

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	3 rd June 2019		
TITLE:	Internal Audit Full Year Progress Report 2018-19		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Long, Finance		
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 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.</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 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, Deputy Chief Executive (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 Register and Inventories
 - Alive Management
 - Ethical Culture
 - Revenues (Council Tax and NNDR)
 - Housing Benefits
 - Accounts Receivable
 - Risk Management
 - Child Protection *
 - Treasury Management *
 - External Communications *
 - Housing Strategy *
 - KLIC Lessons Learnt Review
 - Information and Security Management Follow Up
 - Housing Options and Allocations Follow Up
 - Housing Standards Follow Up

- Cemeteries & Crematorium Follow Up
- Planning Control Follow Up
- Industrial Estates 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
- Procurement
- Partnerships
- Data Quality and Interpretation
- Cost Reduction Programme
- Grants / Funding to Third Parties
- S160 / CIL / Habitat Levy
- Careline

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

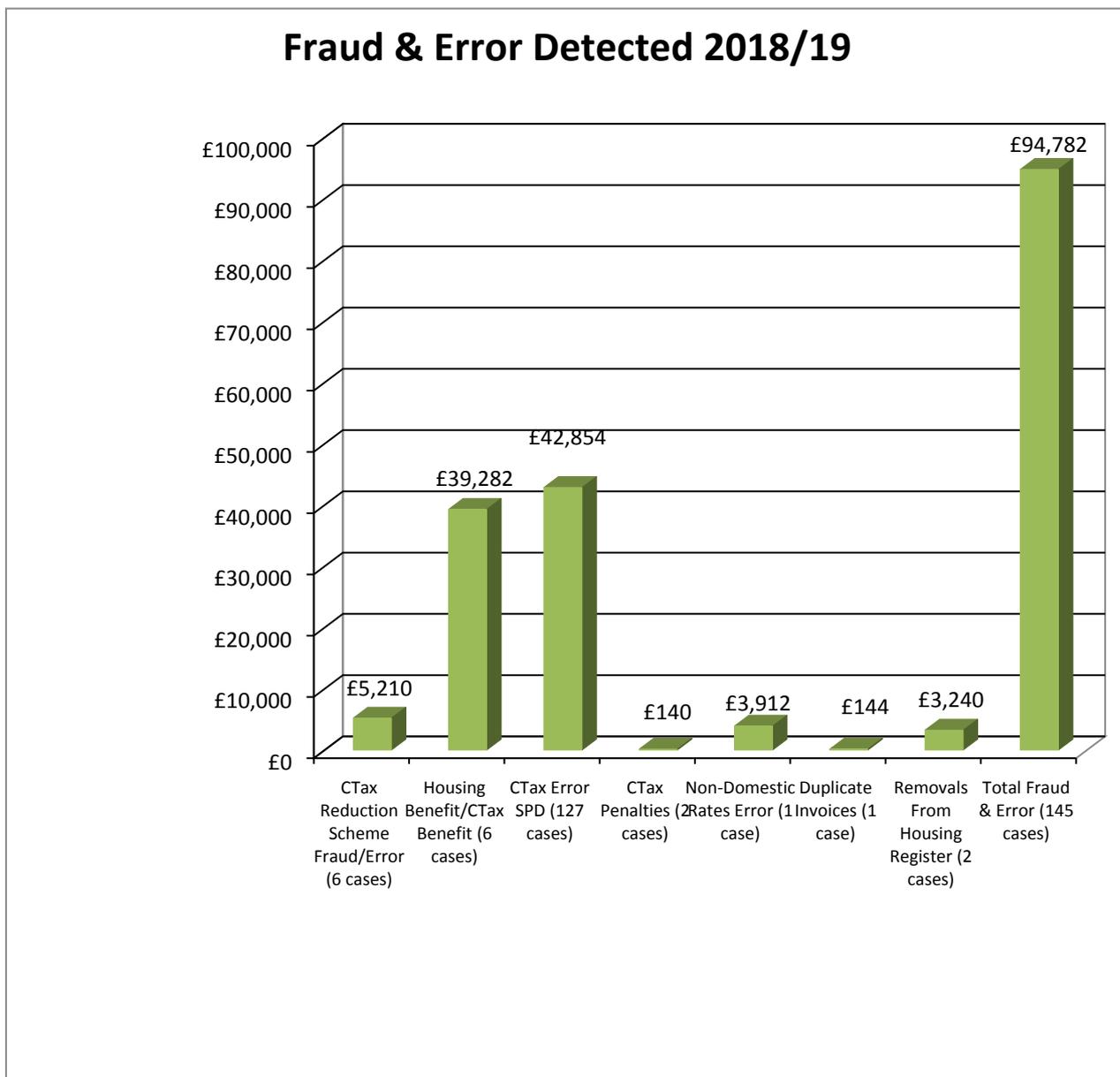
- Review of the Audit Manual and internal audit working papers.
- Providing support to the Finance System software tender process, ensuring compliance with relevant regulations and legislation.
- Providing support to the Management Team on the RIPA desktop inspection and GDPR legislation.
- Providing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

