
INTERNAL AUDIT QUARTERLY UPDATE

1.0 Summary of progress 2016/17

- 1.1 4 of the 26 items on the original plan are currently in progress. This is approximately 15% and compares with 18% for the same period in 2015/16.
- 1.2 The main reason for this variance is a temporary 17% reduction in resources in the quarter due to a vacant post. The service has now arranged an agency placement to increase resources temporarily pending a permanent solution and the audit Manager will provide a verbal update on the latest position at the meeting.

Internal Audit 2016/17 first quarter activity update

| Title | Position |
|---------------------------|------------------|
| Contract Audit | Work in progress |
| Council Tax | Work in progress |
| Debtors | Work in progress |
| National Fraud Initiative | Work in progress |
| | |

| Summary | |
|------------------------|-----------|
| Work complete | 0 |
| Work in progress | 4 |
| Work not yet commenced | 22 |
| Total | 26 |

- 1.3 The vacancy is the equivalent of 0.6 of a full time equivalent post and the agency placement has been engaged on a full time basis. This should enable satisfactory completion of the 2016/17 annual plan as approved.
- 1.4 Audit resources balanced over the entire year will provide adequate coverage to enable an assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

2.0 Update on 2015/16 work

- 2.1 The vacancy, which arose unexpectedly without notice in the latter part of the year, caused a reduction in resources available for completion of the 2015/16 plan and resulted in partially completed work being left outstanding without a handover taking place.
- 2.2 The majority of 2015/16 work-streams have now been completed as planned or are nearing completion at the time of writing. Work undertaken evidences appropriate controls are in place to manage significant risks to the Council's operations and it is anticipated that all of the work completed will result in substantial assurance ratings.

- 2.3 The Audit Manager agreed with the Borough Treasurer that addressing the resource issue was a priority and this has now been achieved temporarily through an agency placement. This process has inevitably had an adverse impact on delivery of the plan and together with the unplanned shortfall in resources has delayed final completion of some work and reduced overall coverage.
- 2.4 Now that the resource issue has been temporarily addressed a review of the position will be undertaken and a final position statement on 2015/16 work will be presented to the next meeting.
- 2.5 Set out below are summaries of a number of completed areas of activity. The remaining areas will be reported to the next meeting of this Committee.

3.0 Assurance rating system

- 5.1 This report records the level 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.

- 5.2 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.
- 5.3 Internal Audit's role is to evaluate and improve the effectiveness of risk management and control processes.
- 5.4 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 each piece of work is summarised in the reports set out below.

Summary assurance reports:

4.0 ICON CASH RECEIPTING

The Council's revenues and benefits service (provided by BTLs) is responsible for the operation of ICON, a largely automated system which records income received from all sources and allocates it to the appropriate funds e.g. Council Tax. It is a key control, providing a link between income received, changes to bank balances and movement of financial control totals on individual funds.

4.1.1 Objectives

The operation of the ICON automated system is frequently checked during audits of individual funds. This exercise was designed to review the procedures in place to operate and administer the system itself including manual interventions such as processing of cheques received at council offices or the operation of the suspense account for payments with inadequate references, reconciliation of incoming payments and maintenance of user profiles. It also examined the introduction of a web hosted module of the software to meet payment card Industry Standards, the introduction of chip and pin facilities in one area together with some changes to areas of responsibility following the transfer to BTLs.

4.1.2 Observations

- The suspense account is well administered.
- There is adequate segregation of duties in the administration of user profiles.
- There are adequate controls on income received in cheque form.
- The system supports an adequate audit trail from receipt of income to its allocation to the appropriate fund.

4.1.3 Assurance

- This Internal Audit work provides **substantial** assurance that the procedures in place supporting the centrally administered functions of the ICON system control its operation adequately. This includes activities now administered through the Web Hosted module.

5.0 NNDR

National Non-Domestic Rates, frequently referred to as business rates, are calculated for each non-domestic property using a Valuation Office Agency determination of its rateable value and a multiplier set by the Government each financial year.

