

Body: AUDIT AND GOVERNANCE COMMITTEE

Date: 22 JUNE 2016

Subject: Internal Audit Report to 31ST March 2016

Report Of: Internal Audit Manager

Ward(s) All

Purpose

To provide a summary of the activities of Internal Audit for the year 1st April 2015 to 31st March 2016.

To document the Internal Audit Manager's opinion of the internal control environment as required for the Annual Governance Statement.

To consider compliance with the Public Sector Internal Audit Standards.

Recommendation(s): That the information in this report be noted and members identify any further information requirements.

Contact: Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925.
E-mail address jackie.humphrey@eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2015/16 was agreed by the Audit and Governance Committee in March 2015.

2.0 Review of work in the financial year 2015/16.

- 2.1 A list of all the audit reports issued in final from 1st April 2015 to 31st March 2016 is as follows:

NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.

Benefits (Annual 2014/15)	Performing Well
Council Tax (Annual 2014/15)	Performing Well
Housing Rents (Annual 2014/15)	Performing Excellently
NNDR (Annual 2014/15)	Performing Excellently

IT (Annual 2014/15)	Performing Inadequately
Conferences and Group Travel	Performing Adequately
Internet Controls	Performing Adequately
Electoral Computer System	Performing Excellently
Planning System	Performing Adequately
Leasing and Licensing	Performing Adequately
Telephones	Performing Well
Personal Loans	Performing Well
Licences (Entertainment and Taxi)	Performing Inadequately
Waste Contract	Performing Excellently
Software Compliance	Performing Adequately
CHRIS	Performing Well
Contact Centre	Performing Adequately
Seafront Services	Performing Well
Procurement	Performing Inadequately
Business Continuity Planning	Performing Inadequately
Cafi Bank Reconciliation	Performing Excellently
Benefits (Annual 2015/16)	Performing Well
Cash and Banking (Annual 2015/16)	Performing Excellently
Council Tax (Annual 2015/16)	Performing Well
Main Accounting (Annual 2015/16)	Performing Well
NNDR (Annual 2015/16)	Performing Excellently
Payroll (Annual 2015/16)	Performing Excellently
Treasury Management (Annual 2015/16)	Performing Excellently
IT (Annual 2015/16)	Performing Adequately
Theatres Reconciliation (Annual 2015/16)	Performing Adequately

Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

- 2.2 One report (Business Continuity Planning) was issued in this quarter with an assurance level of Performing Inadequately.
- 2.3 Four of the annual audits appear to be duplicated in the list. This is due to these having been issued at the start of the year for work carried out in 2014/15 and then the work again at the end of the year for the work completed in 2015/16. .
- 2.4 Appendix A shows the work carried out against the annual plan to the end of December 2015. The following comments explain the main points to be noted from the table:

- Some reviews went over the time allocated. These were carried out by new members of staff, one of which only joined the team in May. This is being monitored and feedback given.
- A extra piece of work was requested as part of the audit of the Customer Contact Centre this took the audit slightly over the time allowed.
- Claims work – extra testing was again required this year. The DWP also stated that testing must be carried out on errors that had been found in the previous year’s testing. This has meant the time allowance for claims work has been exceeded.
- As previously reported, requests have been made for the postponement of the following reviews:

Performance Management - to be postponed until 2016/17. The reasons given were that with Phase 2 there were changes to the team with one member still not in post, a new Corporate Plan being produced and developing a new performance framework.

Engineering - to be postponed to 2016/17 in view of current maternity leave.

Asset Management - to be postponed until 2017/18 to allow for the implementation of Corporate Landlord.

All other reviews which were either not completed or not begun in the year have been carried forward into the plan for 2016/17.

- 2.5 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Well”, with any issues highlighted in the reviews which informed the assurance level given.
- 2.6 The committee is reminded that these are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.
- 2.7 Where follow ups of reviews given an Inadequate assurance level show recommendations are not being addressed, the outstanding recommendations, and client comments from the report, have been listed at Appendix C. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.8 Appendix C was reviewed by CMT and comments from Heads of Service have been included in the final column.

3.0 Corporate Fraud

- 3.1 During the final quarter of the year a review was undertaken of applicants on Band B of the Housing List. Some cases were raised with the relevant department but feedback on removals/moving to other bands etc. is currently awaited.
- 3.2 The Housing Partners software usage was recommenced following some initial issues with data compatibility. It has also been confirmed that the software will be used by Eastbourne Homes and Housing teams in the Council. Appropriate training has been provided.
- 3.3 Having carried out some work reviewing Right To Buy cases, the team now reviews all applications in order to check eligibility etc. This is because the Corporate Fraud team have access to more data that can be checked than the team dealing with Right To Buy cases.
- 3.4 A case management system is now in place that was purchased with funds from the East Sussex Counter Fraud Hub. Work is ongoing in configuring the system for use by Eastbourne and Lewes.
- 3.5 As at the year end, 2,135 cases from the National Fraud Initiative data matches had been reviewed resulting in 289 errors being identified in Council Tax Reduction or Benefits cases. The value of these was £123,645 in overpayments which will be pursued for repayment. There are 77 other cases under review, the majority of these having been passed to the DWP.
- 3.6 In the financial year the team has undertaken and closed 186 investigations. The team currently have 41 cases open in addition to the ongoing work on the National Fraud Initiative and Right To Buy work. The investigations and cases referred to cover a range of areas including tenancy, Council Tax Reduction and housing applications.
- 3.7 Appendix D shows the work of the Corporate Fraud team across the year. For the past financial year the team cost the Council just 14% of the savings it identified.