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.

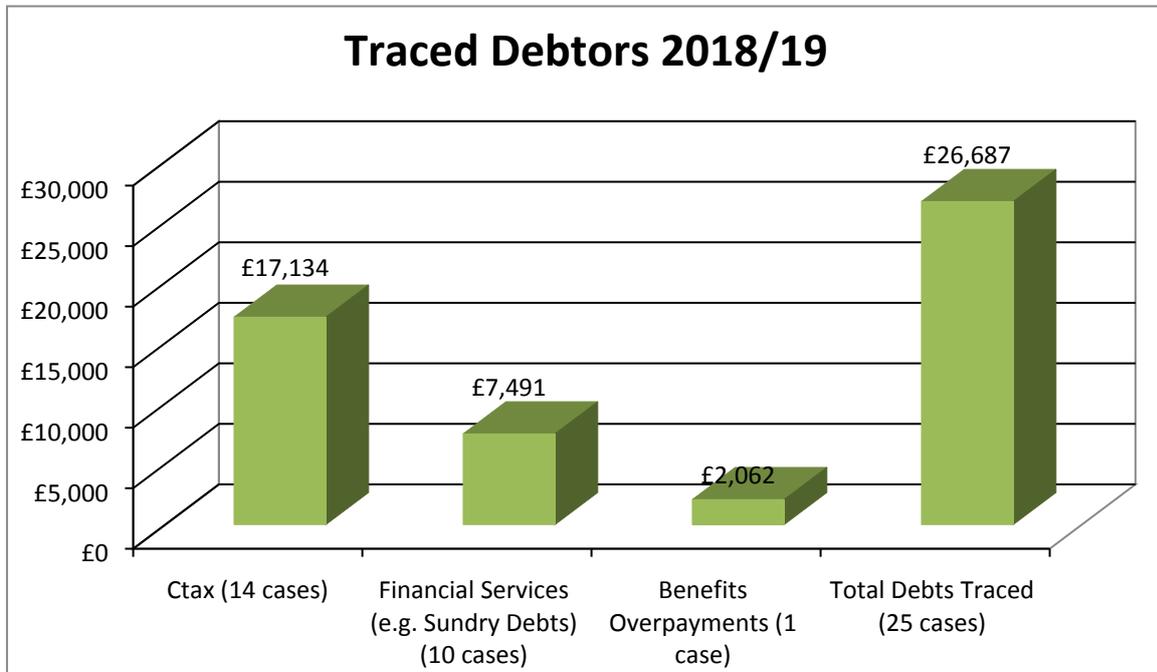
The audit of Flood and Water Management has been removed from the plan. Discussions at the start of the audit revealed that the level of assurance gained during the Emergency Planning audit covers most of the legislative requirements of the Council in relation to Flood and Water management and nothing 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. Investigations Work April 2018 – March 2019

