



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 25 June 2019

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 31 May 2019**

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 March 2019 to 28 May 2019 and the proposed arrangements for the re-assessment of Internal Audit.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 28 February 2019 against the annual Audit & Assurance Plan, which was approved by Committee on 16 April 2019.
- consider and approve the proposed approach for the external assessment of internal audit against requirements of the Public Sector Internal Audit Standards (PSIAS).

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.

The Standards also require public sector internal audit functions to be externally assessed at least once every five years. The assessment must be carried out by a qualified, independent assessor or assessment team from outside the organisation, which complies with the required quality assurance standard. The results of the previous assessment were reported to the Committee in April 2016.

Under the PSIAS the Chief Audit Executive (the Head of Audit & Assurance) must discuss with the board (the Council's Audit & Governance Committee):

- The form of external assessments; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

The proposed approach is to use a peer review model, developed by the Lancashire Chief Auditors Group (LCAG) that meets the requirements of the

PSIAS. A Peer Review Memorandum of Understanding (MOU), setting out the governance, methodology and delivery of the process, will be in place between the participating authorities. The approach and MOU is based on the model used by the North West Audit Executive's Group (NWAEG), which the Audit & Assurance team participated in for the previous peer review in 2015/16. The model addresses the requirement of a self-assessment with external validation.

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 the Public Sector Internal Audit Standards (PSIAs).

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 PSIAS and statutory governance requirements;
- it 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 to 31 May 2019:

Corporate Governance and Risk

The table below summarises the twelve "red" priority areas of concern across the departments, by key themes, which have been identified in the summary Director Exception/Dashboard Report and Assurance Statements for the second half of the year, as at 31st March 2019.

This includes nine "red" priorities that have remained as areas of concern from 30th September 2018, three "red" areas that have been upgraded (U below) and one new "red" area (N below) which has been identified and appears as red for the first time. There is also one area of concern previously identified as "red" that has now been downgraded (D below) to "amber" in the period.

Themes	No	Description	2018/19	2018/19
			31 st March Year End	30 th Sept Half Year
Demand Management		Reducing fly tipping, landfill waste and maximising recycling in order to reduce the amount waste going to landfill. (Environment)	Amber(D)	Red
	1	Inspections (Children's)	Red	Red
	2	Child Exploitation (Children's)	Red	Red
	3	Placement Sufficiency - Foster & Adoption Placement (Children's)	Red	Red
	4	Social Worker Workloads (Children's)	Red	Red
	5	Crime Figures (Adults & Prevention)	Red	Red
	6	Compliance with GDPR (Digital & Business Change)	Red(U)	Amber

Budgets & Finance	7	Budget Pressures - Adult Social Care Commissioning (Adults & Prevention)	Red	Red
	8	Budget Pressures - Social Work Demand Costs and Out of Borough Placements (Children's)	Red	Red
	9	Budget Pressures - Increased Waste Costs and Parking Oncome (Environment & Operations)	Red	Red
	10	Performance against targets for the European Structural & Investment funded project. (Neighbourhood & Prevention)	Red(U)	Amber
Staffing/ HR	11	Sickness Absence (Adults& Prevention)	Red	Red
	12	Capacity and direction to provide strategic capacity/analysis to SLT and the wider department (Adults & Prevention)	Red(N)	n/a

The year-end Director Exception reports provided details of the various actions and mitigations in place within Departments in respect of each of the issues identified above.

Counter Fraud Activity

National Fraud Initiative

A total of 4,716 data matches were initially received from the Cabinet Office in February as part of the 2018/19 National Fraud Initiative exercise (NFI 2018/19). An initial sift of these matches is currently taking place to ensure that follow up action is taken where appropriate. To date, 398 matches have been processed and a further 196 investigations are ongoing. A total of 43 errors have been found to date resulting in savings of £107,379 and arrangements are already in place to recover this money from the individuals concerned. 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)	15	£31,777
Private Residential Care Homes	28	£75,602
TOTAL	43	£107,379

The Council received additional reports from the Cabinet Office in February and March 2019 which included 4,673 Council Tax Single Person Discount data matches for further review. The reports were generated after council tax records were matched with various data sets including the electoral register. The matches indicate that entitlement to Single Person's Discount is incorrect and further enquiries need to be made. The reports have been forwarded to the Revenues section for follow up and further action.

Other investigations

During the period Audit & Assurance carried out a review following receipt of an anonymous complaint relating to the alleged illegal sale of Council land. The review

found no evidence of unlawful or illegal activity in relation to the sale of the land and confirmed that the Council had followed an appropriate process in approving the site for disposal.

In addition, Audit & Assurance has also reviewed the cash security arrangements at one location following the report of missing money. Whilst fraud/theft was suspected, insufficient evidence was available to confirm that this was the case. Following discussion with management internal controls have been strengthened to prevent a reoccurrence.

As part of its proactive plan of counter fraud work, Audit & Assurance undertook an exercise to validate the VAT status of its suppliers to ensure that VAT is only paid where the supplier is VAT registered. The results of the exercise confirmed that VAT payments are accurate and are only made in appropriate circumstances.

Audit & Assurance is currently liaising with the Police regarding two separate cases of suspected overpayments in respect of social care clients who are in receipt of Direct Payments for their care provision. The most recent case involves the identification of a £20,000 overpayment after it was established that the client's circumstances had changed and Direct Payments had been falsely claimed for over a year. Payments have been suspended and recovery will be sought from the client.

