

Body: AUDIT AND GOVERNANCE COMMITTEE

Date: 28th NOVEMBER 2018

Subject: Internal Audit Report to 30th September 2018

Report Of: Audit Manager

Ward(s) All

Purpose To provide a summary of the activities of Internal Audit for the first half of the year 1st April 2018 to 30th September 2018.

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

That the committee considers and agrees the proposed performance indicators.

Contact: Jackie Humphrey, Audit Manager, Telephone 01323 415925 or internally on extension 5925.
E-mail address jackie.humphrey@lewes-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 2018/19 was agreed by the Audit and Governance Committee in March 2018.

2.0 Review of work carried out in the first half of the financial year 2018/19.

- 2.1 A list of all the audit reports issued in final from 1st April 2018 to 30th September 2018 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.

Debtors (Annual 2017/18)	Performing Excellently
Housing Rents(Annual 2017/18)	Performing Well
Main Accounting (Annual 2017/18)	Performing Excellently
NNDR (Annual 2017/18)	Performing Excellently
Safeguarding	Performing Inadequately
Devolved Budgets	Performing Well

Contracts Monitoring	Performing Adequately
Corporate Credit Card Usage	Performing Excellently
Land Charges and Searches	Performing Well
Estates Management	Performing Well
Private Housing Grants	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 Appendix A shows the work carried out against the annual plan to the end of September 2018. It should be noted that at the beginning of June an Auditor left the team. Our part-time auditor agreed to work full-time from the beginning of August. However, it has been decided to hold the part-time post vacant whilst Phase 3 savings are being considered. This has impacted on the completion of the plan as set out for the year. Also, the Audit Manager has spent a lot of time setting up, testing and writing guides for the new Audit software meaning that she has been unable to spend as much time as usual in helping carry out audit reviews.
- 2.3 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.
- 2.4 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.
- 2.5 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, will be 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.
- 2.6 However, there is no appendix C attached to this report as there are no outstanding actions relating to audits that were issued with an "inadequate" assurance level.
- 2.7 Work is ongoing with setting up the new software for Audit. The initial set up phase is complete and this will be transferred to a test system so the set up can be tested and training will be given on its use in mid-September.

Progress will be further reported to the next meeting of the committee.

- 2.8 As touched on earlier, the work on setting up the new audit software system continues. Custom fields have been set up and the structure of the authorities' organisation input along with all the various areas/processes to be audited. A test audit has been input and a report successfully run. In September both audit teams (Eastbourne and Lewes) underwent two days of training provided by the supplier. Auditors are currently trialling the process in the test system. Guides are being written and differing procedures between the two teams are being aligned before work begins on the live system.
- 2.9. Work is progressing well on the 17/18 subsidy testing. The initial testing has been completed and reviewed by BDO who have raised some queries which are being worked through. Work is commencing on extra testing on areas where issues were identified in current and previous years.

3.0 Joint Service Performance Indicators

- 3.1. The Head of Audit and Counter Fraud (HACF) has been reporting performance indicators to the Lewes Audit and Standards Committee for some years. As part of the process of aligning the work of Internal Audit, he has explored the possible performance indicators that could be reported to the committees at both Eastbourne and Lewes.
- 3.2 The HACF has examined the performance indicators that are applied to internal audit services in other local authorities. This research has included a review of the performance indicators that are recommended as best practice by professional accounting bodies such as CIPFA. There are no formal requirements for the performance indicators that are to be applied to internal audit but, as might be expected, there is a degree of uniformity in the performance indicators that are recommended for the function. The detail of the individual indicators may vary slightly across organisations in the different sectors, but there tends to be a focus the following aspects of internal audit activities.