3.1 The total fraud and error identified during 2018/19 amounts to £94,782:

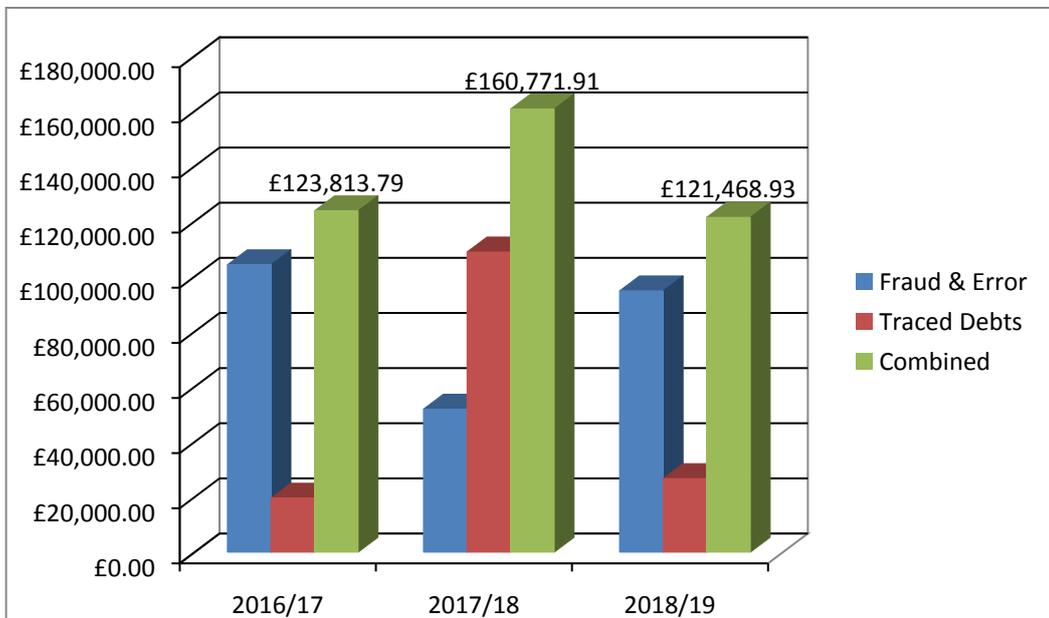


3.2 Investigation work has continued on an adhoc basis to attempt to trace debtors/absconders who have not advised of their address/contact information but have outstanding arrears with the Authority. Where a successful trace has been made any new address/contact information is being passed on to the relevant section for recovery purposes. The following values of Debtors/Absconders have been identified during 2018/19:



3.3 Other investigation work has resulted in 41 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.

3.4 During the financial year 2018/19, investigations have been conducted into **3,845** cases of fraud and error. Below is a comparison of the results from investigations during the past 3 financial years to show how this year's work compares:



- 3.5 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 (FMS) – 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.

- 3.6 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 customers may also receive benefit entitlement that needs to be investigated.

- 3.7 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 3.1 where matches have been processed during the period 2018/19 only):

Exercise	Matches Received as at 31/03/19	Matches Processed as at 31/03/19	Matches left as at 31/03/19	Errors identified as at 31/03/19	Value identified as at 31/03/19
NFI National Exercise 2016/17	3,227	3,227	0	68	£128,681
NFI National Exercise 2018/19	1,706	181	1,525	0	0
NFI FMS 2017	3,094	3,094	0	156	£50,545
NFI FMS 2018	4,114	4,104	10	135	£34,017
NFI FMS 2019	2,780	397	2,383	0	0
DataTank 2018	296	296	0	12	£7,356
TOTAL	15,217	11,299	3,918	371	£220,599

- 3.8 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 fraud and to then further mitigate those risks where possible.

3.9 In December 2019 joint working with the Department for Work & Pensions Single Fraud Investigation Service commenced on cases of suspected Council Tax Reduction Fraud where DWP benefits are also under suspicion of fraud. This was implemented regionally, with all relevant data sharing agreements and privacy statements set in place in advance.

3.10 A Norfolk wide Counter Fraud Hub has been established by Norfolk County Council with all 7 of the District Authorities within Norfolk. This will result in specific data sets being matched against the data sets of all 8 organisations in order to detect discrepancies, fraud and error to be investigated. As part of this work it is planned to carry out data matching of Business Rates data in the near future with a view to investigating fraudulent claims for Small Business Rates Relief.

4. Issues for the Panel to Consider

4.1 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.

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.

