

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	30 th May 2018		
TITLE:	Internal Audit Full Year Progress Report 2017-18		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Hodson, Performance		
REPORT AUTHOR:			
OPEN		WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
To provide Members with an update on progress against the Internal Audit Strategic Plan 2017-18 that was endorsed by the Audit Committee at the meeting on 13th February 2017.
KEY ISSUES:
<p>Section 5 of the Accounts and Audit Regulations 2015 state that <i>'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'</i></p> <p>The work of the Internal Audit team throughout the year is directed towards compliance with this requirement as well as aiming to add value to the Council's services by identifying opportunities to improve efficiency and effectiveness.</p> <p>The Audit Committee Terms of Reference require it to monitor the delivery of the internal audit activity.</p>
OPTIONS CONSIDERED:
Not applicable.
RECOMMENDATIONS:
To review the progress against the planned work and ensure that it complies with the requirement of the Accounts and Audit Regulations 2015.
REASONS FOR RECOMMENDATIONS:
To ensure the Council is complying with section 5 of the Accounts and Audit Regulations 2015.

1. Introduction

- 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 requirements of the Accounts and Audit Regulations 2015:

Section 3 – A relevant authority must 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*

Section 5 - A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

- 1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit Committee on the internal audit activity and performance relative to this plan.
- 1.3 The Terms of Reference for the Audit Committee require the Committee to monitor delivery of the internal audit activity to ensure that the resources and work are sufficient to fulfil the requirements of the Accounts and Audit Regulations.

2. Monitoring Report

- 2.1 On completion of each audit a formal report is issued to the relevant line managers, the Executive Director and Portfolio Holder. Copies are sent to the Chief Executive, Executive Director – Finance Services (s151 Officer), and the external auditors, Ernst and Young. A copy is also placed on InSite in the restricted area for members of the Audit Committee to view. Each report contains an action plan, with target dates, that has been agreed with the managers to address any observations and recommendations raised by the Internal Auditor. 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 The following audits have been completed during the second half of 2016-17 and reports issued as described above:
- Cemeteries & Crematorium
 - Planning Control
 - Payroll
 - Industrial Estates
 - Insurance
 - Attendance Management 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.

- 2.3 The following audits were ongoing at the end of the year and will be reported to the Committee in the next progress report:
- Alive Leisure and Management
 - Care & Repair
 - Asset Management

- Accounts Receivable
- Partnerships
- Flood and Water Management
- Ethical Culture
- Council Tax and Business Rates
- Benefits

Of these, in four cases the majority of the work has been completed. Reports have been drafted to be discussed with managers and actions agreed before the final report is issued.

2.4 In addition to the standard audits, Internal Audit also undertook other work during the second half of the year including the following:

- External Auditor appointment for Grant Certification work
- Providing support to the Revenues and Benefits software tender process, ensuring compliance with relevant regulations and legislation.
- Providing support to the Finance system software tender process, ensuring compliance with relevant regulations and legislation.
- Observation of the annual Business continuity exercises (METIS), and to provide informative feedback.

2.5 An appointment to the vacant post was made commencing the on 2nd May 2017. This post has received mentoring support throughout the year on audits and a number of audits have been 'doubled up' resulting in a lower output of productive work throughout this training phase. These mentoring arrangements will cease in 2018/19.

As normal a few audits are ongoing at the end of the year and five have been carried over to the 2017-18 audit plan. It is not unusual for this to happen as the timing of the planned work is not exact.

The audit of ICT network security has been removed from the plan. Discussions at the start of the audit revealed that the level of audit carried out by the external bodies to comply with the requirements of the Payment Card Industry (PCI) and Public Services Network (PCN) is in excess of the work that could be completed by the Audit team here. Therefore it is reasonable to place reliance on the external work and remove this audit from the plan. A note has been made on the Assurance Framework and the position will be monitored each year to ensure the position remains the same.

3. Investigations work October 2017 – April 2018

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

The Flexible Matching Service – This is carried out annually, focusing primarily on Council Tax data matches in need of investigation. 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.

The NFI National Exercise 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.

- 3.2 The “NFI National Exercise 2016/17 report” identified 3,227 matches in January 2017, with only 157 left to be processed.

The “Flexible Matching Service Exercises” for January and April 2017 datasets identified 3,124 matches, with only 178 left to process.

The “Flexible Matching Service Exercises” for January 2018 datasets identified 4,114 matches, with 665 left to process.

- 3.3 In total there are 1,000 matches still to be processed.

