Purpose

To advise members of the work of internal audit, completed between July to October 2020, 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.

The 2020-21 Audit Plan was approved by the audit committee in March 2020.

Recommendation

Corporate and service priorities

The report helps to meet support corporate priorities through supporting a healthy organisation.

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officers

Gavin Jones, Interim Audit Manager

Background documents

None.

1. Resources

1.1 It has been a challenging year for resources due to disruptions associated with Covid-19. This resulted in a curtailment of the audit plan for 2019/20 and a loss of time during the first quarter of the year due to council services adapting to new working environments.

1.2 The audit team has successfully transferred from LGSS back to in-house provision as part of the city council. This has involved some degree of administration and training which was undertaken during the first quarter. In addition one member of the audit team that transferred across has had significant professional training commitments which were not accounted for in the provisional plan presented to the committee in March 2020.

1.3 Specialist IT audit resource will be procured externally to supplement the in-house audit resource to carry IT audits as required.

1.3 The council is currently running the section through an interim audit manager procured through agency. This arrangement is pending a permanent appointment which will be made on completion of a corporate restructure which is currently out for consultation amongst senior managers.

1.4 In summary, this has resulted in a revised plan of 450 audit days. The priorities for the second half of the year are assurance around the council's key financial systems and maintaining audit consultancy which was largely unaffected during the first quarter. Audit work continues to focus on ensuring that there remains a strong control and risk environment in light of the raised risks associated with covid-19. Work on key financial systems has focused on areas of greatest risk and potential for fraud and error and coverage will look to provide assurance on those areas where audit work was not fully completed as part of the 2019/20 audit plan. Coverage will be sufficient to form an annual audit opinion in line with professional auditing standards.

1.5 The revised plan has moved slightly away from carrying out short compliance reviews into more substantive service reviews which has been reflected in a greater number of days allocated to some areas such as equalities duties. The plan continues to reflect the priorities of the Chief Executive to provide proactive value added consultancy and assurance aside from just audit opinion assignments. It is intended to build on this approach more substantively into future audit coverage with key financial systems being conducted over a phased 3 year term based on risk rather than being undertaken every year. Coverage will concentrate on risk based service reviews whilst maintaining levels of consultancy work.

2. Audit Opinion Structure

2.1 The revised opinion structure for audits is shown in Appendix C. Changes made from last year reflect a simplification of the opinion structure to four rather than five opinion categories and one combined opinion rather separate opinions for the control environment and compliance. This should enable recipients to understand the opinion more clearly and draw out more transparently those areas where improvements are needed

3. Revised Audit Plan

3.1 The revised audit plan is shown below together with the status of audit work being undertaken in the first half of the year:

	Audit		Days	Status/Opinion
Anti-fraud & corruption	National Fraud Initiative	Responsive	20	Ongoing
	Investigations Contingency	Responsive	10	Ongoing
Key Financial Systems	Payroll	Assurance	10	
	Housing Rent/Arrears	Assurance	15	
	Housing Benefits	Assurance	15	
	Council Tax	Assurance	10	wip
	National Non Domestic Rates (NNDR)	Assurance	10	wip
	Cash & Bank	Assurance	10	
	Accounts Payable	Assurance	10	
	Accounts Receivable	Assurance	10	wip
	Purchase Cards	Assurance	10	**Final - Reasonable**
Risk Management	Consultancy	Consultancy	20	wip
Contract Management	Waste Services	Assurance	20	Draft
	Joint Ventures Insourcing	Consultancy	50	wip
IT Audit	Cyber Security	Assurance	10	wip
	New Housing System Phase 1 pre implementation	Assurance	10	
Other Compliance	Policies & Procedures	Assurance	10	**Final - Limited**
	Business Support Grants	Assurance	20	Draft
	New Starters & Leavers Procedures	Assurance	5	To be reported with payroll key financial systems work
Other Consultancy	New Housing System Implementation Project	Consultancy	10	Ongoing
Service Reviews	Equalities Duties	Assurance	20	wip
	Licensing	Assurance	15	**Final - Reasonable**
	Capital Programme Management	Assurance	x	*Reserve audit*
Governance	Information Governance Group	Consultancy	5	Ongoing
	Data Breach Response	Consultancy	5	Ongoing
	Corporate Governance Group	Consultancy	5	Ongoing
	Annual Governance Statement	Consultancy	15	**Completed**
	Contract Management & procurement Induction	Consultancy	5	Ongoing
	Information Governance Group	Consultancy	5	Ongoing
	Data Breach Response	Consultancy	5	Ongoing
Grants	Disabled Facilities Grant	Assurance	10	**Completed**
Advice & Guidance	Adhoc Advice & Guidance	Consultancy	15	Ongoing
	Follow Up Audit Recommendations	Assurance	20	Ongoing
Reporting	Committee Reporting	Consultancy	15	Ongoing
	Management Reporting	Consultancy	15	wip
	Audit Plan	Consultancy	10	wip
	Total Days		**450**	

