Report to	Audit Committee		**Item**
	13 March 2018		
Report of	Chief Internal Auditor, LGSS		**7**
Subject	Internal Audit Update November 17 to February 18 – Quarter 3		

Purpose

To advise members of the work of Internal Audit, completed between November 2017 to February 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 2017-18 Audit Plan was approved by the committee on 14 March 2017 and endorsed by the council's Corporate Leadership Team on 1 March 2017. The audit committee was previously provided with an update up to 14 November 2017.

Recommendation

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

Corporate and service priorities

The report helps to meet the corporate priority 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

Q3

As at 27th February 2018

Resources

As outlined to CLT 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 and as at February 2018, the internal audit team is on target to deliver this. Some days have been re-profiled to take into account the implementation of a new Finance and HR system.

Following the departure of Jonathan Tully on 15th December 2017 a replacement for the Principal Auditor post was promptly appointed and Magen Powell commenced on 2nd January 2018. Although the post was filled quickly, this has had a short term negative impact on the resources and knowledge in the team. However the induction processes required by Norwich have now all been completed and the transition has been successful.

Progress against the plan

In addition to the planned audits, the internal audit team has provided ongoing support and attendance at relevant meetings within the following areas:

- Transformation projects
- National Fraud Initiative
- Fraud Investigations
- Attend Information Governance Group
- Attend Data Breach Response
- Attend Corporate Governance Group

Finalised Assignments

Since the previous report to Audit Committee on 14th November 2017 the following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Treasury Management	Substantial	Substantial	Minor
Cross cutting	Grants To Voluntary Organisations	Substantial	Good	Minor
Cross cutting	Use of Government Procurement Cards	Substantial	Substantial	Minor
Cross cutting	Information Security	Good	Good	Minor
Cross cutting	Information Governance Policies	Good	Good	Minor
Cross cutting	Debt Recovery	Satisfactory	Satisfactory	Moderate

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	Status
Cross cutting	Council Tax	Draft report issued
Cross cutting	NNDR	Draft report issued
Cross cutting	Housing Benefits	Work in progress
Cross cutting	Purchase to Pay	Draft report issued
Cross cutting	Accounts Receivable	Draft report issued
Cross cutting	Business Continuity	Draft report issued
Cross cutting	Payroll	Work in progress
Cross cutting	Cycle highways grant	Work in progress
Cross cutting	Procurement Governance and Contract Management	Work in progress

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.

__Key financial systems__

The Team has 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, Housing Benefits, Accounts Receivable and Purchase to Pay and it is pleasing to note that there are again no significant areas of concern. This gives a very positive assurance to stakeholders on the core systems.

Required audit work on the HR elements of Payroll has been impacted by the new HR / Finance project, resulting in delaying the testing within this area. A review of Safe Recruitment is also scheduled for quarter 4 however the service has not been able to agree a start date for this audit despite various communications although it is still hoped it can be completed this year but access is currently not possible.

__Transformation - implementation of new IT system__

The Council is implementing a new Finance System for HR and Finance. Internal audit has 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.

__Actions from previous internal audit reviews__

The internal audit team monitor all recommendations made and follow ups have commenced in the subsequent areas:

- General Computer Controls, completed in May 2017
- St James Sheltered Housing Redevelopment, completed in September 2016

__Grant certification__

Work is ongoing to enable the Chief Internal Auditor to sign off the grant of Cycle City Ambition Grant Award for financial year 2016/17 "Push the Pedalways: Norwich Cycling Ambition: £4,166,000" to make the deadline of 31st March 2018.

__Key policies and procedures__

The Chief Finance Officer has been unable to finalise the review of Norwich financial procedures therefore the audit review of this area will need to be slipped into the 2018/19 Audit Plan..

Summaries of completed audits with limited or no assurance

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.

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 NFI undertakes an annual exercise to match council tax records against the electoral register and other datasets. This will identify individuals who receive council tax single persons discount on the basis that they live alone yet the electoral register or other data suggests that there is at least one other adult in the household. The datasets have now been uploaded in advance of the 28th February 2018 deadline with 8927 matches being received of which some (to be confirmed) matches meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. It is understood that work will commence on reviewing these matches and will continue throughout the year by staff at the Anglia Revenues Partnership (ARP).

Appendix A – Internal audit plan
Norwich 2017/18

Audit title	Status	Current Plan	Revised Plan	Commentary
Invoices over £500	Completed	11.0	11.0	
Transformation projects	Advisory	14.0	14.0	
Making Every Penny Count Total		25.0	25.0	
National Fraud Initiative	Open	20.0	20.0	
Fraud Investigations	Open	5.0	7.0	
Anti-Fraud and Corruption Total		25.0	27.0	
Accounts Receivable	Draft	15.0	15.0	
Purchase to Pay	Draft	20.0	20.0	
Payroll	Open	15.0	15.0	
Housing Rents & Arrears	Completed	35.0	35.0	
Housing Benefits	Open	20.0	20.0	
Council Tax	Draft	15.0	15.0	
NNDR	Draft	15.0	15.0	
Treasury Management	Completed	15.0	17.0	
Procurement Governance	Open	15.0	15.0	This is being reviewed alongside contract management.
Debt Recovery	Completed	10.0	15.0	
Key Financial Systems Total		175.0	182.0	
Contract Management	Open	15.0	15.0	This is being reviewed alongside procurement governance.
NPS Contract monitoring	Removed	0.0	0.0	Removed - agreed at Audit Committee 30.11.17
Regeneration company	Suggested Removed	5.0	0.0	In Q1 2018/19
Commissioning	Suggested Removed	5.0	0.0	In Q1 2018/19
Commissioning & Contracts Total		25.0	15.0	
Safe Recruitment	Suggested Removed	5.0	0.0	In Q1 2018/19
Risk-Based Audits Total		5.0	0.0	
Financial Regulations (Norwich) 2018	Suggested Removed	5.0	2.0	In Q1 2018/19
Business Continuity Policy	Draft	5.0	20.0	
Information Governance Policies	Completed	5.0	5.0	
Policies & Procedures Total		15.0	27.0	
Fees and Charges	Suggested Removed	5.0	0.0	In Q1 2018/19
Grants to Voluntary Organisations	Completed	5.0	7.0	

Audit title	Status	Current Plan	Revised Plan	Commentary
Use of GPC	Completed	5.0	5.0	
Contract Extensions	Suggested Removed	5.0	0.0	In Q1 2018/19
Compliance Total		20.0	12.0	
Information Security	Completed	10.0	10.0	
Financial Systems IT & General Computer Controls	Open	15.0	15.0	
ICT and Information Governance Total		25.0	25.0	
Attend Information Governance Group	Open	5.0	5.0	
Attend Data Breach Response	Open	5.0	5.0	
Attend Corporate Governance Group	Open	5.0	5.0	
Annual Governance Statement	Open	10.0	12.0	
Governance Total		25.0	27.0	
Risk Management	Open	12.0	12.0	
Risk Management Policy	Completed	4.0	4.0	
Risk Management Total		16.0	16.0	
Disabled Facility Grant	Completed	12.0	12.0	
Cycle highways grant	Open	5.0	5.0	
Grant assurance Total		17.0	17.0	
Advice & Guidance	Open	25.0	25.0	
Follow-Ups of Agreed Actions	Open	20.0	20.0	
Advice & Guidance Total		45.0	45.0	
Committee Reporting	Open	12.0	12.0	
Management Reporting	Open	12.0	12.0	
Audit Plan	Open	8.0	8.0	
Reporting Total		32.0	32.0	
Operational Plan Grand Total		**450.0**	**450.0**	

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
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.