

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
Author Name: Kate Littlewood	CONSULTATIONS:
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gov.uk	
OPEN	

Committee: Audit & Risk Committee
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Subject: Internal Audit Plan 2015/16 –End of Year Progress report.

Summary	This report shows the Internal Audit activity against the Strategic Audit Plan and fraud work for the second half 2015/16.
Recommendation	Members are asked to note the report on the Internal Audit workplan 2015/16.

1.0 Introduction and Background

1.1 The Strategic Audit Plan 2015/16, endorsed by the Audit and Risk Committee on 23rd June 2015, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 3 of the Accounts and Audit Regulations 2015 for the Council to

'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.'*

1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.

1.3 The Terms of Reference for the Audit and Risk Committee require the Committee to monitor delivery of the internal audit activity.

2.0 Audit work in second half 2015/16.

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 also sent to the Chief Executive, Assistant Director (s151 Officer) and the external auditors, Ernst and Young. Each report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. 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 *Reports issued*

The following audits have been completed during the second half of 2015/16 and reports issued as described above:

- Recruitment
- Civil enforcement and car parking
- Civic expenses and administration
- Accounts receivable
- Payroll
- Treasury and Cashflow Management
- CCTV
- Data Protection, Freedom of Information and Environmental Information Regulations
- Alive Leisure and Alive Management
- Planning Support f/up
- Public Open Space – Street Cleansing f/up
- Public Open Space – Allotments f/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 & Risk Committee on InSite.

2.3 *Work ongoing*

The following audits were ongoing at the end of the year and will be reported to the Committee in the next progress report:

- ICT Disaster Recovery
- Business Continuity
- Creditors and Payments
- Council Tax and Business Rates
- General Ledger and Budgetary Control
- Housing Benefits
- Asset Register and Inventory Control
- Contracts

In most cases the majority of the testing work had been completed and the report was being finalised.

2.4 *Other work carried out*

Apart from the standard audits, Internal Audit also undertook other work during the second half of the year including the following:

- A VAT healthcheck on the Leisure arrangements was carried out by the Councils' external VAT specialist, with some input from the Internal Audit team.
- Safeguarding Children – to review what measures, in respect of safeguarding, the Council has in place when dealing with 3rd parties who are acting on the Council's behalf or leasing Council property, receiving grant/ funds from the Council or obtaining licences to carry out an activity.
- Repair and Renew Grant – audit of the allocation of grant money from DEFRA to improve the flood resilience of properties damaged in the storms in 2013/14.
- Additional audit work requested by Alive Leisure in respect of Data Protection Act provisions, Service Improvement Plans and Governance arrangements.

2.5 *Changes to the Audit Plan*

Some audit work has been carried over to the 2016/17 audit plan. It is not unusual for this to happen as the timing of the planned work is not exact and this was the case for the audits of Policies and the Transparency Agenda.

Some other audits have been carried over for specific reasons and these have been explained in each case below:

- S106 funds/ CIL
The CIL arrangements are still being finalised.
- Housing Option and Allocations
The Housing Options team have been transferring to a new IT system.
- Communications
Staff changes in the Communications team meant that resources were not available to enable the audit to be undertaken.
- Careline Community Services
The service had been the subject of a LEAN review and as a result the software was being changed to a new system.

These audits take priority in the new work year and most are ongoing at the time of writing this report.

3.0 **Performance Indicators**

- 3.1 Delivery of the Audit Plan – a target of 95% has been set to take in to account any work that may overlap at year end and also to allow for any additional work that may arise during the year. The table below summarises the position against the planned audits contained in the Audit Plan 2015/16.

2015/16 Status of Audits	Audit days used	Percentage of Plan (in days)
Completed and reported	181	44%
In Progress	135	33%
Carried over to 2016/17	95	23%
Total Planned Audits	411	100%

3.2 Planned audit time – a target of 60% has been set for the full year with an actual figure of 61%. This refers to the proportion of the total available time that is spent on planned audit work rather than management, training, general administration and holidays.

