

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	27 th July 2020		
TITLE:	Internal Audit Full Year Progress Report 2019-20		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Long, Leader		
REPORT AUTHOR:	Kathy Woodward, Internal Audit Manager		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

REPORT SUMMARY/COVER PAGE

<p>PURPOSE OF REPORT/SUMMARY:</p> <p>To provide Members with an update on progress against the Internal Audit Strategic Plan 2019-20 that was endorsed by the Audit Committee at the meeting on 11th March 2019. The report also provides an update on the fraud work for the year.</p>
<p>KEY ISSUES:</p> <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>
<p>OPTIONS CONSIDERED:</p> <p><i>Not applicable</i></p>
<p>RECOMMENDATIONS:</p> <p>Members are asked to review the progress against the audit plan and to note the update of the fraud work.</p>
<p>REASONS FOR RECOMMENDATIONS:</p> <p>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.</p>

REPORT DETAIL

1. Introduction

- 1.1 The Strategic Audit Plan 2019-20, endorsed by the Audit Committee on 11th March 2019, 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, Assistant Director – Resources (S151 Officer), and the external auditors, Ernst and Young. A copy is also placed on InSite and Modgov 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 2019-20 and reports issued as described above:
- Housing Strategy
 - Child Protection
 - Treasury Management
 - Risk Management Follow up
 - Community Infrastructure Levy
 - Vehicle Fleet
 - Legal Services
 - Procurement
 - Data Quality and Interpretation (GDPR & DPA)
 - Careline *
 - Allotments *
 - Care & Repair Follow Up

- Benefits Follow Up
- Ethical Culture Follow Up
- Council Awarded Grant Funding *
- Cyber Security *
- Land Charges*
- Document Management *
- Personal Identifier and Financial Relationship *
- Whistleblowing *
- Prevention of Fraud and Corruption
- Annual Governance Statement
- Car Parking & Civil Enforcement *
- Refuse Collection & Recycling *
- Treasury Management Follow Up

* These reports are complete with the necessary assurance ratings 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 and Modgov.

- 2.3 The following audits are currently ongoing and will be reported to the Committee in the next progress report:
- Partnerships
 - External Communications
 - Cost Reduction Programme
 - Electoral Services
 - Regenerations and Economic Development
 - Community Safety and Neighbourhood Nuisance
 - Financial Governance and Budgetary Control
 - Payroll
 - Council Offices and Sites.
- 2.4 In addition to the standard audits, Internal Audit also undertook other work during the year including the following:
- Review of the Audit Manual and internal audit working papers.
 - Providing support to the Finance System implementation process, ensuring compliance with relevant regulations and legislation.
 - Providing support to members of the Audit CPWG on KLIC
 - Providing support and guidance to Members of the Audit Committee
 - Water Management Alliance audit
 - Checks on the Cost of Living and Performance Related Pay calculation spreadsheets
 - A governance review of Alive West Norfolk wholly owned local authority trading company which was set up July 2019. The governance review was not given an assurance rating but provided recommendations to ensure it was fully compliant with all its legal responsibilities.
- 2.5 Throughout March 2020 when the Covid-19 pandemic was becoming apparent and the need for the organisation to mobilise itself into emergency response mode, the role of Internal Audit changed significantly. One member of the team was required to shield themselves from an early stage and another member of the team was redeployed to assist with data collating requirements for vulnerable people for work

