

**Internal Audit 2021-  
22 Update Report  
APPENDIX 1**

# Internal Audit and Anti -Fraud Progress Update – September 2021

DUNCAN WILKINSON, CHIEF INTERNAL AUDITOR

29 September 2021

## 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 July 2021 to 31 August 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 Audit Plan was agreed in early May 2021 and approved at the June Committee meeting. Whilst there has been a concerted effort by the Team to complete the Q1 schedule of work, it is recognised that a high number are unlikely to be at draft/final report stage of progress.
- 1.3 **Annex A** provides the background and context for how Internal Audit operates including how governance is tested and evaluated and what the relevant Audit Opinions mean.

## 2 Progress summary

### 2.1 Plan Progress – Section 3 below and Annex B

22 audits (including three carried over reviews) had been completed or were in progress as at 31 August 2021:

- 3 audits had been finalised – report issued and recommendations accepted
- 4 audits were at draft report stage- report issued to management and comments and implementation dates to be agreed.
- 3 audits were at field work complete stage with the report undergoing Audit's quality review process.
- 10 audits were at various stages of fieldwork progression.
- 2 audits were at planning stage, with terms of reference agreed.

The Audit teams continue to experience some difficulties in progressing individual audits. This is no criticism of officers or the Council as it is primarily due to the other pressures on those areas being audited. It is delaying the completion of audits and increasing the days required. It is the CIA opinion that engagement with IA is being prioritised but that auditees are (rightly) balancing IA's requests with other issues of similar or greater priority.

### 2.2 Implementation of Recommendations - Section 5 below and Annex C

Those 112 recommendations carried forward from predecessor Councils outstanding for implementation by West Northamptonshire Council (WNC) have now been reviewed and an Action Tracker drafted (Annex C). These broadly fall into 3 categories:

- (1) No further action: New WNC processes – the control issues highlighted should be addressed by new processes being developed across WNC as part of new Unitary Council structures and systems. The new WNC policy, controls etc will then be audited as that will provide the best assurance rather than verifying whether those historic, individual weaknesses have been addressed (which may have been resolved by different controls than those recommended previously).

E.g. Data assurances from 3<sup>rd</sup> party providers  
Data security and GDPR compliance is a corporate issue being progressed and consolidated across WNC from the individual predecessor Council processes. Findings from predecessor Councils are less relevant than assurance that WNC has good control on this issue once the WNC policies and processes are completed / implemented.

- (2) No further action: A 21/22 Audit planned – the audit plan already includes an audit of this issue that will specifically test the issues brought forward. Test programmes for these areas would test for those historic weaknesses brought forward.

E.g. Council Tax, NNDR, Payroll, IT Disaster Recovery etc  
An audit of each area across WNC as part of the planned 21/22 audit work provides the best assurance on this issue.

- (3) Follow Up action required – The issues will be included within the Action Tracker to monitor implementation and give ELT and AGC that assurance.

E.g. Taxi Licensing  
Whilst a Licensing audit is planned for 21/22 it did not specifically focus on Taxi licensing and given the findings within the NBC audit of this area, the planned 21/22 audit will provide a focus on those issues and a broader review across the predecessor Councils for this area.

The CIA and 151 Officer have agreed that of the 112 recommendations brought forward:

- 47 – should be closed with no further action. Annex C sets out how the control issues highlighted will be addressed.
- 65 – will be followed up as set out in Annex C and will be reported to ELT and AGC until completed.

### 2.3 Counter Fraud - Section 6 below

A total of 9 referrals were recorded by the Counter Fraud Team, in the 2 months to 31 August 2021. In addition, work has been undertaken in support of screening s17 applications and National Fraud Initiative data reviews.

## 2.4 Service Resources and Performance– Section 7 below

Q1 work is progressing well, albeit slower than expected. The service continues to work within the interim arrangements agreed and now is moving towards the closure of the shared service by 1<sup>st</sup> Dec.

