

Report to	Audit Committee	Item
	5 September 2017	
Report of	Chief Internal Auditor, LGSS	6
Subject	Internal audit 2017-18 – April to August update (Quarter 1)	

Purpose

To advise members of the work of internal audit, completed between April to August 2017, 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 2017-18 Audit Plan was endorsed by the council's corporate leadership team on 1 March 2017 and approved by the audit committee on 14 March 2017.

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

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Background documents

None

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q1

As at 25th August 2017

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, approved by CLT, was agreed as 450 days. There have been no further changes to the plan for 2017/18. At the end of August 2017, 147 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. The team has made good progress in delivering the Plan and is on course for delivery by the end of the financial year.

Progress against the plan

Finalised Assignments

Since the previous progress report to Audit Committee the following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Off contract spend	Good	Good	Minor
Cross cutting	Debt recovery	Good	Satisfactory	Moderate
Cross cutting	Treasury Management	Substantial	Substantial	Minor
Cross cutting	Financial System – IT General Controls	Good	Good	Minor
Cross cutting	Making Every Penny Count – Strategy	Substantial	Substantial	Minor
Cross cutting	Business planning – benefits realisation	Substantial	Substantial	Minor
Cross cutting	HRA Business planning	Substantial	Substantial	Minor
Cross cutting	General computer controls	Good	Good	Moderate
Cross cutting	Scheme of delegation - Policy and compliance	Substantial	Substantial	Minor
Cross cutting	Agency staff compliance	Satisfactory	Satisfactory	Minor
Cross cutting	Travel & Subsistence - compliance	Satisfactory	Satisfactory	Minor
Cross cutting	Invoices over £500	Good	Good	Minor
Cross cutting	Disabled Facility Grant	NA – Unqualified grant certification		
Cross cutting	City Cycle Ambition Grant – 3RW	NA – Unqualified grant certification		

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.

A number of reviews from 2016/17 were finalised in the April, and these were reflected in the Annual Report on Internal Audit and Fraud, which was presented to the Audit Committee in June.¹ In addition the team has finalised work from the 2017/18 plan. Key points include:

Disabled Facility Grant

Norfolk County Council received £6.3m capital funding from the Department of Health for Disabled Facility Grants as part of the Better Care Fund in 2016/17. £882k was allocated to Norwich City Council and we reviewed the expenditure to the accompanying grant conditions.

We reviewed five DFG claims for reasonableness and accuracy, plus reviewed client contributions, and other relevant claims. The Council pays the contractor, and invoices the grant applicant where they are required to pay a contribution to the works. Case records are input into Uniform, and financial transactions are also recorded on the Oracle financial management system. Comparison of this data highlighted that £500 of client contributions had not been invoiced, and £5k had not been recorded in the case records. Consequently the grant return was revised and records updated. The team has agreed to proactively reconcile these records in future and review the way they are recording data.

Cycle City Ambition Grant

The Council was awarded grant funding for the development of cycleways, from the Department for Transport. An addendum to the grant scheme of £715k was also awarded to provide cycle paths linking into the city, known as Three Rivers. As this was beyond the City Council boundaries it was the responsibility of Norfolk County Council, but was administered by the City Council through the main grant scheme. We were required to certify the grant claim for this addendum.

Norwich City Council had asked the County Council to provide a statement of assurance that the funds had been spent in accordance with the grant conditions. As part of the budget calculation Norwich City Council was required to pay back £5k of unspent funds to the DfT.

We reviewed the supporting information, which was referred back to the County Council for clarification on the expenditure. Consequently a revised statement of assurance was provided which identified £53k of unspent funds. Norwich City Council referred back to the DfT, and they confirmed that the City Council could retain these funds providing they could demonstrate that it would contribute to the main cycleway scheme.

Invoices over £500

A sample of invoices over £500 was reviewed to establish compliance with contract procedures, and there is good assurance for both the control environment and compliance. There was adequate segregation of duties between raising and authorisation of requisitions, receipting of purchase orders and setting up payment of invoices. Quotations / tenders were completed in line with contract procedures, to obtain value for money. The invoices were paid by BACS promptly, and invoices over £500 were published on the council website as per the Transparency Code 2015.

¹ <https://cmis.norwich.gov.uk/live/Meetingscalendar/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/399/Committee/5/SelectedTab/Documents/Default.aspx>

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	Council Tax
Cross cutting	NNDR
Cross cutting	Housing Rents & Arrears
Cross cutting	Housing Benefits
Cross cutting	Procurement Governance
Cross cutting	Information Governance Policies
Cross cutting	Treasury Management
Cross cutting	Purchase to Pay
Cross cutting	Use of GPC

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

We have commenced a number of reviews classed as Key Financial Systems. Due to their significance, reviews of these systems are prioritised and we are making good progress on Council Tax, National Non Domestic Rates, Housing Rent and Arrears, and there are no significant areas of concern.

Fraud and corruption update**Data matching**

The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.17 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at Norwich, which provides assurance that internal controls continue to operate effectively.

The Council has carried out the current exercise to the deadlines set by the Cabinet Office. From a total of 3346 matches there are a total of 715 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. Work has commenced on reviewing these matches and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported.

Implementation of management actions

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule.

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

The team has facilitated updates of the Corporate Risk Register. The current register, which was approved by CLT and the Audit Committee in May 2017, has two risks which exceed the Council's risk appetite:

- risk B1, public sector funding, and
- risk A8, housing investment strategy.

It was agreed that all appropriate mitigation had been considered and the residual score would remain above the level of the Council's risk appetite.

The next review of the register will be completed in October. In addition, the annual review of the Risk Management Policy will be completed, to ensure that it continues to provide the Council with an effective approach to risk management. An update will be reported to Cabinet in January, following the Audit Committee meeting.

