

# *Internal Audit and Anti -Fraud Progress Update – July 2021*

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## 1 Introduction

- 1.1 This progress report provides stakeholders, including the Audit Committee, with a summary of Internal Audit and Counter Fraud activity undertaken for the period 1 June 2021 to 5 July 2021. In recognition of the high levels of changes arising from the formation of West Northamptonshire Council, in April 2021, a schedule of quarter one audits focusing on giving assurance over key financial processes during the early stages of the year, was agreed with the Executive Director of Finance, as part of the overall Audit Plan.
- 1.2 The quarter one schedule of work aimed to provide assurance over arrangements in place for consolidating information from the four sovereign Councils as well as new/continuing processes. These audits have been agreed with the s151 Officer to provide a focus on key controls and assurance on their operation in first few months of the Council's operations. The final schedule of work was agreed in early May 2021 and so it is recognised that as at start of July, the majority of audits are unlikely to be at draft/final report stage of progress.
- 1.3 **Annex A** (page 7) provides the background and context for how Internal Audit operates including how governance is tested and evaluated and what the relevant Audit Opinions mean.
- 1.4 It is also highlighted that the progress on work for quarter 1 of 2021-22 must have due regard to the work brought forward into April (and May) to close 2020-21 audit work across all sovereign councils and consolidate audit information (e.g. Annual Audit Opinions etc).

## 2 Progress summary

### 2.1 Plan Progress – Section 3 below

As at 5 July 2021 of the 15 Q1 audits started during Q1:

- 1 - draft report stage
- 4 - field work complete (findings being discussed with management)
- 9 - various stages fieldwork
- 1 - planning stage, with terms of reference agreed

Additionally 3 Audits within Q2 have been allocated to auditors

### 2.2 Changes to the Plan – Section 4 below

Details of two changes to the plan agreed with management

### 2.3 Counter Fraud - Section 5 below

Details of the cases and outcomes are given at section 5.

### 2.4 Service Resources and Performance– Section 7 below

The service is currently working to interim arrangements and while there is sufficient resource to deliver the Q1 schedule of work, the permanent service structure remains

delayed and therefore resource availability to deliver a full year's plan to support the Chief Internal Auditor's opinion remains contingent on the outcome from the required formal consultation etc.

### 3 Progress against Quarter 1 schedule of work

- 3.1 A short-term target for Internal Audit is to complete its plan of work for Q1 by the 30 June 2021. In light of the final schedule of work being agreed in May 2021, it is recognised that this target has had to be extended, to reflect the reality on the ground. It is now anticipated that all Q1 work will be completed by end of August 2021. Quarter 2 work (as set out within the plan submitted to AGC on 16<sup>th</sup> June) is being allocated to resources where possible.
- 3.2 The Chief Internal Auditor and the s151 recognise that the delivery of the first year's audit plan will face unique challenges. Realistically it will require time for service structures and responsibilities to be understood and also services themselves are facing challenges within their areas from the new organisational requirements combined with ongoing C19 issues that impact on their ability to support an audit. These factors are particularly relevant for the audits to be progressed in April, May and June and are considered likely to create some difficulties / delays in progressing individual audits.
- 3.3 The Council's Cabinet (on 13<sup>th</sup> July) delegated authority to the 151 officer to bring the internal audit service back in house as soon as is practicably possible. The consideration of options and their implementation will have an impact of delivery of the plan.
- 3.4 The table below details all of the Quarter 1 schedule of work and their status as at beginning of July 2021, with an approximation of % completion as requested by the Committee.

Q1	Assignment	Audit Status	Completion %
1	Consolidation of key records	Fieldwork complete, exit meetings being held	80%
2	Legacy Bank Accounts	Fieldwork in progress -testing is ongoing	70%
3	Key Policies and Procedures	Fieldwork complete – findings to being agreed	75%
4	ERP IT users	Terms of Reference Agreed	25%
5	Government Procurement Card	Fieldwork complete- Draft Report to be issued	85%
6	Bank Reconciliation	Fieldwork complete – findings to be agreed	75%
7	Business Grants	Fieldwork in Progress- testing on going	30%



Q1	Assignment	Audit Status	Completion %
8	Accounts Receivable – Debt management	Progress paused to enable Income review to be completed	25%
9	General Ledger	Fieldwork complete – findings to be agreed	75%
10	Accounts Payable	Fieldwork in Progress – testing is ongoing	50%
11	Treasury Management	Fieldwork in Progress -testing is ongoing	60%
12	Payroll	Fieldwork in progress- testing is ongoing	50%
13	Accruals	Planning – Initial discussions held with client management,	20%
14	Income	Fieldwork in Progress – Testing is on going	40%
15	Establishment checks	Fieldwork in Progress – Testing is ongoing	35%
Q2	Assignment	Audit Status	Completion %
16	Safeguarding vulnerable Adults	Allocated	5%
17	Planning Applications Process	Allocated	5%
18	Financial Decisions (scheme of delegations)	Allocated	5%

## 4 Changes to Audit Plan

- 4.1 Since the last Committee, the following changes have been made to the Plan.
- A review of the hierarchy of authorisation for financial decisions has been introduced as a standalone audit, as opposed to being reviewed within the Accounts Payable review.
  - An audit has been proposed to review controls over banking of income received from residents across the Sovereign Council areas, following management concerns of current income being posted to the legacy bank accounts or to wrong bank accounts.
- 4.2 A review is being undertaken of work to be completed for Q2, and to ensure audits are aligned with the risk register, when that information can be provided to IA.

