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## INTERNAL AUDIT QUARTERLY UPDATE

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### 1.0 Summary of progress

- 1.1 Due to publication requirements this report is compiled in late February and the Audit Manager will update members verbally on progress at the meeting.
- 1.2 24 of the 26 items on the original plan are currently in progress. This is approximately 92% and compares with 89% for the same period in 2013/14.

### 2.0 Assurance rating system

- 2.1 This report records the level of assurance provided by internal audit work. The following categories are used to record the level of assurance.

**Full assurance:**

there is a sound system of internal control designed to secure objectives and controls are being consistently applied.

**Substantial assurance:**

there is a generally sound system of internal control in place designed to secure objectives and controls are generally being applied consistently. Some weaknesses in the design or operation of the controls put the achievement of particular objectives at risk.

**Limited assurance:**

weaknesses in design or inconsistent application of controls put the achievement of objectives at risk.

**No assurance:**

weak controls or significant non-compliance with controls could result (or have resulted) in failure to achieve objectives.

- 2.2 No system of internal control can eliminate every possible risk and increasing the level of control in a system frequently increases costs. Balancing risk appropriately against the costs of control is management's responsibility.
- 2.3 Internal audit's role is to evaluate and improve the effectiveness of risk management and control processes.
- 2.4 It is important to recognise that the scope of the work and the area examined define the limits of the assurance and for this reason some context will be provided for each piece of work in the form of summary reports as set out below

### 3.0 Matters arising from internal audit work

#### 3.1 Previously reported:

AUDIT	Assurance
<b>LCC / BTLS CONTRACT PERFORMANCE MONITORING</b>	<b>Substantial</b> assurance that the service objectives for performance monitoring of LCC/BTLS activity will be met by the systems in place.
<b>INDIVIDUAL ELECTORAL REGISTRATION</b>	<b>Substantial</b> assurance that the implementation of individual electoral registration and online registration is progressing towards a satisfactory conclusion.
<b>NATIONAL NON DOMESTIC RATES</b>	<b>Substantial</b> assurance that the service objectives for administration of National Non Domestic Rates (NNDR) are being met with the exception of the lack of regular reconciliations between the NNDR system and General Ledger. (See elsewhere in this update)
<b>CCTV</b>	<b>Substantial</b> assurance that Systems and procedures in place control risks to the operation of WLBC's CCTV system effectively.

#### 3.2 New items and assurance reports:

##### 3.2.0 COUNTER FRAUD WORK

Internal Audit contribute to the Council's counter fraud initiatives and regular reviews of its counter fraud arrangements and this activity is recognised in the internal audit plan.

##### 3.2.1 OBJECTIVES

- To maintain awareness of emerging fraud issues and contribute to reviews ensuring the Council's counter fraud arrangements are fit for purpose.

### 3.2.2 OBSERVATIONS

- In the period covered by the 2014/15 Internal Audit Plan internal audit have continued to assess emerging fraud trends and disseminate information to relevant services through a variety of sources including membership of National Anti Fraud Network.
- In addition there has been internal audit input into keeping arrangements for co-ordination of counter fraud activity up to date with changes such as the transfer of Council benefit fraud investigation staff to the DWP Single Fraud Investigation Service, the closure of the Audit Commission and emerging guidance such as the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- The Council's Anti-fraud, Corruption and Bribery Policy was reviewed, a self-assessment of fraud, bribery and corruption issues was completed and the Counter Fraud Plan was produced and endorsed by this Committee in September 2014.
- This year's planned counter fraud activity is now complete

### 3.2.3 ASSURANCE

- This Internal audit work does not form part of the assurance programme but is an essential part of the Councils framework to maintain effective stewardship of the resources at its disposal provided from the public purse.

### 3.3.0 MONEY LAUNDERING REPORTING OFFICER (MLRO)

The Audit Manager acts as the Council's MLRO and this role is recognised in the internal audit plan.

#### 3.3.1 OBJECTIVES

- To act as the Council's Money Laundering Reporting Officer (MLRO)
- To maintain policies, systems and procedures in relation to Money Laundering which are fit for purpose.

#### 3.3.2 OBSERVATIONS

- Money laundering reporting activity is reactive and there has been no activity requiring a formal report this year.
- During the year the MLRO has provided advice and intelligence to services seeking to recover monies through the Proceeds of Crime Act.
- The Council's revised Money Laundering Policy was refreshed and endorsed by this Committee at its January meeting. This year's planned work-stream is now complete.

### 3.3.3 ASSURANCE

- This work is not part of the assurance programme but is an essential part of the Council's framework to maintain effective stewardship of the resources at its disposal provided from the public purse .

