

## POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	16 <sup>th</sup> June 2021		
TITLE:	Internal Audit Full Year Progress Report 2020-21		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Dickinson, Finance Portfolio Holder		
REPORT AUTHOR:	Kathy Woodward, Internal Audit Manager		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

### **REPORT SUMMARY/COVER PAGE**

<b>PURPOSE OF REPORT/SUMMARY:</b>
To provide Members with an update on progress against the Revised Internal Audit Strategic Plan 2020-21 that was endorsed by the Audit Committee at the meeting on 27th July 2020. The report also provides an update on the fraud work for the year.
<b>KEY ISSUES:</b>
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> '
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.
<b>OPTIONS CONSIDERED:</b>
<i>Not applicable</i>
<b>RECOMMENDATIONS:</b>
Members are asked to review the progress against the audit plan and to note the update of the fraud work.
<b>REASONS FOR RECOMMENDATIONS:</b>
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 2020-21, endorsed by the Audit Committee on 27<sup>th</sup> July 2020, 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 The revised Audit Plan for 2020-21 provided an explanation on the requirement for continued flexibility for delivery of this year's audit plan, due to the ongoing organisational pressures and uncertainties surrounding the Covid-19 pandemic.
- 2.2 The approved plan considered the resource implications that affected the team in the first six months of the year, due to redeployments, staff shielding and diverted organisational priorities to expediate the Council's emergency response to the pandemic.
- 2.3 When the plan was approved, the organisation was beginning to return to its normal functions and service delivery objectives; however, further national lockdowns in November, tiered restrictions in December and another national lockdown from January until the end of March 2021, did again affect the delivery of the audit plan.
- 2.4 The objectives of the audit team have had to adapt this year in line with organisational priorities whilst balancing the need to provide an annual audit opinion on the adequacy and effectiveness of internal controls, risk management procedures and governance processes. CIPFA have provided guidance to local authority audit managers on issuing 'Limitations of Scope' in their annual audit opinions.
- 2.5 In order to avoid issuing a limitation of scope the internal audit team has focussed its objectives towards:  
Completing outstanding audit reviews;  
New areas of emerging risk;  
Providing support to departments with new procedures as a result of regulation changes required by the Covid-19 pandemic;  
Continuing fraud prevention and detection;  
Monitoring the organisations response to covid-19, through its governance and risk management procedures.

2.6 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.

2.7 The following audits have been completed during 2020-21 and reports issued as described above:

- Cyber Security
- Land Charges
- Whistleblowing
- Car Parking & Civil Enforcement
- CCTV
- Contract Monitoring
- Electoral Services
- Planning Control
- KLIC follow up
- Child Protection Follow up
- Housing Strategy Follow Up
- Accounts Receivable 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 and Modgov.

2.8 The following audits are currently ongoing and will be reported to the Committee in the next progress report:

- Policies (expected result – Substantial Assurance)
- Council Tax and Business Rates
- Benefits
- Planning Enforcement
- Street Cleansing
- Care and Repair
- Post Payment Assurance of Covid-19 Business Grants
- Council Offices and Sites (expected result – Substantial Assurance)

2.9 Three audits have been transferred to 2020/21 that were yet to commence during the year are:

- Payroll
- Performance and Appraisals
- ICT Disaster Recovery.

2.10 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 and guidance to Members of the Audit Committee
- Delivering Training for members of the Audit Committee on Anti-fraud and Anti-corruption

- Water Management Alliance audit
- Checks on the Cost of Living and Performance Related Pay calculations

2.11 In order for the Audit Manager to provide an annual audit opinion based on a balanced view of the organisation, additional consultative engagements were undertaken throughout the year. These can be broken down into the following categories covering various aspects of the annual audit opinion:

Internal Control:

- Review of Financial Regulations
- Review of Finance system authorisation structures
- Business Grant process and procedures
- Community Infrastructure Levy Covid-19 Amendment to Regulations.

