

**Report to** Audit Committee  
9 March 2021  
**Report of** Interim Audit Manager  
**Subject** Internal Audit Update

**Item**

**7**

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### **Purpose**

To advise members of the work of internal audit, completed between November 2020 to February 2021, 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 and subsequent revisions agreed at the meeting in November 2020.

### **Recommendation**

To note the report.

### **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 continued to be a challenging year for resources due to disruptions associated with Covid-19. In particular audit work has taken longer than it would have in normal circumstances due to delays in obtaining required information from services who themselves are under unique pressures. This has been a common theme for audit sections across local government. Despite this the revised audit plan presented at the previous audit committee is on track to be fully completed as planned and the resource and coverage will be sufficient to be able to provide an annual audit opinion in accordance with professional requirements.
- 1.2 In addition to the audit team (3 fte) which transferred in-house from LGSS at the start of the year, 20 days specialist IT audit resource has been 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 until March 2021. This arrangement is pending a service review which is currently being undertaken.
- 1.4 There has been no significant changes to the audit plan since the previous update to the audit committee

## **2. Audit Opinion Structure**

- 2.1 The opinion structure for audits is shown in Appendix B.

### 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
<b>Anti-fraud &amp; corruption</b>	National Fraud Initiative	Responsive	20	Ongoing
	Investigations Contingency	Responsive	10	Ongoing
<b>Key Financial Systems</b>	Payroll	Assurance	10	wip
	Housing Rent/Arrears	Assurance	15	<b>Draft</b>
	Housing Benefits	Assurance	15	<b>Draft</b>
	Council Tax	Assurance	10	<b>Draft</b>
	National Non Domestic Rates (NNDR)	Assurance	10	<b>Final - Reasonable</b>
	Cash & Bank	Assurance	10	wip
	Accounts Payable	Assurance	10	wip
	Accounts Receivable	Assurance	10	<b>Final - Reasonable</b>
Purchase Cards	Assurance	10	<b>Final - Reasonable</b>	
<b>Risk Management</b>	Consultancy	Consultancy	20	Ongoing
<b>Contract Management</b>	Waste Services	Assurance	20	<b>Final - Limited</b>
	Joint Ventures Insourcing	Consultancy	50	Ongoing
<b>IT Audit</b>	Cyber Security	Assurance	10	wip
	New Housing System Phase 1 pre implementation	Assurance	10	wip
<b>Other Compliance</b>	Policies & Procedures	Assurance	10	<b>Final - Limited</b>
	Business Support Grants	Assurance	25	<b>Final &amp; Ongoing</b>
	New Starters & Leavers Procedures	Assurance	5	To be reported with payroll key financial systems work
<b>Other Consultancy</b>	New Housing System Implementation Project	Consultancy	10	Ongoing
<b>Service Reviews</b>	Equalities Duties	Assurance	20	<b>Draft</b>
	Licensing	Assurance	15	<b>Final - Reasonable</b>
<b>Governance</b>	Information Governance Group	Consultancy	5	Ongoing
	Data Breach Response	Consultancy	5	Ongoing
	Corporate Governance Group	Consultancy	5	Ongoing
	Annual Governance Statement	Consultancy	15	<b>Completed</b>
	Information Governance Group	Consultancy	5	Ongoing
	Data Breach Response	Consultancy	5	Ongoing
<b>Grants</b>	Disabled Facilities Grant	Assurance	10	<b>Completed</b>
<b>Advice &amp; Guidance</b>	Ad hoc Advice & Guidance	Consultancy	15	Ongoing
	Follow Up Audit Recommendations	Assurance	20	Ongoing
<b>Reporting</b>	Committee Reporting	Consultancy	15	Ongoing

	Management Reporting	Consultancy	15	Ongoing
	Audit Plan	Consultancy	10	Complete
		<b>Total Days</b>	<b>450</b>	

#### 4. Audit work to date:

Since the previous audit committee the following areas of work have been completed and reported

##### 4.1 Key Financial Systems

###### National Non Domestic Rates

Audit review found that controls in place were broadly operating effectively Two recommendations were made reflecting the need to adhere to delegated limits when authorising refunds and the need to ensure full supporting evidence is maintained.

