

Report to Audit committee
28 June 2016
Report of Head of internal audit and risk management, LGSS
Subject Annual audit report on internal audit and fraud 2015-16

Item

9

Purpose

To inform members of the head of internal audit's annual audit opinion for 2015-16 and the work of internal audit and the fraud team which supports the opinion. The report and the audit opinion within it form part of the evidence to support the council's annual governance statement 2015-16.

Recommendation

To receive the annual audit opinion and note the work of internal audit and the fraud team for 2015-16.

Corporate and service priorities

The report helps to meet the corporate priority Value for money services

Ward/s: All wards

Cabinet member: Councillor Stonard – Resources and business liaison

Contact officers

Neil Hunter, head of internal audit and risk management, 01223 715317
LGSSr

Background documents

Report

Background

1. *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”* (Public Sector Internal Audit Standards).
2. Under the Accounts and Audit Regulations 2015, the council *“must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*
3. In 2012 the relevant internal audit standard setters adopted a common set of standards across the public sector – the *Public Sector Internal Audit Standards* (PSIAS), which came into effect on 1 April 2013.
4. The standards require that the head of internal audit presents an annual report to an authority’s audit committee, which in practice is timed to support the authority’s annual governance statement.
5. The annual report is a summary of all internal audit work carried out during the year. Each individual audit report is discussed at its draft stage and agreed action plans put in place. The annual report therefore represents in summary form a considerable degree of consultation with managers during the year.
6. Internal audit work is carried out to fulfil the audit plan, endorsed by the committee at its meeting on 17 March 2015 and since revised in consultation with the chief finance officer, with amendments to the plan agreed by the committee 19 January 2016. The audit plan is derived from corporate and service risk registers as well as any inherent risks such as a susceptibility to fraud associated with an individual system. Internal audit work therefore seeks to give assurance that the risks identified in the registers and within the systems risk matrix are mitigated by a sound system of internal control.
7. This report, appendix 1, provides members of the audit committee with:
 - the head of internal audit opinion for 2015-16
 - a review of the system of internal control
 - the work undertaken by internal audit in 2015-16
 - an overview of the performance of internal audit.

1. INTRODUCTION

1.1 The annual reporting process

1.1.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. Norwich City Council's chief audit executive is the LGSS head of internal audit.

1.1.2 The annual report is required to incorporate the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement plan.

1.1.3 This report therefore contains the following additional sections:

2. HEAD OF INTERNAL AUDIT OPINION 2015–16

2.1 Head of internal audit opinion

3. REVIEW OF INTERNAL CONTROL

3.1 How internal control is reviewed

3.2 The basis of assurance

4. INTERNAL AUDIT IN 2015-16

4.1 Overview and key findings

4.2 Financial and other key systems

4.3 Risk-based reviews

4.4 Anti-fraud and corruption

4.5 Other work / information assurance

4.6 Summary of completed reviews

5. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE

5.1 Delivery of the 2015–16 Internal Audit Plan

5.2 Customer feedback

5.3 Service development

5.4 Compliance with Public Sector Internal Audit Standards

2. HEAD OF INTERNAL AUDIT OPINION 2015/16

2.1 Head of internal audit opinion

- 2.1.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that *'the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'* This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.
- 2.1.2 My opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based internal audit plan. This assessment has taken account of the relative materiality of these areas, and management's progress in addressing control weaknesses.

On the basis of the audit work undertaken during the 2015-16 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. In addition, there are no outstanding significant issues arising from the work undertaken by internal audit.

However, no systems of control can provide absolute assurance against material misstatement or loss, nor can internal audit give that assurance.

3. REVIEW OF INTERNAL CONTROL

3.1 How internal control is reviewed

- 3.1.1 In order to support the annual internal audit opinion on the internal control environment, each year internal audit develops a risk-based audit plan. This includes a comprehensive range of work to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.
- 3.1.2 The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the audit plan throughout the year. A revision of the Norwich internal audit plan was approved by the audit committee in January 2016.
- 3.1.3 Assurance opinions are given at the conclusion of each audit. To ensure consistency in reporting, the following definitions of audit assurance were used in 2015-16:

Assurance categories	
Level	Definitions
Full	There is a sound system of control designed to address the relevant risks with controls being consistently applied.
Substantial	There is a sound system of control, designed to address the relevant risks, but there is evidence of non-compliance with some of the controls.
Moderate	Whilst there is a basically a sound system of control, designed to address the relevant risks, there are weaknesses in the system, that leave some risks not addressed and there is evidence of non-compliance with some of the controls.
Limited	The system of control is weak and there is evidence of non-compliance with the controls that do exist which may result in the relevant risks not being managed.
No assurance	There is no system of internal control. Risks are not being managed.

