



**TO:** Audit & Governance Committee

**FROM:** Head of Audit & Assurance

**DATE:** 19 September 2017

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

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**TITLE OF REPORT:** **Audit & Assurance - Progress and Outcomes to 31 August 2017**

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**1. PURPOSE**

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 June to 31 August 2017.

**2. RECOMMENDATIONS**

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 31 August 2017 against the Audit & Assurance Plan, which was approved by Committee on 11 April 2017.

**3. BACKGROUND**

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit Committee during the year. This Progress and Outcomes report complies with the requirements of the PSIAS by communicating any significant issues that have been identified during the year.

**4. RATIONALE**

The Council is required under the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal audit standards (PSIASs).

The work undertaken throughout the year is intended to ensure that:

- at the year end, an objective and independent opinion can be provided that meets the statutory governance requirements;
- it also demonstrates the effectiveness of the internal audit function; and
- throughout the year, support is provided to Members, Directors and managers in their particular areas of responsibility.

## 5. KEY ISSUES

### Outcomes achieved in the year thus far:

#### Counter Fraud Activity

##### National Fraud Initiative

A total of 8,837 data matches were received from the Cabinet Office as part of the 2017 National Fraud Initiative. Of these, 4,402 cases were highlighted as 'recommended matches'. These are cases which include several matching pieces of information from more than one data source, suggesting a greater degree of accuracy. The Cabinet Office suggests that these matches are prioritised for review. The results of work undertaken show that 2,435 data matches have been processed to date. A total of 435 fraud/errors have been found resulting in savings of £197,814. The table below illustrates main areas of activity and where savings have been identified.

##### Summary of Results

Area	No. of Frauds/Errors	Value (£)
Benefits (Housing/Council Tax Support)	24	£50,219
Council Tax Single Persons Discount	299	£79,394
Private Residential Care Homes	2	£10,778
Taxi Licences revoked	3*	N/A
Blue Badges/Residents Parking Permits	107	£57,423*
<b>TOTAL</b>	<b>435</b>	<b>£197,814</b>

\*Taxi Licences revoked after it was established the holders had no leave to remain/right to work in the UK.

\*The value attached to the Blue Badges/Residents Parking Permits has been determined by the Cabinet Office which considers the average loss of fraud/error to be £536.66 per case.

A further 85 data matches are currently being reviewed. A number of these involve data matches relating to suspected fraudulent Council Tax Support (CTS) claims. The initial work on these matches has been carried out by resources within the Audit & Assurance team before being passed to Revenues & Benefits staff to complete the investigations. Additional resources will be required to investigate the remaining CTS data matches. This will need to be identified in consultation with the Revenues & Benefits Team.

Audit & Assurance staff have carried out an investigation into an alleged fraud following a complaint made under the Council's Whistleblowing Policy. The findings have been reported to management for consideration regarding further action. We are also continuing to liaise with the Police regarding a case of suspected overpayments in respect a social care client responsible for the direct commissioning of their own care service.

We have worked with Finance colleagues in the period to investigate a cash discrepancy at one location and the suspected misuse of a Council Procurement card, which had been blocked by the bank. No fraudulent activity by Council staff was identified in either case.

In addition, work is on-going to review and update the corporate fraud risk

register in liaison with the key contacts identified. Audit & Assurance are also working with colleagues from the Community Safety Team, Procurement and other relevant teams to consider the findings and recommendations in the Home Office Organised Crime Procurement Pilots Report and any relevant actions identified.

### **Internal Audit**

A summary of the 10 audits completed and finalised since the last report to Committee are detailed below.

<b>Risk, Control &amp; Governance Reviews</b>	<b>Assurance Opinion</b>		<b>Recommendations</b>
	<b>Environment</b>	<b>Compliance</b>	<b>Agreed</b>
Budgetary Control	Substantial	Substantial	0
Sundry Debtors	Adequate	Adequate	8
Cyber Risk	Adequate	Adequate	5
Growth Strategy Programme	Limited	Adequate	14
Payroll Core System	Adequate	Adequate	11
Private Care Homes Contract Payments	Limited	Limited	13
St Peters RC Primary School	Limited	Adequate	25
St Thomas CE Primary School	Limited	Adequate	22
Prosecution Process	Adequate	Adequate	12
<b>Consultancy Reviews</b>	<b>Improvement Level</b>		<b>Improvements</b>
HR & Payroll VFM	Adequate processes in place		5

We have provided a brief commentary on the four audit assignments where we have provided a limited or no assurance opinion.

**Growth Strategy Programme:** The audit assessed the arrangements relating to the Council's growth programme to ensure that it can be delivered to realise its objectives within the agreed timescales/costs and generate the expected level of income/receipts. The review covered the growth model in place during 2016/17. It considered income realisation, cost identification and timeliness of delivery. The final report provided a **limited assurance** opinion for the control environment in place and **adequate assurance** regarding compliance with the controls identified. In particular, the following weaknesses were identified at the time of the audit:

- The model did not include details of revised rateable values for businesses following the 2017 national revaluation exercise or revised income estimates to reflect Government changes to the New Homes Bonus scheme effective from 2017/18;
- Testing showed unrealistic delivery dates for some cases reviewed;
- The model used an arbitrary 'realistic' assessment to determine the probability of successful delivery of each growth project;

- The model did not consider changes to eligibility for small business rate relief from 2017/18 which can affect projected income and was not reviewed against the Business Rates register to ensure that growth projections took account of changes to occupancy or rateable value;
- The model did not make an allowance for the proportion of properties which attract a discount, exemption or Council Tax Support; and
- The model did not include details of any growth income derived from planning applications or Section 106 agreements.

