

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **13 MARCH 2019**

TITLE: **INTERNAL AUDIT ACTIVITY REPORT**

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT MANAGER**
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RECOMMENDED that:

The Committee approves the proposal to defer three audits as detailed in paragraph 1 of the report.

PROGRESS AGAINST AUDIT PLAN

1. Work is continuing to deliver the 2018/19 Audit Plan as detailed in Appendix A. The Committee is requested to approve the deferral of three audits as detailed below:
 - a) Planning and Building Control – deferral requested to allow time for the vacant Planning and Building Control Manager post to be recruited to
 - b) Capital projects programme - this audit has been deferred to allow time for the revised corporate project methodology to take effect
 - c) Commercial rents – deferral requested due to competing priorities.

INTERNAL AUDITS REPORT

2. Three reports have been issued since the Committee received its last update in November 2018:

- a) Leasehold Service Charges – Substantial Assurance

There are rigorous processes, including adequate documentary evidence, to support leaseholder service charge calculations, and the methodology employed for apportioning costs complies with the lease agreements, legislation and Council policy.

Estimated service charge invoices and statements of actual service charges are sent to all leaseholders in accordance with legislation. Orchard (the housing IT system) is updated promptly with sold properties and charges are calculated on a daily basis from the date of sale, ensuring all leaseholders are fully recharged for services.

Robust debt monitoring and recovery processes, carried out in line with Council policy, maximise leaseholder service charge income for the Council. The section consistently accomplishes a high recovery rate and in 2017/18 achieved 99.6 per cent (target 99 per cent).

For accounting purposes, the Council is using a revised model for apportioning the costs of the various services provided under the HTS contract. If this allocation was used to calculate leasehold service charges, the cost to leaseholders would be significantly higher. As there has been no change to the service provided to leaseholders, the Council is unable to justify such an increase and therefore leasehold service charge calculations are based on the previous Kier contract costs with an additional uplift for inflation. As part of the three-year best value review of the HTS contract, the Annual Service Charge allocation model should be revisited and, based on actual HTS costs, so there is a more realistic allocation of leaseholder service charges.

- b) Housing Rents - substantial assurance regarding the collection of housing rents income and moderate assurance regarding Former Tenant Arrears

The Housing Rents system was found to have effective controls in place over setting up new tenants, daily uploads of the cash receipting file, current tenant arrears, write offs and performance monitoring.

Notwithstanding this, the audit identified that Former Tenant Arrears (FTAs) are not regularly pursued by the Housing Section due to capacity issues. Instead, priority is given to maintaining control and collecting current arrears, in order to minimise risk that these will become uncollectable. At the time of the audit the FTA balance remained high at circa £1.1 million and there are plans to consider future resources allocated to collection either through appointing an Arrears Officer to monitor, handle and collect FTAs or the use of an Agency.

- c) HTS Strategic Governance – Substantial Assurance

The governance arrangements for HTS (Property and Environment) Ltd consist of its Articles of Association, a Scheme of Delegation, and a Business Plan and were found to be fit for purpose and working well in practice.

The Council's interests are protected by way of the Shareholder Sub Committee. The Sub Committee is supported by its Terms of Reference, the reports it receives and attendance of HTS staff at its meetings. Overall, the Sub Committee is fulfilling its role, however, there are a number of opportunities for it to become more strategically focused. For example, by receiving reports from other assurance providers (such as Internal Audit), ensuring it is not too focused on

operational issues and considering an away day or session with the HTS Board to explore growth opportunities.

ONGOING AUDIT WORK

3. 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 recently formed Officer Information Governance Group (IGG), which is chaired by the Head of Governance. The Group is developing and overseeing 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) Corporate Fraud Internal Audit also sits on the Corporate Fraud Group, which is chaired by the Head of Housing. This Group oversees the implementation of the Council's anti-fraud and corruption strategy and the Group noted recent successes by the Tenancy Fraud Officer who started in May 2018:
 - i) 111 tenancy checks completed
 - ii) 13 properties recovered
 - iii) Three fraudulent applicants removed from the Housing Register and one from temporary accommodation
 - iv) Three Right to Buys stopped
 - c) National Fraud Initiative (NFI): The mandatory biennial NFI exercise for 2018/19 has commenced. The purpose of this is to match Council data on individuals such as Council Tax, Housing Benefit, payroll and electoral roll records against other Councils' data, and national data such as deceased persons. Potential matches could include an employee being employed by more than one council, residents claiming benefits in more than one borough or claiming discounts such as single person discount which they are not entitled to. All matches have now been released and specific officers have been given responsibility for reviewing potential matches. The current protocol is to review high grade matches. Internal audit provides assistance and monitors progress being made.
 - d) Service Assurance Statements: Internal Audit is co-ordinating the process to ensure service assurance statements are completed by each Head of Service and their managers as part of year-end processes. The results of these will be analysed by Internal Audit, shared with the Corporate Governance Group and the results fed into

the 2018/19 Annual Governance Statement which will be presented to the committee in June.

