

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-005-2015/16

Date of meeting: 21 Sept 2015

Portfolio: Governance & Development Management

Subject: Internal Audit Monitoring Report April to September 2015

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) The Committee notes the progress being made against the 2015/16 Internal Audit plan and by the corporate fraud team; and**
- (2) The Committee approves the new approach for monitoring and reporting audit recommendations.**

Executive Summary:

This report provides a summary of the work undertaken by Internal Audit between April and the beginning of September 2015, progress against the 2015/16 Internal Audit plan and a summary of the work undertaken by the Corporate Fraud Team. It also details the proposed new approach for dealing with the monitoring and reporting of audit recommendations.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

A new tracker process for recommendations is proposed to ensure all audit recommendations are implemented within agreed timescales rather than continue with the current process whereby only priority one recommendations are reported to this Committee.

Other Options for Action:

Not to change reporting processes.

Report:

2015/16 Internal Audit Plan

1. Work has commenced on the 2015/16 Audit Plan as detailed in Appendix 1 and timings have been agreed with the Management Board and Assistant Directors to ensure a steady flow of reports throughout the year.
2. The Audit Plan includes audits carried forward from the 2014/15 Plan and two new ones (Langston Road Development and Depot Health and Safety), as agreed with the Management Board as being high profile and/or potentially high risk, using the allocated

contingency days. Following a recent fraud investigation the ICT Procurement audit has been retitled as ICT Asset Management to ensure the safekeeping of Council ICT assets.

3. The Internal Audit function currently has an auditor vacancy. Therefore, Mazars (an outsourced provider of internal audit services) has been commissioned to undertake a set number of audits and further days can be purchased if the budget allows for this. Mazars were chosen because of their competitive prices compared to similar outsourced providers. The longer term structure of the Internal Audit team will be considered as the Shared Service with Broxbourne Borough Council and Harlow District Council develops.

Internal Audit Reports

4. The following seven reports have been issued as final reports since the Committee received its last update in June 2015:

(a) From 2014/15 Audit Plan:

- *Housing Benefit:* Substantial assurance – Benefit is only awarded once all the necessary supporting documentation has been received from the claimant, and the benefit awarded is correctly calculated by the system (Academy). Any overpayments are calculated by Academy and the overpayments team take action as appropriate.
- *Council Tax Reduction:* Substantial assurance – Processes for the assessment and payment of Local Council Tax Support are operating effectively. Local Council Tax Support is only awarded once all the necessary supporting documentation has been received in order to assess the claim, and is correctly calculated in accordance with the scheme.

(b) From 2015/16 Audit Plan:

- *Management of Sickness Absence:* Substantial assurance – Processes are working well and sickness is recorded in accordance with Council policy. Managers hold informal sickness evaluation meetings with employees who have met the Councils sickness trigger levels; however, managers need to keep a written record of these discussions and forward to Human Resources. In addition, Human Resources need to resume monitoring the action taken by managers in relation to these employees.
- *Reprographics:* Substantial assurance – The systems and controls covering the purchasing of materials, and the recording and recharging of both internal and external jobs by the reprographics section are operating effectively. However, there is currently no contract in place for the purchase of copier paper. Directorates are complying with the corporate guidance in relation to the procurement of printing services by asking Reprographics to quote for these jobs.
- *Norway House:* Substantial assurance – The admissions process at Norway House is operating effectively. Eligibility for hostel accommodation is assessed by Housing Options and admissions are properly recorded. Income collection procedures are effective and Hostel Management monitor rent arrears. An issue was identified during the audit concerning damage by vermin to residents' property held in storage. Insurance claims from residents in respect of this could result in the Council bearing the cost of the insurance excess and steps are being taken to remedy the vermin problem and introduce an inventory of property stored.