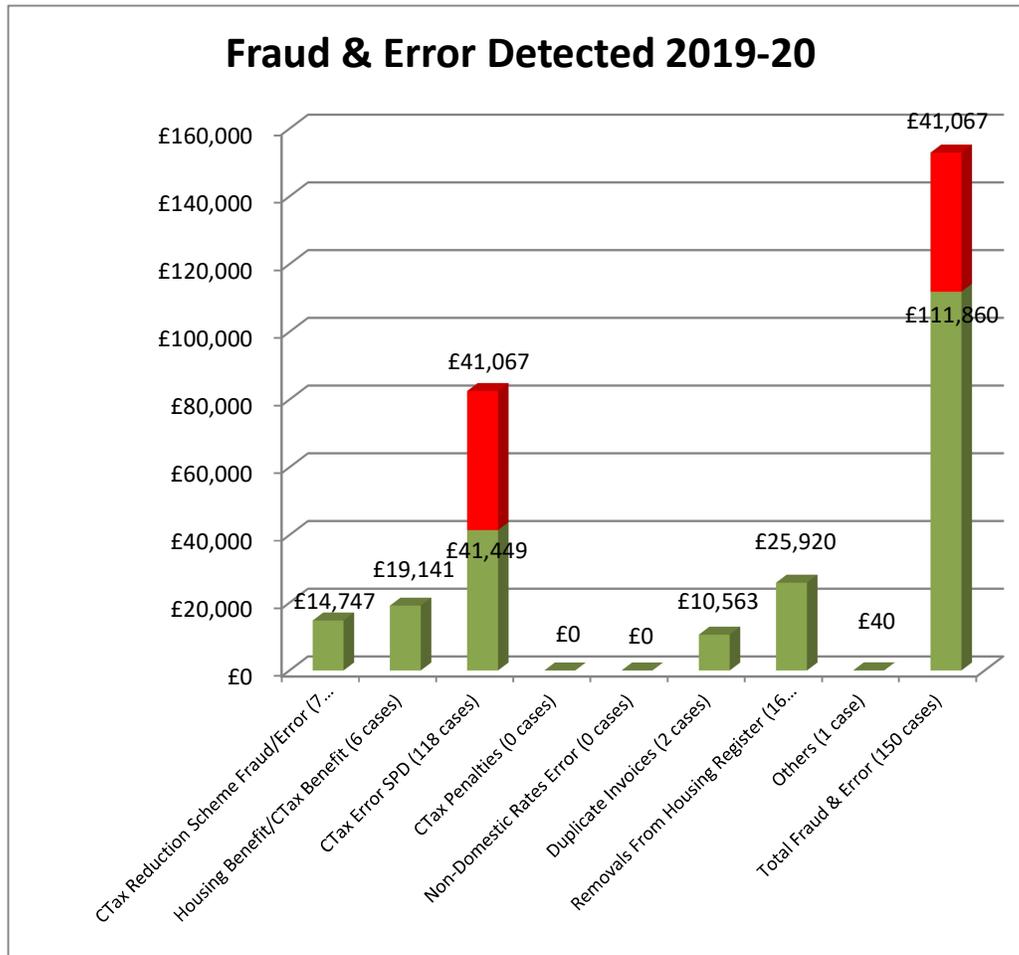
with the County Council. The Internal Audit Manager also assisted with this redeployment work.

2.6 April is normally a time when the previous year's audits (19-20) are finalised and all remaining reports are issued. When the Council went into emergency response mode the standard audit work was 'paused' as a result of changing priorities of the Council and a large number of final reports have not been issued. Most of this work is now being picked up again, but it will be some time before we are fully operational as most of our work depends on the cooperation of other departments, who have had a significant change in their normal roles.

In addition to the department being unable to complete a proportion of work relating to last year there have also been other redeployments within the team throughout April and May to assist the organisation to deliver its Covid-19 business grants service. This has resulted in a loss of approximately 13 weeks work in quarter 1 of 2020-21 from the team but will be looked into in future progress reports and a revised Internal Audit Plan. Some of this work will be recouped over the last three quarters of the year.

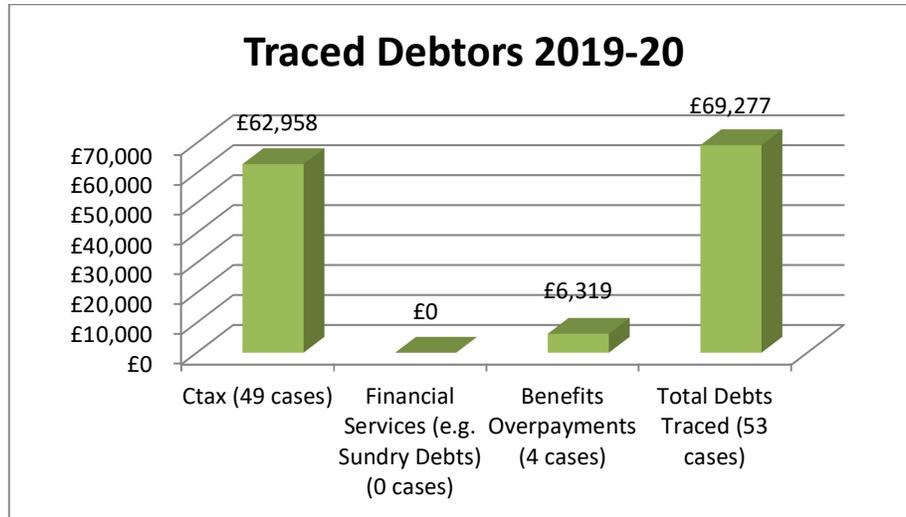
4. Investigations Work April 2019 – March 2020

