

Subject: PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Report to: Audit and Risk Committee, 14 June 2021

Report by: Faye Haywood, Internal Audit Manager for Great Yarmouth Borough Council

## **SUBJECT MATTER**

This report examines progress made between 5 February 2021 to 8 June 2021 in relation to the delivery of the revised Annual Internal Audit Plan for 2020/21 and includes executive summaries in respect of the reviews which have been completed during this period.

### **1. INTRODUCTION/BACKGROUND**

- 1.1 This report reflects the completion of the audit reviews which are part of the annual internal audit plan of work for 2020/21.

### **2. CURRENT COMPOSITION OF THE ANNUAL INTERNAL AUDIT PLAN 2020/21**

- 2.1 The current position in relation to the delivery of the Internal Audit Plan for 2020/21 is shown within the attached report.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The Internal Audit Plan has been delivered within the agreed budget for 2020/21.

### **4. RISK IMPLICATIONS**

- 4.1 Internal Audit planning starts with the Council's key risks, which then directs the audit plan for the financial year. Internal Audit reports then identify risk and control weaknesses within the Council, which are highlighted in this report, with appropriate management action being agreed to mitigate these risks within agreed timeframes.

### **5. CONCLUSIONS**

- 5.1 The report contains the results of reports in draft and finalised within this period.

### **6. RECOMMENDATIONS**

- 6.1 It is recommended that the Committee receive and note the outcome of the audits completed during this period and the progress to date.

### **7. BACKGROUND PAPERS**

Appendix – Progress Report on Internal Audit Activity

<b>Area for consideration</b>	<b>Comment</b>
Monitoring Officer Consultation:	No
Section 151 Officer Consultation:	Yes
Existing Council Policies:	No
Financial Implications:	Covered within the report
Legal Implications (including human rights):	No
Risk Implications:	Covered within the report
Equality Issues/EQIA assessment:	No
Crime & Disorder:	No
Every Child Matters:	No

# Eastern Internal Audit Services



**Great Yarmouth Borough Council**

**Progress Report on Internal Audit Activity**

**Period Covered: 5 February 2021 to 8 June 2021**

**Responsible Officer: Emma Hodds – Head of Internal Audit for Great Yarmouth Borough Council**

## **CONTENTS**

<i>1. INTRODUCTION.....</i>	<i>2</i>
<i>2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN .....</i>	<i>2</i>
<i>3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK.....</i>	<i>2</i>
<i>4. THE OUTCOMES ARISING FROM OUR WORK .....</i>	<i>2</i>
<i>5. PERFORMANCE MEASURES .....</i>	<i>4</i>
<i>APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK.....</i>	<i>5</i>
<i>APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES .....</i>	<i>6</i>

## 1. INTRODUCTION

- 1.1 This report is issued to assist the Authority 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 Authority 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; and
  - Performance Indicator outcomes to date.

## 2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN

- 2.1 There have been no changes to the revised internal audit plan 2020/21 since the last meeting of the Audit and Risk Committee.

## 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 118 days of programmed work has now been completed, equating to 100% of the Internal Audit Plan for 2020/21. Three reports are currently in draft and are awaiting management response.

## 4. THE OUTCOMES ARISING FROM OUR WORK

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

**Substantial Assurance:** Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.

**Reasonable Assurance:** Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.

**Limited Assurance:** Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.

**No Assurance:** Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

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

**Urgent (priority one):** Fundamental control issue on which action to implement should be taken within 1 month.

**Important (priority two):** Control issue on which action to implement should be taken within 3 months.

**Needs attention (priority three):** Control issue on which action to implement should be taken within 6 months.

- 4.3 In addition, on completion of audit work “Operational Effectiveness Matters” are proposed, these set out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services. These are for management to consider and are not part of the follow up process.
- 4.4 During the period covered by the report Internal Audit Services has issued three reports:

Audit	Assurance	P1	P2	P3
GY2104 Accounts Payable	Substantial	0	0	1
GY2110 Remote access	Substantial	0	0	0
GY2107 Key Controls (DRAFT)	Reasonable	0	5	5

The Executive Summary of these reports are attached at **Appendix 2**, full copies of these reports can be requested by Members.