4.0 Work planned for April to September 2016

4.1 As well as completing the ongoing work listed in paragraph 2.3, the following audits are planned for the first half of 2016/17:

Audit Title	Days
Policies	15
External Communications/ Informing the Customer	10
Transparency Agenda	15
Careline	15
Food Hygiene, Health & Safety and Public Health	15
PRP and Cost of Living calculations check	2
Review of Statement of Accounts	5
Total	77

The Audit Team also undertake the Internal Audit service for the Water Management Alliance, which generates a small income. This audit will be carried out during April.

5.0 Investigation work October 2015 to March 2016

5.1 NFI update

There are currently two active NFI reporting sites:

- The Flexible Matching Service site
- The NFI 2014/15 Site

There are 1,738 matches within the “Flexible Matching Service Site” of which 1,503 have now been processed. These matches mainly consist of Council Tax Single Person Discount (SPD) review matches. All ‘Recommended’ (these are completed on a high priority basis) matches have now been completed. A total of 161 matches highlighted errors resulting in £58,356.96 of additional revenue being identified which is being recovered. Of the remaining matches, 131 require further investigation.

There are 2,032 matches within the “NFI 2014/15 Site” of which 1,766 have now been processed. These matches are spread over 47 different reports, covering Housing Benefit and Creditor matches. There are currently six reports with outstanding matches, mainly Creditor matches (**Appendix 2**).

All 'Recommended' (these are completed on a high priority basis) matches have now been completed.

In total there were 3,770 matches received, of which 3,269 have now been processed and 492 are waiting to be processed.

5.2 Tenancy fraud

The Investigator commenced his position within the team on 1st April 2015. To date work has been carried out to produce an investigation manual to provide guidance, support and assistance within all types of criminal investigations including Tenancy Fraud, which is a new area of investigation for the Council.

We have conducted one investigation with Circle Housing Wherry which resulted in a successful prosecution of a tenant who had unlawfully sub-let his social housing property to gain an unlawful profit. The tenant was convicted and given:

- A two year conditional discharge
- The full amount of Unlawful profits of £3,687.64 was awarded to the Housing Association
- Full costs of £1,363.70 were awarded to the Council
- A victims surcharge of £15.00 was also issued to the offender
- The tenancy was terminated and the property returned to the Housing Association and new tenants are already in the property.

Tenancy Fraud training was completed in October 2015 with officers from the Housing Team, and two of the larger Housing Associations in the Borough as well as the Internal Audit team attending.

The Prevention of Social Housing Fraud Act 2013 states that Local Authorities have been given the authority to conduct Social Housing Fraud investigations on behalf of Social Housing providers. Steps are being taken to expand this service to local Social Housing providers for which a fee will be charged to cover the cost of the investigation.

5.3 Council Tax Reduction Scheme

Due to the transfer of Housing Benefit Investigations to the Department for Work and Pensions (DWP) with effect from 1 April 2015, a new referral procedure has been produced because some types of Council Tax Reduction Scheme investigations will be affected by the actions of the DWP. The Investigator has held briefing sessions with the Benefit Assessment staff and also the Benefit Advice and Review Team, in order to relay the new procedures and also provide further information about what types of allegations need to be referred. The DWP send through forms known as Local Authority Exchange of Information Forms (LAEIF), these are to be checked by the Investigator to identify any cases that require Council Tax Support Investigations to be conducted. An analysis has been carried out by the Investigator to establish the potential caseload:

During the period 01/01/14 to 31/12/14 the former Benefit Enquiry Unit processed 628 referrals covering Housing Benefit, Council Tax Benefit and Council Tax Support claims. This was based upon an approximate claim base of 14,000.

The claim base for 'Council Tax Support only' claims that can be considered for investigation (as at 08/02/16) was 3,394. This analysis reflects that the referrals being received has been consistent with previous years.

5.4 Debtor/Absconder tracing

The Investigator has assisted other departments within the Council during the financial year to trace seven debtors/absconders who owed a total of £31,222.87 and recovery actions are now being taken against these individuals with £2,996.61 of the debts having been paid back during 2015/16.

This tracing service is being provided to all areas of the Council who may require it.

