



NORWICH City Council

Committee Name: Audit

Committee Date: 08/03/2022

Report Title: Internal Audit Q3 Update

Portfolio:	Cllr Paul Kendrick
Report from:	Internal Audit Manager – Norwich City Council
Wards:	‘All Wards’
OPEN PUBLIC ITEM	

Purpose

This report reviews the work performed by Internal Audit in delivering the Annual Internal Audit Plan for 2021/22 during the period 12 November 2021 to 25 February 2022.

Recommendation:

It is recommended that members note the progress in delivering the internal audit plan of work within this period.

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report helps to meet all above corporate priorities.

Report Details

1. The audit committee receives updates on progress made against the annual internal audit plan. This report forms part of the overall reporting requirements to assist the council in discharging its responsibilities in relation to the internal audit activity.
2. The Public Sector Internal Audit Standards require the chief audit executive to report to the audit committee the performance of internal audit relative to its agreed plan, including any significant risk exposures and control issues. To comply with the above the report identifies:
 - (a) Any significant changes to the approved Audit Plan;
 - (b) Progress made in delivering the agreed audits for the year;
 - (c) And where applicable will provide any significant outcomes arising from completed audits.

Consultation

3. Not applicable for this report.

Implications

Financial and Resources

4. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.
5. There are no specific financial implications from this report; the internal audit plan will be delivered from within the resources available.

Legal

6. There are no specific legal implications arising from this report.

Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	Not applicable for this report.
Health, Social and Economic Impact	Not applicable for this report.
Crime and Disorder	Not applicable for this report.
Children and Adults Safeguarding	Not applicable for this report.
Environmental Impact	Not applicable for this report.

Risk Management

Risk	Consequence	Controls Required
Failure to undertake the Annual Internal Audit Plan could result in the Head of Internal Audit not being able to provide an annual opinion.	Reductions in Internal Audit coverage could permit on-going weaknesses in the internal control environment at the Council not being detected and reported upon.	Progress against completing the annual internal audit plan is reported to the Audit Committee in accordance with the Public Sector Internal Audit Standards. Additional resources are deployed where required to ensure adequate levels of coverage are provided for the annual opinion.

Other Options Considered

7. Not applicable for this report.

Reasons for the decision/recommendation

8. The committee is receiving this report in conformance with the Public Sector Internal Audit Standards and to assure itself on the progress being made against planned audit activity.

Background papers:

None

Appendices: Appendix 1 Internal Audit Quarter One Update.

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Eastern Internal Audit Services



Norwich City Council

Progress Report on Internal Audit Activity

Period Covered: 12 November 2021 to 25 February 2022

Responsible Officer: Faye Haywood – Internal Audit Manager Norwich City Council

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1. INTRODUCTION

- 1.1 This report is issued to assist Norwich City Council in discharging its responsibilities in relation to the internal audit activity.
- 1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Council to determine.
- 1.3 To comply with the above this report includes:
- Any significant changes to the approved Audit Plan;
 - Progress made in delivering the agreed audits for the year;
 - Any significant outcomes arising from those audits where applicable.

2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN

- 2.1 At the meeting on 9 March 2021, the Annual Internal Audit Plan for the year was presented to the Audit Committee. Since that meeting, the plan has been reduced by 65 days, in response to the resourcing challenges faced by the internal team.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

- 3.1 The current position in completing audits to date within the financial year is shown in **Appendix 1**.
- 3.2 In summary 131 days of programmed work has been completed, equating to 51% of the Internal Audit Plan for 2021/22.
- 3.3 The Internal Audit team continues to conclude work from quarter two and made progress on quarter three work. The audit's allocated to external resources are scoped and underway.

4. THE OUTCOMES ARISING FROM OUR WORK

- 4.1 On completion of each individual audit an assurance level is awarded using the following definitions:

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.

- 4.2 Recommendations made on completion of audit work are prioritised using the following definitions:

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.

4.3 During the period covered by the report one report has been issued:

Audit	Assurance	High	Medium	Low
Business Support Grants	Reasonable	0	4	4

The Executive Summary of the report is attached at **Appendix 2**; a full copy of the report can be requested by members of the Committee.

4.3 As can be seen in the table above as a result of the audit a total of eight recommendations have been raised.

5. FRAUD AND ANTI CORRUPTION

5.1 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. Data matches have been received and are reviewed by service leads on a risk basis.

Additional datasets were requested in respect of the various (1st tranche) government business support grants, paid to businesses to alleviate the effects of Covid-19, as a drive to identify illegitimate grant claims and errors. 51 data matches have been received so far from NFI and are being reviewed on a risk basis.