4.1 The total fraud and error identified during 2019-20:

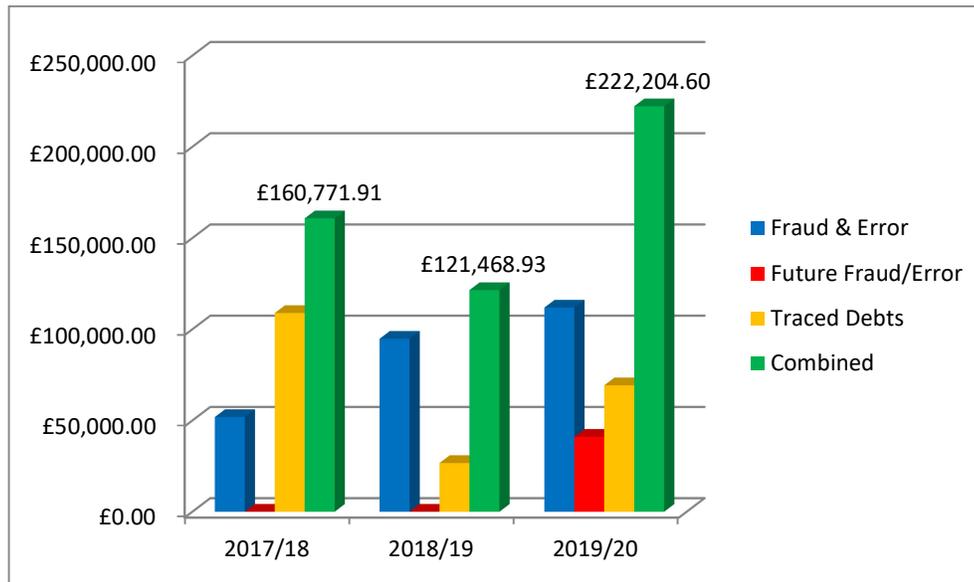


4.2 The above chart shows the actual fraud and error detected in green and the future savings that have been identified as a result of stopping the fraud and error from continuing in red; these are calculated using a national calculation methodology which has been adopted by all members of the Norfolk FraudHub.

- 4.3 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 2019 to March 2020:



- 4.4 Other investigation work has resulted in 31 Council Tax accounts being amended from a Single Person Discount award to a Student Disregard (the council tax liability has not changed but future fraud and error may have been prevented). Furthermore, one new Business Rates property was identified (but no rateable value had been received prior to the beginning of the new financial year).
- 4.5 Joint working with the Department for Work & Pensions Single Fraud Investigation Service on cases of suspected Council Tax Reduction Fraud where DWP benefits are also under suspicion of fraud has continued.
- 4.6 During the financial year 2019-20, investigations have been conducted into **5,605** cases of fraud and error. Below is a comparison of the results from investigations during the past three financial years to show how this year's work compares:



*N.B. Future fraud/error was not calculated prior to 2019-20.

4.7 As part of the investigation work conducted, data matching exercises are carried out with the Cabinet Office's National Fraud Initiative, these exercises cross-over financial years and form part of the fraud and error figures stated above at 4.1.

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

- 1) The NFI National Exercise – 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.

4.8 A further project has commenced during 2019-20 in conjunction with all 7 district authorities in Norfolk and Norfolk County Council to carry out additional data matching for the purposes of detecting fraud and error, as well as providing assurance that claims and applications are genuine and furthermore to ensure that information and data recorded in our systems is consistent and accurate. This is known as the "Norfolk FraudHub"; this will be introducing new data matching options in the new financial year that includes Business Rates for the purposes of identifying potential Small Business Rates Relief fraud and error.

4.9 As part of the "Norfolk FraudHub" project, a Steering Group has been established in order to raise common queries and to incorporate best practices and share knowledge of investigations across each of its 8 member organisations. A further product has been made available on a trial basis known as "AppCheck" which can be used to check any applications at the point they are received to check for

potential fraud/error and to help prevent fraud/error entering our systems in the first place. As part of this steering group funding has been agreed with Norfolk County Council for a 2 year data matching project known as “Premium SPD” data matching, which also incorporates additional funding to resource the additional data matches from the “FraudHub” relating to Small Business Rates Reliefs and furthermore new data matching that has been released from the National Fraud Initiative where HMRC data has identified discrepancies in benefit claims and household compositions for SPD purposes. This funding is in excess of £90,000 for the 2-year project and will include a new Revenues Investigator post to assist with these additional matches.