Governance processes:

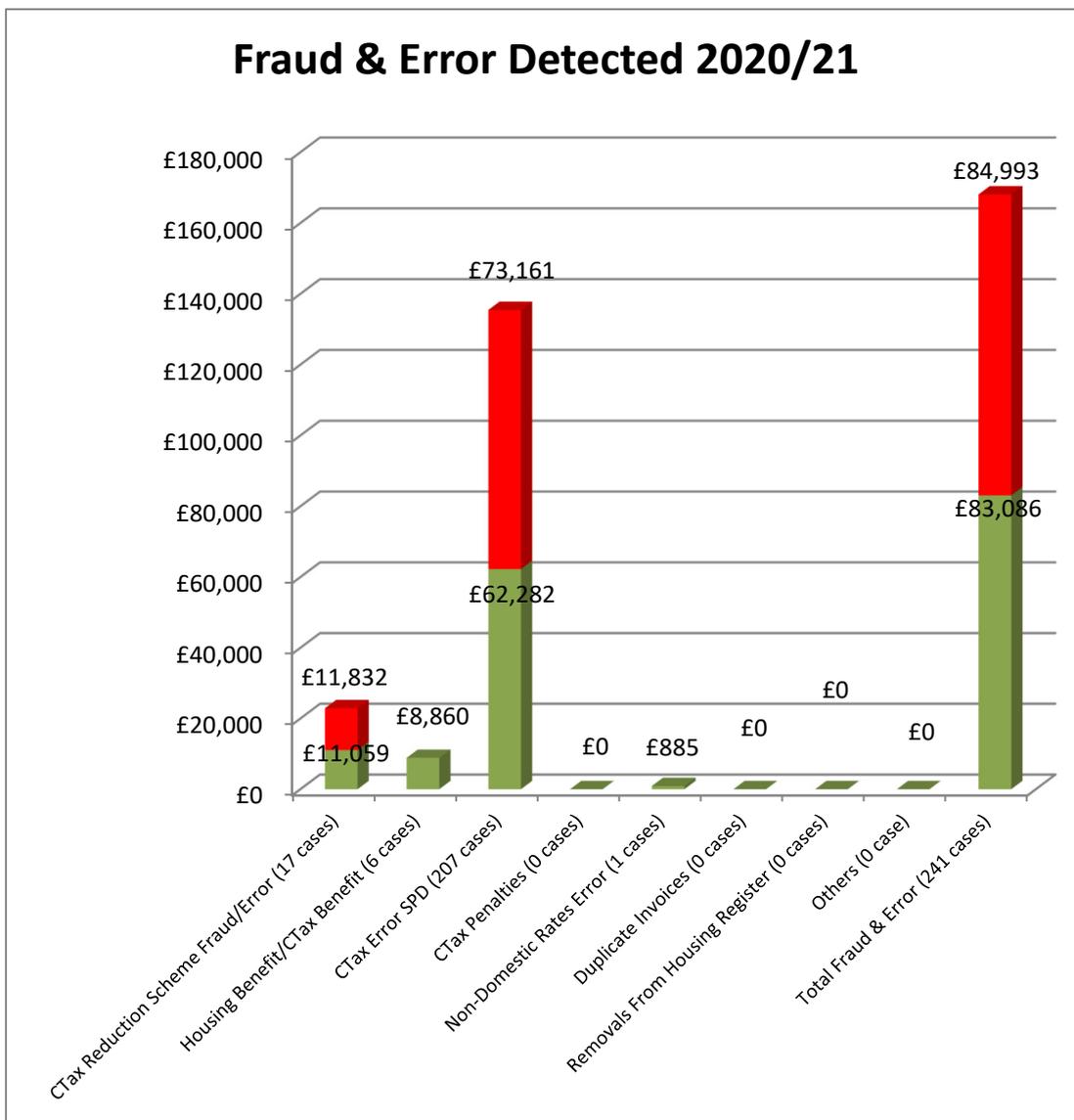
- Creation and Implementation of Anti-Money Laundering Policy
- Review of Anti-Fraud and Anti-Corruption Policy
- Review of Legal Services SLA
- Major Project Board attendance and review.

Risk Management:

- Business Grant fraud risk assessments
- Covid-19 Recovery Strategy
- Covid-19 Response monitoring.

