

Report to Audit Committee
21 January 2020

Report of Chief Internal Auditor, LGSS

Subject Internal audit 2019-20 – October to December update
(Quarter 3)

Item

5

Purpose

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

Q3

14th January 2020

Introduction

As outlined to Audit Committee at the beginning of the financial year, it is good practice to keep the Annual Audit Plan under review and continually update to reflect emerging risks.

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, as at 7th January 2020, 376 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. This gives assurance that the agreed plan will be delivered as commissioned.

The Council has determined that this will be the final year of LGSS providing internal audit services to Norwich. This has presented a number of new risks that have been discussed with the Director of resources. To try and ensure a smooth handover in April there has been a greater emphasis on training and development of the two colleagues that will remain working for the Council on 1st April, 2020 including giving these colleagues an increased exposure to roles currently carried out by the Audit Manager. This has inevitably resulted in a pressure on days that has been absorbed, to date, by LGSS internal audit, i.e. an over delivery of days against those planned.

Progress against the plan

Finalised Assignments

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

Directorate	Assignment	Control Environment Assurance	Compliance Assurance	Organisational Impact
2019/20 Audit Plan				
Cross cutting	Payroll	Satisfactory	Substantial	Minor
Cross cutting	Key policies and procedures	Satisfactory	Satisfactory	Minor
Cross cutting	Council Tax	Substantial	Good	Minor
Cross cutting	National Non Domestic Rates (NNDR)	Substantial	Good	Minor
Cross cutting	Scheme of delegation	Good	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.

Key points from the completed reviews where satisfactory assurance was given include:

Payroll

The opinion has reduced from substantial assurance to satisfactory assurance in the control environment due to:

- The co-operation agreement with Sefton has not yet been signed (as at October 2019).
- Third party assurance from the payroll provider over their payroll IT systems and processes is not yet held.
- The audit identified that copies of monthly payroll reports, from April 2019 and used for the finance reconciliations, are accessible by some staff who do not need access to these records.

Three important recommendations were made by internal audit and agreed by the head of HR and Learning with an implementation date of 31.01.2020. Implementation of these recommendations will result in an increased assurance in the control environment.

Key policies and procedures

Internal audit reviewed procedures in place, such as an overarching policy framework, to ensure that key policies are reviewed, updated and effectively communicated and also that this framework is complied with.

The review confirmed:

- The Council does not have an appropriate policy framework in place which ensures that key policies are reviewed, updated and effectively communicated.
- A number of the key policies have not been updated within the last three years and/or do not detail who is responsible for reviewing and updating the document.

Three important recommendations were made by internal audit and agreed by the Director of resources with an implementation date of 30.04.2020. Implementation of these recommendations will result in an increased assurance in the control environment.

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	Contract Management – verbal update to be given at meeting
Cross cutting	Housing rents and arrears
Cross cutting	Housing benefits
Cross cutting	KPI's
Cross cutting	Treasury Management

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 audit has sought assurances from teams that their actions from previous audits have been implemented to schedule. Summary of follow up recommendations due as at quarter three of 2019-20:

Audit	Essential Recommendations		Important Recommendations	
	Agreed	Status as at end of Q3	Agreed	Status as at end of Q3
Audits completed in 2018/19				
Commercial Rents			6	5 completed, 1 awaiting response
Corporate Key Performance Measures			3	3 completed
Norwich Regeneration Ltd (NRL)	5	2 completed 3 awaiting response from service	3	3 awaiting response from service
Treasury management			3	All completed
Audits completed in 2019/20				
Commercial property investment strategy			1	Awaiting response
Information security and GDPR	3	Not due	7	1 Revised target date 2 awaiting response 4 not due

As detailed above, internal audit has not had any assurance from management that the recommendations made following the review of Norwich Regeneration Ltd (reported to Audit Committee in March 2019) have been fully implemented.

In addition there has been no confirmation that arrangements for an independent internal audit of the Company has have been made.

Without these key recommendations being implemented the Council has no reliable assurance that outcomes expected of the Company are being achieved (or indeed reasons why outcomes are not as expected) nor any assurance that those governance arrangements and practices operating within the Company are in line with those expected by the Council.

It should also be noted that internal audit was not asked to review or challenge the revised business case relating to the Council's relationship with this Company that was recently presented to Cabinet.

The oversight of NRL remains a significant risk to the Council and will influence the Chief Internal Auditors year-end opinion.

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.

There have been no reports issued with limited or no assurance during quarter 3.