5.5 Identified Fraud and Error figures

The following figures reflect the fraud and error identified following investigations being carried out for the period 1 October 2015 to 31 March 2016:

Housing Benefit (inc Discretionary Housing Payments) & Council Tax Benefit	£5,971.52
Council Tax Reduction Scheme	£208.18
Council Tax	£3,760.50
National Non-Domestic Rates	£624.59
Duplicate Creditor Invoice	£4,153.76
Unlawful Profit Orders and Investigation Costs	£5,051.34
Total fraud and error identified	£19,769.89

6.0 **Conclusion**

6.1 The service reviews taking place throughout the Council are having an impact on the audit plan as it is not a good use of audit time to review a service that is going through change. Time is then needed afterwards to accumulate enough data/ information to test and base an opinion on.

6.2 Additional work has also encroached on time allocated to planned audit work, resulting in a substantial amount of work still ongoing at the end of the year.

6.2 This report provides Members with an overview of the audit activity and outcomes over the period, and provides an opportunity for Members to seek further information if required.

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 report.
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 2015-16	Overall Opinion
<p><u>Recruitment</u> Report published October 2015. 2 Medium recommendations were made. One was to review relevant policies and procedures to ensure they reflect current legislation and the second was to remind managers recruiting seasonal staff of the pre-employment checks to be carried out before employment commences.</p>	Full assurance
<p><u>Civil Enforcement and Car Parking</u> Report published March 2016. The report contained 1 High and 2 Medium recommendations. The High recommendation related to the need to differentiate between levels of access rights to the 3Sixty software used to manage Civil Enforcement.</p> <p>One Medium recommendation was to reprint and reissue the Service Level Agreement to the bailiffs with the intended amendments, and the second recommended that some form of written record of meetings with North Norfolk District Council officers was produced after each meeting.</p>	Substantial assurance
<p><u>Civic Expenses and Administration</u> Report published October 2015. The report contained 1 Medium recommendation to set up a simple stock record detailing the gifts obtained for borough hospitality and to recharge other service areas when stock is used for events other than Mayor's events.</p>	Full Assurance
<p><u>Accounts Receivable</u> Report published January 2016. The report contained 5 Medium recommendations to carry out a review of procedure notes; maintain a clear record of rents and charges applicable to each industrial unit; clarify that the 'fee' shown on the Council website for disabled access to Gayton Road Cemetery is a refundable deposit; clarify on the website that grave digging fees apply to Walpole St Andrew, Marshland and Upwell cemeteries; and retain documentary evidence to support write offs up to £250 with the write-off schedule.</p>	Substantial Assurance

Audits completed October to March 2015-16	Overall Opinion
<p><u>Payroll</u> Report published April 2016 The report contained 1 Medium recommendation to monitor receipt of the Return to Work forms and report to Management Team where forms are not being received within two weeks of the employee's return.</p>	Full Assurance
<p><u>Treasury and Cashflow Management</u> Report published May 2016. The report contained 2 High, 3 Medium and 2 Low recommendations. The High recommendations are to update the Authorised Signatory lists and to ensure that sufficient evidence is retained to support the bank reconciliation. The Medium recommendations are to remind staff in the treasury function of the need to take care with recording transactions and the evidence required to support CHAPS payment; at the end of the financial year ensure all expenditure is recorded in the correct codes in respect of the NWES funding; and re-title treasury reports to more accurately reflect the content and consider the use of Treasury Management software.</p>	Substantial Assurance
<p><u>CCTV</u> Report published February 2016. The report contained 3 Medium recommendations to review and update the Code of practice; regularly evaluate existing cameras to confirm if they are still necessary and proportionate; and review the scale of fees and internal recharges with the Service Accountant to ensure the reflect the costs of the service accurately.</p>	Substantial Assurance
<p><u>Data Protection, Freedom of Information and Environmental Information Regulations</u> Report published December 2015. The report contained 7 Medium and 3 Low recommendations. The 7 Medium recommendations are to produce written procedures on how to handle DPA, FOI and EIR requests; maintain a record of Subject Access requests; expand the Staff Guidance to include Members and regular reminders to staff to clear desks of any confidential information at the end of the day; and monitor</p>	Substantial Assurance

