REPORT TO:	AUDIT AND STANDARDS COMMITTEE
DATE:	28 NOVEMBER 2018
TITLE:	INTERNAL AUDIT ACTIVITY REPORT
LEAD OFFICER:	SARAH MARSH, INTERNAL AUDIT MANAGER (01279) 446884

RECOMMENDED that the Committee**:**

A   Reviews the outcomes of the work of the Internal Audit service for the period July to November 2018 and identifies any issues for further consideration.

B   Notes the unchanged Code of Corporate Governance.

C   Approves the revised Anti-Fraud and Corruption Strategy (attached as Appendix C to the report).

D   Approves the Internal Audit Charter (attached as Appendix D to the report).

PROGRESS AGAINST THE AUDIT PLAN

1.   Work continues on the 2018/19 Audit Plan and timings have been agreed with the Senior Management Board to ensure a steady flow of reports throughout the year.

2.   Progress with the plan may be hampered because the Internal Audit service is currently carrying a vacancy (and the recent recruitment campaign was unsuccessful) and one of the team is on long term sick. In the short term specialist services have been brought in to undertake a set number of audits at no additional cost to the Council. The situation is being closely monitored by the Internal Audit Shared Service Board as this may affect Broxbourne Borough and Epping Forest District council plans too.

3.   The current audit plan has been reviewed and Appendix A sets out the current status and the order in which the audits will be completed based on their risk profile. Subject to approval, some of the later audits may need to be deferred to the next financial year.

INTERNAL AUDIT REPORTS

4.   Five reports have been issued since the Committee received its last update in June 2018:

    a) Software licencing - Substantial assurance

Software licencing is well managed and regular reconciliations are made to other systems to ensure that usage can be accounted for, with a proactive review undertaken to resolve any specific licencing issues. Enhancement of the current process should be considered by developing a software management policy designed to advise service departments of the correct procedure to be followed in managing, utilising, and procuring software and would ensure that corporate consistency was achieved.

In addition, reporting in respect of the usage of applications and software management could be enhanced to provide assurance on the level of usage in order to support further investigation prior to renewal of licenses.

b) IT Asset Management - Moderate assurance

A clear framework of responsibility is in place for the acquisition, receipt, deployment and disposal of IT Assets and is working well in practice. Some errors were noted in the inventory and ICT take it upon themselves to attempt to verify all IT assets within the Council. This is a resource heavy, time consuming task and it would be preferable to spread the load by making departments responsible for verifying and reconciliation of their own assets, locations and asset holders, changes etc. and ICT undertaking spot checks to confirm accuracy.

The Council has a four year replacement programme, which is widely known and accepted, but has not been formalised. This should be documented in the IT Strategy which is in the process of being redrafted.

c) Safeguarding – Limited assurance

Every alternate year the Council's Designated Safeguarding Officer completes an Essex Safeguarding Board Children and Adults safeguarding self-assessment. The adult self-assessment was submitted in April 2017 and the child self-assessment in May 2018. This audit focused on the robustness of evidence and action plans to support the submitted self- assessments.

The Council has an up to date Safeguarding Policy and key staff are aware of their responsibilities in this area. The main concern of the audit is the lack mandatory training for all staff on safeguarding. This has been on hold for over one year whilst a new e-learning platform has been introduced. This training will be re-introduced shortly and evidence will need to be retained centrally to demonstrate compliance as this was lacking for the previous e-learning module. Refresher training has not been provided in the past and is not a legal requirement, however, most organisations expect employees to undertake this every two to three years.

Risk registers relating to safeguarding have recently been updated and as a result of this audit the Council's whistleblowing policy is being refreshed to ensure there is an avenue to report any safeguarding concerns outside of the referral process.

d) Purchase cards – Limited assurance

Lack of system controls and non-enforcement of policy and procedures regarding the use of purchase cards had allowed Officers to become complacent in ensuring value for money is being achieved when using their cards.

There was a lack of accountability for the 51 cardholders especially as they had not been providing receipts as required per the procedures. The system of reviewers was not providing the challenge required to ensure spending did not go unchecked. Not all cardholders had an assigned reviewer; some reviewers were not at an appropriate level and where in place some reviewers did not feel empowered to challenge purchasing decisions.

The Systems Team Leader had already identified this as an area of concern and since January 2018 started to challenge areas of poor behaviour and practices, but with little success.

