care to the employers that sponsored it and meet the substantial balance of costs over and above the employees contributions. As a funded pension arrangement, the Norfolk Pension Fund held a substantial pool of investment assets (currently circa £3.8bn). These

assets were held solely for the purpose of securing and administering the accrued pension rights of the beneficiaries. They could not be used for any other purpose and the Administering Authority (via the Pensions committee) must be aware of its fiduciary responsibility when investing these assets on a long term basis. The assets secured the pension benefits of the beneficiaries and the investment returns earned supported some of the costs of providing the scheme that would otherwise be directly borne by the participating employers.

- 5.3 The Committee considered and **agreed** the report, which detailed Norfolk Pension Fund's governance arrangements, being fully compliant with legislative requirements, regulatory guidance and recognised best practice.

## **6 Norfolk Audit Services Report for the Quarter ending 31 March 2019.**

- 6.1 The Committee received the report by the Executive Director Finance & Commercial Services setting out how Internal Audit's work would contribute to the new priorities through the activity set out in the Policy & Resources Committee Service Plan.

- 6.2 The Committee considered the report and **RESOLVED** to **agree**:

- the overall opinion on the effectiveness of risk management and internal control was 'Acceptable' and therefore considered 'Sound'.
- Satisfactory progress with the traded school audits and the operation of the Audit Authority for the France Channel England Interreg Programme.
- The Plans to strengthen corporate development themes.

## **7 Norfolk Audit Services Annual Report for 2018/19**

- 7.1 The Committee received the report by the Executive Director of Finance & Commercial Services setting out how the Annual Report concluded on the overall opinion of the adequacy and effectiveness of the Council's framework of risk management, governance and control, following the completion and outcomes of the audit opinion and traded school work.

- 7.2 The Committee considered the report and **RESOLVED** to **agree**:

- Our opinion on the overall adequacy and effectiveness of the County Council's framework of risk management, governance and control for 2018/19 was 'Acceptable'.
- The audit service provided by NAS continued to conform with the International Standards for the Professional Practice of Internal Auditing (Public Sector Internal Auditing Standards (PSIAS)) and complied with the Accounts and Audit Regulations 2015.
- The Annual Governance Statement (AGS) for 2018/19 would refer to the report and would be reported to Audit Committee in July 2019 for approval.

## **8 Monitoring Officer Annual Report 2018-19**

- 8.1 The Committee received the report by the Chief Legal Officer summarising the internal governance work carried out by the Monitoring Officer and Deputy

Monitoring Officer in 2018/19 and providing assurance that the organisation's control environment, in the areas which were the responsibility of the Monitoring Officer, was adequate and effective. The annual report supported the assurance statements included in the draft Annual Governance Statement for 2018/19.

8.2 The key messages in the Monitoring Officer's report included:

- That there had been no 'reportable incidents' during 2018/19;
- That the systems of internal control administered by the Monitoring Officer were adequate and effective during 2018/19 for the purposes of the latest regulations;
- That there were no findings of breach of the Council's Code of Conduct during 2018/19.

8.3 The Committee wished to place on record its thanks to Abdus Choudhury, Deputy Monitoring Officer, for his work in producing the very comprehensive report.

8.4 The Committee considered the report and **RESOLVED** to **agree** the contents and the key messages in the Executive Summary and Appendix A of the report.

## **9 Risk Management Annual Report 2018/19**

9.1 The Committee received the report by the Executive Director of Finance & Commercial Services presenting the Annual Risk Management report 2018/19.

9.2 The Committee considered the report and **RESOLVED** to **agree** that the key messages be reported to full Council, in accordance with the Council's Financial Regulations which are part of the Constitution:

- The overall opinion on the effectiveness of Risk Management for 2018/19 is 'Acceptable' and therefore considered 'Sound'.
- The Risk Management Function complied with the Accounts and Audit (England) Regulations 2015 and recognised Public Sector Internal Audit Standards.
- The Annual Governance Statement for 2018/19 would refer to the report and would be reported to Audit Committee in July 2019 for approval.
- The Risk Management Policy had been refreshed, with a Risk Management Strategy currently being developed from this.

## **10 Risk Management Report**

10.1 The Committee received the report by the Executive Director of Finance & Commercial Services providing it with the corporate risk register at April 2019, along with an update on the Risk Management Strategy, and other related matters, following the latest review conducted during March 2019.

10.2 The following points were noted in response to questions from the Committee:

10.2.1 With regard to Risk RM014a (The increasing demand for SEND assessments coupled with the amount spent on home to school transport at significant

variance to predicted best estimates), the Business Design and Change Lead, Children's Services advised that costs were driven by the need to provide transport for some disabled children who had very complex needs, requiring vehicles with specialist facilities to transport them to school. Part of the overall spend on transport was driven by the preferences expressed by parents for their child to attend a particular school as well as the needs of a child in the school environment at whatever school they attended.

Children's Services Management Team regularly reviewed the risk and as part of the review would raise any concerns at a corporate level if necessary.

- 10.2.2 Following the approval of the motion on climate change by Council at its meeting on 15 April 2019 the relevant Select Committee would be responsible for reviewing the risks and spend on SEN transport.
- 10.2.3 With regard to Risk RM006 (The potential risk of failure to deliver our services within the resources available over the next 3 years commencing 2018/19 to the end of 2020/21, the Executive Director of Finance & Commercial Services reassured the Committee that Norfolk County Council was required to balance its budget at the end of the financial year and this would be achieved.
- 10.3 The Committee received a presentation from the Business Design and Change Lead, Children's Services and Finance Business Partner (Children's Services) about the work carried out using the £2m Transformation Fund, the high needs block and the planned use and impact of the council decision to invest £120m in capital funding. A copy of the presentation is attached at Appendix A.
- 10.4 Following the presentation, in response to questions from the Committee, the following points were noted:
  - 10.4.1 There was no change to the threshold in the quality of help offered to families in need, and certainly no suggestion of cases being offloaded to other services. The programme had been set up to identify where help was needed and respond to those needs, in an attempt to prevent cases escalating.
  - 10.4.2 Any offer of financial help to families would depend on individual circumstances. There were a number of families who received some support to enable them to remain together and to avoid children becoming looked after, and Norfolk County Council was actively facilitating extended families and communities who could offer help and support, often without much or any additional cost. Where it was necessary for children to be looked after, the option of care by extended family members was explored where it was appropriate, including the use of Special Guardianship and Kinship Fostering Orders, with financial support dependent upon individual circumstances.
  - 10.4.3 The Transformation Programme was a very wide-ranging programme with a comprehensive portfolio of targets and measures, although the ultimate measure was ensuring the right outcomes for families. One good indication of a successful outcome was settled children and families who no longer needed help and support from Norfolk County Council.
  - 10.4.4 Some work would be carried out to try to break down the target and measure information into tangible results and circulate this to the Committee.

- 10.5 The Committee thanked James Wilson and Dawn Filtness for attending the meeting.
- 10.6 The Committee considered the report and **RESOLVED** to **agree**:
- The changes to the corporate risk register, the progress with mitigating the risks, and
  - The scrutiny options for managing corporate risks;
  - The heat map of corporate risks;
  - The background information to the report;

## **11 Governance, Control and Risk Management of Treasury Management**

- 11.1 The Committee received the report by the Executive Director of Finance & Commercial Services. The Corporate Accounting Manager gave assurance that Treasury was well managed in accordance with best practice and relevant regulations.
- 11.2 The Committee agreed an additional recommendation that the Treasury Management Panel should continue and should report to Cabinet under the new Governance arrangements.
- 11.3 The Committee considered and **agreed** the report and that the Treasury Management Panel should continue, reporting to Cabinet under the new Governance arrangements.

## **12 Counter Fraud, Bribery and Corruption Audit Committee Annual Report**

- 12.1 The Committee received the report by the Chief Legal Officer providing it with an annual summary against the criteria set out in the NCC Anti-Fraud, Bribery and Corruption Operational Strategy (v2017) (The Strategy) based upon the work undertaken during the reporting period in accordance with the agreed activity plan.
- 12.2 The Committee wished to place on record its thanks to the Investigative Auditor for his work in producing the report.
- 12.3 Mr I Mackie moved, seconded by Mr A White, that the Committee include an additional recommendation that all office-based staff undertake e-learning on fraud, bribery and corruption. The proposal was **agreed**.
- 12.4 In response to a question on the value of the staff survey carried out in 2018 to gain information from staff about their views and knowledge of the Council's anti-fraud provision, Members felt that little value could be given to the survey results due to the low number of responses received. The Committee was advised that the Investigative Auditor would carry out a further survey in the future.
- 12.5 The Committee considered the report and **RESOLVED** to **agree**
- the Anti-Fraud, Bribery and Corruption Audit Committee Annual Report set out in Appendix A of the report.

- To recommend that all office-based staff undertake e-learning on fraud, bribery and corruption.

### 13 Yearly Update of the Audit Committee

- 13.1 The Committee received the report by the Executive Director of Finance & Commercial Services summarising the work of the Audit Committee from the 1 April 2018 to 31 March 2019 and confirmed that during 2018-19 its function had been consistent with best practice, demonstrated the impact of its work and explained how it added value.
- 13.2 The Committee considered the report and **RESOLVED** to:
- **agree** that the arrangements were satisfactory and
  - **note** that the Committee had terms of reference that were consistent with guidance and best practice

### 14 Work Programme

- 14.1 The Committee received and **noted** the report by the Executive Director of Finance and Commercial Services setting out the Committee's work programme.

The meeting ended at 3.30 pm.

Chairman



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## Appendix A

## Safer Children and Resilient Families Presentation to Audit Committee

Project Sponsor: Sara Tough, Executive Director of Children's Services  
Business Lead: James Wilson, Business Design and Change Lead

April 2019

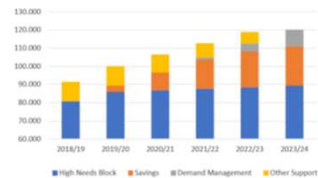


## Pressures: Special Educational Needs & Disability

Do nothing is not an option...

Financial modelling collates the various factors that contribute to ongoing forecast pressure and factors in cost avoidance assumptions from the capital investment business case to Policy and Resources Committee October 2018.

Illustration as to how the capital investment business case, alongside other transformative actions, could lead to a more stable financial position which balances the High Needs Block.



The capital programme will deliver a substantial proportion of the necessary savings by changing the market of special education provision. It will need to be accompanied by a major programme of demand management in order to achieve a sustainable model.



## Pressures on the Children's System: Safeguarding



**ADCS**  
Leading Children's Services

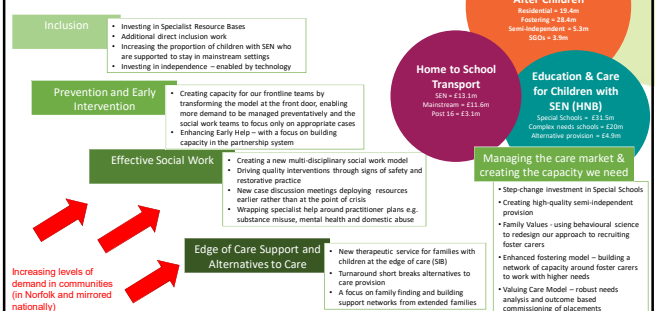
ADCS: Safeguarding Pressures Phase 6  
[http://adcs.org.uk/safeguarding/articles/safeguarding\\_pressures\\_phase6](http://adcs.org.uk/safeguarding/articles/safeguarding_pressures_phase6)

In Norfolk our rate of children in care has stabilised in recent months – but we are now seeing greater complexity in the needs of the children we do look after

The demand for early help and social work remains substantial



## Children's Transformation Strategic Approach



## Pressures: Special Educational Needs & Disability

In Norfolk we have higher than average numbers of children with special educational needs and the number of referrals for assessment and specialist placements has risen significantly – especially in the last 12 months

Investment has grown but a lack of early intervention has meant demand for special school provision continues

£139.5m

£850m

18%

8%

Pressure identified by 68 DCS's in their High Needs Block Spend relating to rising numbers of children in Special Schools

Despite £850m growth in High Needs Block budget allocations across the country since 2013/14

Increase in children educated in specialist provision – with a similar decrease in the numbers in mainstream schools

Of children with SEN gain expected standard in Reading, Writing and Maths at KS2 compared to 71% non SEN

The model is breaking...

...& is not sustainable

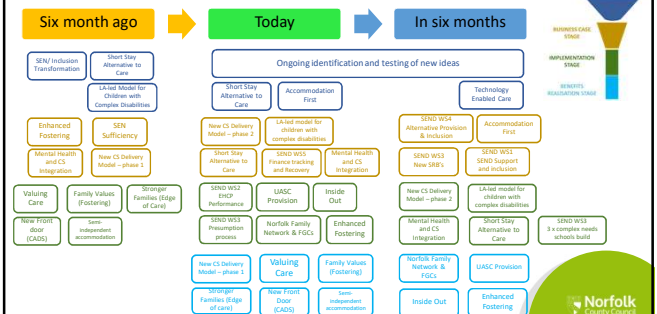
Statutory demand is rising

And outcomes are poor

More children with disabilities surviving due to advances in medical science  
Transforming care driving more children towards ourselves who would previously have been health  
Cost to meet the needs of one CYP with the most complex needs can be half a million...



## Delivering projects to realise our transformation strategy

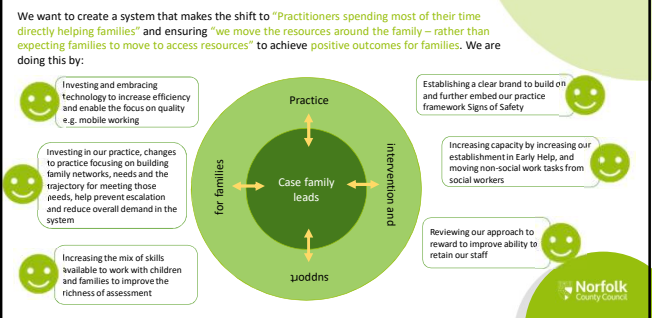




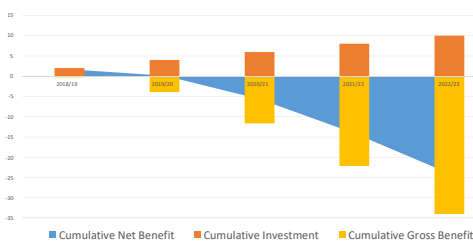
## Children's Transformation Investment



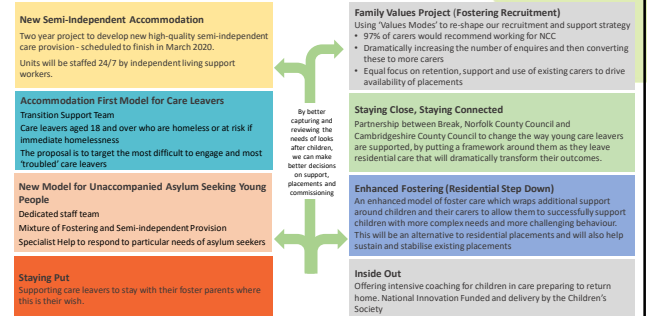
## Changing our delivery model to increase quality and reduce demand



## Cumulative benefit from social care transformation investment



## Creating the care options which allow teams to succeed for children



## New Front Door Model

### What?

- Made up of experienced senior social workers
- Dedicated number for professionals to call straight through to a named social worker
- Working in collaboration to ensure the right support first time
- No more written referrals (but does not prevent written records being kept)
- Where children are at risk of harm, or likely risk of harm, MASH continue cross agency checks

### Why?

- Focusing on outcomes to ensure that children and families get right support first time
- Reduce unnecessary assessments improving quality of social work for children at greatest risk
- Working in partnership with the whole system to improve the experience of our partners

Based on research by expert Professor David Thorpe

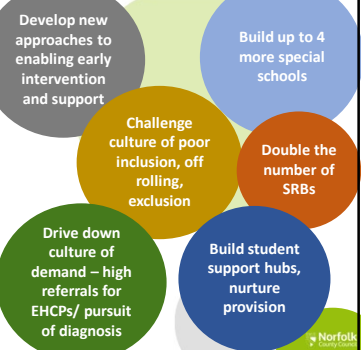
"Most successful implementation of any authority"

Welcomed by partner agencies

Norfolk County Council

## SEND Transformation

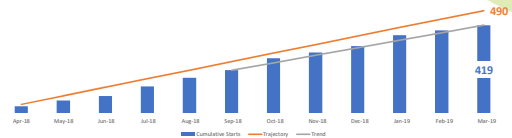
- We have embarked on a major transformation of the SEN system
- We are investing £120m to transform the education structural landscape
- We are also engaging the whole system in the redesign of support
- We are investing £3m in increasing capacity, improving inclusion



## Impact

## Fewer Children are coming into care

Cumulative Starts: Children Entering Care

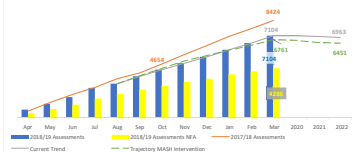


The number of children entering care has been lower in 2018/19 than in 2017/18 – suggesting early signs of success in our demand management strategies

However the number of children exiting care continues to be below anticipated levels and we have recognised the need to accelerate this element of the programme.

## Strong Impact on demand at the 'front door'

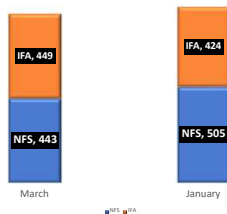
Assessments - Current Trends & Trajectories with Intervention



Since our new model at the front door was implemented in Oct 2018, demand progressing to social care activity through the Children's Advice and Duty Team has significantly reduced as planned

## The mix of placements is already changing

Foster Placements as at 31st Mar 2018 vs. 31st Jan 2019



We have achieved the placement mix targets we set for 2018/19. Highlights include:

- Almost twice as many foster placements made between April & December 2018 (63% of all foster placements made) were with in-house foster placements (NFS), compared with Independent Fostering Agencies (IFA) (37% of all foster placements made).
- At the end of January there were an additional 62 in-house foster placements & 25 fewer children placed with independent fostering agencies
- In addition our new approach to recruitment has already seen almost a 50% increase in enquiries in January this year compared to last January

# Audit Committee

Item No 5

<b>Report title</b>	<b>Annual Statement of Accounts and Annual Governance Statement 2018-19</b>
<b>Date of meeting</b>	<b>29 July 2019</b>
<b>Responsible Cabinet Member</b>	<b>Councillor Andrew Jamieson (Cabinet Member for Finance)</b>
<b>Responsible Director</b>	<b>Simon George (Executive Director of Finance and Commercial Services)</b>
<b>Executive Summary</b> This report presents the Council's Annual Statement of Accounts and Annual Governance Statement 2018-19.  The following appendices are attached: <ul style="list-style-type: none"><li>• Appendix 1: a narrative summary of the accounts and Annual Governance Statement.<ul style="list-style-type: none"><li>○ Annex 1: Annual Governance Statement for 2018-19</li><li>○ Annex 2: 2018-19 Statement of Accounts (to follow)</li></ul></li></ul> <b>Recommendations</b>  Audit Committee is asked to: <ul style="list-style-type: none"><li>• note that, following annual reviews, the systems of internal control and internal audit are considered adequate and effective;</li><li>• consider and approve the Annual Governance Statement;</li><li>• consider and approve the Council's 2018-19 Statement of Accounts.</li></ul>	

## 1. Background and Purpose

- 1.1. This report and associated annexes present the Council's Annual Governance Statement and Annual Statement of Accounts 2018-19.

## 2. Proposals

- 2.1. Approval of the Annual Governance Statement and Statement of Accounts by the Audit Committee is required before the external audit can be completed and the accounts published.

## 3. Impact of the Proposal

- 3.1. Once approved, it is anticipated that the Council's external auditors, Ernst and Young, will be in a position to complete their audit and the Council will publish its accounts before the statutory deadline of 31 July 2019.

## **4. Evidence and Reasons for Decision**

- 4.1. The attached report (Appendix 1) contains:
- A narrative summary of the financial statements which have been subject to external audit by Ernst & Young; and
  - An introduction to the proposed Annual Governance Statement 2018-19, which provides assurance that the organisation's governance framework, including the system of internal control and internal audit, is adequate and effective for the purpose of the relevant regulations.

The Executive Director of Finance and Commercial Services anticipates that the Council will receive an unqualified audit opinion.

## **5. Alternative Options**

- 5.1. In order to meet the Council's statutory accounts publication deadline, no viable alternative options have been identified to the recommendations in this report.

## **6. Financial Implications**

- 6.1. The Statement of Accounts is presented in the format required for statutory external reporting requirements.

The attached report summarises changes to the Accounts as a result of the implementation of revised financial reporting requirements, and summarises any material changes which have been made during the audit period.

Council has reported net liabilities of over £300m at 31 March 2019. At the time of writing, the amount is subject to a potential adjustment for an outstanding actuarial valuation of pension fund liabilities.

The net liability in the Council's balance sheet is due primarily to net pension liabilities, and does not affect the general fund underspend.

The final position for all departments as reported to Cabinet on 20 May 2019 was a net underspend of £0.087m. This has not changed as a result of the preparation of the Statement of Accounts. The underspend has been transferred to general balances and is reflected in the financial statements.

## **7. Resource Implications**

- 7.1. There are no direct staff, property or IT implications arising from this report.

## 8. Other Implications

### 8.1. Legal Implications:

In order to fulfil obligations placed on chief finance officers by regulations 6 and 10 of the Accounts and Audit Regulations 2015, the Executive Director of Finance and Commercial Services must prepare an annual governance statement, and publish an approved statement of accounts no later than 31 July.

### 8.2. Equality Impact Assessment

In setting the 2019-20 budget, the Council consulted widely. Impact assessments are carried out in advance of setting the budget, the latest being published as “Budget proposals 2019-2020 Overall Summary: [Equality & rural impact assessment report](#)”.

The Council’s net budget is unchanged at this point in the financial year and there are no additional equality and diversity implications arising out of this report.

## 9. Risk Implications/Assessment

- 9.1. The Council’s Corporate Risk Register provides a full description of corporate risks, including corporate level financial risks, mitigating actions and the progress made in managing the level of risk. A majority of risks, if not managed, could have significant financial consequences and Chief Officers have responsibility for managing their budgets within the amounts approved by County Council.

## 10. Recommendation

- 10.1. Recommendations are set out in the executive summary to this report.

## Officer Contact

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

Name	Telephone	Email address
Simon George	01603 222400	<a href="mailto:simon.george@norfolk.gov.uk">simon.george@norfolk.gov.uk</a>
Harvey Bullen	01603 223330	<a href="mailto:harvey.bullen@norfolk.gov.uk">harvey.bullen@norfolk.gov.uk</a>
Howard Jones	01603 222832	<a href="mailto:howard.jones@norfolk.gov.uk">howard.jones@norfolk.gov.uk</a>



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## **Appendix 1**

### **Narrative Summary of Annual Statement of Accounts and Annual Governance Statement 2018-19**

#### **1. Introduction**

- 1.1 As part of the formal process of closing the County Council's 2018-19 accounts, Members are required to consider and approve the Annual Governance Statement attached as Annex 1, and to approve the Statement of Accounts ("the accounts"), Annex 2 (to follow), for publication on 31 July. This process of approval is included within the Committee's terms of reference.
- 1.2 The Council's external auditor, Ernst & Young, has examined the accounts. Their examination is substantially complete. There is a separate report from the Auditors on this agenda.
- 1.3 This report summarises the contents of the Annual Governance Statement, and of the accounts, and highlights any significant issues arising from the audit or as a result of officer review during the audit period.

#### **2. Background**

- 2.1 The Local Government England and Wales Accounts and Audit Regulations 2015 issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Council's Statement of Accounts.
- 2.2 The Executive Director of Finance and Commercial Services is satisfied that the Statement of Accounts has been prepared in accordance with both the current Code of Practice on Local Authority Accounting in Great Britain ("the Code") and the Service Reporting Code of Practice for Local Authorities ("SeRCOP") supported by International Financial Reporting Standards ("IFRS") and other statutory guidance. The Statement of Accounts is required to present a true and fair view of the County Council's financial position at 31 March 2019 and also the income and expenditure for the financial year.
- 2.3 The Executive Director of Finance and Commercial Services reported the final revenue and capital expenditure positions for 2018-19 and the provisions and reserves held at 31 March 2019 to Cabinet on 20 May 2019.
- 2.4 The net underspend of £0.087m reported to Cabinet on 20 May 2019 has been transferred to General Balances. Details of movements on this balance are shown in paragraph 5.8 below.

- 2.5 A public inspection period of 30 working days commencing 3 June was publicised on the Norfolk County Council website in accordance with relevant regulations. The following questions were answered:
- One question related to the contingent liability note which notes uncertainty relating to the final cost compensation for NDR land. The question asked for details of amounts set aside, and payments made in 2018-19.
  - A second question was received asking for the reasons for movements in unusable reserves, and the extent to which they relate to the pension fund liability.
- 2.6 The draft 2018-19 Statement of Accounts, dated 31 May, has been publicly available on the Council's website since publication and throughout the public inspection period.
- 2.7 Ernst & Young have performed a detailed examination of the accounts, and will present their Audit Results Report to this meeting. They will only be able to formally conclude the audit, and issue their report and certificate once they have received a copy of the Statement of Accounts as approved by this Committee.
- 2.8 For legal reasons relating to pension fund liabilities, and amended assumptions relating to pension fund asset valuations, the reported pension liability has increased by approximately £20m since the 31 May draft accounts. Details are given in paragraph 6.3 below.
- 2.9 Any further audit amendments to these accounts between the date they are added to this agenda and the meeting will be notified to members of the Audit Committee at the meeting.
- 2.10 The Accounts and Audit Regulations require that the 2018-19 Statement of Accounts must be published by 31 July.

### **3. Annual Governance Statement**

- 3.1 Regulations require that:
- the Council must conduct a review at least once a year of the effectiveness of its system of internal control, including internal audit;
  - findings of this review should be considered by the Council;
  - the Council must approve an Annual Governance Statement; and
  - the Annual Governance Statement must accompany the Statement of Accounts.
- 3.2 For Norfolk County Council the Audit Committee undertakes these duties on behalf of the Council.
- 3.3 The Executive Director of Finance and Commercial Services reviews the effectiveness of the system of internal control throughout the year and reports annually to the Audit Committee. The Executive Director of Finance and Commercial Services reported to the Audit Committee on 18 April 2019 that in his opinion the effectiveness of risk management and internal control for 2018-19 is 'Acceptable' and therefore considered 'Sound'.
- 3.4 The Accounts and Audit Regulations require the preparation of an Annual Governance Statement, signed by the Leader and the Managing Director. Guidance for the preparation, review and reporting of the Annual Governance Statement has been issued by CIPFA /SoLACE and has been used in its preparation.
- 3.5 The draft Annual Governance Statement ("AGS") has been published along with the draft Statement of Accounts on the Council's website. The final AGS will be published alongside the audited Statement of Accounts.
- 3.6 The AGS confirms that, during the 2018-19 financial year, and up to the date the accounts are published, overall Corporate Governance arrangements and internal controls in the Council were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls need to be developed or improved are known about and are being actioned.



#### 4. Changes to the Presentation of the Accounts

- 4.1 The Council continues to prepare its Statement of Accounts under International Financial Reporting Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.
- 4.2 In accordance with the CIPFA Code, note 5 “Expenditure and Funding Analysis” analyses amounts charged to the general fund for each of the Council’s Directorates. The required format does not give a specific reconciliation to the net cost of services and the reported underspend. This reconciliation is as follows:

	£m
Net transfers from earmarked reserves – opening	76.159
(note 23) closing	(75.355)
Movement in reserves	<b>0.804</b>
Underspend reported to Cabinet 20 May 2019	(0.087)
Net (Surplus)/Deficit (note 5, Expenditure and Funding Analysis)	0.717

- 4.3 There have been two significant changes to accounting standards since 2017-18 which have had an impact on the presentation of information in the statement of accounts: IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.
- 4.4 Financial instruments are any contract which results in a financial asset arising in one entity and a financial liability arising in another. This can result in very complex accounting, but in practice normally relates to items such as trade debtors, trade creditors, cash balances, investments, shares and loans.

The rules for accounting for financial instruments changed in 2018-19 with IFRS 9 replacing IAS 39.