###### Accounts Receivable

Audit review concluded reasonable assurance. The review noted that aside from commercial properties, debt recovery work had been restricted to reflect hardships associated with covid-19. A recommendation was made to finalise a strategy for recovering outstanding invoiced debt. The audit also recommended improvements to simplify the presentation of existing debt recovery reporting.

###### Other Reviews

Audit reviews on council tax, housing benefits and housing rents/arrears are all at draft report stage. Work on all other outstanding key financial systems is underway and will be reported to the committee as part the annual audit opinion report in the summer.

##### 4.2 Other Compliance Work

###### Business Support Grants

Audit work was completed in November 2020 and reported at the previous audit committee meeting.

Since this work the government has extended its support grants in a number of areas grants to be 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 continues to be to prioritise delivery of these grants to local businesses in need 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.

As was previously reported, 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. This process continues as the scheme is extended.

An assurance group involving the audit manager, the head of finance, audit & risk and revenues & benefits operations manager has been set up monthly to oversee post event assurance work to identify fraud and error, including the timely review of any high risk data matches pertaining from the National Fraud Initiative and to fulfil reporting requirements to the government.

### **4.3 Contract Management**

#### **Waste Services Contract**

Audit review concluded limited assurance on the control environment relating to the management of the contract. This opinion is not a reflection on the performance of the contractor but on how the council is managing the contract to maximise performance and efficiency. Key findings included:

- The contract does not detail financial and performance based targets and their impacts. This should be detailed in the contractors' annual service plan, however, none is in place for 2020.
- Financial information relating to variation payments does not always have sufficient supporting evidence.
- No evidence could be obtained that service performance data provided by the contractor was independently checked and verified by the council to prime records or that points of escalation on performance are appropriately addressed, documented and monitored.
- An incentivisation scheme had been implemented in 2015, however no evidence could be obtained that this was monitored.
- High-level management meetings are not documented to ensure specifics are reviewed, issues are raised and appropriate actions taken.

As a result of the audit review findings, management actions and a timetable for completion has been agreed. The audit findings and the service response provide a baseline and comprehensive action plan for the service to improve waste contract management arrangements.

#### **Joint Ventures**

The interim audit manager attends the joint ventures place project board with the senior auditor attending the project groups, these have been to provide a 'critical friend' role rather than giving assurance. Delivery of the first phase of project including setting up of new company and associated governance arrangements for the insourcing of environmental services is on track for going live at the start of April as planned per the agreed action in the council's annual governance statement.

## **4.4 Service Reviews**

### **Equalities duties**

An audit review was undertaken at the request of the chief executive to 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).

Audit work has been completed and a draft report issued awaiting finalisation and an agreed action plan. A summary of findings will be reported at the next meeting of the audit committee.

## **4.5 Anti- Fraud & Corruption**

The council participates fully 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 has been undertaken as at the end of September 2020 data uploaded securely on a number of datasets based on required specifications. The results of this exercise are expected by the end of the financial year 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.

There have been no new reported cases of fraud or whistleblowing issues that required an audit investigation.

## **4.6 IT Audit**

As previously reported, audit work is underway in the form of a maturity assessment covering the National Cyber Security Council's framework.

There have been delays in the provision of information to enable the auditor to complete this assignment although these are being addressed now. A report on findings will be made at the next audit committee meeting.

A further review has been commissioned to support the implementation of the new housing system. This review has started in February and is designed to provide a review of best practice to inform phase one of the development project.

## **4.7 Other Work**

### **Risk Management**

As reported at the last audit committee meeting, internal audit has administered a full redesign of risk management processes in the council. The corporate register is fully operational as are 3 out of the 4 directorate registers that feed into this process. Support work has been provided to develop the risk register for the remaining directorate.

Risks will need to be reassigned to reflect the new council structure that will be in place from the start of April. The corporate register will continue to be presented to the audit committee twice yearly with the next review programmed for the next 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.

