INTERNAL AUDIT QUARTERLY UPDATE

1.0   Summary of Progress against the 2017/18 plan.

1.1   Progress against the plan to date is an improvement over that of the previous year with 17% of audits in progress compared to 15% for the same period in 2016/17 and almost on par with the 18% position in the previous year 2015/16, the last quarter where the section was fully staffed in line with establishment.

1.2   The restructure of the section is now complete with the final vacancy filled as from 12th June and while there are still some temporary residual effects from the reduced resource levels over the last 12 months the new establishment is now in place to enable delivery of the 2017/18 plan. The Audit Manager will provide a verbal update on the latest position at the meeting.

Title	Position
Cashiers	Work not yet commenced
Creditors	Work not yet commenced
Debtors	Work not yet commenced
NNDR	Work not yet commenced
Council Tax	Work not yet commenced
Benefits	Work not yet commenced
Housing Rents	Work not yet commenced
Treasury Management	Work not yet commenced
Contracts and Procurement	Work in progress
Accounting Controls	Work not yet commenced
Payroll	Work in progress
Annual Governance Statement	Work not yet commenced
Performance Management	Work not yet commenced
Customer Services	Work not yet commenced
ICT	Work not yet commenced
Property Services – housing maintenance	Work not yet commenced
Rent and Money Advice	Work not yet commenced
Leisure	Work not yet commenced
Homelessness	Work not yet commenced
Disabled Facilities Grants	Work in progress
Refuse and Recyclables	Work not yet commenced
Anti-fraud work	Work not yet commenced
Money Laundering reporting Officer	Work not yet commenced
National Fraud Initiative	Work in progress
Summary	
Work complete	0
Work in progress	4
Work not yet commenced	20
Total	**24**

2.0   Assurance rating system

2.1   This report records the levels of assurance provided by Internal Audit's 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 in each area examined defines the limits of the assurance which can be provided and to give context to the assurance provided work is summarised in the reports set out below.

3.0   Assurance reports:

3.1   <u>Housing Rents</u>

The Income Management and Financial Inclusion Services team in Housing are responsible for the collection of rent from tenants occupying council owned dwellings.

3.1.1 Objectives

To examine the systems, procedures and records relating to rent collection. To review the monthly reconciliation. To test a sample of rent accounts to ensure that transactions have been processed and recorded correctly.

3.1.2 Observations

The review concluded that there are appropriate controls in place for housing rent collection. The individual accounts examined had transactions processed

and recorded correctly. Some minor issues were identified to management and an action plan was agreed to address these.

3.1.3 Assurance

This Internal Audit work provides **substantial assurance** that appropriate procedures are in place for the administration of rents and that the QL system is operating effectively in this area.

3.2 Member Services

3.2.1 Member Services administer the committee management system and service meetings of the Council and committees. They provide advice to Members in order to maintain democratic processes which are effective and lawful. They also provide secretarial support, administer civic functions and undertake ancillary administrative tasks to support Members in discharging their roles in respect of decision making and their civic functions.

3.2.2 Objectives

The exercise reviewed the operation of controls in place to mitigate operational risks for which the service is responsible and examined the implementation of the ModGov system to administer committee activity.

3.2.3 Observations

The review concluded that Member Services had appropriate controls in place to control the risks assigned to them on the Covalent system and that the ModGov system had been implemented effectively.

3.2.4 Assurance

This Internal Audit work provides **substantial assurance** that appropriate procedures are in place for the administration of the service and that the ModGov system is operating effectively.

3.3 Economic Development

3.3.1 The economic development team are responsible for progressing the West Lancashire Economic Development Strategy (WLEDS) which is designed to provide clear direction for economic development and regeneration activity in the Borough. The Strategy underpins the Council's commitment to sustainable regeneration and growth by supporting businesses, creating opportunities, improving skill levels and retaining good quality jobs for local people. Objectives

3.3.2 Objectives

To determine whether appropriate governance arrangements are in place to identify and manage risks to the delivery of the key aspects of the WLEDS.

