

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
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OPEN	

Committee: Resources and Performance – Audit Committee
Date: 27th November 2017
Subject: Internal Audit Plan 2017/18 and Fraud work –Half Year progress report April to October 2017.

Summary	This report shows the Internal Audit activity against the Strategic Audit Plan 2017/18 and fraud work for April to October 2017
Recommendation	Members are asked to consider the work completed and indicate if they are satisfied with the progress against the agreed plan.

1.0 Introduction and Background

- 1.1 The Strategic Audit Plan 2017/18, endorsed by the Audit Committee on 13th February 2017, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 3 of the Accounts and Audit Regulations 2015¹ for the Council to

‘ensure that it has a sound system of internal control which:

- a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- b) Ensures that the financial and operational management of the authority is effective.’*

- 1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.
- 1.3 Audit Committee Terms of Reference require the Committee to *‘Monitor delivery of the internal audit activity, fraud investigation work and Risk Management in the Council’*.

2.0 Audit work for April to October 2017.

2.1 On completion of each audit a formal report is initially issued to the relevant line managers and the Executive Director for the service concerned. After two weeks copies are also sent to the Chief Executive, Portfolio Holder, Executive Director - Finance Services (s151 Officer), the external auditors, Ernst and Young and a copy placed on InSite for Audit Committee to access. The report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. This forms the basis of the follow-up audit, which is carried out approximately six months later to assess progress in implementing the agreed actions.

2.2 Reports issued during the period

The following audits have been completed and reports issued as described above:

- Creditors
- Informing the Customer
- Housing Standards
- S106 / CIL and Habitat Mitigation Levy
- Information Management
- Emergency planning and management
- Transparency and Open Data follow up
- Food Hygiene, Health & Safety and Public Health follow-up
- Alive Leisure and Management follow-up
- Housing Options and Allocations follow-up
- Careline follow-up

A summary of the reports is attached as **Appendix 1** and the full versions are available under the relevant year to members of the Audit Committee on InSite. Some of these reports are the result of completion of work started in 2016/17.

2.3 Work ongoing

The following audits were ongoing at the time of writing the report and will be reported to the Committee in the next progress report:

- Asset Register and Inventories
- Insurance
- Care & Repair
- Council Tax and Business Rates
- Benefits
- Industrial Estates and Commercial Property
- Alive Leisure and Management
- Cemeteries and Crematorium
- Planning Control

2.4 Other work carried out

In addition to the standard audits, Internal Audit also undertook other work including the following:

- Water Management Alliance audit

- Checks on the Cost of Living and Performance Related Pay calculation spreadsheets
- Review of Statement of Accounts working papers
- Review and update of the Internal Audit Terms of Reference.
- Review of the Annual Governance Statement

2.5 Changes to the Audit Plan

Only a small change to the Audit Plan is required. This is to slightly change the Gifts and Hospitality audit to cover a wider range. We wish to rename the audit to Ethical Culture which will expand the aforementioned audit to also include declarations of interest for both officers and members.

3.0 Work planned for November 2017 to March 2018.

3.1 As well as completing the ongoing work listed in paragraph 2.3, the following audits are planned for the second half of 2016/17:

- Treasury Management
- Partnership Working
- Gifts and Hospitality (Ethical Culture)
- Accounts Receivable
- General Ledger incl Budgetary Control
- External Funding / Grants Recieved
- ICT Change Management
- Procurement
- Cost Efficiency Savings
- Housing Strategy
- Flood and Water Management

4. Investigations work April to October 2017

4.1 There are currently 2 themes of National Fraud Initiative (NFI) reporting being completed:

- The Flexible Matching Service – This is an annual occurrence, focusing primarily on Council Tax data matches in need of investigation.
- The NFI 2016/17 – This is a council wide data matching exercise, focusing on all possible areas of the council including Creditors, Payroll, Council Tax and Housing Benefits. This exercise is undertaken every two years.

