

**Report to** Audit Committee  
23 July 2019  
**Report of** Chief Internal Auditor, LGSS  
**Subject** Internal audit 2019-20 – April to June update (Quarter 1)

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**Item**

**7**

### **Purpose**

To advise members of the work of internal audit, completed between April to June 2019, 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 2019-20 Audit Plan was approved by the audit committee on 12 March 2019.

### **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



**NORWICH**  
City Council

# **LGSS Internal Audit & Risk Management**

## **Norwich City Council**

Quarterly update report

**Q1**

*As at 5<sup>th</sup> July 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 was agreed as 450 days, there have been no further changes to the plan for 2019-20. As at 5<sup>th</sup> July 2019, 138 productive days are projected to have been delivered against the plan which reflects the profiling with the majority of testing completed in quarter's two to four.

## Progress against the plan

### Finalised Assignments

A number of reviews from 2018-19 were finalised in the April/May, and these were reflected in the Annual Report on Internal Audit and Fraud, which was presented to the Audit Committee on 11<sup>th</sup> June 2019. Since then, the following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational Impact
2019/20 Audit Plan				
Cross cutting	2018/19 Annual Governance Statement	N/A		
Cross cutting	Contract Extensions	Satisfactory	Good	Minor
Cross cutting	Disabled Facility Grant & additional grant	NA – Unqualified grant certifications		

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.

Key points from the completed 2019/20 reviews include:

### Contract Extensions

The corporate management of procurement and contracts is carried out by the business relationship and procurement team, with service management responsible for the ongoing contract management.

The audit carried out sample testing of contract extensions agreed since April 2018. For those tested, appropriate approvals were obtained and the extensions have been recorded on the contracts register and, where applicable, on the exemptions register. However, the control

environment should be strengthened by inclusion of the requirements for extending contracts in the corporate contract procedures and other corporate procurement documents.

#### Disabled Facility Grant and additional grant

Norfolk County Council received £7.4m capital funding from the Department of Health for Disabled Facility Grants as part of the Better Care Fund in 2018/19. Norwich City Council was allocated £1.056m and we reviewed the expenditure to the accompanying grant conditions. Following audit testing, this was completed within the deadline and signed by the Chief Executive and Chief Internal Auditor.

An additional grant of £129,528 received directly from Ministry of Housing Communities and Local Government (formerly DCLG) required a separate certification. Following audit testing, this was completed within the deadline and signed by the Chief Executive.

#### **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	Information Security and GDPR
Cross cutting	Financial Systems IT General Controls
Cross cutting	Payroll
Cross cutting	Scheme of Delegation
Cross cutting	Contract Management
Cross cutting	Key Policies and Procedures
Cross cutting	Commercial Property Investment Strategy
Cross cutting	Council Tax
Cross cutting	National Non-Domestic Rates (NNDR)
Cross cutting	Joint Ventures

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

## Implementation of management actions

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule. Summary of follow up recommendations from the 2018/19 audit reviews:

Audit	Essential Recommendations		Important Recommendations	
	Agreed	Status as at end of Q1	Agreed	Status as at end of Q1
Commercial Rents			6	3 completed, 3 in progress
Corporate Key Performance Measures			3	1 completed, 2 awaiting response from service
Contract Extensions			1	Revised target date to 2020
Norwich Regeneration Limited	5	2 were due to date, both completed	3	Not yet due
Housing Rents-Arrears			3	All completed
Council Tax			2	All completed
Project Management			3	Not yet due
Housing Benefits			1	Not yet due
Treasury Management			3	Not yet due
Procurement Compliance			2	Not yet due

There are currently no outstanding high level actions, and this provides positive assurance of the Council's 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:

## **Corporate Risk Register**

To facilitate a full refresh of the risk management process and corporate risk register, the Internal Audit Risk Management team facilitated a risk workshop on 14th November 2018 with the Corporate Leadership Team. From the workshop, a new set of 7 corporate risks has been recommended, and owners have been allocated to each of these risks. These new risks were presented to the Audit Committee at the March 2019 Committee meeting.