Weaknesses with operational processes was compounded by the lack of spend analysis and challenge at a corporate level. Significant savings by the council could be made through the use of preferred supplier and framework agreements. Use of such suppliers and frameworks needs to be enforced, because, as an example many staff are bypassing the Council's preferred stationery provider.

The audit found no evidence there had been any fraudulent use of the cards and recommendations have been followed up since this audit was completed.

e) Playhouse Follow Up (cash handling)

In October 2017 Internal Audit issued a moderate assurance report on the Playhouse. The audit looked at the controls surrounding cash and banking, business continuity, financial and contract management, budgetary control, safeguarding of assets, health and safety and compliance with HR policies.

Internal Audit returned to the Playhouse in the summer to witness cash handling practices due to concerns raised by Playhouse management. Previous cash handling recommendations had not been implemented and the risk of cash theft had not diminished. As a consequence of Internal Audit's intervention in the summer, controls have tightened up and the number and value of errors when reconciling takings (bar, box office and cafe) has significantly reduced. Playhouse staff are currently

receiving training and management spot checks instigated to ensure standards do not slip.

ONGOING AUDIT WORK

5. A number of assignments in the 2018/19 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 Councillors' information:

    a) Information Governance

    Internal Audit sits on the newly formed Officer Information Governance Group (IGG), which is chaired by the Head of Governance. Building on the work of the now disbanded General Data Protection Regulations project group. IGG will develop, implement and oversee an information governance framework to ensure the Council remains compliant with legislation as well as drive efficiencies by having a more co-ordinated approach.

    b) Code of Corporate Governance

    The Corporate Governance Group has undertaken an annual review of the Council's Code of Corporate Governance and no changes are proposed except to the date**.**

    The Council's Code is a statement of the systems by which it directs and controls the exercise of its functions and relates to the local community. It is intended to stimulate confidence in the activities of the Council and how it goes about its business; focus the minds of those involved in decision making and making those decisions in a proper and transparent way. The Code also seeks to ensure that the Council actively engages with local stakeholders and assists with the constant improvement of service delivery and minimisation of associated risks.

    c) Anti-Fraud and Corruption Strategy

    The Council's Corporate Fraud Group continues to meet quarterly, overseeing implementation of the Council's Anti-Fraud and Corruption Strategy and associated action plan.

    The Group has undertaken the annual review of the strategy (attached as Appendix C) whereby the only change is a reference is made to the Anti-Money Laundering policy and procedures rather than being detailed in the strategy, as they are readily available on the Infonet for staff.

d) Ongoing Anti-Fraud Activities

Since the appointment of the Housing Fraud Officer in May 2018, 11 Council properties have been recovered. Two applicants have been removed from the Council's Housing Needs register due to falsifying personal information and two Right to Buy (RTB) applications have been withdrawn.

The Housing Fraud Officer has completed their professional qualification and is now an Accredited Counter Fraud Specialist.

Housing and Leaseholder Officers continue to carry out money laundering checks on all RTB applications at the conveyancing stage. All RTB applications are validated and checked to ensure that the information that the applicant has supplied is correct. This includes tenancy history, names, type of property, receipt of benefit, monies owing to the council, bankruptcy searches, land registry and Experian where required.

All Officers within the Housing Service are trained in identifying potential fraud and refer cases to the Housing Fraud Officer to action in accordance with policies and procedures.

The Revenue and Benefits service continue to undertake proactive anti-fraud work in order to protect the Council's tax base. For example, the service undertakes a rolling Single Person Discount (SPD) review and has investigated the National Fraud Initiative (NFI) SPD data match discrepancies, which in total has increased the tax base by £344,000 since August 2015. SMS text, email and an on-line form are being used to reduce the cost of reviews.

Local councils have powers to impose fixed financial penalties (£70) in relation to council tax discounts where a person makes a fraudulent declaration or where a person, without reasonable excuse, fails to notify a change in circumstances. The work undertaken by the Revenues and Benefits team in reviewing SPD's and the NFI data matches has resulted in 155 penalties (£10,850) being imposed to date.

Data matching with other councils in Essex as part of a pan-Essex commitment to identifying fraud and error in its Council Tax base is making good progress with £140,000 of incorrectly claimed council tax reductions being identified to date.

