

REPORT TO: AUDIT AND STANDARDS COMMITTEE

DATE: 7 SEPTEMBER 2016

TITLE: INTERNAL AUDIT ACTIVITY REPORT

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RECOMMENDED that:

- A** the Committee reviews the outcomes of the work of the Internal Audit service and identifies any issues for further consideration

PROGRESS AGAINST AUDIT PLANS

1. As detailed in Appendix A, good progress is being made against the 2016/17 Audit Plan. Audit timings have been agreed with CMT/HoS to ensure a steady flow of reports throughout the year.

INTERNAL AUDIT REPORTS

2. The following five reports have been issued since the Committee received its last update in June 2016:
 - *Key Financial Controls – Housing Rents (Substantial Assurance)* – Robust mechanisms are in place for rent collection. Access to the housing system is secure and refunds and write-offs are appropriately controlled. There is also sufficient management reporting at the appropriate level. As regards tenant arrears, the Housing Team is focussing on current tenants, which are well-managed. Lack of capacity, however, has resulted in a change of priorities, which are reviewed annually, on the locally managed performance indicator for recovery of former tenant arrears.
 - *Information Governance & Management – External Data Transfers (Moderate Assurance)* – The audit covered the procedures in place and processes followed for data transfers within Youth and Citizenship, Housing, Electoral Registration, Payroll and Housing Benefits. Procedures were also reviewed within Contact Harlow. It was found that in most instances, Officers who regularly undertake transfers are largely aware of the process they need to follow. The review did identify however that the Council does not promote its policies or provide formal training for Officers. The testing undertaken during the review identified that some weaknesses exist in respect of data retention and receipt/ acknowledgement of data transfers. The audit also found that where there was a business need to share key data, it was not possible to evidence the existence of data sharing

agreements/protocols. Following the audit review, a series of measures have been agreed with the affected departments and their implementation will be coordinated by the Head of Governance.

- *Latton Bush Cash Handling – (Limited Assurance)* – During the course of another audit assignment, Internal Audit has identified control issues around cash handling at Latton Bush. A review of income collected at Latton Bush reception has highlighted a number of occasions where amounts held were in excess of the insurance limits for the safe. A full review of cash handling is required to ensure the Council's cash handling procedures are being followed at Latton Bush. The recent approval of the Customer Service Action Plan by Cabinet in July 2016 sets clear direction for the reduction of cash processing by the Council in the future through encouraging its customers to use alternative methods of payment and self service facilities.
- *Officer Interests, Gifts & Hospitality* – The Internal Audit Shared Service carried out a detailed review of Officers' Declarations of Interest and Officers' Gifts & Hospitality at Epping Forest District Council. As part of this review, the Lead Auditors for Harlow and Broxbourne were asked to examine local arrangements to enable comparison across all three Councils. Issues were identified at all three Councils and for Harlow this includes the need for annual re-declaration of interests, clarity in respect of gifts and hospitality declined, and measures to improve submission rates. These matters have been reported to the Corporate Governance Group which will take responsibility for monitoring action required and implementation in line with the report.
- *General Data Protection Regulation* - The General Data Protection Regulation (GDPR) seeks to strengthen and unify data protection law for individuals within the EU. Unlike the current Directive, it will also apply to organisations based outside the EU if they process personal data of EU residents. It is therefore considered likely that the UK will have to implement the GDPR despite the recent 'Brexit' vote. The Information Commissioner's Office has issued a 12 point checklist of key steps that data controllers can take to prepare for the implementation of GDPR ahead of 2018. The Corporate Governance Group is reviewing the Council's approach and alignment with the provisions contained within the GDPR.

ONGOING AUDIT WORK

3. A number of assignments in the 2016-17 Audit Plan are intended to provide advice and guidance to the Council throughout the year on current issues. As these assignments will not normally result in a single, traditional audit report, Internal Audit will summarise its output here for members' information:

- *Harlow Trading Services* – The Internal Audit Manager continues to attend the LATC/Kier Harlow Project Group for governance which contributes to the transition from joint venture to local authority trading company.
- *Agresso Upgrade Project* – Internal Audit continues to attend Project Team meetings to provide control advice and act as ‘Critical Friend’ to the project team.
- *Housing Fraud* – Quarterly meetings of the new Housing Fraud Group, of which Internal Audit is a member and is chaired by the Head of Housing, have been programmed to ensure that anti-fraud plans remain on track. The following progress has been made:
 - Housing Officers now visit all Right-to-Buy (RTB) applicants at their home address and ask them to complete a questionnaire.
 - The Counter Fraud Manager from Epping Forest District Council (EFDC) recently attended and advised at two Harlow RTB interviews. Suspicions regarding the income stream for one of these applications are being pursued by Harlow staff using a pro-forma letter supplied by EFDC. The EFDC Corporate Fraud Manager has also supplied training (free of charge) to a selection of Home Ownership and Housing staff.
 - A job description and other associated paperwork is being created for an in-house tenancy fraud investigator, who will also investigate RTB applications. The post, which will be funded through a Growth Bid, is expected to be advertised internally and externally in December.
- *In-Phase Project* – The Internal Audit Manager continues to advise on the implementation of the new system through the Risk Management Task and Finish Group. It is anticipated that Internal Audit will be involved in user group testing later in the year.