With the service moving towards the 1<sup>st</sup> Dec target date a resource analysis has been undertaken.. In summary:

- The inherited resources, fully staffed, would have provided sufficient audit days to complete the plan, however as at 1<sup>st</sup> April the shared service was being progressed and consistent with that:
  - o The BDO NBC contract was not renewed
  - o The CWAudit contract for SNC was not renewed but continued on an adhoc basis
  - o Vacancies were ‘frozen’
  - o The service has also experienced staff sickness and absence
- Forecasting existing available resource there is a shortfall of 603 audit days resource to complete the approved 21/22 audit plan.
- Discussions are taking place with the S151 officer to consider the risks associated with this shortfall and options to mitigate that risk.

## 3 Progress against Audit Plan

3.1 A short-term target for Internal Audit is to progress the Q1 work, which by its nature is providing more ongoing assurance (as opposed to defined ‘project’ completion) whilst progressing Q2 work, which are more traditional audit ‘projects’

3.2 The table below summaries progress on the Audit Plan as at 31 August 2021, including assignments brought forward from the County Council and completed during Q1. This shows that 35 % of the Plan was at draft report stage or in progress.

WNC AUDIT PLAN 2021-22	Number of Audits				postponed
	Plan	Draft / Final Report	In Progress	Not Started	
Q1(incl. Bfwd)	18	7	11	0	0
Q2	18	0	4	12	2
Q3 & Q4	27	0	0	27	0
<b>TOTAL Audits</b>	<b>63</b>	<b>7</b>	<b>15</b>	<b>39</b>	<b>2</b>
	<b>100%</b>	11%	24%	62%	<b>3%</b>

A breakdown of these and the percentage completion for each is at **Annex B**

## 4 Changes to Audit Plan

- 4.1 Since the last Committee, the following changes have been made to the Plan:
- In consultation with the chief Information Officer the IT Audits included within the Plan have been postponed, to be undertaken later in the year. This is in recognition of the fact that work is on-going to amalgamate and streamline IT services transferring from sovereign councils.
  - The status column within the Action Tracker (Annex C) identifies some changes within individual audits scope, to be undertaken as part of the follow up, but does not add to the number of audits in the plan e.g. Licensing Audit.
- 4.2 Discussion is ongoing with Management on the work to be prioritised for Q2, and to ensure audits are aligned with the risk register.

## 5 Implementation of Management Actions

- 5.1 As detailed above and at Annex C, an exercise has been undertaken to consolidate outstanding recommendations brought forward from the sovereign Councils where it has been agreed that implementation of the action would improve the control environment of the new Unitary Council and to identify the relevant responsible officers within the new Authority.
- 5.2 In summary (as set out at Annex C) recommendations brought forward from each Council were:
- Northamptonshire County Council – 74
    - 15 Essential / 59 Important.
  - Northampton Borough Council – 17
    - 9 Essential / 8 Important.
  - Daventry District Council – 8
    - 1 Essential / 7 Important.
  - South Northamptonshire Council - 13
    - 13 Important.
- 5.3 As set out above 65 recommendations are included on the new Action Tracker (6 Essential / 59 Important). These will now be followed up as set out within Annex C.

## 6 Counter Fraud Update

- 6.1 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, the exercise continues to consolidate all live cases as at 1st April from within sovereign Councils.

- 6.2 The table below sets out the cases referred to the Shared Service Counter Fraud team during the 2month period 1 July 2021 – 31 August 2021 and the outcomes achieved.

Fraud Type	No of Referrals	Status	Outcomes (01/07/21 -31/08/21)
Blue Badge misuse / parking	2	Closed	Risk assessed and referred on to Parking Services.
Housing & Ctax Benefits	4	Closed	Referred on to Department for Work and Pensions via SPOC
Card Payment	1	Briefing note issued	Investigated and briefing note issued.
Homelessness / housing	2	Closed	Two cases were referred on to Housing association no further action.

- 6.3 In addition to the case work above, the Shared Service fraud team have investigated forty NPH tenancy fraud allegations which have resulted in four Housing applications being withdrawn or downgraded, five properties recovered for re-letting and one Right to buy application withdrawn. The Fraud team also assist the Children’s Trust No Recourse to Public Funds review team with financial application screening to support s17 applications.
- 6.4 The fraud resource in Daventry has been completing the NFI matches and reviewing Covid 19 applications, pro-actively identifying two fraudulent applications.
- 6.5 The fraud resource from Oxford City Council covering South Northants area fraud investigations has received no reactive referrals during Q1 however is working through the NFI matches.

