

Report to Audit committee
23 June 2015
Report of Head of internal audit and risk management, LGSS
Subject Internal audit 2015-16 – April to May update

Item

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Purpose

To advise members of the work of internal audit between April and May 2015, and progress against the 2015-16 internal audit plan.

Recommendations

- 1) To note the work of internal audit between April and May 2015
- 2) To note the progress on the internal audit plan
- 3) To note the council's response to the annual fraud survey 2014-15

Corporate and service priorities

The report helps to meet the corporate priority "Value for money services".

Financial implications

None.

Ward/s: All wards

Cabinet member: Councillor Stonard – Resources and income generation

Contact officers

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Background documents

None

Report

Background

1. The internal audit plan for 2015-16 was endorsed by members in March 2015.
2. This report covers the following areas:
 - audit assurance work April to May 2015
 - other areas of non-assurance and financial consultancy work
 - the audit plan 2015-16, showing progress against planned audits
 - the council's response to the annual fraud survey 2014-15
3. For each audit assurance review a report is presented to the relevant head of service, including recommended actions to be taken. Audits are subsequently followed up to ensure that the agreed actions have been implemented.

Audit assurance work April to May 2015

4. The following areas were reported on between April and May, all of which were completion of audits started in 2014-15:
 - Shared services – substantial assurance. The model of service delivery adopted by the council includes a number of shared service/key partnership/joint venture arrangements. The audit reviewed the governance arrangements in place for five of the council's Platinum and Gold status contracts: LGSS; nplaw; NPS Norwich; Norwich Norse (Environmental); and Norse Environmental Waste Service, as well as consideration of the general council wide arrangements that are applicable to all contracts.

There was assurance over the following aspects: the governance framework relating to shared services; shared services consistent with corporate and service objectives; appropriate legal reviews of agreements; reporting of performance information; effective liaison with shared services; shared services and partnerships delivering savings and income to the council (through sharing of profit).

However, the service specification for Phase 2 of the NPS Norwich joint venture was found to include services that were no longer provided as part of the contract; there is little validation of performance information being undertaken; performance reporting in respect of NPS Norwich should be more tightly co-ordinated; and performance monitoring reports in respect of nplaw are not being received in the frequency specified in the agreement.

Five recommendations were agreed, which are due to be implemented by July 2015.

- Community infrastructure levy (CIL) income – substantial assurance. CIL is a statutory mechanism to allow charging on new buildings and extensions to help pay for supporting infrastructure in the greater Norwich area, necessary to deliver the Joint Core Strategy.

The internal audit plan for 2013-14 included a review of the CIL controls as designed, but without significant testing, as there were insufficient transactions. Since the scheme was implemented there have been nearly 100 planning applications subject to CIL; a sample of these was tested to ensure that the controls are operating satisfactorily.

There was assurance over the following: previously agreed audit recommendations implemented; controls in place to identify developments liable for CIL; CIL is registered as a land charge and subsequently removed upon payment; and correct return of the annual CIL report.

However, there were a few minor weaknesses, as follows: there is no cover for the planning obligations officer in finance, and process notes are incomplete; time recording records are insufficient to support the 5% administration fee that the council can retain; and breaches of conditions relating to non-residential developments may not be identified.

Four recommendations were made, which are due to be implemented by the end of December 2015.

- National non-domestic rates (NNDR) – full assurance. The administration and collection of NNDR is carried out by LGSS under the shared service agreement with the council.

There was assurance across the arrangements in place for maintaining the NNDR database; exemptions and reliefs applied to business rate accounts; monitoring of arrears and collection rates; refunds and write-offs; reconciliation of the NNDR database to the general ledger at year end; and access to systems.

However, one minor control weakness was identified: the procedure notes in relation to the daily cash reconciliation to ICON are in hard copy and were drafted in 2006. Although updates have been noted on the procedures by hand, the notes are in need of updating and being made available electronically.

One recommendation was agreed which is due to be implemented by September 2015.

- Northgate IT system – moderate assurance. The Northgate system supports the back office operation of Revenue & Benefits processes.

There was assurance across most of the areas including system administration procedures including roles and responsibilities; output controls; system interface controls; and backup and disaster recovery.

However, procedure for recording changes to corporate systems is incomplete; the audit log functionality on Northgate is currently disabled and audit log information is not maintained on the system and some risks specific to application systems have not been identified. Five recommendations were made, three of which are complete. One finding was disputed by the service and management is currently considering its response. The audit log issue is complex and would require a significant commitment from LGSS and Norwich officers. Management is currently considering the risks and the options.

5. Other assurance work which is in progress is shown in **appendix 1**.

Follow ups

6. The following audits were followed up:

- Parking Gateway IT system – all five recommendations complete.
- Civica IT system - satisfactory progress on the six recommendations, some of which are related to the upgrade of the system (13 - 14 June 2015).

Non-assurance work

7. The main areas of non-assurance work in the period were:

- Preparing the draft annual governance statement 2014-15
- Co-ordinating and submitting the council's response to the annual fraud survey
- Investigating matches from the NFI 2014-15 data matching exercise.

Progress against the audit plan

8. Details of the annual audit plan for 2015-16 are shown at **appendix 1**, showing estimated and actual days for each area of audit assurance work, with non-assurance and consultancy work shown separately.
9. To the end of May 2015, 81.5 days have been delivered against the audit plan. This includes work on audits started at the end of 2014-15 but not completed by the end of March. The days delivered were less than planned due to nine days sick leave in the team.
10. The restructure of the LGSS internal audit service is almost complete, which will provide clarification on how resources will be made available to complete the plan.

Annual fraud and corruption survey 2014-15

11. As part of Protecting the Public Purse (PPP), the Audit Commission conducted annual fraud and corruption surveys to collect data on various frauds and acts of corruption in local government and related bodies. Following the abolition of the Audit Commission the former counter fraud team of the Commission is now undertaking the survey on behalf of The European Institute for Combatting Corruption and Fraud (TEICCAF). The latest survey is somewhat shorter than previous versions.
12. TEICCAF is an umbrella body for local government counter fraud professionals and professional bodies, including the Institute of Revenues Rating and Valuation (IRRV) and the Local Authority Investigating Officers Group (LAIOG). TEICCAF is the only body committed to continuing the collection and analysis of local government counter fraud data. TEICCAF will publish the survey results in a 2015 '*Protecting the Public Purse*' report (as a reminder, the previous report '*Protecting the Public Purse 2014*' is available on e-bulletin).

13. Previous fraud and corruption surveys achieved a 100 per cent response rate. This enabled the Audit Commission to provide an accurate assessment of total detected fraud for local government, including regional analysis.

14. The council's survey response was submitted by the May deadline; a copy of the submission is attached at **appendix 2** for members' information.

Key messages from the 2014-15 survey submission

15. In 2014-15 the council reported:

- 96 cases of detected housing and/or council tax benefit fraud with a value of £594k. This should be seen in the context of approximately 18,000 claimants.
- Two cases of housing sub-letting and four cases of either non-residency or housing application fraud. In all cases the properties were recovered.
- No cases of fraud or corruption involving staff or members.