9. 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 March 2018-19	Overall Opinion
<p><u>Care and Repair</u> Report published September 2018 3 High recommendations and 7 Medium recommendations were 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.</p>	Substantial Assurance
<p><u>Asset Register and Inventories</u> Report published February 2019. 2 Low risk and 7 Medium risk recommendations were made. The medium recommendations related to the Town Hall assets and inventories systems and insurance processes. Data cleansing of the current systems are ongoing and a review of the new financial management system to establish if it can provide the assets management required for all council assets in the future.</p>	Substantial Assurance
<p><u>Alive Leisure</u> Report published January 2019. Due to the ongoing review and options being considered for future provision of the service this audit did not provide an assurance rating however recommendations were made to management for consideration in the new arrangements. 6 recommendations were made relating to Financial sustainability and business risks and governance. The invoicing arrangements and linking the new arrangements in with the new finance system.</p>	N/A
<p><u>Ethical Culture</u> Report published February 2019. 3 Low risk recommendations were made.</p>	Full Assurance
<p><u>Revenues (Council Tax and NNDR)</u> Report published December 2018. No recommendations were made.</p>	Full Assurance
<p><u>Housing Benefits</u> Report published February 2019. 1 High risk recommendation made and 2 medium risks. All of the recommendations related to Discretionary Housing Payments. The high risk recommendation related to ensuring the procedures / guidance is updated every year to take into account changes in legislation and the medium risks related to automating forms and guidance for officers.</p>	Full Assurance

Audits completed April to March 2018-19	Overall Opinion
<p><u>Accounts Receivable</u> Report published February 2019. 14 recommendations were made in total; however 3 of them are being addressed as part of the implementation of the new finance system. The remaining recommendations included 8 medium risk and 3 low risks. The medium risks related to procedures for system access and debt recovery and write offs.</p>	Substantial Assurance
<p><u>Risk Management</u> Report published January 2019. 13 low risk and 4 medium risk recommendations were made. The medium risk recommendations related to training for officers and members, reviewing risk scores after training, introducing operational risk registers and publishing the Risk Management Policy and Strategy.</p>	Substantial Assurance
<p><u>Child Protection</u> Report due to be published. Update to follow in next progress report</p>	Substantial Assurance
<p><u>Treasury Management</u> Report due to be published. Update to follow in next progress report</p>	Substantial Assurance
<p><u>External Communications</u> Report due to be published. Update to follow in next progress report</p>	Full Assurance
<p><u>Housing Strategy</u> Report due to be published. Update to follow in next progress report</p>	Substantial Assurance
<p><u>KLIC Lessons Learnt Review</u> Report published March 2019. The KLIC Lessons Learnt Review was commissioned by the Chief Executive and produced in a different format to our typical reports. An assurance rating was not applied to this piece of work, but the results were presented directly to the members of the Audit Committee and Full Council. There were 35 recommendations made that have been considered in detail by the Audit Committee and a cross party working group has been established to continue to review the recommendations. In addition to the cross party working group and independent review has been commissioned as requested by Full Council. The results of the independent review, the cross party working group and the follow up review to Internal Audit's review will be considered as part of next year's audit opinion.</p>	

Audits completed April to March 2018-19	Overall Opinion
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Follow up report

<p><u>Information management and Security</u> The report published in September 2017 contained 5 low recommendations. 1 is complete, three are progressing as planned and 1 is no longer required.</p>	<p>Sept 2017 Full Assurance</p>	<p>June 2018 Very Good</p>
<p><u>Housing Options and Allocations</u> 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.</p>	<p>Feb 2017 Substantial Assurance</p>	<p>Aug 2018 Adequate</p>
<p><u>Housing Standards</u> 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.</p>	<p>Oct 2017 Limited Assurance</p>	<p>Aug 2018 Adequate</p>
<p><u>Cemeteries and Crematorium</u> The report published in February 2018 contained 2 low recommendations. Both are now complete.</p>	<p>Feb 2018 Full Assurance</p>	<p>Sept 2018 Very Good</p>
<p><u>Planning Control</u> The report published in February 2018 contained 5 high risk, 3 medium risk and 1 low risk recommendation. All of these recommendations have been actioned.</p>	<p>Feb 2018 Limited Assurance</p>	<p>Jan 2019 Very Good</p>
<p><u>Industrial Estates</u> The report published in May 2019 contained 3 medium recommendations. 2 of these are complete and one is progressing as planned and is due for completion in June 2019.</p>	<p>May 2018 Substantial Assurance</p>	<p>Feb 2019 Good</p>

Audits completed April to March 2018-19