

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	30 th May 2017		
TITLE:	Internal Audit Full Year Progress Report 2016-17		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Daubney, 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 2016-17 that was endorsed by the Audit Committee at the meeting on 23 rd February 2016.
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 2016-17, endorsed by the Audit Committee on 23rd February 2016, 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:
- Capital Programme
 - Policies
 - Transparency and Open Data
 - Refuse and Recycling
 - Housing Options and Allocations
 - S106 funds, CIL and Habitat Mitigation Levy
 - Play Areas
 - CCTV follow-up
 - Safeguarding Children 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:

- Creditors
- Treasury Management
- Payroll
- ICT Change Management
- Informing the Customer
- Care and Repair
- Housing Standards
- Allotments

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:
- Work continued with the Safeguarding Group to implement the new risk assessment procedures.
 - Review and update of the Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan
 - Preparations for the transfer of responsibilities to the part-time manager.
- 2.5 One of the part-time Internal Auditors left the Council at the end of December 2016. The remaining work has been reallocated within the team and one audit had already been moved to the audit plan for 2017/18. However there may be some impact on the work carried over into the next audit year. An appointment has been made for a replacement on a full-time basis, commencing on 2nd May 2017.

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 2016 – April 2017

- 3.1 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.
- 3.2 Following the last progress report for April to October 2016, all of the 2,023 matches within the “NFI 2014/15 report” have now been investigated. These matches were spread over 46 different reports, covering Housing Benefit and Creditor matches. A total of £42,429.30 of fraud and error was identified.

3.3 The “NFI 2016/17 report” has 3,227 matches which were received in January 2017, of which 282 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 1,474 matches still to be processed.

3.4 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.
- January 2016 datasets - only 4 outstanding matches to process out of 1,738. 233 accounts have been identified to have errors, 185 accounts have resulted in approx. £72,780 of additional liability being raised.
- January 2017 datasets – 679 matches received, 232 have been processed to date.

3.5 In total there are 1,925 matches still to be processed.

3.6 A new report is due for the Flexible Matching Service which is looking to match Council Tax records against other data sets (other than Electoral Registration data). This is anticipated to create a significant amount of matches.

3.7 In addition to the NFI work carried out, further fraud and error has been identified during 2016/17 as follows:

	£
Council Tax Reduction Scheme error	1,555
Council Tax Reduction Scheme fraud	1,975
Administrative Penalty	1,014
Housing Benefit and Council Tax Benefit	4,508
Council Tax error	6,644
Over claimed Flood Grant	5,000
Total additional fraud and error	21,196

3.8 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 Revenues Section for recovery purposes.

4. Issues for the Panel to Consider

- 4.1 The Committee needs to consider if the work completed by the Internal Audit team during 2016-17 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 2016-17.
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 2016-17	Overall Opinion
<p><u>Capital Programme</u> Report published November 2016 1 Medium recommendation relating to the need to ensure reviews of the capital programme continue to be included in the monthly budget reports.</p>	Substantial Assurance
<p><u>Transparency and Open Data</u> Report published November 2016 2 High and 2 Medium recommendations were made. The High recommendations concern the publication of Council spend and the extent to which payments to individuals should be published. The Medium recommendations are to publish updated information as soon as possible to avoid unnecessary Freedom of Information requests and to verify the automatic reports.</p>	Substantial Assurance
<p><u>Policies</u> Report published in December 2016 2 High recommendations to develop a 'Policy on Policies' and to review existing legislative and regulatory requirements.</p>	Limited Assurance
<p><u>Refuse and Recycling</u> Report published in January 2017 2 High and 3 Medium recommendations were made. One High recommendation is that the contract monitoring meetings should be minuted. The second related to the retention of contract documentation. The Medium recommendations relate to the monitoring of various Key Performance Indicators for the collection contract, the Local Green Points scheme and the NEWS recycling data.</p>	Limited Assurance
<p><u>Housing Options and Allocations</u> Report published in February 2017 1 High, 4 Medium and 2 Low recommendations.</p>	Substantial Assurance
<p><u>S106 Funds, CIL and Habitat Mitigation Levy</u> Report published in March 2017 5 High recommendations were made. One high recommendation includes amending a job description to include S106's. Two of the high recommendations were in relation to document management, one has already been completed. The final two high recommendations were for ensuring a control is in place for notifying the Land Charges team of recordings made to the Charge register – which has been completed and the final recommendations was in relation to using separate coding of the different payments on the Ledger, which has also been completed.</p>	Limited Assurance

Audits completed October to March 2016-17	Overall Opinion
<p><u>Play Areas</u> Report published in March 2017 3 Medium recommendations were made. One was in relation to conducting a Play needs assessment to develop a Policy and a Strategy. The second related to equipment being compliant with relevant British Standards. The third recommendation was in relation to the contractual position for play area inspections.</p>	Substantial Assurance

Follow-up audits completed October to March 2016-17	Original report	Follow-up progress
<p><u>CCTV</u> The report published in March 2016 contained 3 Medium recommendations, which have been implemented satisfactorily.</p>	March 2016 Substantial Assurance	November 2016 Good
<p><u>Safeguarding Children</u> The report published in August 2016 contained 4 High and 3 Medium recommendations. At the time of the follow-up all but 2 High and 1 Medium recommendation had been completed. Of those actions still outstanding, 1 High and 1 Medium have been completed, and although the remaining High recommendation is still awaiting the next update of Contract Standing Orders to be fully complete, the auditor is aware that the recommendation has been put into practice.</p>	August 2016 Substantial Assurance	October 2016 Very Good