As a result of post payment assurance work, a number of cases have been referred to the Anglian Revenue Partnership Fraud team for further review. Recovery or referral actions have and will be taken in line with the recovery guidance issues by BEIS, an update on this work can be seen within the Business Grants audit report at Appendix 2 of this report.

5.2 The Internal Audit Team has been alerted to a payroll fraud attempt. In response, the quarter four Payroll audit will provide assurance on payroll mandate controls.

6. CONSULTANCY WORK

6.1 The 2021/22 internal audit plan included a total of 185 days allocated to consultancy work. As reported at the January 2022 meeting, it is unlikely that the total number of days planned will be used as no need has yet been identified. A summary of work undertaken to date is provided below:

Consultancy	Days	Delivered	Work to date
Anti-Fraud and Corruption - NFI	20	0	Internal Audit has not been involved in matching exercises in 2021/22.
Anti-Fraud and Corruption - Investigations	10	0	No areas of investigation completed.
Information Governance Group	5	2	Meetings attended where required.
Resources, Performance & Delivery Board	5	1	Meeting attended where required.
Joint Ventures Insourcing	45	2	Internal Audit Manager has been in attendance at each weekly project place board as an advisor. A report summarising this work will be provided to the Committee at year end.
New Housing System	10	2	TIAA has provided IT support provided on reconciliation controls.
Consultancy Contingency	15	7	BSG Support – Covid19 business grants support and advice.
Risk Management	15	10	Preparing cabinet update papers
Data Breach Response	5	0	None raised for IA attention
Annual Governance Statement	10	10	Supporting the preparation of the AGS 2020/21. No further support required.
Audit Management Duties	45	26	Internal Audit Management duties. Reviewing reports. Audit Committee papers, planning, advice and guidance.
TOTAL	185	60	

APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations			Date to Committee
							High	Medium	Low	
Quarter 1										
		0	0	0						
Quarter 2										
Risk Management	NC2206	15	15	15	Final report issued 23 November 2021	Reasonable	0	5	1	Nov-21
Corporate Health & Safety	NC2204	15	15	13	Draft report stage					
IR35 Compliance	NC2205	10	10	10	Draft issued to management 10 Jan 2022					
Grants assurance DFG	NC2201	5	5	5	Completed signed certification issued					
Business Support Grants	NC2203	20	20	20	Final report issued 25 January 2022	Reasonable	0	4	4	Mar-22
TOTAL		65	65	63						
Quarter 3										
Housing Rent/Arrears	NC2208	15	15	15	Draft report issued 7 Feb 2022					
Housing Benefits	NC2209	15	15	0	Scheduled					
Council Tax	NC2210	10	10	5	Audit in progress					
National Non Domestic Rates (NNDR)	NC2211	10	10	5	Audit in progress					
Accounts Payable	NC2215	10	10	1	Audit due to start 15 March 2022					
Debt Recovery		10		0	These days are covered by reviewing debt management procedures in Housing Benefits, Council Tax and NNDR. Accounts Receivable will be added to the 2022/23 plan.					
Treasury Management	NC2212	10	10	10	Draft report issued 3 Feb 2022					
Environmental Services	NC2213	20	20	6	Audit in progress					
New Financial Management Code		10		0	Head of Audit, Finance and Risk has provided an overview of compliance against the financial management code. No further assurance deemed as required.					
Grants assurance Green Homes		15		0	Days for the Green Homes Grants will be deferred and grant certification work will be carried out by the Internal Audit Manager in the 2022/23 plan when requested.					
TOTAL		125	90	42						

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations			Date to Committee
							High	Medium	Low	
Quarter 4										
Payroll	NC2207	10	10	0	Scheduled					
Capital Accounting and Programme Management	NC2214	30	30	3	Capital Accounting and Programme Management Audit Combined. APM with CLT for approval.					
Social Housing Delivery Programme	NC2217	20	20	0	Scheduled - at the request of management, audit will be carried out along with governance arrangements for Norwich Regeneration Ltd from the 2022/23 plan in April 2022.					
Towns Fund Deal		20		0	This review will be deferred into 2022/23 when projects get up and running					
TOTAL		80	60	3						
IT Audits										
IT Governance	NC2220	10	10	1	Audit in scoping phase					
Housing & Tenancy Application	NN2219	10	10	4	Audit underway					
To be determined		10		0	10 days to be carried forward into the 2022/23 plan.					
TOTAL		30	20	5						
Follow Up										
Follow Up		20	20	17						
TOTAL		20	20	17						
TOTAL		320	255	130			0	9	5	
Percentage of plan completed				51%						

APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

1. Executive Summary

3.1 We have been able to provide an opinion of **Reasonable Assurance**¹ over the controls operating within the area under review. A summary of the key findings to support this opinion is shown below.

