

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 6th DECEMBER 2017

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 2ND QUARTER 1st JULY TO 30th SEPTEMBER 2017

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

1.1 To report on internal audit work carried out during the period 1st July to 30th September 2017, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

2.1 That the Internal Audit Progress Report for the second quarter of the year 2017/18 be noted.

2.2 That the Audit and Governance Committee recommend to Council approval of a supplementary budget to cover the additional staffing costs to meet the approved audit plan.

3. Reasons for the recommendations:

3.1 One of the roles of this committee is to review quarterly internal audit reports and the main issues arising and seek assurance from management that action has been taken, where necessary.

3.2 The supplementary budget is required to provide any additional staffing resources required to cover staff sickness in order to deliver the approved audit plan.

4. What are the resource implications including non financial resources.

4.1 A supplementary budget of up to £7800 to cover staff.

5. Section 151 Officer comments:

5.1 The section 151 Officer supports the request for additional funds. Resources have been stretched owing to significant illness, both within the team and also elsewhere within the Finance team, which means the plan will not be completed. Given the fact that over 100 days have already be removed from the plan as part of earlier savings exercises,, the Section 151 Officer believes this is the most economically efficient proposal available.

5.2 With reference to section 8.2, the Section 151 Officer would expect to see some form of check that the systems are in balance even after the system is fully automated. Historical experience has demonstrated that this is not always the case with systems even when fully interfaced.

6. What are the legal aspects?

None identified.

7. Monitoring Officer's comments:

It is the Monitoring Officer's view that internal controls to safeguard the Council's Governance controls and to reduce risk is an essential to prevent loss due to frauds, errors and inefficiency. As a result, the Monitoring Officer is very supportive of the both recommendations.

8. Report details:

This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management where remedial action has not been agreed or implemented within a reasonable timescale. The 2017/18 Audit Plan was approved at this Committee on 15th March 2017.

The purpose of Internal Audit is to provide an independent and objective review of the adequacy and effectiveness of the Council's arrangements for internal control, risk management and governance. The activities we audit are given an assurance rating as follows:

Excellent	★★★★★	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	★★★★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.
Some improvement required	★★★	There is a basic control framework in place, but not all risks are well managed and a number of controls are required to be strengthened.
Significant improvement required	★★	Most of the areas reviewed were not found to be adequately controlled. Risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Fundamental weakness	★	Controls are seriously lacking or ineffective in their operation No assurance can be given that the system's objectives will be achieved.

8.1 Progress against the plan and work undertaken

Internal Audit's objective is to examine the Council's financial and non-financial systems to check that there are adequate internal controls in place to prevent loss due to frauds, errors and inefficiency, and due attention is paid to corporate governance and risk management.

A summary of progress against the annual audit plan to date is shown at Appendix A, together with the current status of each area for review and the outcomes of the review, where completed.

A further summary of the outcomes of audits completed can be found at Appendix B.

Progress against the annual audit plan as at the end of September is mainly on target. There has been a significant overspend on time against contract management but as this is an area of concern for the Council we feel that the additional time used was appropriate, this has been resourced from the contingency time we build into our plan each year.

During the next half of the financial year we are anticipating insufficient resources to meet the approved audit plan due to a member of the Internal Audit team being on intermittent long-term sick leave since June and this will be continuing until the end of the financial year. In addition the audit plan included time from the Finance apprentice, however, due to sickness absence within the Finance team the apprentice will not be available to work within the Audit team. In order to deliver the approved internal audit plan it will be necessary to obtain additional resources. Having looked at a number of options the Section 151 Officer is proposing to use the existing team to work additional hours to cover any shortfall in staffing time. The Internal Audit service has already undergone significant cuts and as a result the audit plan coverage has been reduced, to reduce the audit plan further would be of detriment to the Council. Therefore, the Section 151 Officer recommends that the Audit and Governance Committee recommends to Council the approval of a supplementary budget.

8.2. **Issues for consideration from audit work undertaken**

There was one instance during this quarter where remedial action was not agreed by management:

Trade Waste Report dated 26.09.17

Issue reported:

Reconciliations are not currently carried out by Cleansing between the income received as per the Collective Bartec system and that shown on Ash Debtors and E-Fins.

Manager's response:

'The system should be fully automated by 1 December 2017, and data should transfer from the relevant field on Bartec to that on Ash Debtors. There would be no risk that the two systems would not balance'.

There were no instances of management agreeing remedial action which was not subsequently implemented within a reasonable timescale.

8.3 **Governance Issues**

The Council's annual governance statement (AGS) reported that as a result of the audit work that has been undertaken throughout the year no significant issues have been identified. However, the Council continues to make enhancements and

improvements to its governance arrangements and an action plan has been compiled which will be subject to regular monitoring by the Audit and Governance Committee.