The main effect of the change has been to increase the accounting value of one financial asset on the balance sheet: NCC’s shares in Legislator companies have been revalued from £1.238m (cost) to £3.247m (fair value). Although this has had an impact on the Council’s balance sheet, it does not affect the general fund. This is because the Council has made an irrevocable accounting election which will protect the general fund from any future losses in the value of these shares.

Some reclassifications between headings have been required, and the impact of this is shown in Note 27. IFRS 9 has also had an impact on the way that the bad debt provision is calculated, although this has not had an impact on the value of bad debts reflected in the accounts.

- 4.5 IFRS 15 has resulted in note 9 to the accounts, which sets out the amounts included in the accounts in relation to Revenue Contracts with Service Recipients. There has been no material impact of adopting IFRS 15 on the

Council's accounts for 2018-19 because the Council's financial procedures encourage invoicing in advance for one off goods or services or, in respect to ongoing contracts, the Council invoices at regular intervals based on contract specifications, with any year end contract liabilities fulfilled in the next financial year.

- 4.6 In the course of their work last year, the auditors identified issues in relation to the calculations behind PFI disclosures which did not warrant amending for 2017-18. These calculations have been amended for 2018-19.
- 4.7 To improve the readability of the accounts, the notes to the accounts have been grouped to reflect the core statements, and a table of contents listing the notes has been added.

## **5. Statement of Accounts – Content**

- 5.1 The accounts are set out in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19. The only significant change to generally recognised accounting practices affecting the Council since 2017-18 is the adoption of IFRS 9 Financial Instruments which adopts new classification and measurement requirements for financial assets, a new expected credit loss impairment model and new disclosure requirements as a consequence of the adoption of the standard. These changes are reflected in Note 27 of the accounts and there has been no impact on the General Fund.
- 5.2 The Statement of Accounts includes the Movement in Reserves Statement ("MIRS"), the Comprehensive Income and Expenditure Statement ("CIES"), a Balance Sheet and Cash Flow Statement.  
In addition to the Norfolk County Council single entity accounts, the Statement of Accounts includes a summary of the Fire fighters' pension scheme, Norfolk County Council's Group Accounts, and the Norfolk Pension Fund Accounts.

The Group Accounts incorporate the financial results, where material, of companies controlled by the Council including the Norse Group and Independence Matters CIC.

### Explanatory Foreword

- 5.3 The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters in the accounts.

### Statement of Responsibilities

- 5.4 This statement sets out the respective responsibilities of the Council and the Executive Director of Finance and Commercial Services in relation to the production of the final accounts.

### Independent Auditors' Report

- 5.5 This report will set out the External Auditor's opinion in respect of the Statement of Accounts. Based on an assumption that the Audit Committee

will agree to approve the Statement of Accounts, the Council expects to receive unqualified audit opinions in respect of the Council's accounts and the pension fund accounts.

#### Movement in Reserves Statement

- 5.6 This statement shows the movement during the year of all the Council/Group's usable and unusable reserves and shows the aggregate change in its net worth.
- 5.7 As well as any surplus or deficit on the provision of services, the statement includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.
- 5.8 Movements on the General Fund Balance are as follows:

	£m
Actual General Balances at 1 April 2018	<b>19.536</b>
Net underspend 2018-19	0.087
<b>General Balances at 31 March 2019</b>	<b>19.623</b>

At County Council on 12 February 2019, the Executive Director of Finance and Commercial Services presented a Statement on the Adequacy of Provisions and Reserves 2019-22. This recommended that general balances should be £19.536m through 2019-20. As a result of the net underspend in 2018-19, general balances at 1 April 2019 exceed the recommended amount.

#### Comprehensive Income and Expenditure Statement

- 5.9 The Comprehensive Income and Expenditure Statement shows the resources generated and consumed by the Council, including income and expenditure associated with each major service heading.
- 5.10 Balance Sheet  
The Balance Sheet statement sets out the financial position of the Council at 31 March 2019. The statement shows the balances and reserves at the Council's disposal, its long-term borrowing, and the fixed assets and net current assets employed. The principal movements on the balance sheet are described below.
- 5.11 The net book value of Property Plant and Equipment (note 24) is broadly in line with 2017-18. Reductions in land and building are due mainly to schools converting to academy status. Decreases in assets under construction have been more than offset by increases in infrastructure assets due to the Norwich Northern Distributor being completed in April 2018 in the early part of the financial year.

- 5.12 The value of investment properties (note 26), which are those held to generate an income, such as the Council's share of the Airport Industrial Estate, has decreased by £0.3m due mainly to a reduction in the fair value measurement of the properties.
- 5.13 Long term investments have increased slightly by £1.2m since last year, due to the reclassification of shares in the airport companies. The total of Cash and Cash Equivalents (note 29), has increased by £53m due to an increase in the proportion of moneys held in money market accounts rather than long-term deposits. Short term investments have decreased by £37m for broadly the same reason. Overall cash deposits and investments have increased as new PWLB debt has been taken on to take advantage of the historically low interest rates.
- 5.14 The levels of short term debtors (note 28) have increased by £50m due mostly to a £31m increase in prepayments. This increase in prepayments is due to £34m of the £50m pre-payment to the pension fund being carried forward as a pre-payment. The pre-payment was approved at Policy and Resources Committee on 24 September 2018. The levels of long-term debtors have seen a modest increase but remain broadly in line with 2017-18.
- 5.15 Amounts classed as Asset Held for Sale (note 30) have decreased significantly since 2017-18. Property valued at just under £4.3m was sold during the year and have been replaced with properties valued at £1.7m actively awaiting sale at the end of the year, in accordance with a policy of generating capital receipts and reducing property maintenance and management costs.
- 5.16 Total long-term liabilities shown on the face of the balance sheet have increased by £0.3bn to £2.1bn, mainly due to an increase in pension net liabilities of over £200m, and £100m new PWLB borrowing which has been taken to take advantage of historically low interest rates.

The Council's net pension liabilities (Local Government Pension Scheme and Fire-Fighters Pension Scheme) have increased to £1.4bn (note 40, net liability arising from defined benefit obligation). The Council's net Pension Liability is one of the largest individual figures in the accounts. Over the past few years the liability has been volatile, with annual increases and decreases of over £200m. For reasons explained in paragraph 5.22, and quantified in paragraph 6.3 below, the reported liability has increased by approximately £20m since the 31 May draft accounts.

The IAS19 reporting standard requires the Fund Actuary to set the Discount Rate (the rate used to value liabilities) by reference to market bond yields. All things being equal, as the discount rate fall, the value attributable to liabilities will increase. As shown in the table below, the assumed rate for discounting scheme liabilities has seen little change, and therefore the balance sheet position for a typical employer is likely to be similar at 31 March 2019 compared to the previous year.

Period ended	31 March 2018 % p.a.	31 March 2019 % p.a.
Pension increase rate	2.4%	2.5%
Salary increase rate	2.7%	2.8%
Discount rate	2.6%	2.4%

The IAS19 report used for statutory accounting purposes is prepared using a different set of assumptions to the Funding calculation used in the Triennial Valuation to determine employer contribution rates, and to which a stabilisation mechanism is applied to smooth volatility in the discount rate over the funding period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The Council's overall reported Net Assets are negative at -£281.6m. This figure to a large extent, depends on two unrelated factors, one being the valuation of local authority assets, most of which cannot be sold or exchanged for value, with the other being the net pension liabilities.

The overall reported negative net assets figure has no direct impact on the Council's general fund.

#### 5.17 Cash Flow Statement

The cash flow statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows any increases or decreases in cash and cash equivalents as noted in paragraph 5.13 above.

#### 5.18 Notes to the Core Financial Statements

The first note to the Accounts is the Statement of Accounting Policies which summarises the accounting rules and conventions that have been used in preparing the accounts.

5.19 The Code requires that some specific notes have to be included in the Statement of Accounts, e.g. disclosure of related party transactions. In addition, other notes may be added in order that a reader of the accounts has sufficient information to have a good understanding of the Council's activities.

5.20 The "Adjustments between accounting basis and funding basis under legislation" (note 5) reconciles the total comprehensive income and expenditure recognised in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

5.21 The adjustments in note 5 are applied to the Movement in Reserves Statement. The Statement of Accounts General Fund Balance of £94.978m

is the sum of £19.623m General Balances figure reported on 20 May 2019 to Cabinet, plus the earmarked reserves of £75.355m listed in note 23.

#### Contingent liabilities / Events after the Reporting Period

- 5.22 One new narrative Contingent Liability was added to the 31 May 2019 draft accounts note 50, Contingent liabilities, under the heading “Transition Arrangements Age Discrimination”. For the final accounts this has been moved to Note 50 Events after the Reporting Period as additional information has been received regarding age discrimination arising from public sector pension scheme transition arrangements which has allowed the impact to be quantified, explained in the accounts as follows:

A legal ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements, where changes have been made to the benefit structure. Court of Appeal judgements were made in cases affecting judges pensions (e.g. McCloud) and firefighter pensions (e.g. Sergeant), which had previously been considered by employment tribunals. The rulings have implications for the Local Government Pension Scheme since similar changes and transitional arrangements were implemented.

Post the balance sheet date the UK Government requested leave to appeal to the Supreme Court but this was denied. The rejection of the appeal enabled the Government Actuary Department (GAD) to develop an estimation technique and this has been made available by GAD. The Fund’s actuary has adjusted GAD’s estimate to better reflect the Norfolk Pension Fund’s local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to total liabilities (i.e. the increase in active members’ liabilities expressed in terms of total membership) could be 0.4% higher as at 31 March 2019, an increase of approximately £5m.

The impact of this adjustment is shown in paragraph 6.3 below.

#### Fire Fighters’ Pension Fund

- 5.23 This statement summarises the pension arrangements for the fire fighters’ pension scheme.

#### Group Accounts

- 5.24 As well as publishing its accounts as a single entity, Norfolk County Council must also publish group accounts which incorporate the financial results, where material, of companies and other entities controlled by the Council – primarily the Norse Group of companies and Independence Matters CIC.
- 5.25 The group accounts are shown as a separate section in the statement of accounts. The group accounts comprise group movement in reserves, group comprehensive income and expenditure, the group balance sheet and a group cash flow statement. It also includes notes to the group accounts where these differ or include information in addition to the single entity accounts.

- 5.26 Since the draft accounts published on 31 May 2019 the following adjustments have been made to the group accounts:
- Adjustments of £27.7m were made to both gross income and expenditure in the group accounts to correct the treatment of inter-company transactions. This had no effect on net expenditure or the group balance sheet.
  - Late actuarial adjustments resulted in the Norse Pension net liability increasing by £2.7m, reducing group net assets accordingly.

#### Pension Fund Accounts

- 5.27 The detailed Pension Fund Accounts which are incorporated into this Statement of Accounts have been considered by the 9 July 2019 Pensions Committee which:

- Received and considered the draft 2018-19 Annual Report and Accounts of the Norfolk Pension Fund, attached at Appendix A.
- considered the Ernst and Young (EY) ISA 260 Report.
- endorsed the letter of representation.

At the meeting the Chair of the Pension Committee and Executive Director of Finance and Commercial Services signed the letter of representation on behalf of the Pension Fund. This letter and subsequent amendments are addressed in a separate report to this Committee.

## **6. Accounting adjustments, corrections and changes since the 31 May draft**

- 6.1 Since the publication of the draft accounts on 31 May, and during the audit, officers and Ernst & Young have identified a number of adjustments to correct non-material errors or to enhance disclosures within the financial statements and associated notes.
- 6.2 With the agreement of the auditors, adjustments and corrections have been made where appropriate, and a number of disclosures added or enhanced, for example where information was not available until after the publication of the May draft accounts.

### **Material/significant adjustments to the core statements since the 31 May draft accounts**

- 6.3 An overstatement of pension fund investment balances was identified by the auditors during their audit of the pension fund. This had an overall impact of £20.5m in the pension fund accounts which have been adjusted accordingly. The impact of this adjustment on Norfolk County Council has been to increase the pension net liability by £9.448m.

In addition, the fund actuary has produced a revised estimate of the NCC pension fund liabilities to better reflect local assumptions following recent age discrimination judgements (see paragraph 6.22 above). At the time of writing the impact of this has been to further increase the pension net liability by £10.318m.

An additional late adjustment is expected in relation to the Firefighters Pension Scheme which will be reflected in the final accounts.

**Impact on the general fund and usable reserves.**

The changes above have, when combined, had a material impact on the statutory accounts, but have no impact on the Council's general fund or usable reserves.

**Other adjustments and error corrections**

**6.4 Large adjustments**

After 31 May, a compensating adjustment of £1.084m between long-term and short-term liabilities was made to correctly reflect PFI liabilities. This had no impact on net assets.

**Other adjustments**

As a result of audit questions and internal work, a number of minor corrections have been made to address errors and inconsistencies, and to improve presentation of the single entity, pensions and group accounts.

All adjustments requested by the auditors have been made, and no further changes are anticipated.

**Overall impact of adjustments since the May draft**

- 6.5** The net liabilities of the Council in the May draft were £282m, as shown in both the Balance Sheet and the Movement in Reserves Statement. Following the actuarial changes shown in paragraph 6.3 above, at the time of writing net liabilities are £301m. Final adjustments will be made and reported as soon as the final actuarial estimates are received.

**Impact of faster closing**

- 6.6** Since 2017-18, 'faster closing' has had a significant impact on the speed at which the draft and final accounts have had to be prepared. This has been a challenge for both officers and auditors.

The earlier deadline has resulted in a greater use of estimates, better focus on year-end close down procedures and more clarity of information flows between the Council and Auditors.



## **7. Developments in local authority accounting**

### **7.1 IFRS 16 leases**

Under existing rules, lessees account for leases as either operating leases or finance leases depending on the nature of the lease, with only finance lease assets and liabilities being recognised on the balance sheet. IFRS16 will require all leases, with very few exceptions, to be included in the balance sheet. This is likely to result in a number of vehicle and property leases currently classified as operating leases to be brought onto the balance sheet.

CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020 at which time the right of use assets and corresponding lease liabilities in the single entity accounts are expected to be approximately £16m, with the impact on the Group Accounts an additional £8m and 9m respectively.

**Annual Governance Statement  
for Norfolk County Council  
2018-19**

**1. Introduction**

1.1. The Accounts and Audit (England) Regulations 2015 require that:

- The Council must conduct a review at least once a year of the effectiveness of its system of internal control,
- Findings of this review should be considered by the Council,
- The Council must approve an Annual Governance Statement; and
- The Annual Governance Statement must accompany the Statement of Accounts.

For Norfolk County Council (the Council) the Audit Committee undertakes these duties on behalf of the Council.

- 1.2. The Chief Internal Auditor reviews the effectiveness of the system of internal control throughout the year and reports annually to the Audit Committee. The Chief Internal Auditor reported to the Audit Committee on 18 April 2019 that, in his opinion, the system of internal control, including the arrangements for the management of risk during 2018-19, was acceptable and therefore considered sound. The Committee agreed with this opinion. This statement will be approved, along with the Statement of Accounts, at the 29 July 2019 meeting of the Audit Committee.
- 1.3. As part of producing this statement, Executive Directors have completed and signed an Annual Positive Assurance Statement and completed a supporting departmental assurance table. Actions plans are in place where any strengthening is required.

**2. Scope of responsibility**

- 2.1. The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it exercises its functions having regard to economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 2.2. The Council has approved and adopted a Code of Corporate Governance consistent with the principles of the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014). The Code was approved by the Policy and Resources Committee on 26 March 2018. If you require any further information regarding this statement please

contact Mr. Simon George, Executive Director of Finance and Commercial Services, Norfolk County Council, County Hall, Martineau Lane, NR1 2DW.

- 2.3. Through the application of the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19, the Annual Governance Statement must include reference to controls where significant activities take place through a group entity. This includes Companies that the Council owns or part owns.
- 2.4. This statement explains how the Council has complied with the Code of Corporate Governance and meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2015, in relation to the publication of an Annual Governance Statement.
- 2.5. The Council administers the Norfolk Pension Fund and, until 1 August 2018, the Norfolk Firefighters Pension Fund. The governance arrangements are statutorily prescribed. The Council complies with these requirements. For further details, please consult the [Norfolk Pension Fund Governance Statement 2018](#).
- 2.6. The Council hosts or is represented on several Joint Committees, which are:
- Norfolk Records Committee,
  - Norfolk Joint Museum Committee,
  - Eastern Shires Purchasing Organisation (ESPO),
  - Norwich Highways Agency Committee,
  - Eastern Inshore Fisheries and Conservation Authority
  - Norfolk Parking Partnership Joint Committee
  - Norfolk and Waveney Joint Health Scrutiny Committee.
- 2.7. The Council has ten subsidiary companies and one legislator company, detailed below:
- Active Companies:
- The largest wholly owned company by the Council is the Norse Group Limited. It is the parent company of NPS Property Consultants Limited, Norse Transport, Norse Eastern Limited, Norse Commercial Services Ltd and Norse Care Ltd, plus their subsidiaries. These companies are referred to throughout this statement as NORSE. The governance arrangements for NORSE are included in the body of this report. ~~Where there are unique arrangements these appear at the end of each section and where the arrangements are specific to NORSE, they appear in a separate section.~~ For more information regarding NORSE and its services, please refer to its website at <http://www.norsegroup.co.uk>
  - Hethel Innovation Ltd, is wholly owned by the Council, see link for further information at <http://hethelinnovation.com/>.
  - Independence Matters is a Community Interest Company (CIC) which started trading 1 November 2013. The Council owns 49% of the shares for the initial contract period of three years which was extended for two years to 31<sup>st</sup> May 2019. A revised contractual agreement is in the process of being finalised, which will include the purchase and transfer of shares from the Employee Benefit Trust to NCC to achieve wholly owned status. The CIC will remain a not for profit social enterprise with the same Articles of Association and the same governance arrangements. In future, services will be

contracted predominately through the use of the relevant procurement framework. During the year, and responding to a national CQC Section 56 notice, the Council took immediate action to ensure continuity of care for people previously receiving care from Allied Health Care. A decision was taken to repurpose Breckland Care at Home CIC as Home Support Matters CIC (HSM). All of the contracts, staff and leases were transferred to HSM on 10th December 2018. Home Support Matters is a wholly owned subsidiary of Independence Matters CIC. For more information regarding Independence Matters please refer to its website at <http://independencematters.org.uk/>.

- Norfolk Safety Community Interest Company (CIC) operates in partnership with Norfolk Fire and Rescue Service, and provides a range of risk management, training and development and other services to public bodies, third sector organisations and businesses. For more information please refer to website <http://norfolksafety.org/>
- Legislator 1656 Limited is a holding company which is jointly owned with Norwich City Council and is controlled through each party owning 50% of the voting share capital. The company owns a 4.9% share in Norwich Airport Limited and 100% of Legislator 1657 Limited whose principal activity is the leasing of investment properties.

Non Active companies:

- The Great Yarmouth Development Company, which is jointly owned with Great Yarmouth Borough Council, with each party owning 50%. The company is currently in the process of being closed.
- Norfolk Energy Futures Ltd is wholly owned by the Council. The company is currently in the process of being closed.
- Norfolk Regeneration Company Limited (NRC) is a wholly owned by the Council. It was dissolved on 30 October 2018.
- Educator Solutions Ltd, incorporated on 15 April 2016, is a wholly owned by the Council. It is currently dormant.
- Public Law East Limited, incorporated on 13 February 2017, is a wholly owned company. It is currently dormant.
- Repton Property Developments Ltd, incorporated on 27 July 2017, is a wholly owned by the Council. Trading is expected to start during 2019/20.

Where appropriate the wholly owned/partly owned companies have Council Member and/or Officer representation on their boards of directors. An audit has recently been undertaken (and not yet reported) of Independence Matters. All other significant companies have signed an Annual Positive Assurance Statement and completed a supporting assurance table.

2.8. The Council is a partner in five pooling arrangements, detailed below:

- The Norfolk Learning Difficulties Pooled Fund now exists only as a legal entity as part of the arrangements for commissioning Learning Difficulties health services. The Council now receives funding directly from Central Government as part of the formula funding
- Norfolk Pharmaceutical and Medicines Management Pooled Fund. The Council and the Clinical Commissioning Groups (CCG's) have extended the existing agreement to provide a pharmaceutical and medicines management service in Norfolk until 30th June 2019. The Council provides financial management for the Pooled Fund. Norwich Clinical Commissioning Group is out to procurement for a new provider for the medicines management support service. The Pooled Fund arrangements and agreement will be reviewed in the light of the procurement outcome.
- There is a Better Care Fund pooled arrangement in place, covering the five CCGs in Norfolk. The Better Care Fund (BCF) requires local authorities with responsibility for social services and CCGs to create a pooled commissioning fund for the provision of integrated health and community care services, with a priority purpose of supporting the integration of health and care. It incorporates Better Care Fund monies and Improved Better Care Fund grant. The pooled fund is secured through an agreement under section 75 of the National Health Service Act 2006. The Norfolk and Waveney Chief Officer Group overseas the governance of the pooled fund. The Better Care Fund plan, which sets out how funds are spent, is required to be approved by the Health and Wellbeing Board. The Council administers the pooled funds
- Norfolk County Council is a member of the Norfolk Business Rates Pool which as of 2018-19 now includes all seven district councils. The Pool enables Norfolk Authorities to retain revenue from additional business rates growth by avoiding a levy on growth which would otherwise be payable to Central Government. The pooled funds are used to support economic development projects in Norfolk with Norfolk Leaders approving the allocation of funds to projects. More information on the Pool can be found in the agenda and reports section, [Norfolk Business Rates Pool Annual Report 2017-18 and 2019-20 Business Rates pilot bid](#). Item 13 (page 169) of the November 2018 Policy and Resources Committee
- Norfolk County Council acts as the accountable body for the [Infrastructure Investment Fund](#) (referenced on page 224). The 2013 Greater Norwich City Deal allows, amongst other things, access to £60 million of Public Works Loan Board (PWLb) borrowing at a favourable rate to fund strategic infrastructure. The agreement included a commitment from Broadland District Council, Norwich City Council and South Norfolk Council to pool CIL income, and in October 2015 an agreement including Norfolk County Council was signed to pool CIL income in order to create a substantial local growth fund to support local infrastructure projects.

2.9 Norfolk County Council has been designated to manage the 2014-2020 France (Channel) England Interreg Va European programme.

Assurances were provided by the UK Government in October 2016 that for projects selected prior to the actual exit date, partners from the UK will have their full funding

guaranteed. The risks associated with Brexit arrangements are reported through the Council's risk management function; RM022 Potential changes in laws, regulations, government policy or funding arising from the UK leaving the European Union, which may impact on Council objectives, financial resilience and affected staff ('Brexit').

The Treasury Guarantee provides assurance that funding is assured in the event of a no deal for projects committed by 31 December 2020 (rather than 19 March as had been anticipated). Payment mechanisms to manage this remain to be explored. The European Commission (EC) has issued a notice around a no deal Brexit proposing a draft regulation that would allow the UK to continue participating in EU programmes in 2019.

The programme is an EU Commission programme funded through the Cohesion Fund and provides up to €223M of grant covering the geographic area of South and East England and Northern France. This will leverage up to a total of €315M of funds (with match funding). The programme budget is agreed by the French and UK Governments. The Cooperation Programme (CP) was approved by both national governments and by the Commission in October 2015. For further information please refer to website <https://www.channelmanche.com/en/programme/about-the-programme/>

Within the Council, a Project Board has been set up to oversee the management of risks this initiative generates for the authority.

The Audit Authority reports to the Audit Committee on progress made against the audit strategy and audit plan. Should significant issues arise and fail to be resolved with regards to the management and control system, these would be reported to the Audit Committee. No such issues were reported in 2018/19.

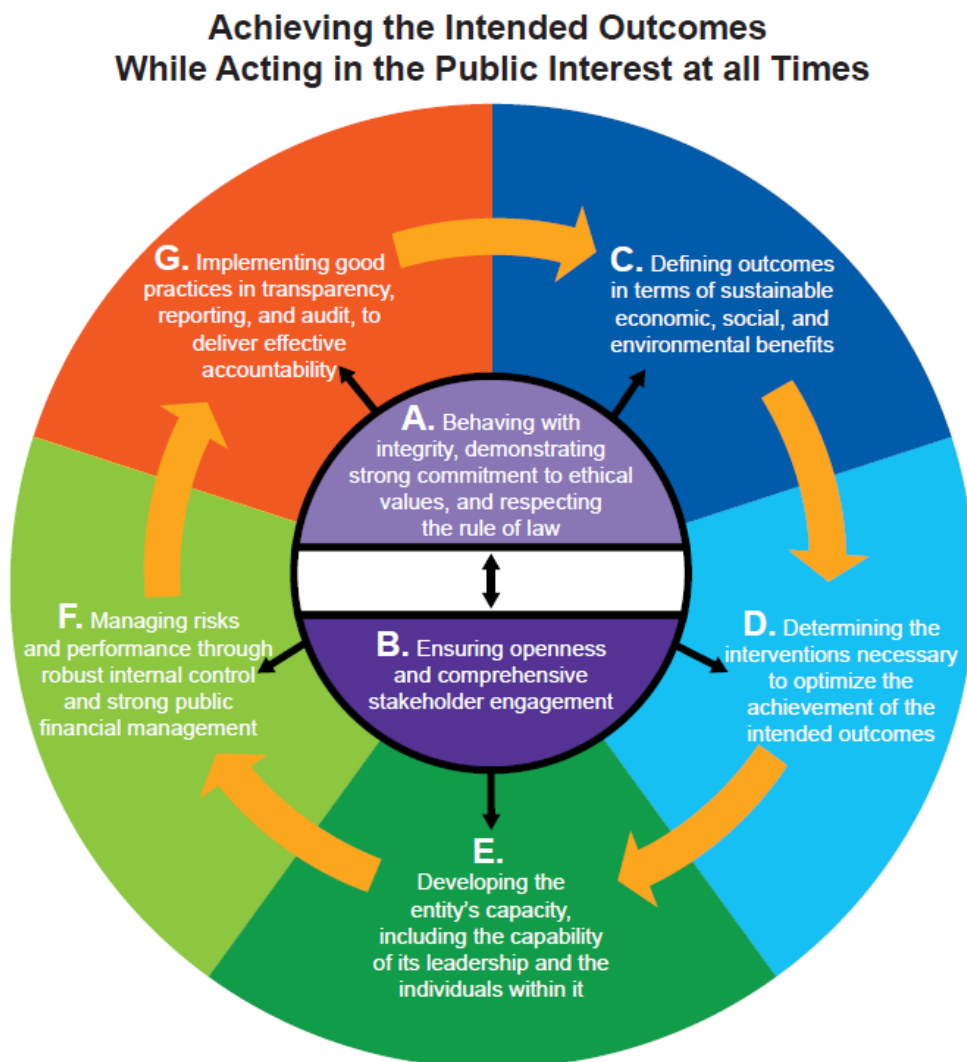
The programme also has its own governance arrangements involving Member States and EC representatives.

### **3. The purpose of a governance framework**

- 3.1. A governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the County Council to monitor the achievement of its strategic objectives and consider whether they have led to the delivery of appropriate, cost effective services.
- 3.2. The system of internal control is a significant part of that framework designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process to identify and prioritise such risks. It evaluates the likelihood of them being realised and the impact they would have should they be realised and helps manage them efficiently, effectively and economically.
- 3.3. All wholly owned companies have a system of governance which is the responsibility of their Board of Directors and designed to give the Directors adequate information to review the activities of the Group and review and control the business risks.

#### 4. The Governance Framework

- 4.1. The council achieves good standards of governance by applying the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (The 'International Framework').



- 4.2. This diagram illustrates how the various principles for good governance in the public sector relate to each other. To achieve good governance the Council should achieve their intended outcomes while acting in the public interest at all times. As overarching



requirements for acting in the public interest, principles A and B apply across all other principles (C – G)

- 4.3. The Council's [Code of Corporate Governance](#) details the arrangements in place to comply with each of the principles. The Annual Governance Statement reviews the effectiveness of those arrangements.

## 5. Effectiveness of the governance framework

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

That review is informed by:

- The work of the Head of Paid Service and Executive Directors within the County Council who are responsible for the development and maintenance of the governance environment
- The statutory roles of the Council's Monitoring Officer and Section 151 Officer
- The signed departmental assurance statements received and signed by Executive Directors
- The Annual Governance Statement working group
- Work performed by Internal Audit
- Comments made by the external auditors and other review agencies and inspectorate
- Systems and controls carried out as outlined in the Code of Corporate Governance.