Internal Audit

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

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Mileage Payments	Adequate	Limited	14
Council Tax	Adequate	Adequate	4
VAT Mismanagement	Adequate	Limited	10
Longshaw Nursery	Limited	Limited	18
Cedars Primary	Substantial	Adequate	11
St Francis CE School	Adequate	Adequate	20

We have provided a brief commentary on the three audit assignments where we have provided a limited assurance opinion.

Mileage Payments: The audit objective was to ensure to assess systems and procedures in place in Departments for the recording of drivers and vehicle checks of staff who use their own vehicles for Council business (whether or not they claim mileage) and to ensure that any claims for were bona fide and supported by appropriate receipts. **Adequate** assurance was provided for the control environment and **limited** assurance for compliance with the controls identified in place. A number of areas were identified for management attention. These included raising staff and managers awareness of the management checks which are required to be carried out and the checking of mileage claims to ensure that these are accurate and reasonable.

VAT Mismanagement: The review assessed the system and processes for the collection and recording of Leisure Services income in the Council's accounts, including the correct application and recording of VAT. **Adequate** assurance was

provided for the control environment and **limited** assurance for compliance with the controls identified in place. A number of recommendations were made relating to strengthen the reconciliation processes and the recording of income.

Longshaw Nursery: The final report provided a **limited assurance opinion** for the both the control environment in place within the nursery and compliance with the controls identified in respect of the areas covered during the visit. We made 18 recommendations to strengthen arrangements in place across six of the eight areas covered during the visit. This included 6 ‘must’ level recommendations. There were issues found within the following areas:

- Management Structure (7 recommendations);
- Policies (2 recommendations);
- Expenditure and Cheque Control (4 recommendations);
- Income Collection and Billing (2 recommendations);
- Asset Control (1 recommendations); and
- Information Security and Access Rights (2 recommendations).

During the period Audit & Assurance staff also carried out work to co-ordinate and collate the draft 2018/19 Annual Governance Statement for consideration and approval by this Committee.

The team also completed the year end review and challenge of the Director Exception/Dashboard Reports.

Current internal audit reviews

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

- Overtime/Additional Hours;
- Social Determinants of Health/Public Health Internal Spend
- Adults Client Care Assessment/Case Management
- Personalised Budgets/Direct Payments;
- Highways Asset Valuation;
- Main Accounting System;
- Budgetary Control;
- Fostering Recruitment and Payments
- Information Governance;
- Growth Strategy;
- Pupil Transport; and
- Payroll Core System;

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:

Performance Measure	Target	Q4 2018/19	Q3 2018/19
1. Delivery of Priority 1 Audits (Annual)	100%	100%	N/A
2. Planned Audits Completed Within Budget	90%	67%	66%
3. Final Reports Issued Within Deadline	90%	100%	100%

Performance Measure	Target	Q4 2018/19	Q3 2018/19
4. Follow Ups Undertaken Within Deadline	90%	33%	63%
5. Recommendations Implemented	90%	80%	100%
6. Client Satisfaction	75%	97%	100%
7. Compliance with PSIAS (Annual)	95%	99%	N/A

We have provided a brief commentary on the measure where performance (Q3, 2018/19) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

Two of the six audits, (67%), completed in the period were over budget. The VAT Mismanagement review required additional time to complete as this was the first audit of this area. Additional time was required to carry out document and evaluate the system. In addition, extended testing of the transfer and reconciliation of data from the Leisure system to Civica was carried out.

The St Francis CE Primary review was a financial health check review carried out at the request of Education Services. Additional time was reviewed to liaise with Education and Finance colleagues to prepare for and carry out this review. The work was carried out by the apprentice, under supervision, and additional time was spent to ensure that the work and related reports met the required quality standards.

4. Follow Ups Undertaken Within Deadline

There was a delay in issuing a number follow ups at the time that they were due during the period. However these have now all been issued.

5. Recommendations Implemented

Of the follow up responses received back we were able to identify that 47 (65%) of the 72 recommendations due for implementation on or before 30 May 2019 had been fully implemented and 11 (15%) partially implemented. One follow up was outstanding. This report included 2 'must' graded recommendations. Audit & Assurance will continue to seek a response from the Department for this review and provide a verbal update at the Committee meeting if received.

Peer Review Arrangements

The proposed peer review approach for the external assessment of internal audit is based on the model previously used by both the LCAG and NWAEG for the previous local authority assessments of compliance with the PSIAS. The reviews will be carried out by suitably qualified and experienced heads of audit. With their background and experience the members of the LCAG satisfy the competency requirements of the PSIAS, with regards to the professional practice of internal auditing and the external assessment process, and are suitably independent.

There is no direct cost to the Council from participating in this process. However the agreement to participate does require a 'time' commitment from the organisations involved. It has been agreed that the 'time' as a reviewer, moderator or authority under review cannot be claimed and/or recharged. The LCAG will ensure that the 'time burden' is evenly spread across the organisations participating in the process, with each participating authority taking its share.

We consider that the peer review process will enable the Council to add value to its audit processes through the opportunity to learn from colleagues across the area and allow us to identify and share good practise. The alternative would be to

procure the services of an external assessor. This would still require investment of time from the Audit & Assurance management team and incur a financial cost to the Council, without the benefit of sharing good practice.

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: 13 June 2019

Background Papers: Audit & Assurance Plan 2019/20, approved by the Audit & Governance Committee on 16 April 2018.