

Committee Name: Audit

Committee Date: 13/07/2021

Report Title: Annual Report on Audit Risk and Fraud 2020-21

Portfolio:	Councillor Kendrick
Report from:	Head of Finance, Risk and Audit
Wards:	All wards
OPEN PUBLIC ITEM	

Purpose

To advise members of the work of internal audit undertaken during 2020-21 and the interim audit manager's annual audit opinion.

The role of internal audit is to provide the audit committee and management with independent assurance, on the effectiveness of the internal control environment.

The 2020-21 Audit Plan was approved by the audit committee in March 2020 and subsequent revisions agreed at the meeting in November 2020.

Recommendation:

It is recommended that the committee considers the annual Internal Audit report and opinion, noting the work of Internal Audit team for 2020-21

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets all the corporate priorities

This report addresses healthy organisation strategic action in the Corporate

Plan

This report helps to meet council's financial objective of the COVID-19 Recovery Plan

Report Details

Introduction

1. Under the Accounts and Audit Regulations 2015, the council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”
2. In 2012 (updated 2017) the relevant internal audit standard setters adopted a common set of standards across the public sector, the Public Sector Internal Audit Standards (PSIAS), which state “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.
3. The Standards require that the Chief Internal Auditor presents an annual report to the Audit Committee, which in practice is timed to support the authority’s Annual Governance Statement. This is reflected in the ‘Terms of Reference’ of the committee.
4. This report sets out the individual and collective outcomes of the audit reviews undertaken in the year ended 31 March 2021. It also provides an audit opinion of the control environment based on this audit work.
5. The annual report is a summary of all internal audit work carried out during the year. Each individual audit report is discussed at its draft stage and agreed action plans put in place. The annual report therefore represents in summary form a considerable degree of consultation with managers during the year.
6. Internal audit work is carried out to fulfil the audit plan, endorsed by the committee and the Corporate Leadership Team. The plan is derived from corporate and service risk registers as well as any inherent risks such as a susceptibility to fraud associated with an individual system. Internal audit work seeks to provide assurance that the risks identified in the registers and within the systems risk matrix are mitigated by a sound system of internal control.
7. During the 2020/21 financial year the Head of Internal Audit role was filled on an agency basis. The draft opinion was supplied by the Interim Audit Manager, who held post up until 31 March 2021, which is the relevant period for the annual update.
8. At the initial point of drafting, there were a small number of outstanding audits to be completed and therefore the report has been updated to incorporate the final details. There has been no change to the assurance level as drafted and it is the opinion of the head of finance, audit and risk that the findings from the remaining audits do not indicate any amendment to the opinion is required.

Audit opinion

9. Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, in support of the objectives of the council.
10. The annual audit plan is prepared to take into account key areas of risk and was approved by the audit committee. The internal audit plan has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).
11. The level of assurance provided by Internal Audit is based upon:
 - a) All audit reviews undertaken during 2020/21.
 - b) Follow up of actions against key audit recommendations made in 2020/21.
 - c) Management responses to findings and recommendations.
 - d) Effects of significant changes to the council's systems.
 - e) The extent of resources available to deliver the audit plan.
12. With the exception of consultancy work, all audit reports include an assurance rating on the basis of the definitions shown in Appendix B. Individual assurance ratings help to determine the overall audit opinion. Completed reviews that received a less than satisfactory assurance rating are summarised in Section 3 of this report.
13. Audit work has been undertaken to obtain all information and explanations considered necessary to provide sufficient assurance that the control environment is both reasonable and effective. Whilst no assurance can ever be absolute, on the basis of audit work completed, it is the opinion of the interim audit manager that during 2020/21 the council had a governance, risk and control framework that provides a reasonable level of assurance regarding the economic, efficient and effective use of resources in achievement of its objectives.
14. This opinion is caveated by the need to fully embed risk management processes across the council. It should however be noted that good progress has been made during the year to reconstitute the council's corporate risk register and develop fully functioned directorate registers that feed through to the corporate register.
15. Governance arrangements have continued to be strengthened by the chief executive and his leadership team to review performance and risk management in a more structured and formal way, including setting up new internal decision-making boards in January 2021 which will be in place during 2021/22.
16. There have been no significant issues identified in respect of key financial systems and controls, with a focus to ensure that a sound control environment remains in place in light of the challenge and changes to working practices associated with Covid-19.

17. The council has identified a need to strengthen competencies and make improvements in the way in which contracts are managed effectively to drive out efficiencies and service improvements. This will continue to be an area of audit focus given recent limited assurance opinions for the management of a couple of large contracts.