3.3.3 Observations

The Economic Development Strategy sets out eight core strategic themes acting as enablers for growth for the Borough and incorporates an Action Plan setting out specific activities for delivery of key elements of the Economic Development Strategy and Ormskirk Town Centre Strategy.

There is a direct correlation between the strategy and the actions identified as a means of achieving the objectives within the strategy themes.

While the service is not responsible for the system a number of issues were noted with automated functions of the Covalent system relating to management of the service. These have been corrected and the system is now operating correctly.

Performance Indicators in use are linked to the WLEDS objectives and should not be considered to be direct measures of performance for work undertaken by the section itself.

A 'Year One Progress Report' was published for Members in June 2016, setting out progress against action plans within the Economic Development Strategy and Ormskirk Town Centre Strategy. A similar report is to be produced on an annual basis.

The arrangements in place regarding reporting and scrutiny are appropriate at all levels.

3.3.4 Assurance

This Internal Audit work provides substantial assurance that appropriate governance arrangements are in place to manage risks to the delivery of the key aspects of the WLEDS.

3.4 Main Accounting System Controls

3.4.1 The main accounting system comprises of the Civica Financials system which is an integrated system that consists of the creditors and debtors systems in addition to the ledger which supports the Council's financial reporting requirements.

3.4.2 Objectives

To examine controls on users of the general ledger system to ensure that there is appropriate segregation of duties in the initiation and authorisation of journal entries.

To confirm that bank reconciliations are undertaken regularly, are in balance and certified appropriately.

That journals are supported by adequate narrative description, relevant accounting codes and that systems incorporate an adequate audit trail back to source documentation.

3.4.3 Observations

The register of users was up to date and users permitted to initiate journals were restricted appropriately.

The internal controls may be strengthened by consideration of a defined financial limit where transactions over a certain value must be separately authorised by another officer.

There are regular bank reconciliations and reconciliations of creditors and debtors control accounts. However there is no independent authorisation/ certification of these reconciliations. In order to comply more fully with the Constitution's financial regulations, it is considered appropriate that bank reconciliations be independently certified as accurate.

3.4.4 Assurance

This Internal Audit work provides substantial assurance that the internal controls in place to control user access, journal entries and reconcilliations in the Council's accounting system are adequate. Some recommendations were made to further enhance control through increased segregation of duties, strengthening authorisation requirements and increasing independent scrutiny.

3.5 Contracts and Procurement

The Councils Contracts Procedure Rules are designed to secure best value, evidence probity and ensure compliance with Policy & Statute.

They are the cornerstone of corporate procurement activity regulating significant expenditure.

3.5.1 Objectives

To promote good standards of control in procurement practice corporately.

To review controls to secure compliance of procurement activity with Contract Procedure Rules and legislative requirements.

To determine whether the arrangements in place for the administration of contracts provide reasonable assurance that the Council's objectives will be met.

3.5.2 Observations

During the year internal audit has promoted improvements to procurement arrangements, provided advice to officers engaged in procurement activity and contributed to the latest revision of Contract Procedure Rules approved by Council in April 2016 to facilitate the use of an electronic tendering system for selected contracts.

Internal audit continue to monitor compliance with Contacts Procedure Rules.

Various systems and procedures associated with the administration of works under contract were examined to ensure they are fit for purpose and meet statutory requirements such as inclusion in the transparency register etc.

3.5.3 Assurance

This Internal Audit work provides **substantial** assurance that corporate procedures provide a sound framework for the control of risks in the procurement process. These are generally embedded in the local procurement procedures implemented in each service however audit's work identified some potential weakness in controls in some areas which will be the subject of further work in the near future.

3.6 NNDR

Non-domestic rates (NDR) are administered and collected by BTLS Revenues and Benefits Service through the Northgate system.

There have been moves away from centralised pooling arrangements nationally to incentivise Councils to promote business growth in their local areas. This shift makes any variations in NDR collected more significant for the Council.