- 3.4 The total fraud and error identified (including NFI work) during 2017/18 is as follows:

	£
Council Tax Reduction Scheme error	8,088.56
Council Tax Reduction Scheme fraud	0
Administrative Penalty	0
Housing Benefit and Council Tax Benefit	9,233.73
Council Tax error	29,576.43
Council Tax penalties	70.00
Non Domestic Rates (Business Rates)	1,429.19
Duplicate invoices	1,423.01
Beach Hut lease/rent	2,062.44
Total additional fraud and error	51,883.36

- 3.5 Investigation work is now also being conducted on an adhoc basis to attempt to trace debtors/absconders who have not advised of their address/contact information but have outstanding Council Tax/National Non-Domestic Rate/Sundry Debts arrears with the Authority. Investigations will be carried out to attempt to trace these individuals and any new address/contact information is being passed on to the relevant section for recovery purposes. 89 cases were traced during the financial year 2017/18 to the value of £108,888.55. Council Tax collection rate figures for the last 5 years are as follows:

- 2013/14 = 97.1%
- 2014/15 = 97.22%
- 2015/16 = 97.6%
- 2016/17 = 97.7%
- 2017/18 = 97.69%

- 3.6 The Revenues department have undertaken a Single Person Discount review with “DataTank”. This resulted in 292 matches being identified where Single Person Discount required review and also identified potential overpaid benefit. These are still being reviewed and investigated with 220 left to process.

- 3.7 Throughout the year we have explored other routes available to us to be more proactive in our attempts to prevent detect and deter fraud and error. We are currently looking into three of these schemes as follows:

- DWP Joint working: A joint working scheme will be organised by the DWP. It is voluntary for Local Authorities and the joint working will initially be conducted for Council Tax Support and Housing Tenancy fraud cases. This joint working will

consider the totality of the fraud against both organisations. A successful pilot has been undertaken by the DWP with 5 local authorities in the UK. The DWP will be taking forward any prosecutions raised from joint working (meaning no prosecution costs for the Local Authority). We are now awaiting further details from the DWP as to when the scheme will be in place in our region. Being able to share resources and expertise as well as information in this way with the DWP is likely to help to identify further fraud and error.

- Counter Fraud Hub: A presentation was attended on 19th January 2018 regarding a regional Counter Fraud Hub. This initiative is intended to initially facilitate data sharing between all of the authorities in Norfolk, including the County Council for fraud detection and prevention purposes. The long term vision is that in due course the hub will be expanded to cover the whole of East Anglia. There are a number of alternative models being explored at this stage.
- NFI Business Rates Pilot: The NFI have been asking for volunteer regions to pilot a new data matching exercise regarding Business Rates. As an Authority we have registered our interest in this pilot, as have all Norfolk Local Authorities, with Norfolk County Council taking the lead. We are currently waiting to hear if our application has been successful. This exercise will examine Small Business Rates Reliefs and Business Rates avoidance.

4. Issues for the Panel to Consider

- 4.1 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.

5. Corporate Priorities

- 5.1 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.

6. Any other Implications/Risks

- 6.1 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.

7. Conclusion

- 7.1 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. 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.
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 October to March 2017-18	Overall Opinion
<p><u>Cemeteries and Crematorium</u> Report published February 2018 1 High recommendation and 1 Low recommendation was made. The High recommendation was to the explore the potential for an increase in fees.</p>	Full Assurance
<p><u>Planning Control</u> Report published February 2018 5 High, 3 Medium and 1 Low recommendation were made. Three of the high recommendations relate to Major Planning Application appeals involving training of both Councillors and Officers and monitoring procedures to ensure we do not slip into special measures. One high recommendation relates to the Extensions of Time for planning applications and our process for dealing with these on Uniform for accurate reporting. The remaining high recommendation and two of the medium recommendations relate to the online web service for paying application fees. The final medium recommendation relates to the reconciliation process for allocation of planning fees.</p>	Limited Assurance
<p><u>Payroll</u> Report published in October 2017 2 Medium recommendations to ensure compliance with policies around Leavers and Return to work interviews.</p>	Full Assurance
<p><u>Industrial Estates</u> Report published in May 2018 3 Medium recommendations were made. They relate to displaying consistent data on advertising websites, develop and review a diary process to aid with rent reviews and termination of tenancies and to ensure appropriate measure are in place to inform our insurer of vacant properties.</p>	Substantial Assurance
<p><u>Insurance</u> Report published in May 2018 10 Medium recommendations were made. Four of the recommendations have been implemented already and will be revisited at the follow up stage. The remaining recommendations relate to review and governance of heritage assets, managing vacant properties, driving entitlement for lease car drivers, monitoring open caseloads and cash handling security.</p>	Substantial Assurance

Follow-up audits completed October to March 2017-18	Original report	Follow-up progress
<u>Attendance Management</u> The report published in October 2016 contained 1 High recommendation and two Medium recommendation, one medium recommendation is still being monitored to determine of action is required by management. The remaining recommendations have been completed satisfactorily.	Oct 2016 Substantial Assurance	Sept 2017 Very Good