Responsibility for this annual review has been delegated to the Audit Committee. Overall it is considered the Council's governance arrangements continue to be fit for purpose, in accordance with the governance framework.


- 5.2 The effectiveness of the governance framework can be demonstrated by the following:

	Principles	Comment
A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.	<p>Executive Directors have confirmed in all significant respects services comply with the Council's Constitution, Financial Regulations and key policies and procedures which include for declarations of interest, compliments and complaints and whistleblowing. Actions are in place to ensure full compliance. Relevant topics, for example health and safety, were reported to committees during the year.</p> <p>There are up to date registers of Members interests and a register of gifts and hospitality published for each Member on the Norfolk County Council internet.</p>



	Principles	Comment
		<p>The Standards Committee met twice during 2018-19. The role of the Standards Committee is to promote and maintain high standards of conduct by councillors and co-opted members.</p> <p>Progress on the Council's Equality, Diversity and Inclusion objectives 2017-2020 was reported to the Policy and Resources committee in March 2019.</p> <p>The Monitoring Officer's Annual Report was reported to the Audit Committee on 18 April 2019. There were no exceptions to report.</p>
B	Ensuring openness and comprehensive stakeholder engagement.	<p>Committees and Full Council have met regularly throughout the year. These are open meetings and the agenda and public reports are available to the public prior to the meetings. There is also provision for the public to ask questions. Decisions taken at these meetings have been recorded in minutes. The agendas, public reports and minutes are available on the Council website, with the exception of certain confidential information.</p> <p>From May 2019 the Council changed from a Committee system of governance to an Executive Leader and Cabinet system of governance. The new Constitution was adopted in the Annual General Meeting in May 2019.</p> <p>The Executive is part of the Council which is responsible for most day-to-day decisions. The Executive is made up of a Leader and up to nine other Councillors whom the Leader appoints. Together they are known as the Cabinet. When major decisions are discussed or made, these are published in the Cabinet's forward plan in so far as they can be anticipated. These major decisions at a meeting of the Cabinet, will generally be open for the public to attend except where personal or confidential matters are being discussed. The Cabinet has to make decisions which are in line with the Council's overall budget and the policy framework. If it wishes to make a decision which is outside the budget or policy framework, this is referred to the Council as a whole to decide.</p> <p>NCC's vision and strategy for 2018-2021 is published on the internet. <a href="#">A Vision for Norfolk in 2021</a> was approved by Norfolk County Council on 12 February 2018. The vision is underpinned by <a href="#">Norfolk Futures: the Council's Strategy for 2018-2022</a>.</p> <p>"Together, for Norfolk – An ambitious plan for our County 2019-2025" was formally adopted by Norfolk County</p>

	Principles	Comment
		<p>Council on 7 May 2019, see pages 55 – 74 of the <a href="#">County Council Agenda</a>. This new whole – Council business plan brings together the Vision for Norfolk and the Council's Values and Principles and provides a clear view of the priorities and significant activity that the Council needs to deliver alone or with partners over the next six years.</p> <p>A <a href="#">Norfolk Strategic Planning Framework</a> has been approved and is currently being updated for 2019. It includes the shared objectives with Norfolk's Local Planning Authorities (including Norfolk County Council).</p> <p>During the year the Council has effectively engaged with stakeholders, residents and people who use our service. The Council consults on changes to services and other key decisions, such as the annual budget. The Council embraces the "We Asked, You Said, We Did" approach to consultation by publishing key findings from consultations and feeding back how these have contributed to council decisions.</p> <p>As well as formal consultations the Council runs a variety of events and manages a variety of panels or forums. These create opportunities for open dialogue with people who use our services enabling them to feed back their views, interests and concerns relating to the services we offer. Our key events included a business rates consultation event, focus groups exploring residents' hopes and fears for the future and Meet the Leader sessions. We also engaged with people through our In Care Council, Norfolk Youth Parliament and Your Voice residents' panel.</p> <p>There is an agreed Communication Strategy and Media Protocol. Roles and responsibilities for communication should be clear.</p>

	Principles	Comment
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.	<p><b>Norfolk County Council Planning Framework</b></p>  <p>The vision for Norfolk in 2021 was approved by Full Council on 12 February 2018. This set out the direction of the Council in the next three years and what it would like to achieve.</p> <p>The '<a href="#">Vision for Norfolk 2021</a> Caring for our County' outlines the Council's commitment to:</p> <ul style="list-style-type: none"> <li>- Building communities we can be proud of</li> <li>- Making the most of our beautiful County</li> <li>- Starting a new relationship with Norfolk families</li> <li>- Investing in children and families</li> <li>- Helping our population remain independent, resilient and well</li> <li>- Getting our own house in order.</li> </ul> <p>The approach is guided by four key principles:</p> <ul style="list-style-type: none"> <li>- Offering our help early to prevent and reduce demand for specialist services</li> <li>- Joining up our work so that similar activities and services are easily accessible, done well and done once</li> <li>- Being business-like and making best use of digital technology to ensure value for money</li> <li>- Using evidence and data to target our work where it can make the most difference</li> </ul> <p>The Council originally identified seven priorities under the banner of 'Norfolk Futures'. In January 2019, after a year of activity, the focus is now on the following four priorities:</p> <ul style="list-style-type: none"> <li>- Safe children and resilient families</li> <li>- Promoting independence for vulnerable adults</li> <li>- Local service strategy</li> </ul>

	Principles	Comment
		<p>- Organisational effectiveness.</p> <p>There is focussed activity on each priority, with Executive Director sponsors and Senior Officer Business Leads.</p> <p>Across the Council, teams and departments have developed '<b>Plans on a Page</b>' bringing fresh thinking to the task of proposing new and different ways to prepare for the future. Plans on a page support the Council's vision.</p> <p>On 7 May 2019 the Council formally adopted the Norfolk County Council Plan 2019-2025. It included clear priorities and outcomes, as stated below:</p> <p><b>Priorities</b></p> <p>Focusing on <b>inclusive</b> growth and <b>improved social mobility</b> Encouraging <b>housing, infrastructure, jobs and business</b> growth across the County Developing our <b>workforce</b> to meet the needs of the sectors powering our local economy.</p> <p>This way we can help Norfolk have a <b>growing economy</b>, full of <b>thriving people</b> living in <b>strong communities</b> we are proud of.</p> <p><b>Outcomes</b> See page 64 of the <a href="#">County Council Agenda</a></p>
D	Determining the interventions necessary to optimise the achievement of the intended outcomes.	<p>During the year each Service Committee received performance monitoring reports on the identified key areas (vital signs). These included performance dashboards and a detailed review of those areas not performing as expected. These provided both quantitative and qualitative performance information.</p> <p>In parallel, each Executive Director/Departmental Management Team reviewed performance at least monthly, with challenge provided by the Business Intelligence function.</p> <p>Where performance is not meeting expectations, the reasons why are discussed and the required action to perform performance is identified. Corporately significant vital signs are reported regularly to the Policy and Resources Committee.</p>

	Principles	Comment
		<p>A report will be produced annually showing how we are delivering against the plans and commitments stated in the Norfolk County Council Plan 2019-2025.</p> <p>External challenge has been provided through benchmarking, inspections and peer reviews. Details of inspections and peer reviews are included in Appendix 1.</p>
E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.	<p>The draft people vision re-shaped for 2019 is to "lead and encourage every employee to be at their best at work so that we can improve the real-life experiences of the people of Norfolk."</p> <p>NCC's new values were launched in September 2018, setting out what is important about how we work and deliver high quality services to the Norfolk population. The values are underpinned by all people management processes – recruitment, performance and development, and across all day to day work situations.</p> <p>A new performance development approach was introduced in 2018 to contribute to the development of an effective and efficient performance culture, engaging managers and union stewards in its development. External research tells us that for success, performance is dependent on two critical factors - employees understand what is required of them through clear meaningful goals linked to future plans and that managers build on employee strengths (their skills, knowledge and ways of working) to increase engagement and motivation.</p> <div data-bbox="684 1368 1394 1883" data-label="Diagram"> </div> <p>The target is that 95% of employees should have written and agreed goals and a Staff Survey conducted in September/October 2018 told us that 91% of staff confirmed these conversations were happening.</p>

	Principles	Comment
		<p>We encourage each senior leader to have a personal learning plan and clear key priorities to focus on. We are launching our Norfolk Development Academy with a management and leadership development offer to identify future leaders, provide formal coaching to support growth, and understand our overall leadership talent.</p>
F	Managing risks and performance through robust internal control and strong public financial management.	<p>Corporate and departmental risk registers are up to date and are being used by managers as a management tool.</p> <p>Reporting of risk management activity to Members and senior management is embedded; for instance corporate risk registers have been reported quarterly and annually to the Audit Committee and the then County Leadership Team. Departmental risk registers have been reported quarterly to the Service Committees. The quality and range of data and information included in these reports has been strengthened to better inform on progress with managing specific risks and give them a better overview of the risk profile of each service. The risk management framework and policy have been updated during the year, as reported in the <a href="#">Annual Risk Management report</a> (page 188).</p> <p>Under the Fire and Rescue Services Act 2004 (The Act), the Council is the statutory Fire and Rescue Authority (FRA). The Act makes it a statutory requirement for the Fire and Rescue Authority to produce an Integrated Risk Management Plan. Norfolk FRA published its <a href="#">Integrated Risk Management Plan</a> (IRMP) for 2016-2020 in February 2016. The latest annual <a href="#">Norfolk Fire and Rescue Statement of Assurance 2017/18</a> covering 2017-18, was approved and published in March 2019. Previous informal collaboration arrangements between the Fire and Rescue Service and Norfolk Constabulary have been formalised through a Memorandum of Understanding and collaboration agreement. Joint governance arrangements have been put in place and a work programme developed. Oversight of activities is carried out through the Council's Committee/Cabinet system, which any decisions taken in line with the Council's Constitution.</p> <p>Performance monitoring was reported through to Committees.</p> <p>The Executive Directors have confirmed approved protocols, signed contracts and effective governance arrangements are either in place or in the process of being put in place for work performed by third parties.</p>

	Principles	Comment
		<p>Performance of wholly owned companies is monitored by Senior Officers and Members attendance at Board Meetings.</p> <p>Before May 2019 decisions were made by all-party committees with membership reflecting the overall political makeup of the Council. Committees debate, challenge and make decisions.</p> <p>From May 2019 there has been a Scrutiny Committee and three Select Committees which together constitute the Council's overview and scrutiny arrangements pursuant to section 21 of the Local Government Act 2000.</p> <p>The Scrutiny Committee monitors the decisions made by the Cabinet, Officers making executive decisions on delegated authority and other decisions. The Scrutiny Committee can 'call-in' a decision which has been made by the Cabinet but not yet implemented. This enables them to consider whether the decision is appropriate. They may recommend that the decision maker reconsiders the decision.</p> <p>The three select Committees are:</p> <ol style="list-style-type: none"> <li>People and Communities Committee</li> <li>Infrastructure and Development Committee</li> <li>Corporate Committee</li> </ol> <p>The Member Training Programme ensures Members are aware of their responsibilities in decision making. This includes being sufficiently challenging and ensuring they have the appropriate level of support and information to enable them to make an informed decision.</p> <p>The Council has robust internal control:</p> <ul style="list-style-type: none"> <li>An Annual Internal Audit Report from the Executive Director of Finance and Commercial Services/Chief Internal Auditor was made to the Audit Committee at its 18 April 2019 meeting. There were no exceptions to report.</li> <li>Systems and processes for financial administration, financial control and protection of the Council's resources and assets are in place and these are continually reviewed to ensure they meet the Council's business requirements. These controls are clearly described in the Council's Strategic Financial Plan agreed by the Council in February</li> </ul>

	Principles	Comment
		<p>2019. In addition, a Going Concern Statement has been produced to provide additional assurance.</p> <ul style="list-style-type: none"> <li>• Effective internal control arrangements are in place. These include financial guidance, budgetary systems, monitoring systems, delegation arrangements, accounting procedures, information systems and authorisation and approval processes.</li> <li>• Annual accounts are published on a timely basis.</li> <li>• An effective internal audit function is resourced and maintained.</li> <li>• Risk management arrangements are effective.</li> <li>• An effective Audit Committee is in place.</li> <li>• Measures are in place to prevent, detect and investigate fraud and corruption.</li> <li>• The internal audit team is compliant with the relevant professional standards, namely the United Kingdom Public Sector Internal Audit Standards. From January 2017 these were updated and are now known as the International Standards for the Professional Practice of Internal Auditing. An external review was undertaken by CIPFA in May 2017.</li> <li>• Outstanding corporate high priority audit recommendations are followed up to ensure controls are put in place as soon as possible. A summary of the outstanding corporate high priority audit findings is reported to the Audit Committee.</li> </ul> <p>Three Executive Directors have confirmed there are processes in place to ensure the quality of data is maintained to enable effective decision making to be made. Actions are in place to improve the quality of data. The Council had successfully implemented a plan for the General Data Protection Regulation (GDPR) introduced on 25 May 2018.</p> <p>We have strong public financial management. Responsible Budget Officers are responsible for managing their budgets effectively. At the end of every month financial information on expenditure is produced including forecast expenditure and the planned impact on earmarked reserves. Finance Monitoring Reports were discussed at Service Committees and monthly reporting to Cabinet from May 2019.</p>
G	Implementing good practices in transparency,	During the year the Council has published information, including reports, in a manner which is accessible to



	Principles	Comment
	reporting, and audit, to deliver effective accountability.	<p>citizens and other stakeholders. The Council complies with the Local Government Transparency Code 2015 by publishing accurate data within appropriate time frames.</p> <p>Reporting on performance, value for money and stewardship have been included in the Annual Report, Statements of Accounts and Annual Governance Statement.</p> <p>The Audit Committee has considered matters of governance, including internal audit, risk management, anti-fraud and corruption, the annual statement of accounts, treasury management and external audit during 2018/19.</p> <p>An Annual Internal Audit Report from the Executive Director of Finance and Commercial Services/Chief Internal Auditor was made to the Audit Committee at its 18 April. There were no exceptions to report.</p>

	Principles	Comment
		All Executive Directors have confirmed staff are aware of their responsibility to report upwards any unresolved matters of concern about internal control.


- 5.3 Active wholly owned Companies have completed assurance statements confirming the effectiveness of their governance framework, with the exception of Norse Group Limited and Independence Matters where an audit has been carried out during the year. No concerns have been identified.


## 6. Review of Effective Action on Significant Governance Issues 2017/18

- 6.1 There were no significant governance issues reported in 2017-18.

## 7. Significant Governance Issues

- 7.1 There are no significant governance issues to report for 2018-19. The Council has a robust risk management function and corporate risks were reported and managed through the relevant Committees during the year.

  
Councillor Andrew Proctor  
Leader of the Council

  
Tom McCabe  
Head of Paid Service

## **Notes:**

**Note 1:** The following senior officers have contributed to drafting this statement

- Head of Paid Service
- Executive Director of Community and Environmental Services
- Executive Director of Adult Social Services
- Executive Director of Children's Services
- Executive Director of Finance and Commercial Services (Section 151 Officer)
- Executive Director of Strategy
- Head of Democratic Services
- Head of HR.

## **Executive Directors who have produced signed Annual Positive Assurance Statements and supporting assurance tables**

Head of Paid Service

Executive Director of Community and Environmental Services

Executive Director of Adult Social Services

Executive Director of Finance and Commercial Services

Executive Director of Children's Services

Executive Director of Strategy

## Appendix 1

### External Reviews carried out during the year

	Comment
3	<p>Finance and Commercial Services</p> <ul style="list-style-type: none"> <li>• The overall key message in the external auditor's (EY) Annual Audit Letter (available on the Council Finance webpage <a href="#">Statement of Accounts 2017-18</a>) was that an unqualified opinion was issued on the Council's accounts for 2017-18.</li> <li>• The County Council was also given an unqualified 'Value for Money' opinion, within the Annual Audit Letter 2017-18.</li> </ul> <p>Children's Services</p> <p>Annual engagement meeting with Ofsted.</p> <p>In January 2019 Suffolk Council, as part of the LGA Eastern Region Peer Review, reported on the review they had carried out on the Quality Assurance (QA) arrangements within Children's Services. Areas of strengths were identified together with areas for improvement. The review team were impressed by the extensive programme and investment in QA activity and reporting and confirmed the QA process is having an impact on improving practice.</p> <p>Adult Social Services</p> <p>In September 2018 the Local Government Association (LGA) conducted a Peer Challenge on how effectively health and social care work together to provide care support for older people. It reported on both strengths and areas to consider for additional action. It reported there was a strong partnership in place to deliver health and social care in Norfolk.</p>

## **Annex 2 – Draft Statement of Accounts 2018-19 (to follow)**

# Audit Committee

Item No 6

<b>Report title</b>	<b>Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2019</b>
<b>Date of meeting</b>	<b>29 July 2019</b>
<b>Responsible Cabinet Member</b>	<b>Councillor Andrew Jamieson (Cabinet Member for Finance)</b>
<b>Responsible Director</b>	<b>Simon George (Executive Director of Finance and Commercial Services)</b>
<b>Executive Summary</b> This report introduces our External Auditor's (Ernst & Young) Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2019.	
<b>Recommendations</b>  Audit Committee is asked to: <ul style="list-style-type: none"><li>consider matters raised in the Ernst &amp; Young Norfolk County Council and Norfolk Pension Fund Audit Results Reports before Ernst &amp; Young issue their audit opinions.</li></ul>	

## **1. Background and Purpose**

- 1.1. Each year, the Council's External Auditors (Ernst & Young) produce Audit Results Reports summarising their work and findings from both the Pension Fund audit and the Norfolk County Council audit.

## **2. Proposals**

- 2.1. This proposal enables the Audit Committee to formally consider matters raised in the Ernst & Young Norfolk County Council and Norfolk Pension Fund Audit Results Reports, before Ernst & Young issue their audit opinions.

## **3. Impact of the Proposal**

- 3.1. Once the Statement of Accounts are approved, taking into account any matters raised by the External Auditors, it is anticipated that the Council's external auditors, Ernst & Young, will be in a position to complete their audit. Following this the Council will then be able publish its accounts before the statutory deadline of 31 July 2019.

#### **4. Evidence and Reasons for Decision**

- 4.1. Appendix A1 to this report (to follow) sets out the Ernst and Young Norfolk County Council Audit Results Report – Audit Committee Summary for the year ended 31 March 2019.
- 4.2. Appendix A2 to this report sets out the Ernst and Young Norfolk Pension Fund Audit Results Report – Audit Committee Summary for the year ended 31 March 2019.

#### **5. Alternative Options**

- 5.1. In order to meet the Council's statutory accounts publication deadline, no viable alternative options have been identified to the recommendations in this report.

#### **6. Financial Implications**

- 6.1. The auditor's Audit Result Reports are based on work associated with the 2018-19 Annual Statements of Account for the Council and for the Norfolk Pension Fund.
- 6.2. The cost of the audits for both Norfolk County Council and Norfolk Pension Fund are set out in the Audit Results Reports. The fees are consistent with the quoted fees as described in the External Auditor's Audit Plan 2018-19 which was presented to this Committee on 31 January 2019.

#### **7. Resource Implications**

- 7.1. There are no direct staff, property or IT implications arising from this report.

#### **8. Other Implications**

- 8.1. **Legal Implications:**  
In order to fulfil obligations placed on chief finance officers by regulations 10 of the Accounts and Audit Regulations 2015, the Executive Director of Finance and Commercial Services must publish an approved statement of accounts no later than 31 July.
- 8.2. **Equality Impact Assessment**  
There are no equality issues arising from the Audit Results Report.

#### **9. Risk Implications/Assessment**

- 9.1. The risk of not accepting matters raised in the audit results reports is the potential to miss statutory reporting deadlines.

#### **10. Recommendation**

- 10.1. Recommendations are set out in the executive summary to this report.

## Officer Contact

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

Officer name	Telephone	Email
Simon George	01603 222400	<a href="mailto:simon.george@norfolk.gov.uk">simon.george@norfolk.gov.uk</a>
Howard Jones	01603 222832	<a href="mailto:howard.jones@norfolk.gov.uk">howard.jones@norfolk.gov.uk</a>



If you need this report in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 18001 0344 800 8020 (textphone) and we will do our best to help.

## Appendix A

### A1 Norfolk County Council EY Audit Results Report 2018-19

*To follow*



# **Norfolk Pension Fund Audit results report**

Year ended 31 Month 2019

19 July 2019

## A2 Norfolk Pension Fund EY Audit Results Report 2018-19



19 July 2019

Dear Audit Committee Members

We are pleased to attach our Audit Results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Norfolk Pension Fund for 2018/19.

We have substantially completed our audit of Norfolk Pension Fund for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, to issue our opinions by the accounts publication date of 31 July 2019.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 29 July 2019.

Yours faithfully

*Mark Hodgson*

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





# 01 Executive Summary



## Executive Summary

### Scope update

In our Audit plan presented to the 31 January 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £38.3 million (Audit Plan – £36.0 million). This results in an updated performance materiality, which is 0.75% of overall materiality, at £28.7 million, and an updated threshold for reporting misstatements of £1.9 million.

### Status of the audit

We have substantially completed our audit of Norfolk Pension Fund's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3.

However until work is complete, further amendments may arise:

- Review of the final version of the Annual Report;
- Review of Related party declaration returns from three Pension Committee members yet to be received;
- Completion of subsequent events review;
- Completion of Final Review Procedures; and
- Receipt of the signed Management Representation letter.

A national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts recognised this matter a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.



## Executive Summary

### Audit differences

There are is one unadjusted audit differences arising from our audit. This is in relation to the updated Harbourvest Private Equity year end valuation.

We identified one misstatement where the funds investment balance had been overstated by £20.5 million and a limited number of disclosure audit differences in the draft financial statements, which have been adjusted by management. Further details are provided in Section 4.

### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Norfolk Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

### Other reporting issues

We will perform a review of the information presented in the annual report for consistency with the financial statements and our knowledge of the Fund. As reported in the Status of Work section on page 5, we are awaiting receipt of the Annual Report for our review.

### Independence

Please refer to Section 7 for our update on Independence. We have no independence issues to highlight.



02

## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly 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.

##### What did we do?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including;
  - testing of journal entries and other adjustments in the preparation of the financial statements;
  - reviewing accounting estimates for evidence of management bias; and
  - evaluating the business rationale for significant unusual transactions.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing; and
- We assessed journal entries for evidence of management bias and evaluate for business rationale.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business





## Areas of Audit Focus

### Significant risk

#### Investment income and asset valuations - Investment Journals\*

##### What is the risk?

We have considered the key areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement.

We have identified the main area being;

- Investment income and asset valuations being taken from the Custodian reports and incorrectly posted to the general ledger in the year, specifically through journal postings.

##### What did we do?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- For quoted investment income we will agreed the reconciliation between fund managers and custodians back to the source reports.

##### What are our conclusions?

Our testing has not identified any material misstatements from investment income or year end investment assets.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.



## Areas of Audit Focus

### Other area of audit focus

#### Valuation of Complex Investments

##### What is the risk?

The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

The total fund investment assets at 31 March 2019 are £3.84 billion, of which Private Equity Investments (Unquoted) is £232 million (6.0% of total investments).

Although the proportion of the fund comprising these investment types is relatively low, these investments are more complex to value. We have identified the Fund's investments in private equity and pooled property investments as a higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

##### What did we do and what management judgements did we focus on?

Our audit approach has included the following procedures:

- Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- Comparing the investment value included in the financial statements to direct confirmations from the Fund Managers.
- Where available, reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight weaknesses in the funds valuation;
- Obtain copies of the ISAE3402 reports over internal control for any control exceptions raised in relation to the valuation of investments; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

##### What are our conclusions?

As the Custodian provides the estimated value of the unquoted investments based on information at December 2018 for pooled investment vehicles there will always be a possibility that the fund manager will provide a different valuation as at 31 March 2019.

The Fund Manager has now provided (mid July 2019) the 31 March 2019 investment valuations for this fund. The fund value has increased by £10.2 million.

This amount is not material and officers are proposing not to adjust the financial statements in relation to it. They are proposing to update the Post Balance Sheet Note to provide disclosure information.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORFOLK COUNTY COUNCIL

##### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Finance and Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance and Commercial Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Our opinion on the financial statements

### Other information

The other information comprises the information included in the “*Statement of Accounts 2018-19*”, other than the financial statements and our auditor’s report thereon. The Executive Director of Finance and Commercial Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Responsibility of the Executive Director of Finance and Commercial Services

As explained more fully in the “*Statement of the Responsibilities*” set out on pages 12, the Executive Director of Finance and Commercial Services is responsible for the preparation of the Authority’s Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director of Finance and Commercial Services is responsible for assessing the Pension Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.



# Audit Report

## Our opinion on the financial statements

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

### Use of our report

This report is made solely to the members of Norfolk County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Mark Hodgson (Key Audit Partner)**  
**Ernst & Young LLP (Local Auditor)**  
**Cambridge**  
**Date**





## 04 Audit Differences



# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £1.9 million which have been corrected by management that were identified during the course of our audit:

- ▶ £20.5 million overstatement of Investment assets in the Net Assets Statement. This was due to the Fund using incorrect spot rates for conversion of the Private Equity investments held by Harbourvest Fund manager from US Dollars and Euros into GBP (Pounds Sterling).

Our audit also identified a limited number of minor misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the Statement of Accounts.

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. There is one unadjusted audit difference to bring to your attention.

Private Equity Valuations - The Fund Manager provides the estimated value of the unquoted investments based on information at December 2018 for pooled investment vehicles which was used within the draft financial statements. The Fund Manager has now provided (mid July 2019) the 31 March 2019 investment valuations for this fund. The fund value has increased by £10.2 million.

- ▶ **Fund Account - Investment Income** - Credit £10.2 million
- ▶ **Net Asset Statement - Investment Assets** - Debit £10.2 million

We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation.





## Audit Differences

### McCloud ruling

As noted in the Executive Summary a national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did recognise this matter as a contingent liability.

However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements.

The actuary has now estimated the impact of the McCloud ruling on the present value of promised retirement benefits. In addition, the impact of the Guaranteed Minimum Pension (GMP) provision was also taken into consideration by the Actuary. The estimated increase in value of £22 million has now been disclosed at Note 20 to the accounts, with further associated disclosure added to recognise this as a source of estimation uncertainty and post balance sheet event.

- ▶ Note 20 - IAS 26 - Increase in the net pension liability of £10.0 million in relation to the McCloud judgement.
- ▶ Note 20 - IAS26 - Increase in the net pension liability of £12.0 million in relation to GMP provision.



## 05 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Norfolk Pension Annual Report with the audited financial statements

We have no matters to report in relation to the above.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have nothing to report in respect of these matters.





06

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



07

## Independence



## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 29 July 2019.

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 Month 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s	£'s
<b>Total Audit Fee - Code work (Note 1)</b>	<b>26,366</b>	<b>23,166</b>	<b>20,866</b>	<b>29,399</b>

### Note 1:

As reported in our Audit Plan dated 21 January 2019, we plan to charge an additional fee in 2018/19 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies. In our Audit Plan we estimated this additional fee to be £2,300, the final fee for this additional work is £5,500.

This additional fee is subject to approval by the Public Sector Audit Appointments Ltd.

We will confirm our final fees following the completion of our work and report this within our Annual Audit Letter.





## 08 Appendices

## Appendix A

# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Net Assets Statement category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment Assets and Liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Long term debtors	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Debtors	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Cash in hand	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Creditors	Substantively tested all relevant assertions	Immaterial - Substantively tested assertion for presentation and disclosure	The Creditors balance in 2018/19 is a material balance having significantly increased in value to £44.4 million in 2018/19 from £9.7 million in 2017/18. This increase is due to an agreed prepayment of employer contributions by Norfolk County Council of £34.5 million in 2018/19 there being no such balance in 2017/18.

## Appendix B

# Summary of communications





Date 	Nature 	Summary 
31 January 2019	Meeting/Report	The partner in charge of the engagement met with the Audit Committee to discuss focus areas of the Audit Committee to discuss the Audit Plan and areas of focus for the audit. This included confirmation of independence.
18 June 2019	Meeting	The Partner and Audit Manager met with key officers of the Pension Fund to discuss the progress of the audit and discuss emerging issues.
26 June 2019	Report	The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
28 June 2019	Meeting	The Audit Partner met with key officers of Norfolk County Council to discuss progress of the audit and discuss emerging issues and the draft Audit Results Report
29 July 2019	Meeting/Report	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit Committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.