Other audit activity

In addition to completing ongoing audit reviews, the Internal Audit team has been conducting work in the following areas:

Whistleblowing

As reported in the October Audit Committee meeting; internal audit has been undertaking an investigation into concerns raised under the council's whistleblowing policy. This has now concluded and all issues raised by the whistle blower were investigated resulting in no issues found, minor recommendations were made and management has accepted these.

Risk management

The current role of internal audit is to provide the administrative support for risk management within the council and to host the Corporate Risk Register on the GRACE software system.

The current corporate risk register is attached (Appendix C) to allow committee to consider whether the control environment outlined in the register is sufficient to mitigate the triggers identified and therefore effectively manage the corporate risks of the Council, i.e. within the accepted risk appetite.

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
Total Anti-Fraud and Corruption:				30
Accounts Receivable	Not started	Q4		25
Purchase to Pay	Not started	Q4		25
Payroll	Complete	Q1	Q3	20
Housing Rents/Arrears	In progress	Q3		20
Housing Benefits	In progress	Q3		20
Council Tax	Complete	Q2	Q3	15
NNDR	Complete	Q2	Q3	15
Bank Reconciliations	Not started	Q4		10
Treasury Management	In progress	Q3		15
Total Key Financial Systems:				165
Strategic Risk Management	Ongoing	All year	N/a	15
Total Risk Management:				15
Contract Management	In progress	Q1		30
Joint Ventures	Ongoing	All year	N/A	30
Total Contracts:				60
Annual Key Policies & Procedures Review	Complete	Q1	Q3	9
Total Policies & Procedures:				9
Key Performance Indicators	In progress	Q3		5
Scheme of Delegation compliance	Complete	Q1	Q3	10
Commercial Property Investment Strategy	Complete	Q1	Q2	25
Contract Extensions	Complete	Q1	Q1	10
Total Compliance:				50
Attend HR & Finance Project Meetings	Ongoing	All year	N/a	9
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	12
Total Governance:				36
Disabled Facility Grant	Complete	Q1	Q1	10
Total Grant assurance:				10
Ad -Hoc Advice & Guidance	Ongoing	All year	N/a	25
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10
Total Advice & Guidance:				35
Committee Reporting	Ongoing	All year	N/a	20
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	10
Total Reporting:				40
Operational Plan Total - 2019/20				450

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>

Norwich City Council

Risk		01. Failure to fulfil statutory or legislative responsibilities, including safeguarding							
Likelihood	5						Risk Owners Director of People and Neighbourhoods Current Score 15 Target Score Previous Score	Last Review 15/01/2020 Next Review 01/07/2020	
	4								
	3					X			
	2						Triggers 1. Lack of understanding the statutory and legislative responsibilities. 2. Lack of awareness of legislative changes and new legislation 3. Failure to implement statutory duties and responsibilities. 4. Lack of required skills knowledge and experience of key officers tasked to fulfil statutory or legislative responsibilities. 5. Insufficient organisational capacity. 6. Ineffective procedures and processes. 7. Lack of clarity of roles and ownership of legislative responsibilities (H&S, safeguarding, equality etc.) 8. Delegation of responsibilities where services are with a contractor.	Likelihood Factors (Vulnerability)	Potential Consequences <ul style="list-style-type: none"> Financial costs in compensation and fines. Intervention if complete failure. Acting illegally Negative impact on the Council's reputation. Wrong decision being made. Harm, abuse, accident or death linked to failure of the Council to act within safeguarding arrangements. Being held to account by overseeing organisations (e.g. children safeguarding) maybe included in reputation.
	1								
		1	2	3	4	5			
		Consequence							

Controls	Adequacy	Critical Success
Communication strategy to ensure implementation	Good	
Corporate governance group in place to oversee compliance	Good	
Legal services in place to provide support	Good	
Positive approach for checking compliance to legislations	Good	
Professional leads identify legal requirements	Reasonable	
Quality assurance process in place for contracted services.	Good	

Action Plans	Responsibility	Target Date

Suitably trained and qualified staff and mandatory reading of key documents for all officers	Good	
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Risk Path: New Norwich City Council/Norwich City Council

Risk Category:

Linked Objective(s):

