Report to	Audit Committee 15 October 2019	**Item**
Report of	Chief Internal Auditor, LGSS	6
Subject	Internal audit 2019-20 – July to September update (Quarter 2)	

Purpose

To advise members of the work of internal audit, completed between July to September 2019, 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 2019-20 Audit Plan was approved by the audit committee on 12 March 2019.

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

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Background documents

None

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q2

As at 4h October 2019

Resources

As outlined to 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 was agreed as 450 days, there have been no further changes to the plan for 2019-20. As at 4th October 2019, 268 productive days are projected to have been delivered against the plan which reflects the profiling with the majority of testing completed in quarter's two to four.

CLT has delegated the responsibility for agreeing changes to the Plan midyear to the Director of Business Services. In line with changing risks and priorities facing the council the Director of Business Services has approved the following changes as recommended by internal audit.

Plan changes

System	Original profile	New profile	Change	Comment
Payroll	15	20	5	Additional work required.
AGS	10	12	2	Additional work required.
Committee Reporting	15	20	5	Increase time required to support and respond to queries.
Contract Extensions	5	10	5	Additional work required.
Contract Management	20	30	10	Increased scope of review
HR & Finance System Project	5	9	4	Delay of system implementation.
Annual Review of Key Policies	6	9	3	Additional work required.
Scheme of Delegation	5	10	5	Additional work required.
Commercial Property Investment Strategy	20	25	5	Additional work required.
Ad Hoc Queries	15	25	10	Increase in queries.

System	Original profile	New profile	Change	Comment
LGSS Withdrawal Meetings	0	10	10	Additional pressure.
NFI	20	10	-10	Reduce
NRL	15	0	-15	Remove
Financial Regulations	2	0	-2	Remove
Contract Procedure Rules	2	0	-2	Remove
Fees and Charges	5	0	-5	Remove
Risk Management Review	5	0	-5	Remove
IT Audits	25	0	-25	Remove
Overall change to the plan			**0**	

Progress against the plan

Finalised Assignments

The following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational Impact
2018/19 Audit Plan				
Cross cutting	Information Security and GDPR	Satisfactory	Limited	Moderate
Cross cutting	E5 Finance System IT Controls	Satisfactory	Satisfactory	Moderate
2019/20 Audit Plan				
Cross cutting	Commercial Property Investment Strategy	Good	Good	Minor

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.

Key points from the completed 2018/19 reviews include:

Information Security and GDPR

The key weaknesses are:

- The Information Asset Register has not been updated since 2016, therefore the Council may be unaware of assets at the Council and whether adequate data protection and privacy controls are in place to secure the data held within such assets;
- Records are not managed in accordance with the Council's 'Schedule of Processing' document;
- There is inadequate training and awareness of GDPR;
- GDPR considerations for existing contracts are not in place;
- Current documentation has not been updated to reflect the specific requirements of GDPR.

E5 Finance System IT Controls

The key weaknesses are:

- End to End testing for the new E5 Finance System has not been planned. Considering the system is due to go-live in July 2019, this is now a critical activity which should be performed as a priority;
- The lack of a comprehensive password policy to govern user access to major systems could result in systems not being adequately set up to align with baseline security standards which are considered good practice for the Council, thus putting the data held within such systems at risk;
- User roles from the current Finance System will be mirrored on the new E5 Finance System. This is not considered good practice and could result in users maintaining inappropriate access on the new E5 Finance System simply as a result of having inappropriate access on the current system. The implementation of the new E5 Finance System should instead be considered an opportunity to improve and strengthen user access;
- Threshold auditing of the Finance System is not conducted, therefore suspicious activity would not be identified through proactive deployment of detective controls;
- A Change Management Policy and Change Advisory Board are not in place.

Key points from the completed 2019/20 reviews include:

Commercial Property Investment Strategy

The key weaknesses are:

- The strategy document requires some amendments to update minor errors / omissions;
- The financial model for a block of properties sample tested does not include costs relating to the agents management of the property;
- There has been heavy reliance on the council's advisors/managing agents in many aspects of the processes. However at the time of the audit no service contract had been completed although this has now been finalised and signed.

