

AUDIT COMMITTEE: 28 July 2020

INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 5.3

Appendices F and G of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

1. The Audit Committee Terms of Reference requires that Members:
 - Consider reports from the Audit Manager on Internal Audit's performance during the year;
 - Review the assessment of fraud risks and potential harm to the council from fraud and corruption;
 - Monitor the Counter-fraud strategy, actions and resources.
2. A progress report has been prepared to provide Audit Committee Members with an update on the work and performance of the Internal Audit and Investigation Teams as at 30 June 2020.

Background

3. The Audit Committee considered the risk-based Audit Plan 2020/21 through a consultation process between 23 March – 3 April 2020. Formal approval of the Plan is sought in agenda item 5.2. The Investigation Team's planned activity is provided for Audit Committee consideration within the appended progress report.
4. The Audit Committee meeting scheduled for 24 March 2020 was cancelled due to COVID-19. This progress report covers the period from 1 January - 30 June 2020, and follows the updates provided in the last Committee meeting held on 21 January 2020.
5. The Internal Audit Progress Report (**Annex 1**) sets out performance in relation to the Internal Audit Plan. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings across the Council for the assurance of the Audit Committee. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.
6. The Investigation Team Progress Reports (**Annex 2**) focuses on proactive and reactive fraud awareness, detection and investigation activities, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises.
7. As part of progress updates, there is an opportunity to consider emerging risks, issues and sources of assurance, and to potentially refocus priorities. Prior to presenting to

Audit Committee, progress reports are discussed with the Corporate Director Resources.

8. The Internal Audit Section reports to the Audit Manager. To meet the provisions of PSIAS 1100 (Organisational Independence), the Audit Manager is not responsible for managing any functions beyond the Internal Audit and Investigation teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

Issues

Conclusion of 2019/20

9. The appended progress reports contain sections in respect of the financial year 2019/20, which set out the work undertaken, the findings and outcomes of the Audit and Investigation Teams as at the financial year-end. A full account of the activities of the Internal Audit Team for the year is provided separately within the draft Internal Audit Annual Report 2019/20, for consideration by the Audit Committee in agenda item 5.1. The draft Counter-Fraud Annual Report 2019/20 is scheduled for reporting to Audit Committee in the September 2020 meeting, and will provide a full account of the activity of the Investigation Team during the year.
10. The pertinent year-end information in Annex 1 relating to Internal Audit activity, comprises the final position against the Audit Plan 2019/20 and the critical findings and emerging trends in quarter four 2019/20. For the year overall there were 113 new audit engagements completed to at least draft output stage against an original plan of 162 audits (70%), and a further 21 draft outputs from the prior year were finalised. Seventy-four percent of audit opinions provided were of 'effective' or 'effective with opportunity for improvement' in the year overall.
11. In quarter four 2019/20, six audit outputs were issued with draft audit opinions of 'insufficient with major improvement needed'. These audit outputs covered three areas of assurance, namely asset management, music service income, and fleet management (pool cars, public transport & grey fleet). The findings of these audits are outlined in detail within Annex 1, section 2.2 'Critical Findings or Emerging Trends (Q4 2019/20)'.
12. The Investigation Team Progress Report in Annex 2 contains the year-end position for 2019/20 in respect of the counter-fraud activity and impact. During 2019/20, three hundred and ninety seven cases were identified for investigation, and two hundred and thirty eight cases were concluded. With regards to the impact:
 - Seventy-three Council Tax liabilities investigations concluded during the year and identified £42,038 of under charged liability, to be recovered;
 - Twenty-eight Blue Badge investigations concluded. Twenty-five progressed through the courts, two received a simple caution and twenty three were fined representing total costs of £10,600;
 - Forty-seven Insurance claims were amended or withdrawn, saving £531,898;
 - Thirty-two employee investigations were concluded, resulting in 1 verbal warning, 1 written warning, 2 final written warnings and six dismissals;
 - Thirty-one Council Tax Reduction investigations were concluded resulting in overpayments of £25,911 being identified for recovery;
 - Fifteen tenancy investigations were completed, and one individual was removed from the waiting list;

- Twelve 'other' cases concluded, one related to a deceased pensioner, for which £8,540 was identified for recovery, and two cases represented historic insurance claims with the Council's previous claims handler, for which further details are being sought at the time of writing.

Delivery 2020/21 (to date)

a) Audit

13. Annex 1 outlines how the audit activities in quarter one have been adaptive and responsive to the crisis management environment in which the Council has been operating. This environment has necessitated a Council-wide focus on critical and emergency decisions, which the audit team has recognised in the support it has offered, the areas of focus, and the approach to delivering assurance and consultation activities.
14. Audit resources focussed initially on providing critical advice and support to management as the Council adapted services and established new systems in response to the crisis. Towards the end of the financial quarter, when Council services were moving to a documented and managed 'restart' across directorates, the audit team commenced more routine audit client engagement, and rolled out assurance audit engagements from the Audit Plan 2020/21.
15. The priorities and approach of the audit team were to deliver a combination of management support through consultation and engagement in high-risk areas, the progression where possible of assurance work on a low impact basis to the capacity of client managers dealing with frontline priorities, and the development of audit work programmes and staff training. Consultancy activities have covered 'new system checks', 'resilience, continuity and control', and 'counter-fraud prevention and post-assurance' work. Details are provided of the consultancy work completed and underway within section 2.4. 'Current Activities'.
16. A number of assurance audit engagements commenced in June 2020, representing a managed return to business as usual, as services began to 'restart' through the corporate approach to crisis recovery. Audits are being delivered on a desktop basis, through a greater use of data and system interrogation and analysis where possible, coupled with remote client meetings. Draft audit outputs started to be issued at the end of quarter one, and as set out in section 2.4 'Current Activities', the level of assurance audit work will ramp up during the rest of the financial year.
17. The delay to commencing a number of assurance audit engagements, coupled with the ongoing impact of the crisis on capacity, as set out in section 2.5 'Resources', will materially impact the proportion of the Plan which can be delivered in 2020/21 compared to previous years. Proposed performance indicators are set to be realistic and stretching for the financial year within the ongoing environment, as detailed within section 3.2 'Performance'. Audits will be allocated on a basis that provides the greatest assurance and value, and limits any impairment to the annual opinion of the Audit Manager on the Council's control environment for 2020/21.
18. In quarter one 2020/21, two audit outputs were issued with draft audit opinions of 'insufficient with major improvement' audit assurance. The audit outputs covered directorate asset management in Planning Transport and Environment and Waste Management, and the findings of these audits are outlined within Annex 1, section 2.7 'Critical Findings or Emerging Trends (Q1 2020/21)'.

19. The Audit Team relaxed the regime for chasing up management responses to draft reports in quarter one, to allow management the space they needed to respond to more immediate challenges associated with COVID-19. From quarter two, all draft reports have been followed up with management to request their formal response to the recommendations raised.
20. **Appendix A** shows a list of audits and their reporting status in the current year, as at 30 June 2020, in which twelve audits have been completed to at least draft output stage. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in 71% of the audit opinions provided in 2020/21, as at 30 June 2020. The current position for the full Audit Plan 2020/21 is shown in **Appendix B**.
21. For assurance on current ways of working, audit practices have been reviewed against the latest guidance from the Internal Audit Standards Advisory Board (IASAB). There are considered to be suitable provisions and safeguards in place to continue to operate the Internal Audit Service in conformance with the PSIAS. Included within **Appendix C** is the guidance from the IASAB, accompanied by an assessment of the Audit Manager against the associated checklist in **Appendix D**.

a) Investigations

22. Annex 2 outlines the activities of the Investigation Team in quarter one. For the year as a whole there are four hundred and ninety four chargeable days available based on current resources (2.5 fte), indicatively split between strategic (80 days) and operational activities (414 days). The summary quarter one casework activities were as follows:
 - Sixty cases were identified for investigation so far this year, compared to sixty-nine for the same period last year;
 - Two hundred and sixty four investigations are ongoing, compared to three hundred and twenty two for the same period last year;
 - Seventy six investigations have concluded, compared to forty three over the same period last year;
 - £95,992 has been attributed concluded investigations, compared to £132,693 for the same period last year.
23. In addition to identifying and progressing investigations cases, the team has provided targeted counter-fraud advice, guidance and checks to support the control environment and the prevention and detection of fraud and error in the administration of grants on behalf of the Welsh Government to local businesses.
24. At the time of writing, the Investigation Team has recently received the outputs from a data matching exercise in respect of business grant applicants, to verify bank and business credentials and flag anomalies and fraud risks for review. Cases of possible fraud are being reviewed and worked through, and the outcomes will be reported to the Audit Committee as part of future progress report updates.
25. The Team has also arranged to be part of a pilot National Fraud Initiative (NFI) data matching exercise being coordinated by Audit Wales, to provide further business grant post award assurance. All fraud alerts received from NAFN, wider networks, and colleagues in other local authorities are being actively followed up for assurance that the Council and its systems remain sufficiently robust.

26. The summary report in Annex 2 provides further details in respect of the above, in addition to outlining the current position in respect of the roll out of fraud awareness training and policy review.

Audit Recommendations

27. The recommendations and progress at the reporting date are provided in the following appendices.

Appendix E	Recommendations Summary
Appendix F	Contains the red & red / amber open recommendations
Appendix G	Contains the red and red / amber recommendations completed since the last Audit Committee in January 2020.

Legal Implications

28. There are no legal implications arising from this report.

Financial Implications

29. There are no direct financial implications arising from this report.

RECOMMENDATIONS

30. That the Audit Committee note and consider the contents of the:

- Internal Audit and Investigation Team Progress Reports.

CHRIS PYKE AUDIT MANAGER

The following are attached:

Annex 1 - Internal Audit Progress - Summary Report

- Appendix A** Report Status as at 30 June 2020
- Appendix B** Audit Plan
- Appendix C** IASAB - Guidance
- Appendix D** Audit Standards Checklist – COVID-19
- Appendix E** Recommendations Summary
- Appendix F** Red & red / amber open recommendations
- Appendix G** Red & red / amber recommendations completed since last Committee

Annex 2 - Investigation Team Progress – Summary Report