3.2 The audit review has given assurance over:

- Pre-payment checks - the audit testing confirmed that pre-payment checks were carried out for the LRSG and restart grant applications, to confirm:
 - Business bank account details.
 - The business was active and not in liquidation.
 - The business had closed and reopened to be eligible for the restart grant.
- Post payment assurance plans for the earlier three grants have been completed and were update October 2021.
- Risk assessments (RAs) are in place for the earlier three grants, and a copy was provided to BEIS as required. The risk scores were updated following the last audit review, and the latest update was in January 2021.
- A recovery process is in place for those payments identified as being ineligible, and the team have successfully recovered a high proportion of the overpayments identified so far. The statistics collated by the BGPCM show that:
 - Errors and overpayments were 0.7% of total value of grants paid out, with 97% of the errors and overpayments repaid.
 - Fraudulent applications identified so far is 0.2%, with 60% recovered. This excludes those that were identified prior to payment.
 - Total recovered £629.6k, with £88.6k still outstanding.

The team is now commencing sample post-payment reviews of SBGs. It is expected that this will identify further potential fraudulent applications and overpayments.

Staff are aware of the processes for advising BEIS of unsuccessful recoveries, but no cases have yet reached that point.

An arrangement was agreed with Anglia Revenues Partnership (ARP) for the services of the fraud manager to review some cases. ARP have completed interviews under caution, which has so far resulted in the refund of one case of around £20k.

- Good progress is being made with reviewing cases, from the three earlier grant schemes, reported under the National Fraud Initiative (NFI). 51 cases were identified and are under review by the grants assurance team. Of these:
 - 40 are closed, with no further action.

- Three are confirmed as errors, for one no refund was required, and two x £10.000 refunds were requested, one of which has been repaid.
- Eight are under investigation, to consider whether recovery is required. Two have already been identified as probable fraudulent applications. None are yet ready to be passed to ARP for further investigation.

3.3 However, four medium priority recommendations have been raised and are as follows:

- The internal audit sample testing identified one case (various LRSGs and restart grant paid) which is probably systemic fraud. There were several warning signs when the initial LRSG application was received, and it is evident from the bank statement provided with the later restart grant application that three other authorities across the country have also provided grants, which have immediately been paid out to individuals. Given the probable fraud across multiple authorities, reporting to NAFN to investigate is appropriate. Total of grants paid out by Norwich is £28.3k and there is also £12.6k of unpaid business rates. The company is now in liquidation. (See 4.1)
- Prior to reporting the above case to NAFN, consider checking if there are any common directors, relating to businesses that previously occupied the same premises for only a few months prior to going into liquidation, as the probable fraud could be more widespread. (See 4.1)
- Complete the procurement of the external review of businesses receiving SBRR. (See 4.3)
- Complete the post payment assurance reviews for the SBGs, using the higher risk cases already identified and the results from the SBRR review. (See 4.3)

3.4 Four low priority recommendations have been raised and are as follows (for all see 4.2):

- Complete risk assessments for ARGs to evidence whether any post payment assurance checks, proportionate to the potential risks identified, are considered appropriate.
- Complete the risk assessments for all the later schemes with national conditions, include the planned sample checks and prepare a post payment assurance plan to cover the mitigation actions identified.
- Depending on findings of the cases reviewed, consider if the risk assessment scores need updating and whether further cases need to be reviewed.
- Consider updating the scores for the risk assessment for SBGs, given the assessed higher risk for these earlier grants, and the currently ongoing post payment assurance work.

3.5 There is a need for continued resourcing for fraud investigations and advice for some ongoing cases and any that are identified from the post payment assurance work. Audit has been advised that the team will continue to refer to ARP to assist with work that the team do not have the qualifications or access to the information to carry out, such as interviews under caution.

3.6 New burdens funding has been received, some of which is being used to cover additional support in the revenues and benefits service to assist with backlogs as a result of staff being involved with the business support grant payments. There is potential to use this funding to provide additional resources for the grant post payment assurance work if required.

3.7 Action Summary

Risk Priority	Definition	No.	Ref(s)
High	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.	0	
Medium	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.	4	4.1 (x 2), 4.3 (x 2)
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.	4	4.2 (x 4)