- 4.5 As can be seen in the table above as a result of these audits one recommendation has been raised by Internal Audit. In addition, three Operational Effectiveness Matters have been proposed to management for consideration within the Remote Access report.
- 4.6 Three position statement reports have been issued to management in this period. They are; Procurement and Contract Management, and Housing Needs and Coronavirus Response and Recovery. The main findings for Procurement and Housing are summarised below. The findings from the Coronavirus Response and Recovery are currently being considered by Senior Management.

#### **Procurement and Contract Management**

The position statement issued with 11 suggested actions as follows; Ensuring procurement pages are accessible to staff on the intranet. Enforcing password changes, reviewing users and exploring use of the contract management module in the Delta eSourcing system. Regular contract management meetings to be set up with NPLaw. Contract register to be kept up to date and uploaded to the Council's website. Contract management training is provided to staff. Analysis of supplier spend undertaken and results investigated/escalated as appropriate. Exemption forms to detail date and signature of officer before adding to the contracts register.

#### **Housing Needs**

The position statement issued with one suggested action as follows: For the Housing Services risk register to be updated with current action plans in place to mitigate Covid-19 related risks and the risks on the register be rated. Risks that are no longer applicable or that are fully mitigated should be closed.

## **5. PERFORMANCE MEASURES**

- 5.1 The Internal Audit Services contract includes a suite of key performance measures against which TIAA will be reviewed on a quarterly basis. There is a total of 11 indicators, over four areas, the results of which are reported at financial year end, with any issues raised with the Committee in progress reports.
- 5.2 There are individual requirements for performance in relation to each measure; however performance will be assessed on an overall basis as follows:
- 9-11 KPIs have met target = Green Status.
  - 5-8 KPIs have met target = Amber Status.
  - 4 or below have met target = Red Status.

Where performance is amber or red a Performance Improvement Plan will be developed by TIAA and agreed with the Head of Internal Audit to ensure that appropriate action is taken.

- 5.3 A report on the performance measures has been provided to the Head of Internal Audit showing significant delays have been experienced in finalising the work throughout 2020/21. All audits assigned have now been completed. However, delays have been experienced in finalising reports with four in draft at the time of writing. We have included these audits with our report to the Committee to give an early indication of the findings and overall assurance gradings where applicable.

## 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
							Urgent	Important	Needs Attention	Op	
<b>Quarter 1</b>											
<b>TOTAL</b>		0	0	0							
<b>Quarter 2</b>											
Assurance Mapping	GY2101	8	8	8	Final report issued 2 March 2021						
<b>TOTAL</b>		8	8	8							
<b>Quarter 3</b>											
Corporate Governance	GY2102	6	6	6	Final report issued 15 December 2020	Reasonable	0	1	2	0	Jan-21
Housing Rents	GY2105	16	16	16	Final report issued 8 December 2020	Reasonable	0	1	5	1	Jan-21
HR & Payroll	GY2106	15	15	15	Final report issued 18 February 2021	Reasonable	0	4	5	0	Jun-21
<b>TOTAL</b>		37	37	37							
<b>Quarter 4</b>											
Accounts Payable	GY2104	12	12	12	Final report issued 5 May 2021	Substantial	0	0	1	0	Jun-21
Procurement and Contract Management	GY2103	12	12	12	Draft report issued draft 20 April 2021	Position Statement					Jun-21
Key Controls and Assurance	GY2107	16	16	16	Draft report	Reasonable	0	5	5	0	Jun-21
Coronavirus Response and Recovery	GY2108	15	15	15	Draft report issued	Position Statement					
Housing Needs and Allocations and Homelessness	GY2109	10	10	10	Draft report issued in draft 11 May 2021	Position Statement					
<b>TOTAL</b>		53	53	53							
<b>IT Audits</b>											
Remote Access	GY2110	10	10	10	Final report issued 4 May 2021	Substantial	0	0	0	0	Jun-21
<b>TOTAL</b>		10	10	10							
<b>Follow Up</b>											
Follow Up	NA	10	10	10							
<b>TOTAL</b>		10	10	10							
<b>TOTAL</b>		118	118	118			0	11	18	1	
<b>Percentage of plan completed</b>				100%							

## APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

### Assurance Review of Accounts Payable

#### Executive Summary

##### OVERALL ASSURANCE ASSESSMENT



##### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policy, Procedure and Systems	0	0	0	0
Ordering	0	0	0	0
Creditors	0	0	0	0
Reconciliations	0	0	1	0
Credit Card Purchases	0	0	0	0
Total	0	0	1	0

##### SCOPE

The objective of the audit is to review the systems and controls in place within Accounts Payable, to help confirm that these are operating adequately, effectively and efficiently.



