

# INFORMATION NOTE

## Internal Audit Interim Report 2016/17



### 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 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."

1.3.2 This report provides the Audit Committee with information on work undertaken and assurances gained in these respects between April and December 2016.

##### 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 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.

1.4.2 Internal Audit has adopted the principles contained in the PSIAS and works 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 The annual report on the assessment of internal audit conformance with the Standards was endorsed by the committee at its September meeting. There were no areas of non-conformance that required improvement action.

#### 2. Assurance on Internal Control

2.1 During the period from April to December 2016 ten reports have been issued with action plans agreed where appropriate; a further review is at draft report stage.

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
Corporate Governance	-	4	4	Full
Procurement	3	13	8	Limited
Risk Management	1	11	2	Limited
Food Hygiene Rating Scheme	-	5	3	Substantial
Financial Controls Assurance Testing				
Business Rates	-	-	-	Full
Council Tax	-	-	-	Full
Housing Benefits	-	-	-	Full
Income Collection - Fairhaven Lake	1	10	-	Limited
IT Service Continuity	3	7	2	Limited
IT Probity	-	4	-	Moderate
Section 106 Agreements <sup>1</sup>	-	10	8	Moderate
<b>Total</b>	<b>8</b>	<b>64</b>	<b>27</b>	

<sup>1</sup> Review at draft stage

2.5 For 2016/17 reviews undertaken by Internal Audit to 31<sup>st</sup> December the average assurance score was 3.5 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 eight important internal control weaknesses brought to the attention of management during the period, and one brought forward from previous years. Three actions have been completed in full and a further action completed subject to evidential review. The remaining five high priority actions are currently outstanding.

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

**Table Three: High Priority Risks Identified**

<b>Risk</b>	<b>Resolution Date</b>	<b>Comment</b>
<b>Previous Years' Risks</b>		
1. Conduct an annual exercise to test the Council's planned response to business disruption	-	Completed
<b>Current Year's Risks</b>		
2. The Finance Team will take responsibility for compiling an up-to-date contracts register and maintaining it thereafter.	Mar 2017 (May 2016)	Actions concerning the compilation and publication of an up-to-date contracts register were not commenced in accordance with the agreed timetable. An officer with responsibility for this role has recently been appointed.
3. The contracts register will be published in accordance with the Local Government Transparency Code 2015.	Mar 2017 (Aug 2016)	
4. Unsuccessful bidders must be sent the mandatory 'Alcatel' 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	Apr 2017 (Jul 2016)	Training will be given to responsible officers.
5. 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
6. 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
7. A programme of regular business continuity exercises will be carried out in accordance with	Mar 2017 (Sep 2016)	Following the BCP exercise in Sep 2016, a further meeting to

the Business Continuity Management Policy to test the effectiveness of all of the council's business continuity plans.

review critical services will take place in January. A BCP response team will be set up with roles agreed. Work is ongoing with plan owners to review plans. The BCP policy is to be reviewed.

8. 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.

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Completed\*

9. 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

Apr 2017  
(Jul 2016)

Currently all systems have existing suitable support arrangements. Further enhancements are ongoing, in order to build into the existing IT Help Desk function a complete and up-to-date asset catalogue of all hardware and software entitlements.

\* subject to evidential review

### 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. Eleven follow-up reviews have been completed to 31 December.

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>			
Treasury Management	3	3	100%
Fuel Cards	7	7	100%
Waste Management	10	9	90%
Sundry Debtors	3	1	33%
Income Collection (Central)	1	0	0%
IT Service Management	7	6	86%
Overtake Mileage Facility	3	2	67%

Travel and Expenses	14	13	93%
Attendance Management	12	11	92%
Corporate Governance 2015	4	3	75%
Civica Financials Application	5	5	100%
Total	69	60	87.0%

3.3 The implementation rate for follow-up reviews to 31 December stands at 87.0% against a target of 90%. This compares to last year's overall implementation figure of 98.9% and the 5-year average rate for overall implementation which stands at 92.1%.

#### **4 Special Investigations and Counter Fraud Work**

##### Investigations

4.1 During the year to the 31<sup>st</sup> December one new investigation into an allegation of fraud was commenced. The investigation, carried out by the shared corporate fraud resource, is currently ongoing.

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>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Disciplinary action	1	-	-	1	-
Management action	-	-	-	2	1
Third party restitution	-	1	-	-	-
No evidence to support allegation	1	2	-	1	-
Inconclusive evidence	-	-	1	1	-
Investigation terminated	-	-	1	-	-
Investigation ongoing	-	-	-	-	-
Total	2	3	2	5	1

4.3 Less than 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 2016.

##### 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 extraction and upload of data for the main biennial exercise has recently been completed and the investigative work will commence early in 2017. The previous exercise revealed overpayments totalling more than £35,000 with ongoing savings in future years.

