

**INTERNAL AUDIT AND COUNTER FRAUD – PERIODIC UPDATE TO 31 OCTOBER 2017**

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**Executive Summary**

To provide an update on progress against the delivery of the 2017/18 Annual Audit Plan highlighting any significant issues since the last report.

To provide an update with regards to the current Fraud caseload and to highlight any new significant corporate fraud related issues since the last report.

**1. Recommendation:**

1.1 That the Committee note and comment on the report.

**2. Audit Issues:**

2.1 The performance measures below are those that have been agreed and are included within the Internal Audit Service Plan:

(a) Annual Audit Plan 2017-18 – As at 31 October and as shown at **Annexes A and B**)

- 24 (30.9%) of planned audits are at draft or final
- 18 (22.2%) of planned audits have started and are 'work in progress'.

(b) The profiled target for the end of October is 60%, so we are slightly behind where we would expect to be, however we are confident that the Internal Audit Plan can be delivered subject to all expected resources being available and the consideration of the removal of some low risk audits from the Plan.

2.2 During the year Internal Audit has been commissioned to undertake additional work outside of its agreed plan. The following high profile additional work has been requested and is at various stages of completion:

(a) Leisure Contract / Hertsmere Leisure Trust – commissioned by the Audit Committee, this work has now concluded and the outcomes are on the agenda for this Audit Committee meeting.

(b) A whistleblowing referral regarding alleged mismanagement within the Mental Health Service (NB not related to service delivery specific concerns). Our work has been completed and we have concluded that there are no key findings to report and the concerns raised by the anonymous whistleblower are not supported.

(c) Property / Asset Disposal – a draft report was circulated, no evidence of fraud was found but there was a recognition that controls needed to be strengthened. This, together with another audit within the Housing service, have indicated that

an end-to-end process review needs to be completed and this is currently being scoped with the department.

- (d) Housing Committee referral in respect of health and safety compliance for all Council buildings. The intention is that this should be a joint project with the relevant specialist colleagues. At present some responses have been received, but other colleagues have yet to provide the required information.
- (e) A review of the Project approach using the Forward Working Programme project as a case study requested by the Audit Committee is currently being planned

### 2.3 Audit Plan Changes

- (a) In order to complete the above work some of the resource needed to deliver the Annual Internal Audit Plan has been diverted, this has meant that some items that were included in the Plan approved by the Audit Committee at the meeting of 28 March 2017 (Minute AC49 refers) have had to be cancelled. The following reviews have been removed from the Plan to accommodate the additional work:

People	Public Health	Public Health Contracts and Contracting (Other)
People	People (contingency) risk review	Added Value Review
People	People (contingency) risk review	Probity Audit
Place	Place (contingency) risk reviews	Added Value Review - Contract Management
Place	Place (contingency) risk reviews	Probity Audit
Place	Public Realm	Integrated Passenger Transport (Home to School)
Place	Public Realm	Residual Waste Transfer Facility (RWTF)

The first five audits shown were selected as these were shown on the original plan as an allowance for management in the Directorates to request specific work; no requests had been received to date. The final two audit areas have been selected as there is other assurance activity taking place:

- (i) Integrated Passenger Transport – this has now been formed into a project, which the Head of Audit sits on the project board
  - (ii) Residual Waste Transfer – this is now in final user acceptance testing and once accepted the Programme Office is undertaking a Lessons Learnt exercise and Internal Audit have offered their assistance with this as required.
- (b) Management have also made a number of requests for audits to be deferred, these are considered on their individual merits. It has been agreed that the following audits will be moved to the 2018/19 Internal Audit Plan:

Postponed Audit	Rationale
People – Adult Social Care Domiciliary Care (External)	Place in 18/19 Plan due to on-going changes needing to become embedded
People – Adult Social Care Commissioning and Contracts	Place in 18/19 Plan due to on-going changes needing to become embedded
People – Adult Social Care In-House Home Care [Internal Homecare]	CQC inspection imminent and on-going change programme

## 2.4 Audits at Risk

In order to facilitate the completion of the 2017/18 Plan it is suggested that the following low risk audits are discarded. If resources allow, these will be added back to the 2017/18 Plan. It is not felt that these reviews would have any impact on the Annual Audit opinion that will be provided at the end of the year.

Directorate	Department	Audit
Resources	Facilities	Archiving
Resources	Facilities	Mailroom Processes
Resources	Facilities	Functions (Catering and Room Bookings)
Resources	Facilities	Records Management

## 2.5 Audit Plan Reconciliation

- (a) The following highlights the number of reviews that are now being conducted under the 2017/18 Internal Audit Plan:

Original Approved Audit Plan	89 reviews
Additional Reviews	5 reviews
Cancelled Reviews	7 reviews
Postponed Reviews	3 reviews
Audits at Risk (assume not completed)	4 reviews
Final Review Number	<u>80 reviews</u>

- (b) It should be noted that the percentage plan completion statistic at 2.1 is based on 80 reviews being completed.