3.2 The basis of assurance

- 3.2.1 The findings and assurance levels provided by the reviews undertaken throughout 2015-16 by internal audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.

4. INTERNAL AUDIT IN 2015/16

4.1 Overview and key findings

4.1.1 This section provides information on the audit reviews carried out in 2015-16.

4.1.2 In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, management actions were agreed to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by internal audit and is reported to audit committee.

A summary of the status of significant agreed actions from audits that were followed up during the year is summarised in table 1:

Table 1: Implementation of audit recommendations

Audit Title	Red		Amber	
	Complete	Incomplete	Complete	Incomplete
Provision market			1	1 (* ¹)
Civica (IT system)	1		4	
Workforce IT system			2	
Housing benefits and council tax reduction			1	
Planning income (2 nd follow-up)				1 (* ²)
Oracle purchasing			1	
Land and property searches				2 (* ³)
Shared services				1 (* ⁴)
TOTALS	1	0	8	5

These are all considered minor actions and as such no significant actions arising from internal audit work were outstanding at year-end.

*¹ review of market rents was to be carried out for 2016-17. It was agreed by senior management that there would be no price changes for 2016-17. An overall strategic review of the Norwich market is currently ongoing in consultation with the market traders association. This is included on the corporate strategy with agreement for this to be completed in the current year. The rent reviews will be completed later in 2016 for implementation 2017-18.

*² delays continued pending significant changes to the planning portal.

*³ awaiting guidance from LGA for reviewing discretionary fees, and linked to national plans for Land Registry to take responsibility for Local Land Charges Registers.

*⁴ following EELGA's review and report, SMART KPI's are expected to be developed and project managed by the transformation team.

4.2 *Financial and other key systems*

- 4.2.1 This is the 2015-16 suite of annual core systems reviews, undertaken to provide assurance to management and external audit that expected controls are in place for key financial systems; that these controls are adequately designed and are routinely complied with in practice. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.
- 4.2.2 Table 2 below details the assurance levels of the key systems audit reports issued in 2015-16:

Table 2 – Key financial system audit opinions

Service / Audit	Audit Opinion / Description
Council tax	Substantial
NNDR	Full
Housing rents	Full
Housing benefits	Substantial
Payroll	Substantial
Reconciliation of bank accounts	Substantial

4.3 *Risk-based reviews*

- 4.3.1 Risk-based reviews have been a key element of the assurance on the control environment of the authority in 2015-16. These include reviews which have been targeted towards key areas of high risk, as identified through consultation with senior management, review of risk registers, and the internal audit risk assessment of the organisation.
- 4.3.2 This assurance includes audit work undertaken using our 'embedded assurance' approach; this applies to reviews where auditors attended project meetings and/or gave independent advice and support to project or programme work.
- 4.3.3 The outcomes of all risk-based reviews issued in 2015-16 can be seen at appendix A.

4.4 *Anti-fraud and corruption*

- 4.4.1 This is a high-risk area across the public sector. LGSS internal audit undertakes work on anti-fraud and corruption which includes both reactive and pro-active elements.
- 4.4.2 Internal audit was not involved in any major investigations during the year. There were a small number of low-level data breaches which were reviewed by the executive head of business relationship management and democracy (as the council's senior information risk officer) and involved the audit manager, in accordance with the council's incident response plan. Actions were put in place to reduce the risk of recurrence.

National Fraud Initiative (NFI)

- 4.4.3 The audit manager (Norwich) was the key contact for each year's data matching exercise, and ensured that all data was correctly submitted and co-ordinated the proper investigation of the subsequent matches.

The NFI 2014-15 data matching exercise was in two parts. One was the council tax single person discount (SPD) exercise which now occurs annually and separately to the main exercise.

- 4.4.4 As a result of the main NFI exercise there was an investigation into a housing allocation. Although no fraud has been confirmed, this case related to a joint housing tenancy which was created at a time when the second tenant had no recourse to public funds, as his visa application had expired. There was no false statement or misrepresentation by the applicant; rather, a failure to follow internal procedures allowed the joint tenancy to be created in this instance.

The LGSS counter fraud team issued a report with four recommendations which, if implemented, will improve internal control and minimise the risk of a similar situation occurring again.

- 4.4.5 NFI for 2015-16 – matching of council tax and electoral roll data to check for potential SPD frauds. This is not being carried out as an NFI exercise, but alternative wider checks are in the process of being completed. Norfolk County Council agreed to provide funding towards an exercise of checking council tax records to a variety of economic activity records through Equifax. This is being carried out in 2016-17 by LGSS staff at Northampton Borough Council on behalf of Norwich. 3037 letters have been issued to high /medium risk customers and responses are being received. For those who do not respond after chasing, the SPD will be removed.

- 4.4.6 Audit committee receives regular updates on the status of NFI investigations.

