

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	24 <sup>TH</sup> JUNE 2015
<b>Subject:</b>	Internal Audit Report to 31 <sup>ST</sup> March 2015
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	<p>To provide a summary of the activities of Internal Audit for the year 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015.</p> <p>To document the Internal Audit Manager's opinion of the internal control environment as required for the Annual Governance Statement.</p> <p>To consider compliance with the Public Sector Internal Audit Standards.</p>
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirements.
<b>Contact:</b>	<p>Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925.</p> <p>E-mail address <a href="mailto:jackie.humphrey@eastbourne.gov.uk">jackie.humphrey@eastbourne.gov.uk</a></p>

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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 2014/15 was agreed by the Audit and Governance Committee in March 2015.

## **2.0 Review of work in the financial year 2014/15.**

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015 is as follows:

Benefits (Annual 2013/14)	Performing Well
Cash and Bank (Annual 2013/14)	Performing Excellently
Council Tax (Annual 2013/14)	Performing Excellently
Creditors (Annual 2013/14)	Performing Excellently
Debtors (Annual 2013/14)	Performing Excellently
Main Accounting (Annual 2013/14)	Performing Well
NNDR (Annual 2013/14)	Performing Excellently
Payroll (Annual 2013/14)	Performing Excellently

Treasury Management (Annual 2013/14)	Performing Well
IT (Annual 2013/14)	Performing Excellently
Theatres Reconciliation (Annual 2013/14)	Performing Well
Events	Performing Adequately
GIS LLPG	Performing Adequately
Daily Cash Reconciliations	Performing Well
Risk Management	Performing Well
Housing Rents (Annual 2013/14)	Performing Excellently
Tourist Information Centre	Performing Adequately
BACAS Cemeteries System	Performing Excellently
Government Network	Performing Well
Printing	Performing Adequately
Members Allowances	Performing Well
Pest Control and Public Health Burial	Performing Adequately
Open Spaces	Performing Adequately
Car Parking	Performing Adequately
Shared Sports Facilities	Performing Well
Petty Cash	Performing Adequately
Cash and Bank (Annual 2014-15)	Performing Excellently
Creditors (Annual 2014-15)	Performing Well
Debtors (Annual 2014-15)	Performing Excellently
Main Accounting (Annual 2014-15)	Performing Well
Payroll (Annual 2014-15)	Performing Excellently
Treasury Management (Annual 2014-15)	Performing Excellently
Theatres Reconciliation (Annual 2014-15)	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 within this financial year with the assurance level of “inadequate”.
- 2.3 It should be explained that seven of the 12 annual audits for 14-15 were actually completed during the year. As this was not the case last year they therefore appear twice in the list at 2.1 with one entry referring to the report issued for the 13-14 work and the other for the 14-15 work.
- 2.4 Appendix A shows the work carried out against the annual plan. The following comments explain the main points to be noted from the table:

- Government Connect – this was originally carried out as four separate reviews but these were collated into one this year. The review took longer than was anticipated.
- During the year the team lost the Computer Auditor. This meant that there was a loss of resource while the post was replaced. The replacement member of staff then required time to train up which took some of the available time of the Internal Audit Manager. At the end of the financial year another member of staff took retirement and therefore could not start any new work before leaving. These issues with resources have meant that several audits were not carried out. However all those not started have been carried forward onto the plan for 2015-16.
- In two instances Internal Audit was asked to postpone audit reviews as the areas to be audited came under the remit of Phase 2 and therefore a lot of work was to be carried out on reviewing processes to be modelled for the new way of working.

2.5 Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Excellently", 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 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.

2.8 Where the column "priority" in Appendix C shows "High" the outstanding recommendations, and client comments from the report, have been listed at Appendix D. 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.

2.9 Appendix D was reviewed by CMT and comments from Heads of Service have been included in the final column.

### **3.0 Frauds over £10k**

3.1 It is a requirement that frauds over £10k are reported to our external auditors. Usually such frauds were only found by the Benefit Fraud section however a request is now also sent quarterly to Eastbourne Homes Ltd to ask them to confirm whether they have been aware of any frauds over £10k within that quarter.

3.2 The Corporate Fraud section now report these frauds to Internal Audit on a quarterly basis.

- 3.3 No frauds over £10k were recorded in this quarter. Only one fraud of over £10k has been identified this year and this is shown below.