4.2 The “NFI 2016/17 report” has 3,263 matches (which the majority of which were received in January 2017), 1,496 have been processed to date. A further 1,471 matches relating to Creditors have been passed onto Liaison who are conducting an Audit of Accounts Payable on behalf of the Authority. This leaves 296 matches still to be processed.

4.3 The Flexible Matching Service deals with matches mainly consisting of:

- Council Tax Single Person Discount (SPD) - the outstanding matches are for Council Tax accounts that do not match Electoral Register information that require further investigation.
- Additionally some matches refer to details where the second adult is due to turn 18 between now and the end of the financial year.
- A new report was received on 13/04/17 containing 2,445 matches. Due to the volume of matches received the Investigations Officer has been liaising with the Revenues Team who are also currently conducting a DataTank exercise to review over 4,700 Single Person Discount (SPD) awards.
- January 2016 datasets – All 1,742 have been processed.
- January & April 2017 datasets – 3,124 matches received, 654 have been processed to date.

4.4 In total there are 2,766 matches still to be processed.

4.5 Work will soon be commencing on the extraction of Council Tax and Electoral Registration data for the 2018 Flexible Matching Service upload which must be carried out before 28/02/18.

4.6 The following fraud and error has been identified during April to October 2017:

	No. of cases	£
Council Tax Reduction Scheme error	12	5,279.74
Council Tax Reduction Scheme fraud	0	0.00
Administrative Penalty	0	0.00
Housing Benefit and Council Tax Benefit	12	6,069.78
Council Tax error	82	24,981.56
Council Tax Penalty Applied	1	70.00
National Non-Domestic Rates error	1	1,429.19
Undeclared land lease transfer charges	2	2,062.44
Total additional fraud and error	110	39,892.71

4.7 Investigation work has continued on an adhoc basis to attempt to trace debtors/absconders who have not advised of their address/contact information but have outstanding arrears with the Authority. Where a successful trace has been made any new address/contact information is being passed on to the relevant Department's for recovery purposes. The following value of Debtors/Absconders have been identified during April to October 2017:

	No. of cases	£
Council Tax	37	31,678.36
National Non-Domestic Rates	0	0.00
Sundry Debts	6	10,021.29
Financial Services	16	20,522.93
Careline	15	6,926.90
Total additional fraud and error	74	69,149.48

- 4.8 Other investigation work has resulted in 38 individual's being removed from the Housing Register as they no longer met the qualifying criteria. The Audit Commission report that the potential benefit of each cancellation is between £4,000 and £18,000 per application. Furthermore 44 Council Tax Accounts have been amended from SPD to a Student Disregard.

5. Issues for the Panel to Consider

- 5.1 The Committee needs to consider if the work completed by the Internal Audit team during 2017-18 is sufficient to support an opinion on the systems of internal control within the Council.

6. Corporate Priorities

- 6.1 The internal audit activity supports the achievement of the Corporate Business Plan by adding value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

7. Any other Implications/Risks

- 7.1 Monitoring the work of the Internal Audit Team enables the Audit Committee to receive assurance on the state of the internal control system of the Council.

8. Conclusion

- 8.1 The Strategic Internal Audit plan provides the basis for the Internal Audit team to carry out the work necessary to provide assurance on the systems of internal control. Monitoring progress against the plan ensures sufficient work is completed to provide an Annual Audit Opinion for the Annual Governance Statement and to fulfil the requirements of the Accounts and Audit Regulations 2015.
- 8.2 Progress to date has been satisfactory and at this point nothing has arisen to suggest that the plan will not be completed within the year. If anything does arise that will impact on the completion of the plan, the Committee will be informed at the next available meeting.

- 8.3 This report provides Members with an overview of the audit activity and outcomes over the period, and provides an opportunity for Members to seek further information if required.