ONGOING COUNTER-FRAUD ACTIVITIES

4. In consultation with Third Tier Managers, Internal Audit has revised and reissued the Council’s protocol for the National Fraud Initiative, clearly identifying roles and responsibilities for the forthcoming 2016-17 data-matching exercise. The Council is due to upload this year’s data, including council tax, payroll, licensing and housing data, at the beginning of October.
5. Internal Audit investigated a report from the Bus Station and Car Park Supervisor concerning a minor discrepancy in takings. Internal Audit concluded that current controls in place to be robust and no major concerns were highlighted. The Supervisor has since put in place a mechanism for ongoing monitoring of overs and unders.

6. The Revenue and Benefits Team continues to undertake proactive anti-fraud work in order to protect the Council's tax base. For example, since April 2016 the team has undertaken two Single Person Discount (SPD) reviews which have increased the tax base by £84K. These reviews are by ward (approximately 600 in each batch), with more reviews planned with the introduction of SMS text and email messages to ask customers to go on-line to complete the SPD review form.
7. Local Councils have powers to impose fixed financial penalties (£70) in relation to council tax discounts where a person is negligent in making an incorrect statement or where a person, without reasonable excuse, fails to notify a change in circumstances. An active campaign by the Revenue and Benefits team has yielded over £1K in penalties since April 2016.
8. The Council has agreed to match data with other Councils in Essex as part of a pan-Essex commitment to identifying fraud and error in its Council Tax base. The Council has entered into a data sharing agreement with all local Councils in the county, including Essex County Council, as well as the Essex County Fire and Rescue Service and Essex Police. Braintree District Council has led on the procurement of data matching software and has secured a contract with Vigilant Applications, a specialist provider of user behaviour management solutions. The primary purpose of the data matching is to identify fraud and error and therefore increase the Council's tax base. In addition, it will improve the accuracy of the information in various databases held by Essex Councils by identifying inconsistencies and inaccuracies within the data, thus ensuring various discounts, permits and other awards are correctly granted. It is envisaged that running costs for Harlow will be approximately £5K per year but should produce savings to the Council in excess of this.

RECOMMENDATION TRACKER

9. The Audit and Standards Committee receives details of all overdue recommendations, plus any fundamental recommendations from final reports, regardless of whether they are overdue or not. This tracker does not feature those recommendations made in very recent reports as these are in the process of being finalised.
10. The current tracker (see Appendix B) contains 22 recommendations passed their due date. Since November 2014 (the date of the earliest recommendation), a total of 124 audit recommendations have been raised, of which 102 (82%) have been implemented and 22 remaining outstanding (18%). The outstanding recommendations can be broken down as follows:

Recommendation Priority	Number (as at 22/8/16)
Fundamental - not yet due	1
Fundamental - passed due date	1
Significant - passed due date	15
Requires Attention - passed due date	6

11. The two fundamental recommendations relate to the following:

- *Commercial Rents (overdue)* – Over-reliance on spreadsheet records will be resolved through better use of Technology Forge, the Council's asset management system. Significant development and data cleansing work has been undertaken. This is now expected to be fully implemented by December 2016.
- *Right to Buy (not yet due)* – Significant progress is being made in this area, as detailed under Housing Fraud Group above. This recommendation is on track for completion in December 2016, as originally planned.

PERFORMANCE INDICATORS

12. The table below sets out the performance indicators for 2016/17 as agreed at the March 2016 Audit and Standards Committee.

13. It is too early in the year to report progress against these as no final reports have been issued.

Aspect of Service	Performance Indicator	Target
Audit Plan	<ul style="list-style-type: none"> • Achievement of the annual Plan 	<ul style="list-style-type: none"> • 95% minimum
Internal Audit processes	<ul style="list-style-type: none"> • Issue of draft report after closing meeting • Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> • 10 working days • 5 working days
Effective management engagement	<ul style="list-style-type: none"> • Management responses within 10 working days of draft report • Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> • 10 working days • Within agreed timescales
Compliance with professional standards	Public Sector Internal Audit Standards	Compliant

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

It is important that the organisation responds to and implements the recommendations flowing from the internal audit process in order to protect and improve the overall internal control environment of the Council.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Regeneration, Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

Internal Audit provides a key element of assurance within the overall Governance framework within the Council and it is important that recommendations flowing from internal audit recommendations are acted upon and implemented within reasonable timescales if reliance on internal controls and procedures is to continue.

Author: **Brian Keane, Head of Governance**

Background Papers

Internal Audit Plan and Internal Audit monitoring reports

Glossary of terms/abbreviations used

CMT – Corporate Management Team

HoS – Heads of Service

Appendices

Appendix A – Audit Plan Monitoring

Appendix B – Audit Recommendations Tracker