Input of resources

Costs

Productivity and process efficiency

- 3.3. The HACF has looked to concentrate the range of performance information that is made available within this framework, and has focussed on those indicators for which performance and results are within the control of managers in the service.
- 3.4 The list of proposed performance indicators is shown below. These will cover the shared service in total, and there will not be separate results for staff working at Eastbourne and Lewes. Once agreed, the performance indicators will form the basis of annual reporting on Internal Audit performance.
- 3.5 The proposed performance indicators cover both Internal Audit and Counter Fraud functions, but not to the same extent. The HACF does not consider it appropriate

to have activity or results targets for Counter Fraud because of the reactive nature of much of the work, and so the focus is on service resources and costs.

- 3.6 Once agreed, the HACF will review the performance indicators on a regular basis to ensure that they remain relevant and provide useful data for monitoring and governance purposes. Any future changes to these will be subject to consultation with the Committee.

Statement of proposed KPIs for the shared and Counter Fraud service.

Performance Indicator	Actual 2018/19	Target 2019/20
Internal Audit 1 Staffing FTE 2 Employee costs 3 Total costs 4 Total chargeable days 5 Cost per chargeable day		
Counter Fraud 6 5 Staffing FTE 7 Employee costs 8 Total costs 9 Total chargeable days 10 Cost per chargeable day		
Internal Audit 11 Number of core systems audits carried out in the year 12 Number of days spent on core audits 13 Number of days in the original annual audit plan 14 Number of days in the revised annual audit plan 15 % of revised annual audit plan carried out		

4.0 Counter Fraud

- 4.1. The Counter Fraud Team (CFT) have had further success in the test sample of NDR cases, with the removal of four small business rate reliefs and one incorrectly billed proprietor. This has resulted in a net income generated for the authority of £21k. Further activities are now planned using data matching exercises through the National Fraud Initiative and the application of data analytical software with our neighbouring authorities.
- 4.2 Right to Buy applications have doubled from the first quarter with 18 applications received in total. Of these, seven were withdrawn as part of the CFT involvement, resulting in a saving of £532k to the authority.

- 4.3 The team continue to work closely with Homes First with 26 ongoing sublet/abandonment/safeguarding tenancy cases at various stages. One case has just been heard at magistrates court over abandonment which was successful and is now waiting on further enforcement decision by Homes First. Seven other allegations were closed down in this period with no further action.
- 4.4 Work has also been undertaken with Homes First looking at a number of potentially fraudulent homeless presentations as well as the implementation of using the National Anti-Fraud Network facilities for credit checks for all new applications as a preventative measure.
- 4.5 The detailed review of Council Tax Exemptions and Disregards, looking at areas of weakness or where reviews have not been undertaken for some time, has highlighted an additional 34 Council Tax cases requiring further investigation and resulted in amendments to 26 of these accounts creating in excess of £50k in cash income.
- 4.6 The team are continuing to review Council Tax Reduction (CTR) applications which have not been re-assessed for over 2 years; this has resulted in finding over £36k in CTR overpayments and weekly incorrect reduction awards which are now recoverable. There has also been a consistent level of Housing Benefit activity through our Single Point of Contact (SPOC) work with the DWP, Housing Benefit Matching Service (HBMS) and a single case with a large historic misrepresentation. This has resulted in a combined recoverable overpayments of £114k and weekly incorrect benefit of £63k.
- 4.7 The team have completed the National Fraud Initiative exercise for 2016/17 and are now in the process of organising the data extraction for both Lewes and Eastbourne in preparation for the 2018/19 exercise. A more efficient and targeted approach will now be taken following the discovery of a small number of errors of 17k out of over 2000 files received in the last activity.
- 4.8. Appendix D shows the savings identified by the Counter Fraud team during the first half of 18/19.

5.0 Consultation

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

6.0 Resource Implications

- 6.1 Financial – Delivered within the approved budget for Internal Audit
- 6.2 Staffing – None directly as a result of this report.

7.0 Other Implications

- 7.1 None

8.0 Summary of Options

8.1 None

9.0 Recommendation

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

That the committee considers and agrees the proposed performance indicators.

Jackie Humphrey
Audit Manager (Eastbourne)

Background Papers: