





# **LGSS Internal Audit & Risk Management**

## **Norwich City Council**

*Quarterly update report*

**Q3**

*As at 31<sup>st</sup> December 2016*

# 1. Progress against the plan

## Finalised Assignments

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

No.	Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
1	Cross cutting	Safeguarding	Overall substantial		
2	Cross cutting	Right to Buy	Overall substantial		
3	Cross cutting	Icon	Overall substantial		
4	Cross cutting	Council Tax	Substantial	Substantial	Minor
5	Cross cutting	Business Rates	Substantial	Substantial	Minor
6	Cross cutting	Benefits & Council Tax Reduction	Substantial	Good	Minor
7	Cross cutting	Payroll	Substantial	Substantial	Minor
8	Cross cutting	Contract Procedure Rules	Substantial	Substantial	Minor
9	Cross cutting	Housing Rents and arrears	Good	Good	Minor

1.2 Controls are operating effectively for the key financial systems which have been reviewed to date.

1.3 Both the Council Tax and Business Rates systems have substantial control and compliance assurance. There are arrangements in place for maintaining their databases; discounts and exemptions; monitoring of arrears and collection rates; refunds and write-offs; reconciliation of the databases to the ICON cash receipting; and reconciliation of the databases to the general ledger at year end.

1.4 Benefits and Council Tax Reduction has substantial control assurance and good compliance assurance. There are arrangements in place for the review of new claims prior to entering on to the system; daily reconciliation of council tax reduction payments to the council tax control account; system access; classification of overpayments; quality assurance processes; backdated claims; and BACS payments. Authorisations of write-offs up to £2,000 are delegated to team leaders, and write-offs over £2,000 should be authorised by the Chief Finance Officer. Two instances were identified where write-offs, in excess of £2,000, had not been authorised correctly at the time they were written off. Both of these were subsequently authorised by the Chief Finance Officer. Procedure notes have since been reviewed by team leaders, and posted to the intranet training pages to remind employees.

1.5 The Payroll system has substantial control and compliance assurance. There are controls in place for starters; leavers; amendments; reconciliation of human

resources records to the payroll system; reconciliation of payroll costs to the general ledger; confirmation of establishment lists by managers; and production and review of exception reports. The payroll system was operating well, with appropriate separation of duties in place and good controls throughout the process. Testing also confirmed that the controls are complied with, and employees are knowledgeable and experienced.

- 1.6 Contract Procedure Rules has substantial control and compliance assurance. Policies and guidance are reviewed and updated; linked to Council Strategy; and are accessible and promoted to employees and partners. There has been a recent review of documents, which support the procurement framework, to reflect latest legislation and good practice. This includes a procurement strategy, supporting guidance, plus a contract management framework and contract procedures. Internal Audit supported this review of the draft policies, and the procurement strategy was approved by Cabinet. The finalised documents have been posted on the intranet and promoted to employees and partners.
- 1.7 Housing Rent and Arrears has good control and compliance assurance. The team follows an 'arrears procedure' timetable to maximise recovery of debt, and manage debt write-off and large refunds in accordance with financial procedures and authorised delegations. Introduction of Universal Credit, plus a recent team restructure, provides an opportunity to review the process for financial delegation of smaller refunds and to revise procedure notes within the team.
- 1.8 The levels of both Control and Compliance assurance are explained further in Appendix B – Audit Definitions

### Draft/Interim Reports

- 1.9 The following audit assignments are in progress:

No.	Directorate	Assignment
1	Cross cutting	Accounts Receivable
2	Cross cutting	Council Tax
3	Cross cutting	Debt recovery
4	Cross cutting	NNDR
5	Cross cutting	Procurement Governance
6	Cross cutting	Accounts Payable and Procure to Pay
7	Cross cutting	Treasury Management
8	Cross cutting	Current capital contracts audit
9	Cross cutting	Scheme of delegation – policy
10	Cross cutting	Lease Hold services
11	Cross cutting	Financial systems IT General Controls

- 1.10 Further information on work planned and in progress may be found in the Audit Plan, attached as Appendix A.
- 1.11 Work has commenced on all of the reviews classed as Key Financial Systems. Due to their significance, reviews of these systems are prioritised.
- 1.12 Testing has been completed on Accounts Receivable, Accounts Payable & Procure to Pay. There are no significant areas of concern and, following closing of working papers, the reports will be issued shortly.