##### Shared Fraud Service

4.5 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.

4.6 In the current year to 31<sup>st</sup> December overpayments of £26,200 have been identified, almost all in relation to Council Tax discounts/exemptions and overpayments under the Council Tax Reduction Scheme. The value of overpayments identified is less than in previous years because the amount of money involved in non-benefit fraud is generally lower. However, the fraud service is tasked with achieving annual savings greater than its £27,000 cost to the council, which has almost been achieved at the end of the third quarter.

#### Whistleblowing

4.7 There has been one employee whistleblowing during the current year to date, which resulted in advice and guidance rather than an investigation.

### **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**

<b>Performance Indicator</b>	<b>Target</b>	<b>Actual 2015/16</b>	<b>Current to 31/12/16</b>
IA1 % of audit plan completed	90%	89.2% <sup>1</sup>	63.2%
IA2 % satisfaction rating indicated by post-audit surveys	90%	91.0%	90.0%
IA3 % of audit recommendations agreed with management	95%	100%	100%
IA4 % of agreed actions implemented by management	90%	98.9%	87.0%
IA5 % of 'High Priority' actions implemented by management	100%	100%	44.4%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	100%	84.6%
IA7 % of recommendations implemented by the first agreed date	75%	57.1%	61.5%

<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 63.2% is explained and addressed in the following section of the report.

### **6 Internal Audit Plan**

6.1 The original Audit Plan was approved by the Audit Committee in March 2016 and reflected the prevailing organisational risks and priorities for Internal Audit input at that time. Table Seven summarises the current position with each of audit reviews included in the plan

**Table Seven: Internal Audit Plan 2016/17 at 31 December 2016**

<b>Audit Areas</b>	<b>Plan Days</b>	<b>Status</b>
<b>Main Financial Systems</b>		
Council Tax/Business Rates <sup>1</sup>	20	Work in Progress
Council Tax FCAT	15	Ongoing
Creditors/Purchasing	18	To Commence Q4
Housing Benefit	2	To Commence Q4
Housing Benefit FCAT	18	Ongoing
National Non-Domestic Rates FCAT	12	Ongoing
Payroll FCAT	16	Ongoing
Sundry Debtors	16	Work in Progress
<b>Risk Based Reviews</b>		
Car Parking	18	Work in Progress
Emergency Planning	18	To Commence Q4
Fairhaven Lake - Income Collection	2	Complete
Information Governance	20	Work in Progress
Food Safety	4	Complete
Section 106 Agreements	13	Work in Progress
Procurement	5	Complete
<b>Corporate Governance</b>		
Annual Governance Review	14	Complete
Audit Committee - Effectiveness	2	Complete
Internal Audit - Effectiveness	3	Complete
Risk Management	4	Complete
<b>Computer Audit</b>		
IT Audit <sup>2</sup>	16	To Commence Q4
IT Probity	5	Complete
IT Service Continuity	3	Complete
<b>Anti- Fraud</b>		
Corporate Fraud	8	Ongoing
National Fraud Initiative	8	Ongoing
Prevention of Fraud & Corruption	2	Complete
<b>Follow Up</b>		
Follow Up Reviews	20	Ongoing
<b>Communication &amp; Consultancy</b>		
General Consultancy/Advice	15	Ongoing
Communication/Liaison	22	Ongoing
Public Sector Internal Audit Standards - Peer Review	20	Ongoing
<b>Reactive Work</b>		
Contingency	15	Ongoing
<b>Total</b>	<b>354</b>	

<sup>1</sup> Joint Audit with Blackpool Council<sup>2</sup> Externally provided

6.2 The percentage of the 2013/14 audit plan completed to 31<sup>st</sup> December was 63.2%, suggesting that the 90% target for the year may not be achieved. We anticipate completing all of the work currently in progress or ongoing. Of the four audit reviews scheduled to commence in the final quarter of 2016/17 we intend to focus on completing the two that relate to core financial systems - Creditors/Purchasing and Housing Benefit.

6.3 The IT Audit for 2016/17 included in the plan but not yet started is a specialised computer audit review, which is provided externally. In common with several other audit services across Lancashire, Fylde has used the County Council's computer audit resource to deliver this category of work. This option is no longer available and another suitable provider is currently being sought.

6.3 The final audit review not yet begun is the work on Emergency Planning. We anticipate commencing this audit but it likely that the bulk of the fieldwork and reporting will slip in next year. However, an effort to save days from within the audits currently in progress or yet to be performed will be attempted so that as much as possible of the planned work will be undertaken in the current year.

6.4 Despite the above, fundamental financial systems and significant corporate matters will have been audited as originally planned, allowing 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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