3.6.1 Objectives

To review the effectiveness of processes to maintain the property database and records of liable parties

To identify the method of data collection and calculation of Performance indictor BTLS3 and confirm the accuracy of the figure

To review the latest reconciliation for NDR- Northgate system / Icon Cash Receipting System / General Ledger

3.6.2 Observations

Processes for the identification of vacations, occupations and changes to the parties responsible for commercial properties incorporate reasonable measures for establishing liability on a timely basis underpinned by procedures for the identification of new or altered commercial property e.g. links to planning applications.

Processes supporting the reporting of performance indicator BTLS3 (BV10) operate effectively.

Routines for reconciliation of the Northgate system to ICON and the General ledger are operating satisfactorily.

3.6.3 Assurance

This Internal Audit work provides substantial assurance that the procedures in place to maintain records of property and liable parties, calculate and report Performance Indicator BTLS3 and to reconcile the NNDR system to feeder systems and the General Ledger operate as intended.

3.7 Housing Benefits

The Housing Benefits service delivered by BTLS assess claims and administer payments to tenants on low income to help with the payment of rent.

3.7.1 Objectives

To review the systems (Northgate and Civica), procedures and records relating to the processing of 60 housing benefit claims in payment, to ensure that they have been correctly assessed. Review the Fraud and Error Reduction Incentive Scheme (FERIS) and the procedures for CIS checks.

3.7.2 Observations

Testing of the 60 cases did not identify any system issues.

Some minor issues with processing and assessment were identified and an action plan to address these has been agreed with management

No issues were identified with FERIS or CIS procedures.

3.7.3 Assurance

This Internal Audit work provides **substantial assurance** that appropriate procedures are in place for the administration of the service and that the Northgate and Civica systems are operating effectively.

3.8 Council Tax

BTLS Revenues and Benefits Service administer council tax on behalf of the Council. They are responsible for all aspects of its day to day administration from billing through to collection and recovery.

3.8.1 Objectives

To examine a sample of accounts to confirm bills are correct, transactions have been recorded accurately on the council tax system and that individual account balances are recalculated correctly. To establish that processes work in accordance with legislation and local collection procedures and have satisfactory audit trails supporting them.

3.8.2 Observations

The review concluded that the council tax system is generally operating effectively, with bills produced in a timely manner, in accordance with legislation. Individual accounts had been updated accurately to reflect adjustments such as Council Tax Support and payments from receipting systems and this was reflected by corresponding entries in the general ledger. Minor improvements were agreed to some manual processes supporting the system.

3.8.3 Assurance

This Internal Audit work provides **substantial** assurance that the council tax system is operating effectively and that appropriate procedures are in place for the day to day administration of council tax generally.

3.9 Communications and Consultation Service

The Communications and consultation service are responsible for the production of press releases, and other communications intended for general public consumption. They are also involved in maintaining the Councils website and intranet and with public consultations.

3.9.1 Objectives

To review the systems, procedures and records in relation to communications and consultation service, record the department's main functions, review risks relevant to the team and the production of performance indicators.

3.9.2 Observations

The review concluded that there are no significant issues with systems and procedures in the service which control the risks they are responsible for. Action on a minor point relating to the calculation of one performance indicator was agreed with management.
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3.9.3 Assurance

This Internal Audit work provides **substantial assurance** that appropriate procedures are in place for the administration of the service.

4.0   Summary of other Internal Audit work 2016/17

4.1   Risk Management

The Audit Manager is a member of the Risk Management Working Group. A previous audit of risk management processes recommended that amendments be made to the practical arrangements for maintaining the risk registers through the Covalent System and that the Risk Management Policy should be reviewed. The revised Risk Management Policy was agreed at the January meeting of this Committee.

4.2   Health and Wellbeing Strategy

As previously reported to this Committee this item from the 2016/17 plan could not be completed in the year as the Strategy had not been finalised. It was agreed with senior management that the Strategy will be reviewed and any significant work streams identified will be completed as part of Internal Audit's work in 2017/18 as required.

4.3   Street Scene Strategy

As previously reported to this Committee this item from the 2016/17 plan could not be completed in the year as the Strategy had not been finalised. It was agreed with senior management that the Strategy will be reviewed and any significant work streams identified will be completed as part of Internal Audit's work in 2017/18 as required.