## 2.6 Agreed Actions

(a) All reports are followed up to verify the implementation of agreed actions and the adequacy of control systems are reassessed on that basis. **Annex C** shows the progress towards implementing agreed actions at follow up:

- 91% were implemented at follow up (87% general audits / 100% school audits)
- The Redway School had a Limited audit opinion, but at follow up the opinion changed to Satisfactory.
- For the general audits that have been followed up in 2017/18 only 'Payments off Payroll' previously held a Limited opinion – relating only to Compliance, the follow up of this audit did not include revised testing as the original recommendations primarily related to revising procedure and the timing of the roll-out of such procedures did not allow for any reasonable testing to be undertaken, hence we have shown this as 'Not Tested' rather than provide an opinion. It is the intention to undertake a brief second follow up review in the current audit year, after allowing for a reasonable time for the revised control to become embedded, to test compliance with the revised procedure and to issue a revised compliance opinion.

(b) As a consequence of the high percentage of implemented actions there are no audits that have been followed up, that retain a Limited Assurance or Weak audit opinion. Also there are no Essential actions outstanding.

## 2.7 Client Satisfaction

Clients are requested to provide feedback after every audit; 16 replies have been received in respect of 10 2017/18 audits:

Excellent	8
Good	7
Satisfactory	1

## 2.8 Significant Issues (including Weak/Limited Reports)

To date the completed audits have not raised any significant issues and all 2017/18 audits have had either satisfactory or good audit opinions for Adequacy of Systems and Compliance.

## 2.9 2018/19 Audit Plan Preparation

- (a) The draft plan for 2018/19 is currently being developed and a schedule of Service Director and Heads of Service consultation / discussion is starting shortly to provide Corporate Leadership Team a first draft in the new year.
- (b) The plan is developed to be aligned to key risks including financial measures of materiality and triviality as defined with the external auditors. The 2017/18 financial thresholds for external audit are shown below:

Materiality - £12.7m

- Above which issues would require qualification of accounts
- Below which (but above triviality as below) items would be highlighted but accounts not qualified

Triviality – less than £635K

- Below which the Council may be notified but action not required.

### 3. Counter Fraud Issues:

3.1 As at 31 October 2017, the current counter-fraud caseload is outlined below:

Fraud Type	Open cases at 31/7/17	Cases Received 1/8 to 31/10/17	Cases Closed 1/8 to 31/10/17	Current Open
Right to Buy	25	4	29	0
Corporate	5	9	6	8
Tenancy	13	15	14	14
C Tax / SPD	16	9	18	6
NNDR	0	0	0	0
Blue Badges	14	11	23	2
Allocations	1	1	0	2
No Recourse to Public Funds	0	2	1	1
Other	0	2	1	1
<b>TOTAL</b>	<b>74</b>	<b>53</b>	<b>93</b>	<b>34</b>

3.2 For the cases closed during the period, the following outcomes were achieved:

Fraud Type	Outcome Achieved	Number
Right to Buy	Referred to new process	29
Corporate	Dismissal	1
	Informal Warning	1
	Audit report issued re control weaknesses	1

Fraud Type	Outcome Achieved	Number
	NFA	3
Tenancy	Successful Prosecution	1
	Unsuccessful Prosecution	1
	NFA	12
C Tax / SPD	Debt raised	1
	SPD Cancelled	4
	CT Penalty issued	1
	NFA	12
NNDR	n/a	0
Blue Badges	Referring to parking department or NFA	23
Allocations	n/a	0
No Recourse	NFA	1
Other	NFA	1

#### 4. Implications

4.1 The Audit Plan is aligned to the Internal Audit Strategy and individual audits provide assurance of compliance with a wide range of Council policies.

#### 4.2 Legal

This report provides one of the sources for the Council's Annual Governance Statement in order to meet the Council's responsibilities under the Accounts and Audit Regulations. The Accounts and Audit Regulations require every local authority to maintain an adequate and effective audit service.

#### 4.3 Other Implications

None

#### 4.4 Resources and Risk

There are no direct resource implications and the Plan is forecast to be completed by 31 March 2018 in line with agreed targets.

Annexes:    Annex A    Completed Audits  
                  Annex B    Audits In Progress  
                  Annex C    Follow Ups Completed

Background Papers:    None