## RATIONALE

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- The systems and processes of internal control are, overall, deemed 'Substantial Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of one 'needs attention' recommendation being raised upon the conclusion of our work.
- The previous audit report for Accounts Payable (GY1918) was issued in March 2019. It concluded in a 'Substantial Assurance' opinion with two 'needs attention' recommendations being raised. Furthermore, the Key Controls Audit (GY2014), which was undertaken in February 2020, raised one 'important' recommendation relating to Accounts Payable.

## POSITIVE FINDINGS

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It is acknowledged there are areas where sound controls are in place and operating consistently:

### Policy, Procedure and Systems

- The supplier set-up and amendment form has been developed to capture Construction Industry Scheme (CIS), procurement and consultant information, reducing the risk of the required information not being recorded. The system has also been updated in line with the Domestic Reversal Charge (DRC) changes coming into effect in March 2021.

### Ordering

- Supplier setup/amendment checks correctly go through a process of controls to avoid fraudulent setup or changes to information. This verifies that the change is legitimate and reduces the risk of fraudulent activity.
- For a sample of 25 payments, where requests are received to make changes to creditor payment details, the creditor was contacted by phone using the original contact details to confirm the validity of the request to update payment records. This provides evidence that the change is legitimate and reduces the risk of fraudulent activity.
- The entire population of purchase orders (POs) from April 2020 to January 2021 were tested and found that all had been independently authorised, enabling the risk of lack of segregation of duties to be reduced therefore helping to prevent fraudulent activity.
- In addition to above, testing showed that all POs had been Goods Received (GRN'd) which demonstrates that all POs were checked for accuracy and receipt of goods was confirmed before payment.

### Creditors

- Controls within the system prevent the same invoice number on the same supplier to be paid, reducing the risk of duplicate payments. Data was analysed during the audit to identify suspected duplicate invoices, and a review of a sample of these found they had already been identified and acted upon.
- Payment of Invoices within 30 days (%) is a corporate performance indicator (PI) reported on quarterly against a target of 90%. The 2020/21 quarter 3 report shows a figure of 93.7% & and the quarter before being 93.7%, which verifies that the target has been met.
- Sample testing of invoice records, evidenced that all relevant records had been updated to show that the invoice has been paid.
- BACS payment runs are checked and authorised at a senior level with a separation of duties in place, reducing the risk of inappropriate or fraudulent payments.

### Reconciliations

- Each time BACS payments are processed, the Council receives an exceptions report which lists any payments which could not be made. These exceptions are investigated and remedial action is taken facilitating a timely correction of incorrect information.

### Credit Card Purchases

- A sample of ten credit card holders verified that they have a signed card holder agreement form in place. This enables understanding of the terms and conditions connected to a Council credit card which should help prevent incorrect use.

## ISSUES TO BE ADDRESSED

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The audit has also highlighted the following areas where one 'needs attention' recommendation has been made.

### Reconciliations

- The Creditor control account be reviewed promptly after being reconciled and signed and dated by both preparer and reviewer.

### Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

### Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which none remain outstanding. The previous review of Key Controls and Assurance (GY/20/14) included one 'important' recommendation for accounts payable, which has also been confirmed as implemented.

## Assurance Review of the Remote Access

### Executive Summary

#### OVERALL ASSURANCE ASSESSMENT



#### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policies and Procedures	0	0	0	2
Access Controls	0	0	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>

No recommendations were raised in the areas of Monitoring of Remote Access, Remote Access Change Controls and Network Protection.

#### SCOPE

An audit of the infrastructure and management of remote access was carried out to provide assurance that IT systems are able to support the additional pressure placed on them from the Coronavirus Pandemic.

## RATIONALE

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- The systems and processes of internal control are, overall, deemed 'Substantial Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of no recommendations being raised upon the conclusion of our work.
- The audit has however raised three 'operational effectiveness matters', which sets out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services.