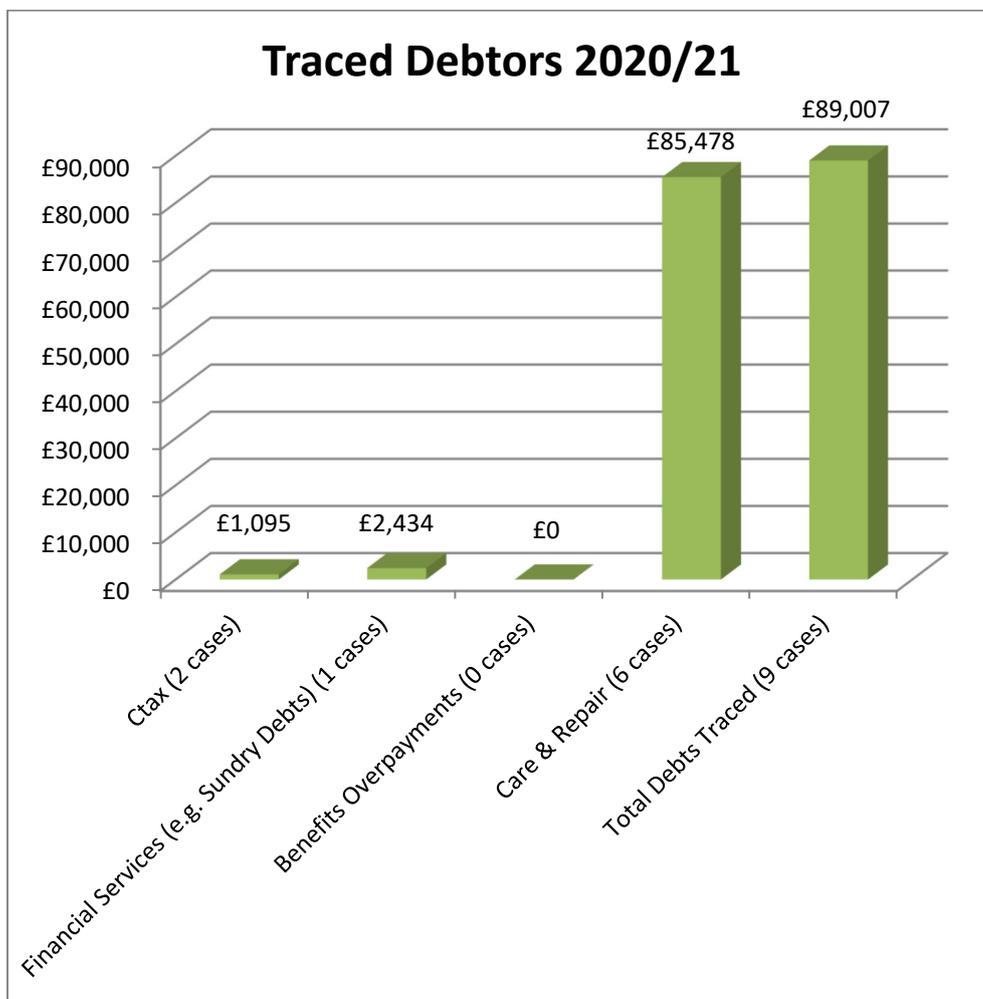
### 3. Investigations Work April 2020 – March 2021

3.1 The total fraud and error identified during 2020/21:

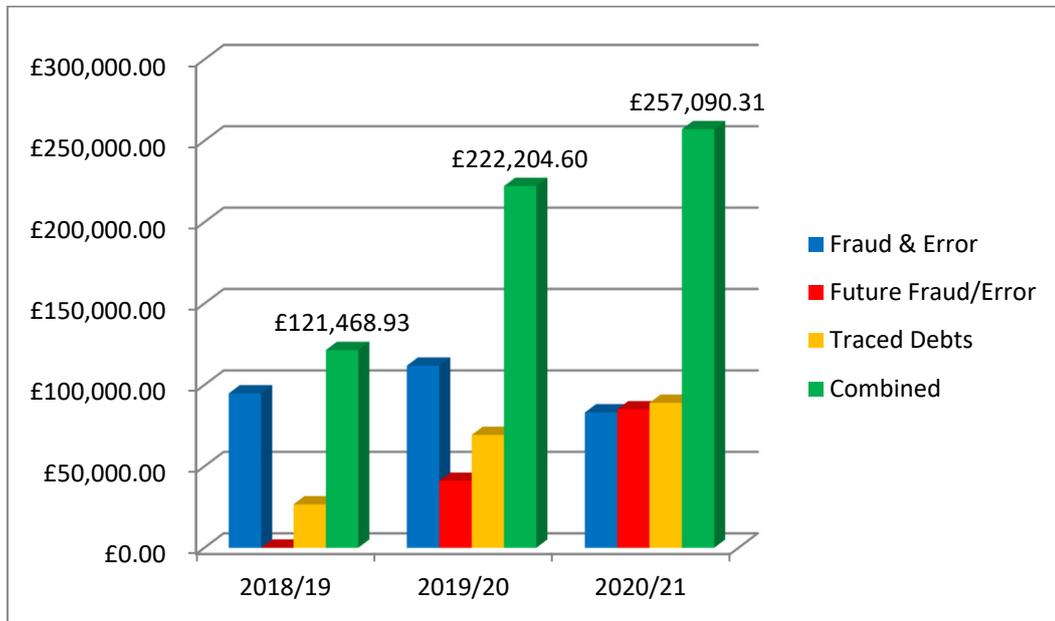


3.2 The above chart shows the actual fraud and error detected in green and the future savings that have been identified as a result of stopping the fraud and error from continuing in red; these are calculated using a national calculation methodology which has been adopted by all members of the Norfolk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