- *Key and Local Performance Indicators:* Substantial assurance – Each directorate is responsible for collating, checking and submitting performance data to the Performance Improvement Unit (PIU). Overall, the process is working well with the majority of PI data being collected and submitted in an accurate and timely manner as per the Data Quality Strategy. A number of weaknesses within Directorates have been noted which are mostly minor in nature and the Performance Improvement Unit continues to have a pivotal role in ensuring officers are aware of their responsibility with regards to data quality, verification and submission.
- *Business Plans:* Substantial assurance – All Directorate Business Plans had been prepared and submitted in accordance with the corporate guidance, with the exception of the Housing Revenue Account Business Plan which is required by the Department for Communities and Local Government to be produced in a prescribed format. The Performance Improvement Unit is undertaking a more in-depth review of the Business Plan guidance this year to support the process and resolve the issue of late submission as has happened in previous years.

Recommendation Tracker

5. Previously the Audit and Governance Committee received a recommendations tracker that contained only priority one audit recommendations. A new process for tracking recommendations has been proposed and agreed with the Management Board to ensure timelier implementation of recommendations by management, ensuring all recommendations are tracked and better use of Internal Audit resources.

6. The tracker will contain all Internal Audit recommendations once an internal audit report has been agreed and finalised. The tracker presented to Audit and Governance Committee will contain all overdue recommendations plus any priority one recommendations from final reports issued, regardless whether they are overdue or not. It should be noted that the basis for an overdue recommendation is whether the original implementation date has been exceeded, not any revised dates.

7. The flow diagram (Appendix 2) explains the process for obtaining responses from management on progress being made with individual recommendations. Where the service area and responsible officer have deemed a recommendation to be complete Internal Audit will seek to confirm this, which may involve additional audit testing. If suitably satisfied, Internal Audit will remove the recommendation from the tracker and it will not be reported to the Audit and Governance Committee.

8. This approach has been introduced at Broxbourne and Harlow Councils and has resulted in an increased buy-in by managers; ensuring audit recommendations are implemented in a timely manner (or ensure there are valid business reasons for any delays).

9. It is important that those priority one recommendations on the previous tracker continue to be monitored. The Chief Internal Auditor has reviewed each of the outstanding recommendations on the tracker which went to the June 2015 Audit and Governance Committee and, working with the appropriate Assistant Director, has reviewed the original risk the recommendation sought to mitigate. Where the risk still exists the recommendation has been added to the new tracker.

10. It is anticipated that as the new system becomes embedded, and as managers proactively seek to inform Internal Audit as recommendations are completed, this will reduce the time currently spent setting up the new tracker. In addition, there will be time savings as the number of formal follow up audits required decreases.

11. There have been no priority one recommendations raised so far during 2015/16. The current tracker contains five recommendations (Appendix 3):

Recommendation type	Number
Priority one not passed its due date	0
Priority one passed its due date	5
Priority two passed its due date	0
Priority three passed its due date	0

Other Internal Audit Activities

(I.) Project Groups

12. There is Internal Audit representation on a number of project groups in order to provide advice and challenge on internal controls, risk management and governance arrangements. This includes:

- Risk Management Group – The Group, chaired by the Director of Resources, ensures the Council maintains a formal framework for the management of risks. It disseminates information and guidance regarding risk management to directorates, Management Board and Members on a regular basis, including the corporate risk register and related action plan. This provides a two-way process - any new risks identified by Internal Audit are taken to the Group for discussion, and Internal Audit is made aware of new risks which may need to be reviewed.
- Contract Standing Orders Working Party – This Group has been set up to fundamentally review the Council’s Contract Standing Orders and to formulate new ones. The aim is to produce new Contract Standing Orders which provide a more modern and flexible approach, are simpler to understand and comply with, and are more responsive to the current and future procurement needs of the Council. Internal Audit is providing advice to ensure there are appropriate controls in order to safeguard the use of public money.
- Personal Data Working Group – The Group is reviewing the way in which the Council manages employee’s personal data. Internal Audit advises on the streamlining of processes ensuring proper controls remain in place.
- Corporate Debt Working Group – The Group has been set up following direction from Management Board to undertake a corporate review of the Council’s approach to Debt Recovery (excluding Council tax, NNDR and current Housing rent arrears). The Group identified the debt recovery policies and procedures for each Service area, and recommendations were made in relation to debts under £500. Management Board has accepted the recommendations and the Group has since been instructed to review debts over £500. An interim progress report is due to be submitted to Management Board in September.
- E-invoicing Group – The Council is in the process of implementing e-invoicing and Internal Audit attends meetings and provides advice as necessary.