There is a system of mandatory discounts and reliefs (set by Government) and local authorities also have the power to grant discretionary discounts or

hardship relief. These are applied to reduce the amount payable for those businesses or properties which meet the appropriate qualifying criteria.

In West Lancashire the collection of business rates is administered by BTLS using Northgate software.

5.1.1 Objectives

To examine a sample of accounts to ensure that bills had been calculated correctly and any payments, discounts and reliefs on the account had been correctly applied and other activity in relation to the accounts in question was appropriate, for example:

- System parameters had been set correctly
- Calculation routines were operating correctly
- Reliefs and exemptions had been applied appropriately and calculated correctly.
- Incoming payments had been applied to the correct account and the outstanding balance adjusted accordingly.
- Appropriate recovery action is taken on accounts in arrears

To examine the process for reconciling movements in control totals on the Northgate system to the ICON cash receipting and CIVICA financial systems.

5.1.2 Observations

- The examination disclosed minor housekeeping issues on a number of accounts which were corrected immediately.
- System parameters and calculation routines were operating correctly.
- Exemptions and reliefs were applied appropriately and calculated accurately.
- Payments were posted correctly and balances adjusted appropriately.
- While appropriate recovery action had been taken on accounts examined there were insufficient accounts in the later stages of arrears in the sample to allow a reliable conclusion to be drawn on the operation of recovery processes overall.
- Reconciliation procedures are effective, carried out on a daily basis and up to date.

5.1.3 Assurance

This Internal Audit work provides **substantial** assurance that the systems in place for the administration of business rates provide effective controls on the initial assessment and calculation of individual accounts and high level financial controls on movements in the Northgate system.

6.0 NATIONAL FRAUD INITIATIVE 2014/15 2015/16

Cabinet Office are responsible for The National Fraud Initiative (NFI), an 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 and the Council is required to submit data on a regular basis.

Internal audit is responsible for co-ordination of the submission of data and investigation of the returned matches.

6.1.1 OBJECTIVES

To co-ordinate the submission of data sets to the National Fraud Initiative as required.

To prioritise returned matches and co-ordinate the investigation of any anomalies with the appropriate services and corresponding “matched” organisation.

To take appropriate action where any matches are found to result from flaws in the systems and procedures operated by the Council.

6.1.2 SCOPE

All data matches produced as part of NFI.

6.1.3 OBSERVATIONS

Over 1,530 matches were returned mainly relating to:

- Housing benefit (1205)
- Payroll (20)
- Housing (111)
- Insurance (10)
- Creditor payments. (191)

Following a screening process incorporating a risk assessment process and an initial sift to remove “false” matches, 379 matches were followed up in more detail.

250 benefit matches were examined in detail, 13 of these resulted in formal investigations by Benefit Inspection Team.

The ultimate outcome of these investigations is unknown as responsibility for investigation of housing benefit fraud transferred from local authorities to the DWP Single Fraud Investigation Service during the exercise and as a consequence the local team were TUPE transferred to the Single Fraud Investigation Service.

All 20 payroll matches were examined in detail and no irregularities were disclosed.

As there has been a proliferation of tenancy fraud nationally, a relatively large sample of housing matches (59) was examined in detail. No fraudulent activity was disclosed,

Given the relatively small number all matches that indicated potential insurance fraud were examined. On examination these were found to be “irrelevant” matches in each instance.

Of the matches relating to creditor payments, 52 matches were examined in more detail. There were legitimate reasons for each “match” in every instance.

Some minor clerical errors were identified by the exercise and all were subsequently corrected.

6.1.4 CONCLUSIONS

With the caveat that the results of investigations into the thirteen data matches relating to housing benefits transferred to the DWP’s Single Fraud Investigation Service are not known, no fraudulent activity or erroneous payments were discovered in WLBC as a result of the NFI data matching exercise.

6.1.5 ASSURANCE

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.