3.3 Debtor/Absconder investigations continued on an adhoc basis to attempt to trace customers who had 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 2020 to March 2021:



- 3.4 Other investigation work has resulted in 37 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)
- 3.5 An outbound call team was set up to assist with the application checks undertaken for the Covid-19 Business Grant schemes, resulting in 79 businesses being identified as no longer eligible to claim the grant as a result of changes that affected their Business Rates liabilities; this therefore produced a potential saving of £790,000.00 from the exercise and furthermore allowed the authority to update our records for those 79 business rates accounts. Two members of the Internal Audit team were seconded to this small team to carry out this work.
- 3.6 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 was suspended by the DWP with immediate effect as a result of the Covid-19 pandemic and there has been no recent contact from the DWP to clarify confirm when this will resume.
- 3.7 During the financial year 2020/21, investigations have been conducted into **4,528** 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.

3.8 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 3.1.

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.

3.9 The Norfolk FraudHub project has continued from its inception in 2019/20 to date, allowing fraud and error to be detected within systems more quickly by carrying out data matching exercises of key data sets more frequently between all seven district authorities in Norfolk and Norfolk County Council. This work also provides further assurance that claims, and applications are genuine, and that information and data recorded in our systems is consistent and accurate. It is hoped that new data matching options can also commence within the Norfolk FraudHub (resources permitting) including Business Rates data matching exercises for the purposes of identifying potential Small Business Rates Relief fraud and error.

3.10 As part of the "Norfolk FraudHub" project a Steering Group is also in place where best practices and knowledge is shared across each of its eight member organisations including details on emerging and new fraud risks/threats. A further product has been made available known as "AppCheck" which can be used to check any applications at the point they are received for potential fraud/error and to help prevent fraud/error entering our systems in the first instance.

- 3.11 Funding of £71,911.00 was secured during 2020/21 through Norfolk County Council for a two-year data matching project known as “Premium SPD” data matching. Due to the Covid-19 pandemic outbreak this project was delayed but then commenced during the second half of the financial year 2020/21. This has resulted in the review of 2,224 Council Tax accounts (including HMRC matches) and the removal of 254 single person discount awards resulting in identified fraud/error of £137,985.69 in year 1, with 549 reviews still outstanding and further matches having now been received for further work to continue on this project during 2021/22.
- 3.12 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 2020/21 only):

<b>Exercise</b>	<b>Matches Received as at 31/03/21</b>	<b>Matches Processed as at 31/03/21</b>	<b>Matches left as at 31/03/21</b>	<b>Errors identified as at 31/03/21</b>	<b>Value identified as at 31/03/21</b>
<b>NFI National Exercise 2018/19</b>	135	93	42	2	£1,205.25
<b>NFI FMS 2019 (inc. HMRC 2019)</b>	3,173	2,950	223	156	£75,199.87
<b>Norfolk FraudHub 2019/20</b>	948	398	550	2	£1,518.60
<b>NFI Premium 2020/21</b>	1,391	1,065	326	98	£62,785.82
<b>NFI National Exercise 2020/21</b>	525	0	525	0	£0.00
<b>NFI FMS 2021/22</b>	1,484	0	1,484	0	£0.00
<b>TOTAL</b>	<b>7,656</b>	<b>4,506</b>	<b>3,150</b>	<b>258</b>	<b>£140,709.54</b>