Audit opinion structure

18. The opinion structure for audits is shown in Appendix B.

Audit plan 2020-21

19. A revised audit plan was reported to the audit committee in November 2021. The table below summarises the status of audit work undertaken.

	Audit		Days	Status/Opinion
Anti-fraud & corruption	National Fraud Initiative	Responsive	20	Ongoing
	Investigations Contingency	Responsive	10	Ongoing
Key Financial Systems	Payroll	Assurance	10	Draft - Reasonable
	Housing Rent/Arrears	Assurance	15	Final - Reasonable
	Housing Benefits	Assurance	15	Final - Reasonable
	Council Tax	Assurance	10	Final - Reasonable
	National Non Domestic Rates (NNDR)	Assurance	10	Final - Reasonable
	Cash & Bank	Assurance	10	Draft - Substantial
	Accounts Payable	Assurance	10	Draft - Substantial
	Accounts Receivable	Assurance	10	Final - Reasonable
	Purchase Cards	Assurance	10	Final - Reasonable
Risk Management	Consultancy	Consultancy	20	Complete
Contract Management	Waste Services	Assurance	20	Final - Limited
	Joint Ventures Insourcing	Consultancy	50	Complete
IT Audit	Cyber Security	Assurance	10	Final - Reasonable
	New Housing System Phase 1 pre implementation	Assurance	10	Final - Reasonable
Other Compliance	Policies & Procedures	Assurance	10	Final - Limited
	Business Support Grants	Assurance	25	Final & Ongoing
	New Starters & Leavers Procedures	Assurance	5	Included as part of payroll key financial systems work
Other Consultancy	New Housing System Implementation Project	Consultancy	10	Complete
Service Reviews	Equalities Duties	Assurance	20	Final - Limited
	Licensing	Assurance	20	Final - Reasonable
Governance	Information Governance Group	Consultancy	5	Complete
	Data Breach Response	Consultancy	5	Complete
	Corporate Governance Group	Consultancy	5	Complete
	Annual Governance Statement	Consultancy	15	Complete
Grants	Disabled Facilities Grant	Assurance	10	Complete

Audit			Days	Status/Opinion
Advice & Guidance	Ad hoc Advice & Guidance	Consultancy	15	Complete
	Follow Up Audit Recommendations	Assurance	20	Complete
Reporting	Committee Reporting	Consultancy	15	Complete
	Management Reporting	Consultancy	20	Complete
	Audit Plan	Consultancy	10	Complete
		Total Days	450	

Audit work

20. The following table shows the number of recommendations by level from 2020-21 audits.

Risk Priority	Definition	Occurrences
High	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.	1
Medium	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.	40
Low	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.	34

21. Since the previous audit committee, the following areas of work have been completed and reported.

Key financial systems

22. Housing rents / arrears - reasonable assurance

- The review noted that the reconciliation of the Capita Housing (Academy) rents system to e5 general ledger had been prepared by finance on a monthly basis with identified variations due to be cleared by year-end. This has now been completed for the year-end.
- Write-offs of debts, where further recovery action has been exhausted, are not always authorised in accordance with the corporate financial procedures or within limits delegated to individuals by the head of housing. To determine the level of authorisation required for write-off, the service had been using the largest single debt as the determining value, not the total of rent and all ancillary costs (such as recharges for repairs and court costs).
- There is a backlog of debts over £2,000 that the service needs to present for approval by the chief finance officer (CFO), before being written off. A revised process has been agreed with the CFO, and is due to be implemented as soon as possible.

23. Housing benefits – reasonable assurance

Testing identified no major control issues and one error that has been corrected.

24. Council tax – reasonable assurance

The review did not identify any significant issues although a number of accounts were identified as having no end date on the system. These had been provided by the resident. Errors have been rectified, but further controls need to be implemented to mitigate errors in the future.

25. Accounts payable – substantial assurance (draft report)

This was the first audit completed on the new finance system e5. The audit review covered controls in place for payments, including prevention of duplicate payments and fraud relating to supplier set up and changes. Testing identified no major control issues.

26. Payroll – reasonable assurance (draft report)

There are three agreed actions (2 medium, 1 low priority) from the previous audit relating to arrangements with the payroll service provider. These are in progress with the council and payroll provider. There are a small number of outstanding evidence items that need to be provided by the service area, but the work has found no high priority recommendations and a provisional opinion of reasonable assurance is provided. The committee will be updated if there are any additional findings.

27. Cash and bank – substantial assurance (draft report)

Regular bank account reconciliations have been carried out during the year. Testing identified no major control issues.

IT audits - completed by external audit providers.