All officers in the Revenues and Benefits service and the Housing Fraud Officer have attended fraud awareness sessions delivered by the Department of Works and Pensions' Single Fraud Investigation Service.

e) National Fraud Initiative

The mandatory biennial NFI exercise for 2018/19 has commenced. Data has been extracted and uploaded to the NFI site. Individual departments are responsible for extracting their own data and uploading it with assistance from Internal Audit. The annual Electoral Roll to Council Tax data matching exercise will be uploaded December 2018. Matches expected to be released in January 2019.

f) Internal Audit Plan 2019/20

The annual audit planning process will commence shortly. The Audit Needs Assessment is being reviewed and Heads of Service and managers across the Council will be contacted to ensure that all service areas are captured and audits planned in accordance with risk.

RECOMMENDATION TRACKER

6. The Committee receives details of all overdue recommendations, plus any high priority 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.

7. The current tracker (attached as Appendix B) contains eight recommendations which have passed their due date (compared to 16 at the last meeting in June 2018). A comparison with previous periods is outlined in the table below:

Table 1 – Recommendation Priorities

Recommendation Priority	Number (as at Nov 2018)	Number (as at June 2018)	Number (as at March 2018)	Number (as at November 2017)
High - not yet due	0	1	0	0
High - passed due date	1	0	0	0
Medium - passed due date	5	12	14	10
Low - passed due date	2	4	1	0
TOTAL	**8**	**17**	**15**	**10**

8. The high level recommendation relates to the HTS payment mechanism audit and the need to undertake a fundamental review of all performance indicators.

INTERNAL AUDIT CHARTER REVIEW

9. The Internal Audit Charter sets out the common practices of Internal Audit and requires annual review in accordance with the Public Sector Internal Audit Standards. This was last undertaken in November 2017.

10. The Chartered Institute of Public Finance and Accountancy Audit Committees practical guidance for Local Authorities and Police 2018 edition states that an audit committee should have a role in reviewing and approving the internal audit charter. In addition, a committee should have a role in overseeing the independence, objectivity, performance and professionalism of the internal audit function.

11. A review of the current Internal Audit Charter (attached as Appendix D) confirms it is still fit for purpose and no changes, except to the date, are proposed.

PROGRESS AGAINST THE ANNUAL GOVERNANCE STATEMENT

12. In June 2018, the Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts.

13. The Corporate Governance Group (made up of the Head of Finance, Head of Governance, Legal Services Manager, Insurance and Risk Manager, Policy and Performance Team Leader and the Internal Audit Manager) continues to monitor the actions set out in the AGS on a regular basis. The table below sets out the current position against the action plan:

Table 2 – Key Improvement Areas

Key improvement area	Action to be taken in 2018/19	Progress at November 2018
1. General Data Protection Regulations (GDPR)	On 25 May 2018, the EU General Data Protection Regulation came into force. It is important the Council not only maintains compliance but ensures there is a continuous process for improvement too.	An Officer Information Governance Group has been set up to drive this forward. Membership includes the Council's Data Protection Officer, who is working in conjunction with Internal Audit to ensure data protection compliance.
2. Business Continuity Plan (BCP) testing	Testing regimes to be introduced to verify the effectiveness of business continuity plans, provide training to participants on what to do in a real scenario and identify areas where the plan needs to be strengthened.	Progress against this is being monitored by the Corporate Governance Group. The updated corporate business continuity plan/emergency plan has been reviewed by Senior Management Board, who approved the need for a testing regime to be implemented.

IMPLICATIONS

Place (Includes Sustainability)
None specific.
Author: Jane Greer, Head of Community Wellbeing on behalf of 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 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: Colleen O'Boyle, Interim Head of Governance

Appendices

Appendix A – Audit Plan Monitoring
Appendix B – Audit Recommendation Tracker
Appendix C – Anti-Fraud and Corruption Strategy (revised)
Appendix D – Internal Audit Charter

Background Papers

Code of Corporate Governance
https://www.harlow.gov.uk/sites/harlow-cms/files/files/documents/files/Harlow%20Code%20of%20Corporate%20Governance%202017.pdf

Glossary of terms/abbreviations used

AGS – Annual Governance Statement
IGG – Information Governance Group
NFI – National Fraud Initiative
RTB – Right to Buy
SPD – Single Person Discount