## **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.

Since the previous committee meeting all recommendations relating to the purchase card audit issued earlier in the year have been confirmed as being completed. A summary report of the status of all audit recommendations will be included in the audit manager's annual report which will be presented at the summer meeting of this committee.

## Appendix A: Outstanding high priority recommendations

Audit	Recommendation	Agreed Action	Agreed Date	Status/Comments
<b>Information Security &amp; GDPR</b>	<p>The Information Asset Register (IAR) has not been updated since 2016 and has not been approved by the CIAG.</p> <p>Information Asset Owners were not aware of the assets they owned.</p> <p>The Register does not have GDPR considerations as it was last updated prior to the regulation coming into place.</p> <p>The Council should review and update the Information Asset Register on an annual basis.</p>	<p>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.</p> <p><b>Responsible Officer – Data Protection &amp; Security Team Leader</b></p>	<p><del>Mar 20</del> <del>Sep 20</del> Dec 20</p>	<p>Outstanding returns needed from asset owners to populate the IAR have been completed. <b>Audit to verify</b></p>
<b>Information Security &amp; GDPR</b>	<p>The Council should present the IAR to the CIAG on an annual basis, once updated, to gain official approval for the document.</p>		<p><del>Dec 20</del> Apr 21</p>	<p>Action Taken: Not yet started due to dependence on above.</p>

<p><b>Information Security &amp; GDPR</b></p>	<p>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.</p> <p>The Schedule of processing is not fully completed</p> <p>The Council should push to replace software that prohibits the adherence to the schedule of processing retention rules with their IT partners.</p>	<p>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.</p> <p>The schedule of processing is a working document and is continually being updated. It will be reviewed at CIAG.</p> <p><b>Data Protection Security Team Leader and LGSS IT</b></p>	<p><del>Mar 21</del> + Sep 23</p>	<p>IT suppliers have been contacted by LGSS IT. Some have come back with their timelines for compliance</p> <p>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.</p>
<p><b>Contract management - Housing repairs &amp; responsive maintenance</b></p>	<p>Verification of accuracy for received reports</p> <p>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.</p> <p>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.</p>	<p>As a one-off exercise, neighbourhood housing services to review format of current data and ensure it is compliant with KPI definitions</p> <p>Neighbourhood housing services to document quality assurance steps currently being undertaken by NPS to ensure these are sufficiently robust</p> <p>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.</p> <p>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</p>	<p>Mar 21</p> <p>Mar 21</p>	<p>Work is ongoing to review KPI definitions, source data and quality assurance checks undertaken on housing repairs &amp; maintenance contractor KPI data provided by NPS. This one-off exercise is being carried out jointly between the Business intelligence team (NCC) and NPS. This work aims to provide assurance KPI definitions are being followed, contractor data is accurate, sufficient and robust quality checks are in place.</p> <p>On target to complete review of NNBL and Gasway data by 31 March 2021. Review of this data is being prioritised.</p> <p>Aiming to complete review of remaining housing related contractor KPI data by 31 March. However some of this may need to follow shortly after due to Business intelligence team involvement in the NPS housing system replacement project.</p> <p>Review of approach to satisfaction surveys (including survey run by Gasway) is currently on hold due to change of priorities in the</p>

		<p>approach to transactional satisfaction surveys. It consists of 2 stages:</p> <p>STAGE 1: This stage is purely exploratory/investigative in nature leading to the production of a report which includes recommendations for any potential changes.</p> <p>STAGE 2: This stage will implement any agreed changes set out in the report delivered in Stage 1</p> <p>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.</p> <p>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</p> <p><b>Responsible Officer – Head of Neighbourhood Housing</b></p>	<p><i>Dec 20</i></p> <p><i>Mar 21</i></p> <p><i>Mar 21</i></p>	<p>Service improvement plan (SIP) as a result of the latest lockdown.</p> <p>Development of new NPS housing system is ongoing.</p>
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## Appendix B: 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.