<b>Overpayments over £10,000 between 01/04/14 and 31/03/15</b>					
Suspected Fraud	Proven Fraud	Source of Info	Completed	Progress & Outcome	Over payment
Undeclared Capital	Undeclared Capital	Anon letter	04-09-14	Proven-being repaid	£13,380.05

#### **4.0 Corporate Fraud**

- 4.1. Work has continued on some benefit claims in the form of interventions. It was felt that these cases needed an immediate investigation. 27 cases were checked resulting in changes to 16 cases.
- 4.2 Investigations were undertaken on Council Tax and Housing/Council Tax/NNDR mixed cases. 8 were checked in total resulting in 5 positive outcomes. One case in particular identified 4 unregistered properties.
- 4.3 Work is also being carried out on the NFI data matching exercise. Of 1,769 matches reported 508 have been processed and 125 are being worked on.
- 4.4 Other work is ongoing on Housing investigations, non-responses to the SPD review and exemption/discount reviews. With Housing investigations, two properties were returned to stock which had been inappropriately tenanted. This has been calculated as a saving to the Council of £36k being £18k per property. (Tackling Social Housing Fraud, National Fraud Authority 2010 - £18,000 average cost of housing a family in Temporary accommodation per year).
- 4.5. During the year the team has also identified overpayments and incorrect benefit paid both from their own investigations and from investigating cases from the Housing Benefits Matching Service reports. This has resulted in the following amounts being identified.

<b>Investigations initiated by Fraud section</b>	
Overpayments identified	£200,553
Weekly incorrect benefits identified	£179,841
<b>Investigations into HBMS cases</b>	
Overpayments identified	£59,925
Weekly incorrect benefits identified	£155,744

The overpayment amounts are recoverable monies. The Weekly Incorrect Benefit figures is the estimated amount of saving of having identified the overpayment; i.e. the amount the Council would have paid out if the overpayment had continued.

- 4.6 A Corporate Fraud presentation has been given to EHL and the team has attended training on Prevention and Detection of Housing Fraud and Procurement Fraud.

- 4.7 The Corporate Fraud Manager has also been taking the lead for exploring both case management and tenancy solutions for use by the East Sussex Counter Fraud Hub members. The cost of this is covered by the grant awarded to the Hub. It should also be noted that confirmation has recently been received that the Hub will receive the grant for the second year of funding.

## **5.0 Annual Governance Statement and Opinion of the Internal Audit Manager**

- 5.1 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.
- 5.2 It is the opinion of the Internal Audit Manager that internal controls across the authority were generally found to be sound.
- 5.3 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement. The issue of the number and pace of changes at the Council was put forward for consideration and was discussed by CMT. The results are reported in the Annual Governance Statement report.

## **6.0 Self Assessment**

- 6.1 The Public Sector Internal Audit Standards came into effect from 1<sup>st</sup> April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 6.2 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:

**97.63% conformance**  
1.89% partial conformance  
0.47% non conformance

- 6.3 Areas of partial or no conformance are listed in the attached table 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.
- 6.4 An agreement has been reached within the Sussex Audit Group on how to carry out the external reviews. A schedule had been set up so that each authority's compliance with the standards will be reviewed by the Internal Audit Manager from two other authorities. These will not be neighbouring authorities in order to ensure independence and objectivity is demonstrated. The authority being reviewed will also have access to a third Internal Audit Manager who will act as a "critical friend". It is intended that Eastbourne will be reviewed in 15-16.

## **7.0 Consultation**

7.1 Respective Service Managers and Heads of Service as appropriate.

## **8.0 Resource Implications**

8.1 Financial – Delivered within the approved budget for Internal Audit

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

## **9.0 Other Implications**

9.1 None

## **10.0 Summary of Options**

10.1 None

## **11.0 Recommendation**

11.1 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
No	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?	None have been carried out previously and some training is required in order to carry one out correctly.	The Sussex Audit Group, is currently researching options for training/mentoring on carrying out such an exercise for all the members of the group.	6 months
Partial	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	The Internal Audit team is small with some specialisms. It is therefore not possible to rotate all engagements.	None planned	N/A
Partial	Has the Internal Audit Manager agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	The external assessment has to be carried out within 5 years. One has not yet been undertaken so these requirements will be met but not until the assessment is undertaken.	The Audit and Governance Committee have been informed of the need for an external assessment. The scope of the assessment is still being considered by the Sussex Audit Group since there is no adequate information being provided by CIPFA on how these reviews should be undertaken.	Before April 2018
Partial	Has the Internal Audit Manager agreed the scope of the external assessment with the external assessor or assessment team?	The external assessment has to be carried out within 5 years. One has not yet been undertaken so these requirements will be met but not until the assessment is undertaken.	These are being discussed with the Sussex Audit Group since there is no adequate information being provided by CIPFA on how these reviews should be undertaken.	Before April 2018
Partial	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud?	This has not been carried out in any formal way but high level risk areas are considered when putting together the annual audit plan.	The newly formed Corporate Fraud team will undertake the risk assessment as part of their objectives.	September 15