Risk		02. Failure to deliver corporate plan objectives: Great neighbourhoods housing and local environments; Inclusive economy; Live well											
Likelihood	5												
	4												
	3				X								
	2												
	1												
		1	2	3	4	5							
		Consequence											
		Risk Owners		Chief Executive		Current Score		12		Last Review		15/01/2020	
						Target Score				Next Review		01/07/2020	
						Previous Score							
						Triggers		Likelihood Factors (Vulnerability)		Potential Consequences			
						1. Ineffective performance and programme management. 2. Ineffective corporate planning, and not aligned with budget and resource restraints. 3. Unexpected event occurring, i.e. delayed the process or using resources. 4. Time pressures. 5. Change(s) in government policy. 6. Fraud and corruption.		• Lack of information from central government about future funding. • Uncertainty of direction of central government.		• Key priorities for the city are not delivered. • Need to cut non statutory services. • Adverse public opinion and decline in Councils' reputation. • Projects/work completed to a lower quality. • Negative impact on outcomes for citizens. • Negative performance ratings for the council .			

Controls	Adequacy	Critical Success
Corporate planning and service planning aligned with budget setting to ensure resources are in place to deliver priorities.	Good	
Effective performance and programme management This includes: • Monthly budget meetings to be able to adjust budgets in advance. • Aiming to underspend to keep reserves up and have availability for unforeseen spending.	Good	
Effective preparation for changes in plan/government policy This includes constant monitoring of government decisions and their lobbying.	Good	
Effective transformation programme to ensure savings are delivered.	Good	
Regular review of corporate plan, medium term financial strategy and other key policies and strategies.	Good	

Action Plans	Responsibility	Target Date

Risk Path: New Norwich City Council/Norwich City Council

Risk Category:

Linked Objective(s):

Risk		03. Failure to deliver responsive financial planning							
Likelihood	5						Risk Owners Chief finance officer Current Score 12 Target Score Previous Score	Last Review 15/01/2020 Next Review 01/07/2020	
	4								
	3				X				
	2						Triggers 1 Failure to achieve savings as a result of insourcing JV. 2 Reduced levels of funding by central government and/or restrictions on the ability to raise funding locally. 3 Failure to address in year and medium term financial pressures in a sustainable way. 4 Funding insufficient to resource demand and associated plans. 5 Increased levels of demand over and above that which is capable of being funded (e.g. increased population, changes in demographics, legislative changes, local expectations and priorities). 6 Major failure of IT and/or key systems. 7 Inefficient Commissioning cycle including: o Identification of service need and analysis o Ineffective option appraisal/ business case/ financial modelling. 8 Fraud and corruption. 9 Housing rents change. 10 Commercial property investment strategy is challenged by central government and restrictions imposed. 11 Commercial property investments do not make the return required by the strategy. 12 NRL doe snot meet its financial and business plan targets.	Likelihood Factors (Vulnerability) oChange in local political direction and priorities oUnclear potential impact of BREXIT on the wider economy, the local environment, the national agenda and public service. oPressure by Stakeholders to add to the scope	Potential Consequences 1Councils financial position goes into deficit, reducing confidence in financial strength and governance 2Unplanned use of reserves reducing capacity and flexibility and compromising stability. 3Section 114 notice. 4Government intervention. 5Failure to deliver the Council Plan. 6Adverse comments by and poorer perception of NoCC by stakeholders. 7Overspends arising from activity not in service plans. 8Key business systems are unavailable or insufficient for business need. 9Key contracts failing to deliver expected VfM. 10Litigation.
	1								
		1	2	3	4	5			
Consequence									

Controls	Adequacy	Critical Success
	Good	
1Financial Governance Framework oThis includes financial procedure rules, contract management procedure rules, budget setting process and monitoring and close-down.	Good	
2Accountability for budget delivery	Good	

Action Plans	Responsibility	Target Date

<ul style="list-style-type: none"> oColleagues recognise and embrace their personal accountability for delivering on time, to standard and within budget and deliver their savings/income objectives. oAccountability letters issued to all budget managers. 		
<p>3Budget Development</p> <ul style="list-style-type: none"> oDeliverable proposals are generated. Those with significant lead-in times or require a change in policy are sufficiently worked up before being subject to political scrutiny and approval. 	Good	
<p>4Budget monitoring, forecasting and reporting</p> <ul style="list-style-type: none"> oRegular monitoring of revenue and capital budget forecasts is undertaken - with corrective action identified and taken to mitigate overspends/underfunding/reduced income at the earliest opportunity oMonthly reports to CLT and quarterly reports to Cabinet (?) on revenue and capital budget forecasts. oExternal Audit oInternal Audit opinion 	Good	
<p>5Revenue Generation</p> <ul style="list-style-type: none"> oDebt Recovery Policy 	Good	