4.   Audit work to date:

4.1   Key Financial Systems

Purchase Cards

A full systems review of payment cards was undertaken reflecting that since the previous audit, the council has contracted a new supplier, NatWest RBS (MasterCard), from October 2018. Audit coverage included temporary amendments to limits to support the Covid 19 work, and a sample of transactions during the period March – May 2020 for the cardholders whose limits had been temporarily increased.

The audit concluded reasonable assurance reflecting that system controls were operating effectively. The audit did identify one cardholder spend relating to the purchase of IT equipment which although authorised by the line manager should not have been purchased using a card. This was not challenged by oversight review. There was also a need to strengthen controls relating to cardholders that leave the authority as there was delay in cancelling one account due to the procurement team being unaware that the person had left. Other recommendations were made relating to the administration of vat receipts and the need for timely reconciliations.

Work is under way to carry out annual testing in respect of NNDR, Accounts Receivable and Council Tax.

4.2   Other Compliance Work

Policy and Procedures

Audit review conclude that only limited assurance could be given in respect of the operations of the policy control framework. This reflects particularly that a number of recommendations made at the previous audit had not been addressed and have therefore been repeated. A summary of findings is shown below:

- The council does not have a definition of key/corporate policies and procedures.

- A number of policies have no identified owner.

- Three policies were stored in multiple locations on the council's intranet. One of which has a different version on each location.

- The council does not have a review schedule for policies or any guidance on frequency of reviews.

- Nearly half of the policies reviewed as part of the audit had no evidence of being reviewed in the last five years, though it is recognised that some of these required only a light touch review.

With the recent departure of the Director of Resources and a pending corporate restructure, systems recommendations will be assigned once the new structure and responsibilities are active. Work is currently underway through the Corporate Governance Group to ensure that existing policies are owned, updated and reviewed where necessary.

Business Support Grants

In March 2020 in response to the Covid 19 pandemic the government introduced two grant funding schemes to give financial assistance to qualifying businesses:

- Small business grant fund (SBG)

- Retail, hospitality and leisure grant fund (RHLG)

These grants were administered by local authorities, with the government directive to issue payments as soon as possible, and the option to carry out some of the eligibility checks post payment. The emphasis from government was to prioritise delivery of these grants to local businesses in need, with league tables published detailing the efficiency in council processing of grants as quickly as possible. It has been accepted the trade off with this approach is an increase in the risk of fraud and ineligible claims.

Under these schemes Norwich has paid out a total of £38.0m to almost 3000 businesses.

Subsequent to these grants being introduced, local authorities were required by the government to complete risk assessments for each scheme, detailing eligibility checks already carried out, and identifying the remaining higher risk areas. From these risk assessments, post payment assurance plans are required, detailing any further eligibility checks to be carried out to minimise the risk of ineligible or fraudulent payments.