An action plan of the issues identified has been included in Appendix C.

8.4 **Emerging issues/risks**

This section will be used to highlight any emerging issues or risks that the Audit Manager feels members of this committee should be aware of and will provide an opportunity for members to ask questions as to what action is being taken both corporately and by Internal Audit in order to ensure that the Council complies with legislation/good practise and that exposure to risk in these areas is minimised.

a) **General Data Protection Regulations (GDPR)**

The Data Protection Act is being replaced by the General Data Protection Regulation in May 2018 and both Members and Officers at the highest level must be committed to the delivery of this. The new regulation will introduce changes to the way we currently process personal information and the penalties for non-compliance will be significantly higher. Some of the key changes are detailed below:

- Fines for non-compliance will increase from £500,000 to £20 million
- Fines can be issued for any aspect of non-compliance, not just data security breaches
- We will need to undertake privacy assessments before we introduce any systems which process personal information
- We will need to have data processing contracts in place with any organisations that process personal information on our behalf
- We will need to document the personal data that we hold and ensure we have a legal basis for processing it by creating an Information Asset Register
- We will need to tell people why we are collecting their information, what we will do with it, who we may share it with, how long we will keep it for, what will happen if they don't provide the information and how they can complain. We cannot adopt a 'one size fits all' statement.
- We must report any breaches of the regulation to the Information Commissioner's Office with 72 hours of the breach occurring.

Action taken to date:

The Council has nominated a Data Protection Officer and has formed an Information Governance Group who are meeting monthly until the implementation of GDPR in May 2018. An information governance framework has been drafted for approval by SMB and an action plan has been compiled and progress against the plan will be monitored by the Group to ensure compliance is achieved. Executive Support Unit are currently meeting with services in order to compile an Information Asset Register and to identify services that are collecting information and working with them to meet the requirements of the new legislation.

b) **IR35**

What is IR35? - IR35 (sometimes referred to as the Intermediaries legislation) has been in place since 2000. This legislation aims to ensure that individuals who work through their own company, pay employment taxes in a similar way to employees, where they would be employed were it not for the intermediary that they work through e.g. some consultants.

What's changing? - From 6th April 2017 the responsibility for deciding whether the legislation applies has shifted from the worker to the Public Sector Body (including schools), agency or third-party that is paying them. Public Sector Bodies (PSB's) are required to identify workers provided through intermediaries and assess whether the workers are in-scope of IR35. PSB's will be required to deduct PAYE and NI from payments for workers assessed as being in-scope and remit them to HMRC as part of the normal payroll processes.

What happens if we don't get this right? – PSB's that do not deduct and pay over PAYE and NI for affected workers will be liable themselves for the deductions that they should have made. HMRC also has powers to charge interest and levy a penalty where it considers that an employer has not acted with due care.

Action taken to date:

Existing workers that were identified as in-scope have been put through the Employment Status indicator which is provided by HMRC and as a result of this exercise three people were put on the payroll. The Council has also notified all the agencies that we use that nobody falls outside of this scope and therefore the agencies need to be deducting PAYE and NI. Any new worker is put through the Employment Status Indicator and depending on the result of this, is either put on the payroll or treated as self-employed.

c) Organised Crime procurement

A recent pilot study by the Home Office has identified an increasing threat to public sector procurement activities from organised criminals. The study confirms suspicions that criminals are targeting local authorities and other public sector bodies. The number of value of contracts involved and a perception that controls are weak may be a factor in this.

In 2013, it was estimated that £2.1 billion of fraud was perpetrated against local government of £876m related to procurement fraud. Procurement is considered to be lucrative and attractive to serious and organised criminals because there are multiple ways to commit fraud. These include price fixing, bid rigging, double invoicing and so. Organised criminals may also seem to use businesses providing services to local authorities to launder criminal proceeds.

Local authorities and other public sector bodies are being encouraged to review procurement processes in order to establish and maintain systems to help reduce the likelihood of procurement related crime.

Action taken to date:

A self- assessment of the Council's Counter Fraud capability was undertaken last year by Internal Audit and a report of the findings issued to the Chief Finance Officer for presentation to SMB, to date no response has been received to the report.

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

If the approved audit plan is not delivered there could be a lack of assurance on internal control risks leading to poor governance, this risk can be reduced by providing the resources required to meet the approved audit plan.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

- Reduce of the audit plan but as already stated reduction of the plan would not be in the best interests of the Council.
- Buy in additional resources from an external provider. This option would be more expensive and less flexible.

Helen Putt & Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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