28. Cybersecurity – reasonable assurance

The review took the form of a maturity assessment covering the National Cyber Security Council's framework "10 steps to Cyber Security".

The report noted several areas where the council is applying good practice, including password controls. No "operational effectiveness matters" were identified.

Key areas identified for action are:

- There are a number of IT related policies that require review, including the IT security policy that users are required to sign off before being granted access to the council's network.
- The corporate risk register (CRR) requires further work to monitor IT risks in their own right. The interim audit manager has subsequently separated the GDPR and IT risks, but this requires further action regarding the enhancement of IT risk management within the CRR.

This was agreed by the infrastructure support manager and will be included as part of the senior management review of the CRR for the next quarterly performance report.

- Vendor support lifecycle monitoring needs to be more formal to ensure a more strategic view is maintained for budgeting and training needs purposes.

29. New housing system pre implementation phase 1 – reasonable assurance

The review looked at aspects of the core phase of the project, to inform phase one of the development project.

The report noted several areas where the council is applying good practice, including a consistent approach for documenting the existing and new business processes. No “operational effectiveness matters” were identified.

Key areas identified for action are:

- Complete the development and deployment of testing scripts.
- Complete the data protection impact assessments.
- Develop appropriate post-implementation reviews at appropriate milestones during the project.

Equalities duties

30. An audit review was undertaken at the request of the chief executive to provide assurance over the efficiency and effectiveness of the council's systems to ensure compliance with statutory provisions as part of the Equality Act (2010).

31. Audit work found that the council hadn't fully comply with the statutory duty of setting and publishing specific, measurable equality objectives at least every four years. Priorities are reported to cabinet but these need to be more clearly defined as objectives, more overtly presented on the council's website and have associated measurable actions in place that are reported periodically to the leadership team. Recommendations have been made to address these issues.

32. The audit identified multiple areas with adequate controls in place or where the council is positively progressing its duties. Other findings where recommendations were made include:

- Simplifying the newly revised Equality Impact Assessment (EIA), which is very long in comparison to other councils.
- Outstanding actions from the EIA are currently not reported at senior level.
- At the time of review, no action plan was in place/under development regarding improving staff diversity outside the BAME findings.

- Creation of a data bank of relevant equality data collected by the council that officers can access for evidence when drawing up a proposal/EIA.

33. The high importance recommendation regarding the statutory duty has been immediately addressed and an Equality, Diversity and Inclusion policy 2021/22 was agreed by cabinet in June 2021. The policy includes four objectives and how they will be achieved. An action plan for these is currently being developed.

Anti- fraud & corruption

34. The council participates fully in a national data matching exercise known as the National Fraud Initiative (NFI), which is run by the Cabinet Office to prevent and detect fraud. Data matching, between public and private sector bodies, flags up inconsistencies in data that may indicate fraud and error and helps councils to complete proactive investigations.

35. The NFI is conducted every two years and involves data matching across a number of datasets from over 1,200 participant organisations from across the public and private sectors. A data extraction exercise was completed as at the end of September 2020, and uploaded securely on a number of datasets, based on required specifications. Data matches have now been received and are being reviewed by service leads on a risk basis.

36. Additional datasets were requested in respect of the various (1st tranche) government business support grants, paid to businesses to alleviate the effects of Covid 19, as a drive to identify illegitimate grant claims and errors. 39 data matches were received back from NFI in May 2021 and are being reviewed on a risk basis.

37. There was one money laundering referral during Q4. This was reviewed and a referral made to the National Crime Agency. There was no financial impact on the council and it did not require a detailed investigation.

38. As reported to the committee in November 2020, there was one whistleblowing issue raised. This has been reviewed as part of the existing audit work and did not merit a specific investigation.

Other work

Risk management

39. As reported at the last audit committee meeting, internal audit has administered a full redesign of risk management processes in the council. The corporate register is fully operational as are three of the four directorate registers that feed into this process. Support work has been provided to develop the risk register for the remaining directorate.

40. Risks have been reassigned to reflect the new council structure that is now in place from 19 April 2021. The corporate register will continue to be presented to the audit committee twice yearly with the next review programmed for the September meeting.

Business support grants

41. Regular assurance group meetings have continued with the audit manager, the head of finance, audit & risk and the revenues & benefits operations manager to oversee post event assurance work to identify fraud and error, including the review of data matches from the National Fraud Initiative, and to fulfil reporting requirements to the government.

Other governance work

42. Internal audit has continued to provide advice and support to officers in a number of areas and working groups in line with the audit plan.

