

Internal Audit Activity Progress Report

2017-2018



Audit and Standards Committee
6 February 2018



Agenda Item 9
Appendix A

(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2017/18 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period November 2017 to December 2017; and
- Special investigations/counter fraud activity.

(4) Progress against the 2017/18 Internal Audit Plan, including the assurance opinions on risk and control

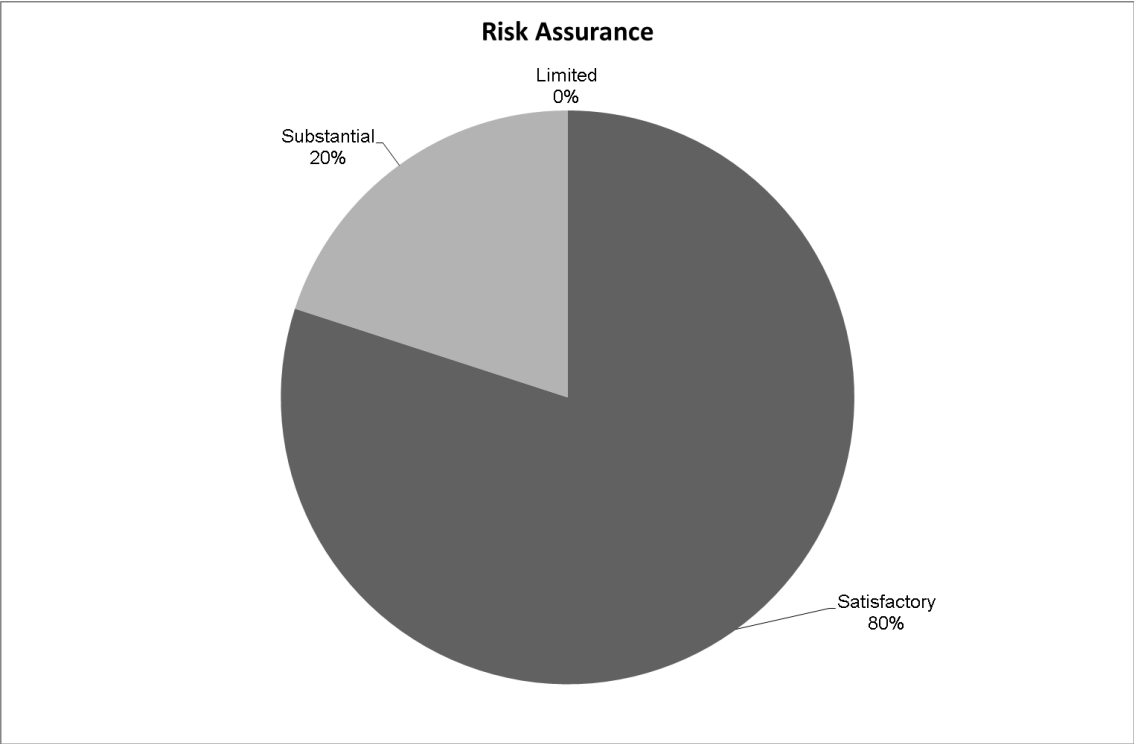
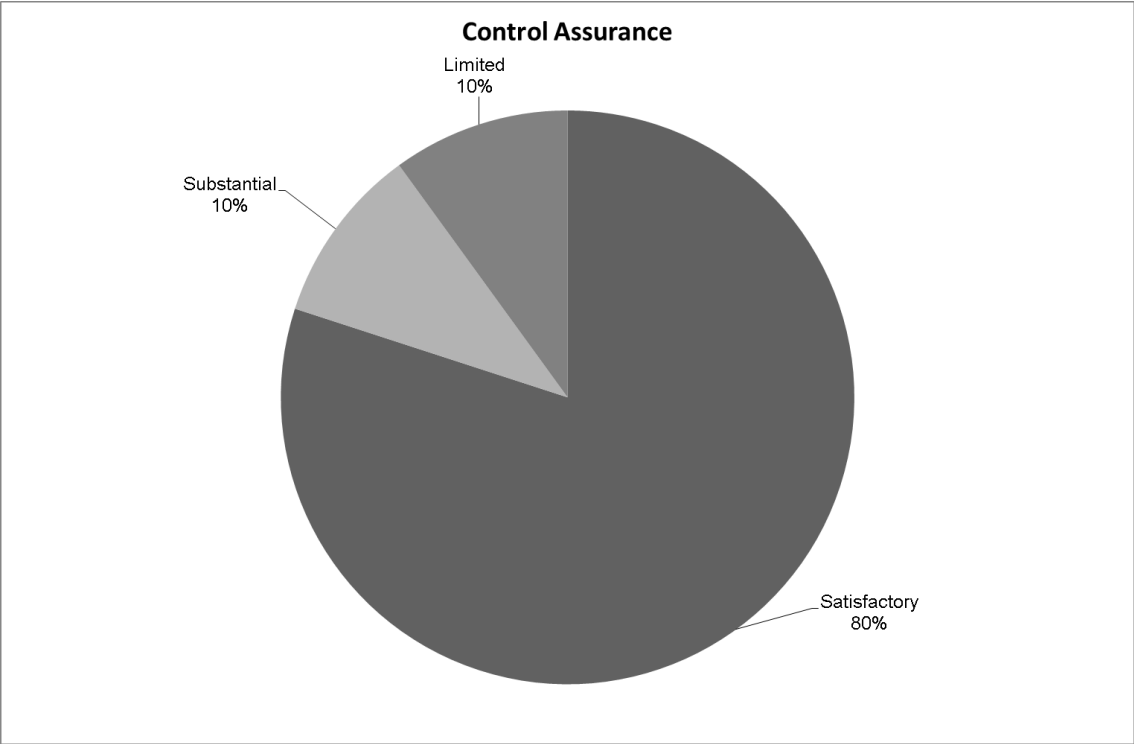
The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2017/18 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2017 to December 2017.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.	<ul style="list-style-type: none"> System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved Control Application – Controls are applied continuously or with minor lapses
Satisfactory	Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.	<ul style="list-style-type: none"> System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger Control Application – Controls are applied but with some lapses
Limited	Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.	<ul style="list-style-type: none"> System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls Control Application – Significant breakdown in the application of control