- 4.10 Below is a table outlining the number of data matches that have been received, processed, errors identified and value identified from those errors (these figures are included within the above figures at 4.1 where matches have been processed during the period 2019-20 only):

Exercise	Matches Received as at 31/03/20	Matches Processed as at 31/03/20	Matches left as at 31/03/20	Errors identified as at 31/03/20	Value identified as at 31/03/20
NFI National Exercise 2018/19	1,950	1,815	135	20	£59,056.03*
NFI FMS 2018	10	10	0	1	£0.00
NFI FMS 2019 (inc. HMRC 2019)	5,806	2,633	3,173	140	£61,210.31
Norfolk FraudHub 2019/20	1,145	1,026	119	0	£0.00
NFI Premium 2019/20	1,391	0	1,391	0	£0.00
TOTAL	10,302	5,484	4,818	161	£120,266.34

**This figure would be £84,976.03 using the NFI's national calculation methodology for removing someone from the housing register who has been found to be no longer eligible (a local calculation has been used to better reflect the actual figure).*

- 4.11 Work has been carried out 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. This will continue to be developed as a live document in order to help mitigate risks as they arise across the authority.
- 4.12 The “Fighting Fraud & Corruption Locally 2020's” national fraud and corruption strategy was released in March 2020 and has been reviewed with a view to developing and reviewing our corporate fraud and corruption policies and strategies. An Anti-Money Laundering Policy is in the process of being introduced to further protect the authority from fraud and corruption.

5. Issues for the Audit Committee to Consider

- 5.1 The Committee needs to consider if the work completed by the Internal Audit team during 2019-20 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 to provide an Annual Audit Opinion for the Annual Governance Statement.

10. Background Papers

Strategic Internal Audit Plan 2019-20.
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	A fundamental control process, or statutory obligation, creating the risk that significant fraud, error or malpractice could go undetected. It is expected that corrective action to resolve these will be commenced immediately.
Medium	A control process that contributes towards providing an adequate system of internal control. It is expected that corrective action to resolve these will be implemented within three to six months.
Low	These issues would contribute towards improving the system under review and are of limited risk. It is expected that corrective action to resolve these will 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	In our opinion, there is a sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	In our opinion, there is a sound system of internal control operating, but there are a few weaknesses which could put the achievement of system objectives at risk.
Limited Assurance	In our opinion, there is 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	In our opinion, there is 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 2019 to March 2020	Overall Opinion
<p><u>Housing Strategy</u> Report Published August 2019 1 Medium and 4 Low recommendations made. The medium recommendation relates to continuing to identify sites to be allocated for the development of housing. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Child Protection</u> Report Published July 2019 1 High, 1 Medium and 7 Low risk recommendations made. The high risk recommendation relates to ensuring all departments across the council are following the risk assessment procedures as set out in the Safeguarding Policy. The medium risk recommendation relates to ensuring that upcoming contract tenders consider safeguarding provisions. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Treasury Management</u> Report Published August 2019 1 Medium and 4 Low recommendations made. The medium risk recommendation relates to ensuring that internal procedures reflect current staffing authorisation limits and signatures. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Community Infrastructure Levy (CIL)</u> Report published September 2019 1 High recommendation and 2 Medium recommendations were made. The High risk recommendation relates to the governance arrangements regarding the spending of CIL receipts. The medium recommendations relate to training and guidance for the Validation Team and contingency arrangements to provide cover in the event of long-term absence.</p>	Substantial Assurance
<p><u>Data Quality and Interpretation</u> Report Published September 2019. 3 Medium risk and 10 low risk recommendation made. The medium risk recommendations relate to ensuring that the Data Protection Policy is fit for purpose and communicated to officers and members, including reporting. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Vehicle Fleet</u> Audit Complete January 2020 11 Medium risk recommendations and 2 Low risk recommendations. The medium risk recommendation relates to procedural and processing for the administration of the vehicle fleet. There is also a need for some updating of training and records and a revision to the processing of fuel invoicing. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance

