

<b>Report to</b>	Audit Committee 14 November 2017	<b>Item</b>
<b>Report of</b>	Chief Internal Auditor, LGSS	<b>7</b>
<b>Subject</b>	Internal audit 2017-18 – September to October update (Quarter 2)	

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### **Purpose**

To advise members of the work of internal audit, completed between September to October 2017, and the progress against the internal audit plan.

The role of internal audit is to provide the audit committee and management with independent assurance, on the effectiveness of the internal control environment. Internal audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the council's ability to achieve its objectives.

The 2017-18 Audit Plan was endorsed by the council's corporate leadership team on 1 March 2017 and approved by the audit committee on 14 March 2017.

### **Recommendations**

The committee is requested to consider the contents of this report.

### **Corporate and service priorities**

The report helps to meet the corporate priority for value for money services.

### **Financial implications**

None

**Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

### **Contact officers:**

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### **Background documents**

None





**NORWICH**  
City Council

# **LGSS Internal Audit & Risk Management**

## **Norwich City Council**

Quarterly update report

Q2

*As at 27 October 2017*

## Resources

As outlined to the Audit Committee at the beginning of the financial year, it is good practice to keep audit plans under review and update them to reflect emerging risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan.

Additional work is considered where it will help to improve the internal control environment and governance arrangements at the Council. Consequently it is appropriate to review the internal audit plan and re-profile accordingly.

The original plan, approved by CLT, was agreed as 450 days. At the end of October 2017, 200 productive days are projected to have been delivered against the plan. This generally reflects the original profiling with the majority of testing completed in quarter's two to four. Some days have been re-profiled to take into account the implementation of a new Finance and HR system.

There are some suggested amendments to the plan which are detailed below. The team has made good progress in delivering the Plan and is on course for delivery by the end of the financial year.

## Progress against the plan

### Finalised Assignments

Since the previous report to the committee the following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Housing Rent and Arrears	Good	Good	Minor
Cross cutting	Invoices over £500	Good	Good	Minor
Cross cutting	Annual Governance Statement	Unqualified by the external auditors		
Cross cutting	Risk Management Policy	NA – positive assurance.		

At the conclusion of an audit assignment an assurance opinion of the system is reported and these are explained further in Appendix B – Audit Definitions.

The team has finalised work from the 2017/18 plan and key points include:

#### Housing Rent and arrears

There are currently 14,987 (year-end 2016-17) housing rented properties, with rental income budget (net of adjustments for void properties) of £57.9m for 2017-18, with the rents service responsible for collection of £65.5m p.a., including service charges and water rates. The review of the system concluded that the control environment was good and the compliance assurance was also good.

There is currently no procedure to review existing payment arrangements for recovery of debts, providing the agreed payment arrangement is maintained. Consequently there is a low impact risk that recovery of the debt is protracted over a longer period than is necessary, should customers' financial circumstances improve. Periodic six monthly reviews have now been included in the draft revised procedures for former tenancy arrears.

Currently, where debts are not recovered internally, the only option is to attempt recovery is via debt collection agencies. There are plans to commence a trial of referring cases to the small claims court. The possibility of court action can be an incentive for the recovery of debt and the team has agreed to progress debts to the small claims court when internal recovery attempts have failed.

A previous audit review recommended that authorisation of low value debt write-offs could be delegated to the team leader. The current authorisation limits are due to be updated as part of a review of the financial procedures, and has the potential to free up resources for senior managers.

#### Invoices over £500

The review of the system concluded that the control environment was good and the compliance assurance was also good.

The contract procedure rules were followed for all of the items in our sample. There was adequate segregation of duties between raising and authorisation of requisitions, receipting of purchase orders and setting up payment of invoices. Quotations / tenders were completed in line with contract procedures, providing value for money.

The invoices were paid promptly by BACS, and invoices over £500 were published on the council website as required by the Transparency Code 2015.

#### Annual Governance Statement and Risk Management

Two significant pieces of work were concluded in the quarter, which have been detailed further in the report below under other audit activity.

#### **Draft / Interim reports / Work in progress**

At the time of producing this report, the following audit assignments are at draft report stage or work in progress:

Directorate	Assignment
Cross cutting	Council Tax
Cross cutting	NNDR
Cross cutting	Housing Benefits
Cross cutting	Treasury Management
Cross cutting	Information Governance Policies
Cross cutting	Purchase to Pay
Cross cutting	Accounts Receivable
Cross cutting	Treasury Management
Cross cutting	Business continuity
Cross cutting	Use of GPC

Further information on work planned, and in progress, may be found in the Audit Plan, attached as Appendix A.