Sample audit testing has been undertaken on higher risk areas in addition to existing service assurance work and checks have been made against known fraud alerts. A small number of fraudulent claims were prevented at the outset mainly through bank intervention. There were no significant matters identified from audit work, a couple of issues have been referred to the service to carry out further review and recommendations have been made in respect of reconciliations, risk recording and post payment assurance plans. The National Fraud Initiative being undertaken this year is including these grants for review and this is likely to provide more substantive assurance concerning the prevention of fraud and error.

4.3 Contract Management

Waste Services Contract

Audit work is near completion in respect of the contract management arrangements of the waste services contract to ensure that are performance and outcomes are managed in line with contract expectations. A summary of issues will be reported to this committee as part of the next internal update

Joint Ventures

The Interim Audit Manager attends the joint ventures project board with the Senior Auditor attending the project groups, these have been to provide a 'critical friend' role rather than giving assurance. As well as providing advice and critical challenge, audit have drafted template policy documents on risk management and whistleblowing for the new wholly owned company to consider and amend/adopt as required.

It is intended to carry out contract management reviews on these areas once these have been transferred to the wholly owned company on a phased basis in the first year of transfer.

4.4 Service Reviews

Licensing

The council has a statutory duty to issue licenses to a variety of people and organisations. These include the licensing of hackney carriages, private hire vehicles, drivers of these vehicles, licensed premises and designated premises supervisors.

Audit reviewed current policies and procedures to assess the effectiveness of the controls. The review concluded reasonable assurance on the control environment. The review found that income attributable was collected prior to licenses being granted. DBS and medical certificate checks were carried out regularly and completely in accordance with requirements. Vehicle checks are completed annually for hackney carriage and private hire vehicles (six-monthly for older vehicles).

License records and documentation are generally good however some inconsistencies, mostly minor, were identified. Testing identified anomalies in respect of the collection of renewal fees and opportunities to improve checks on taxi insurance cover. Review found that taxi licensing terms and conditions published on the website had not been updated to reflect changes approved by the licensing committee in January 2020.

Equalities duties

Audit review, at the request of the Chief Executive will provide assurance over the efficiency and effectiveness of the Council's systems to ensure compliance with statutory provisions as part of the Equality Act (2010). This represents an expansion of the previously included compliance reviewing equality impact assessment. Completed work will be reported at the next audit committee.

4.5 Anti- Fraud & Corruption

The Council continues to fully participate in a national data matching exercise known as the National Fraud Initiative (NFI) which is run by the Cabinet Office to prevent and detect fraud. Data matching, between public and private sector bodies, flags up inconsistencies in data that may indicate fraud and error and helps Councils to complete proactive investigations.

The NFI is conducted every two years and involves data matching across a number of datasets from over 1,200 participant organisations from across the public and private sectors.   A data extraction exercise is currently being undertaken as at the end of September 2020 with each participant required to upload securely a number of datasets based on required specifications. The results of this exercise are expected in February 2021 and matches will be reviewed on a risk basis.

Additional datasets have been requested in respect of business support grants and other direct grants as a drive to identify illegitimate claims and errors made against government funding to alleviate the effects of covid-19.

One whistleblowing issue is being reviewed as part of existing audit work although this did not merit a separate and specific investigation.

4.6 IT Audit

Audit work is underway in the form of a maturity assessment covering the National Cyber Security Council's framework. The framework covers the following areas:
- Risk Management Regime;
- Network Security;
- User Education and Awareness;
- Malware Prevention;
- Removable Media Controls;
- Secure Configuration;
- Managing User Privileges;
- Incident Management;
- Monitoring;

4.7 Other Work

Risk Management

Internal audit have introduced a new format for the corporate register to replace the risk management system previously used by LGSS and workshops have been undertaken with the leadership team and individual directors where required to reset new corporate and directorate registers. A report on risk management is provided separately as part of this meeting.

Other Governance work

Internal audit has continued to provide advice and support to officers in a number of areas and working groups as per the audit plan. This has included coordinating the Annual Governance Statement with the corporate leadership team.

