POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	12th November 20108		
TITLE:	Internal Audit Half Year Progress Report 2018-19		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Hodson, Performance		
REPORT AUTHOR:	Kathy Woodward, Internal Audit Manager		
OPEN/EXEMPT	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 2018-19 that was endorsed by the Audit Committee at the meeting on 12th February 2018. The report also provides an update on the fraud work for the first half of the year.
KEY ISSUES:
Section 5 of the Accounts and Audit Regulations 2015 state that *'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*.' 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. The Audit Committee Terms of Reference require it to monitor the delivery of the internal audit activity.
OPTIONS CONSIDERED:
Not applicable
RECOMMENDATIONS:
Members are asked to review the progress against the audit plan and to note the update of the fraud work.
REASONS FOR RECOMMENDATIONS:
Audit Committee members are required to monitor the delivery of the Internal Audit Plan as part of the Committee's Terms of Reference, which is legislated in section 5 of the Accounts and Audit Regulations 2015.

REPORT DETAIL

1. Introduction

1.1 The Strategic Audit Plan 2018-19, endorsed by the Audit Committee on 12th February 2018, 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 first half of 2018-19 and reports issued as described above:

- Care & Repair
- Asset Management *
- Alive Management *
- Ethical Culture *
- Revenues (Council Tax and NNDR) *
- Housing Benefits *
- Accounts Receivable *
- Information and Security Management Follow Up
- Housing Options and Allocations Follow Up
- Housing Standards Follow Up
- Cemeteries & Crematorium Follow Up

* These reports are complete but the Final reports have not been issued yet.

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 are currently ongoing and will be reported to the Committee in the next progress report:

- Vehicle Fleet
- Legal Services
- Child Protection
- Procurement
- Partnerships
- Treasury Management
- External Communications
- Data Quality and Interpretation
- Risk Management
- Cost Reduction Programme

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

- Review of the Audit Manual and internal audit working papers.
- Providing support to the Finance System software tender process, ensuring compliance with relevant regulations and legislation.
- Providing support to the Management Team on the RIPA desktop inspection and GDPR legislation.
- Providing training to members on the Role of the Audit Committee.

2.5 One of our auditors left the authority in June 2018, which resulted in a period of vacancy while the recruitment process was underway. An appointment to the vacant post was made commencing in July 2018. This post has received mentoring support and training to bring him up to speed with Council Services, policies and procedures. A number of audits have been 'doubled up' resulting in a lower output of productive work throughout this training phase.

The audit of Flood and Water Management has been removed from the plan. Discussions at the start of the audit revealed that the level of assurance gained during the Emergency Planning audit covers most of the legislative requirements of the Council in relation to Flood and Water management and nothing further could be gained by re-doing this work so soon after the Emergency Planning audit. A note has been made on the Assurance Framework and the position will be monitored each year to ensure the position remains the same.

3.0 Work planned for November 2018 to March 2019.

3.1 As well as completing the ongoing work listed in paragraph 2.3, the following audits are planned for the second half of 2018/19:

- Housing Strategy
- Payroll
- Training
- Grants / Funding to third parties
- S106 / CIL / Habitat Levy
- Alive Leisure / Management
- Careline
- Electoral Services
- Refuse Collection and Recycling
- Creditors

The audits of Alive Leisure and Creditors systems may result in a different type of audit being undertaken due to the ongoing changes taking place within the current systems. Audit support and advice will be ongoing throughout these projects.

4. Investigations work April 2018 – October 2018

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

1) 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.

2) 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

4.2 The "NFI National Exercise 2016/17 report" identified 3,227 matches in January 2017, with only 5 left to be processed.
All preparation work for the "2018/19" exercise has been carried out, including ensuring that privacy notices and fair processing statements are in place and up to date. The data required has been extracted and provided to the Cabinet Office for the exercise.

4.3 The "Flexible Matching Service Exercises" for January and April 2017 datasets, 3094matches have now been processed and these exercises have now concluded.

The "Flexible Matching Service Exercises" for January 2018 datasets identified 3,909 matches have been completed, with 205 left to process.

Data extractions and uploads are due to take place in early December for the January 2019 exercise.

4.4 In total there are 210 matches still to be processed.

4.5 A further exercise has been carried out with the Revenues Department known as "DataTank". This primarily focuses upon Council Tax matches in need of investigation, but some customer may also receive benefit entitlement that needs to be investigated. Those cases with benefit entitlement resulted in 296 matches, of which 252 have been processed and 44 are still being investigated.

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

	£
Council Tax Reduction Scheme error	4,225
Council Tax Reduction Scheme fraud	0
Administrative Penalty	0
Housing Benefit and Council Tax Benefit	34,119
Council Tax error	14,762
Council Tax penalties	70
Non Domestic Rates (Business Rates)	3,912
Duplicate invoices	0
Beach Hut lease/rent	0
Total additional fraud and error	**57,088**

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 section for recovery purposes. The following values of Debtors/Absconders have been identified during April to October 2018.

	No. of cases	£
Council Tax	13	13,970
National Non-Domestic Rates	0	0.00
Financial Services	9	7,366
Benefit Overpayments	1	2,062
Total debts traced	**23**	**23,398**

4.8 Other investigation work has resulted in 21 Council Tax accounts being amended from a Single Person Discount award to a Student Disregard.

4.9 Work has commenced to produce an Anti-Fraud and Corruption Risk Register which will be used by Internal Audit to help identify any potential areas of risk and to then further mitigate those risks where possible.

5. Issues for the Panel to Consider

5.1 The Committee needs to consider if the work completed by the Internal Audit team during 2018-19 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. Financial Implications

7.1 None to Consider.

8. Any other Implications/Risks

8.1 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.

9. Conclusion

9.1 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.

9.2 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.

10. Background Papers

Strategic Internal Audit Plan 2018-19.
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 April to October 2018-19	**Overall Opinion**
Care and Repair Report published September 2018 3 High recommendations and 7 Medium recommendation was made. The High recommendations relate to record keeping and contracts with partners. The medium recommendations relate to record keeping, invoice processing, review fee levels and ensuring that we are comparable with national thresholds in place.	Substantial Assurance
Asset Management Report due to be published. Update to follow in next progress report	Limited Assurance
Alive Leisure Report due to be published. Update to follow in next progress report	Limited Assurance
Ethical Culture Report due to be published. Update to follow in next progress report	Full Assurance
Revenues Report due to be published. Update to follow in next progress report	Full Assurance
Housing Benefits Report due to be published. Update to follow in next progress report	Full Assurance
Accounts Receivable Report due to be published. Update to follow in next progress report	Substantial Assurance

Audits completed April to October 2018-19	**Overall Opinion**

Follow up report

Information management and Security The report published in September 2017 contained 5 low recommendations. 1 is complete, three are progressing as planned and 1 is no longer required.	Sept 2017 Full Assurance	June 2018 Very Good
Housing Options and Allocations The report published in February 2017 contained 1 high recommendation, 4 medium recommendations and 2 low recommendations. Due to staffing issues within the team progress is slower than anticipated on the recommendations. A further follow up has been scheduled for November 2018.	Feb 2017 Substantial Assurance	Aug 2018 Adequate
Housing Standards The report published in October 2017 contained 5 high recommendations and 1 medium recommendation 2 of the high recommendations are complete and 1 is progressing as planned. There are high recommendations progressing slower than planned and a further follow up has been scheduled for November 2018.	Oct 2017 Limited Assurance	Aug 2018 Adequate
Cemeteries and Crematorium The report published in February 2018 contained 2 low recommendations. Both are now complete.	Feb 2018 Full Assurance	Sept 2018 Very Good