

# INFORMATION NOTE

## Internal Audit Interim Report 2015/16



### REPORT

#### 1. Introduction

##### 1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of the Council's internal control system and integral to the framework of assurance that the Audit Committee can place reliance upon in its assessment of the internal control system.

##### 1.2 Definition of Internal Audit

The definition of internal audit, as described in the UK Public Sector Internal Audit Standards (PSIAS), is set out below:

- ♦ Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

##### 1.3 Purposes of the Report

1.3.1 The Internal Audit Team is responsible to the Director of Resources for carrying out a continuous examination of the accounting, financial and other operations of the Council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2011. The latter states that "the relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

1.3.2 This report provides the Audit Committee with information on work undertaken and assurances gained in these respects between April and December 2015.

##### 1.4 Statement of Conformance with Public Sector Internal Audit Standards

1.4.1 The Internal Audit service works to the Internal Audit Charter approved by the former Audit Committee in March 2015 that fully reflects the requirements of the PSIAS. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. The Internal Audit team is required to adhere to the code of ethics, standards and guidelines of relevant professional institutes and the relevant professional auditing standards.

1.4.2 Internal Audit has adopted the principles contained in the PSIAS and works substantially in conformance with them, fulfilling the requirements of the Accounts and Audit Regulations 2015 and associated regulations in respect of the provision of an internal audit service.

1.4.3 Where feasible areas of non-conformance with the standards have been developed into an Improvement Plan, which was endorsed by the committee at its September meeting. The outcomes will be reported in accordance with the agreed timetable.

#### 2. Assurance on Internal Control

2.1 During the period from April to December 2015 fifteen reports have been issued with action plans agreed where appropriate. Copies of the reports and action plans are available to view via the Audit Work page on the Intranet.

2.2 In the action plans arising from audit work we categorise recommendations as high, medium or low priority. High indicates a significant control weakness that may result in failure to achieve corporate objectives, reputational damage, material loss, exposure to serious fraud or failure to meet legal/statutory requirements. Medium suggests a less important vulnerability not fundamental to system integrity that could result in failure to achieve operational objectives, non-material loss, or non-compliance to departmental operational/financial procedures. Low priorities relate to good practice improvements or enhancements to procedures, although several low risks in combination may give rise to concern.

2.3 We also measure the overall level of assurance, where appropriate, based on the adequacy and effectiveness of internal control in a system on a five-point scale. Table One sets out the assurance levels and definitions as follows:

**Table One: Levels of Assurance**

Level	Definition
5 Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives, which is consistently applied
4 Substantial Assurance	There is essentially a sound system of control but there are some minor weaknesses, which may put achievement of certain system objectives at risk
3 Moderate Assurance	While there is on the whole a sound system of control, some controls are not consistently applied resulting in more significant weaknesses that may put some system objectives at risk
2 Limited Assurance	There are significant/serious weaknesses and inconsistent application of controls in key areas that put the system objectives at risk
1 No Assurance	The control framework is generally weak leaving the system open to significant error or abuse and is not capable of meeting its objectives

2.4 Table Two shows the category of recommendations identified for each audit completed in the period, together with the assurance rating for the system reviewed.

**Table Two: Reports, Risk & Assurance**

Audit Area	High Risks	Med Risks	Low Risks	Assurance Level
Fuel Cards <sup>1</sup>	-	-	-	Full
Corporate Governance	-	2	2	Full
Attendance Management	-	7	5	Moderate
Financial Controls Assurance Testing				
Business Rates	-	-	-	Full
Council Tax	-	-	-	Full
Housing Benefits	-	-	-	Full
Income Collection - Central System	-	1	-	Full
Income Collection - Remote Sites				Limited
Bereavement Services	-	-	1	
Customer Services	-	-	2	
Fairhaven Lake	3	-	-	

Fleet Services	-	2	1	
Creditors	-	-	2	Full
Treasury Management	-	-	3	Full
Bereavement Services	-	3	3	Moderate
Complaints	-	7	3	Moderate
<b>Total</b>	<b>3</b>	<b>22</b>	<b>22</b>	

<sup>1</sup> Reviews from 2014/15 finalised in 2015/16

<sup>2</sup> Joint audit with Blackpool Council

2.5 For 2015/16 reviews undertaken by Internal Audit to 31<sup>st</sup> December the average assurance score was 4.3 on the scale of 1 to 5. This equates to substantial assurance overall and indicates that the control framework is sound but some minor weaknesses may put some system objectives at risk.

