

Report to	Audit Committee 22 January 2019	Item
Report of	Chief Internal Auditor, LGSS	7
Subject	Internal audit 2018/19 – October to December update (Quarter 3)	

Purpose

To advise members of the work of internal audit, completed between October to December 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

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Background documents

None



NORWICH
City Council

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q3

As at 11th January 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, approved by Corporate Leadership Team (CLT), was agreed as 450 days. At the end of December 2018, 370 productive days 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 approves suggested changes to the plan.

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	Commercial Rents	Satisfactory	Satisfactory	Minor
Cross cutting	Council Tax	Good	Good	Minor
Cross cutting	National Non – Domestic Rates (NNDR)	Substantial	Good	Minor
Cross cutting	Accounts Payable	Substantial	Substantial	Minor
Cross cutting	Accounts Receivable	Substantial	Substantial	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.

Commercial Rents

The audit identified that a list of total rental values for the whole portfolio of income generating properties managed by NPS Norwich Ltd (NPSN) is not available and there is no evidence of any agreement between the council and NPSN relating to how the budgets for rental income will be calculated. Management is aware of the current challenges regarding performance management of the commercial property portfolio, and these are being addressed through the development of the Commercial Investment Unit.

Council Tax

Council tax visiting officers follow a schedule compiled at the start of the year with all types of discounts and exemptions that require review. Testing confirmed that this schedule omitted the categories for disregard discounts for students (if only some household members are students) and exemptions for people under 18 (if all household members are under 18). As a result, the audit confirmed that end dates for disregard discounts for students and exemptions for people under 18 have not always been input on the system when held.

The service is in the process of obtaining system reports of all discounts and exemptions where no end date is held to quantify number of accounts affected.

National Non – Domestic Rates (NNDR)

The current corporate financial procedures do not detail any financial limits for approval of refunds. The practice is that all refunds of any value are authorised by any team leader or operations manager.

There are no procedures in place to ensure that access levels to the revenues system (Northgate) are reviewed on a regular basis

Internal audit has recommended an efficiency opportunity to cease completing the check of write-offs processed through the revenue system to the authorised records held on Civica. The service has agreed to this.

Accounts Payable

Minor queries were raised as a result of the audit testing which were satisfactorily answered or left with management, and there are therefore no issues to report from the audit work this year.

Accounts Receivable

Minor queries were raised as a result of the audit testing which were satisfactorily answered or left with management, and there are therefore no issues to report from the audit work this year.

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	Governance Arrangements – Norwich Regeneration Limited
Cross cutting	Project Management
Cross cutting	Housing Rents and Arrears
Cross cutting	Debt Recovery

Directorate	Assignment
Cross Cutting	Treasury Management
Cross Cutting	Housing Benefits
Cross Cutting	Safeguarding Policy Review
Cross Cutting	Contract Management joint ventures

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

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 has submitted all required data sets for the 2018/19 main exercise and awaits the results which will become available from 31 January 2019.

The Cabinet Office requires Council Tax and Electoral Register data annually for council tax single person discount matching, submissions for this exercise are in progress and it is anticipated both datasets will be uploaded prior to the 28 February 2019 deadline.

Implementation of management actions

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.

Risk Management

Internal Audit met with the Corporate Leadership Team on 14 November 2018 and facilitated a strategic risk identification session. As a result, senior management identified nine corporate risks facing the Council and risk owners.

Work is now underway to identify events or conditions that cause a risk to occur (triggers). By identifying the triggers, the Council is better able to identify any controls or mitigating actions necessary to prevent the risk occurring or to recover quickly should a risk occur.

A report is being presented to Cabinet on 6 February 2019 with an update on the corporate risk register and this will be presented to Audit Committee on 12 March 2019.

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
Total Anti-Fraud and Corruption:				45
Accounts Receivable	Complete	Q3	Q3	15
Purchase to Pay	Complete	Q3	Q3	15
Payroll	In progress	Q3		15
Housing Rents/Arrears	In progress	Q3		20
Housing Benefits	In progress	Q3		20
Council Tax	Complete	Q2	Q3	15
NNDR	Complete	Q2	Q3	15
Treasury Management	In progress	Q3		15
Debt Recovery	In progress	Q3		10
Total Key Financial Systems:				140
Risk Management	Not started	All year	N/a	20
Total Risk Management:				20
Contract Management	In progress	Q3		35
Total Contracts:				35
Fees and Charges Policy	In progress	Q1		10
Commercial Rents	Complete	Q1	Q3	15
Attend HR & Finance Project Meetings	Ongoing	All year	N/a	15
Project Management	In progress	Q2		10
Norwich Regeneration Limited	In progress	Q2		15
Total Risk-Based Audits:				65
Annual Key Policies & Procedures Review	In progress	Q3		6
Financial Regulations	Not started	Q4		2
Total Policies & Procedures:				8
Fees and Charges	Complete	Q1	Q1	1
Key Performance Indicators	Complete	Q1	Q1	10
Procurement Compliance	Not started	Q4		20
Contract Extensions	Complete	Q1	Q1	5
Total Compliance:				36
Information Security & GDPR	Not started	Q4		15
Financial Systems IT & General Computer Controls	Not started	Q4		10
Total ICT and Information Governance:				25
Attend Information Governance Group	Ongoing	All year	N/a	5

Audit	Status	Qtr opened / planned	Qtr closed	Profiled days
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
Total Governance:				25
Disabled Facility Grant	Complete	Q1	Q2	12
Cycle highways grant	Not Started	Q4		5
Total Grant assurance:				17
Advice & Guidance	Ongoing	All year	N/a	10
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10
Total Advice & Guidance:				20
Committee Reporting	Ongoing	All year	N/a	17
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	8
Total Reporting:				35
Operational Plan Total - 2018/19				471

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>