## POSITIVE FINDINGS

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It is acknowledged there are areas where sound controls are in place and operating consistently:

- The decision taken to replace the majority of fixed desktop computers with laptops as part of the "Transformation and Digital Design Programmes in 2016 significantly increased the number of users who could work remotely. The Council's ability to allow remote working was further enhanced with the installation of Always on VPN<sup>1</sup> as part of the standard build for all laptops. This provides all users with the ability to work securely from home, which placed the Council in a good position to meet the challenges of the Pandemic.
- The Council's ICT provider Norfolk County Council (NCC) have appropriate processes in place to monitor user activity. Evidence of the reports that are available to ICT was provided. The information obtained from the reports is stored in the Council's Security Information and Event Monitoring System (SIEM) - LogPoint.
- Evidence was provided to demonstrate that the Council employ the Incident Management procedures that have been developed by NCC. This procedure should help to ensure that normal ICT services are restored as quickly as possible in the event of any unplanned interruption to IT service delivery.
- The Council has reported that there had been no incidents at this time in relation to remote access.
- Internal audit examined the processes in place ensure that the remote access provided to the users is scalable and has been able to manage the increase demand that the Pandemic has created for the Council. The Initial challenge at the start of the pandemic in relation to a lack of scale within the AOVPN service was rectified by increasing the number of AOVPN servers from two to three. Remote access connections are now distributed through the three AOVPN servers and load balancing is provided through Azure Traffic Manager. This ensures that all incoming connections are distributed across the three servers equally,

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<sup>1</sup> "Always on VPN" (AOVPN) is a solution which automatically establishes a secure VPN link to an organisations network, users login to their device as though they were in the office.

ensuring the delivery of remote access works efficiently. The measures adopted ensured that the Council had the necessary scalability to meet the increased demand for remote working generated by the Pandemic.

- The health status of the AOVPN servers is monitored through "Microsoft Operations Manager", which supports ICT by identifying problems in a timely manner to ensure rapid resolution.
- The Council employs Norfolk County Council's (NCC) change control process. A Change Advisory Board (CAB) meets to discuss and approve any proposed changes to ICT systems. The Council's IMT Manager or a member of GYBC's Information Management and Technology team will attend the CAB if the changes that are being discussed will have an impact on GYBC's IT systems.
- The County Council employ Intrusion Detection systems to filter network traffic and detect any potential threat to the Council network, the system is applied to the remote access traffic, filtering users access.
- ICT have recently commissioned penetration testing on the network, although the results of the testing were not available at the time of the audit.
- A list of the leavers for March 2021 was obtained, evidence was provided to show that all of the 8 leavers have had their access to the network blocked. In addition the screenshot also showed the users had not accessed the network during in the last 30 days.
- The AOVPN solution used by the Council for remote access ensures that all connections use two-factor authentication.
  1. The device used to connect through AOVPN needs to hold a recognised certificate before a connection is permitted to the Council's servers.and
  2. The person signing into the device must enter a recognised login name and password. If a device holds the required certificate, the users connection will be established via a secure "tunnel", allowing the user to seamlessly log onto the network with their usual login name and password as though they were working in the office.
- Requests from third-party suppliers, who require access to the Council's network, are handled by the NCC ICT service desk. ICT hold a defined list of users who are permitted to access the network for each Supplier. The service desk logs all access requests; each individual will be assigned their own AD login which is valid for 24hrs. The permissions provided to the user are restricted to areas of the network needed to carry out their support task. If any issues arise as a result of the access that has been granted to third-parties, ICT hold details of which companies have accessed the network the time that each individual connected and disconnected from the network.

## ISSUES TO BE ADDRESSED

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There are no recommendations resulting from the work carried out by Internal Audit.

### Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

- When the next review of the Information Security policy documents is carried out in 2022, consideration should be given to the references made to the EU General Data Protection Regulations (GDPR) and whether they are used in the right context given that the legislation in the UK is the DPA 2018.
- Consideration should be given to combining the Mobile Devices and Removable Media policies.
- There is a need to consider enabling geolocation services to allow restrictions to be imposed on access requests from certain high-risk countries.

# DRAFT Assurance Review of Key Controls and Assurance

## Executive Summary

### OVERALL ASSURANCE ASSESSMENT



### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
General Ledger	0	0	1	0
Treasury Management	0	0	1	0
Accounts Receivable	0	2	0	0
Housing Rents	0	0	1	0
Housing Benefit	0	0	1	0
NNDR	0	2	0	0
Assurance Framework	0	1	1	0
<b>Total</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>0</b>

### SCOPE

An annual review of key controls that feed into the Statement of Accounts, for those systems not subject to an audit review within year, has been completed. This covered Accountancy Services (Asset Management, General Ledger, Control Accounts, Treasury Management, Budgetary Control and General Ledger), Accounts Receivable, Income and Receipt (Remittances), Car Parking, Housing Benefit, Council Tax, National Non-Domestic Rates (NNDR) and the Assurance Framework.

