

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q2

As at 31st August 2016

1. *Progress against the plan*

Finalised Assignments

1.1 Since the previous report to the Audit Committee, 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

1.2 At the conclusion of an audit an assurance opinion of the system is reported. As good practice the internal audit team has adopted a new approach to reporting, by providing further analysis of the assurance by control, compliance and organisational impact.

Draft/Interim Reports

- 1.3 The audit team will have a number of reviews in progress. The following audit assignments are in progress:

No.	Directorate	Assignment
1	Cross cutting	Current Capital Contracts Audit
2	Cross cutting	Housing Rents/Arrears
3	Cross cutting	Payroll
4	Cross cutting	Accounts Receivable
5	Cross cutting	Procurement Governance
6	Cross cutting	Purchase to Pay
7	Cross cutting	Contract Procedure Rules
8	Cross cutting	Leasehold Services

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

Performance

- 1.5 Despite not having been fully resourced at the beginning of the year, the team has made good progress to deliver the plan. To the end of August 2016, 208 productive days have been delivered against the audit plan of 400 days.
- 1.6 It is good practice to keep audit plans under review and update them to reflect topical issues and risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan. Where required, these are discussed and agreed with the corporate leadership team.
- 1.7 No change to the plan has been decided at this time, but it may be appropriate to re-profile the plan later in the year.

2. Fraud and corruption update

Counter fraud awareness:

- 2.1 The Council is completing a review of its Anti-fraud and corruption framework to ensure that it reflects best practice. Consequently we have produced 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 are currently in the process of being formally approved. The policies were approved by Corporate Leadership team on 20th July 2016. The next steps include consultation with the union, audit committee and cabinet. Once complete the policies will be promoted so that employees and partners are aware they have been updated. Promotional material will be produced, and the policies will be uploaded to the employee training program “Workforce”.
- 2.3 The LGSS Internal Audit Counter Fraud Team has been working with the CIPFA Counter Fraud Centre to develop a campaign to raise awareness of the issue of fraud and how to report any concerns. This includes designing Fraud Awareness posters, which encourage members of staff to blow the whistle on fraud. The poster campaign will be used as an example of CIPFA-recommended good practice (Appendix C). In addition to the poster campaign, we hope to develop learning material for the Council’s intranet, which will explain how to report fraud and provide advice on the warning signs to look out for. We are working the Norwich communications team to identify the best local media and communications.

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, which 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.

Annual Governance Statement

- 5.2 The team facilitated completion of the Council's Annual Governance Statement (AGS), and have mapped sources of assurance, to accompany the statement of accounts. The draft AGS was approved at the June audit committee meeting, and has subsequently been reviewed by the external auditors.

Corporate Risk Register

- 5.3 The team has facilitated an update of the corporate risk register. This has been reported and approved by the corporate leadership team, plus the audit committee, and will be reported to cabinet.

Advice and assurance

- 5.4 The team provides both proactive and responsive advice where it helps to improve the control environment. We reviewed the short term impact of Brexit on treasury management and investments for assurance that risks were continuing to be managed effectively.
- 5.5 We supported a review of income and banking controls for parking, where a potential control weakness was identified.
- 5.6 The team has supported the corporate information assurance group, helping to identify opportunities to improve controls where weaknesses have been identified.

6. *Development and training*

- 6.1 The effectiveness of internal audit depends significantly on the quality, training and experience of its team.
- 6.2 We have now recruited a Principal Audit Manager who is based at Norwich. This provides a local resource to lead delivery of the audit plan.
- 6.3 In addition the team deploys auditors from across the broader LGSS team, to support specific pieces of work, to maximise the benefits to Norwich.
- 6.4 Trainee auditors have also been supporting delivery of audit work at Norwich. This helps to develop knowledge of the Norwich internal control environment, within the team, which improves future resilience of the service.