## Appendix C

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:




		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - 31 January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - 31 January 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - 29 July 2019

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	We have asked management and those charged with governance. We have not identified any going concern issues.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - 29 July 2019
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have not identified any subsequent events.
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.



## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	We have no matters to report.
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Results Report - 29 July 2019

## Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have no matters to report.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ 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</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - 29 July 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - 29 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - 29 July 2018
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - 29 July 2018
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the Audit Plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - 31 January 2019 Audit Results Report - 29 July 2018



# Appendix D – Request for a management representation letter

## Request for a Management Representation Letter



Ernst & Young LLP  
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19 July 2019

Simon George  
Executive Director of Finance  
Norfolk County Council  
County Hall  
Martineau Lane  
Norfolk  
NR1 2DH

Dear Simon,

### Norfolk Pension Fund – 2018/19 financial year Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Pension Fund.

I would expect the letter of representation to include the following matters.

#### General statement

That the letter of representations is provided in connection with our audit of the financial statements of Norfolk Pension Fund ("Pension Fund") for the year ended 31 March 2019.

That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the financial position of Norfolk Pension Fund as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC250001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2NF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorised and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/en/home/Legal>.



2

You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records (See Note B)

A1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.

A2. That you confirm that the Fund is a Registered Pension Scheme. That you are not aware of any reason why the tax status of the scheme should change.

A3. That you acknowledge, as members of management of the Fund, your responsibility for the fair presentation of the financial statements. You believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019, and are free of material misstatements, including omissions. You have approved the financial statements.

A4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

A5. As members of management of the Fund, you believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 that are free from material misstatement, whether due to fraud or error.

A6. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, if relevant, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

That you have not corrected these differences identified and brought to your attention by us because **(please specify the reasons for not correcting the misstatements)**.





## Appendix D – Request for a management representation letter

### Request for a Management Representation Letter



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#### B. Non-compliance with laws and regulations including fraud

B1. You acknowledge that you are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that you are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

B2. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

B3. You have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

B4. You have not made any reports to The Pensions Regulator, nor are you aware of any such reports having been made by any of our advisors.

B5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.

B6. You have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

C1. You have provided you with:

- Access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

C2. You have been informed of all changes to the Fund rules.

C3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

C4. You have made available to you all minutes of the meetings of the Pension Fund Committee and Audit Committee held through the year to the most recent meeting on the following date: 16 July 2019 for the Pension Fund Committee and 29 July 2019 for the Norfolk County Council Audit Committee.

C5. You confirm the completeness of information provided regarding the identification of related parties.



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C6. You have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which You are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

C7. You confirm the completeness of information provided regarding annuities held in the name of the Norfolk Pension Fund.

Or

Where, as Members of the management of the Fund, you have determined that annuity policies are not material, that the scheme holds annuity policies which have not been recognised and recorded as an asset of the Scheme in the financial statements as they are not considered material in relation to net assets. These policies have an estimated value of £X.

C8. You have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

C9. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

C10. You believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

#### D. Liabilities and Contingencies

D1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

D2. You have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

D3. You have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

D4. No other claims in connection with litigation have been or are expected to be received.

#### E. Subsequent Events

E1. As described in the relevant note (Set out Note number) to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### F. Other information

F1. You acknowledge our responsibility for the preparation of the other information. The other information comprises the "Norfolk Pension Fund Annual Report and Accounts 2018/2019".



## Appendix D – Request for a management representation letter

### Request for a Management Representation Letter



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F2. You confirm that the content contained within the other information is consistent with the financial statements.

#### G. Independence

G1. You confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

#### H. Derivative Financial Instruments

H1. You confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

H2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to us.

#### I - Pooling investments, including the use of collective investment vehicles and shared services

I1. You confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

#### J. Actuarial valuation

J1. The latest report of the actuary Hymans as at 31 March 16 has been provided to you. To the best of your knowledge and belief you confirm that the information supplied by you to the actuary was true and that no significant information was omitted which may have a bearing on his report.

#### K. Use of the Work of a Specialist – Private Equity Investments

K1. You agree with the findings of the specialists that you have engaged to value Private Equity Investments and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### L. Estimates – Valuation of Investments

L1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.



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L2. You confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

L3. You confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.

L4. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

#### M. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the Fund Administrator, Chair of the Pension Committee and Chair of Audit Committee) on the proposed audit opinion date (currently 30 July 2019) on formal headed paper.

Yours sincerely

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP

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ED None

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# Audit Committee

Item No 7

<b>Report title</b>	<b>Audit Letters of Representation 2018-19</b>
<b>Date of meeting</b>	<b>29 July 2019</b>
<b>Responsible Cabinet Member</b>	<b>Councillor Andrew Jamieson (Cabinet Member for Finance)</b>
<b>Responsible Director</b>	<b>Simon George (Executive Director of Finance and Commercial Services)</b>
<b>Executive Summary</b> <p>This report introduces the letters of representation of Norfolk County Council and of Norfolk Pension Fund for 2018-19.</p> <p>Letters of representation covers matters material to the financial statements and possible non-compliance with laws and regulations.</p> <b>Recommendation</b> <p>The Audit Committee is asked to:</p> <ul style="list-style-type: none"><li>• endorse the letters of representation in respect of the Pension Fund and of Norfolk County Council, and that the Chairman of the Audit Committee and Executive Director of Finance and Commercial Services sign the letters on behalf of the Council.</li></ul>	

## 1. Background and Purpose

- 1.1. This report provides details of the letters of representation in connection with the audit of the 2018-19 financial statements of Norfolk County Council and the Norfolk Pension Fund.

Letters of representation covers matters material to the financial statements and possible non-compliance with laws and regulations.

One letter covers the Norfolk County Council statement of accounts and is attached as an appendix to this report. A second letter covers the Norfolk Pension Fund only and has been endorsed by the Norfolk Pensions Committee.

The auditors require that the letters are signed by persons with specific responsibility for the financial statements, which for this Council is the Executive Director of Finance and Commercial Services, and formally acknowledged as being correct by “those charged with governance” by being signed by:

- the Chairman of the Audit Committee in the case of the Norfolk County Council letter, and by
- the Chairman of the Audit Committee and the Chairman of the

## Pensions Committee in respect of the Pension Fund.

The County Council has delegated responsibility for approving the Statement of Accounts and endorsing the letters of representation to the Audit Committee. The letters are dated 29 July 2019 to coincide with this meeting.

### **2. Proposals**

- 2.1. This proposal enables the Council's external auditors, Ernst & Young, to place reliance on the Council's representations prior to completing their audits and issuing their audit opinions.

### **3. Impact of the Proposal**

- 3.1. Once the letters of representation are approved and signed, it is anticipated that the Council's external auditors will be in a position to complete their audits. Following this the Council will then be able publish its accounts before the statutory deadline of 31 July 2019.

### **4. Evidence and Reasons for Decision**

- 4.1. An example Letter of Representation for the Council is attached as Appendix 1. The final wording will be guided by the advice of the external auditors.

The Norfolk Pension Letter of Representation Fund, as amended (see paragraph 4.2) is at Appendix 2.

Any necessary late changes made as a result of audit requirements will be tabled and explained at the meeting.

- 4.2. Following a report to the Pensions Committee on 9 July 2019 "Draft Pension Fund Annual Report and Accounts", the Pensions Committee endorsed the Pension Fund Letter of Representation.

Since that meeting, two changes have been made:

- Paragraph A6 has been expanded to explain that private equity investments are understated by £10.1m. No adjustment has been made to the Pension Fund accounts on the basis of immateriality.
- Paragraph E1 describes the impact of events subsequent to the year-end which relate to a Transition Arrangements Age Discrimination Legal case (McCloud) and the UK Government request for leave to appeal being denied.

In relation to the Pension Fund Accounts, there is one unadjusted difference in respect of the estimated value of the unquoted. If adjusted, the value of pension fund investments would have increased by £10.1 million. This has not been adjusted on grounds of materiality, and this is reflected in the revised Pension Fund Letter of Representation.

- 4.3. The Executive Director of Finance and Commercial Services has written the letters in accordance with audit requirements following consultation with

Departmental Chief Officers.

## **5. Alternative Options**

- 5.1. In order to meet the Council's statutory accounts publication deadline, no alternative options have been identified to the recommendations in this report.

## **6. Financial Implications**

- 6.1. The Letters of Representation are part of the External Audit requirements for the 2018-19 Statement of Accounts and are consistent with the Statement of Accounts introduced elsewhere on this agenda.
- 6.2. There is one unadjusted difference in the Pension Fund accounts described in paragraph 4.2 above. This item has no impact on the Council's earmarked reserves or general balances.

At the time of writing there are no unadjusted audit differences in the County Council accounts. Items A5 in the Council's draft Letter of Representation and A6 in the Pension Fund Letter of Representation state that the effects of unadjusted audit differences are immaterial to the financial statements.

- 6.3. Further details can be found in the Audit Results Reports elsewhere on the agenda.

## **7. Resource Implications**

- 7.1. There are no direct staff, property or IT implications arising from this report.

## **8. Other Implications**

### **8.1. Legal Implications:**

In order to fulfil obligations placed on chief finance officers by regulations 10 of the Accounts and Audit Regulations 2015, the Executive Director of Finance and Commercial Services must publish an approved statement of accounts no later than 31 July.

### **8.2. Equality Impact Assessment**

There are no equality issues arising from the Letters of Representation.

## **9. Risk Implications/Assessment**

- 9.1. The risk of not approving the letters of representation is the potential to miss statutory reporting deadlines.

## **10. Recommendation**

- 10.1. Recommendations are set out in the executive summary to this report.

## Officer Contact

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

Name	Telephone	Email
Simon George	01603 222400	<a href="mailto:simon.george@norfolk.gov.uk">simon.george@norfolk.gov.uk</a>
Howard Jones	01603 222832	<a href="mailto:howard.jones@norfolk.gov.uk">howard.jones@norfolk.gov.uk</a>



If you need this report in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 18001 0344 800 8020 (textphone) and we will do our best to help.

**Appendix 1****Letter of Representation (Norfolk County Council) 2018-19**My Ref: audit letter of rep  
Your Ref: .Please ask for: Howard Jones  
Direct Dialling Number: 01603 222832  
Email: [howard.jones@norfolk.gov.uk](mailto:howard.jones@norfolk.gov.uk)

29 July 2019

Mr M Hodgson  
Ernst & Young LLP  
One Cambridge Business Park  
Cambridge  
CB4 0WZ***DRAFT (example)***

This representation letter is provided in connection with your audit of the consolidated and council financial statements of Norfolk County Council ("the Group and Council") for the year ended 31 March 2019.

We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the financial position of the Group and Council financial position as of 31 March 2019 and of its financial position (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing yourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.



2. We acknowledge as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 for the Group and Council that are free from material misstatement, whether due to fraud or error.
5. [Subject to finalisation of audit] There are no unadjusted audit differences.

**B. Non-compliance with law and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
  - a. involving financial statements;
  - b. related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - c. related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
  - d. involving management, or employees who have significant roles in internal controls, or others; or

- e. in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### **C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 29 July 2019.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
5. We believe that the significant assumptions that we have used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### **D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated and Council financial statements all guarantees that we have given to third parties.

### **E. Subsequent Events**

1. Other than described in the relevant notes to the consolidated and Council's financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

#### **F. Group Audits**

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
3. We confirm that entities excluded from the consolidated financial statements are immaterial on a quantitative and qualitative basis.

#### **G. Other Information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and glossary of terms included in the Norfolk County Council Statement of Accounts 2018-19.
2. We confirm that the contents contained within the other information is consistent with the financial statements.

#### **H. Going Concern**

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### **I. Ownership of Assets**

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

#### **J. Reserves**

1. We have properly recorded or disclosed in the consolidated and Council financial statements the usable and unusable reserves.

#### **K. Use of the Work of a Specialist – Property, Plant and Equipment**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## **L. Valuation of Property, Plant and Equipment Assets**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.
2. We confirm that the significant assumptions used in making the valuation of assets appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Council financial statements due to subsequent events.
5. We confirm that we have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
6. We confirm that for assets carried at historic cost, no impairment is required.

## **M. Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

## **N. Use of the Work of a Specialist – Pension Liabilities**

1. We agree with the findings of the specialists that we engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## **O. Valuation of Pension Liabilities**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.
2. We confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Council financial statements due to subsequent events.

Yours faithfully

Simon George, Executive Director of Finance and Commercial Services

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I confirm that this letter has been discussed and agreed by the Audit Committee of Norfolk County Council on 29 July 2019

Cllr Ian Mackie

Chairman of Norfolk County Council Audit Committee

## Appendix 2

### Letter of Representation (Norfolk Pension Fund) 2018-19:

**Endorsed by 9 July 2019 Pensions Committee, updated for additional paragraphs A6 and E1.**

Mark Hodgson  
Associate Partner  
Ernst & Young LLP  
One Cambridge Business Park  
Cowley Road  
Cambridge  
CB4 0WZ

Please contact	Robert Mayes
Address	Norfolk Pension Fund 4 <sup>th</sup> Floor Lawrence House 5 St Andrews Hill Norwich NR2 1AD
Email	robert.mayes@norfolk.gov.uk
Telephone	01603 222870

29th July 2019

This letter of representations is provided in connection with your audit of the financial statements of Norfolk Pension Fund (“the Fund”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2019 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2019, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves.

## **A. Financial Statements and Financial Records (See Note B)**

A1. That we have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

A2. That we confirm that the Fund is a Registered Pension Scheme. That we are not aware of any reason why the tax status of the scheme should change.

A3. That we acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

A4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

A5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 that are free from material misstatement, whether due to fraud or error.

A6. We believe that the effects of any unadjusted audit differences as detailed in Note 5 of the accounts are immaterial both individually and in aggregate, to the financial statements taken as a whole. The reason for not adjusting the difference is detailed below:

i) Investment assets were understated by £10,059,000, the valuation of private equity held by HarbourVest Partners being estimated at £173,813,000 and the actual year end valuation (received in July 2019) being £183,872,000. This was not adjusted for in the accounts as it was not deemed to have a material overall impact.

## **B. Non-compliance with laws and regulations including fraud**

B1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

B2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

B3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

B4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

B5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

B6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund’s financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### **C. Information Provided and Completeness of Information and Transactions**

C1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

C2. You have been informed of all changes to the Fund rules.

C3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

C4. We have made available to you all minutes of the meetings of the Pension and Audit held through the year to the most recent meeting on the following date: 9th July 2019 for the Pension Fund Committee and 29 July 2019 for the Norfolk County Council Audit Committee.



C5. We confirm the completeness of information provided regarding the identification of related parties.

C6. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

C7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

C8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

C9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

#### **D. Liabilities and Contingencies**

D1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

D2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

D3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

D4. No other claims in connection with litigation have been or are expected to be received.

#### **E. Subsequent Events**

E1. As described in Note 6 to the financial statements, there has been one event subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto. The subsequent event relates to the Transition Arrangements Age Discrimination Legal case (McCloud) and the UK Government requested leave to appeal to the Supreme Court being denied. The rejection of the appeal enabled the Government Actuary Department (GAD) to develop an estimation technique and this has been made available by GAD. The Fund's actuary has adjusted GAD's estimate to better reflect the Norfolk Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to total liabilities (i.e. the increase in active members' liabilities expressed in terms of

total membership) could be 0.4% higher as at 31 March 2019, an increase of approximately £10M. The estimated increase in liabilities is reflected in note 20 to the financial statements.

## **F. Other information**

F1. We acknowledge our responsibility for the preparation of the other information. The other information comprises The Norfolk Pension Fund Annual Report and Accounts 2018/2019.

F2. We confirm that the content contained within the other information is consistent with the financial statements.

## **G. Independence**

G1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

## **H. Derivative Financial Instruments**

H1. We confirm that all investments in derivative financial instruments have been made after due consideration by the [members of the management of the Fund] of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

H2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

## **I - Pooling investments, including the use of collective investment vehicles and shared services**

I1. We confirm that all investments in pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

## **J. Actuarial valuation**

J1. The latest report of the actuary Hymans Robertson as at 31 March 16 has been provided to you. To the best of our knowledge and belief we confirm that

the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

#### **K. Use of the Work of a Specialist**

K1. We agree with the findings of the specialists that we have engaged to value Private Equity Investments and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **L. Estimates – Valuation of Investments**

L1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

L2. We confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

L3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

L4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

#### **M. Specific Representations**

M1. You do not require any specific representations in addition to those above.

Yours faithfully,

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(Executive Director of Finance and Commercial Services)

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(Chairman of the Pensions Committee)

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(Chairman of the Audit Committee)

# Report to Audit Committee

Item No. 8

<b>Report title:</b>	<b>Anti-Fraud, Bribery and Corruption Progress Report</b>
<b>Date of meeting:</b>	<b>29 July 2019</b>
<b>Responsible Cabinet Member:</b>	<b>Not applicable</b>
<b>Responsible Director:</b>	<b>Simon George, Executive Director of Finance and Commercial Services; and Helen Edwards - Chief Legal Officer</b>
<b>Is this a key decision?</b>	<b>No</b>
<b>Executive Summary</b> It is the role of the Audit Committee to have oversight of the effectiveness of the anti-fraud and corruption and whistleblowing arrangements of the Council including the strategy, policies and any associated guidance.  <b>Actions Required</b>  <b>The Audit Committee are asked to consider and agree:</b> <ul style="list-style-type: none"><li>• the key messages featured in this update and advise if further information is required</li><li>• the content of the Anti-Fraud, Bribery and Corruption and Whistleblowing Audit Committee Progress Report (Appendix A) and that the progress is satisfactory, and arrangements are effective.</li><li>• the updated activity plan at Appendix B</li><li>• the CIFAS Fraudscape report at Appendix C.</li></ul>	

## 1. Background and Purpose

- 1.1. The Norfolk Audit Service (NAS) Anti-Fraud, Bribery and Corruption Strategy was approved by the Audit Committee on 21 September 2017.

## 2. Proposals

- 2.1. The Audit Committee are asked to consider and agree:

- the key messages below
- that the work and assurance meet their requirements and advise if further information is required

The key messages are that:

- A working group has been established to implement the full council decision to mandate Anti-Fraud training for office-based personnel
- NCC's Anti-Money Laundering Policy has been updated and was approved by Cabinet on 10 June. The policy compliments the suite of

anti-fraud arrangements in place at NCC

- A benchmarking exercise has been completed to assess NCC's whistleblowing arrangements against a range of recommendations provided by **Protect**, a national whistleblowing charity
- The NAS Anti-Fraud, Bribery and Corruption 2019/20 Activity plan has been prepared in accordance with the NCC Anti-Fraud Strategy
- A whistleblowing awareness week has been planned for quarter two of the financial year.

The Norfolk Audit Service (NAS) Anti-Fraud, Bribery and Corruption Strategy continues to direct the proactive anti-fraud work undertaken.

Following production of the anti-fraud annual report (2018-2019) in March 2019; the report at **Appendix A** provides an update in respect of the pro-active and reactive anti-fraud, bribery and corruption activity undertaken during the current financial year (2019/20), including Whistleblowing.

Furthermore, an update of the Councils Anti-Fraud Annual Activity Plan at **Appendix B** has been drafted for the Audit Committee's approval. The activity plan has been developed to reflect both the NCC Policy, Strategy, and the national 'Local government counter fraud and corruption strategy 2016 – Fighting Fraud and Corruption Locally' (FFCL). In doing so the activity plan has been divided into four strategic areas (see section 4 below).

Finally, **Appendix C** of this reports provides the Audit Committee with a copy of the CIFAS Fraudscape Report 2019 for the Audit Committee's information.

Fraudscape provides fraud and financial crime professionals, law enforcement, journalists, and HR professionals with an accurate summary of fraud risk and fraudulent attempts made in the UK.

### 3. Impact of the Proposal

- 3.1. Norfolk Audit Service (NAS) leads on the strategic delivery of Counter Fraud, Bribery and Anti-Corruption work across all of NCC's services. The aim is to protect the public purse, NCC, its staff and its service users from corrupt activities that would undermine NCC's aims and objectives of meeting public service requirements.

The NAS Anti-Fraud, Bribery and Corruption Strategy and activity plan sets out and provides information on NCC's response to the document 'Fighting Fraud and Corruption Locally (FFCL), The local government counter fraud and corruption strategy 2016 – 2019'.

To support NAS in implementing appropriate measures, a suite of anti-crime goals has been developed (that encompass the FFCL strategy) in the following areas:

**Govern:** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout NCC.

**Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud

response.

**Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

**Pursue:** punishing fraudsters and prioritising the recovery of losses via a triple track approach (Civil, Criminal or Disciplinary), developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

#### **4. Evidence and Reasons for Decision**

4.1. Not applicable.

#### **5. Alternative Options**

5.1. There are no alternative options.

#### **6. Financial Implications**

6.1. The service expenditure falls within the parameters of the annual budget agreed by the council.

#### **7. Resource Implications**

##### **7.1. Staff:**

There are no staff implications.

##### **7.2. Property:**

There are no property implications

##### **7.3. IT:**

There are no IT implications

#### **8. Other Implications**

##### **8.1. Legal Implications:**

There are no specific legal implications to consider within this report

##### **8.2. Human Rights implications**

There are no specific human rights implications to consider within this report

##### **8.3. Equality Impact Assessment (EqIA) (this must be included)**

No implications

##### **8.4. Health and Safety implications (where appropriate)**

There are no health and safety implications

##### **8.5. Sustainability implications (where appropriate)**

There are no sustainability implications

##### **8.6. Any other implications**

There are no other implications

#### **9. Risk Implications/Assessment**

9.1. There are two types of risk:

- Financial Risks – The risk of loss to public funds as a result of fraudulent activity occurring within, or external to the Council.
- Reputational Risks – The risk of reputational damage as a result of fraudulent activity occurring within, or external to the Council.

**10. Select Committee comments**

10.1. Not applicable

**11. Recommendation**

11.1. See Action Required in the Executive Summary above.

**12. Background Papers**

12.1. None

**Officer Contact**

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

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**Anti-Fraud, Bribery and Corruption****APPENDIX A****NAS Anti-Fraud, Bribery  
and Corruption Audit  
Committee Progress Report  
(Including Whistleblowing)**

**For presentation  
at the Audit  
Committee  
meeting on:**

**29 July 2019**

## 1. Introduction

The Norfolk Audit Service (NAS) Anti-Fraud, Bribery and Corruption Strategy continues to direct the proactive anti-fraud work undertaken by NAS.

This report provides an update in respect of the pro-active and reactive anti-fraud, bribery and corruption activity undertaken during the period 1 April 2019 – 30 June 2019.

Furthermore, an update in respect of the Council's Whistleblowing provision can be found in section five of this report.

### 1. Key messages

- **The NAS Anti-Fraud, Bribery and Corruption activity plan has been updated for the period 1 April 2019 – 31 March 2020. A copy of the draft plan has been included at Appendix B along with this report.**
- **A group has been established to implement the decision of the full Council for all office-based staff to undertake Anti-Fraud, Bribery and Corruption training.**
- **The NCC's Anti-Money Laundering Policy has been updated and was approved by Cabinet on 10 June. The policy compliments the suite of anti-fraud arrangements in place at NCC.**
- **A 'Whistleblowing Awareness' week has been planned for quarter two of the financial year to implement recommendations arising from a benchmarking exercise completed internally. The awareness week will feature in internal communications across NCC to promote the arrangements in place.**

Further details of all the activity undertaken during the period can be found in section 2 below.

## 2. Proactive Work Summary

The table below provides a summary of activities completed/commenced during the reporting period. These follow the draft plan of activity.

	Activity
1.	<p>The NAS Anti-Fraud, Bribery and Corruption activity plan has been updated for the period 1 April 2019 – 31 March 2020. A copy of the draft plan has been included at <b>Appendix B</b> along with this report.</p> <p>The draft activity plan has been proposed in accordance with the criteria as set out by the NAS Anti-Fraud, Bribery and Corruption Strategy 2017 – 2019.</p> <p>The plan sets out a range of Anti-Fraud activities proposed for the current financial year as well as those activities that have commenced (noted herein).</p> <p>In producing the plan, a range of information is considered including results from investigations, local and national fraud risks, best practice and publications from nationally recognised organisations.</p> <p>The Audit Committee are asked to review the plan, provide any comments or proposed additions and agree the activities going forward.</p>
2.	<p>In a meeting of the full Council held on 7 May 2019, it was agreed by resolution that all office-based staff undertake eLearning relating to Fraud, Bribery and Corruption.</p> <p>A group has been established to implement the decision of the Council currently consisting of the Investigative Auditor, Senior Auditor and Workforce Development Manager.</p> <p>The group is currently assessing:</p> <ul style="list-style-type: none"> <li>• The current Anti-Fraud eLearning offering (optional participation)</li> <li>• The frequency of when training should be undertaken</li> <li>• Induction training requirements</li> <li>• Different approaches for managers and staff</li> <li>• Any required changes to other policies</li> <li>• Certification</li> <li>• Fraud survey results completed December 2018.</li> </ul> <p>A verbal update on progress will be available at the Audit Committee meeting.</p>
3.	<p>The Investigative Auditor has liaised with counter fraud colleagues within the</p>

	Activity
	<p>Department for Work and Pensions to identify opportunities for joint working.</p> <p>It has been identified that bespoke Anti-Fraud training is available from the DWP that has traditionally been provided to District Councils. The training is available through face to face meetings.</p> <p>Agreement has been reached to extend the DWP training to NCC employees who routinely use DWP systems and the Investigative Auditor is liaising with relevant departments to provide delegates.</p> <p>It is intended that the training will take place locally later in the year.</p> <p>The Investigative Auditor continues to liaise with external organisations including districts to promote collaboration within the anti-fraud remit.</p>
4.	<p>Data matching fieldwork involving the Cabinet Office National Fraud Initiative (NFI) is ongoing.</p> <p>The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The NFI exercise takes place bi-annually.</p> <p>The data provided by NCC includes areas such as payroll records, creditors records, pension records, direct payment records and other data.</p> <p>The NFI matches the data provided against data from other organisation and release the results of this to NCC in January/February 2019.</p> <p>Any significant findings will be reported to the Audit Committee and/or considered for further investigation upon conclusion of the fieldwork.</p>
5.	<p>As reported in January 2019, in addition to the NFI, NCC and District Councils are collaborating to complete regular data matching exercises via the NFI Fraud Hub.</p> <p>Fraud Hub is an additional resource available within the NFI functionality and utilises up to date NFI data so that matching can be completed more regularly.</p> <p>Other functionality that is being used locally includes enhanced application checking facilities that can used in areas such as employment, social care applications including credit checking facilities where appropriate.</p> <p>The Investigative Auditor and Information Management continue to work with departments and districts and some matching and other checks have already taken place, which has positively contributed to investigation work.</p> <p>Further work is expected in the coming months and significant findings will be reported.</p>

	Activity
6.	<p>The NCC's Anti-Money Laundering Policy has been updated and was approved by Cabinet on 10 June. The policy compliments the suite of anti-fraud arrangements in place at NCC.</p> <p>Money Laundering is any process that 'cleans' illegally obtained funds of their criminal origins, allowing them to be used within the legal economy.</p> <p>Although the risk to NCC is considered low, money laundering has the potential to threaten NCC (and the UK's) financial security, prosperity and reputation.</p> <p>Following production of the policy, training programs are being researched for the appropriate personnel and an article has been published in Norfolk Manager to promote the provisions of the policy.</p>
7.	<p>A Financial Safeguarding Officer (FSO) has been employed in Financial Exchequer Services (FES) to investigate cases of potential financial abuse affecting vulnerable members of the community.</p> <p>Financial or material abuse can include theft, fraud, exploitation, pressure in connection with wills, property or inheritance or financial transactions, or the misuse or misappropriation of property, possessions or benefits</p> <p>The Investigative Auditor is working with FSO to identify areas of opportunity for joint working and further enhance NCC's overarching Anti-Fraud strategy and caring for the community</p> <p>Areas of joint interest have already been identified and are being progressed in areas including:</p> <ul style="list-style-type: none"> <li>• NFI</li> <li>• Direct payments</li> </ul>
8.	<p>The Investigative Auditor has met/liased with the following departments/personnel throughout NCC to discuss fraud, bribery and corruption issues during the period:</p> <ul style="list-style-type: none"> <li>• Educator Solutions (ES) Head of Finance, Leadership &amp; Governance Services</li> <li>• NP Law solicitors.</li> <li>• Blue badge investigator</li> <li>• Financial Safeguarding Officer</li> <li>• Workforce Development Manager.</li> <li>• Client Services Exchequer Manager.</li> <li>• Communications leads</li> <li>• Compliments and complaints team</li> <li>• Customer service team leader (concessionary travel)</li> </ul>

	Activity
	<p>The purpose of these meetings was to enhance NCC's counter fraud culture, promote the reporting lines for raising concerns, identify areas for counter fraud activity and assess potential investigations.</p>
9.	<p>NAS continues to support Norfolk Against Scams Partnership (NASP) in cooperation with Norfolk Trading Standards. The work undertaken by NAS includes promoting fraud and scams awareness to Norfolk Schools.</p> <p>NASP is a partnership of organisations committed to taking a stand against scams and aims to make Norfolk a scam free county.</p> <p>Since joining the partnership NAS colleagues have highlighted the issues of fraud and scams through commissioned school audits and provided materials to mitigate the risk of schools falling victim to scammers. This new initiative has been ongoing since February 2019.</p> <p>Being scammed or targeted by fraud can have a devastating impact on some of the most vulnerable people in Norfolk and we will continue to raise scams awareness in Norfolk schools as part of this collaboration.</p>
10.	<p>We have provided two articles during the period for the inclusion in the Councils internal communication; Norfolk Manager.</p> <p>The articles covered the following topics:</p> <ul style="list-style-type: none"> <li>• NCC Money Laundering Policy</li> <li>• 'Sensitive Personal Information: Be neat and discreet' (data protection)</li> </ul> <p>By providing articles of this nature it is intended that managers have a better understanding of the risks that are associated within the topic areas so appropriate measures can be applied to mitigate the risk of fraud and bribery from occurring.</p>
11.	<p>The Credit Industry Fraud Avoidance System (CIFAS), a UK fraud prevention service has published their 2019 Fraudscape report.</p> <p>Fraudscape provides fraud and financial crime professionals, law enforcement, journalists, and HR professionals with an accurate summary of fraud risk and fraudulent attempts made in the UK.</p> <p>Key findings in this year's Fraudscape include:</p> <ul style="list-style-type: none"> <li>• fraudulent conduct rise as Cifas members record almost 324,000 cases in 2017; a 6% increase compared with 2017;</li> <li>• Steep rise in money mule activity, with a 26% increase on 2017;</li> <li>• Identity fraud continues to rise in 2018 by 8%. Those aged 21 or under and over 60 experienced the greatest rises.</li> </ul>

	Activity
	<p>Consideration has been given to the report in the production of the NAS Anti-Fraud and Bribery draft activity plan (see point 1 above).</p> <p>A copy of the CIFAS Fraudscape report has been included at <b>Appendix C</b> for the information of the Audit Committee.</p>
12.	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) launched its fifth Counter Fraud and Corruption tracker (CFaCT).</p> <p>The Investigative Auditor is liaising with colleagues from across the Council to complete the survey and contribute to the benchmarking work.</p> <p>The outcomes of the survey will inform future counter fraud work and activity plans.</p>

### 3. Looking Ahead

An activity plan of proposed work for the current financial year has been provided at **Appendix B**.

