

Body: AUDIT AND GOVERNANCE COMMITTEE

Date: 21 JUNE 2017

Subject: Internal Audit Report to 31ST March 2017

Report Of: Internal Audit Manager

Ward(s) All

Purpose To provide a summary of the activities of Internal Audit for the year 1st April 2016 to 31st March 2017.

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.

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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 2016/17 was agreed by the Audit and Governance Committee in March 2016.

2.0 Review of work in the financial year 2016/17.

- 2.1 A list of all the audit reports issued in final from 1st April 2016 to 31st March 2017 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.

Open Revenues	Performing Well
Debtors (Annual 2015/16)	Performing Excellently
Planning (process)	Performing Well
Housing Rents (Annual 2015/16)	Performing Well

Creditors (Annual 2015/16)	Performing Adequately
Rent and Deposit Loans	Performing Well
Homelessness	Performing Adequately
Access to Information	Performing Well
Economic Development	Performing Excellently
Right To Buy	Performing Well
Capital Programme	Performing Excellently
Car Loans and Leasing	Performing Well
Internet/Intranet/Telephone payments	Performing Adequately
Council Tax (Annual 2016/17)	Performing Excellently
NNDR (Annual 2016/17)	Performing Excellently
Performance Management	Performing Well
Benefits (Annual 2016/17)	Performing Well
Cash and Bank (Annual 2016/17)	Performing Well
Creditors (Annual 2016/17)	Performing Adequately
Debtors (Annual 2016/17)	Performing Excellently
Housing Rents (Annual 2016/17)	Performing Well
Treasury Management (Annual 2016/17)	Performing Excellently
ICT (Annual 2016/17)	Performing Well
Treasury Management (Annual 2016/17)	Performing Excellently

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 No reports have been issued with an assurance level of inadequate in the financial year.
- 2.3 Three 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 for 2015/16 and then the work again at the end of the year for the work completed in 2016/17.
- 2.4 Appendix A shows the work carried out against the annual plan to the end of March 2017. The following comments explain the main points to be noted from the table:

Previously reported:

- Following the external auditor's qualification of the 2014/15 Housing Benefit final subsidy claim the DWP required further work to be undertaken in light of errors found due to the data migration between

Northgate and Open Revenues.

- Right To Buy – there was a change in the Auditor carrying out this review. Therefore extra time was spent on the new Auditor familiarising themselves with the subject and the work that had already been carried out.
- Rent and Deposit Loans and Homelessness – research carried out by the Auditor into legislation in order to ensure a correct understanding.
- Leisure Trust – time was put aside to provide input into this review. However it has been carried out solely by the Head of Audit at Lewes.
- Box Office Computer System – this has been postponed until 17/18 as a new system is being purchased.
- Some annual reviews commenced a little earlier this year. This was in response to a request by the Manager, Customer First (Account Management) that we avoid their busiest time in the lead up to the end of the financial year.
- IT reviews were delayed because the Head of ICT is very busy with numerous projects across the two authorities.

All reviews which were either not completed or not begun in the year have been carried forward into the plan for 2017/18.

- 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 However, there is no appendix C attached to this report since a follow up was carried out of Licences in March and of Events in May 2017. Both these follow ups showed that all outstanding recommendations had been addressed.

3.0 Corporate Fraud

- 3.1. During the third quarter the Corporate Fraud Team (CTF) commenced a Tenancy Occupancy Review. This involved sending out a letter and review form to each Eastbourne Homes tenant. This large and detailed piece of work was undertaken by the team to improve the quality of the data held, to assist with more accurate data matching and to ensure accurate and up to date data prior to a system migration. Approximately 80% of households have returned their review forms. 50% of which required their information updating and/or amendments made to their Council Tax accounts. Further work will be carried out to review the 20% not returned.
- 3.2. Following on from the initial Right to Buy (RTB) project undertaken earlier in the year, a review of Lewes District Council's RTB procedures took place just prior to Christmas. This has resulted in a change of practice at Eastbourne which aligns the processes of the two teams. This has been put in place as a trial for the period of 01/01/17 to 31/03/17. Following this period an analysis will be carried out to see if a permanent change to current processes will be undertaken. At the end of the financial year, 28 RTB have been withdrawn due to CTF intervention.
- 3.3. At the end of January 2,195 National Fraud Initiative (NFI) matches were received. To date 454 high risk matches have been reviewed and closed.
- 3.4. From August 2016 a project has been undertaken looking at Council Tax Reduction cases where no changes have taken place for over 2 years. To date this has resulted in 301 cases reviewed with £22,860.16 weekly incorrect award identified and £47,754.04 of excess CTR being identified. These values have been recorded in appendix D in the fourth quarter. This is because this is when the project was completed and this is the reason why the final quarter's figures are much higher than the previous quarters.
- 3.5. Appendix D shows the work of the Corporate Fraud team across the year.

4.0 East Sussex Counter Fraud Hub

- 4.1. Eastbourne Borough Council now hosts the East Sussex Counter Fraud Hub (ESCFH) Hotline which was advertised in the press and on radio earlier in the year. The team monitors calls and circulate allegations to the other authorities as appropriate.
- 4.2. A new ESCFH website is nearing completion. A publicity campaign to promote the website will be launched as soon as the website is completed.
- 4.3. The Hub procured training for its members and recently events have been attended by staff on Non Domestic Rates and an update on RIPA regulations.

5.0 Managing the Risk of Fraud and Corruption

- 5.1. 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.

- 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.
When the investigation of benefit fraud was transferred to the DWP the authority retained the fraud team and their focus was changed to looking at other areas of fraud. A fraud risk self-assessment will be carried out in conjunction with Lewes District Council.
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.
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 2018
Carry out a fraud risk assessment.	Internal Audit Manager	April 2018

- 5.5. With the Eastbourne and Lewes fraud teams beginning to work together more closely it is proposed to address the above actions in partnership to ensure that both authorities are working in the same way.

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.

- 6.3 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement.

7.0 Conforming with the Public Sector Internal Audit Standards

- 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. These remain the same as last year. However as of 1st April 2017 the Internal Audit Manager reports to the Head of Audit who now covers both authorities. It is therefore proposed that these outstanding issues will be addressed in collaboration with the Lewes team.

- 7.4 It is the opinion of the Internal Audit Manager that the Council’s Internal Audit Service generally conforms with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.

- 7.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out as a peer review by other members of the Sussex Audit Group. The results of this review were fully reported to the Audit and Governance Committee at the September meeting. The report from the reviewers stated that the audit function at Eastbourne generally conforms with the standards.

- 7.6. The Internal Audit team has maintained its independence throughout 2016/17 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 18