

# INFORMATION NOTE

## Internal Audit Interim Report 2017/18

### REPORT

#### 1. Introduction

##### 1.1 Role and definition 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.

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.

##### 1.2 Purposes of the Report

1.2.1 The Internal Audit Team is responsible 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 2015. The latter states that "*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.*"

1.2.2 The Internal Audit service works to the Internal Audit Charter approved by the Committee in September 2016 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.

1.2.3 Internal Audit has adopted the principles contained in the PSIAS and seeks to work 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.

1.2.4 The annual report on the assessment of internal audit conformance with the Standards was presented to the committee at its June 2017 meeting. The committee agreed that the report provided suitable assurance at that time concerning the effectiveness of risk management, control and governance processes in terms of the exercise of the Council's functions and the achievement of its aims. A review of the effectiveness of internal audit was also presented to the committee in September last year, which reconfirmed full compliance with PSIAS.

1.2.5 This report provides the Audit Committee with information on work undertaken and assurances gained between April and December 2017. The retirement of the previous Head of Internal Audit and the resulting vacancy in that position has temporarily reduced capacity in the team, as has the continuing vacancy for an Audit Assistant, which is intended to be filled when a new Head of Internal Audit takes up their post. This lowered capacity is reflected in the content of this interim report. As an interim report, this document does not contain an assessment of compliance with PSIAS. In any event, such an assessment is a matter for a chief audit executive (the term used in PSIAS to refer to a professionally-qualified head of internal audit), and not for the present writer.

1.2.6 The interim audit report is normally written or approved by the Head of Internal Audit. However, as that post is presently vacant, this year's interim report has been written by the Head of Governance, who is not a qualified auditor, using data requested from the council's internal audit team.

## 2. Assurance on Internal Control

2.1 During the period from April to December 2017 seven reports have been issued with action plans agreed where appropriate.

2.2 In the action plans arising from audit work the audit team categorises 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 The audit team 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. The assurance levels and definitions are as follows:

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

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

**Table One: Reports and Risk**

Audit Area	High Risks	Med Risks	Low Risks	Assurance Level
Car parking	0	6	3	Substantial
Information Governance	1	11	7	Limited
Annual Governance Review	0	4	13	Moderate
Confidential Waste	0	4	3	Limited
Fairhaven Lake	0	4	2	Limited
Sundry Debtors	0	4	3	Substantial

Council Tax and Business Rates Refunds: Blackpool	0	1	5	Substantial
Council Tax and Business Rates Refunds: Fylde	0	0	5	Substantial
Business Rates (Financial Control Assurance Testing)	0	0	0	Full
Council Tax (FCAT)	0	0	0	Full
Housing Benefits (FCAT)	0	0	0	Full
<b>Total</b>	<b>1</b>	<b>34</b>	<b>41</b>	

2.5 There was one important internal control weakness brought to the attention of management during the period, and eight brought forward from previous years. The previous year's actions have been completed in full (one subject as noted in the table), and the current year's action has also been completed.

2.6 Table Two sets out the issues, the current position and/or agreed date for resolution.

**Table Two: High Priority Risks Identified**

Risk	Resolution Date	Comment
<b>Previous Year's Risks</b>		
1. The Finance Team will take responsibility for compiling an up-to-date contracts register and maintaining it thereafter.	-	Completed
2. The contracts register will be published in accordance with the Local Government Transparency Code 2015.	-	Completed
3. Unsuccessful bidders must be sent the mandatory 'Alcate' letter at the conclusion of the procurement process both to allow a standstill period of at least 11 days for an effective challenge to the award decision before the contract is concluded and to provide details of the tender evaluation scores	-	Completed
4. Responsibility for the delivery of the risk management function will be allocated to a competent resource on a permanent basis. Once appointed the risk management pages of the Intranet will be updated with the details of the responsible officer.	-	Completed
5. The Senior Coast & Countryside Officer will be designated as responsible for managerial supervision of Fairhaven Lake and for maintaining evidence of checks undertaken and any actions arising.	-	Completed

		Outstanding (plans to be tested in Summer 2018, as reported to committee in January)
6.	A programme of regular business continuity exercises will be carried out in accordance with the Business Continuity Management Policy to test the effectiveness of all of the council's business continuity plans.	Completed
7.	Undertake an exercise to confirm that suitable support and maintenance agreements are in place for all ICT services and systems as a matter of urgency, and suitable actions taken to address any areas of weakness.	Completed
8.	Ensure procedures are developed so that each service is made aware of support and maintenance agreements as contracts expire to enable them to respond with replacements or reviews agreed in a timely manner to maintain cover	Completed
<b>Current Year's Risks</b>		
9.	A self-assessment of the Council's compliance against an appropriate information governance framework will be undertaken to see whether its arrangements concerning information is handled correctly and protected from the risk of a data breach, unauthorised access, loss, damage and destruction.	Completed
<b>3 Follow-Up Work</b>		
3.1	Follow-up reviews are intended to catalogue post audit actions and help management to track implementation of agreed actions. Follow-up work is carried out on a continuous rolling basis until agreed actions are completed, or until management takes a specific decision not to implement an action. Follow-up work is therefore dependant to a significant degree by the commitment of management to the agreed actions, as well as by the capacity of the audit team.	
3.3	Many of the performance indicators usually reported to committee in the interim report are either not available or would not be meaningful because of low sample values. Full information will be provided in the internal audit annual report, and in the meantime information on specific audits can be made available on request.	
<b>4 Special Investigations and Counter Fraud Work</b>		
<u>Investigations</u>		
4.1	During the year to the 31 <sup>st</sup> December four new investigations into allegations of fraud were commenced. None concerned allegations of wrongdoing by officers or members, and internal audit involvement in each concluded by recommendations being made to management (and accepted) on improvements to procedures.	
4.2	Table Three summarises the results of the investigations into fraud and corruption for previous years.	