Due to reactive investigation priorities and available resource it may not be possible to complete all the stated tasks during the period.

### 4. Reactive Investigation Update

The below tables provide a summary of the fraud cases investigated during the current financial year.

The “**Fraud Detected**” column represents cases that resulted in either a sanction or other corrective action to mitigate the risk of reoccurrence:

Cases brought from 2018/2019	Total referrals received 2019/2020 to date	Cases closed - Fraud Detected	Cases closed – No Further action	Total cases on-going
4	3	2	1	4

A summary of any financial loss and/or any recovery action will be provided in the 2019-2020 Anti-Fraud, Bribery and Corruption Annual Report.

### 5. The Effectiveness of the Whistleblowing Policy - Update

The Chief Legal Officer and Chief Internal Auditor champion the Whistleblowing Policy. It is their role to ensure the implementation, integrity, independence and

effectiveness of the policy and procedures on whistleblowing. It is important to create a culture of confidence for employees to report those concerns, track the outcome of whistleblowing reports, provide feedback to whistle-blowers and take reasonable steps to protect whistle-blowers from victimisation. Not all reported concerns will fall within whistleblowing law, but they are all taken seriously.

Norfolk Audit Service is responsible for receiving and progressing all disclosures made to the Council under the NCC Whistleblowing Policy.

A summary of the Whistleblowing activity received can be found below:

- A benchmarking exercise has been completed to assess NCC's whistleblowing arrangements against a range of recommendations provided by Protect, a national whistleblowing charity. The outcome of the exercise was that NCC has robust governance arrangements in place however, pro-active work is required in staff engagement to ensure key messages, employee confidence and reporting arrangements can be evidenced, as described below.
- A 'Whistleblowing Awareness' week has been planned for quarter two of the financial year to implement recommendations arising from the benchmarking exercise. The awareness week will feature in internal communications across NCC to promote the arrangements in place.
- A total of 20 whistleblowing disclosures were received during the 2018-19 financial year of which; 14 are closed or in the process of being closed, one is on hold pending potential legal proceedings and five cases are ongoing. Whistleblowing themes include areas such as; public health, adult social care, alleged bullying and harassment, alleged fraudulent activity, and children's services.
- One new referral has been made in the current financial year in the area of residential care.
- Previous lessons learned include; contract management processes, fraud prevention awareness and health and safety procedures. Where deemed necessary, internal audits have been planned because of whistleblowing referrals received.

The types of referrals received vary greatly however, the top recurring themes are as follows;

- (a) Care Providers and duty of care
- (b) Bullying and Harassment allegations
- (c) Fraud & Corruption and use of public funds



The role of Norfolk Audit Service in dealing with Whistleblowing complaints is to assess the disclosures and ensure these matters are addressed by either investigating the matter where it relates to fraud and corruption or; forwarding to the correct department for review and investigation by that department if appropriate.

We also liaise with Whistleblowers as an independent point of contact to ensure segregation of duties and that matters have been resolved to their satisfaction.

Where a whistleblowing referral is received we will inform the appropriate Executive Director (where appropriate) of the referral to ensure the matters are addressed effectively.

#### Contact

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

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## **APPENDIX B**

# **Anti-Fraud, Bribery and Corruption annual activity plan 2019 - 2020**

**Approved by the Chief Internal Auditor  
on:**

**Presented at the Audit Committee  
meeting of: 29 July 2019**

**Investigative Auditor: Andrew  
Reeve,**

Accredited Counter Fraud Specialist  
(ACFS)

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## Development of the activity plan

### Introduction

Norfolk Audit Service (NAS) has developed this activity plan in accordance with the NCC Anti-Fraud, Bribery and Corruption Operational Strategy.

The activity plan is focused on identifying and targeting areas within NCC which are vulnerable to the risk of fraud, bribery and corruption and; to raise awareness and contribute towards a robust anti-fraud, bribery and corruption culture to the council's members, employees, consultants, suppliers, contractors, outside agencies, their employees and any other party that NCC is in a formal partnership relationship with, including the wholly owned companies

The activity plan has been developed to reflect both the NCC Policy, Strategy, and the national 'Local government counter fraud and corruption strategy 2016 – Fighting Fraud and Corruption Locally' (FFCL). In doing so the activity plan has been divided into four strategic areas as follows:

**Govern:** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout NCC.

**Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

**Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

**Pursue:** punishing fraudsters and prioritising the recovery of losses via a triple track approach (Civil, Criminal or Disciplinary), developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

For 2019, the work programmed within this activity plan has been prioritised to focus on proactive activities and therefore, it may not be possible to cover all of the operational criteria detailed within the NCC strategy during the activity plan period. Furthermore, some of the activities planned may be delayed due to operational investigation priorities and carried forward to subsequent activity plans.

The activity plan provides a clear and measurable standard to be agreed, delivered and reported to ensure accountability and to highlight exceptions.

### Managing Fraud Risk

Targeted fraud risk assessments will be undertaken as to assess NCC's approach to tackling fraud and corruption.

It is intended that the assessment will identify areas of good practice as well as areas where further controls may require implementation to improve fraud resilience.

Any significant findings will be reported to Corporate Board and the Audit Committee through the normal quarterly reporting process, or sooner if urgent cases are identified.

## Anti-Fraud, Bribery and Corruption Annual Activity Plan 2019-2020

The table below lists the activities planned to be undertaken between 1 April 2019 and 31 March 2020. In the left column, the numbers provided link each activity to the NCC Operational Strategy with the corresponding value.

**Govern:** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout NCC.

Criteria no.	Theme	Activity plan task
1 / 6	Governance  Meetings/ Liaison	<p>The Investigative auditor will continue meet with key personnel throughout NCC to discuss fraud, bribery and corruption issues, particularly:</p> <ul style="list-style-type: none"> <li>• Procurement</li> <li>• Human Resources</li> <li>• Complaints</li> <li>• Financial Exchequer Services</li> <li>• NpLaw</li> </ul> <p>The purpose of the meetings is to enhance NCC's counter fraud culture, promote the reporting lines for raising concerns and identify areas for further counter fraud activity.</p> <p>Success measure: Key personnel confirm awareness and agreement</p>
2	Governance  Risk Assessments/  Reviews	<p>A pro-active exercise will be completed in the area of Direct Payments.</p> <p>The exercise will look to identify potential undeclared property assets held by service users.</p>

Criteria no.	Theme	Activity plan task
	Adult Social Care	<p>Undeclared properties may indicate that NCC is funding services where the service user is not eligible.</p> <p>Success measure: Output report</p>
2	Governance Risk Assessment Audit	<p>Two thematic anti-fraud audits will be completed during the financial year.</p> <p>The Investigative Auditor will liaise with audit colleagues to select risk based audit topics, advise on terms of reference and review testing.</p> <p>Success measure: Output reports</p>
3	Communication Reporting	<p>Completion and submission reports for Corporate Board and Audit Committee inclusive of;</p> <ul style="list-style-type: none"> <li>Quarterly updates</li> <li>2019/20 anti-fraud Activity plan</li> <li>Anti-Fraud, Bribery and Corruption annual report *(Due March 2020).</li> </ul> <p>Success measure: Meeting deadlines for publication. Audit Chairman feedback.</p>
4	Governance Collaboration	<p>The Investigative Auditor will liaise and collaborate with investigators from the Blue Badge, Financial Safeguarding and Trading Standards teams and identify opportunities for joint working and data sharing to enhance the NCC wider anti-fraud provision.</p> <p>Success measure: Feedback, case work, joint investigation work.</p>
5/7	Governance Continued Professional Development Identity Checking	<p>The Investigative Auditor will undertake refresher training in identity (ID) checking and undertake research with a view to training employees and creating a corporate ID check policy that covers all NCC customer facing activities, including Adult/Children's Services.</p> <p>Serious organised crime, people trafficking and fraudulent activity are imminent and growing threats to society. The use of false identities is synonymous with these crime areas and it is vital</p>

Criteria no.	Theme	Activity plan task
		<p>NCC staff who check identification are trained in spotting fraudulent documents.</p> <p>Success measure: Completion of training, development of new policies and procedures.</p>

**Acknowledge** - Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

Criteria no.	Theme	Activity plan task
8 (1)	Communication  Mandatory Training/ Awareness	<p>Following recent decision of full council to mandate anti-fraud eLearning for all office-based staff;</p> <p>Review and update of the anti-fraud, bribery and corruption awareness eLearning modules on the NCC intranet.</p> <p>Collaboration with workforce delivery manager (Human Resources) to ensure task completion.</p> <p>Success measure: Demonstrable completion of the e-learning.</p>
8 (2)	Communication  Anti-Fraud awareness training	<p>DWP Anti-Fraud training sessions to be scoped and delivered (where appropriate) to key departments who access and work with DWP I.T. systems.</p> <p>Recent collaboration with DWP colleagues has identified bespoke anti-fraud training available to District colleagues can be made available for NCC staff.</p> <p>Success measure: Delegate feedback</p>
8 (3)	Communication  Bespoke presentations	<p>Preparation and attendance at internal meetings following key personnel meetings where required.</p> <p>Presentation to include:</p> <p>Fraud Act 2006</p>

Criteria no.	Theme	Activity plan task
		Bribery Act 2010 Identity checking Scam emails and calls Case studies Promoting the CF&B policy Reporting concerns / advice  Success measure: Service Heads to confirm satisfaction
8 (4)	Communication  Newsletters	Regular updates and publications to be developed to highlight fraud, bribery and corruption risks and communicated throughout NCC via various media including; Friday takeaway, Norfolk manager, local department communications, Schools information sheets.  Success measure: Evidence based.
8 (5)	Communication/ Culture  National Fraud Awareness Week	Supporting and promoting international fraud awareness week (November 17-23, 2019) including suitable promotional activity to raise awareness of the event.  Success measure: Service Heads to confirm satisfaction
8 (6) and 11	Communication/ Culture  Whistleblowing Awareness	Following the development of the Council's whistleblowing policy and reporting procedures:  Whistleblowing awareness week to be promoted throughout NCC to include; <ul style="list-style-type: none"> <li>• Poster campaign</li> <li>• Internal Comms articles</li> <li>• Screensavers</li> <li>• Leafletting activity.</li> </ul> By promoting the Council's whistleblowing arrangements, it is intended that staff will have increased confidence in reporting matters that fall within the scope of the policy including instances of fraud, bribery and corruption.  Success measure: Service Heads to confirm satisfaction
9	Strategy and Culture  Whistleblowing.	Undertaking of whistleblowing benchmarking exercise against Protect Whistleblowing Charity best practice.

Criteria no.	Theme	Activity plan task
		<p>Implementation of recommendations arising from exercise.</p> <p>With the implementation of best practice it is intended that staff will have increased confidence in reporting matters that fall within the scope of the policy including instances of fraud, bribery and corruption.</p>
9	Policy Review	<p>Undertake a review of the Anti-Fraud, Bribery and Corruption policy to ensure:</p> <ul style="list-style-type: none"> <li>• It is up to date</li> <li>• Compliant with legislation</li> <li>• Considers new and emerging best practice</li> </ul>
10	Culture/ Capability  Policy Reviews	<p>Reviews of new and existing policies following updates to the anti-fraud, bribery and corruption policy to ensure continuity.</p> <p>In addition, to ensure that the appropriate links and counter fraud messages are communicated throughout NCC's policies and procedures.</p> <p>Success measure: Evidence based.</p>
11	Culture/ Capability  Reporting Concerns	<p>See 8 and 9 above</p>
12	Culture/ Communication  Code of Conduct  Conflicts of Interest / Gifts and Hospitality	<p>Revisit and review development of the procedures in place for the reporting of Gifts, Hospitality and Conflicts of Interest following 2018 Audit work.</p> <p>Success measure: Evidence based</p>

**Prevent** – preventing, deterring and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.



Operational Criteria no.	Theme	Activity plan task
13	Capability  Staff Surveys	Following mandatory learning implementation:  Repetition of annual staff survey to test and measure the awareness of employees in respect of what constitutes fraud, bribery and corruption, and how to report concerns.  Success measure: progress measured against previous surveys.
14	Collaboration/ Communication  Emerging Risks	Research and development of emerging fraud, bribery and corruption risks including communication to key personnel, follow up and review.  Success measure: Evidence based feedback.
16	Capability  Pre-Contract Procurement	Audit in progress  Success measure: Audit outcomes – reports to committee
17	Capability  Banking Control and Invoice Fraud	A review of the procedures in place at the council for the prevention and detection of fraud, bribery and corruption in the area of invoice fraud.  Success measure: Report to Audit Committee
18	Capability  Recruitment Fraud	A review of the procedures in place at the council for the prevention and detection of fraud, bribery and corruption in the area of identity checks.  See 5/7 above  Success measure: relevant outputs.
19	Collaboration  Cyber Crime	Undertake liaison with those charged with preventing cyber related frauds e.g. Email scams, spoof emails, scam telephone calls.  Research methods for a more collaborative response to tackling cyber issues across NCC and partner organisations.  Success measure: Report to Audit Committee

**Pursue** - punishing fraudsters and prioritising the recovery of losses via a triple track approach (Civil, Criminal or Disciplinary), developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

Operational Criteria no.	Theme	Activity plan task
21	Detection Fraud Hub	Continue to work with Information Management and Technology and district councils in the development and implementation of Fraud Hub.  Continue to liaise with departments regarding application checking via fraud Hub systems  Success measure: Direct outputs
21	Detection National Fraud Initiative (NFI)	Review of the 2018/2019 NFI match outcomes released February 2019.  Scoping work completed for matches based on value and risk and completion of follow up work to provide assurance that NFI matches are being investigated robustly and to the correct outcome in progress.  Completion of new processes and match criteria over financial year.  Success measure: match outcomes / report to Audit Committee
21	Investigation Investigation management (IM)	Completion of business plan for IM software and implementation of the same.  Success measure: Implementation and reports

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YOUNG OR OLD – WHO  
IS MORE AT RISK?

Read more on page 6

HORIZON SCANNING:  
Three things to look out for

Read more on page 18

INSIDE THE WORLD OF  
DEGREE FRAUD

Read more on page 29



# FRAUDSCAPE

2019



**cifas**  
Leaders in fraud prevention

**IDENTITY FRAUD AND MONEY  
MULES RISE AGAIN**

Fraud on the increase overall

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## Introduction: Surge in identity fraudsters and money mules

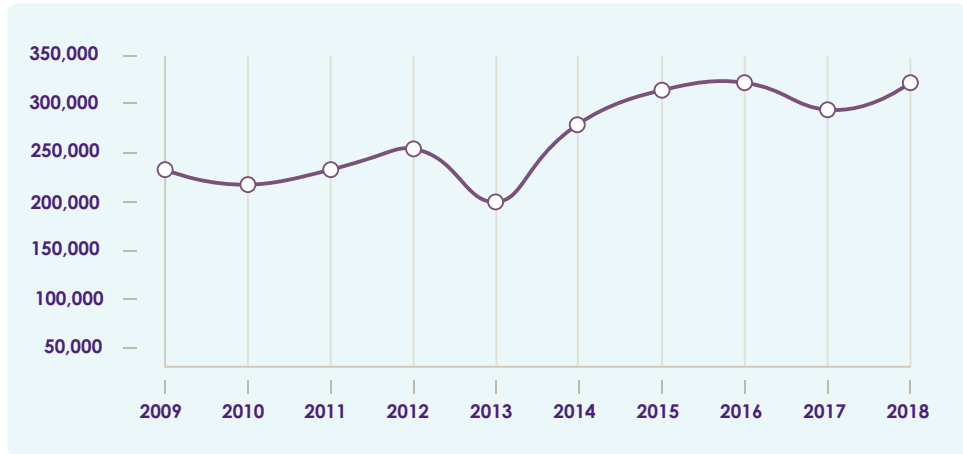


By Sandra Peaston  
Director of Research  
and Development, Cifas

### 2018 sees rise in fraudulent conduct

Over 350 organisations contribute to the Cifas National Fraud Database (NFD). In 2018, these organisations reported almost 324,000 cases of fraudulent conduct – a 6% increase compared with 2017.

#### Number of fraud cases



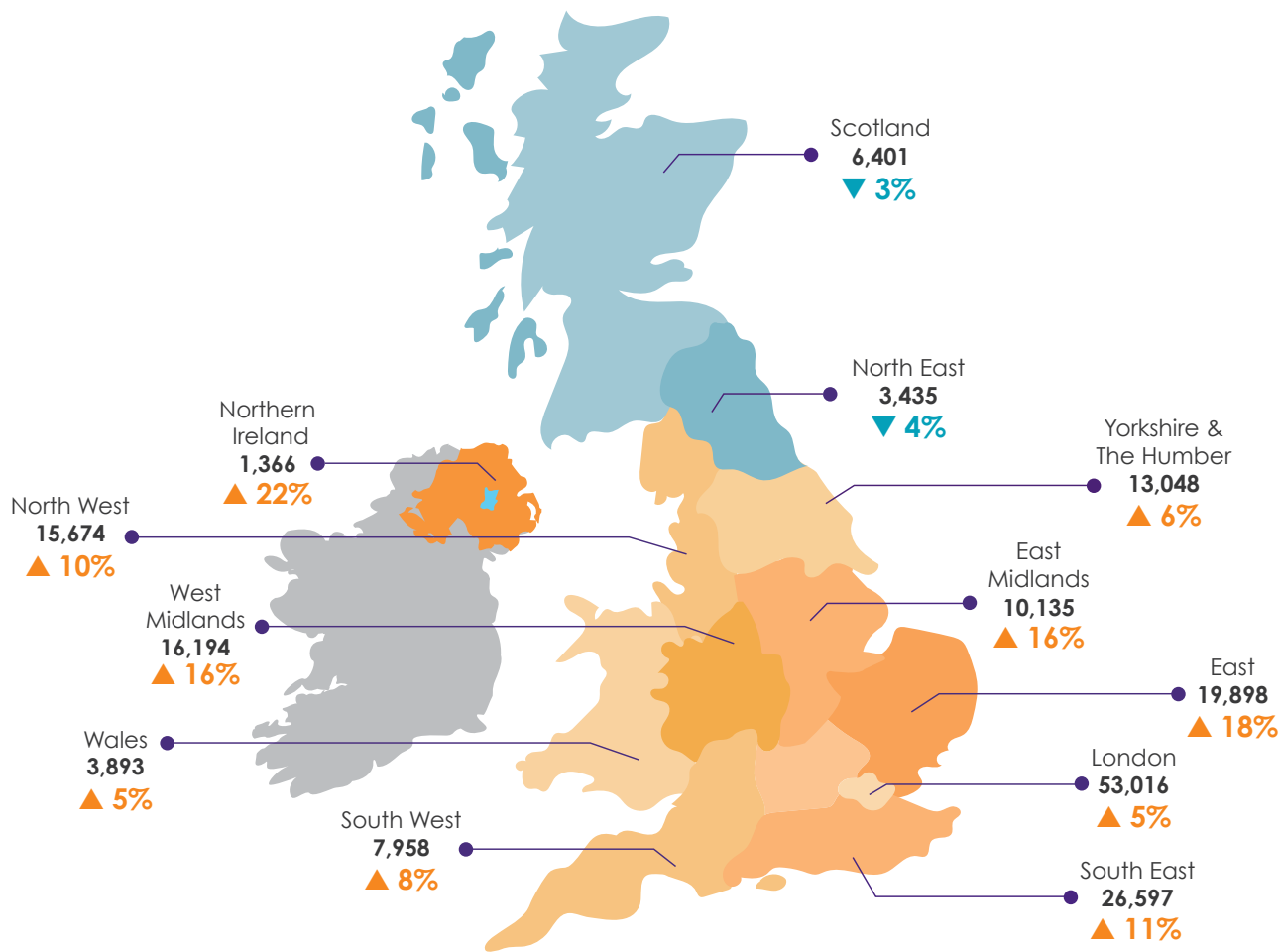
This represents a return to the high levels seen in 2015 and 2016, eclipsing a dip in 2017. The rise was driven by two main types of fraudulent conduct, namely identity fraud and the fraudulent misuse of a facility. Identity fraud increased by 8% and accounted for 58% of the frauds reported while misuse of facility increased by 10% and accounted for 25%. Both fraud types have long been causes for major concern, but for very different reasons:

- 19 of every 20 identity frauds involve an innocent victim who is left to pick up the pieces after a fraudster has used his/her name to apply for products and services.
- The fraudulent misuse of a facility\* predominantly relates to the misuse of a bank account, where the conduct bears the hallmarks of money mule activity. In short, this entails people laundering money through their bank accounts on behalf of criminals. The quantity of people, often young, engaged in this type of activity presents serious issues for financial services, regulators, law enforcement and society as a whole.

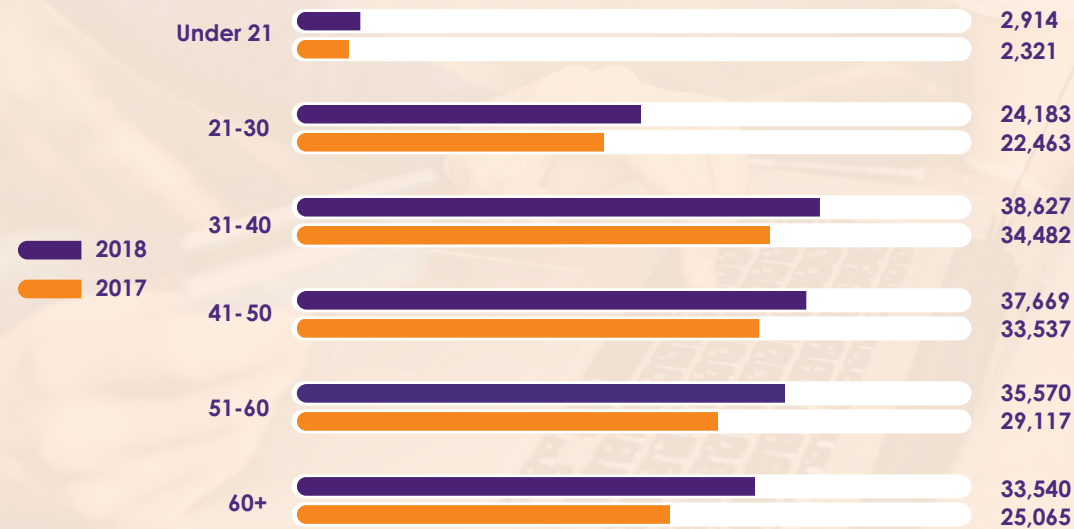
\*Misuse of facility is where someone obtains an account/policy or other facility with the deliberate intent of using it for a fraudulent purpose.



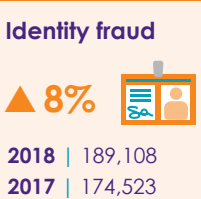
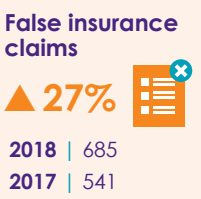
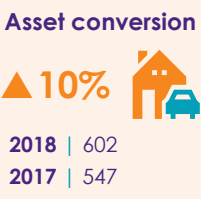
Victims of impersonation by region



Victims of impersonation by age



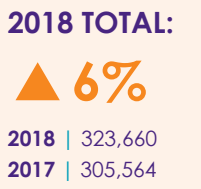
Going Up



Going Down



Total



Cifas case types explained

- Asset conversion**  
The unlawful sale of an asset subject to a credit agreement; for example, a car bought on finance and sold on before it has been paid off.
- False insurance claims**  
These occur when an insurance claim, or supporting documentation, contains material falsehoods.
- Identity fraud**  
When a fraudster abuses personal data to impersonate an innocent party, or creates a fictitious identity, to open a new account or product.
- Misuse of facility fraud**  
The misuse of an account, policy or product; for example, allowing criminal funds to pass through your account or paying in an altered cheque.
- Application fraud**  
When an application for a product or service is made with material falsehoods, often using false supporting documents.
- Facility takeover fraud**  
When a fraudster abuses personal data to hijack an existing account or product; for example, a bank account or phone contract.

# Identity fraudsters target the young and old

Identity fraud continued to increase in 2018, with 8% more cases recorded to the National Fraud Database than in 2017. In 97% of these cases, the fraud involved the misuse of the identity of an innocent victim. Worryingly, those aged 21 or under and those over 60 experienced the greatest rises in victimisation.

In 2018, the targeting of plastic cards by identity fraudsters returned with a vengeance. There was a 41% increase on 2017 and, generally, when the product targeted was a plastic card, the victims tended to be older. More than 33,000 individuals over 60 became victims of impersonation during the year, an increase of 34% over the previous year. Plastic cards, in particular credit cards, have long been the product most targeted by identity

fraudsters and as older people are perceived to be more likely to be approved for credit they have found themselves increasingly targeted.