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	Payroll
Cross cutting	Scheme of Delegation
Cross cutting	Key Policies and Procedures
Cross cutting	Council Tax
Cross cutting	National Non-Domestic Rates (NNDR)
Cross cutting	Contract Management

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

Implementation of management actions

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule. Summary of follow up recommendations due as at quarter two of 2019-20:

	Essential Recommendations		Important Recommendations	
Audit	**Agreed**	**Status as at end of Q2**	**Agreed**	**Status as at end of Q2**
Audits completed in 2018/19				
Commercial Rents			6	5 completed, 1 revised target date to end Oct 2019.
Corporate Key Performance Measures			3	2 completed, 1 revised target date to end Oct 2019.
Norwich Regeneration Limited	5	3 were due to date, all completed	3	Not yet due
Project Management			3	3 revised target date to end April 2020.
Housing Benefits			1	Completed
Audits completed in 2019/20				

Commercial Property Investment Strategy			1	Revised target date to end Oct 202019
Review of Mailings Using the Insertion Machine			5	All completed

There are currently no outstanding essential actions, and this provides positive assurance of the Councils 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. A review of Information Security and GDPR resulted in limited assurance within compliance, consequently 14 recommendations were made of which 3 were classified as essential and 7 were classified as important. All recommendations were agreed with implementation dates which will be followed up accordingly.

Other audit activity

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

Whistleblowing Policy

The councils whistleblowing policy has been updated to reflect changes to staff contact details when raising a concern, these are cosmetic to the policy.

Since the last report to Audit Committee there have been three instances where concerns have been raised through the council's whistleblowing policy, these are currently under investigation. One is being progressed by Nplaw, Internal Audit is undertaking work on another allegation however it has been determined that one significant whistle blowing allegation will not be referred to the LGSS Internal Audit team for investigation but will be offered to another external organisation.

National Fraud Initiative

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 the 2018 exercise a total of 8257 matches were identified of which 329 matches met 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.

Development

Continuous improvement

The LGSS Internal Audit team follows good professional practice such as the Public Sector Internal Audit Standards, and the supporting Local Government Application Note.

The Internal Audit team has reviewed the audit definitions which are issued on conclusion of audit work. The methodology and approach continues to be relevant, and some minor revisions have been made to the terminology which should add clarity to the reporting process. The audit definitions are listed in Appendix B.

LGSS

NORWICH City Council

Appendix A – Internal audit plan

Norwich 2019/20

Audit	Status	Qtr opened / planned	Qtr closed	Profiled days
National Fraud Initiative	Ongoing	All year	N/a	10
Fraud Investigations	Ongoing	All year	N/a	10
Total Anti-Fraud and Corruption:				**20**
Accounts Receivable	Not started	Q4		25
Purchase to Pay	Not started	Q4		25
Payroll	In progress	Q1		20
Housing Rents/Arrears	Not started	Q3		20
Housing Benefits	Not started	Q4		20
Council Tax	In progress	Q2		15
NNDR	In progress	Q2		15
Bank Reconciliations	Not started	Q3		10
Treasury Management	Not started	Q3		15
Total Key Financial Systems:				**165**
Strategic Risk Management	Ongoing	All year	N/a	15
Total Risk Management:				**15**
Contract Management	In progress	Q1		30
Joint Ventures	Ongoing	All year	N/A	30
Total Contracts:				**60**
Annual Key Policies & Procedures Review	In progress	Q1		9
Total Policies & Procedures:				**9**
Key Performance Indicators	Not started	Q3		5
Scheme of Delegation Compliance	In progress	Q1		10
Commercial Property Investment Strategy	Complete	Q1	Q2	25
Contract Extensions	Complete	Q1	Q1	10
Total Compliance:				**50**
Attend HR & Finance Project Meetings	Ongoing	All year	N/a	9
Attend Information Governance Group	Ongoing	All year	N/a	5
Attend Data Breach Response	Ongoing	All year	N/a	5
Attend/facilitate Corporate Governance and RM Group	Ongoing	All year	N/a	5
Annual Governance Statement	Complete	Q1	Q1	12
Total Governance:				**36**
Disabled Facility Grant	Complete	Q1	Q1	10
Total Grant assurance:				**10**
Ad -Hoc Advice & Guidance	Ongoing	All year	N/a	25
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10
Total Advice & Guidance:				**35**
LGSS Withdrawal Meetings	Ongoing	All year	N/a	10
Committee Reporting	Ongoing	All year	N/a	20
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	10
Total Reporting:				**50**
Operational Plan Total - 2019/20				**450**

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**
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.	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.	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.
The improvement is critical to the system of internal control and action should be implemented as quickly as possible.	The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.	Management should implement promptly or formally agree to accept the risks.