

Internal Audit Service

Progress report on delivery of the 2018/19 internal audit plan

Quarter 3

1. Introduction

- 1.1. This report supports Audit and Accounts Committee's responsibility under its terms of reference to consider regular performance reports from the internal audit function on delivery of the annual audit plan, which the Committee approved in May 2018.

2. Summary of progress against the audit plan

- 2.1. Delivery of the 2018/19 plan is well in hand. 14 (64%) of 22 planned audits plan are either complete or at the point where draft reports are being discussed with managers. This compares favourably with 40% (8 of 20) in 2017/18 at this point in the year. Of the remainder, 6 (27%) are in progress with two (9%) starting shortly.
- 2.2. We have issued final reports on audits of environmental health, General Data Protection Regulations (GDPR) implementation and IT access controls, and a draft report on waste collection. We reported follow up work on risk management, performance management and taxi licensing audits. Final reports were issued for council tax, housing benefits and national non-domestic rates, and audits of the remaining financial systems will be completed by the end of the financial year.
- 2.3. Overall, the level of assurance we can provide is favourable, with all completed audits to date receiving either moderate or substantial assurance (see Section 4). No audits resulted in 'no' assurance being given. There have been few surprises for the council's managers as they generally understand where services, systems or processes are not as effectively controlled as they would wish. The audit team has been given good access to undertake planned work and have been well supported by managers and teams.

3. 2018/19 Internal audit work completed

- 3.1. The table below shows the current status of audits on the 2018/19 audit plan. We have included assurance opinions where final reports have been issued or draft reports have been agreed with senior managers.

Audit title	Audit status	Assurance opinion
Governance and democratic oversight		
Improvement plan: follow up on 2017/18 audit	Fieldwork	N/A
Business effectiveness		
Performance management: follow up of 2017/18 audit and assessment of new arrangements	Final report	N/A
Risk management: follow up of 2017/18 audit	Final report	N/A
Service delivery		

Internal Audit Service progress report

Audit title	Audit status	Assurance opinion
Environmental health service	Final report	Moderate
Licensing taxis: follow up on 2017/18 audit	Final report	N/A
Waste collection service	Draft report	Substantial
Licensing alcohol sales: follow up on 2017/18 audit	Not started	N/A
Service Support		
IT system access	Final report	Moderate
Revenues and benefits contract procurement	Drafting report	
Project management	Not started	
Business Processes		
Information security and GDPR	Final report	Moderate
Business rates/ national non-domestic rates	Final report	Substantial
Housing benefits	Final report	Substantial
Council tax	Final report	Substantial
Income collection and banking	Drafting report	
Accounts receivable	Drafting report	
Payroll	Drafting report	
Accounts payable	Fieldwork	
Debt management	Fieldwork	
General ledger, budget setting and monitoring	Planning	
Treasury management	Planning	
Procurement	Planning	
Stage of audit process	Number	Percentage
Complete	9	41%
Draft report	5	23%
Progressing	6	27%
Not yet started	2	9%
Total number of audits	22	100.0%

3.2. The key findings from each of the completed audits are set out below.

Council tax: substantial assurance

- 3.3. Council tax, NNDR and housing benefits collection is outsourced to Capita PLC. The council's service assurance team (SAT) monitors contract delivery through performance indicators and meet Capita monthly to discuss performance.
- 3.4. The council tax billing procedure is accurate and debt recovery, refunds and write-off action complies with debt management policy. Discounts and exemptions are applied correctly and properties are inspected periodically where necessary. There

Internal Audit Service progress report

is effective oversight of council tax bandings, service performance and approval of high value write-offs. We followed up implementation of one low residual risk action on debt management from our 2017/18 audit and confirmed that this was partially implemented and the residual risk has been accepted by members.

Business rates/ national non-domestic rates: substantial assurance

- 3.5. NNDR multipliers are approved by the council and input on Northgate correctly. Annual bill amounts are calculated accurately and the database is reconciled weekly to Valuation Office (VO) reports. Discounts and exemptions applied are supported by evidence and properties are inspected periodically. The debt recovery schedule, refunds and write offs comply with debt management policy. We followed up implementation of two medium risk actions from our 2017/18 audit, confirming the first is implemented and the second superseded:
- VO reports were now reconciled and the SAT would be notified if they did not.
 - Members stated that they do not require periodic reports on debt monitoring.