2.6 There were three important internal control weaknesses brought to the attention of management during the period, and three brought forward from 2014/15. All the actions have been addressed with the exception of one in relation to testing the business continuity plan. An exercise to complete this action was scheduled but unfortunately the Risk and Emergency Planning Manager, who was to lead the exercise, is currently unwell. The event will be rescheduled in due course.

2.7 Table Three sets out the issues, the responsible Directorates and the current position or date for resolution.

**Table Three: High Priority Risks Identified**

<b>Risk</b>	<b>Director</b>	<b>Resolution Date</b>
<b>Previous Years' Risks</b>		
1. Develop an effective and current Corporate Business Continuity Plan arising from the BIA and reflecting existing risks and structures	Resources	Completed
2. Hold a copy of the Corporate Business Continuity Plan off site in a safe accessible place not dependent on a functioning ICT system	Resources	Completed
3. Conduct an annual exercise to test the Council's planned response to business disruption	Resources	Dec 2015
<b>Current Year's Risks</b>		
4. Staff at Fairhaven Lake who may deal with income will be made aware of the Banking & Cash Handling Procedure 2015 and required to sign the appropriate declaration	Development	Completed
5. Site specific procedures for secure operation of tills and safe custody of cash will be developed for Fairhaven Lake and responsible staff will be trained to follow them	Development	Completed
6. Standard managerial checks consistent with good practice in handling income and banking will be re-instated and consistently applied	Development	Completed

### 3 Follow-Up Work

3.1 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Seven follow-up reviews have been completed to 31 December. A further four follow-up reviews, previously reported, have also been revisited during the year

3.2 Table Four shows the total number of agreed recommendations that were implemented by managers.

**Table Four: Agreed Recommendations Implemented**

Audit Area	R e c o m m e n d a t i o n s		
	Total Agreed	Number Implemented	% Implemented
<b>Previous Years' Reports</b>			
Data Protection (Resources) <sup>1</sup>	12	12	100%
Homelessness <sup>1</sup>	13	13	100%
Mayoralty <sup>1</sup>	12	12	100%
Heritage Assets <sup>1</sup>	10	10	100%
Council Tax	3	3	100%
Corporate Governance	12	11	92%
Creditors	2	2	100%
Ethical Governance	15	15	100%
<b>2015-16 Reports</b>			
Income Collection – Remote Sites			
Bereavement Services	1	1	100%
Customer Services	2	2	100%
Fairhaven Lake	3	3	100%
Total	85	84	98.8%

<sup>1</sup> Follow Up from 2013/14 reviews revisited in 2015/16

3.3 The implementation rate for follow-up reviews to 31 December stands at 98.8% against a target of 90%. This compares to last year's overall implementation figure of 97.3% and the 5-year average rate for overall implementation which stands at 91.8%.

### 4 Special Investigations and Counter Fraud Work

#### Investigations

4.1 During the year to the 31<sup>st</sup> December no new investigations into allegations of fraud and corruption were commenced. However, one allegation was brought to the attention of internal audit but separately investigated.

4.2 Table Five summarises the results of the investigations into fraud and corruption for previous years.

**Table Five: Results of Special Investigations**

<b>Outcome</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Disciplinary action	-	1	-	-	1
Management action	-	-	-	-	2
Third party restitution	-	-	1	-	-
No evidence to support allegation	-	1	2	-	1
Inconclusive evidence	-	-	-	1	1
Investigation terminated	1	-	-	1	-
Investigation ongoing	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>5</b>

4.3 Only 2 days have been taken up dealing with special investigations and reactive fraud work during the period 1<sup>st</sup> April to the 31<sup>st</sup> December 2015. This unusually low figure compares to 58 days for the whole of 2014/15 and a contingency of 15 days included in the 2015/16 annual plan. The amount of investigative work required is not predictable and this year its impact on the achievement of the audit plan has been negligible so far.

#### National Fraud Initiative

4.4 The Head of Internal Audit acts as key contact for the National Fraud Initiative ongoing data matching exercise; nominating data download contacts and co-ordinating the production of housing benefit, payroll, council tax, creditor, licensing and electoral register information for the data matching exercise.

4.5 The 2014/2015 biennial exercise revealed overpayments totalling of £28,000 with ongoing savings in future years. The Council also participates in an annual exercise involving the comparison of datasets from council tax to the electoral register, which last year resulted in savings of £12,000. This annual element is currently ongoing for 2015/16 with live data extracted from the Council's systems in accordance with the data specifications generating a significant number of matches for investigation.