4.5 Other work / information assurance

- 4.5.1 Internal audit continues to provide advice and guidance to officers on a wide range of issues, including the interpretation of council policies and procedures, risks and controls within systems or processes, and ad-hoc guidance on queries relating to projects or transformation. Internal audit aims to provide clear advice and risk-based recommendations with a view to reducing bureaucracy whilst maintaining a robust control environment. Where appropriate, we also refer queries or concerns on to specialist services within the council.
- 4.5.2 Internal audit also leads on maintaining the council's assurance framework and co-ordinating risk management work across the organisation.
- 4.5.3 Internal audit maintained the corporate risk register in conjunction with heads of service, and reported to CLT, audit committee and cabinet.
- 4.5.4 In addition to audit reviews, the audit manager sat on the corporate information assurance group, which reviews network issues, data protection, information risk and assurance, security breaches and information management.
- 4.5.5 During 2015-16 the audit manager updated the council's risk management policy for approval by cabinet in January 2016.

4.5.6 During 2015-16 the public sector network (PSN) code requirements were re-confirmed with the issue of the Compliance Certificate in September 2015, and the payment card industry (PCI) standards were reviewed. The Council is not fully PCI compliant however plans are in place for improvements, which have been accepted by Global Pay.

4.6 *Summary of completed reviews*

4.6.1 A summary of all audit reports issued in 2015-16 is attached at Appendix A.

5. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE

5.1 Delivery of the 2015-16 internal audit plan

- 5.1.1 The Norwich City Council internal audit plan was revised in January 2016, at which point it was agreed that 560 days would be delivered on areas identified for audit activity.
- 5.1.2 The actual days spent on the audit plan in 2015-16 was 512 days, resulting in delivery of 87% of the planned audit days.
- 5.1.3 The days spent in each area of the audit plan, analysed by the major categories of our work, is set out in table 3, below:

Table 3 – Internal Audit Resource Input

Audit Area	Days
Cross-cutting (city council-wide)	4.0
Business relationship management and democracy	47.6
Regeneration and development	25.5
Customers, communications and culture **	5.9
Strategy people and neighbourhoods	121.1
Key financial systems	102.2
Counter-fraud, including NFI	85.1
Risk management	14.8
Follow-up of actions and advice & guidance	52.6
Governance and other chargeable activity	53.2
Total audit days delivered	512.0

** Time excludes business support team processes reviewed as part of audits of other service areas.

5.2 Customer feedback

- 5.2.1 When draft reports are issued, internal audit issue customer feedback questionnaires to appropriate officers, who have the opportunity to score the internal audit team against a range of criteria on a scale of 1–5, with 1 being “poor” and 5 being “very good”. The team’s internal target is for each returned questionnaire to average a score of 4 or higher.
- 5.2.2 The average score for all feedback received in 2015-16 was 4.4, reflecting a very positive opinion on the value of internal audit at Norwich.

5.3 Service development

- 5.3.1 The SharePoint system has been implemented in Cambridgeshire 2015-16. This document management system enables sharing of documents across LGSS Internal Audit, meaning that auditors based at Norwich can easily access resources held at other LGSS internal audit sites. By enabling instant document

sharing and collaboration between different sites, Norwich's audit team now has access to a much greater range of professional resources to support their work.

5.4 Compliance with Public Sector Internal Audit Standards

- 5.4.1 The Accounts and Audit Regulations 2015, plus professional standards and guidance, enables us to undertake an ongoing review of the effectiveness of internal audit. Norwich's LGSS internal audit service continues to follow the requirements of the Public Sector Internal Audit Standards.

Norwich internal audit

Summary of audit reviews completed in 2015/16:

The table below summarises the internal audit reviews that were completed during the 2015/16 financial year, including one counter fraud investigation.

Service / audit	Assurance
Key financial systems:	
Council tax	Substantial
NNDR	Full
Housing rents	Full
Housing benefits	Substantial
Payroll	Substantial
Reconciliation of bank accounts	Substantial
Corporate:	
Governance of shared services	Substantial
Information governance	Substantial
Business relationship management:	
Corporate information assurance	Embedded assurance*
Regeneration & development:	
CIL income	Substantial
Financial assistance for home improvements	Moderate
Parking income	Substantial
Strategy, people & neighbourhoods:	
Allotments	Full
Cemeteries	Moderate
Garages and parking bays	Moderate
Licensing	Substantial
National Fraud Initiative (NFI) data match investigation – housing allocations. (Completed by the counter-fraud team, see 4.4.6).	No level of opinion was allocated. Recommendations to strengthen internal procedures were accepted by management.
Customers, communications and culture:	
Go4less discount scheme	Substantial

* Embedded assurance applies to projects / audits where auditors attended project boards or other working groups. During 2015-16 the audit manager sat on the corporate information assurance group, see 4.6.4.