- 3.13 The “Fighting Fraud & Corruption Locally 2020’ national fraud and corruption strategy was released in March 2020 and was reviewed resulting in the review and update of the Anti-Fraud and Corruption Policy presented to the Audit Committee in December 2020. In addition to this a new policy entitled the Anti-Money Laundering Policy was also introduced during July 2020 offering further protection to the authority from fraud and corruption through the introduction of anti-money laundering processes and guidance.
- 3.14 Future work during 2021/22 includes a post assurance exercise being undertaken in respect of the Covid-19 business grants, which has already commenced. Discussions are being undertaken with Anglia Revenues Partnership for the trial of a new software product called “IDIS” which can undertake risk analysis using credit reference data to enable further projects to potentially be considered. The initial focus will be completion of the relevant Privacy Impact Assessments and then a pilot exercise using data matches already held for analysis of the output results. Following any successful trial further projects could be considered such as new Single Person Discount awards (identifying fraud and error sooner) and empty/void property checks to establish potential liability avoidance customers and spurious liabilities as well as establish new customers sooner and reducing the accumulation of aged debt. In addition to this further negotiations will be undertaken with Norfolk County Council to look to extend the initial 2-year project and look to expand the project over new areas highlighting further fraud and error such as Business Rates and Empty/void property checks.

#### **4. Issues for the Audit Committee to Consider**

- 4.1 The Committee needs to consider if the work completed by the Internal Audit team during 2020-21 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. Financial Implications**

- 6.1 None to Consider.

#### **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 to provide an Annual Audit Opinion for the Annual Governance Statement.

#### **9. Background Papers**

Revised Strategic Internal Audit Plan 2020-21.  
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 <b>sound</b> 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 <b>few weaknesses</b> 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 <b>undermine</b> achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	In our opinion, there is a <b>fundamentally flawed</b> system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

Audits completed April 2020 to March 2021	Overall Opinion
<p><u>Cyber Security</u> Audit Completed August 2020 7 Medium and 8 Low risk recommendations. The medium risk recommendations relate to the update and inclusion of Cyber security measures in ICT policy documentation and training requirements for staff. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Land Charges</u> Audit Completed July 2020 3 Medium and 6 Low risk recommendations. The medium risk recommendations relate to the cost recovery aspect of land charges fees and charges calculation. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Whistleblowing</u> Audit Completed December 2020 14 Low risk recommendations. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Car Parking and Civil Enforcement.</u> Audit Completed February 2021 4 Medium and 8 Low risk recommendations. The medium risk recommendations relate to development of a Car Parking Strategy and contract management issues. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>CCTV</u> Audit Completed March 2021 2 Low risk recommendations. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Full Assurance
<p><u>Contract Monitoring</u> Audit Completed March 2021 3 Medium risk and 1 Low risk recommendations. The medium risk recommendations relate to performance management of contracts and ensuring robust, consistent contract documentation is in place. The low risk recommendation relates to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
<p><u>Electoral Services</u> Audit Completed March 2021 1 Medium risk and 6 Low risk recommendations. The medium risk recommendation relates to assessing the suitability of polling stations. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance

Audits completed April 2020 to March 2021	Overall Opinion
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<p><u>Planning Control</u> Audit Completed March 2021 2 Medium risk and 3 Low risk recommendations. The medium risk recommendations relate to Member training requirements and ensuring the Council Website includes the most up to date financial charges. The low risk recommendations relate to best practice guidance identified during the course of the audit.</p>	Substantial Assurance
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Follow up report

<p><u>KLIC Lessons Learnt Follow up</u> The review of the KLIC lessons learnt audit was completed in March 2021. There were 35 recommendations made to management team on lessons that could be learnt relating to governance, project management and financial controls relating to large scale, major development projects. Of the 35 recommendations made, 34 are complete, with two following recommendations identified as a result of this review. Considerable progress has been made in how the council manages its major projects and all aspects of risk, control and governance has improved over the last two years.</p>	March 2019	July 2020 – March 2021 Further Follow Up required
<p><u>Child Protection</u> The report published in July 2019 contained 1 high risk recommendation and 1 medium recommendation and 7 low risk recommendations. Due to the impact of Covid-19 on council resources an extension of time has been agreed to complete the outstanding recommendations.</p>	July 2019 Substantial Assurance	July 2020 Further follow up required
<p><u>Housing Strategy</u> The report published in August 2019 contained 1 medium risk recommendation and 4 low recommendations. Due to the impact of Covid-19 on council resources an extension of time has been agreed to complete the outstanding recommendations.</p>	August 2019 Substantial Assurance	Aug 2020 Further follow up required
<p><u>Accounts Receivable</u> The report published in February 2019 contained 10 medium risk recommendations and 4 low risk recommendations. 3 have been actioned as a result of the implementation of the new finance system. Due to the impact of Covid-19 on council resources an extension of time has been agreed to complete the outstanding recommendations.</p>	February 2019 Substantial Assurance	Aug 2020 Further follow up required July 20