Following the workshop, the Internal Audit Risk Management team has created a draft summary document which detailed proposed triggers, consequences, controls and actions for the corporate risk owners to adapt/develop as appropriate. In line with the risk management refresh, the Internal Audit Risk Management team has commenced meetings with officers in order to use this summary to fully agree the details of each risk and to populate the corporate risk register on the risk management system, GRACE. It is anticipated this work will be completed by the end of July 2019.

Once the risk management team has met with all of the corporate owners to agree the corporate risks, then meetings will be arranged with owners of the directorate level risks to update the directorate level risks to ensure that they align with the new corporate risks and to cascade down the refresh of the risk registers throughout the organisation.

## **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 the following areas to date:

### *Implementation of new IT System*

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

The Project Board have requested that Internal Audit is involved to proactively provide advice on governance, risk and internal controls during project delivery.

### *Joint Ventures*

An internal audit presence has been requested at the Project Board and Project Group meetings to proactively provide advice on governance, risk and internal controls during project delivery.

### *Review of controls following data breach*

A data breach raised concerns about the process using the outward mail insertion machine. Internal audit was requested to review the controls within the process and procedure notes for sending out mail and has made recommendations for further development which were all agreed by the service.

## **Annual Governance Statement**

We produced the Annual Governance Statement, which is a key piece of work which accompanies the Statement of Accounts. The team worked with Service Leads to map sources of assurance, and to identify any potential governance risks. The final version of the Annual

Governance Statement will be presented to the Audit Committee with the Statement of Accounts.

## **Development**

### *Continuous improvement*

The LGSS Internal Audit team follows good professional practice such as the Public Sector Internal Audit Standards, and the supporting Local Government Application Note.

The Internal Audit team has reviewed the audit definitions which are issued on conclusion of audit work. The methodology and approach continues to be relevant, and some minor revisions have been made to the terminology which should add clarity to the reporting process. The audit definitions are listed in Appendix B.

## Appendix A – Internal audit plan

**Norwich 2019/20**

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	10
<b>Total Anti-Fraud and Corruption:</b>				<b>30</b>
Accounts Receivable	Not started	Q4		25
Purchase to Pay	Not started	Q4		25
Payroll	Not started	Q4		15
Housing Rents/Arrears	Not started	Q3		20
Housing Benefits	Not started	Q3		20
Council Tax	Not started	Q2		15
NNDR	Not started	Q2		15
Bank Reconciliations	Not started	Q3		10
Treasury Management	Not started	Q4		15
<b>Total Key Financial Systems:</b>				<b>160</b>
Strategic Risk Management	Ongoing	All year	N/a	15
Risk Management	Not started	Q4		5
<b>Total Risk Management:</b>				<b>20</b>
Contract Management	In progress	Q1		20
Joint Ventures	In progress	Q1		30
<b>Total Contracts:</b>				<b>50</b>
Norwich Regeneration Limited	Not started	Q3		15
<b>Total Risk-Based Audits:</b>				<b>15</b>
Annual Key Policies & Procedures Review	In progress	Q1		6
Financial Regulations	Not started	Q4		2
Contract Procedure Rules	Not started	Q4		2
<b>Total Policies &amp; Procedures:</b>				<b>10</b>
Fees and Charges	Not started	Q3		5
Key Performance Indicators	Not started	Q3		5
Scheme of Delegation compliance	In progress	Q1		5
Commercial Property Investment Strategy	In progress	Q1		20
Contract Extensions	Complete	Q1	Q1	5
<b>Total Compliance:</b>				<b>40</b>
IT Audit Assurance	Not started	Q4		25
<b>Total ICT and Information Governance:</b>				<b>25</b>
Attend HR & Finance Project Meetings	Ongoing	All year	N/a	5
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>30</b>
Disabled Facility Grant	Complete	Q1	Q1	10
<b>Total Grant assurance:</b>				<b>10</b>
Ad -Hoc Advice & Guidance	Ongoing	All year	N/a	15
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10



<b>Total Advice &amp; Guidance:</b>				<b>25</b>
Committee Reporting	Ongoing	All year	N/a	15
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	10
<b>Total Reporting:</b>				<b>35</b>
<b>Operational Plan Total - 2019/20</b>				<b>450</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>