4.8 Follow up of audit recommendations

The timely implementation of internal audit recommendations has been identified as an area for improvement across the Council.

Reports on the status of all high and medium priority recommendations are now sent to each director on a quarterly basis and a summary report is reviewed by the corporate leadership team as part of its quarterly performance framework report. Appendix A details the outstanding high priority audit recommendations that require implementation. A summary of the status of all outstanding recommendations from the previous eighteen months is also shown in the Appendix B.

Internal audit follows up with services usually six months after the issue of the final report with agreed action plan. During the first half of the year follow up reports have been issued in the following areas:

- Norwich Regeneration Limited (NRL)
- Information Security & GDPR
- Contract Extensions

In respect of NRL, all internal audit recommendations have now been satisfactorily addressed. A separate report on this is included as part of this committee meeting.

Following the issue of a follow up report, the onus is on services notifying internal audit with supporting evidence when they have cleared recommendations. The reporting system to the corporate leadership team and directors, put in place recently should lead to closer monitoring and improved implementation of recommendations over time.   There is however an issue of ownership on recommendations in respect of cross-cutting areas which will need review following the senior management restructure. Relevant cross cutting recommendations made are not high priority and do not relate to audits that received a less than reasonable assurance rating.

Outstanding high priority recommendations will be actively monitored by internal audit and tracked through audit committee update reports.

Appendix A: Outstanding high priority recommendations

Audit	Recommendation	Agreed Action	Agreed Date	Status/Comments
Information Security &GDPR	The Information Asset Register (IAR) has not been updated since 2016 and has not been approved by the CIAG. Information Asset Owners were not aware of the assets they owned. The Register does not have GDPR considerations as it was last updated prior to the regulation coming into place. The Council should review and update the Information Asset Register on an annual basis.	In 2019 we worked on the schedule of processing and decided to update the IAR in 2019. This will be commenced as planned and will include GDPR considerations. ***Responsible Officer – Data Protection & Security Team Leader***	*~~Mar 20~~* *~~Sep 20~~* *Dec 20*	Action Taken: Sent out 89 review requests to officers within the council – one request for each team. Asset owners will be prompted for outstanding returns and progress will be reported and reviewed at the next Corporate Information & Assurance Group (CIAG).
Information Security &GDPR	The Council should present the IAR to the CIAG on an annual basis, once updated, to gain official approval for the document.		*Dec 20*	Action Taken: Not yet started due to dependence on above.

Information Security & GDPR	The Council does not currently have the capability to remove certain records according to their own retention schedule, due to the limitation of key systems. The Schedule of processing is not fully completed The Council should push to replace software that prohibits the adherence to the schedule of processing retention rules with their IT partners.	This is well known and published on our website for customers. LGSS IT is working with software suppliers to identify their disposal functionality which will be implemented over the coming year. The schedule of processing is a working document and is continually being updated. It will be reviewed at CIAG. **Data Protection Security Team Leader and LGSS IT**	~~Mar 21~~ + Sep 23	IT suppliers have been contacted by LGSS IT. Some have come back with their timelines for compliance We have no date for this as we are entirely dependent on the software providers working on a solution, but realistically this will be a long term project – likely to be at least 5 years. As software is upgraded which includes ability to remove data, this will be tested. Currently, we have software for Civica, which is being deployed and Northgate revs and bens which was being tested, but has found issues and so testing has been suspended. For new software provisions such as E5 and ITrent, the ability follow retention guidelines has been stated in the spec.
Contract management - **Housing repairs & responsive maintenance**	Verification of accuracy for received reports The council does not undertake any testing or receive any independent verification regarding the accuracy of reports received from NPSN. The absence of any sample checking of the veracity of information (e.g. actual costs and prime records supporting performance) being provided to the council by NPSN is a significant weakness in the control environment. The council should introduce sample check processes in-house, including drilling down to source data and confirming competitiveness of rates, to validate reports provided by NPSN, or alternatively obtain independent verification.	As a one-off exercise, neighbourhood housing services to review format of current data and ensure it is compliant with KPI definitions Neighbourhood housing services to document quality assurance steps currently being undertaken by NPS to ensure these are sufficiently robust Neighbourhood housing services to undertake a more in-depth review of data quality (a data health check) for KPI's as directed. This will then be ad hoc and where required in future, but all data and definitions are being checked as a one-off exercise as above. Service improvement team to review survey methodology used by Gasway as part of existing service improvement plan. This project will undertake a comprehensive review of the current approach to transactional satisfaction surveys. It consists of 2 stages:	Mar 21 Mar 21	See audit committee update report