4.0 East Sussex Counter Fraud Hub

- 4.1 Owing to the sickness of the Corporate Fraud Manager, collation of data on the work of the Hub for the quarter has been delayed. The details of the full year work will be included in the next quarterly report.

5.0 Managing the Risk of Fraud and Corruption

- 5.1. The Cipfa suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance report. In September 2015 it produced a Counter Fraud Assessment Tool to sit alongside its Code of Practice on Managing the Risk of Fraud and Corruption. As this was issued too late for consideration in last year's Annual Governance Statement it is being included in this year's for the first time.
- 5.2. The Cipfa Code of Practice on Managing The Risk of Fraud and Corruption gives five key principles for authorities to follow. These are shown below

along with the current conformance:

Acknowledge the responsibility of the governing body for countering fraud and corruption.
The Anti Fraud and Corruption Policy has been adopted by the Audit and Governance Committee and this states that "the Council is committed to promoting an environment of effective corporate governance (i.e. the systems by which it is directed and controlled) through the openness, integrity and accountability of its Members and officers. These individuals are expected to lead by example by adhering to legally sound and honest procedures and practices."
The authority has also shown its commitment to countering fraud and corruption by retaining a Corporate Fraud team.
Identify the fraud and corruption risks.
The Corporate Fraud team was previously handling benefit fraud but is now focussed on identifying fraud across the functions of the authority. As this work was new to the team it has started by using the areas of fraud identified in the publication "Protecting the Public Purse". However as the team has now adopted a new way of working a fraud risk assessment for the authority will be carried out in the year 16/17.
Develop an appropriate counter fraud and corruption strategy.
The authority has a policy in place and this will be regularly updated as knowledge of this area of work grows. A strategy will also be written to take into account shared working with Lewes District Council.
Provide resources to implement the strategy.
In November 2014 the authority took the decision to retain the members of the Benefit Fraud Team to focus on corporate fraud initiatives for an initial period of two years.
Take action in response to fraud and corruption.
The Corporate Fraud team are undertaking ongoing training and have a plan of work to investigate areas of potential fraud. They are also mindful of national trends and emerging frauds.

- 5.3. The Cipfa Counter Fraud Assessment Tool goes into more detail on the five principles and to meet these some actions are necessary.
- 5.4. Having considered the principles the Internal Audit Manager is satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Action:	Responsibility:	Target Date:
Write a Counter Fraud Strategy to clarify points raised in the assessment tool which are not currently clearly stated.	Internal Audit Manager	April 2017
Carry out a fraud risk assessment.	Internal Audit Manager	April 2017

6.0 Annual Governance Statement and Opinion of the Internal Audit Manager

- 6.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors.
- 6.2 It is the opinion of the Internal Audit Manager that internal controls in processes and IT systems across the authority were generally found to be sound with just one area of concern was raised by the Internal Audit Manager
- 6.3 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement. The issue of a continuing lack of business continuity plans across the authority was raised by the Internal Audit Manager as a general risk for the authority.

7.0 Self Assessment

- 7.1 The Public Sector Internal Audit Standards came into effect from 1st April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 7.2 A checklist for compliance has been completed and it is found that the Internal Audit function is "generally conforming" to the standards. Of the 211 (applicable) points against which conformance is measured the following was found:

99.05% conformance
0.95% partial conformance

- 7.3 Areas of partial conformance are listed in the table at the end of this report with explanations and actions to be taken where appropriate. Progress will continue on addressing the issues required to ensure better compliance and this will be reported to the committee.
- 7.4 The standards require an external review to be carried out at least every five years. This was discussed at the Sussex Audit Group and it was decided to carry out peer reviews of all the member authorities. Eastbourne is currently undergoing such a review and the results will be reported to the next committee after the final report is received.
- 7.5 The Council's Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.
- 7.6 The Internal Audit team has maintained its independence throughout 2015/16 in accordance with the Audit Charter.

8.0 Consultation

- 8.1 Respective Service Managers and Heads of Service as appropriate.

9.0 Resource Implications

9.1 Financial – Delivered within the approved budget for Internal Audit

9.2 Staffing – None directly as a result of this report.

10.0 Other Implications

10.1 None

11.0 Summary of Options

11.1 None

12.0 Recommendation

12.1 That the information in this report be noted and members identify any further information requirements.

Jackie Humphrey
Internal Audit Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

Public Sector Internal Audit Standards - checklist

AREAS OF NON COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

No/ Partial conformance	Requirement	Reason for partial/non conformance	Actions	Timescale
Partial	Has the Internal Audit Manager carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	The governance framework for the authority is included in the Annual Governance Statement in both visual form and in prose, demonstrating how information is used in the governance process. However a full assurance mapping exercise has not been completed. To do so training is required.	A relevant training session is being researched.	One year
Partial	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud?	There is now a Corporate Fraud team which reports to the Internal Audit Manager. This team is a member of the East Sussex Counter Fraud Hub and forecasts for savings have been made based on figures of probable fraud levels which were produced by Audit Commission in their publication "Protecting the Public Purse". The team needed time adjust from solely reviewing benefit fraud and work on the predictions of fraud levels from Protecting the Public Purse.	A full fraud risk assessment is still to be carried out.	April 17