

**Report to** Audit Committee  
16 October 2018

**Report of** Chief Internal Auditor, LGSS

**Subject** Internal audit 2018-19 – July to September update  
(Quarter 2)

**Item**

**6**

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### **Purpose**

To advise members of the work of internal audit, completed between July to September 2018, 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 2018-19 Audit Plan was approved by the audit committee on 13 March 2018.

### **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



# **LGSS Internal Audit & Risk Management**

## **Norwich City Council**

Quarterly update report

Q2

*As at 5<sup>th</sup> October 2018*

## 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, approved by CLT, was agreed as 450 days. At the end of September 2018, 230 productive days are projected to have been delivered against the plan. This reflects the original 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.

## Plan changes

System	Original profile	New profile	Change	Comment
Disabled Facility Grant	5	12	7	An additional grant of £103k received directly from Ministry of Housing Communities and Local Government (formerly DCLG) required a separate certification.
Discretionary and Non-Statutory Service Provision & Expenditure	10	0	-10	Agreed at August meeting IA/AB
Commercial Rents	10	15	5	Additional work required
KPI's	5	10	5	Additional work required
Fraud Investigations	5	25	20	Whistleblowing referral
Fees and Charges Compliance with Policy	5	0	-5	Remove
Regeneration Company	10	15	5	Increased scope of review
Transformation	15	1	-14	Remove although one day already spent
Contract Management	20	35	15	To accommodate the OBR requested by CLT on 26.09.18.
Audit Committee	12	17	5	Increase time required to attend Chairs brief, training sessions, and additional committee meeting.
Contract Procedure Rules	2	0	-2	Remove
Scheme of Delegation	5	0	-5	Remove

System	Original profile	New profile	Change	Comment
Grant Awareness	5	0	-5	Remove
<b>Overall change to the plan</b>			<b>+21</b>	

## Progress against the plan

### Finalised Assignments

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

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	KPIs	Satisfactory	Good	Minor
Cross cutting	Disabled Facility Grant (main grant)	NA – Unqualified grant certification		

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 2018/19 plan and key points include:

#### KPIs

The audit identified that there is no written performance management framework in place, although this is referred to in the council's constitution. Although the strategy team, who co-ordinate the collation of the performance results, will challenge services on any results that appear to be inaccurate, there are no checks carried out to confirm the accuracy of the calculations and commentary provided.

Not all results have been reported each quarter to senior management and members.

The audit identified that for Q2 of 2017-18 no data was included in the report for any of the four indicators for the 'fair city' corporate priority. However for one of these (FAC4 timely processing of benefits) this was detailed in the headlines of the report to Cabinet, confirming that the measure was back on target. The 'fair city' results had been reported in Q1 and Q3, and the results then were one coded amber and three coded green.

#### Disabled Facility Grant (main grant)

The auditor confirmed that the grant had been accounted for; the declaration was subsequently signed by the Chief Executive and the Chief Internal Auditor and sent to Norfolk County Council.

## 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	Fees and Charges Policy
Cross cutting	Council Tax
Cross cutting	NNDR
Cross cutting	Governance Arrangements - Regeneration Company
Cross cutting	Commercial Rents
Cross Cutting	Project Management
Cross Cutting	Housing Rents and Arrears

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

There are a number of works that are in progress, enabling us to review the control environment.

## 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 will participate in the full data matching exercise in October 2018 where data sets from various services will be provided to the Cabinet Office for matching, results will become available from 31<sup>st</sup> January 2019.

## Implementation of management actions

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule. Follow up reviews have been completed in the following areas:

- Housing rents and arrears
- Information security

- Debt recovery

There are currently no outstanding high level 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. 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:

### **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.

### **Joint Ventures**

The Director of business services has requested that CLT have a monthly update from himself on the JV insourcing and asked Internal Audit to attend for this item. Following the first briefing in August The Head of Audit was of the view that this is an essential piece of work and further, some degree of actual cost & performance review should be done on the existing contracts given the perceptions. To date, there have been no further requests for internal audit assurance/work on the proposal to bring the services back in house following the CLT meeting.

### **Risk Management**

Internal audit has previously brought risk management updates to this Committee for information and challenge. There is a recognition that the corporate risk register and supporting suite of directorate/project risk registers are in urgent need of refresh. Internal Audit is represented on the councils Corporate Governance Group and has an agenda item on 11<sup>th</sup> October 2018 to discuss risk management and agree an action plan and time line to both update the suite of risk registers at Norwich City Council and a strategy for embedding proportionate and effective risk management within the culture of the organisation.

### **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, facilitating project risk register updates and appropriate internal controls. This will help to mitigate potential control weaknesses prior to system go-live.

## Appendix A – Internal audit plan

### *Norwich 2018/19*

Audit	Status	Qtr opened / planned	Qtr closed	Profiled days
National Fraud Initiative	Ongoing	All year	N/a	20
Fraud Investigations	Ongoing	All year	N/a	25
<b>Total Anti-Fraud and Corruption:</b>				<b>45</b>
Accounts Receivable	Not started	Q3		15
Purchase to Pay	Not started	Q3		15
Payroll	Not started	Q4		15
Housing Rents/Arrears	Not started	Q3		20
Housing Benefits	Not started	Q4		20
Council Tax	In progress	Q2		15
NNDR	In progress	Q2		15
Treasury Management	Not started	Q3		15
Debt Recovery	Not started	Q3		10
<b>Total Key Financial Systems:</b>				<b>140</b>
Strategic Risk Management	Not started	Q3		15
Risk Management	Not started	Ongoing	N/a	5
<b>Total Risk Management:</b>				<b>20</b>
Contract Management	Not started	Q3/4		35
<b>Total Contracts:</b>				<b>35</b>
Fees and Charges Policy	In progress	Q1		10
Commercial Rents	In progress	Q1		15
Attend HR & Finance Project Meetings	Ongoing	All year		15
Project Management	In progress	Q2		10
Norwich Regeneration Limited	In progress	Q1		15
<b>Total Risk-Based Audits:</b>				<b>65</b>
Annual Key Policies & Procedures Review	Not started	Q3		6
Financial Regulations	Not started	Q3		2
<b>Total Policies &amp; Procedures:</b>				<b>8</b>
Fees and Charges	In progress	Q1		1
Key Performance Indicators	Complete	Q1	Q1	10
Procurement Compliance	Not started	Q3		20
Contract Extensions	Complete	Q1	Q1	5
<b>Total Compliance:</b>				<b>36</b>
Information Security & GDPR	Not started	Q3/4		15



Financial Systems IT & General Computer Controls	Not started	Q3/4		10
<b>Total ICT and Information Governance:</b>				<b>25</b>
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	10
<b>Total Governance:</b>				<b>25</b>
Disabled Facility Grant	Complete	Q1	Q2	12
Cycle highways grant	Not Started	Q4		5
<b>Total Grant assurance:</b>				<b>17</b>
Advice & Guidance	Ongoing	All year	N/a	10
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10
<b>Total Advice &amp; Guidance:</b>				<b>20</b>
Committee Reporting	Ongoing	All year	N/a	17
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	8
<b>Total Reporting:</b>				<b>35</b>
<b>Operational Plan Total - 2018/19</b>				<b>471</b>

## 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>