### **Performance**

- 1.13 The team has made good progress to deliver the plan. To the end of December 2016, 344 productive days have been delivered against a revised audit plan of 470 days.
- 1.14 It is good practice to keep audit plans under review and update them to reflect current issues and risks, and revisions to corporate priorities which may affect the delivery of the audit plan. These are discussed and agreed with the Corporate Leadership Team quarterly. Internal Audit met with the Corporate Leadership Team on 18<sup>th</sup> January.
- 1.15 The re-profiled plan is illustrated in Appendix A.

## ***2. Fraud and corruption update***

### **Counter fraud awareness**

- 2.1 The Council has completed a review of its Anti-Fraud and Corruption framework to ensure that it reflects best practice. Consequently Internal Audit authored three counter fraud policies:
  - Anti-Fraud and Corruption Strategy
  - Anti-Money Laundering Policy
  - Whistle-Blowing Policy
- 2.2 The policies have been reviewed by the LGSS Counter Fraud team and have been formally approved by Audit Committee and Cabinet. Consultation included the Corporate Leadership Team, the Joint Consultative and Negotiating Committee, the Corporate Governance Group and nplaw. The policies are being promoted so that employees and partners are aware they have been updated. The policies have been uploaded to the internal [citynet](#), plus uploaded to the [website](https://www.norwich.gov.uk/downloads/20195/council_policies_and_strategies) ([https://www.norwich.gov.uk/downloads/20195/council\\_policies\\_and\\_strategies](https://www.norwich.gov.uk/downloads/20195/council_policies_and_strategies) )  
Promotional material has been produced, and posters have been circulated throughout the premises. An example poster is at Appendix C. The policies will be uploaded to the employee training program “HR Workforce”.

### **Data matching**

- 2.3 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.

### ***3. Implementation of management actions***

- 3.1 Where reviews identify opportunities for improvement, these are agreed with management as part of an action plan.
- 3.2 The actions are prioritised according to the significance of the control weakness, and the urgency of implementing the improved control. These are explained further in Appendix B – Audit Definitions
- 3.3 High level actions are actively monitored to ensure they implemented promptly.
- 3.4 There are currently no outstanding high level actions, and this provides positive assurance of the Councils commitment to maintain the internal control environment.

### ***4. Summaries of completed audits with moderate or less assurance***

- 4.1 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
- 4.2 Reviews, which highlight there is only moderate or less assurance, are reported to the Committee for awareness. No such audits have been issued this quarter.

### ***5. Other audit activity***

- 5.1 In addition to completing ongoing audit reviews, the Internal Audit team is conducting work in the following areas.

#### **Corporate Risk Register**

- 5.2 The team has facilitated updates of the Corporate Risk Register. The current register, approved by the Audit Committee, was reported to Cabinet because two risks exceeded the Council's risk appetite:
  - risk B1, public sector funding, and
  - risk A8, housing investment strategy.
- 5.3 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. In addition, the annual review of the Risk Management Policy was completed, and the committee approved that it provided the Council with an effective approach to risk management.
- 5.4 A further review is scheduled for February 2017.

## **Advice and assurance**

- 5.5 The team provides both proactive and responsive advice where it helps to improve the control environment. We have assisted the Council with several areas to date.
- 5.6 We reviewed the short term impact of Brexit on treasury management and investments, for assurance that risks were continuing to be managed effectively.
- 5.7 We supported a review of income and banking controls for parking, where a potential control weakness was identified.
- 5.8 We reviewed disabled facility grant capital expenditure. This enabled Council to provide a statement of assurance, to Norfolk County Council, that capital expenditure had been spent according to their grant conditions.
- 5.9 Examples also include reviewing proactive anti-fraud controls for housing, and informing employees of the importance of using privacy notices for data sharing. This work has helped to support the National Fraud Initiative work, and also helps the Council to meet the requirements of the Data Protection Act.
- 5.10 Also the team has supported the corporate information assurance group, by evaluating information security resilience. This helps to ensure that the Council can react promptly to incidents, and identify opportunities to improve controls which could reduce the risk of future incidents.
- 5.11 A recent example included the Local Audit and Accountability Act 2014, which brings changes to the appointment process for external auditors. The team supported the process by writing a report for the Audit Committee to consider various options. This was presented to Cabinet, with a final decision on the appointment process approved by full Council.