## 5 Counter Fraud Update

- 5.1 Fraud cases are risk assessed, to assess whether detailed investigations are merited or alternative options to progress matters are more appropriate. Similar to the

above, an exercise is in progress to consolidate all live cases as at 1st April from within sovereign Councils.

- 5.2 The table below sets out the cases referred to the Counter Fraud team during the month of period 1 April 2021 – 30 June 2021 and the outcomes achieved are detailed.

Fraud Type	No of Referrals	Status	Outcomes (1/4/21 -30/6/21)
Blue Badge misuse	6	Closed	Risk assessed and referred on to Parking Services
Housing & Ctax Benefits	15	Closed	Referred on to Department for Works and Pensions via SPOC
Council Tax – single Persons discount	1	Closed	Risk assessed and referred on to Revenues and Benefits Team
C19 Grant	1	Closed	No fraud established
Bank Mandate	3	Report issued	1 case succeeded, was investigated and report issued to Head of Payroll. 2 other matters were prevented and no loss.
Homelessness	3	Closed	Two cases were cancelled and one priority reduced

## 6 Service Performance

### 6.1 Plan completion and productivity:

An internal Audit Plan for the full 2021/22 year was submitted to the Audit & Governance Committee for approval at the 16<sup>th</sup> June meeting.

In a normal year, the expected performance target is 95% of the Annual Plan to be completed to draft report stage by 31 March and 100% to draft report stage by 30 April.

Auditor productivity is measured with a target of 90% productivity (ie 90% of an Auditors time being allocated to auditing of client work as opposed to administrative tasks). The measurement of this performance is difficult for Q1 given the unique nature of the 21-22 plan.

It is highlighted that the Audit Plan for WNC is expected to change at various times during the year, and the quarter 1 work is illustrative of a need to concentrate on providing focussed assurance on specific areas of control.

### 6.2 Client satisfaction

During the year, customer surveys will be issued to Audit clients at the end of the audit assignments. The performance measure target in relation to customer surveys is 100% customers record satisfied or better.

## Internal Audit Context and Background

### Development of Audit Plans

The changing public sector environment increasingly necessitates an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

The Chief Internal Auditor must provide an annual internal audit opinion on the entire internal control environment based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

To support this, internal audit must develop and deliver a risk-based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work, which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.

The WNC Audit Plan is developed from an understanding of the risks facing the Council. The Corporate Risk Register is used as a key source of information, as is the Internal Audit risk assessment of the organisation, and these are used to form the basis of the Internal Audit plan.

In developing the plan, Internal Audit (IA), consults services, Senior Managers, Management Team and the Audit Committee. The Audit Committee then approves the plan and for the 2021/22 plan, this occurred at the June 2021 meeting.

The Audit Plan remains under frequent review both in terms of completion and its scope. Modern auditing requires the plans remain flexible to accommodate changes in the risk profile of the Council throughout the year.

The 2021/22 plan is based on *assurance blocks* that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. For each *assurance block*, the most appropriate level of coverage necessary to provide the most effective annual assurance opinion and added value to the organisation has been developed. The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and making every penny count.

### How Controls are Audited and Evaluated

There are three elements to each internal audit review. Firstly, the CONTROL ENVIRONMENT is documented and assessed to determine how the governance is designed to deliver the service's objectives.

IA then needs to test whether COMPLIANCE is evident in practice.

Finally, IA undertakes further substantive testing and/or evaluation to determine the ORGANISATIONAL IMPACT of weaknesses found.

The tables below outline the criteria for assessing the above definitions:

<b>Control Environment Assurance</b>	
<b>Assessed Level</b>	<b>Definitions</b>
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

<b>Compliance Assurance</b>	
<b>Assessed Level</b>	<b>Definitions</b>
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

<b>Organisational Impact</b>	
<b>Level</b>	<b>Definitions</b>
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.

Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Specifically for Grant certifications, definitions are used are as follows:

<b>Opinion for Grant Certifications</b>	
<b>Level</b>	<b>Definitions</b>
Assurance Given	The claim as certified was found to be in compliance with the grant conditions, subject to any observations reported.
No Assurance given	The claim was not certified as it was found to be not in compliance with the grant conditions.