Housing benefits: substantial assurance

- 3.6. Eligibility for housing benefit claims and requests for amendment is assessed prior to being awarded, and claims are supported by evidence and processed promptly. Claim quality is sample checked monthly and the SAT also monitor quality. System access is appropriately restricted and requires staff to sign a declaration of interest. Payments are reconciled correctly with appropriate separation of duties. Two medium risk actions from our 2017/18 audit were implemented:
- Council employees with Northgate system access sign a declaration of interest.
 - Access to Northgate is now appropriately restricted.

Waste collection service: substantial assurance

- 3.7. Waste is collected in line with council policy, strategy, and regulatory requirements. Separate waste and recycling bins are supplied to residents and a collection guide/ timetable is published. Routes are reviewed and new properties added, and the Operations Manager is consulted on planning applications for new developments. Operatives are trained, crews are supported by collection information, report any issues arising and are overseen by managers through vehicle tracking and mobile phone contact. Complaints are managed effectively, including action on missed collections, although data on re-collection times needs to be kept up to date.
- 3.8. Commercial and garden waste customers are correctly charged and added to collection routes. Payments are largely received although recovery action on some outstanding commercial debt is ongoing. Commercial debt recovery sanctions are applied at the discretion of the Operations Manager and criteria should be recorded. Quarterly performance reports include waste and recycling indicators.

Environmental Health Service: moderate assurance

- 3.9. Service managers are working hard to improve operational processes. The Public Protection Manager set out a clear service direction, additional resources were recruited and improvement action is being put in place. Reports from the public are appropriately administered and recorded. Environmental crime action has been largely reactive due to lack of capacity, but private sector enforcement, CCTV and case prioritisation should support greater proactivity. Environmental crime cases are not well recorded but the planned transfer to UNIFORM should improve this.

Internal Audit Service progress report

3.10. Partly due to the 2017 restructure the Public Protection Unit's current service plan does not include environmental health objectives. Policies are being refreshed and should include air quality and private water supply procedures. Two performance targets, fly tipping and food intervention, are no longer reported corporately. Food intervention is monitored by the Food Standard Agency and there are no service targets for air quality, food inspection and water inspection which are regulated and monitored by other agencies. Targets should be considered to assess the impact of enforcement activity.

IT system access controls: moderate assurance

3.11. The council contracts data centres to host systems and store data, and ISO 270001 accreditation gives some assurance over information security. Policies are in place but a specific access control policy is needed, and we shared a model. Access to the network, terminal service and remote working is well controlled by approvals, permissions and deletion of redundant accounts. Effective network controls provide some assurance over wider system security. However, a full list of systems and system owners is not maintained, restricting the ability to fully address data security risks. Routing software purchasing through ICT could give assurance but managers consider that relying on users to inform ICT make this approach impractical.

3.12. Other systems are not as effectively controlled and most are not supported by guidance. Ownership of the Idox system, used by environmental health and licensing, is unclear and has more super users than necessary. Access requests are not consistently recorded though this should be improved by a planned electronic document management system. Access controls for other systems operate informally and inconsistently. Knowledge and understanding varies and is based on the information security policy, which does not include access control.

Information security and GDPR: moderate assurance

3.13. We can provide moderate assurance over the effectiveness of action to implement GDPR. A Senior Information Risk Officer and Data Protection Officer (DPO) were appointed but the ICT manager and Monitoring Officer's shared DPO role conflicts with their operational responsibilities and a new DPO should be appointed. Heads of service, managers and members have been trained and a mandatory e-learning module was rolled out in December. Policies are drafted but need to be published.

3.14. Services carried out personal data processing audits but as the information is incomplete and unclear we have shared an alternative template. Guidance is available on the implications for new suppliers but existing contracts should be reviewed. The DPO should monitor compliance by identifying processing activity, checking whether it complies with GDPR and recommending any changes.

Taxi licencing - follow up

3.15. Managers agreed medium risk actions on expanding the use of the DBS service, removing un-progressed applications, reporting enforcement activity and recording investigations. Two actions are implemented, two partially implemented and one no longer applies. Checks are being introduced to process license application refunds and more frequent driver checks will be made on the DBS update service. Licenses under investigation will be highlighted on the system to avoid renewal and data on application numbers, performance and operational activity will be reported to Licencing Committee. DBS certificates will not be retained following legal advice.