### Key financial systems

We have commenced a number of reviews classed as Key Financial Systems. Due to their significance, reviews of these systems are prioritised and we are making good progress on Council Tax, National Non Domestic Rates, Treasury Management, and there are no significant areas of concern.

However planned testing of Payroll, Accounts Receivable, Accounts Payable and Debt recovery has been impacted by the start-up phase of the new HR / Finance project, resulting in re-profiling of the planned days. The current review of the project plan should hopefully enable testing to commence in November.

### Transformation - Implementation of new IT System

The Council is implementing a new Finance System for HR and Finance. We have been assisting the project team by proactively providing advice on governance, the project risk register, and review of appropriate internal controls. This will help to mitigate potential control weaknesses prior to system go-live. We are also reviewing Privacy Impact Assessments which have been completed as good information governance practice.

### **Plan changes**

As highlighted above, it is good practice to keep audit plans under review and update them to reflect emerging risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan. Based on the actual plan delivery at this point we have proposed the following changes, which have been discussed with CLT and will enable us to provide adequate coverage across the Council.

System	Original profile	New profile	Change	Comment
Disabled Facility Grant	5	12	7	<p>The team commenced a review, at the beginning of the year, to provide assurance to the grant providers. However only some of the data was prepared in time for our review.</p> <p>Consequently this lead to additional queries, which needed extra time to complete the review. This also prompted revisions to the return, requiring additional checking. We recommended changes to the process for recording data on the system.</p>
Invoices over £500	5	11	6	<p>The team reviewed invoices paid to suppliers, to provide assurance that procurement and transparency rules were being followed. We looked at 5 different service areas to get a good quality sample which provided assurance across the Council.</p> <p>Completing our analytical procedures was more complicated than anticipated, and some of the transactions reviewed had complex supporting information to substantiate. However this provided good quality assurance as the sampling focussed on higher risk areas.</p>

System	Original profile	New profile	Change	Comment
Housing rents and arrears	20	35	15	<p>This is a key financial system, which is reviewed annually, and we focus on different aspects of the system each year. The current review included rent debits, former tenancy arrears and recharges arrears, and a detailed review of write-offs.</p> <p>The review included detailed sampling of data, which took longer than budgeted. However this has also helped us to identify better ways of extracting and analysing the data in future.</p> <p>During the review we also considered the treatment of suspense accounts between Icon and Academy, in response to a query with the team. This provided additional assurance that transactions were being processed accurately.</p>
Committee Reporting	8	12	4	<p>We have completed a couple of pieces of work, which were not included in the original plan. Consequently we need to reflect this increase in days in the revised internal audit plan.</p> <p>We prepared reports in respect of the appointment of external auditors, the related governance processes, plus the consultation on the PSAA proposal that Ernst &amp; Young continue to be our auditors. Both the appointment process, and subsequently the consultation, was reported to and approved by Audit Committee, Cabinet and Full Council.</p> <p>As part of the Annual Governance Statement review, we have prepared a new Local Code of Governance, which also reflected the latest professional guidance from CIPFA and SOLACE. As this document is part of the constitution it was agreed that it should also be formally approved, following the Audit Committee review. Consequently this is being reported to the Constitution Working Group, Cabinet and Full Council.</p>
Management Reporting	8	12	4	
Transformation projects	30	14	(16)	<p>Recognising that the Council is committed to undertaking a programme of transformation, it was agreed to include an estimated number of days in the plan for transformation projects, with specific pieces of work being agreed throughout the year.</p> <p>We have been assisting with the implementation of the new Finance and HR system, and have been facilitating the project risk register. Further time will be spent on information governance and internal controls advice as the project develops.</p> <p>There is now a whole Council approach to Transformation, which is currently being implemented. There have been no other specific requests for Transformation work at this stage of the year, and it is reasonable that some of these days can be reallocated to other assurance work.</p>

System	Original profile	New profile	Change	Comment
NPS Contract Management	20	0	(20)	It is proposed that this review is postponed. Some follow-up work is also planned this year, on a previous review in this area, which will enable sufficient coverage to provide an audit opinion at the end of the year.
Fees and charges	5	5	0	At the previous Audit Committee meeting the potential risks around recharges were discussed, and members expressed an interest in receiving assurance in this specific area. While this does not have an impact on resources, it is a clearer direction on the scope of the review.
<b>Overall change to the plan</b>			<b>0</b>	

## Fraud and corruption update

### Data matching

The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.17 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at Norwich, which provides assurance that internal controls continue to operate effectively.