4.4   Data Protection and ICT

Internal audit are actively engaged with the Information Data Protection Governance working group, the ICT strategy board, and also attend ICT partnership meetings and ICT user group as appropriate,

Internal audit has been involved in reviews of governance arrangements for data held in both electronic and paper based systems during the year. Resulting from the current review an officer based project group has now been set up to establish and arrange implementation of an action plan to further develop governance arrangements relating to electronic storage of data in accordance with the Council's Data Quality Protocol, Data Protection Policy, Retention and Disposal Schedule and ICT and Data Security Policy.

4.5   Payroll (implementation of self-service module)

The 2014/15 payroll audit identified issues with the system for initiating payroll variations. Since then internal audit have reviewed the self service module in the payroll system during its implementation and improved controls have been incorporated into the new system. These will be formally tested as part of the 2017/18 audit of payroll.

4.6 Voids

Report being finalised, no significant issues identified.

4.7 Leisure

Report being finalised, no significant issues identified.

4.8 Response maintenance

Following some initial work the scope of this exercise was reviewed. It has been amended and expanded following discussion with the Director of Housing and Inclusion and a larger exercise will be completed as part of the current years planned work on housing maintenance and reported on later this year.

4.9 CRM / digital inclusion

The Council is implementing a new Customer Relationship Management system which will potentially require changes to a number of back office systems. Internal audit are providing support to the CRM Project Board and liaising with the Digital executive in relation to a number of potential changes to income systems resulting from improvements planned for improved website service offerings to the public.

4.10 National Fraud Initiative

Internal audit are responsible for administering the National Fraud Initiative (NFI), a Cabinet Office exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.
The Council is required to submit data on a regular basis and the exercise returned 3,369 matches in the year.

Matches returned mainly related to: housing benefit, payroll, housing tenancies, insurances and creditor payments. All matches for which WLBC were the lead authority under the NFI protocols were screened and risk assessed. The service also dealt with enquiries relating to matches where another body was the lead.

Responsibility for investigation of housing benefit fraud has transferred from local authorities to the DWP Single Fraud Investigation Service. With the caveat that the results of investigations into data matches relating to housing benefits transferred to the DWP's Single Fraud Investigation Service are not known, no significant fraudulent activity or erroneous payments were discovered in WLBC as a result of the NFI data matching exercise during the year.

While this exercise is not primarily designed as assurance work the exercise did not identify any significant issues arising from control weaknesses in any of the systems submitting data and thus provides general affirmation of the fitness for purpose of the systems in question.

4.11   Money Laundering Reporting

Time is included in the Audit Plan for the Audit Manager's role of Money Laundering Reporting Officer. No incidents of money laundering were disclosed during the year.

4.12   Antifraud systems

The section is involved in a variety of anti-fraud, bribery and corruption activity. While these fall outside planned formal assurance activity they may inform consideration of controls. No significant control issues were identified during this year's anti-fraud work

4.13   Annual Governance Statement

Internal audit work supports the production of the Annual Governance Statement presented elsewhere on this agenda and time is included in the plan for a review of audit findings and other sources of assurance to inform its preparation and review of the final draft of the document before publication.

Taking into account the annual review of West Lancashire Borough Council's internal controls, as outlined in its Local Code of Governance, there are no issues arising from Internal Audit's work in year 2016/17 which require disclosure in the Annual Governance Statement in addition to those already contained in it.

5.0   Other matters of note.

5.1   Review of Quality Assurance and Improvement Programme (QAIP)

The Public Sector Internal Audit Standards require internal audit's QAIP to be externally assessed at least every five years. Members resolved that the review be undertaken by an external assessment rather than joining the Lancashire District's peer review programme. February meeting of Council agreed budget provision for this and work will now begin on commissioning the review.

6.0   Conclusion

6.1   At the time of writing progress against the 2017/18 plan to date is nearly back to levels achieved when the service was last at full strength and arrangements are now in place to secure sufficient coverage to allow an adequate assessment of the adequacy and effectiveness of the Council's overall framework of governance, risk management and control for the year. The Audit manager will provide an update on the latest position at the meeting.