## RATIONALE

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- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the audit. The assurance opinion has been derived as a result of five 'important' and five 'needs attention' recommendations being raised upon the conclusion of our work.
- The previous review of Key Controls and Assurance (GY/20/14), completed in February 2020, also concluded in a 'Reasonable' assurance having raised four 'important' and five 'needs attention' recommendations. This indicates that the level of control is unchanged since the previous audit.

## KEY FINDINGS

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### Key Controls Testing

There are a number of key controls within the fundamental financial systems that are required to be covered by internal audit each year, in order to support the Annual Governance Statement (AGS) and the Head of Internal Audit's Annual Report and Opinion.

The following audits were subject to full sample testing as part of this key controls audit:

- Accountancy Services (Asset Management, General Ledger, Control Accounts, Treasury Management and Budgetary Control)
- Accounts Receivable
- Income and Receipt (Remittances)
- Car Parking
- Housing Benefit and Council Tax Support
- Council Tax
- NNDR
- Assurance Framework

This audit will refer to the conclusions drawn from the following systems, where full year testing was applied in separate audits:



- Accounts Payable (GY/21/04) – Final report issued 5<sup>th</sup> May 2021
- Payroll and Human Resources (GY/21/06) – Final report issued 18<sup>th</sup> February 2021
- Housing Rents (GY/21/05) – Final report issued 8<sup>th</sup> December. (Top up testing completed in this audit to cover quarters 3 and 4.)

## ISSUES TO BE ADDRESSED

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The audit has highlighted the following areas where five 'important' recommendations have been made.

### Accounts Receivable

- Credit notes be adequately approved prior to credit being given to customers to reduce the risk of misappropriation of Council funds.
- Recovery actions to recover outstanding debts be continued after the automatic recovery stages to reduce the risk of debts becoming irrecoverable.

### NNDR

- NNDR exemption/reliefs reports be reviewed, and signed to evidence that this has been done, to reduce the risk of granting reliefs to ineligible businesses.
- A process be put in place for carrying out sample checking (QA) of raising and recovering business rates, to reduce the risk of errors not being identified.

### Assurance Framework

- All Assurance Statements be completed and returned in advance of the AGS being prepared, to reduce the risk of inaccurate or incomplete information being included.

The audit has also highlighted the following areas where five 'needs attention' recommendations have been made.

### General Ledger

- The suspense account be dated when signed by a preparer and reviewer, to reduce the risk of discrepancies not being identified in a timely manner.

### Treasury Management

- As part of the budget monitoring process, loans and investment information is reviewed to confirm that interest payable and receivable are correct, to reduce the risk of financial loss or inaccurate reporting.

#### **Housing Benefit and Council Tax Support**

- The target of 4% test checking be achieved by the Housing Benefit and Council Tax Support Team Leaders, to reduce the risk of error in the processing of Housing Benefit and Council Tax Support

#### **Housing Rents**

- Housing rents and cash receipting reconciliations be reviewed promptly after being reconciled, to reduce the risk of discrepancies not being identified or followed up.

#### **Assurance Framework**

- The AGS should reflect the non-return of Assurance Statements, to reduce the risk of reliance being placed on areas where Assurance Statements were not completed.

No operational effectiveness matters have been raised.

#### **Other points noted**

In addition to the points raised in this review, management need to consider referring to the outcomes of the reviews completed during the year, as part of the revised audits plans and the impact of Covid-19 on key financial and non-financial controls, when preparing the Annual Governance Statement for 2020/21.

The Council's process for journals is that journals over £50k and any cash journals are independently reviewed and authorised, while other journals can be posted by any officer in Finance without authorisation. The system does not enforce segregation of duties, but no issues with this were identified during testing. The Council has considered and accepts the risk associated with this policy.

#### **Outstanding Previous Recommendations**

The previous audit of Key Controls (GY2014) was undertaken in February 2020, providing a 'reasonable' assurance opinion. As a result of this, four 'important' and five 'needs attention' recommendations were raised. Three 'important' and two 'needs attention' recommendations remain outstanding and are being followed up as part of the audit cyclical follow up process.