Appendix A – Internal audit plan
Norwich 2016/17

Audit title	Status	Directorate	Qtr opened	Qtr closed	Profile days
Operational plan grand total					435
Making Every Penny Count Total					60
HRA Business Planning	Not started	Cross-cutting	Q3		20
Business Planning Benefits Realisation	Not started	Cross-cutting	Q4		10
Making Every Penny Count - Strategy	Not started	Cross-cutting	Q4		20
Travel & Subsistence - Compliance	Not started	Cross-cutting	Q4		10
Anti-Fraud and Corruption Total					10
Fraud Investigations	Open	Cross-cutting	Q1-4	NA	5
National Fraud Initiative	Open	Cross-cutting	Q1-4	NA	5
Preventative & Pro-Active Fraud Work	Open	Cross-cutting	Q1-4	NA	0
Key Financial Systems Total					170
Housing Benefits	Closed	Cross-cutting	Q1	Q2	20
Housing Rents/Arrears	Open	Cross-cutting	Q1		20
Payroll	Open	Cross-cutting	Q1		15
Accounts Receivable	Open	Cross-cutting	Q2		15
Procurement Governance	Open	Cross-cutting	Q2		15
Purchase to Pay	Open	Cross-cutting	Q2		20
Debt Recovery	Not started	Cross-cutting	Q3		10
Financial Systems IT General Controls	Not started	Cross-cutting	Q3		10
NNDR	Closed	Cross-cutting	Q2	Q2	15
Treasury Management	Not started	Cross-cutting	Q3		15
Council Tax	Closed	Cross-cutting	Q4		15

Audit title	Status	Directorate	Qtr opened	Qtr closed	Profile days
Commissioning & Contracts Total					35
Current Capital Contracts Audit	Open	Cross-cutting	Q1		25
Current Revenue Contracts Audit	Not started	Cross-cutting	Q4		10
Risk Management Total					15
Risk Management	Open	Cross-cutting	Q1-4	NA	15
Policies & Procedures Total					15
Contract Procedure Rules	Open	Cross-cutting	Q2		5
Financial Regulations	Not started	Cross-cutting	Q2		5
Scheme of Delegation - Policy	Open	Cross-cutting	Q2		5
Compliance Total					20
Agency Staff Compliance	Not started	Cross-cutting	Q2		5
Off-Contract Spend	Not started	Cross-cutting	Q3		10
Scheme of Delegation - Compliance	Not started	Cross-cutting	Q4		5
ICT and Information Governance Total					20
General Computer Controls	Not started	Cross-cutting	Q3		20
Governance Total					15
Corporate Governance	Open	Cross-cutting	Q1-4	NA	15
Work in progress Total					14
Council Tax - 15/16	Open	Cross-cutting	Q1	Q2	3
ICON	Open	Cross-cutting	Q1	Q2	6
Leasehold Services	Open	Cross-cutting	Q1		5
Advice & Guidance Total					61
A&G - Data Breach	Open	Cross-cutting	Q1-4	NA	1
A&G - Regeneration Company	Open	Cross-cutting	Q1-4	NA	0
Advice & Guidance	Open	Cross-cutting	Q1-4	NA	20
Audit Plan	Open	Cross-cutting	Q1-4	NA	4

Audit title	Status	Directorate	Qtr opened	Qtr closed	Profile days
Committee Reporting	Open	Cross-cutting	Q1-4	NA	8
Follow-Ups of Agreed Actions	Open	Cross-cutting	Q1-4	NA	20
Management Reporting	Open	Cross-cutting	Q1-4	NA	8

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:

H	<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>	M	<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>	L	<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 poster

FRAUD

SPOT IT. STOP IT.

Fraudsters are **stealing £2.2bn**
from **Local Government** each year

We are all affected by fraud.
Help us **Spot It** and **Stop It**.

- S** **Spot** weakness that fraudsters could exploit.
- T** **Tell** your line manager if you suspect fraud.
- O** **Own** the problem – spotting fraud is everyone's responsibility.
- P** **Pass** the counter fraud and corruption e-learning course.
Visit: <http://lgss.learningpool.com>

If you suspect fraud report it to:

LGSS Head of Internal Audit
stop.fraud@cambridgeshire.gov.uk
or call: 01233 715 317

Refer to the councils:
'Anti-Fraud and Corruption Policy'

For more info:
Search 'Fraud' on CamWeb

<http://camweb/fraud-and-corruption>

Fraud and corruption will not be tolerated in local government