# Appendix A – Internal audit plan

Norwich 2016/17

Audit title (CLT Plan)	Status	Qtr opened	Qtr closed	Profiled days
Operational plan grand total				470.0
Making Every Penny Count Total				43.5
Business Planning Benefits Realisation	Not started	Q4		7.0
HRA Business Planning	Open	Q4		15.0
Making Every Penny Count - Strategy	Not started	Q4		15.0
Travel & Subsistence - Compliance	Open	Q4		6.5
Anti-Fraud & Corruption Total				40.2
Fraud Investigations	Open	Q1-4	NA	14.2
National Fraud Initiative	Open	Q1-4	NA	20.0
Preventative & Pro-Active Fraud Work	Open	Q1-4	NA	6.0
Key Financial Systems Total				152.4
Accounts Receivable	Open	Q2		12.0
Council Tax	Open	Q4		12.0
Debt Recovery	Open	Q3		12.0
Financial Systems IT General Controls	Open	Q4		8.0
Housing Benefits	Closed	Q1	Q2	23.9
Housing Rents/Arrears	Closed	Q1	Q3	15.0
NNDR	Open	Q4		12.0
Payroll	Closed	Q1	Q2	18.5
Procurement Governance	Open	Q2		12.0
Purchase to Pay	Open	Q2		15.0
Treasury Management	Open	Q3		12.0
Commissioning & Contracts Total				50.0
Current Capital Contracts Audit	Open	Q1		50.0
Policies & Procedures Total				13.1
Contract Procedure Rules	Closed	Q2	Q3	5.1
Financial Regulations	Not started	Q4		4.0
Scheme of Delegation - Policy	Open	Q3		4.0
Compliance Total				13.0
Agency Staff Compliance	Not started	Q4		4.0
Off-Contract Spend	Not started	Q4		5.0
Scheme of Delegation - Compliance	Open	Q4		4.0
ICT & Information Governance Total				12.0
General Computer Controls	Not started	Q4		12.0
Governance Total				25.0
Corporate Governance	Open	Q1-4	NA	25.0
Strategic Risk Management Total				10.0
Risk Management	Open	Q1-4	NA	10.0

Audit title (CLT Plan)	Status	Qtr opened	Qtr closed	Profiled days
Work in progress Total				17.8
Council Tax - 15/16	Closed	Q1	Q2	5.7
ICON	Closed	Q1	Q2	1.6
Leasehold Services	Open	Q1		10.5
NNDR - 15/16	Closed	Q1	Q2	0.0
Advice & Guidance Total				93.0
A&G - Data Breach	Open	Q1-4	NA	2.0
A&G - Regeneration Company	Open	Q1-4	NA	1.0
Advice & Guidance	Open	Q1-4	NA	20.0
Audit Plan	Open	Q1-4	NA	7.0
Committee Reporting	Open	Q1-4	NA	21.0
Follow-Ups of Agreed Actions	Open	Q1-4	NA	30.0
Management Reporting	Open	Q1-4	NA	12.0

## 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 Assurance

Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place which mitigate the risk of those objectives not being achieved.

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Moderate	There are 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

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

## 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 SMT 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.

For ease of reference, we have used a high/medium/low system to prioritise our findings, as follows:

<b>H</b>	<p>Failure to respond to the finding 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 finding is critical to the system of internal control and action be implemented immediately.</p>	<b>M</b>	<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 finding has a significant effect on the system of internal control and action should be implemented as a matter of priority.</p>	<b>L</b>	<p>The finding is important to maintain a reasonable system of internal 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 review, make changes if considered necessary or formally agree to accept the risks.</p>
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*Appendix C – Fraud awareness poster*

# FRAUD

**Prevent it...**  
**Detect it...**  
**Stop it...**

We all have a responsibility to protect the council from fraud.

- Have you spotted a weakness in our systems?
- Are you suspicious about some financial activity?
- Would you know how to report a possible case of fraud?

Find our fraud prevention and whistleblowing policies, as well details about training, on citynet.

**You can report any concerns by emailing [reportfraud@lgss.co.uk](mailto:reportfraud@lgss.co.uk)**



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