### 3.4.0 NATIONAL FRAUD INITIATIVE

The Audit Commission organise the National Fraud Initiative (NFI), matching data between public and private sector bodies to prevent and detect fraud. Internal audit co-ordinate this activity corporately across Council services.

The Council's participation is required by statute and the work is effectively carried out over a two year cycle so does not fall within the period covered by a single audit plan.

In the first year the data sets and format of the data to be provided is determined by the Audit Commission. The Council develop and test routines to extract data to the required specification from its systems. Following confirmation that the data produced is of the required quality each data set is then extracted and submitted as at a specified date. The is then matched to the data for the same date submitted by other participating organisations.

In the second year of the cycle following the matching process the results are returned to participants. Matches which appear to indicate anomalies, are reviewed and where necessary investigated further following NFI protocols.

### 3.4.1 OBJECTIVES

- To co-ordinate the commissioning of NFI 2014/15 and ensure Audit Commission NFI guidelines and legal requirements for the exercise are met.
- To oversee the extraction and submission of the required data sets to ensure they are submitted on time and to the correct specification.
- To act as the key contact for the Audit Commission and organisations with matches corresponding to our data.
- To evaluate the results and co-ordinate the investigation of matches in West Lancashire Borough Council.
- To report the result of the NFI exercises and consider whether the pattern of matches or the results of investigations indicate areas where Council systems or procedures could be improved.

### 3.4.2 OBSERVATIONS

- The 2014 – 2015 data was extracted and submitted in 2014 to specification and in the appropriate timeframes.
- 1900 matches have been returned to date.
- The initial assessment of the matches has been carried out and internal audit are co-ordinating follow up action as required with the appropriate agencies and officers.
- The investigation of matches from the 2014-2015 exercise will not be concluded before completion of the 2014/15 audit plan.
- The previous NFI exercise returned 3,323 matches relating to Housing Tenancies, Creditors, Payroll, Benefits and Insurance.

That exercise identified overpayments from public funds as follows.

Creditors	4,495.50
Housing Benefit	13,371.21
Council Tax Benefit	2,595.08
Council Tax Support	559.81
Jobseekers Allowance	9,876.48
Employment Support Allowance	6,215.88
Total	£37,113.96

- Matches relating to creditors identified two duplicate payments. These were the result of human error and have been recovered.
- The exercise did not disclose any benefit overpayments which could have been prevented by changes to the systems and procedures for administration of benefits. All of the overpayments arose on claims that had been assessed accurately with initial payments made correctly. The overpayments arose from subsequent failure to declare relevant changes in circumstance.
- Three benefit cases ultimately became the subject of fraud investigations. One was discontinued prior to court proceedings in accordance with established policy and procedures, the other two resulted in prosecutions.
- Matches relating to Payroll, Housing Tenancies and Insurance claims did not disclose any errors or fraudulent activity.
- The results of the exercise have not identified to any fundamental weaknesses in controls on fraud and error in the systems from which the data was extracted.

### 3.4.3 ASSURANCE

- The National Fraud Initiative is an externally commissioned compulsory work-stream and as such is independent from elements of the Internal Audit Plan designed primarily to provide assurance. It does however provide a tangible measure of effectiveness of controls in the systems from which data is submitted.
- The Council's Counter Fraud and Corruption Plan endorsed by this Committee in September 2014 identified participation in the NFI in accordance with national guidance and timely responses to data matches as key activities in the Council's arrangements to detect and investigate fraud.
- This item provides evidence that this element of the Council's Counter Fraud Plan is being progressed effectively and the results of the 2014/15 exercise will be reported back to this Committee in due course.

### 3.5.0 QL (HOUSING MANAGEMENT SOFTWARE)

The QL housing management system is used for most aspects of Housing operations. As working practices change work continues to ensure adequate controls are incorporated in areas falling outside the main rent accounting module itself.

#### 3.5.1 OBJECTIVES

- To identify peripheral controls which are not an integral part of the rent accounting module and assess the implications for future audit activity.

#### 3.5.2 OBSERVATIONS

##### KEY AREAS OF ENQUIRY

- Measures to ensure properties taken out of or returned to rental stock due to lease arrangements with third parties are adequately recorded as such. Housing have confirmed work on this has now been completed.
- Measures for reconciliation of QL and the Asset Register. The Housing Operations Manager now requires this task to be carried out on a regular basis.
- Measures to control user permissions on the wider QL system following potential changes to working practices. Housing consider that user rights are currently adequately controlled and mitigate risks to system security.

- The use of “notepad” entries on the system. These need to be reviewed on a regular basis and obsolete entries deleted. It is technically simple to delete data from the system automatically after a specific period but this would inevitably include information that was still current and relevant. To this end it is planned to introduce service specific retention policies to take account of circumstances that require notepad entries to be held for varying lengths of time.