Performance management - follow up

3.16. The council was developing a performance management framework to support the Strategic Plan, including a new reporting template. Performance measures and indicators were being agreed with service heads and directors. Action is being taken to implement three medium risk actions. The framework is being updated, and council priorities, objectives and success measures are set out in the June 2018 Corporate Plan. Quarterly performance reports are submitted to Overview and Scrutiny Committee, with reports on 'red' indicators and corporate and project risk. Managers will have to submit an annual quality assurance certificate for 2018/19.

Risk management - follow up

3.17. Our limited assurance opinion was based on the need to improve project risk management as structured approach in larger projects was not applied in others. We agreed four medium risk actions; two have been implemented and two partially implemented. A new project management framework includes risk management and a full list of projects was risk assessed to support reporting to Programme Board, based on performance dashboard. Lower risk projects are not routinely overseen by senior managers or members but all projects are now submitted annually to Programme Board to review risk ratings.

4. Audit assurance levels and classification of residual risk

4.1. The definitions of the assurance given by internal audit work, and the categories of residual risk used to prioritise any actions arising from audit work are set out below.

Assurance levels

4.2. Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we refer in our reports to the assurance applicable to the scope of the work we have undertaken.

- **Substantial assurance:** the framework of control is adequately designed and/or effectively operated.
- **Moderate assurance:** the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
- **Limited assurance:** there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
- **No assurance:** there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Residual risks

- **Extreme residual risk:** critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the council's reputation. Remedial action must be taken immediately.

Internal Audit Service progress report

- **High residual risk:** critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. Remedial action must be taken urgently.
- **Medium residual risk:** failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. Prompt specific action should be taken.
- **Low residual risk:** matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. Specific remedial action is desirable.

5. Update on the National Fraud Initiative (NFI)

- 5.1. Data was uploaded in October 2016 for the 2016/17 NFI exercise. The matches were released in January 2017 and checking of these is still progressing. The total savings of £73,657 includes £31,554 due to the Department for Work and Pensions (DWP), but which they have decided not to recover. Details are shown below.

2016/17 biennial exercise	Number				Savings
Data categories	Reports	Matches	Frauds	Errors	£
Housing benefit	18	299	4	2	66,768
Payroll	2	16	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	3	8	0	0	0
Council tax reduction scheme	28	464	3	7	6,889
Creditors	6	899	0	0	0
Value Added Tax	1	135	0	0	0
Housing tenants	1	2	0	0	0
Procurement – payroll	2	19	0	0	0
Individuals - more than one report	1	148	0	0	0
Total	63	1,990	7	9	73,657

- 5.2. The 2018/19 biennial exercise matches were released on 31 January 2019, but checking is only just starting and has not yet identified savings.

2018/19 biennial exercise	Number				Savings
Data categories	Reports	Matches	Frauds	Errors	£
Housing benefit	15	203	0	0	0
Payroll	2	7	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	1	3	0	0	0
Council tax reduction scheme	16	341	0	0	0
Creditors	0	0	0	0	0
Value Added Tax	0	0	0	0	0
Housing tenants	0	0	0	0	0
Procurement – payroll	0	0	0	0	0
Individuals - more than one report	1	93	0	0	0

Internal Audit Service progress report

2018/19 biennial exercise	Number				Savings
Total	35	647	0	0	0

- 5.3. Separate matching is undertaken of council tax data to the electoral roll. Data is released in December when the process to check matches begins. The council also buy comparison against a range of other data sets in all local authorities, uploaded in April and August 2017, and a new premium single person discount match uploaded in January 2019. The table below shows the latest matches and comparison with previous years' results.

	Number				Savings
Data categories	Reports	Matches	Frauds	Errors	£
Council tax December 2015 release	2	370	0	44	16,521
Council tax December 2016 release	2	614	0	103	21,485
Council tax – Other datasets April & August 2017 release	4	3013	0	0	0
Council tax December 2017	3	2207	0	20	4172.90
Council tax December 2018	2	283	13	44	4762.15
Premium council tax – SPD January 2019	1	240	0	0	0