#### Shared Fraud Service

4.6 The Head of Internal Audit is responsible for overseeing the delivery of the shared fraud service provided by Preston City Council. Until 31 May 2015 this related to the investigation of housing benefit and council tax reduction scheme fraud. After this date responsibility for the investigation of housing benefit fraud transferred to the Department for Work & Pensions.

4.7 In the current year to 31<sup>st</sup> December overpayments of £71,395 have been identified resulting in 5 prosecutions and other sanctions. The value of overpayments identified is likely to be considerably less than in previous years because the amount of money involved in non-benefit fraud is generally lower. However, the fraud service will be scrutinising areas that have never been investigated previously and the cost of the service to Fylde is considerably reduced to reflect these changed circumstances.

#### Whistleblowing

4.8 There have been no instances of employee whistleblowing during the current year to date.

## 5 Performance of Internal Audit

5.1 A set of performance indicators for internal audit was adopted by the Audit Committee following an exercise to canvass the views of interested stakeholders. Table Six sets out the current performance information against the agreed targets:

**Table Six: Performance Indicator Results**

Performance Indicator	Target	Actual 2014/15	Current to 31/12/15
IA1 % of audit plan completed	90%	98.1% <sup>1</sup>	63.1%
IA2 % satisfaction rating indicated by post-audit surveys	90%	88.6%	90.7%
IA3 % of audit recommendations agreed with management	95%	100%	100%
IA4 % of agreed actions implemented by management	90%	94.8%	98.8%
IA5 % of 'High Priority' actions implemented by management	100%	85.7%	100%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	92.4%	96.9%
IA7 % of recommendations implemented by the first agreed date	75%	73.9%	50.0%

<sup>1</sup> Revised Audit Plan

5.2 The first two performance indicators reflect specifically on the work and service of the internal audit team. The remaining indicators relate to the effectiveness of the audit service as a result of management's action or inaction.

5.3 The percentage of the audit plan completed to date of 63.1% is explained and addressed in the following section of the report.

## 6 Internal Audit Plan

### Reduced Resources

6.1 The resources of internal audit are almost exclusively manpower related. During the third quarter of 2015/16 the team has been affected by both recruitment problems and covering for an indisposed colleague have impacted on the time available to achieve the annual plan.

6.2 During October a full time member of the audit team resigned and an extended recruitment period occurred with the post remaining vacant for much of the quarter equivalent to about 50 days.

6.3 In December the Head of Internal Audit has provided cover for the insurance element of the Council's Risk and Emergency Planning Officer who was taken ill unexpectedly. The impact of this on the audit plan so far is only around 5 days. However, it is anticipated that further time will need to be allowed in the final quarter of the 2015/16 to allow for work in connection with the annual strategic risk process.

6.4 The appointment of an experienced part time member of staff on a temporary basis is expected to take place early in 2016 to assist with both insurance and audit duties. Nevertheless there will still be a further reduction in the time available to complete the audit plan amounting to about 20 days.

6.5 The total impact of reduced manpower resources in the current audit year is likely to be at least 75 days. From this between 25% and 30% of time is accounted for by holidays, training, absences and non-audit duties. This equates to a loss of around 50 working days.

### Impact on Audit Plan

6.6 The objective for the remainder of the year will be to undertake the audits of the remaining

fundamental financial systems, to complete the follow up reviews of audits already undertaken and to conclude those audits already commenced.

6.7 The proposed joint review of Housing Benefits with Blackpool audit team included in the original plan will not proceed within the current financial year as result of operational difficulties within the service. Nevertheless, our work on FCAT will allow assurance to be provided in terms of the overall system. This change will save 18 days.

6.8 A saving of at least 10 days is likely to be made from the contingency for reactive fraud, meaning that a further 22 days will need to be saved by not undertaking planned work in the current year. A concerted effort to save the remaining days from within the audits currently in progress or yet to be performed will be attempted but it is highly likely that some slippage will occur.

6.9 Despite the above, fundamental financial systems and significant corporate matters will continue to be examined as originally planned. This approach will allow the Head of Internal Audit to formulate an opinion of the overall adequacy and effectiveness of the Council's control environment as required by the Public Sector Internal Audit Standards.

**FURTHER INFORMATION AVAILABLE FROM**

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