Risk Path: New Norwich City Council/Norwich City Council

Risk Category:

Linked Objective(s):

Risk		04. Failure to deliver services with/from partners										
Likelihood	5						Risk Owners	Director of resources	Current Score	12	Last Review	15/01/2020
	4											
	3				X		Triggers	Likelihood Factors (Vulnerability)	Potential Consequences			
	2									1LGSS, NPS Norwich, NpLaw, Norwich Norse environmental and building, CNC building control partners not delivering. 2Poor relationship management 3Partnerships not managed effectively and key service outcomes not achieved 4Contracts not managed effectively due to lack of contract management skills 5Contracts not flexible enough to meet council changing requirements 6Partner organisation becomes insolvent	oChange of strategic direction of partner organisation oChange in political direction	oThe council does not get VfM oBenefits of partner and contract arrangement not realised oConstant negotiation around the service delivery agreement oSpecification not adhered to oServices not provided at an acceptable level oCustomer and staff complaints oUnable to deliver corporate plan performance levels
	1											
			1	2	3	4	5	Consequence				

Controls	Adequacy	Critical Success
1Governance structure is in place to manage the individual partnership agreements (eg NPS Norwich Board, LGSS liaison group, NP Law Board, all major contracts have strategic and operational governance arrangements with officer and member representation	Good	
2A contract and business relationship management toolkit has been deployed. This aims to create consistency of management of both financial and performance objectives and monitoring and management of all economic, social and environmental issues associated with the service	Good	
3Regular reviews of joint ventures	Good	
4Internal Audit reviews	Good	
5Partnership Risk Registers	Good	
6Business Continuity plans for key partners/contractors	Good	

Action Plans	Responsibility	Target Date
1. Bringing Services back in house	Anton Bull	01/04/2020
2. Renegotiation with NPLaw	Anton Bull	01/04/2020

7Exit strategy	Good	
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Risk Path: New Norwich City Council/Norwich City Council

Risk Category:

Linked Objective(s):

Risk		05. Failure to respond to a critical, business continuity or emergency planning event									
Likelihood	5						Risk Owners Director of resources	Current Score 12	Last Review 15/01/2020		
	4									Target Score Previous Score	Next Review 01/07/2020
	3				X						
	2										
	1										
	Consequence		1	2	3	4	5				

Controls	Adequacy	Critical Success
1The council is a member of the Norfolk Resilience Forum, which has produced a Norfolk Community Risk Register	Good	
10Insurance policies	Good	
2Business continuity team with access to resources; action plans have been used to deal with actual total City Hall IT failure; alternative site for customer contact team; disaster recovery plan.	Good	
3The council has a major emergency management strategy and emergency planning room established at City Hall. Approach has also been used to test business continuity in the event of the main works contractor changing.	Good	

Action Plans	Responsibility	Target Date
Review of Business Continuity Plan	Anton Bull	31/03/2020

4Flu pandemic plan.	Good	
5Adaptations to protect the council from the local effects of climate change and address the causes are covered by corporate strategies such as the environmental strategy, together with team plans.	Good	
6A business continuity management policy and framework was approved by cabinet 25 June 2014.	Good	
7A business impact analysis for each service is signed off by the head of service and directors.	Good	
8Overall business continuity plan reviewed by CLT.	Good	
9Periodic business continuity exercises, and lessons learnt communicated through BMG.	Good	

Risk Path: New Norwich City Council/Norwich City Council

Risk Category:

Linked Objective(s):

Risk		06. Failure to change at the pace required and adapt to change																
Likelihood	5											Risk Owners		Current Score Target Score Previous Score		Last Review Next Review	01/07/2020	
	4																	
	3											Triggers		Likelihood Factors (Vulnerability)			Potential Consequences	
	2																	
	1																	
			1	2	3	4	5											
		Consequence																

Controls	Adequacy	Critical Success
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Action Plans	Responsibility	Target Date
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Risk Path: New Norwich City Council/Norwich City Council
Risk Category:
Linked Objective(s):

Risk		07. Lack of adequate skills and capacity																								
Likelihood	5											Risk Owners						Current Score Target Score Previous Score					Last Review Next Review	01/07/2020		
	4																									
	3											Triggers					Likelihood Factors (Vulnerability)					Potential Consequences				
	2																									
	1																									
			1	2	3	4	5																			
Consequence																										

Controls	Adequacy	Critical Success
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Action Plans	Responsibility	Target Date
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Risk Path: New Norwich City Council/Norwich City Council
Risk Category:
Linked Objective(s):