The Council has carried out the current exercise to the deadlines set by the Cabinet Office. From a total of 3346 matches there are a total of 715 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. Work has commenced on reviewing these matches and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported. There are no matters arising at this time.

### Process improvement

Financial systems are prone to fraud and error risk. Internal audit work and anti-fraud work can help to identify fraud risks. A potential control weakness was identified within the Business Rates system, and this prompted a review of controls. The risk was immediately mitigated by changing the process, to ensure that this could not be exploited.

### Policy and framework review

The Council is committed to preventing fraud and corruption. We have reviewed the supporting anti-fraud and corruption policies with the Corporate Governance Group. There have been revisions to the Whistleblowing Policy, which has been endorsed by the Chief Executive, Union and Chair of the Audit Committee. The changes are not significant, but should help to provide clarity to existing process for readers. The revised policy has been posted to the Council



website. In addition we are preparing some internal communications to help remind employees about the importance of managing fraud risks, and promoting the whistleblowing policy.

## **Implementation of management actions**

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule.

There are currently no outstanding high level actions, and this provides positive assurance of the Council's commitment to maintain the internal control environment.

## **Summaries of completed audits with limited or no assurance**

At the conclusion of an audit an assurance opinion of the system is reported. This reflects the effectiveness of control, compliance and organisational impact. These are explained further in Appendix B – Audit Definitions

Individual reviews which highlight there is only limited or no assurance, in the final report, are communicated to the Audit Committee for awareness. No such audits have been issued this quarter.

## **Other audit activity**

In addition to completing ongoing audit reviews, the Internal Audit team has been conducting work in the following areas.

### **Corporate Risk Register**

The team has facilitated updates of the Corporate Risk Register. The current register, which was previously approved by CLT and the Audit Committee in May 2017, has two risks which exceed the Council's risk appetite:

- risk B1, public sector funding, and
- risk A8, housing investment strategy.

It was agreed that all appropriate mitigation had been considered and the residual score would remain above the level of the Council's risk appetite.

The next review of the register is currently being completed, and a draft revision has been prepared. In addition, the annual review of the Risk Management Policy has been completed, to ensure that it continues to provide the Council with an effective approach to risk management. An update will be reported to Cabinet in January, following the Audit Committee meeting.

## **Advice and assurance**

The team provides both proactive and responsive advice where it helps to improve the control environment. There is a contingency in the plan for handling queries, and planning for significant pieces of work which may be commissioned throughout the year. We have assisted the Council in several areas to date.

### Web pay refunds

The Council may be required to refund customers when they have overpaid the Council. An example could be where their liability for National Non Domestic Rates changes because they are vacating their premises. We have worked with teams at the Council to review the process, as there were potential inefficiencies. We reviewed the workflow and the system requirements to identify an alternative process which should hopefully reduce staff time and also help customers receive their refund more promptly. The new process is being trialled and, if successful, will be adopted.

### Appointing External Auditors

The Local Audit and Accountability Act 2014 brings changes to the appointment process for external auditors. We drafted a report to consult on continued use of Ernst & Young, which was approved by Audit Committee, Cabinet and Full Council.

### Information Risk Register

The team attends a Corporate Information Assurance Group as part of the internal audit plan. The Council has an Information Security Policy, and it is good practice that it is periodically reviewed. We led the compilation of an information risk register, which will be included in the next revision. This is timely as the General Data Protection Regulations come into force in May 2018.

## **Annual Governance Statement**

We produced the Annual Governance Statement, which is a key piece of work which accompanies the Statement of Accounts. The team worked with Service Leads to map sources of assurance, and to identify any potential governance risks.

The draft version of the Annual Governance Statement was reported to the Audit Committee, and approved, at the June meeting. The final version was signed by the Leader and the Chief Executive, and approved by the committee, at the September meeting. This was a positive achievement as the revised timetable for the Statement of Accounts requires these to be delivered earlier to previous years.

In addition we reviewed and updated the Council's Code of Corporate Governance, reflecting the latest professional guidance from CIPFA and SOLACE. The Committee approved the code, and this was further reviewed by the Constitution Working Party. This will now be reported to Cabinet and Full Council.