(II.) National Fraud Initiative

13. Internal Audit in conjunction with the Corporate Fraud Team continue to co-ordinate the Council’s responses to data matches coming out/ arising from the National Fraud Initiative, an exercise that matches electronic data within and between public and private

sector bodies to prevent and detect fraud.

14. In May the function submitted the Council's responses to the annual fraud survey which is co-ordinated by The European Institute for Combatting Corruption and Fraud (TEICCAF). This was previously undertaken by the Audit Commission's Counter Fraud Team where previous surveys achieved a 100% response rate from councils. TEICCAF have published the survey results in a 2015 'Protecting the English Public Purse' report and will be used to review the council's anti-fraud strategy.

Internal Audit Performance Management

15. The Internal Audit function has local performance indicator targets to meet in 2015/16 based on targets set in 2014/15. A new one on recommendations implemented is proposed in line with the new tracker process.

Description	Target 2015/16	Actual as at Sept 15
% planned audits completed	90%	13%
Productivity of staff	72%	70%
Implementation of agreed audit recommendations from 15/16 plan	Within agreed timescales	n/a

Internal Audit Shared Service: Borough of Broxbourne, Harlow District and Epping Forest District Councils

16. Epping Forest District Council's Chief Internal Auditor retired at the end of May and the Head of Internal Audit for the Shared Service between Broxbourne and Harlow took on this role from the 1 June 2015. To begin with Epping Forest will share the costs of the Chief Internal Auditor with their time split equally across all three councils.

17. Epping Forest District Council has made a commitment to integrate internal audit services with the other two authorities over the coming year. The situation will be closely monitored by all three Councils to ensure there is no detrimental effect on the quality of internal audit services provided.

18. A joint team meeting with auditors from all three Councils has taken place and the Epping Forest team is in the process of introducing the same audit methodology, document templates and electronic working papers. There is regular dialogue between all the auditors, especially where similar audits are taking place, in order to share ideas and good practice.

Corporate Fraud Team

19. At the beginning of August the Senior Fraud Investigator, who was previously the Councils Investigations and Interventions Manager, started in post. The team now consists of a Senior Fraud Investigator and two Fraud Investigators, with a vacancy for a third. Recruiting to this vacant post will be considered once the Senior Fraud Investigator has settled into their new role.

20. Earlier this year Epping Forest District Council prosecuted two individuals for their respective roles in a fraud against the council involving the Right to Buy scheme. One of the defendants was sent to prison. Part of the case involved the council taking action under the Proceeds of Crime Act (POCA) to claw back the total discount plus any further monies

deemed to be proceeds of crime. The POCA order was discharged at the beginning of July with Epping Forest District Council receiving over £88,000. This is a significant case, not only for the council but for social housing fraud in general and it has attracted national interest including being used as an example for a national housing fraud strategy.

21. Between April and August 2015 the Corporate Fraud Team has:

- recovered seven properties as a result of discovering issues with the tenancies (not living there etc.);
- stopped eight Right to Buy (RTB) applications (including one which ended with the tenant giving the property back). These were stopped / withdrawn as a result of investigator intervention at an early stage identifying problems and potential fraud;
- stopped one housing application at an early stage due to the discovery of fraud within the application process; and
- currently five criminal prosecutions in the various stages of being prepared (four relate to RTB applications and one is a sublet. With the sublet there is a strong possibility that the Council may go down both the Proceeds of Crime and unjust enrichment routes).

Resource Implications:

Within the report.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

2015/16 Audit and Resource Plan.

Risk Management:

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date/Name	Summary of equality analysis
1/9/15 Chief Internal Auditor	The report is a summary of the work carried out by Internal Audit and has no equality implications.