Follow up of audit recommendations

43. The timely implementation of internal audit recommendations has been identified as an area for improvement across the council.
44. Reports on the status of all high and medium priority recommendations are now sent to each director on a quarterly basis, and a summary report is reviewed by the corporate leadership team as part of its quarterly performance framework report.
45. Appendix A details the outstanding high priority audit recommendations that require implementation.

Implications

Financial and Resources

Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.

46. There are no proposals in this report that would reduce or increase resources.

Legal

47. There are no specific legal implications arising from this report.

Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	See section on Equalities Duties in the main report.
Health, Social and Economic Impact	None identified

Crime and Disorder	None identified
Children and Adults Safeguarding	None identified
Environmental Impact	None identified

Risk Management

Risk	Consequence	Controls Required
Audit actions identified are not resolved.	The control environment does not operate effectively.	Audit recommendations are follow-up to ensure implementation. Outstanding actions are reported to the corporate leadership team on a quarterly basis.

Other Options Considered

48. There are no alternative options to this report.

Reasons for the decision/recommendation

49. The committee is recommended to review and note the attached report from the council's external auditor.

Tracking Information

Governance Check	Name	Date Considered
Relevant Executive Director	Annabel Scholes	05/07/21
Legal opinion	Katrina Hulatt	05/07/2021
Relevant finance officer	Hannah Simpson	02/07/2021
Chief Finance Officer (or Deputy)	Annabel Scholes	05/07/2021
Monitoring Officer (or Deputy)	Katrina Hulatt	05/07/2021

Background papers:

None

Appendices:

Appendix A: Outstanding & Completed high priority recommendations

Appendix B – Audit Opinions & Definitions

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Appendix A: Outstanding & Completed high priority recommendations

Outstanding high priority actions:

Audit	Recommendation	Agreed action	Agreed date	Status / comments
Information Security & GDPR	The Information Asset Register (IAR) has not been updated since 2016 and has not been approved by the Corporate Information Assurance Group (CIAG). Information Asset Owners were not aware of the assets they owned. The Register does not have GDPR considerations as it was last updated prior to the regulation coming into place. The council should review and update the Information Asset Register on an annual basis.	In 2019 we worked on the schedule of processing and decided to update the IAR in 2019. This will be commenced as planned and will include GDPR considerations. Responsible Officer – Data Protection & Security Team Leader	Mar 20 Sep 20 Dec 20 July 21	89 review requests were sent to officers within the council – one request for each team. Currently 4 are still outstanding and have been last chased on 18/06/21. Progress to be reported to next CIAG. It is intended that the newly appointed experienced data protection officer will be responsible for completing all the outstanding actions from this GDPR audit.
Information Security & GDPR	The council should present the IAR to the CIAG on an annual basis, once updated, to gain official approval for the document.		Dec 20 Apr 21 Oct 21	Not yet started due to dependence on above.
Information Security & GDPR	The council does not currently have the capability to remove certain records according to their own retention schedule, due to the limitation of key systems. The Schedule of processing is not fully completed The council should push to replace software that prohibits the adherence to the schedule of processing retention rules with their IT partners.	This is well known and published on our website for customers. IT is working with software suppliers to identify their disposal functionality, which will be implemented over the coming year. The schedule of processing is a working document and is continually being updated. It will be reviewed at CIAG. Data Protection Security Team Leader and IT	Mar 21 + Sep 23	IT suppliers were contacted by LGSS IT. Some have come back with their timelines for compliance. There is no date for this as we are entirely dependent on the software providers working on a solution, but realistically this will be a long-term project – likely to be at least 5 years. As software is upgraded, which includes ability to remove data, this will be tested. Currently, we have software for Civica, which is being deployed, and Northgate revs and bens which was being tested, but has found issues and so testing has been

Audit	Recommendation	Agreed action	Agreed date	Status / comments
				suspended. For new software provisions such as E5 and iTrent, the ability to follow retention guidelines has been stated in the specification.
Contract management - housing repairs & responsive maintenance	<p>Verification of accuracy for received reports.</p> <p>The council does not undertake any testing or receive any independent verification regarding the accuracy of reports received from NPSN. The absence of any sample checking of the veracity of information (e.g. actual costs and prime records supporting performance) being provided to the council by NPSN is a significant weakness in the control environment.</p>			<p>Overall good progress has been made with the various agreed actions for this recommendation.</p> <p>Considerable work carried out jointly between the business intelligence team (NCC) and NPS to provide assurance KPI definitions are being followed, contractor data is accurate, sufficient and robust quality checks are in place.</p> <p>Some of the actions now completed – see table further below.</p>
	<p>The council should introduce sample check processes in-house, including drilling down to source data and confirming competitiveness of rates, to validate reports provided by NPSN, or alternatively obtain independent verification.</p>	<p>Although no specific actions/projects initiated to ensure IT systems used to record contractor data are fit for purpose ensure the requirements have been incorporated into work on implementing the new housing IT system.</p> <p>Responsible Officer – Head of Neighbourhood Housing</p>	<p>Mar 24 July 2021</p>	<p>In progress, alongside the implementation of the new housing IT system.</p>
		<p>Continue to review any remaining KPI definitions derived from contractor data with NPS to ensure all definitions are clear, unambiguous and in line with contracted obligations</p> <p>Responsible Officer – Head of Neighbourhood Housing</p>	<p>End of Q4 2021-22 July 2021</p>	<p>In progress.</p>