**Table Three: Results of Special Investigations**

<b>Outcome</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Disciplinary action	-	-	1		
Management action	-	-	2	1	4
Third party restitution	-	1	-	-	
No evidence to support allegation	2	-	1		
Inconclusive evidence	-	1	1		
Investigation terminated	-	1	-		
Investigation ongoing	-	-	-		
Total	3	2	5	1	4

**National Fraud Initiative (NFI)**

4.3 The Head of Internal Audit normally acts as key contact for the National Fraud Initiative, though this role is being filled by the Head of Governance until the appointment of a new post holder.

**Shared Fraud Service**

4.4 The Head of Internal Audit is responsible for overseeing the delivery of the shared fraud service provided by Preston City Council. The service is tasked with investigating fraud, bribery and corruption by employees, members, contractors, consultants, suppliers, service users and members of the public who have dealings with the Council. This excludes responsibility for the investigation of housing benefit fraud, which transferred to the Department for Work & Pensions in 2015.

4.5 In the current year the shared service has undertaken the annual NFI Council Tax to Electoral Register matches, the NFI biennial report, pro-active reviews of Council Tax Support cases and a pro-active drive of small business rates relief. The service is still working on the Council Tax Support reviews with 30 + cases awaiting re-assessment with Blackpool. The NNDR small business rates relief drive is also ongoing and should prove fruitful. Some incorrect reliefs have already been identified/resolved and the service has started looking at industrial units earlier this month, this will produce further savings.

4.6 Recovered overpayments to the end of January 2018 amount to £29,367.55. The service is confident of reaching its target for the year of £40,000.

4.7 The Finance and Democracy Committee [recently approved](#) the extension of the shared fraud service for a further three years, from June 1 this year. The head of the shared fraud service will report to the new Head of Internal Audit, when appointed.

**Whistleblowing**

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

**5 Internal Audit Plan**

5.1 The original Audit Plan was approved by the Audit Committee in March 2017 and reflected the prevailing organisational risks and priorities for Internal Audit input at that time. Table Four summarises the current position with each of audit reviews included in the plan

**Table Four: Internal Audit Plan 2017/18 at 31 December 2017**

Audit Areas	Plan Days	Status
<b>Core Financial Systems</b>		
Council tax collection (joint)	20	Testing
Business Rates (FCAT)	12	Ongoing
Cash Collection	18	Not started
Council Tax (FCAT)	12	Ongoing
Creditors/Purchasing	10	Draft report
Housing Benefits Risk Based Verification	20	Ongoing
Housing Benefits (FCAT)	12	Ongoing
Payroll FCAT	12	Not started
Treasury Management	16	Not started
<b>Other Risks</b>		
Car Parking	5	Completed
Coastal Defence Project – Assurance Assessment	20	Not started
Disabled Facilities Grant	16	Draft report
Emergency Planning	16	Draft report
Green Waste Charges	15	Not started
HMO Licensing	12	Not started
ICT Allowance – Paper Reduction Project	4	Not started
Information Governance	3	Completed
Personal Data Handling & Security	15	Not started
<b>Corporate Governance</b>		
Annual Governance Review	14	Completed
Audit Committee - Effectiveness	2	Not started
Internal Audit – Review of Effectiveness	2	Completed
Risk Management	16	Draft report
<b>Computer Audit</b>		
ICT	16	
<b>Anti- Fraud</b>		
Corporate Fraud	5	Ongoing
National Fraud Initiative <sup>1</sup>	5	
Prevention of Fraud & Corruption	5	Completed
<b>Follow Up</b>		
Follow Up Reviews	15	Ongoing
<b>Communication &amp; Consultancy</b>		
Consultancy & Advice	20	Ongoing
Communication/Liaison	23	Ongoing
Public Sector Internal Audit Standards – Review of peer	10	Deferred
<b>Reactive Work</b>		
Contingency	15	Ongoing
<b>Total</b>	<b>406</b>	

<sup>1</sup> Lead officer responsibility for the National Fraud Initiative has been transferred elsewhere until the appointment of a new Head of Internal Audit

6.2 The percentage of the audit plan expected to be completed by the end of the financial year is 56%. This is due in the main to the fact that the reduction in team capacity of 28% caused by the retirement of the previous head of internal audit was not reflected in the plan.

6.3 Despite the above, the team will endeavour to provide assurance on fundamental financial systems and significant corporate matters, allowing an incoming 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.

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**FURTHER INFORMATION AVAILABLE FROM**

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