

*Internal Audit and Anti -Fraud  
Progress Update – November 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 September 2021 to 15th October 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. This work is still on going.
- 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 and to start progressing other audits listed, the challenge remains of how best to get engagement from Client officers who are going through change within the new Authority and are focused on implementing and embedding new processes to ensure continuity of service.
- 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

30 audits (including three carried over and grant verification reviews) had been completed or were in progress as at 15th October 2021:

- 4 audits had been finalised – report issued and recommendations accepted
- 8 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.
- 8 audits were at various stages of fieldwork progression.
- 7 audits were at planning stage, with terms of reference being worked on.

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

As reported in the Committee Paper for the meeting on 29 September, the 112 recommendations carried forward from predecessor Councils as outstanding for implementation by West Northamptonshire Council were reviewed and allocated to one of three 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. These recommendations are now shown within the “closed” tab of the Action tracker at Annex C.
- (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. These are now listed within the “close” tab within Annex C.
- (3) Follow Up action required – The issues will be included within the Action Tracker to monitor implementation and give ELT and AGC that assurance.

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

- 47 – should be closed with no further action, now shown within the “closed” Tab in the Action Tracker schedule Tracker Schedule.
- 65 – will be followed up as set out in Annex C , shown as “FU” Tab and will be reported to ELT and AGC until completed.

### 2.3 Counter Fraud - Section 6 below

A total of twelve referrals were recorded by the Counter Fraud Team, in the period 1 September to 15th October 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

There has been notable progress albeit slower than expected. The interim arrangements agreed in June 2021 have been suspended and now the Service is moving towards the closure of the shared service by 31<sup>st</sup> March 2022.

A resource analysis has been undertaken to identify the level of resource needed to deliver the current Plan and to allow for consideration of options to address any forecast shortfall.

## 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 15 October 2021, including assignments brought forward from the County Council and completed during Q1. This shows that 45 % 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	11	7	0	0
Q2	18	1	5	7	2
Q3 & Q4	27	0	0	27	0
Grant Verifications	6	0	6	0	0
<b>TOTAL Audits</b>	<b>69</b>	<b>12</b>	<b>18</b>	<b>34</b>	<b>2</b>
	<b>100%</b>	19%	26%	49%	<b>3%</b>

3.3 A breakdown of these and the percentage completion for each is at Annex B and Committee to note that no limited assurance opinion has been issued for the audit areas reviewed to date, despite the on - going challenges within Service areas as a result of the aggregation of Services.

## 4 Changes to Audit Plan

4.1 Since the last Committee, there have been no changes to the Plan of Audits. However, work has now started on verification of several grants, to enable certification of spend by the Chief Executive and Chief Internal Auditor. A portion of these grants were received and spent by the predecessor Councils prior to vesting day and work has been ongoing to identified which Authority North or West has been assigned responsibility for submitting the returns to Government.

## 5 Implementation of Management Actions

5.1 As detailed previously 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 As set out above 65 recommendations are included on the new Action Tracker (6 Essential / 59 Important).

## 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 September 2021 – 15 October 2021 and the outcomes achieved.

Fraud Type	No of Referrals	Status	Outcomes (01/07/21 -31/08/21)
Blue Badge misuse / parking	3	Closed	Risk assessed and referred on to Parking Services.
Housing & Ctax Benefits	2	Closed	Referred on to Department for Work and Pensions via SPOC
HR staff matter-school	1	open	Matter is being investigated by the school, logged only.
Council tax discounts	2	closed	Reviewed and referred to service
Grants	1	open	New referral regarding grants - health
Homelessness / housing	3	Closed	Two cases were referred on to Housing association no further action.1 open and being reviewed.

6.3 In addition to the case work above, the Shared Service fraud team have investigated forty Northampton Partnership Housing 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 National Fraud Initiative (NFI) matches and reviewing Covid 19 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 Single Person Discount (SPD) NFI matches.

## 7 Service Resource and Performance

### 7.1 Service Resource

As at 15<sup>th</sup> October 2021, the anticipated shortfall in days to deliver the planned audit work is estimated to be 625 days, taking into account time lost in planning audits due to pressures within Services and time to deliver the Audit Plan for the Children’s Trust.

A detailed analysis of the resource position and options for addressing the situation is being considered by Management. 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 15th October 2021 45% of the Plan was either complete to final/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 15th October 2021, productivity of the team was at 78% which is below the target. Analysis has confirmed that pressures on Council Services and officers from 1<sup>st</sup> April have created difficulties in progressing audits.

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## 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 client satisfaction surveys have been issued to date.

## 7.4 **External Assessment**

PSIAS requires that compliance with its provisions is externally assessed every 5 years. The last review was completed in 2016, and confirmed the service complied with requirements. Annual self-assessments, consistent with PSIAS have also confirmed ongoing compliance. The planned 2021 external assessment was deferred in the light of the decision to close the shared service. Now the new target is 31st March it is considered sensible to undertake the required external assessment in summer 2022 within each individual Council after closure of the shared service.

## 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.
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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 15<sup>th</sup> October 2021

	Assignment	Audit Status	Completion %	Assurance System/ compliance
20/21 bfwd	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	Final Report	100%	Satisfactory N/A
3	Consolidation of key records	Final Report	100%	Satisfactory N/A
4	Bank Reconciliation	Draft Report Issued	90%	Satisfactory Satisfactory
5	Legacy Bank Accounts	Draft Report Issued	90%	Satisfactory Satisfactory
6	ERP IT users access controls	Draft Report Issued	90%	Good Good
7	General Ledger	Draft Report Issued	90%	Satisfactory
8	Establishment checks	Draft Report Issued	90%	Satisfactory Satisfactory
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 complete -QA of Report	80%	
12	Payroll	Fieldwork complete QA of report	80%	
13	Year end Accruals	Field work in progress – testing is on going	75%	
14	Income (including wrong bank account payments)	Fieldwork in Progress – testing is on going	30%	
15	Accounts Receivable – Debt management (Legacy Debt)	Fieldwork in progress	50%	
<b>Q2</b>	<b>Assignment</b>	<b>Audit Status</b>	<b>Completion %</b>	
16	Financial Decisions (scheme of delegations)	Final Report	100%	Good
17	Planning Applications Process	Field work in progress	70%	
18	Grant Verification – Disable Facility Grants	Field work in progress	60%	
19	Grant verification -Additional Home to School and College Transport	Fieldwork in progress	30%	



	Assignment	Audit Status	Completion %	Assurance System/ compliance
20	Grant verification -Local Transport Capital Block Funding	Fieldwork in progress	30%	
21	Grant Verification -Travel Demand Management	Fieldwork in progress	30%	
22	Safeguarding vulnerable Adults	Planning	10%	
23	Housing Allocations- Social Lettings	Planning	10%	
24	Council Tax	Planning	10%	
25	NPH Monitoring	Planning	10%	
26	Grant verification-Covid-19 Bus Service Support Grant Restart	Planning	10%	
27	Grant Verification -Local Authority Bus Subsidy Grant	Planning	10%	
28	Information Governance	To be started	0%	
29	Legacy Debt	To be Started	0%	
30	Health and Safety	To be Started	0%	
<b>Q3&amp; 4</b>	<b>Assignment</b>	<b>Audit Status</b>	<b>Completion %</b>	
	Q3 & Q4 Audits	To be started	0%	