		STAGE 1: This stage is purely exploratory/investigative in nature leading to the production of a report which includes recommendations for any potential changes.	
		STAGE 2: This stage will implement any agreed changes set out in the report delivered in Stage 1	Dec 20
		Although no specific actions/projects initiated to ensure IT systems used to record contractor data are fit for purpose ensure the requirements have been incorporated into work on implementing the new housing IT system.	Mar 21
		Continue to review any remaining KPI definitions derived from contractor data with NPS to ensure all definitions are clear, unambiguous and in line with contracted obligations	Mar 21
		Responsible Officer – Head of Neighbourhood Housing	

Appendix B: Overview of Implementation of internal audit recommendations

Directorate	Audit	Date of report	Audit Opinion	Recommendations Made			Status of recommendations due				% Implemented (% high & medium only)
							Actioned				
				High	Med	Low	High	Med	Low	Rejected	
Resources	Information security and GDPR	Sep 2019	Control environment: **Satisfactory** Compliance: **Limited**	3	7	4	0 (1 not due yet)	2	0	1 (low priority)	22%
Finance	E5 Finance System IT Controls	Sep 2019	Control environment: **Satisfactory** Compliance: **Satisfactory**	3	6	5	3	6	1	0	100%
People and neighbourhoods	Contract management - Housing repairs & responsive maintenance	Sep 2020	Control environment: **Limited** Compliance: **Limited**	1	9	8	0	1	0		10%

Resources	**Contract extensions**	**Jun 2019**	Control environment: **Satisfactory** Compliance: **Good**	**0**	**1**	**2**	n/a	**0**	**2**		**0%**
Cross-cutting	**Scheme of delegation compliance**	**Oct 2019**	Control environment: **Good** Compliance: **Substantial**	**0**	**2**	**1**	n/a	tbc	**0**		tbc
Cross-cutting	**Project management**	**Jan 2019**	Control environment: **Good** Compliance: **Satisfactory**	**0**	**3**	**4**	n/a	**0**	**0**		0%
Resources	**Procurement compliance**	**May 2019**	Compliance: **Satisfactory**	**0**	**2**	**4**	n/a	**0**	**1**		0%
N/A	**NRL**	**Mar 2019**	Control environment: **Limited** Compliance: **Satisfactory**	**5**	**3**	**2**	5	3	1	**1** **(low priority)**	100%
Resources	**Payroll**	**Dec 2019**	Control environment: **Satisfactory** Compliance: **Substantial**	**0**	**3**	**2**	n/a	1	1		33%

Resources	Purchase Cards	Aug 2020	Reasonable	0	3	1					Not yet due
Cross-cutting	Policies & Procedures	Sep 2020	Limited	0	6	3					Not yet due
People and neighbourhoods	Licensing	Oct 2020	Reasonable	0	6	0		1			Not yet due

Appendix C: Audit Opinions & Definitions

Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, in support of the objectives of the Council.

The annual audit plan is prepared to take into account key areas of risk and was approved by the Audit Committee. The internal audit plan has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

With the exception of project support work, all audit reports include an assurance rating on the basis of the definitions shown below. Individual assurance ratings help to determine the overall annual audit opinion.

Opinion		Definition
Substantial Assurance		Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance		Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Limited Assurance		There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance		Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Key to priority of recommendations

Risk Priority	Definition
High	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Medium	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Low	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.