## **Audit Committee feedback**

The Committee highlighted, at the previous meeting, that there could be a benefit in reviewing the presentation of the internal audit plan (Appendix A). It would be useful to see how many days have been allocated to audits previously. While it was agreed that it may not always take the same amount of time to complete an audit, as different aspects may be reviewed, it would be useful to illustrate this for comparison. Appendix 1 has been updated to show this.

## Appendix A – Internal audit plan

### **Norwich 2017/18**

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days	Historic days	Commentary
<b>Operational plan grand total</b>				<b>450.0</b>		
Making Every Penny Count Total				35.0		
Invoices over £500	Closed	Q2	Q2	5.0	5.0	
Transformation projects	Open	All Year	NA	30.0	0	New review
<b>Anti-Fraud and Corruption Total</b>				<b>25.0</b>		
National Fraud Initiative	Open	All Year	NA	20.0	5.0	Full biennial review in 17/18
Fraud Investigations	Open	All Year	NA	5.0	5.0	
<b>Key Financial Systems Total</b>				<b>160.0</b>		
Accounts Receivable	Open	Q3	NA	15.0	15.0	
Purchase to Pay	Open	Q3	NA	20.0	20.0	
Payroll	Not started	Q2	NA	15.0	15.0	
Housing Rents & Arrears	Closed	Q2	Q2	20.0	20.0	
Housing Benefits	Open	Q2	NA	20.0	20.0	
Council Tax	Open	Q1	NA	15.0	15.0	
NNDR	Open	Q1	NA	15.0	15.0	
Treasury Management	Open	Q2	NA	15.0	15.0	
Procurement Governance	Open	Q2	NA	15.0	15.0	
Debt Recovery	Not started	Q3	NA	10.0	10.0	
<b>Commissioning &amp; Contracts Total</b>				<b>45.0</b>		
Contract Management	Not started	Q4		15.0	0	New review

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days	Historic days	Commentary
NPS Contract monitoring	Not started	Q2		20.0	0	New review
Regeneration company	Not started	Q2		5.0	0	New review
Commissioning	Not started	Q3		5.0	0	New review
<b>Risk-Based Audits Total</b>				5.0		
Safe Recruitment	Not started	Q3		5.0	0	New review
<b>Policies &amp; Procedures Total</b>				15.0		
Financial Regulations (Norwich) 2018	Open	Q4		5.0	5.0	
Business Continuity Policy	Open	Q2		5.0	5.0	
Information Governance Policies	Open	Q2		5.0	0	New review
<b>Compliance Total</b>				20.0		
Fees and Charges	Not started	Q3		5.0	5.0	
Grants to Voluntary Organisations	Not started	Q3		5.0	5.0	
Use of GPC	Open	Q2		5.0	5.0	
Contract Extensions	Not started	Q2		5.0	0	New review
<b>ICT and Information Governance Total</b>				25.0		
Information Security	Open	Q3		10.0	10.0	
Financial Systems IT & General Computer Controls	Open	Q3		15.0	10.0	Increased coverage
<b>Governance Total</b>				25.0		
Attend Information Governance Group	Open	All Year	NA	5.0	5.0	
Attend Data Breach Response	Open	All Year	NA	5.0	0.0	New specific allocation
Attend Corporate Governance Group	Open	All Year	NA	5.0	5.0	
Annual Governance Statement	Open	Q1	Q2	10.0	10.0	
<b>Risk Management Total</b>				16.0		
Risk Management	Open	All Year	NA	12.0	15.0	

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days	Historic days	Commentary
Risk Management Policy	Open	Q3		4.0	0	New review
Grant assurance Total				10.0		
Disabled Facility Grant	Closed	Q1	Q2	5.0	5.0	
Cycle highways grant	Open	Q4		5.0	0	New review
Advice & Guidance Total				45.0		
Advice & Guidance	Open	All Year	NA	25.0	20.0	
Follow-Ups of Agreed Actions	Open	All Year	NA	20.0	20.0	
Reporting Total				24.0		
Committee Reporting	Open	All Year	NA	8.0	8.0	
Management Reporting	Open	All Year	NA	8.0	8.0	
Audit Plan	Open	All Year	NA	8.0	8.0	



## Appendix B – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

### Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems ‘police/ enforce’ good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

### Compliance Assurance

Strong systems of control should enforce compliance whilst ensuring ‘ease of use’. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.



## Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to the Corporate Management Team along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

## Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found, as set out in the Management Action Plan.

For ease of reference, we have used a system to prioritise our recommendations, as follows:

Essential	Important	Standard
<p>Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>	<p>Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>	<p>The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>