**“THE INFORMATION A FRAUDSTER NEEDS TO COMMIT IDENTITY FRAUD CAN COME FROM A NUMBER OF DIFFERENT SOURCES.”**

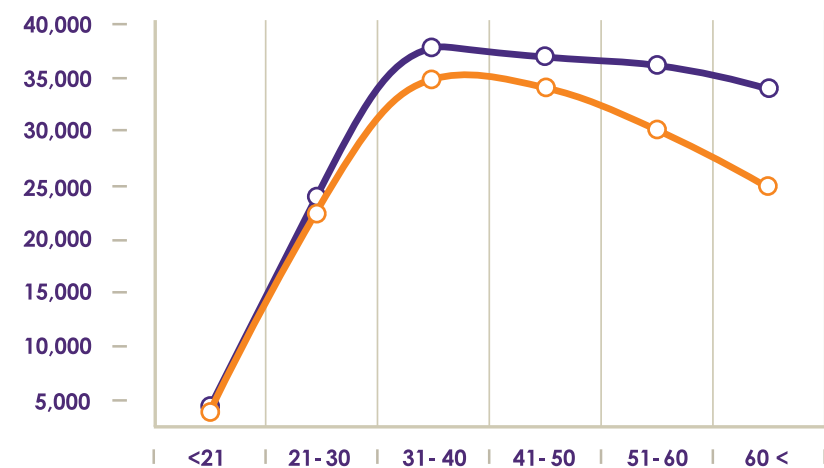
The substantial increase in the targeting of older people for identity fraud is a real cause for concern. However, more attention continues to be given to addressing fraud against the elderly and vulnerable where the individual is deceived by a fraudster into making a payment. While undoubtedly this type of fraud

is the most harmful to the victim, the stark increase in identity fraud using the identities of older victims emphasises that this is not the only area where older age groups are at risk.

The information a fraudster needs to commit identity fraud can come from a number of different sources, but the two most likely are the Internet and the individual themselves. As more services have moved online, so there is a greater danger of data being involved in a breach. There is also a higher risk of people falling victim to phishing attacks or other forms of social engineering as there are more ‘hooks’ for the fraudsters to use to lure their prey. Whether someone over the age of 60 is new to the online world, or has 15 or more years experience, there are now more Internet users over the age of 60 than ever before. Accepting that Internet use increases the risk of identity fraud, it follows that there are now more potential victims in this age group.

Although an individual cannot do much about the possibility of their data being exposed by a breach at a service provider, there are however steps that they can take to mitigate the other areas of risk. There is clearly a requirement to provide educational messaging properly tailored to, and targeted at, older age groups to help them recognise and protect themselves from the risks fraudsters pose. This

Age of victims of impersonation



will be key to helping older age groups to safeguard their personal information online.

At the other end of the spectrum, the number of under 21s becoming victims of identity fraud also increased in 2018 -by 26%. The continuing increase in the number of young victims of identity fraud is a clear signal that the need for education on the risks of fraud is pressing. Younger age groups, particularly under 21s, should present far less of a challenge when

it comes to delivering appropriate prevention messages as many are still in education and can be more easily reached. The key here is to impress upon the authorities that this is an issue that deserves its place in the national curriculum.

In Fraudscape last year, we reported that fraudsters were willing to target different types of product. This year the trends show that fraudsters are willing to target different types of victim. Information from Cifas members and law enforcement

highlights that fraudsters are also willing to use different methods. For example in the period where the biggest increases in identity fraud were reported, intelligence highlighted both the targeting of rural areas and blocks of flats in London by crime groups. This shows that the identity fraud threat continues to evolve and that, for identity fraudsters, one size certainly does not fit all. We must all be alert to this ever-changing crime.

## Protecting your brand from identity fraud

Why do organisations need to invest in preventing identity fraud? Aside from a moral obligation to prevent the abuse of an innocent person's identity, there are two obvious reasons:

- to prevent financial loss to the organisation; and
- to comply with requirements to Know Your Customer, where that applies.

Less recognised, perhaps, is the value to the brand of effective prevention of identity fraud, and, where identity fraud does occur, swift and efficient resolution for the victim of impersonation. Every victim of impersonation is a potential or current customer, and for those organisations where their direct financial exposure is limited or non-existent, this could well be the area of the greatest impact. An individual who finds that they are receiving correspondence from an organisation that they have not entered into a relationship with is unlikely to regard that organisation well, and are therefore less likely to become a customer of that organisation in the future. An organisation does have the opportunity to reduce the negative impression, however, by providing excellent customer service when they are contacted by the victim. Investment in identity fraud prevention and resolution can therefore be seen as protecting future revenue.



With identity fraud levels reaching an unprecedented 189,108 cases

in 2018, the need to know how identities are compromised in the first place becomes more and more pressing. In today's world, much of what we do is online. Not only is it an easy and convenient way for us to do everyday tasks such as banking and shopping, but it also provides a way for us to network on both a professional and personal level. Ofcom research in 2018 revealed that 9 in 10 adults use the Internet, with more than three-quarters having a presence on social media or messaging sites and apps.

In 2018, Cifas released Wolves of the Internet: Where do Fraudsters hunt for data online, which looked at what personal information was available on the Internet and how it could all be pieced together. The report showed that 65% of victims of identity fraud had a visible social media presence or had been victims of a data breach. Of particular interest was that personal information had not just been stolen from profiles that were currently used, but also profiles that were no longer in use but had not been deactivated and deleted. Such profiles are often forgotten about, but remain in the public domain, revealing a wealth of personal information.

Younger victims of impersonation had a high social media presence and could easily have their identities pieced together through information available on various sites such as Facebook, LinkedIn and Google+. In such cases, their details were being used by fraudsters primarily for payday

loans and mobile phone contracts. Although victims of impersonation aged 61 years and over had a low social media presence compared with their younger counterparts, they were more likely to have had their email address leaked (often repeatedly) as part of a data breach with the most likely

sources of the breach being digital newsletters. Gone is the myth that personal information is just sold on the dark web. This research shows that forums on the normal surface web play a pivotal role in the illicit trade of personal information. In one forum that had ostensibly been set

up for sharing problems about telecommunications, 98% of the posts in one month were in relation to selling personal information. The research revealed that often, it was forums like this, i.e. those no longer being used for their original purpose, that were instead being misused to sell information, mainly

due to the lack of monitoring or administration. It is essential that owners of all forums monitor them, and/or close old forums down, as well as ensure that there are channels to report any misuse.

## Wolves of the Internet: where is data stolen online?



### Recommendations

**1** Review privacy settings on all your social media accounts. It may take time, but it is worth it to keep your personal information safe.

**2** Be cautious of accepting an invitation to "connect" from individuals you do not know. LinkedIn provides advice in its help centre about reporting fake profiles, inaccurate profiles and scams.

**3** Deactivate and delete old profiles. Using search engines like Pipl will help you identify your old social media accounts.

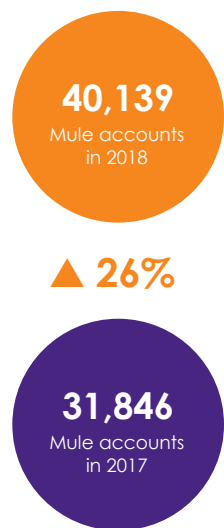
**4** If it seems too good to be true, it probably is. Never reveal personal or financial information. See [www.getsafeonline.org](http://www.getsafeonline.org) for more about how to safe on social media.

**5** Use a password manager tool to help you to store your passwords securely and to help create new ones for every different site you use.

# Steep rise in money mules

In 2018, organisations reported over 40,000 cases of fraudulent abuse of bank accounts that bore the hallmarks of money mule activity. This was an increase on 2017 of 26%. A money mule is an individual who allows his/her bank account to be used to move criminal funds – money laundering. In some cases the recipient account will have been opened through identity fraud, but the number of such accounts has been decreasing due to improved security – leaving the fraudsters needing to recruit mules to launder their illicit funds for them. Often these funds will have come from members of the public who have fallen prey to Authorised Push Payment

(APP) fraud, that is where a fraudster has deceived an individual into transferring his/her own money to another account. In the first half of 2018 alone, £145.4m was lost through this type of fraud.\* We would be naive to think, though, that it is purely the proceeds of fraud and scams that are laundered through networks of mule accounts. Fraud, particularly APP fraud, is in itself a harmful crime with the power to ruin lives, but it also provides an identifiable entry point into a mule network as victims know the account number and sort code to which they paid their money. This gives an investigator somewhere to start. The same does not apply to other crime types, so the extent to which



mule networks are used to launder the proceeds of other forms of serious, organised crime is less well understood. Mule herders (those controlling networks of mule accounts) recruit prolifically online, using social media and instant messaging channels to recruit an army of money mules. Individuals are recruited through posts on sites such as Facebook and Instagram, with pages advertising easy money or asking for use of accounts in return for a 'fee' or a cut of the proceeds. On many of these pages there will be images or videos designed to lure in potential mules by showing individuals flashing lots of cash, high-end trainers or other luxury items. When a potential mule takes the bait, the conversation is

often taken to an encrypted channel such as WhatsApp. Mule recruits are typically young and male. In 2018, where the gender was known, 70% were male and 27% of account holders were under the age 21, with 50% 26 or younger. The age distribution of the account holders was very similar to that reported in 2017, but of interest was an increase in those over 40, where the rate of increase was higher, albeit from a low base.

The fraud prevention community continues to raise awareness of the harmful consequences of money mules, with education a key strand to preventing more young people becoming involved in criminal activity. As more people become aware of the impact and repercussions of money muling, including the potential for custodial sentences, then it is hoped that the number of people willing to engage in it will reduce. Cifas, through the Home Office-led Joint Fraud Taskforce seeks to encourage educators to provide fraud prevention awareness and prevention lessons. Anti-fraud lesson plans, prepared in partnership with the PSHE Association to support that aim, can be found at [www.cifas.org.uk/insight/public-affairs-policy/anti-fraud-lesson-plans](http://www.cifas.org.uk/insight/public-affairs-policy/anti-fraud-lesson-plans)

Money mules by age

MULE AGES	2017	2018	% CHANGE
<21	8,475	10,686	▲ 26%
21- 30	12,149	15,066	▲ 24%
31- 40	6,571	8,209	▲ 25%
41- 50	2,948	3,970	▲ 35%
51- 60	1,242	1,671	▲ 35%
60<	412	516	▲ 25%
14-24	13,905	17,708	▲ 27%

# Public inquiries into fraud raise awareness amongst MPs

Over 3.2 million frauds are committed in England and Wales each year, with the cost to the economy running into billions of pounds. The impact on victims is far-reaching. It is therefore clear that fraud is the volume crime of our time. Proposed by Cifas, The All Party Parliamentary Group on Financial Crime and Scamming (APPGFCS) was established in October 2017. Its purpose is to give MPs and Peers the information they need to represent and advise their constituents effectively, and to understand the challenges that all sectors face in trying to stem the tide of this growing crime. Conor Burns MP, Chair of the group, announced the APPG's first public inquiry in spring 2018. Wide in scope, this inquiry examined two particular themes, seeking insights into:

- Young people exposed to fraud as victims.
- Those who were being groomed by unscrupulous fraudsters to launder the proceeds of crime by acting as money mules.

The inquiry received evidence from 12 organisations including financial institutions, law enforcement, consumer groups and the third sector. The report, *Young Victims of Financial Crime\** was published on 17 December 2018. It highlighted that young people are both at risk of being victims of fraud, and of being drawn into financial crime as perpetrators. Evidence submitted to the APPG

inquiry showed that, between 2015 and 2017:

- 41% of money mule accounts were linked to young people aged 25 or under, and
- There was a 24% increase in young people under 21 being involved in fraud either as a victim or perpetrator.

Among the recommendations made in the report was a call for fraud education to become a mandatory part of the safeguarding curriculum in schools. This would educate young

**“A BETTER UNDERSTANDING OF THE UNDERLYING FACTORS BEHIND FRAUD AND SCAMS CAN ONLY HELP IN THE SEARCH FOR SUSTAINABLE SOLUTIONS FOR THE FUTURE.”**

people about how to protect their identities and how not to be drawn unwittingly into criminal activity. The report and the APPG attracted significant media interest, with Conor Burns MP being quoted in *The Times*: “*There is more that government, industry, social media platforms and law enforcement bodies can do to help protect and prevent young people becoming involved in fraud and scams.*” Following the success of the first inquiry, the APPG decided that the second should be framed to look at

vulnerability. This was seen as a significant factor in many frauds and scams, with vulnerable people often specifically targeted by fraudsters. While much research into this area already exists, there were specific areas that the APPG considered should be explored in more detail. In particular, these included issues around the potentially detrimental effect of differing definitions of vulnerability, and the understanding of transitional vulnerability. In September 2018, the Impact of Fraud and Scams on Vulnerable People inquiry opened for written submissions. Cifas, which provides the APPG secretariat, has received over 20 submissions on this matter from organisations across the public, private and the third sector. The evidence is currently being assessed in preparation for the launch of the report in spring 2019 alongside a parliamentary debate led by the group's Chair. The issues tackled by the Inquiries to date underline the need for parliamentarians to explore contentious subject areas and to consider what can and should be done in amelioration. Reducing fraud is never going to be easy. But understanding its drivers, and holding to account those who have a role to play in reducing it, is undoubtedly important for parliamentarians. A better understanding of the underlying factors behind fraud and scams can only help in the search for sustainable solutions for the future.

\*[www.ukfinance.org.uk/system/files/2018-half-year-fraud-update-FINAL.pdf](http://www.ukfinance.org.uk/system/files/2018-half-year-fraud-update-FINAL.pdf)

\*[www.appgfinancialcrime.org/uploads/files/APPG\\_V3\\_email.pdf](http://www.appgfinancialcrime.org/uploads/files/APPG_V3_email.pdf)



# Fraud focus: bank accounts

In 2018, for the first time in recent memory, the fraudulent misuse of accounts exceeded the number of reported cases of identity fraud. Cases of the fraudulent abuse of accounts increased by 19% in 2018 compared with 2017. Nearly 80% of these bore the hallmarks of money mule activity. This represents not just an increase in real terms, but also as a proportion of the misuse cases reported. This finding must be taken in conjunction with the lower number of identity frauds to obtain bank accounts. These reduced by 12% in 2018 compared with 2017 and, to a degree, this decrease offset the increase in misuse cases reported. It appears that those who wished to launder the proceeds of crime through bank accounts made a choice. Clearly, they considered it easier to recruit people to move money for them or to give up access to their account than to

open new accounts in the name of a victim of impersonation or an entirely fictitious identity. While on the surface this could be considered a success for the security measures on applications for bank accounts, it would be premature to see this as a problem solved. There were still over 43,000 attempts to obtain a bank account in someone else's name, and another 2,362 in a fictitious name. In addition, with over 40,000 instances where it looks like an individual was recruited to do their dirty work for them, why would criminals waste time obtaining data and submitting applications? This is especially true given that many of the applications would most likely be declined for either credit risk or fraud reasons. When an easier option is no longer available for criminals to obtain access to accounts, then the account opening processes will again come under pressure. Technology continued to be at the forefront of the fight against identity fraud, not least because 98% of the reported identity frauds occurred online. Device recognition and data analytics have long since proven

their value in countering this threat. In 2018, however, the number of false documents identified in association with identity frauds increased, despite the overall decrease in cases. This suggests that the use of document imaging through a smartphone or tablet at the point of application is bearing fruit as a fraud prevention tactic. Handsets will become ever more crucial as the channel through which people interact with their financial service providers and, as a consequence, will need to become increasingly effective in the fight against fraud. Within the cases of identity fraud reported, the number of entirely fictitious identities accounted for a smaller proportion of cases than in 2017. Historically there was a higher proportion of false identities used to obtain bank accounts than other types of product. One of the reasons for this is that anyone wishing to live under an assumed name is likely to want a bank account in that name in order to function in society – an account to pay a salary into, to obtain a debit card, and so on. It was therefore surprising that in 2018 the proportion of false identities dropped to 5% from 8% in 2017. By

comparison, across all products, only 3% of identity fraud cases in 2018 involved a false identity as opposed to a victim of impersonation. So while a higher proportion of false identities were used to obtain bank accounts than other products, the gap is closing. Although they were by far the largest in terms of volume, identity fraud and misuse of accounts were not the only fraud threats affecting bank accounts. In 2018, bank accounts were one of the few products that saw an increase (2%) in the number of cases of fraudulent conduct by the genuine applicant compared with 2017. This was driven by an increase in the number of applicants fraudulently hiding a previous address where they had adverse credit information recorded against them. This accounted for 78% of application frauds in 2018 compared with 63% in 2017. The provision of false documents remained the second most common type of fraudulent conduct with applications, although the number of cases actually decreased, despite reports from fraud investigators that they were seeing an increased number of

false utility bills provided in support of applications. It is important to ensure that those who would perpetrate these 'opportunistic' first party frauds are aware of the consequences. Their efforts are likely not only to prove fruitless in terms of obtaining the products they seek, but will also actively hinder their future applications as the fraudulent conduct they have perpetrated is reported and shared. A continuing trend from 2017 was the reduction in the number of cases of facility takeover. This fell by another 45%, on the back of an 18% decrease in 2017. This means that the number of cases of this type of

fraud have halved in the space of 2 years. Robust security measures in place make this type of fraud difficult for fraudsters. That in itself is likely to be one of the drivers for the increased problem of 2017, the key reason for the drop was a reduction in the number of instances of the genuine account holder fraudulently setting up regular payments from an innocent party's account – known as regular payments fraud. More robust scrutiny of third party authentication of payment instructions by card issuers has clearly driven down this type of fraud.

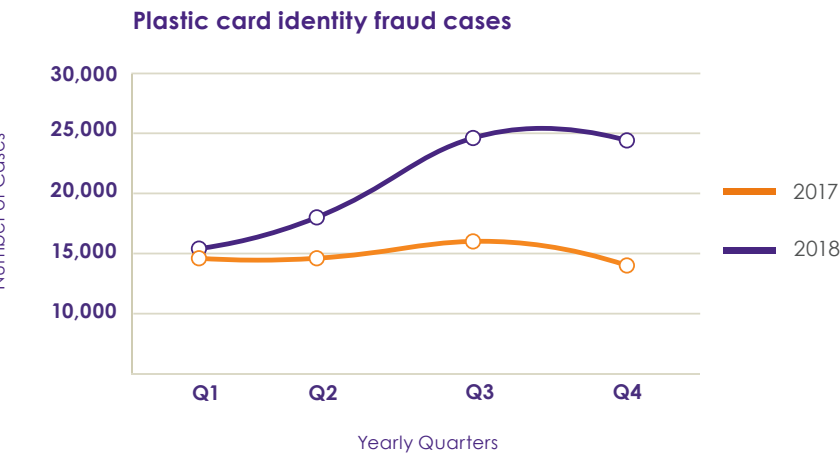
CASE TYPE	2017	2018	% CHANGE
Application Fraud	7,203	7,369	▲ 2%
Facility Takeover Fraud	5,490	3,017	▼ 45%
Identity Fraud	51,544	45,528	▼ 12%
Misuse of Facility	42,803	51,106	▲ 19%
TOTAL CASES	107,040	107,020	0%

\* [appcrmssteeringgroup.uk/wp-content/uploads/2019/02/APP-scams-Steering-Group-Final-CRM-Code.pdf](https://www.appcrmssteeringgroup.uk/wp-content/uploads/2019/02/APP-scams-Steering-Group-Final-CRM-Code.pdf)  
\*\* [www.ukfinance.org.uk/system/files/2018-half-year-fraud-update-FINAL.pdf](https://www.ukfinance.org.uk/system/files/2018-half-year-fraud-update-FINAL.pdf)



# Fraud focus: plastic cards

There was a 29% increase in fraud targeting plastic cards in 2018 compared with 2017. Last year's Fraudscape reported a surprising overall reduction, including the number of identity frauds to obtain plastic cards. At the same time, the takeover of card accounts increased substantially. In 2018, however, that situation dramatically reversed, with a huge surge in identity fraud and a decrease in takeovers. Identity fraud to obtain a plastic card account, more than 9 in 10 of which were personal credit cards, increased by 41% in 2018 to more than 82,000 reported cases. The rise was predominantly seen in the final two quarters of the year. Only 2% of cases involved a fictitious identity as opposed to a genuine person's identity, and 83% involved impersonating the individual using their current address. This was up from 78% of cases in 2017. This means that fraudsters continued to acquire large volumes of current personal information, and to use it to make high volumes of online applications. Work to determine where personal data is compromised online has debunked the myth that data is only traded in marketplaces on the dark web. The research (see *Wolves of the Internet* on page 5) showed that trading is also prevalent on the surface web. For would-be fraudsters, therefore, this reduces the requirement for specialist skills and increases the opportunities.



CASE TYPE	2017	2018	% CHANGE
Application Fraud	1,385	1,038	▼ 25%
Facility Takeover	7,365	5,797	▼ 21%
Identity Fraud	58,788	82,608	▲ 41%
Misuse of Facility	4,209	3,425	▼ 19%
TOTAL CASES	71,747	92,868	▲ 29%

The number of victims of impersonation rose across all age groups. An increase in the quality of reporting in 2018 accounted for some of this (93% of impersonation cases involved a date of birth compared with 83% in 2017). Despite this, the surge in the over 60s becoming victims of identity fraud was significant, increasing from 9,700 in 2017 to 17,200 in 2018. This hike in older people becoming victims aligns with reports of increased targeting of rural areas, where an older demographic generally prevails. In addition, the Wolves of the Internet report also suggests that victims of impersonation in this age group are more likely to have had their personal details compromised in a data breach. The cases of takeover of plastic card accounts fell, following a substantial increase the year before. It is worth noting, however,

that 2018 levels remained higher than those seen in 2016. It is also interesting that the way fraudsters take over an account has shifted. In 2017 most takeovers resulted from the perpetrator changing the address on the account. This was generally a precursor to requesting that replacement cards be issued to the new address. This type of fraud decreased by almost 25% in 2018. Instead, 2018 saw an increase in the instances of the perpetrator changing security or personal details on the account – effectively locking out the genuine account holder. This type of account takeover rose from 37% of cases in 2017 to 49% in 2018. The implication is that there was less of a requirement for the fraudster to obtain the cards themselves, but more for the fraudster to have access to the account itself, potentially to use it as another avenue for money laundering. Misuse of plastic card accounts decreased again in 2018. As in 2017, the key reason for the drop was a reduction in the number of instances of the genuine account holder fraudulently setting up regular payments from an innocent party's account – known as regular payments fraud. More robust scrutiny of third party authentication of payment instructions by card issuers has clearly driven down this type of fraud.

# Fraud focus: telecoms

Frauds against telecoms are often organised attempts to obtain expensive handsets with the intention of selling them, most likely overseas as the handsets would be blocked by UK networks. Fraudsters will attempt this in various ways, with identity fraud and facility takeover being prime examples. Fraud against telecoms, in particular mobile phone contracts, decreased by 9% in 2018 compared with 2017. Most notable, and counter to the overall trend, was a 25% reduction in the number of identity frauds reported. This followed a 47% increase the previous year. This reduction is likely to be a reflection of the tightening of processes. In 2017, the increase in identity fraud was attributed to abuse of 'click and collect' services where the application was submitted online, but the handset was obtained by an individual walking into a store and presenting a high quality fake bank card. Improved detection of such cards will have made this fraud more difficult and driven the number of identity frauds back down – although the number recorded in 2018 was still 10% higher than in 2016. Linked to this, members have shared intelligence about increased levels of recruitment of third parties to pretend to be 'victims' of identity fraud. The third parties are recruited to provide their personal details and genuine

bank card, allowing the application to be made in their name with someone else presenting their card in the branch. They are then instructed to report the card stolen, dispute the payment and claim to be a victim of identity fraud. Victims of telecoms-related identity fraud continue to be a younger demographic than victims of identity fraud more generally. In 2018, 57% of identity fraud victims for telecoms accounts were 40 years of age or under, compared with 38% for all victims of Identity fraud. The accessibility of the product means that younger people are perceived to be just as viable a target for identity fraudsters as older age groups. While overall reported fraud against telecoms decreased, the number of facility takeover frauds increased.

Most commonly, the takeover was in order to obtain someone else's upgrade. This accounted for 45% of cases and increased by 22% compared with 2017. The biggest increase, though, was seen in instances of the facility hijacker attempting to change the security details on the account, effectively locking out the genuine customer. This increased by 57% to become the second most prominent reason for takeover. 2018 saw fewer instances reported of misuse of facility fraud where the customer had no intention of honouring the contract. The number of these cases, where the customer obtained the handset on contract without ever intending to make the monthly payments, decreased by 27% in 2018 compared with 2017.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	586	535	▼ 9%
Facility Takeover	9,342	11,924	▲ 28%
Identity Fraud	16,973	12,706	▼ 25%
Misuse of Facility	4,608	3,555	▼ 27%
TOTAL CASES	31,509	28,520	▼ 9%

# Fraud

## focus: online retail

In 2018 there was a 12% rise in fraud reported by online retail members. This was largely due to an increase in members operating within the online retail sector, and so should not be interpreted as a trend. It does, however, highlight some of the main areas of concern for online retailers outside fraudulent card transactions at point of purchase. Cifas members in this sector are mainly those that offer credit, where the primary fraud concern is to ensure that credit is not granted to anyone with the intention of spending and not repaying it. This risk is clearly seen in the high proportion of cases recorded by the sector that relate to:

- misuse of facility, where the individual has fraudulently evaded payment; and
- identity fraud, where the fraudster attempted to obtain credit in the name of an innocent victim.

These account for 57% and 38% of reported cases respectively. The cases where an individual has opened an account, purchased goods on credit, then fraudulently evaded payment, are more likely to be perpetrated by opportunists. The appeal of being able to purchase goods for either personal use or resale is obvious, but there is no attempt (or at best limited attempts) by the individual(s) to distance themselves from their actions.

Potentially, they may not have considered what the consequences of their actions might be, or are hoping that the organisation will not consider it worthwhile to pursue the matter. This does not mean that all of these acts are as naïve as they might seem – for example where an individual is leaving the country and doesn't expect the repercussions to follow them across borders. It is unsurprising that credit granting

**“ A SUCCESSFUL IDENTITY FRAUD [AGAINST RETAILERS] ESSENTIALLY MEANS FREE GOODS FOR THE FRAUDSTER ”**

online retailers are targets for identity fraudsters, as a successful identity fraud essentially means free goods for the fraudster.

The increase identified in the takeover of online retail accounts is similarly unsurprising, but in these circumstances the fraudster risks the genuine customer becoming aware of (and cancelling) the purchase before it is delivered. A competitive marketplace with ever more emphasis on customer service and speed of delivery increasingly plays into the hands of the fraudster, however. Next day or even same day deliveries reduce the chances of the genuine account holder being made aware of the fraud and forestalling it. These risks are extending beyond the credit granting online retailers as other retailers strive to make the checkout process smoother by allowing customers to pre-load payment card information to accounts. The security around access to these accounts must be robust enough to prevent them becoming easy prey for fraudsters.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	119	159	▲ 34%
Facility Takeover	1,002	1,903	▲ 90%
Identity Fraud	11,729	13,867	▲ 18%
Misuse of Facility	20,108	21,004	▲ 4%
TOTAL CASES	32,958	36,933	▲ 12%

# Fraud

## focus: insurance

Cifas does not have comprehensive coverage of the this sector of the market so the full scale of insurance fraud is not reported to the National Fraud Database. To gain a complete understanding of the fraud threats in this sector, therefore, these figures need to be taken together with insights and trends reported by other fraud intelligence agencies, such as the Insurance Fraud Bureau. The number of insurance fraud cases reported to the National Fraud Database decreased by 14%, with a reduction in application fraud cases the main reason. Counterbalancing this, however, was the continued rise in identity fraud. Identity fraud against the insurance sector has increased substantially over the

last three years and in 2018 was the type of insurance fraud most frequently reported to the National Fraud Database, growing by another 15%. These cases continue to be perpetrated by:

- 'ghost brokers', who use the identities of innocent victims of impersonation to obtain insurance policies for their 'clients'; and
- by those who wish to ensure that a vehicle is insured for the lowest possible cost by using the details of someone who is considered low risk.

Wider public understanding of the work being done by the DVLA, the Motor Insurance Bureau and the police to identify uninsured vehicles will have fuelled this increase. This in turn has led to a development where

insurers have noticed that fraudsters are adding named drivers to these policies. These named individuals are unconnected to the victim of impersonation, but are in fact the actual intended driver(s) of the vehicle. Adding named drivers in this way will be an attempt to increase the perceived legitimacy of the policy without substantially increasing the cost.

- The number of false insurance claims grew in 2018, with the biggest increase being people inflating what would otherwise have been genuine claims. The number of these cases increased by 56% to account for 27% of the false claims identified. People attempting to claim for events that did not take place also rose, albeit by less. These cases climbed by 18% and accounted for 24% of false claims.