Audits completed October to March 2015-16	Overall Opinion
and report on the non-completion of the e-learning relating to DPA, FOI and EIR.	
<p><u>Alive Leisure and Alive Management</u> Report published January 2016 The report contained 2 High and 2 Medium recommendations. The High recommendations are that the procedures and responsibilities for starting and terminating staff, the process for reporting sickness and submitting payroll should be examined and procedures specifically for Alive venues produced; and that all venues to adopt the HMRC guidance for the retention of records: current year plus 3 years.</p> <p>The Medium recommendations are that the Authorised Signatory lists should be reviewed and update; and that the use of casual staff should be monitored as Casual staff who develop a regular working pattern over 2 years could accrue employment rights such as redundancy pay and maternity leave.</p>	Limited Assurance

Follow-up audits completed October to March 2015-16	Original report	Follow-up progress
<p><u>Planning Support</u> The report published in November 2014 (initial follow-up carried out in October 2015) contained 5 High, 6 Medium and 3 Low recommendations. All but two of the recommendations have been implemented satisfactorily. The two outstanding issues relate to reconciliation of planning income records to Accountancy reports.</p>	November 2014 Substantial Assurance	April 2016 Adequate
<p><u>Public Open Space – Street Cleansing</u> The report published in January 2015 contained 1 High, 4 Medium and 1 Low recommendations. All recommendations have been implemented satisfactorily.</p>	January 2015 Substantial Assurance	October 2015 Very Good
<p><u>Public Open Space - Allotments</u> The report published in April 2015 contained 5 High and 14 Medium recommendations. It was known at the time of the audit that implementation of the accepted recommendations would constitute a long term programme of work. 18 out of 19 recommendations were accepted, and of those 18, 17 have either made progress or an appropriate plan is in place for future progression and the assurance level in this case improved to Limited Assurance. A further audit of Allotments has been included in the Audit Plan for 2016/17 and the work is planned to take place in Quarter 2 (July-September).</p>	April 2015 No Assurance	October 2015 Good

APPENDIX 2

NFI 2014/15 Exercise Data Matches Summary of Progress

(Shaded grey = Closed)

Dataset	NFI Matches report	No. matches	Comment
Payroll	66.0 : Payroll to Payroll, between bodies	2	Both investigated and no issues arising. File closed.
Payroll	80 - Payroll to Creditors same bank account	26	All investigated and no issues arising. File closed.
Payroll	81 - Payroll to Creditors address quality	14	6 matches have been investigated and closed with no issues arising. Work is continuing on the remaining matches.
Insurance	180.6 - Insurance Claimants to Insurance Claimants	7	Matches being investigated. 2 have been closed with no issue arising.
Creditors Standing Data	701. - Duplicate creditors by creditor name	222	190 matches have been investigated and closed with no issues arising. Work is continuing on the remaining matches.
Creditors Standing Data	702 – Duplicate creditors by address detail	176	15 matches have been investigated and closed with no issues arising. Work is continuing on the remaining matches.
Creditors Standing Data	703 – Duplicate creditors by bank account number	41	40 matches have been investigated and closed with no issues arising. The remaining match is being checked.
Creditors History	707.0 : Duplicate records by invoice reference, invoice amount and creditor reference	86	85 matches have been investigated and 83 have been closed with no issues identified. Overpayments have been identified in 2 cases and are being pursued for recovery. 1 case is still being investigated.
Creditors History	708.0 : Duplicate records by invoice amount and creditor reference	339	All investigated. Overpayments have been identified in 2 cases, and are being pursued for recovery. File closed
Creditors History	709.0 : VAT overpaid	4	All investigated and no issues arising. File closed.
Creditors History	710.0 : Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	1	No issue arising. File closed.
Creditors History	711.0 : Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	24	All investigated. Overpayment has been identified in 1 case, and is being pursued for recovery. File closed
Creditors History	713.0 : Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	7	All investigated and no issues arising. File closed.
Benefits	Matches requiring investigation have been referred to the Single Fraud Investigation Service with the DWP.		