**Private Care Homes Contract Payments:** The objective of the review was to ensure that the Council only pays for safe and uninterrupted care provided for service users approved for placement in private nursing and residential homes. The final report provided **limited assurance opinions** for both the control environment in place and compliance with these controls at the time of the review. The key factors for this decision were:

- Testing of care assessments found that some details were not correctly recorded on Mosaic;
- Testing found that annual reviews of care placements were not regularly carried out. Care Act statutory guidance sets out an expectation that care packages will be reviewed no later than every 12 months;
- Payments made to Care Homes were not accurate and reconciliations of under and over payments had not taken place; and
- Signed contracts were not in place with Care Homes.

**St Peter's RC Primary School:** The final report provided a **limited assurance opinion** for the control environment in place within the schools relating to the areas covered by the visit. We made 25 recommendations to strengthen arrangements in place across seven of the eleven areas covered during the visit. This included 6 'must' level recommendations. There were issues found within the following areas:

- Management Structure (6 recommendations);
- Policies/Transparencies agenda (2 recommendations);
- Budgetary Control (1 recommendation);
- Expenditure Control and Cheque Control (7 recommendations);
- Income Collection and Billing (1 recommendation);
- Asset Control (5 recommendations); and
- Information Security and Access Rights (3 recommendations).

**St Thomas's CE Primary School:** The final report provided a limited assurance opinion for the control environment in place in respect of the areas covered by the audit review. We made 22 recommendations to strengthen arrangements in place across seven of the eleven areas covered during the visit. This included four 'must' level recommendations. There were issues found within the following areas:

- Management Structure (3 recommendations);
- Policies/Transparencies agenda (3 recommendations);
- Budgetary Control (1 recommendation);
- Expenditure and Cheque Control (6 recommendations);
- Petty Cash (2 recommendations);
- Bank Reconciliation (1 recommendation); and

- IT, Information Security and Access Rights (6 recommendations).

### **Current internal audit reviews**

In addition to the above completed audits, the following reviews are ongoing:

- Adult Services Client Case Management System (Mosaic).
- SEND Inspection Regime.
- Project Management/Capital Schemes Management.
- NNDR/Business Rates.
- Council Tax.
- Housing Benefits
- Personalised Budget/Direct Payments.
- Adoptions/Fostering Recruitment and Payment.
- Blakey Moor Heritage Lottery Grant.
- Selective Licensing.
- Energy Grant.
- Bus Subsidy Grant.
- Resource Link System Access.
- Disaster Recovery.
- Petty Cash – Children’s Services Administration.
- Severance Payments.
- Schools & Museums External Funding Governance.

### **Internal Audit Performance**

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

<b>Performance Measure</b>	<b>Target</b>	<b>Q1 2017/18</b>	<b>Q4 2017/18</b>
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	<b>83%</b>
2. Planned Audits Completed Within Budget	90%	<b>60%</b>	<b>83%</b>
3. Final Reports Issued Within Deadline	90%	90%	100%
4. Follow Ups Undertaken Within Deadline	90%	<b>87%</b>	93%
5. Recommendations Implemented	90%	95%	90%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	99%

We have provided a brief commentary on the measures where performance (Q1, 2017/18) has fallen below the agreed target:

#### 2. Planned Assignments Completed Within Budget

Four of the ten audits (30%) were completed over budget. This was due to

difficulties in obtaining the required information in respect of the Debtors (4 days) Payroll (2 days) and Budgetary Control (2 days) reviews and extra time required to complete St Thomas CE Primary School (3 days) due to the issues identified. In addition, extra support was required in order to complete the Debtors audit, which was delivered by the Audit Apprentice, in order to ensure that the work met the required standards.

#### 4. Follow Ups Undertaken within Deadline

We have received responses to 13 of the 15 audits (87%) requiring follow up by 31 August. We did not receive responses to the Care Act follow-up (2 recommendations, 1 graded must), or from Newfield Special School (24 recommendations, 4 graded must) due to the school holiday closure.

Audit & Assurance will continue to seek responses from audit clients for the above reviews and provide a verbal update at the Committee meeting if received.

#### 5. Recommendations Implemented

Of the follow up responses received we were able to identify that 139 (84%) of the 166 recommendations due for implementation on or before 31 August 2017 had been fully implemented and 18 (11%) partially implemented.

- Highways – 15 recommendations; nine fully and two partially implemented, three not yet done. No ‘must’ recommendations were outstanding.
- Sacred Heart Primary School – 28 recommendations; 23 fully and three partially implemented. Two not yet done. No ‘must’ were recommendations outstanding.
- Meadowhead Infants – 16 recommendations; 13 completed, one partial. Two not yet implemented. No ‘must’ recommendations were outstanding.
- St Anne’s RC Primary School – 30 recommendations; 22 fully and six partially implemented. No ‘must’ recommendations were outstanding.

#### **6. POLICY IMPLICATIONS**

This delivery of the Plan leads to the Annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

#### **7. FINANCIAL IMPLICATIONS**

There are no financial implications arising as a result of this report.

#### **8. LEGAL IMPLICATIONS**

There are no legal implications arising as a result of this report.

#### **9. RESOURCE IMPLICATIONS**

There are no resource implications arising as a result of this report.

#### **10. EQUALITY & HEALTH IMPLICATIONS**

There are no equality or health implications arising as a result of this report.

#### **11. CONSULTATIONS**

Directors

Contact Officer: Colin Ferguson, Head of Audit & Assurance– Ext: 5326  
Date: 8 August 2017  
Background Papers: Audit & Assurance Plan 2017/18, approved by Audit Committee on 11 April 2017.