## 7 Service Resource and Performance

### 7.1 Service Resource

As at 31 July 2021, the anticipated shortfall in days to deliver the planned audit work is estimated to be 603 days which equates to approximately 3 full time equivalent auditor/counter-fraud posts.

Discussions are ongoing with the 151 Officer on how best to address this shortfall.

### 7.2 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. As at 31 August 2021 35% of the Plan was either complete to draft report stage or in progress.

It is currently forecast that without intervention 80% of the approved plan will be completed at 31<sup>st</sup> March (to draft report). If the resource shortfalls are not addressed, this may undermine the annual audit opinion for 21/22 to be restricted / caveated to only those audits completed as opposed to assurance on the Council's system of governance.

Auditor productivity is measured with a target of 90% productivity (ie 90% of an Auditor's time being allocated to auditing of client work as opposed to administrative tasks). As at 31 August 2021, productivity of the team was at 75% which is below the target. Analysis has confirmed that:

- Understandably and necessarily Audit staff needed additional time to access and familiarise on new systems (both IA and WNC)
- The pressures on Council Services and officers from 1<sup>st</sup> April have created difficulties in progressing audits and IA staff have not coded that 'lost' time to planned work.

### **7.3 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. No surveys issued to date.

## 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. 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>	
Level	Definitions
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.

\* Audit progress is measured within several stages

- Unstarted
- Planning ToR
- Fieldwork in Progress
- Fieldwork complete
- Draft Report
- Final Report

# Progress is assessed as a percentage of the whole audit



**ANNEX B**

Progress as at 31<sup>st</sup> August 2021

<b>Q1</b>	<b>Assignment</b>	<b>Audit Status</b>	<b>Completion %</b>	<b>Assurance System/ compliance</b>
20/21 B/fwd	Pensions Review	Final Report Issued	100%	Substantial Good
20/21 bfwd	General Ledger	Draft Report Issued	90%	Good Satisfactory
20/21 bfwd	Bank Reconciliation	Final Report Issued	100%	Good Good
1	Government Procurement Card	Final Report issued	100%	Satisfactory N/A
2	Key Policies and Procedures	Draft Report issued	90%	Satisfactory N/A
3	Consolidation of key records	Draft Report Issued	90%	Satisfactory N/A
4	Bank Reconciliation	Draft Report Issued	90%	Satisfactory Satisfactory
5	Legacy Bank Accounts	Fieldwork complete	80%	
6	ERP IT users access controls	Field Work Complete	80%	
7	General Ledger	Fieldwork Complete	80%	
8	Accounts Receivable – Debt management (Legacy Debt)	Progress paused to enable Income review to be completed	25%	
9	Business Grants (post payment review)	Fieldwork in Progress- testing on going	50%	
10	Accounts Payable	Fieldwork in Progress – testing is ongoing	65%	
11	Treasury Management	Fieldwork in Progress -testing is ongoing	75%	
12	Payroll	Fieldwork in progress- testing is ongoing.	50%	
13	Accruals	Field work in progress – testing is on going	60%	
14	Income (including wrong bank account payments)	Fieldwork in Progress – testing is on going	40%	
15	Establishment checks	Fieldwork in progress	40%	
<b>Q2</b>	<b>Assignment</b>	<b>Audit Status</b>	<b>Completion %</b>	
16	Safeguarding vulnerable Adults	Planning – progress paused. Arrangement with contractor being reviewed.	20%	
17	Planning Applications Process	Field work in progress	40%	
18	Financial Decisions (scheme of delegations)	Field work in progress	70%	



<b>Q1</b>	<b>Assignment</b>	<b>Audit Status</b>	<b>Completion %</b>	<b>Assurance System/ compliance</b>
19	Housing Allocations Social Lettings	Planning	10%	
	Q2 Audits	14 not started (2 IT audits postponed)	0%	
<b>Q3&amp; 4</b>	<b>Assignment</b>	<b>Audit Status</b>	<b>Completion %</b>	
	Q3 & Q4 Audits	27 not started	0%	