RECOMMENDATION TRACKER

4. The Audit and Standards Committee receives details of all overdue recommendations, plus any high priority recommendations from final reports, regardless of whether they are overdue or not.
5. The current tracker, attached as Appendix B to the report, contains eight recommendations which have passed their due date. A comparison with previous periods is outlined in the table below:

Table 1 – Recommendation Tracker Comparison

Recommendation Priority	Number (as at March 2019)	Number (as at Nov 2018)	Number (as at June 2018)	Number (as at March 2018)
High - not yet due	0	0	1	0
High - passed due date	1	1	0	0
Medium - passed due date	5	5	12	14
Low - passed due date	2	2	4	1
TOTAL	8	8	17	15

6. The high level recommendation relates to the HTS payment mechanism audit and work is in progress regarding the need to undertake a fundamental review of performance indicators.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

7. In line with good practice, the Internal Audit service should on an annual basis ensure it is compliant with the 2017 Public Sector Internal Audit Standards (PSIAS), notifying the Audit and Standards Committee of any areas of non-compliance.
8. In November 2016 the service was confirmed as being fully compliant with the PSIAS by an external assessor and this is still the case as there have been no significant changes in the way the Internal Audit service is delivered or operates, and the Internal Audit Manager has not taken on any additional responsibilities that could compromise the service's independence or objectivity.

INTERNAL AUDIT PERFORMANCE

9. Performance indicators are in place to monitor service performance and the current status, with a comparison with last year's year-end results, are reported below.

Table 2 – Performance Indicator Comparison

Aspect of Service	Performance Indicator	Target	As at March 2019	Year End 2017/18
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> Sufficient internal audit work in order that the Internal Audit Manager can give their annual opinion. 	<ul style="list-style-type: none"> On target 	<ul style="list-style-type: none"> Achieved
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting 	<ul style="list-style-type: none"> Within 10 working days 	<ul style="list-style-type: none"> 6 days 	<ul style="list-style-type: none"> 4 days
	<ul style="list-style-type: none"> Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> Within 5 working days 	<ul style="list-style-type: none"> 4 days 	<ul style="list-style-type: none"> 5 days
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> 24 days * 	<ul style="list-style-type: none"> 11 days
	<ul style="list-style-type: none"> Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> Within agreed timescales 	<ul style="list-style-type: none"> Largely met (as reported by tracker) 	<ul style="list-style-type: none"> Largely met (as reported by tracker)
Continuous Professional Development (CPD)	<ul style="list-style-type: none"> Auditors maintain and improve their knowledge, skills and other competencies through directed and self-directed activities 	<ul style="list-style-type: none"> 40 hours of CPD activity per auditor 	<ul style="list-style-type: none"> Target for 2018/19 achieved. 	<ul style="list-style-type: none"> Not reported, as new PI for 2018/19

* The reason for the increase is due to delays because of the Christmas break and managers agreeing a suitable resolution with Internal Audit for the more complex or wider reaching recommendations.

PROGRESS AGAINST THE ANNUAL GOVERNANCE STATEMENT

10. In June 2018, the Audit and Standards Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts.
11. 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, being a standing agenda item. The table below sets out the current position against the action plan:

Table 3 – Annual Governance Statement Actions

Key improvement area	Action to be taken in 2018/19	Progress at March 2019
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.	The Officer Information Governance Group is driving 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. In the meantime, IT disaster recovery arrangements at Latton Bush are being tested in conjunction with service users.

IMPLICATIONS

Place (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

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 and Deputy to the Managing Director

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: Simon Hill, Head of Governance

Appendices

Appendix A – Audit Plan Monitoring

Appendix B- Audit Recommendation Tracker

Background Papers

None.

Glossary of Terms/Abbreviations Used

AGS – Annual Governance Statement

FTA – Former Tenant Arrears

IGG – Information Governance Group

NFI – National Fraud Initiative

PSIAS – Public Sector Internal Audit Standards