### 3.5.3 ASSURANCE

- Work planned to identify controls in these areas of the QL system is now complete. Work to provide assurance on the operation of these controls in practice will be reported following testing work included in the 2015/16 Internal Audit Plan.

### 3.6.0 MAIN ACCOUNTING SYSTEM

Transactions in feeder systems are examined on a regular basis. This exercise examines controls outside feeder systems.

#### 3.6.1 OBJECTIVES

- To review authorised users access to General Ledger ensuring that appropriate segregation of duties is in place.
- Test a sample of journals and ensure they contain sufficient detail and that the total of the journal voucher reconciles with the processed journal on GL.
- Examine the most recent bank reconciliations and ensure they are up to date and in balance.
- Review reconciliations to Debtors and Creditors and ensure they are completed regularly and that their respective control accounts balance to zero
- Select a sample of transactions from the general ledger from each source type, and trace back to documentation to confirm that details agree.

#### 3.6.2 OBSERVATIONS

- Authorised users and their system privileges for General Ledger (GL) were reviewed. The user list was found to be up-to-date with appropriate segregation of duties in place in relation to the main system functions.
- Journals from each officer authorised to initiate them were selected at random from the General Ledger and checked to ensure that the total of the actual journal document reconciled to the processed journal total as per the ledger and that each contained the following:

Codes to be debited/credited  
Amount involved  
Reason for transfer and authority for it  
Adequate narrative explanation  
Unique serial number, year of account and week number

This was found to be the case for the entire sample.

- Bank reconciliations were found to be up-to-date and in balance.
- Debtor reconciliations are undertaken by BTLS on a monthly basis and Creditors weekly. These were up to date and had been submitted to the Principal Accountant (Central Services) to check against the respective control accounts.
- A sample of transactions was selected from the general ledger from different source types and traced back to originating documentation within sections. Details were found to agree for each transaction tested.

### 3.6.3 ASSURANCE

- Areas tested demonstrated a high level of compliance. This work provides **substantial** assurance that the controls in place to ensure that the General Ledger accurately reflects transaction streams in the feeder systems are operating as intended.

## 4.0 Action Points Outstanding From Previous Updates

### 4.1 Revenues and Benefits reconciliations

The lack of regular reconciliations of NNDR and Council Tax to the General Ledger following the implementation of the Northgate revenues system has been the subject of previous reports to this committee.

In January it was reported that officers from BTLS and WLBC were to carry out a joint investigation of the technical issues giving rise to the difficulties in reconciling the two systems.

Since that time a number of meetings have taken place between officers from BTLS Revenues and Benefits service business support team and West Lancashire's Accounting and Internal Audit teams and analysis has been carried out on reports available from the systems involved (Northgate revenues and benefits, Icon cash receipting and the General Ledger).

The current position is that the sources of the apparent variances have now been identified and an exercise successfully produced a test balance on movements in the systems over a three month period. The next step is to bring this exercise up to date to provide a year end balance to facilitate the closedown of the accounts.



Officers will then develop a procedure to replicate this one off manual balance on a daily basis. BTLS have agreed to implement these new procedures as soon as practicable and they should be in place during April 2015.

#### 4.2 Benefits processing

Internal audit work in 2012/13 identified a raised level of errors in benefit processing. Subsequent Internal and external audit work has identified significant and sustained improvements in the accuracy of benefit processing and no further reports will be brought in relation to this issue.

### 5.0 Internal Audit Third Quarter Activity Update

Title	Position
Benefits	Work in progress
Contract Audit	Work in progress
Performance Monitoring System (BTLS)	Work complete
Community Safety (CCTV)	Work complete
National Fraud Initiative	Work complete
Home Care Link	Work in progress
Council Tax	Work in progress
Debtors	Work in progress
NNDR	Work complete
Creditors	Work in progress
Transport	Work in progress
Main accounting	Work complete
Electoral registration	Work complete
Business continuity	Work in progress
Payroll	Work in progress
Bacs	Work in progress
ICON cash receipting	Work in progress
Counter-Fraud Arrangements	Work complete
Treasury Management	Work in progress
ICT	Work in progress
Data Protection / SIRO	Work in progress
Housing QL system controls	Work complete
Money Laundering Reporting System	Work complete
Annual Governance Statement	Work in progress

Summary	
Work complete	9
Work in progress	15
Work not yet commenced	2
<b>Total</b>	<b>26</b>

### 6.0 Conclusion

Progress against the 2014/15 plan to date has been satisfactory and it is anticipated that internal audit coverage will be maintained at levels which will enable an adequate assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.