Completed high priority actions:

Audit	Recommendation	Agreed action	Agreed date	Status / comments
Equalities duties	<p>Develop the 2020-22 priorities to more overriding objectives and evidence-based priorities with specific and measurable equality objective(s) and an appropriate action plan.</p> <p>Ensure these are reviewed, minimum every four years, and readily available on the website.</p>	<p>The council has articulated its equality objectives as part of its regular reporting to Cabinet on the progress of the reducing inequalities strategy.</p> <p>These go beyond The Equality Act considerations, and were last agreed by Cabinet in March 2020. What is published in the cabinet report is supported by a range of project plans, including the current review of our EIAs etc, and performance measures including within corporate KPIs.</p> <p>Specific objectives for 2021/22 have been developed as part the draft equality, diversity and inclusion policy 2021/22. We will be seeking Cabinet approval in June. Progress against the objectives will be reported to CLT assurance.</p> <p>The objectives will be reviewed through the current equalities review, and informed by the political priorities for 2022/23, and the revised corporate plan for 2022/23. These will then be scrutinised by scrutiny committee and agreed by cabinet.</p> <p>Responsible Officer – Strategy Manager</p>	June 2021	<p>Completed</p> <p>Cabinet agreed the Equality, Diversity and Inclusion policy 2021/22 on 9 June 2021. The policy includes four objectives with reasoning, how they will be accomplished and who is responsible for it.</p> <p>A project plan and action plan around these objectives is currently being developed.</p> <p>The document is currently only within the Cabinet papers on the website but has been passed on to the designers and web team as a high priority to be published on the Equality section of the website.</p>

Audit	Recommendation	Agreed action	Agreed date	Status / comments
Contract management - Housing repairs & responsive maintenance	(The actions for this recommendation are partly completed, part not, so repeated from the outstanding table above)	As a one-off exercise, neighbourhood housing services to review format of current data and ensure it is compliant with KPI definitions	Mar 21	Completed.
	Verification of accuracy for received reports.	Neighbourhood housing services to document quality assurance steps currently being undertaken by NPS to ensure these are sufficiently robust.	Mar 21	Completed.
	The council does not undertake any testing or receive any independent verification regarding the accuracy of reports received from NPSN. The absence of any sample checking of the veracity of information (e.g. actual costs and prime records supporting performance) being provided to the council by NPSN is a significant weakness in the control environment.	Neighbourhood housing services to undertake a more in-depth review of data quality (a data health check) for KPI's as directed. This will then be ad hoc and where required in future, but all data and definitions are being checked as a one-off exercise as above.	Mar 21	Completed
	The council should introduce sample check processes in-house, including drilling down to source data and confirming competitiveness of rates, to validate reports provided by NPSN, or alternatively obtain independent verification.	Service improvement team to review survey methodology used by Gasway as part of existing service improvement plan. This project will undertake a comprehensive review of the current approach to transactional satisfaction surveys. It consists of 2 stages:	Mar 21	Completed.
		STAGE 1: This stage is purely exploratory/investigative in nature leading to the production of a report which includes recommendations for any potential changes.	Dec 20	
		STAGE 2: This stage will implement any agreed changes set out in the report delivered in Stage 1	Mar 21	

Appendix B: Audit Opinions & Definitions

Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, in support of the objectives of the council.

The annual audit plan is prepared to take into account key areas of risk and was approved by the Audit Committee. The internal audit plan has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

With the exception of project support work, all audit reports include an assurance rating on the basis of the definitions shown below. Individual assurance ratings help to determine the overall annual audit opinion

Opinion		Definition
Substantial Assurance		Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance		Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Limited Assurance		There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance		Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Key to priority of recommendations

Risk Priority	Definition
High	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Medium	Recommendations represent significant control weaknesses, which expose the organisation to a moderate degree of unnecessary risk.
Low	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.