It was reassuring, however, to see that the number of staged events actually decreased in 2018 (by 12%). This type of fraud often relates to 'crash for cash' claims, where criminal groups orchestrate traffic accidents, often involving innocent road users, in order to profit from fraudulent insurance claims. These events place road users in physical danger, so any reduction represents a major step in the right direction.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	5,462	3,220	▼ 41%
False Insurance Claim	541	685	▲ 27%
Identity Fraud	4,215	4,864	▲ 15%
Misuse of Facility	151	105	▼ 30%
TOTAL CASES	10,357	8,874	▼ 14%



# THREE THINGS TO LOOK OUT FOR

There have been various developments recently that are likely to have an impact on fraud and fraud prevention over the next 12 months. Here we take a look at three of them.

## OPEN BANKING

### What is it?

Open Banking is an initiative designed to give consumers greater control of their money by obliging major banks to allow third parties to access customer account information, or make payments, with the consent of the customer. The idea is to encourage innovative services, such as apps that allow customers who choose to do so to see all their accounts in one place, irrespective of who the account is with, so that they have a greater understanding of their finances.

### What's the (likely) impact?

Open Banking has actually now been around for over a year, but take-up remains relatively low with limited awareness of it among the public. We are also not yet seeing people making payments through Open Banking channels. This means that what would probably be the biggest fraud risk, the fraudulent initiation of payments, has not yet materialised. There are still risks though. The dearth of consumer knowledge about what Open Banking is may mean that fraudsters can exploit this when socially engineering information from potential victims by convincing them to do things that aren't in their best interests.

## THE CONTINGENT REIMBURSEMENT MODEL

### What is it?

This is a voluntary code that a number of banks have signed up to that sets standards and criteria for how and whether a customer is repaid in the event of an Authorised Push Payment (APP) fraud. Where the paying bank, the customer, and the receiving bank are not deemed to be at fault, then the customer is reimbursed from a central pot, funded by the banks.

### What's the (likely) impact?

The standards within the code should encourage the signatories to improve the identification of payments that are likely to be fraudulent and to warn their customer accordingly. It follows that this should reduce the number of APP frauds that occur. It also means that where someone has been defrauded, he or she is more likely to be reimbursed, and so the direct harm to the individual is reduced. There is, however, speculation that this 'safety net' for customers may mean that there is less of a deterrent to risky behaviour. Where someone may have doubts about the legitimacy of an offer or investment opportunity (for example) they may be more inclined to go for it if they believe that, even if it is a fraud, they won't ultimately lose their money.

## SECURE CUSTOMER AUTHENTICATION

### What is it?

From September 2019 there will be a requirement for additional levels of security authentication for online payments, with customers not being able to 'check out' with just their card details (where the payment is over €30). That extra level of authentication requires that the customer's identity must be verified by two out of three of the following:

- A. Something you know (e.g. a PIN)
- B. Something you have (e.g. a card or a mobile phone)
- C. Something you are (e.g. biometric identification like a fingerprint or voice).

### What's the (likely) impact?

In principle, this should make Card Not Present fraud far more difficult, and that is one of the greatest areas of fraud loss in the UK. We need to be mindful, however, that fraudsters will be attempting to circumvent these measures if they can and, where they can't, they will migrate to other forms of fraud. It's also worth considering the extent to which Open Banking could displace payments from channels using Secure Customer Authentication – if an online retailer chooses to become a regulated provider of Open Banking, where payments can be initiated (for instance to purchase goods), then this will put more pressure on that retailer's account security to access pre-authenticated payment details.

These are just three of the measures that will affect fraud prevention in 2019 and beyond. As with any major change to the financial landscape, these carefully considered developments will bring with them new challenges and repercussions. Vigilance and co-operative working will continue to be paramount.

# Editorial: Equipping ourselves for the challenges ahead

We live in interesting times. And that's without even mentioning Brexit, which I am consciously ignoring for the purposes of this article on the basis that anything I write now will probably turn out to be wrong before this is even published. There are various interesting developments which have either landed or are about to do so which may have an impact on fraud and fraud prevention, or at least raise questions. What will Open Banking mean for fraud? What will Strong Customer Authentication mean? What will be the impact on payment service providers and scam victims of the Contingent Reimbursement Model? This is before we get too far into the ramifications of evolving fraudster methodologies and the use of emerging and developing technologies to prevent fraud. Beyond such complexities, though, there remain some truths that are more stable. As this year's Fraudscape clearly illustrates, fraudsters continue to apply for products and services in other people's names, crime gangs continue to use the young and naïve as money mules to launder money, and scammers continue to exploit any available opportunity to part members of the public from their money.

At the heart of the response to fraud, communication and collaboration remain key. No one can expect to deliver an effective defence against these ever-present threats on their own as no one sees the whole picture. Data sharing between organisations through Cifas continues to provide evidence to substantiate this point, with £1.4bn

in fraud loss prevented through the use of the National Fraud Database in 2018. An effective prevention strategy in one area, however, may well lead to a knock-on effect in another. We've seen this recently with the emergence of identity fraud to obtain insurance policies as a response to increasing scrutiny of uninsured vehicles on the roads. Similarly, as security around accounts increased, so fraudsters increasingly turned to targeting the account holders themselves. Clearly, in taking actions to prevent fraud, we need to be looking further ahead in order to limit such unintended consequences before they occur.

Careful horizon scanning will help us to be more proactive and to 'design out' opportunities for fraud in the future. There are, however, already some active steps that we can take to reduce the harm caused by fraud now, as well as further down the line. Much has already been said about the necessity of educating people to help prevent them from becoming victims of fraud. The increasing levels of identity fraud highlighted in this report, and the findings of the Wolves of the Internet research, are testament to this continuing requirement. Ultimately though, fraud is committed by people. There are many types of first party fraud, and while we've seen a general reduction in many variations of this type of fraud, this may have more to do with the escalation in vigilance and prevention practices of organisations than any reduced appetite of individuals to commit fraud. Partly, this may be down to people thinking that fraud is a victimless crime where it's only big business that pays (and they should probably pay more tax anyway).

It may also be that some don't realise what they're doing is actually fraud. For example, if you falsely claim to be the primary driver of a vehicle in order to name your teenage son or daughter on the policy, when you know full well that you are never going to get behind the wheel of that car, you may just think that you've found a clever loophole. You haven't. It's a lie that has a direct impact on an insurer's decision, so it's fraud. Ensuring that people understand this, and that such behaviour is unacceptable, is vital. This is so not only to reduce the harm that individuals inadvertently cause themselves, but also to limit the amount of fraud that occurs in areas where the investment in prevention technologies is less developed or where the threat is less well understood.

During 2019, Cifas is working to raise awareness of first party fraud. We are drawing attention to those types of fraud which people either may not recognise as fraud – or perceive as acceptable – in order to challenge those perceptions. By doing so, it is hoped that a more aware public will be less likely to fall for some of the attempts by organised crime groups to dupe people into carrying out frauds on their behalf, such as becoming a money mule or being complicit in fraudulent attempts to obtain mobile phones. There will always be those who choose to commit crime, but if we can raise more people's awareness of what constitutes fraud, and thereby deter them from being drawn into it unwittingly, detection and prosecution efforts can be focussed on the real criminals.

# INSIDER THREAT

Could your brand survive an internal fraud attack?



Who commits internal fraud?

See section 3

Global trade in false qualifications reflected in the latest figures

Internal fraud continues to present a serious danger to all industries, from the claiming of false qualifications and concealment of adverse employment history to wholesale data theft. Organisations simply cannot afford to be complacent when it comes to protecting their business, employees and customers from the insider threat. Read up on the latest trends and learn how to build your defences inside.



# Definitions: Frauds covered in this section



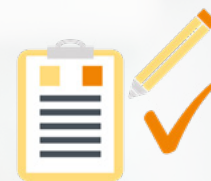
**Account Fraud**  
Unauthorised activity on a customer account by member of staff knowingly, and with intent, to obtain a benefit for themselves or others.



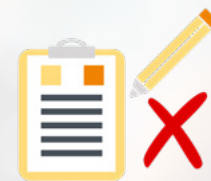
**Being Bribed**  
Request, agree or receive or accept, for own or another benefit, a financial or another advantage with the intention to improperly performing a function or activity.



**Dishonest action by staff to obtain a benefit by theft or deception:**  
Where a person knowingly, and with intent, obtains or attempts to obtain a benefit for themselves or others through dishonest action, and where such conduct constitutes an offence.



**Employment Application Fraud (Successful)**  
A successful application for employment (or to provide services) with serious material falsehoods in the information provided, including the presentation of false or forged documents.



**Employment Application Fraud (Unsuccessful)**  
An unsuccessful application for employment (or to provide services) with serious material falsehoods in the information provided, including the presentation of false or forged documents.



**Unlawful Obtaining or Disclosure of Commercial Data**  
Where commercial data is obtained, disclosed or procured without the consent of the data owner, includes using the data for unauthorised purposes placing an organisation at a financial or operational risk.



**Unlawful Obtaining or Disclosure of Personal Data**  
Where personal data is obtained, disclosed or procured without the consent of the data owner, includes using the data for unauthorised purposes placing an organisation at a financial or operational risk.

# Focus on Internal Fraud

## 1. Introduction

According to *BDO Fraudtrack 2018*, employee fraud cost UK businesses about £500 million in 2017. Employee fraud not only has a major financial detriment, but it also affects the business reputationally and has an impact on staff morale. The Cifas Internal Fraud Database helps over 200 organisations to share details of members of staff or applicants for employment whose conduct has been fraudulent. This article will look at the internal fraud cases reported to the Internal Fraud Database in 2018, providing insights into the trends that Cifas members experienced during this period.

## 2. Findings

There were 381 cases recorded to the Internal Fraud Database in 2018, a slight 9% reduction on the number recorded in 2017. 21% of the cases reported in 2018 were reported to law enforcement. Despite a 13% reduction in 2018, Dishonest action by staff to obtain a benefit by theft or deception remains the most common type of internal fraud. Employment application fraud (Unsuccessful) saw a 7% increase:

CASE TYPE	2018	2017	% CHANGE
Account Fraud	23	26	▼ 12%
Dishonest action by staff to obtain a benefit by theft or deception	166	191	▼ 13%
Employment application fraud (successful)	16	29	▼ 45%
Employment application fraud (unsuccessful)	164	153	▲ 7%
Unlawful obtaining or disclosure of commercial data	3	7	▼ 57%
Unlawful obtaining or disclosure of personal data	29	40	▼ 28%
TOTAL CASES	381	419	▼ 9%

### 2.1. Dishonest actions still remain the most common type of internal fraud.

Dishonest action by staff to obtain a benefit by theft or deception was the most common type of internal fraud in 2018, accounting for 46%. The most prevalent form of dishonest action during the year was theft of cash from the employer. This accounted for 22% of cases compared with 24% in 2017. The second most common fraud type in 2018 was theft of cash from a customer, which rose to 22% of cases in 2018 compared with 17% in 2017.

The growing pressures of modern life can conspire to drive up internal fraud. The Trades Union Congress noted in its spring statement in 2019\* that in the third quarter of 2018, unsecured borrowing per household was at an all-time high of £15,400. In addition, unsecured debt as a share of household income had reached its highest in over ten years. Such financial pressure might conceivably drive an employee to steal from his/her employer or customers to supplement income.

\* [www.tuc.org.uk/sites/default/files/springstatement2019.pdf](http://www.tuc.org.uk/sites/default/files/springstatement2019.pdf)

“THE MOST COMMON FORM OF DISHONEST ACTION IN 2018 WAS THEFT OF CASH FROM THE EMPLOYER”

2.2. Employment application fraud still high, with employment application fraud (unsuccessful) seeing a 7% increase.

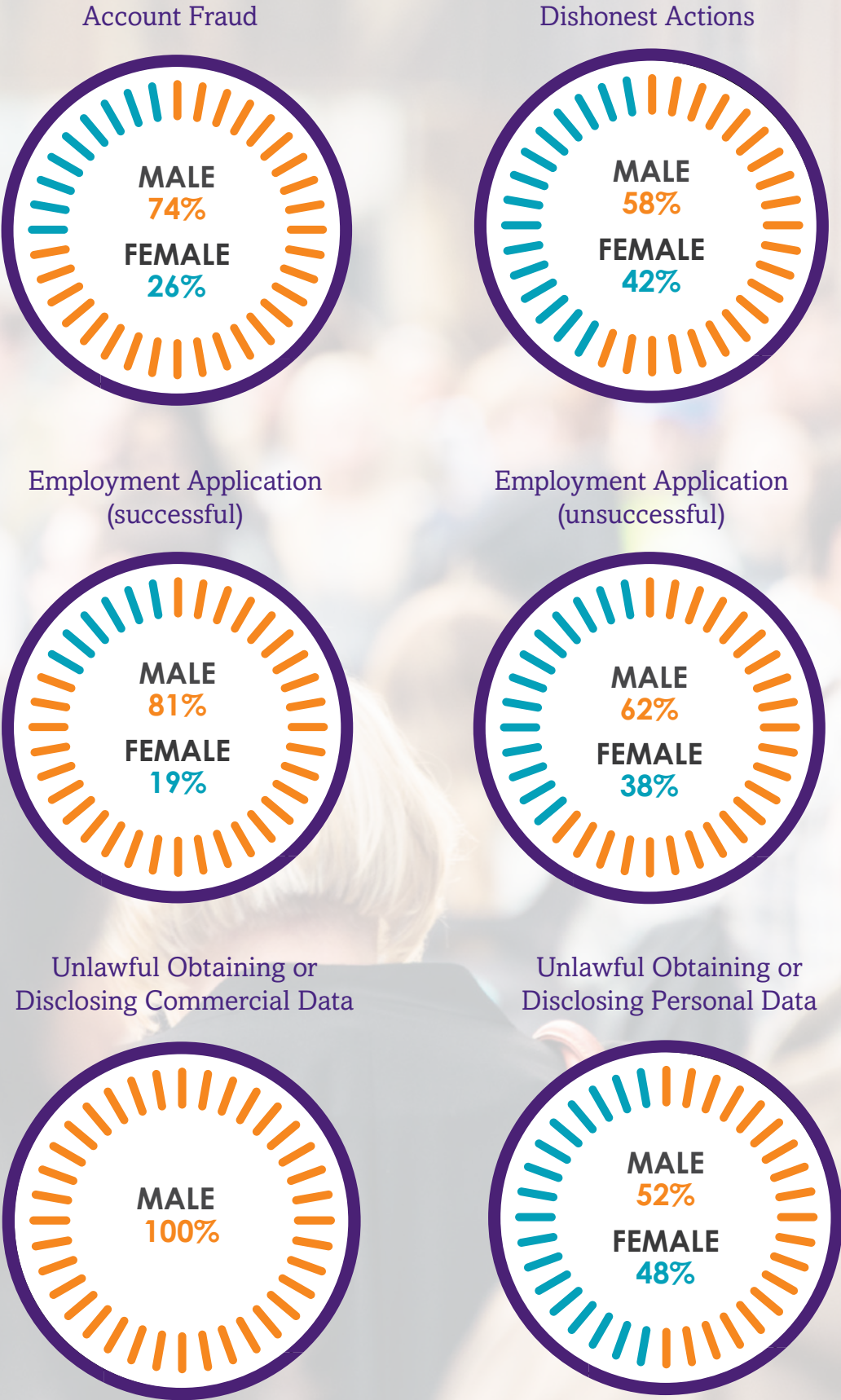
Employment application fraud remained the second most common internal fraud. Although employment application fraud in general saw a slight reduction between 2018 and 2017, employment application fraud (unsuccessful) saw a 7% increase in 2018 compared with 2017: (this is where an applicant's fraudulent application was detected before an offer of employment). Hiding adverse credit information on an application form was the reason for a large number of cases (53% in 2018, down from 60% in 2017). Also, the number of people using false qualifications was the highest on record, with 12 individuals reported in 2018 compared with just one in 2017. There are a number of websites offering degrees for sale, encouraging individuals to buy a degree to help them get that promotion they need, thereby enabling candidates to take roles that they are not qualified to do. Not only could the use of false qualifications lead to a criminal conviction, it might also put others at risk, particularly if the job requires a specific skill set such as within healthcare. Hiding unspent criminal convictions remained the most common form of fraudulent conduct where the employment application fraud was successful, as the individual may have started in employment before the pre-employment checks had been completed. False references saw an increase of 150% in 2018 compared to 2017, with members reporting the highest number in five years. In these cases, the individual had provided a fictitious reference confirming certain work experience, to put themselves ahead of others applying for the same job.

3. Who commits internal fraud?

Overall, 61% of individuals recorded on the Internal Fraud Database in 2018 were male, which was slightly up from 60% in 2017. Notably, the proportion of males filed for account fraud increased to 74% in 2018 compared with 58% in 2017. The majority of males worked not only in branches but also in customer call centres, in positions where they could more easily access customer information. Office for National Statistics (ONS) data showed that in September 2018 there was a 23% increase in the number of men in customer service occupations, meaning more men had the opportunity to access such records. Traditionally, men have been associated more with the unlawful obtaining or disclosure of personal data, but, more recently, women have become increasingly involved in this kind of conduct. The proportion of females committing this type of fraudulent activity in 2018 increased to 48% compared with 30% in 2017.



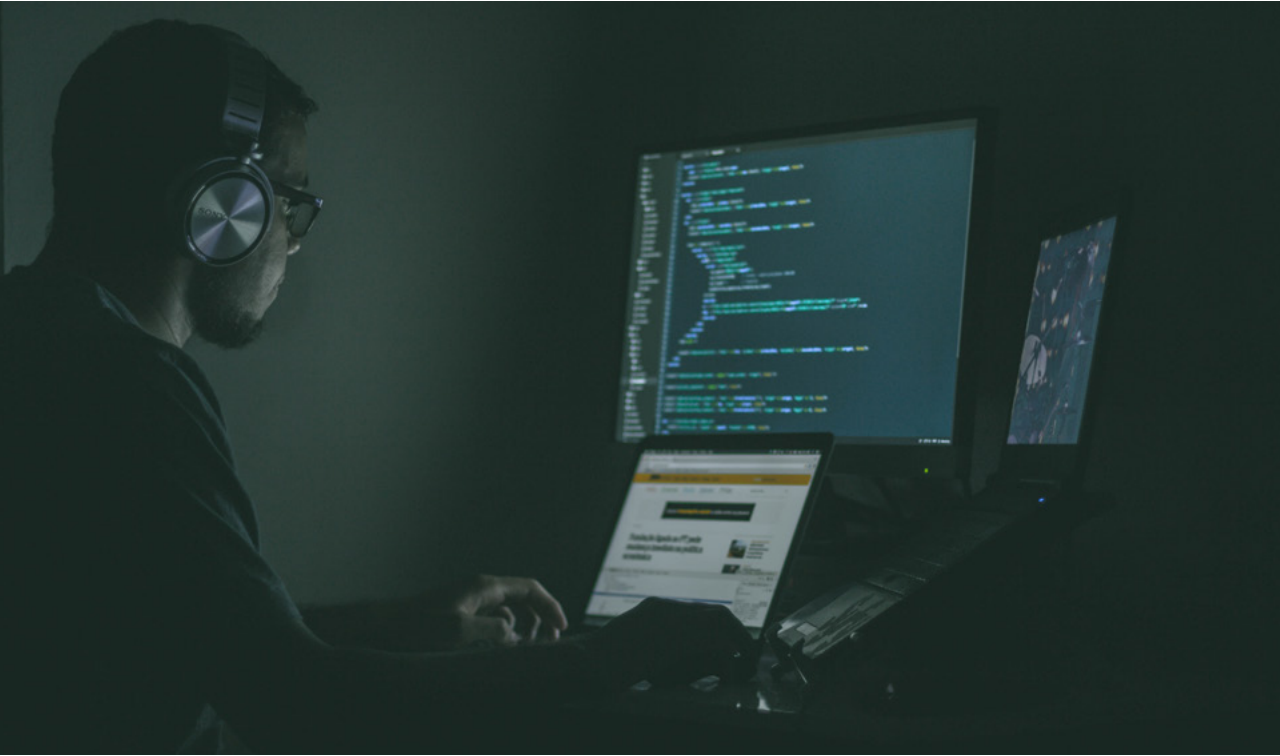
WHO COMMITS INTERNAL FRAUD?





3.1. Focus on males committing Employment Application (Unsuccessful) Fraud:

There was a 19% increase in the number of males recorded for employment application fraud (unsuccessful). Of the reasons provided, a large proportion of cases were for concealing employment history (47%). There was, however, a 500% increase in false qualifications being used. 50% of males recorded for this type of conduct were aged between 21-30 and a third were aged over 35. All applicants were for roles within the banking industry. In 2018, the BBC exposed the global trade in fake qualifications across various industries. Using fake qualifications in order to meet the criteria of the job role is fraudulent and can lead both to a conviction, and to being recorded to the Internal Fraud Database. It is essential that employers not only check references but also verify qualifications through agencies such as HEDD, the Higher Education Degree Datacheck.

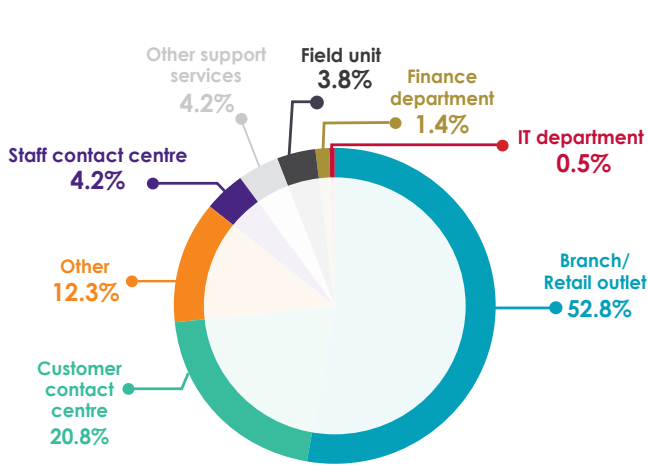


3.2. Focus on females Unlawfully Obtaining and Disclosing Personal Data.

2018 saw a 17% increase in the number of females involved in the Unlawful obtaining or disclosure of personal data, with a 300% increase in the number of females aged over 41 years old conducting this type of activity. Females were mainly filed because for contravention of systems access policy, disclosing customer data to a third party or for fraudulent personal use of customer data. 67% of females had been well established within the company, being employed for at least five years and 17% had been in employment for at least 25 years. A large proportion of females recorded for this type of conduct worked within a branch or outlet (64%), with discovery means mainly being internal audit controls (57%) or by the customer (29%), resulting in the majority of females being dismissed from the company. The increase in females over 41 becoming involved in this type of fraudulent conduct may be due to social pressures, but also a lack of investing in their financial future, therefore looking for other means to supplement their income. A UBS study\* found that most women in the UK defer to their spouse for long time financial decisions and a prospects study\*\* found UK women face retirement with 40% less in their pension pots than men.

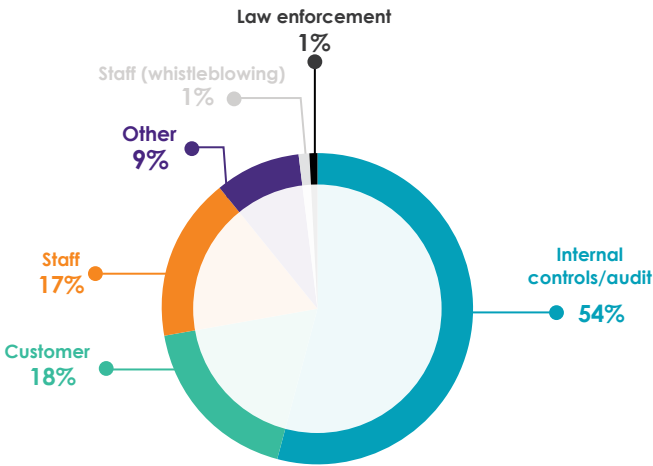
Overall business areas experiencing internal fraud

Overall, 53% of individuals reported to the Internal Fraud Database worked in a branch or retail outlet, with 21% within customer contact centres. The majority of individuals working in these departments were recorded for dishonest actions. The ease of access to assets in these departments is very high. Although businesses have taken steps to reduce opportunities for fraud, PwC's Global Economic Crime and Fraud survey 2018\* showed that only 34% of companies actively invested in measures to counteract motivations and rationalisation, showing that more needs to be done to implement an anti-fraud culture:



Means of discovery

The majority of fraudulent conduct in 2018 was highlighted by internal controls and audit (54%), a slight decrease from 59% in 2017. Encouragingly, fraud reported by staff increased to 17% compared to 11% in 2017, suggesting that companies are providing staff with the channels to report fraudulent conduct. There is still more to be done, however, as demonstrated by a recent Tax Incentivised Saving Association survey published in 2018, which stated that over a third of businesses do not measure whether they have an anti-fraud culture:



\*PwC, Global Economic Crime and Fraud Survey 2018: [www.pwc.com/gx/en/forensics/global-economic-crime-and-fraud-survey-2018.pdf](http://www.pwc.com/gx/en/forensics/global-economic-crime-and-fraud-survey-2018.pdf)

\* [www.ubs.com/global/en/wealth-management/our-approach/investor-watch/2019/own-your-worth.html?intCampID=INTERNAL-HPPROMOTEASER-global\\_own\\_your\\_worth-en](http://www.ubs.com/global/en/wealth-management/our-approach/investor-watch/2019/own-your-worth.html?intCampID=INTERNAL-HPPROMOTEASER-global_own_your_worth-en)  
\*\* [www.prospect.org.uk/help-at-work/pensions-retirement/pension-gender-pay-gap](http://www.prospect.org.uk/help-at-work/pensions-retirement/pension-gender-pay-gap)





## The value of being 'trusted'

**H**ow do you place a value on trust? Increasingly, suppliers are being asked to demonstrate their trustworthiness by completing Third Party Supplier Questionnaires. There is a whole industry springing up to support organisations as they navigate their way through completing these (often complex) documents because the consequences of failure could well include the loss of the client. There are several factors that go into establishing trust and, unsurprisingly, ensuring data security is high on the list. If someone else holds your customers' data on your behalf,

then it is your reputation on the line if goes missing – so working with suppliers who can be trusted to keep it secure is imperative. This isn't just about systems, though; it also encompasses physical security and the integrity of staff. Many organisations document the systems and processes that go towards data security, but far fewer are able to provide real assurance about the people using them and the systems are only as secure as those individuals. For organisations that hold or process data of behalf of others, the use of data sharing schemes such as the Cifas Internal Fraud Database is a strong step towards providing such assurance to their

clients. Not only does it mean that those with a history of fraudulent behaviour can be identified at the point where they apply for a role in the organisation, but it sends a clear message both internally and externally that internal fraud is not tolerated. So, while the value of trust in today's environment is financial in terms of avoiding the loss of clients as a result of being unable to establish trust adequately, it goes further than that. Clear indications of trustworthiness can also be used as a selling point for acquiring new clients. Ultimately, a robust anti-fraud stance can be revenue generating.

## FOCUS ON: DEGREE FRAUD

By Chris Rea  
Head of HE Services, Prospects



**V**erifying candidates' credentials before making an offer of employment is, on the surface, nothing new. Traditionally, as a minimum, references are confirmed, and rigorous identity checks are carried out. Those long-established processes are still useful but, given the rise in 'degree fraud', no longer sufficient in themselves. 'Degree fraud' encompasses multiple types of deceit. These include:

- the manufacture of fake degree certificates (fake versions of real certificates or certificates from non-existent universities)
- the creation of bogus university entities
- the operation of degree and diploma mills (which provide fake degree or diploma certificates for a fee), and
- exaggeration or outright lies on CVs.

With the advent of desktop publishing, colour printers and other sophisticated technology, fraudsters now have access to the tools they need to turn out passable versions of real certificates. Crests and fonts are easy to imitate but watermarks and holograms can now be reproduced without difficulty. Sometimes even professionals in university registry offices find it difficult to tell a fake from the real thing.

Prospects Hedd, the UK's official degree verification service, was developed to streamline the process by which third parties – usually employers and screening agencies – may verify candidates' degree credentials. This role was formalised four years ago as Hedd began a degree fraud reporting service operated on behalf of the Department for Education.

The service has investigated more than 100 bogus providers and has helped to shut down more than 50 of them. The database of degree-awarding bodies on [www.hedd.ac.uk](http://www.hedd.ac.uk) includes more than 250 non-legitimate bodies, most of which are entirely bogus institutions. The number of cases creeps up every year: 25 in 2017, 29 in 2018, and 12 already in 2019, indicating that this year may be a bumper year for bogus institutions.