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 several areas to date.

Use of Social Media

The Chief Surveillance Commissioner circulated a letter to Councils which highlighted their concerns with compliance with Regulatory Investigation Powers Act (RIPA) in the public sector, specifically with the use of Social Media. The Act regulates the powers of public bodies to carry out surveillance and investigation, and the interception of communications.

The letter recommended that Internal Audit should complete some assurance work in this area. The Council has a RIPA gatekeeper, to review and process requests, and we met with them to discuss the letter from the Office of Surveillance Commissioners.

The Council has RIPA policies and procedures, and these will be updated to specifically include guidance for the use of Social Media. Historic RIPA authorisations were reviewed and there was no record of Social Media being used for RIPA enquiries.

We agreed, with the relevant Directors, to circulate a survey as proportionate next steps and to get a feel for how Social Media is being used. This indicated the Council is using Social Media sites, such as Facebook, Twitter and LinkedIn. Examples include proactively finding information about events which may be illegal or have a risk, locating debtors, and to find evidence which may be used in court proceedings and committal hearings. Viewing publicly available information on websites, where there is a low expectation of privacy, is unlikely to require a RIPA authorisation. However, if Social Media is being used, there is a potential risk of non-compliance with legislation.

Initial feedback is that Officers are aware of RIPA requirements, and the survey has helped to promote this. Further guidance is expected to be provided by the Home Office. The Chief Surveillance Commissioner indicated that they would examine Social Media Use during their next inspection. An inspection was previously completed in 2013 and the Council provided a statistical update in 2016. It is not known when the next inspection is due, however it is good practice for the Council to proactively review this.

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.

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.

In addition we reviewed and updated the Council's Code of Corporate Governance, reflecting the latest professional guidance from CIPFA and SOLACE.

Both these documents were reported to the Audit Committee, and approved, at the June meeting. The final version of the Annual Governance Statement will be signed, and approved, with the Statement of Accounts for the September meeting. The Code of Corporate Governance will be further reviewed by the Constitution Working Party in the autumn.

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. In addition the team is externally reviewed against the standards, and completes a continuous review of its processes as good practice.

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.

Customer Satisfaction

LGSS circulates an annual customer satisfaction survey. The Internal Audit satisfaction indicators have improved and score 100% in all categories. This is a very positive result given the period of change in 2016/17. The questions ask customers to report if they: understand the reasons for internal audit and the arrangements for carrying them out; find recommendations helpful in improving the controls of risks; and if they find internal audit are polite and professional.

There has been a slight decrease in the performance of risk management. Managers are asked whether they 'understand the risk management strategy and how to apply it', and only 84% replied positively. The internal audit team engaged with both the Corporate Leadership Team and Members in 2016/17 to promote risk management. The survey identifies a further opportunity to engage with service leads and operational managers in 2017/18. The Council has relevant online training, which we are reviewing and will promote with the strategy this year.

Appendix A – Internal audit plan

Norwich 2017/18

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days
Operational plan grand total				450.0
Making Every Penny Count Total				35.0
Invoices over £500	Open	Q2	Q2	5.0
Transformation projects	Not started	All Year	NA	30.0
Anti-Fraud and Corruption Total				25.0
National Fraud Initiative	Open	All Year	NA	20.0
Fraud Investigations	Open	All Year	NA	5.0
Key Financial Systems Total				160.0
Accounts Receivable	Not started	Q3	NA	15.0
Purchase to Pay	Open	Q3	NA	20.0
Payroll	Open	Q2	NA	15.0
Housing Rents & Arrears	Open	Q2	NA	20.0
Housing Benefits	Open	Q2	NA	20.0
Council Tax	Open	Q1	NA	15.0
NNDR	Open	Q1	NA	15.0
Treasury Management	Open	Q3	NA	15.0
Procurement Governance	Open	Q2	NA	15.0
Debt Recovery	Not started	Q3	NA	10.0
Commissioning & Contracts Total				45.0
Contract Management	Not started	Q4		15.0
NPS Contract monitoring	Not started	Q2		20.0
Regeneration company	Not started	Q2		5.0
Commissioning	Not started	Q3		5.0
Risk-Based Audits Total				5.0
Safe Recruitment	Not started	Q3		5.0
Policies & Procedures Total				15.0
Financial Regulations (Norwich) 2018	Open	Q4		5.0
Business Continuity Policy	Open	Q2		5.0
Information Governance Policies	Open	Q2		5.0
Compliance Total				20.0
Fees and Charges	Not started	Q3		5.0
Grants to Voluntary Organisations	Not started	Q3		5.0
Use of GPC	Open	Q2		5.0
Contract Extensions	Not started	Q2		5.0
ICT and Information Governance Total				25.0
Information Security	Not started	Q3		10.0

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days
Financial Systems IT & General Computer Controls	Not started	Q3		15.0
Governance Total				25.0
Attend Information Governance Group	Open	All Year	NA	5.0
Attend Data Breach Response	Open	All Year	NA	5.0
Attend Corporate Governance Group	Open	All Year	NA	5.0
Annual Governance Statement	Open	Q1	Q2	10.0
Risk Management Total				16.0
Risk Management	Open	All Year	NA	12.0
Risk Management Policy	Not started	Q3		4.0
Grant assurance Total				10.0
Disabled Facility Grant	Open	Q1	Q2	5.0
Cycle highways grant	Open	Q4		5.0
Advice & Guidance Total				45.0
Advice & Guidance	Open	All Year	NA	25.0
Follow-Ups of Agreed Actions	Open	All Year	NA	20.0
Reporting Total				24.0
Committee Reporting	Open	All Year	NA	8.0
Management Reporting	Open	All Year	NA	8.0
Audit Plan	Open	All Year	NA	8.0

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>