Audits completed April 2019 to March 2020	Overall Opinion
<p><u>Legal Services</u> Audit Complete January 2020 3 Medium risk recommendations and 11 low risk recommendations. The medium risk recommendations relate to regular market testing to ensure value for money, ensuring appropriate contract management arrangements are in place and refresher training on data protection is available for all staff. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Procurement</u> Report published January 2020 3 Medium risk recommendations. The medium risk recommendations relate to ensuring the revised Contract Standing orders identify termination clauses and joint / collaborative approaches and that the threshold levels for procurement are achieving value for money and utilising the most efficient use of officers time.</p>	Substantial Assurance
<p><u>Careline</u> Audit Complete January 2020. 2 high risk, 6 medium risk and 5 low risk recommendations made. The high risk recommendations relate to the process for ensuring customer consent has been granted for processing benefits checks. The medium risk recommendations relate to procedural tasks, IT software being fit for purpose and processes being appropriately documents and updated to ensure resilience and business continuity can be maintained. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Allotments</u> Audit Complete April 2019. 6 Medium and 13 low risk recommendations. The medium risk recommendations relate to a lack of documentation around processes and inspections. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Council Awarded Grant Funding</u> Audit Completed March 2020. 4 Medium and 1 Low risk recommendation. The medium risk recommendations relate to ensuring the policies of partner organisations are reviewed to ensure compliance with our own policies. In addition to this ensuring that the SLA's reflect the monitoring and due diligence checks required by the scheme and the Borough Council.</p>	Substantial Assurance
<p><u>Cyber Security</u> Report due to be published. Update to follow in next progress report</p>	

Audits completed April 2019 to March 2020	Overall Opinion
<u>Land Charges</u> Report due to be published. Update to follow in next progress report	
<u>Document Management</u> Audit Complete March 2020. 4 Medium risk recommendations and 9 Low risk recommendations. The medium risk recommendations relate to ensuring that Retention policies are up to date and reflect the DPA legislations and SLA's with other departments are also up to date. The low risk recommendations relate to best practice guidance identified during the course of the audit.	Substantial Assurance
<u>Personal Identifier and Financial Relationship</u> Audit Complete October 2019 2 Medium recommendations. The recommendations relate to ensuring departmental privacy notices are created and published and that all departments that have a financial relationship with a customer have a process to ensure the appropriate level of data is collected to pursue outstanding debts.	Substantial Assurance
<u>Whistleblowing</u> Report due to be published. Update to follow in next progress report	
<u>Prevention of Fraud and Corruption</u> Report Published February 2020 1 High risk, 5 medium risk and 1 low risk recommendation. The high risk recommendation relates to the Council not having an Anti Money Laundering Policy. The medium risk recommendations relate to a lack of training and communication of fraud related matters throughout the council. The low risk recommendation relates to best practice guidance identified during the course of the audit.	Substantial Assurance
<u>Annual Governance Statement</u> Report Published December 2019 4 Medium risk and 13 low risk recommendations. The medium risk recommendations relate to some aspects of the AGS not fully addressing the Code of Corporate Governance requirements and also some documentation and policies referred to are not available or in need of review. The low risk recommendations relate to best practice guidance identified during the course of the audit.	Substantial Assurance
<u>Car Parking and Enforcement</u> Report due to be published. Update to follow in next progress report	
<u>Refuse Collection & Recycling</u> Audit Complete March 2020. 3 Medium risks and 4 Low risk recommendations. The medium risk recommendation relate to ensuring appropriate communications, processes and monitoring arrangements are in place for contamination of waste. The low risk recommendations relate to best practice guidance identified during the course of the audit.	Substantial Assurance

Audits completed April 2019 to March 2020	Overall Opinion
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Follow up report

<u>Care and Repair</u> The report published in August 2018 contained 3 high recommendations and 7 medium recommendations. 5 are complete, 3 are progressing as planned and 2 are progressing slower than planned.	Aug 2018 Substantial Assurance	May 2019 Further Follow Up required
<u>Benefits</u> The report published in March 2019 contained 1 high recommendation and 2 medium recommendations. The 1 high recommendation is complete and the 2 medium recommendations are progressing as planned.	Mar 2019 Full Assurance	Sep 2019 No further follow up required
<u>Ethical Culture</u> The report published in March 2019 contained 6 low recommendations. 5 recommendations are complete and 1 is progressing as planned.	Mar 2019 Full Assurance	Sep 2019 No further follow up required
<u>Risk Management</u> The report published in January 2019 contained 4 medium risk recommendations and 13 low risk recommendations. 7 have been actioned and the others have a revised completion date due to committee meeting dates being shifted.	January 2019 Substantial Assurance	Dec 2019 Further follow up required July 20
<u>Treasury Management</u> The report published in August 2019 contained 1 medium and 4 low risk recommendations. All recommendations are complete,	August 2019 Substantial Assurance	Feb 2020 No further follow up required.