**“Fraudsters now have access to the tools they need to turn out passable versions of real certificates.”**

Employers and universities are the main providers of reports of suspected degree fraud, but Hedd is also contacted by employees with concerns about colleagues' credentials. Sometimes it can be very close to home – with one instance where a father informed on his son who had made up his degree credentials. Much of Hedd's work is concerned with raising awareness of the problem and the risks posed by degree fraud, and with encouraging employers to make the necessary checks. It provides toolkits for employers and for universities to help with this. It also runs an annual campaign warning graduates not to post photographs of their degree certificates on social media. Cifas' initiative 'Don't finish your career before it starts'

has played an important role in the work with students, helping to increase awareness of the issues. Risk Advisory Group research in 2017 revealed that just 25% of students were aware that lying about qualifications is illegal.

For the future, the current drive by interested parties to tackle the problem in a co-ordinated way bodes well. Universities, employers and government are sitting down together to share ideas on best practice and enforcement. There are moves to include degree verification in the university Quality Code which, at a stroke, would deal with the use of fake certificates to gain admission to postgraduate courses. The health sector, reeling from a succession of high-profile degree fraud cases (most recently the unmasking of the Cumbria 'psychiatrist' who didn't have a medical qualification), is seeking to extend verification into non-clinical roles. Questions have been raised in Parliament about making degree verification mandatory in key sectors, including the Civil Service. Only when all employers check the authenticity of all their hires all the time will degree fraud be eradicated.



# MARYLEBONE UNIVERSITY CASE STUDY

One afternoon in October 2018, Hedd received a call from an animal welfare charity in Canada. The HR Manager expressed concerns about the degree credentials of their recently-appointed Director of Animal Health. The employee in question claimed to have an MSc in Zoology from Marylebone University. The HR Manager said that, although they didn't have expert knowledge of the UK higher education system, they hadn't heard of Marylebone University.

She was right. It doesn't exist (even if, like Ridgeshire, it sounds as though it might). She sent over the certificate and transcript for inspection, and we confirmed that Marylebone University was not a legitimate degree-awarding body (code for 'It's a bogus university').

The following day, we received a call from the employee. Summoning all his powers of indignation, he told us that he had studied a 6-week online MSc programme in Zoology at Marylebone University in good faith. He was horrified to learn that it might not in fact be a real institution. He said he was taking the first flight back to the UK to sort things out. As the conversation proceeded, however, his vehemence subsided and his parting remark was 'How screwed am I?' Very screwed, as it turned out – he was sacked later that day. Interestingly, it transpired that great swathes of the previous work experience he had claimed were also fictional.

# Product appendix

## All-in-one

- In relation to frauds against all-in-one products:
- After increases from 2015 to 2017, 2018 saw a decrease overall of 39%. As in previous years, the facility takeover frauds predominantly related to unauthorised electronic payment instructions.
  - The number of identity frauds decreased slightly in 2018.
  - The volumes are low in comparison to other products, which means that small changes in numbers lead to more substantial percentage changes.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	3	2	▼ 33%
Facility Takeover	522	286	▼ 45%
Identity Fraud	45	36	▼ 20%
Misuse of Facility	11	33	▲ 200%
TOTAL CASES	581	357	▼ 39%

## Asset finance

- In relation to frauds against asset finance products:
- The total number fell by 16% in 2018 compared with the previous year.
  - The largest increase was in the number of facility takeover frauds. This was due to one member filing a high number of cases involving unauthorised address changes.
  - Application frauds decreased by 21% from 2017 to 2018. The majority of these (80% and 73% of cases respectively) were reported as a result of undisclosed addresses with adverse information.

CASE TYPE	2017	2018	% CHANGE
Asset Conversion	520	574	▲ 10%
Application Fraud	10,791	8,506	▼ 21%
Facility Takeover	6	26	▲ 333%
Identity Fraud	970	876	▼ 10%
Misuse of Facility	1,487	1,657	▲ 11%
TOTAL CASES	13,774	11,639	▼ 16%

## Bank Account

- Bank accounts were the most targeted product in 2018, constituting one third of all the cases filed during the year.
- Identity frauds to obtain bank accounts fell by 12% in 2018. Misuse of facility cases were therefore accounted for the majority of frauds. This reverses the situation seen in 2017 when identity frauds accounted for 48%, falling to, 43% in 2018, whereas misuse of facility frauds constituted 40% in 2017 rising to 48% last year.
  - Misuse of facility cases saw a 19% increase in 2018. This figure has been increasing annually since 2014. Almost 80% of the 2018 misuse of facility cases indicate a link to money mule activity.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	7,203	7,369	▲ 2%
Facility Takeover	5,490	3,017	▼ 45%
Identity Fraud	51,544	45,528	▼ 12%
Misuse of Facility	42,803	51,106	▲ 19%
TOTAL CASES	107,040	107,020	0%

# Product appendix

## Telecoms

In relation to frauds against communications products:

- The total number fell by 9% in comparison to 2017. This was due to dramatic decreases in (i) misuse of facility cases involving evasion of payment, and (ii) current address frauds on identity fraud cases.
- The only increase for communications products was in facility takeover frauds, where there was a steep rise of 28%. These were mostly in relation to unauthorised changes to security or personal details on the account.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	586	535	▼ 9%
Facility Takeover	9,342	11,924	▲ 28%
Identity Fraud	16,973	12,706	▼ 25%
Misuse of Facility	4,608	3,555	▼ 27%
TOTAL CASES	31,509	28,520	▼ 9%

## Plastic Cards

In relation to frauds against plastic card products:

- These increased by 29% from 2017 to 2018.
- Identity fraud saw a 41% increase in 2018 due to a 49% increase in the number of current address fraud cases.
- Facility takeover fraud cases fell by 21% from 2017 to 2018. Most of these over both years related to unauthorised address changes.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	1,385	1,038	▼ 25%
Facility Takeover	7,365	5,797	▼ 21%
Identity Fraud	58,788	82,608	▲ 41%
Misuse of Facility	4,209	3,425	▼ 19%
TOTAL CASES	71,747	92,868	▲ 29%

## Insurance

In relation to frauds against insurance products:

- These fell by 14% in 2018 in comparison with 2017.
- Application fraud saw a large decrease this period of 41%. This was in part due to substantially fewer cases involving a false address on the application.
- Identity fraud saw a 15% increase in 2018. Most notably within this case type, there was a significant increase in current address fraud cases.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	5,462	3,220	▼ 41%
False Insurance Claim	541	685	▲ 27%
Identity Fraud	4,215	4,864	▲ 15%
Misuse of Facility	151	105	▼ 30%
TOTAL CASES	10,369	8,874	▼ 14%

## Loans

In relation to frauds against loan products:

- These increased by 3% in 2018.
- Facility takeover frauds saw a 161% increase in 2018: notably, one member reported a 158% increase in the number of frauds on personal unsecured loans.
- The number of application frauds to obtain a loan decreased by 14% in 2018, accounted for by a decrease in applications containing undisclosed addresses with adverse information.

CASE TYPE	2017	2018	% CHANGE
Asset Conversion	27	28	▲ 4%
Application Fraud	2,416	2,082	▼ 14%
Facility Takeover	309	806	▲ 161%
Identity Fraud	20,082	20,665	▲ 3%
Misuse of Facility	1,399	1,263	▼ 10%
TOTAL CASES	24,233	24,844	▲ 3%

## Online retail

In relation to frauds against online retail products:

- These rose by 12% in 2018.
- Identity fraud saw an 18% increase, mainly due to a rise in current address impersonations.
- Facility takeover fraud rose by 90%, seeing almost double the number of cases reported for an unauthorised instruction to despatch goods.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	119	159	▲ 34%
Facility Takeover	1,002	1,903	▲ 90%
Identity Fraud	11,729	13,867	▲ 18%
Misuse of Facility	20,108	21,004	▲ 4%
TOTAL CASES	32,958	36,933	▲ 12%







Mortgages

In relation to frauds against mortgage products:

- These fell by 18% in 2018.
- The number of misuse of facility cases decreased by 17%. There had been an unusually high number of instances of misuse of a mortgaged property in 2017, so this has decreased to more expected numbers.
- In 2018, the use of false or stolen documents replaced frauds around declared level of income as the most common reason for reporting application frauds.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	2,915	2,386	▼ 18%
Facility Takeover	9	6	▼ 33%
Identity Fraud	45	45	0%
Misuse of Facility	70	58	▼ 17%
TOTAL CASES	3,039	2,495	▼ 18%

Other

In relation to frauds against 'other' products:

- These decreased by 21% in 2018.
- 'Other' primarily relates to cases of identity fraud to obtain credit files, which can be a precursor to further identity fraud. These cases fell by 22% in 2018 compared with 2017.

CASE TYPE	2017	2018	% CHANGE
Application Fraud	74	126	▲ 70%
Facility Takeover	25	24	▼ 4%
Identity Fraud	10,131	7,898	▼ 22%
Misuse of Facility	42	24	▼ 43%
TOTAL CASES	10,272	8,072	▼ 21%

Why join Cifas?

Fraud and financial crime is a growing threat

Official UK government statistics show that fraud is now the most prevalent crime in the UK. The cases filed by our members also show the increasing threat from both external and internal fraud.

Fraud and financial crime is a shared threat and all businesses and organisations are a target. Criminals want the same thing from your business as they do from millions of other UK organisations, regardless of sector or size.

They strike at an organisation through any vulnerability they can find - be it systems, people or process - using any method they can: hacking, cybercrime, bribery and corruption, or the 'social engineering' of insiders.

Cifas is the shared solution

Through Cifas – an independent, not-for-profit organisation – hundreds of organisations from across all sectors share data and information to protect their business, employees and customers from the effects of fraud and financial crime. Become a Cifas member and we can help you help your organisation, customers and clients from falling victim to fraud and other financial crime. Our method of collaboration and cooperation, bringing together sectors and organisations to share intelligence and data, is the effective way to tackle financial crime. Visit [www.cifas.org.uk](http://www.cifas.org.uk) for more information. You can also follow us on Twitter, LinkedIn and Facebook (search for CifasUK), or join the Cifas group on LinkedIn.





# Report to Audit Committee

Item No. 9

<b>Report title:</b>	<b>Norfolk Audit Services Report for the Quarter ending 30 June 2019</b>
<b>Date of meeting:</b>	<b>29 July 2019</b>
<b>Responsible Cabinet Member:</b>	<b>Not applicable</b>
<b>Responsible Director:</b>	<b>Simon George, Executive Director of Finance and Commercial Services</b>
<b>Is this a key decision?</b>	<b>No</b>
<b>Executive Summary</b> <p>The Section 151 Officer has a duty to ensure there is proper stewardship of public funds and that relevant regulations are complied with.</p> <p>The Audit Committee are responsible for monitoring the adequacy and effectiveness of the systems of risk management and internal control, including internal audit, as set out in its Terms of Reference, which is part of the Council's Constitution.</p> <p>The Council has an approved Business Plan, 'Together for Norfolk' setting out a clear set of priorities. Internal Audit's work will contribute to these new priorities through the activity set out in supporting Service Plans.</p> <b>Actions Required</b> <p><b>The Audit Committee are asked to consider and agree:</b></p> <ul style="list-style-type: none"><li>• <b>the key messages featured in this quarterly report and advise if further information is required; and</b></li><li>• <b>that the Chief Internal Auditor review procedure meets PSIA standards</b></li></ul>	

## 1. Background and Purpose

- 1.1. The Council must undertake sufficient internal audit coverage to comply with the Accounts and Audit Regulations (England) 2015. The allocation of audit time was based on a risk assessment and this is continuously reviewed throughout the year.

This report supports the remit of the Audit Committee in providing proactive leadership and direction on audit governance and risk management issues. The purpose of this report is to update the Audit Committee on the progress with the delivery of the internal audit work and to advise on the overall opinion on the effectiveness of risk management and internal control. The report sets out the work to support the opinion and any matters of note.

## 2. Proposals

- 2.1. The Audit Committee are asked to consider and agree:

- the key messages below
- the Chief Internal Auditor review process, as described below
- that the work and assurance meet their requirements and advise if further information is required

The key messages are that:

- The quarterly NAS reports confirms the overall opinion on internal controls and risk management remains acceptable
- The progress with the delivery of the 2019-20 audits from the Internal Audit Plan, grant claim certifications and the audits brought forward from 2018-19 are acceptable. Quarter one final reports are shown at **Appendix A**. The audit plan's coverage of categories of risk are illustrated in a chart at **Appendix B**. Technical notes are at **Appendix C** for reference.
- The Council's Corporate Risk Register is being refreshed and will be reported to the August Cabinet. The next risk management report to this committee will be in September 2019
- The progress with resolving the four Corporate High Priority Findings is acceptable. A more robust process has been put into place to ensure NAS undertake follow up audit work on Corporate High Priority Findings which should result in speedier sign-off of these.
- Satisfactory progress with the traded school audits and the operation of the Audit Authority for the France Channel England Interreg Programme.
- Internal audit's mission is to enhance and protect organisational value by following Public Sector Internal Audit Standards (PSIAS). Parts of the PSIAS relate to how the Chief Internal Auditor reviews audit work as described below.

**Standard 2000** covers managing the Internal Audit Activity. The Chief Internal Auditor must effectively manage the internal audit activity to ensure it adds value to the organisation. Part of that is to see the activity considers trends and emerging issues that could impact the organisation. As a member of the County Leadership Group with exposure to risk reporting and as a Senior Officer the Chief Internal Auditor can communicate emerging issues to inform the audit work.

**Standard 2440** covers Disseminating the results of audit work. The Chief Internal Auditor must communicate results to the appropriate parties and is responsible for reviewing and approving the final engagement communication (the audit report) before issuance and deciding to whom and how it will be disseminated. When the Chief Internal Auditor delegates these duties (in this case for school audits or Interreg First Level Control work), he or she retains overall responsibility. The final review of less significant draft audit reports has previously been delegated to the management team. Due to the significant corporate transformation taking place, to ensure consistency, clarity and that emerging trends and issues that may impact on the organisation can be assessed (see standard 2000 above) the Chief Internal Auditor will receive and review all draft audit reports, except a) schools and b) Interreg First Level Control (FLC) Audits - where the auditor is designated by the UK Government.

**Standard 2340** covers Engagement Supervision. The Chief Internal Auditor has overall responsibility for supervising the engagement. The Chief Internal Auditor may designate appropriately experienced members of the internal audit activity to perform the engagement. The review of less significant draft terms of reference has previously been delegated to the management team. For the reasons described above for draft audit reports and to ensure the audits are planned to add value to the organisation and that they represent value for money, the Chief Internal Auditor will now receive and review the draft Terms of Reference for all audits except for schools and FLC audits.

This approach will:

- ensure that the scope and objectives of the audit engagement will achieve PSIA standards 2000, 2340 and 2440 described above
- avoid the risk of omissions or additional work; and
- mitigate the risk of audit work not adding value to the organisation.

The Chief Internal Auditor will review:

- final draft terms of reference for all audits\* at the latest when they are shared with the client
- all final draft audit reports\*, after the feedback meeting and before it is shared with the client.

\*except schools and Interreg First Level Control audits

### **3. Impact of the Proposal**

- 3.1. The Accounts and Audit Regulations 2015 require that, from 1 April 2015, the Council must ensure that it has a sound system of internal control that meets the relevant standards. The responsibilities for Internal Audit are set out in the Financial Regulations which are part of the Council's Constitution. Internal Audit follows appropriate standards (the PSIAS).

A sound internal audit function helps ensure that there is an independent examination, evaluation and reporting of an opinion on the adequacy and effectiveness of internal control and risk management as a contribution to the proper, economic, efficient and effective use of resources and the delivery of the County Council's Strategic Ambitions and core role as set out in the County Council's Business plan, 'Together for Norfolk'.

The internal audit plan will be delivered within the agreed NAS resources and budget. Individual audit topics may change in year which will result in the higher risk areas being include in the plan to inform the annual audit opinion.

As a result of the delivery of the internal audit plan and audit topic coverage, the Committee, Executive Directors, Senior Officers and Managers will have assurance through our audit conclusions and findings that internal controls, governance and risk management arrangements are working effectively or there are plans in place to strengthen controls.



#### **4. Evidence and Reasons for Decision**

4.1. Not applicable.

#### **5. Alternative Options**

5.1. There are no alternative options.

#### **6. Financial Implications**

6.1. The service expenditure falls within the parameters of the annual budget agreed by the council.

#### **7. Resource Implications**

##### **7.1. Staff:**

There are no staff implications.

##### **7.2. Property:**

There are no property implications

##### **7.3. IT:**

There are no IT implications

#### **8. Other Implications**

##### **8.1. Legal Implications:**

There are no specific legal implications to consider within this report

##### **8.2. Human Rights implications**

There are no specific human rights implications to consider within this report

##### **8.3. Equality Impact Assessment (EqIA) (this must be included)**

No implications

##### **8.4. Health and Safety implications (where appropriate)**

There are no health and safety implications

##### **8.5. Sustainability implications (where appropriate)**

There are no sustainability implications

##### **8.6. Any other implications**

There are no other implications

#### **9. Risk Implications/Assessment**

9.1. Not applicable

#### **10. Select Committee comments**

10.1. Not applicable

#### **11. Recommendation**

11.1. See Action Required in the Executive Summary above.

## **12. Background Papers**

- 12.1. Internal audit strategy, our approach and 2019-20 audit plan  
Internal audit terms of reference (Charter)  
Section C Financial Regulations

### **Officer Contact**

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

**Officer name :** Adrian Thompson                      **Tel No. :** 01603 222784

**Email address :** [Adrian.thompson@norfolk.gov.uk](mailto:Adrian.thompson@norfolk.gov.uk)



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

## Norfolk Audit Services

### Final Reports Issued in the Quarter ending 30 June 2019

NOTE: This report is for audits completed to the 30 June 2019. Any audits completed up to the July Audit Committee will be reported at the meeting verbally.

#### **Final Reports: - Quarter 1 2019-20**

#### **2018/19 Audit Plan Carried forward**

##### **School Traded**

1. Great Ellingham / Rocklands Primary
2. Caister Junior
3. Hillcrest Primary
4. St Nicholas Priory

##### **Audit Opinion**

KI – Amber  
Acceptable  
Acceptable  
KI – Red

##### **Opinion Work**

- |  |            |
|--|------------|
| 1. Accounting for VAT (NCC and Partnerships)   | Acceptable |
| 2. Developer Contributions   | Acceptable |
| 3. County Farms – Lettings process and follow up of agreed actions from previous audit   | Acceptable |
| 4. Income collection for use of buildings and premises                                   | KI - Amber |
| 5. Preparing for Adult Life  | Acceptable |
| 6. Contract Monitoring (Public Health contract from top 50)                              | Acceptable |
| 7. Contract Management and Monitoring of the Academy Services (Norwich) Ltd PFI Contract | Acceptable |

##### **Management Letters**

- |   |     |
|---|-----|
| 1. Management of agency staff and compliance with policy and procedure (IR35) | N/A |
| 2. NFRS Fleet SLA – Follow up   | N/A |
| 3. Information Security (Unannounced Visits)                                  | KI  |
| 4. Consultancy work on Young Carers Commissioned Services                     | N/A |

#### **2019/20 Audit Plan**

##### **School Traded**

- |                              |            |
|------------------------------|------------|
| 1. West Winch Primary School | KI – Amber |
|------------------------------|------------|

##### **Opinion Work**

- |                         |            |
|-------------------------|------------|
| 1. Blue Badges          | Acceptable |
| 2. Independence Matters | KI -Amber  |

##### **Management letters**

- |   |     |
|---|-----|
| 1. Norfolk Strategic Infrastructure Delivery Plan | N/A |
|---|-----|

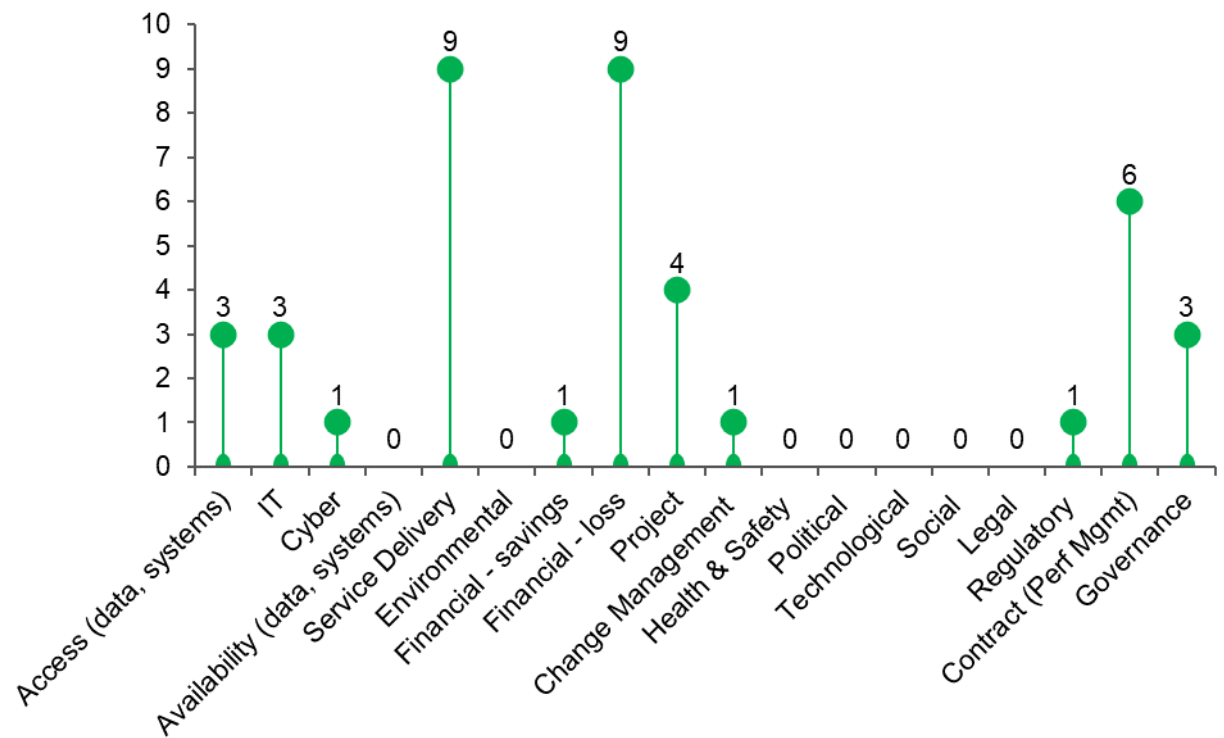
##### **Grants Certified**

1. EU Bidrex (P/e 31 April 2019)
2. EU Sail (P/e 31 March 2019)

3. Police and Crime (p/e 31 March 2019)
4. Norse (P/e March 2019)
5. Family Focus (P/e June 2019)

**Norfolk Pension Fund**

1. Information Security – unannounced visit N/A

NAS Dashboard**1. Audit Plan 2019/20 - coverage by risk category**

## Technical Notes

### Work to support the opinion

Our work contributes to the Local Service Strategy (page 5) and the Finance and Commercial Services Department functions for Finance and Risk Management (page 7). Internal Audit's role is described on page 12 of that plan.

My opinion, in the Executive Summary, is based upon:

- Final reports issued in the period (**Appendix A**)
- The results of any follow up audits
- The results of other work carried out by Norfolk Audit Services; and
- The corporate significance of the reports

### Audits of Note

The following audits of note were completed during the period:

#### **Unannounced Visits follow up audit – Information Security.**

The Senior Information Risk Officer (Chief Legal Officer) has implemented an action plan to strengthen controls including the promotion, prevention, checking and reporting across the directorates.

### Corporate High Priority Findings

The progress with resolving the Corporate High Priority Findings is acceptable. A more robust process has been put into place to ensure NAS undertake follow up audit work on Corporate High Priority Findings which should result in speedier sign off of these. Previously reliance was placed on departmental owner's confirmation that satisfactory action has been taken.

### Whistleblowing, investigations and Anti-Fraud and Corruption

See separate reports elsewhere on this agenda for detail.

### France (Channel) England (FCE) Update

A new audit year has now started for the Audit Authority and good progress has been made against the delivery of the audit plan. Systems audits are underway. The sample for the audits of operations has now been selected and audit visits planned over the summer, such that all reports should be finalised by the end of September.

# Report to Audit Committee

Item No. 10

<b>Report title:</b>	<b>Work Programme</b>
<b>Date of meeting:</b>	<b>29 July 2019</b>
<b>Responsible Cabinet Member:</b>	<b>Not applicable</b>
<b>Responsible Director:</b>	<b>Simon George, Executive Director of Finance and Commercial Services</b>
<b>Is this a key decision?</b>	<b>No</b>
<p><b>Executive Summary</b></p> <p>The Committee's work fulfils its Terms of Reference as set out in the Council's Constitution and agreed by the Council. The terms of reference fulfil the relevant regulatory requirements of the Council for Accounts and Audit matters, including risk management, internal control and good governance.</p> <p><b>Actions Required</b></p> <p><b>The Audit Committee are asked to consider and agree:</b></p> <ul style="list-style-type: none"> <li>• the work programme for the Committee</li> <li>• if further information is required</li> </ul>	

## 1) Background and Purpose

In accordance with its Terms of Reference, which is part of the Constitution, the Committee should consider the programme of work set out below.

## 2) Proposals

The proposed work is set out in the tables below:

<b>October 2019</b>	
NAS Quarterly Report Quarter ended September 2019	Executive Director, Finance and Commercial Services
Risk Management Report	Executive Director, Finance and Commercial Services
Audit Committee Work Programme	Executive Director, Finance and Commercial Services
Risk of Failure in the Care Market	Executive Director Adult Social Services
Anti-Fraud and Corruption Strategy and Whistleblowing Update	Chief Legal Officer
Internal Audit Plan for the second half of 2019-20	Executive Director, Finance and Commercial Services

<b>January 2020</b>	
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NAS Quarterly Report Quarter ended December 2019 (including the approach to the Annual Review of the Effectiveness of the System of Internal Audit)	Executive Director of Finance and Commercial Services
Review of NAS Terms of Reference, Code of Ethics and Strategy	Executive Director of Finance and Commercial Services
Risk Management	Executive Director of Finance and Commercial Services
Internal Audit Strategy, Approach, Strategic Plan 2019-2022 and Internal Audit Plan for 2020-21	Executive Director of Finance and Commercial Services
Audit Committee Terms of Reference	Executive Director of Finance and Commercial Services
Audit Committee Work Programme	Executive Director of Finance and Commercial Services
Anti-Fraud and Corruption Strategy and Whistleblowing Update	Chief Legal Officer

<b>April 2020</b>	
NAS Quarterly Report Quarter ended April 2019	Executive Director of Finance and Commercial Services
Risk Management	Executive Director of Finance and Commercial Services
Risk Management Annual Report 2018-19	Executive Director of Finance and Commercial Services
Anti-Fraud and Corruption Strategy and Whistleblowing Annual Report 2018-19	Chief Legal Officer
Audit Committee Work Programme	Executive Director of Finance and Commercial Services
Norfolk Audit Services Annual Report 2018-19	Executive Director of Finance and Commercial Services

### 3) **Impact of the Proposal**

As a result of the delivery of the work plan the Committee will have assurance through audit conclusions and findings that internal controls, governance and risk management arrangements are working effectively or there are plans in place to strengthen controls.

### 4) **Evidence and Reasons for Decision**

Not applicable.

### 5) **Alternative Options**

There are no alternative options.

### 6) **Financial Implications**

The service expenditure falls within the parameters of the annual budget agreed by the council.

### 7) **Resource Implications**

#### a) **Staff:**



There are no staff implications.

b) **Property:**

There are no property implications

c) **IT:**

There are no IT implications

8) **Other Implications**

a) **Legal Implications:**

There are no specific legal implications to consider within this report

b) **Human Rights implications**

There are no specific human rights implications to consider within this report

c) **Equality Impact Assessment (EqIA) (this must be included)**

No implications

d) **Health and Safety implications** (where appropriate)

There are no health and safety implications

e) **Sustainability implications** (where appropriate)

There are no sustainability implications

f) **Any other implications**

There are no other implications

9) **Risk Implications/Assessment**

Not applicable

10) **Select Committee comments**

Not applicable

11) **Recommendation**

See Action Required in the Executive Summary above.

12) **Background Papers**

None.

**Officer Contact**

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

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