9. Background Papers

Strategic Internal Audit Plan 2017-18.
Accounts and Audit Regulations 2015

Notes to support the summary in Appendix 1

The following tables provide an explanation of the terms used to grade the recommendations contained in the final audit reports, and the overall opinion attributed as the result of each audit.

Recommendations

The observations and recommendations are allocated a grading High, Medium or Low as defined below:

High	Major risk requiring action by the time the final report is issued.
Medium	Medium risk requiring action within six months of the issue of the draft report.
Low	Matters of limited risk. Action should be taken as resources permit.

Please note - 'Low' recommendations are not summarised in this report due to the insignificant nature of the issue.

Audit Opinion

At the conclusion of the audit an overall audit opinion is formed for the audit area. The definition for each level of assurance is given below.

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

Audits completed in the first half of 2017/18	Overall Opinion
<p><u>Informing the Customer</u> Report published April 2017. 1 Medium recommendation. The recommendation relates to developing guidance for Line Managers with responsibility for web pages to regularly review the content.</p>	Substantial assurance
<p><u>S106 Agreements, CIL and Habitat Mitigation Levy</u> Report published April 2017 3 High and 1 Medium recommendations. The High recommendations relate to implementing controls around referencing and monitoring procedures. These have both been implemented. The Outstanding recommendation relates to identifying ownership of monitoring S106 agreements. The medium recommendation relates to creating an electronic version of the register.</p>	Substantial Assurance
<p><u>Information Management</u> Report published September 2017. 5 Low recommendations. All f the recommendations were Low and represent a desire to achieve best practice. No controls were at risk.</p>	Full assurance
<p><u>Creditors</u> Report published August 2017 6 Medium and 2 Low recommendations. The Medium recommendations are concerned with updating security protection and general improvements on template documentation and enforcing prompt and accurate procedures with staff.</p>	Substantial assurance
<p><u>Housing Standards</u> Report published October 2017 5 High and 1 Medium recommendation. The High recommendations relate to Fees and Charges calculations and the development of a robust Enforcement policy. Medium recommendation refers to reconciling the cost</p>	Limited assurance

Audits completed in the first half of 2017/18	Overall Opinion
recovery calculation for residential caravan sites.	
<u>Emergency Planning and Management</u> Report published October 2017. No recommendations were made. Controls were reviewed in respect of the Council's ability to deliver its role as a Category 1 responder in the event of a civil emergency.	Full Assurance

APPENDIX 1

Follow-up audits completed in the first half of 2017/18	Original report	Follow-up progress
<p><u>Transparency and Open Data</u> The report published in November 2016 contained 2 High and 2 Medium recommendations. All recommendations have been implemented satisfactorily</p>	<p>November 2016 Substantial Assurance</p>	<p>May 2017 Very Good</p>
<p><u>Food Hygiene, Health & Safety and Public Health</u> The report published in August 2016 contained 6 Medium recommendations and 2 Low recommendations. 6 of these have been implemented, one has been partially implemented and the last one has a new deadline of September 2017 and will be included in the new structure</p>	<p>August 2016 Substantial Assurance</p>	<p>August 2017 Good</p>
<p><u>Alive Leisure & Management</u> The report published in January 2016 contained 2 High and 2 Medium recommendations, which have been completed satisfactorily.</p>	<p>January 2016 Limited</p>	<p>September 2017 Good</p>
<p><u>Housing Options & Allocations</u> The report published in February 2017 contained 1 High, 4 Medium and 2 Low recommendations. Of these 2 Medium and 1 High recommendation remained outstanding and a new deadline of April 2018 was agreed.</p>	<p>February 2017 Substantial Assurance</p>	<p>September 2017 Adequate</p>
<p><u>Careline</u> The report published in August 2016 contained 2 High and 1 Low recommendation. 1 High recommendation is outstanding and will be picked up in the Care & Repair Audit to be completed during 2017/18</p>	<p>August 2016 Substantial Assurance</p>	<p>September 2017 Good</p>