(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period November 2017 to December 2017, no limited assurance opinions on control have been provided on completed audits from the 2017/18 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period November 2017 to December 2017 Internal Audit made, in total, **3** recommendations to improve the control environment, **none** of these being high priority recommendations and **3** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period November 2017 to December 2017, no limited assurance opinions on risk have been provided on completed audits from the 2017/18 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period November 2017 to December 2017

Summary of Satisfactory Assurance Opinions on Control

Service Area: Customer Services

Audit Activity: Discretionary Housing Payments

Background

A Discretionary Housing Payment (DHP) is a payment to help people, in receipt of Housing Benefit or the housing element of Universal Credit, meet their housing costs. These costs include help towards rent, tenancy start up and moving costs.

DHPs must operate in line with the Discretionary Financial Assistance Regulations 2001 and the guidance manual issued by the Department for Work and Pensions (DWP). Local authorities can use their own funds to top up their Government contribution by an additional 150% in England and Wales. Any unspent DHP funding from the Government contribution is returned at the end of the financial year.

The Government contribution to DHP funding for 2016/17 was £117,588 and Stroud District Council contributed an additional £4,090 resulting in a total expenditure on DHP's of £121,678. The Government contribution to DHP funding for 2017/18 increased to £153,989, as Universal Credit started on 4th October in Stroud Job Centre.

Scope

The objective of this review was to provide assurance that there is an effective control framework in place for the award and monitoring of DHPs, in compliance with internal policy and external regulations.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key findings

During 2016/17, in England and Wales, 241 local authorities underspent an estimated £7.2 million of the total £150 million DHP Government contribution provided to authorities; 92 local authorities spent the Government contribution, including Stroud District Council. In Gloucestershire only Stroud District Council and one other authority used 100% of the Government contribution allocated to them, the other four authorities underspent.

The Revenue and Benefits Manager regularly monitors the expenditure of the Government contribution and this enabled him, in 2016/17, to arrange for additional funding to be allocated to DHPs.

The submission of forms and local authority certificates, providing details of DHP expenditure to the Government, is timely and meets the expectations of external regulations.

Benefit Services have acknowledged the inherent associated risk and mitigating controls relating to DHPs and has captured this using the corporate system for risk recording (Excelsis).

Stroud District Council's DHP policy and guidance meets the expectations of external regulations. In addition, overall the process that Benefit Services follow for administering DHPs meets the requirements of external regulations and internal policy.

The DWP guidance manual however suggests that as best practice a second member of staff could check DHP awards to ensure consistency of decision making among Officers; this does not currently happen; and there are no controls in place to prevent a DHP being awarded or declined to a claimant an Officer may know.

Internal Audit sampled 15 DHP claims that had been approved and five DHP claims that had been declined, for the period 1st April 2017 to 30th September 2017, and found that the decisions were fair and consistent.

The CIVICA module that will enable regular automated DHPs for Universal Credit claimants to be processed has not been implemented by ICT due to connectivity issues. A manual solution has been developed by Benefit Services to ensure that Universal Credit DHP claimants are fully supported.

Conclusions

Internal Audit conclude that it is evident that there is a control framework in place for the award and monitoring of DHPs, in compliance with internal policy and external regulations; however the framework could be improved by:

- Strengthening the administration of DHPs by documenting the decision making and award process, ensuring consistency of decision making;
- Introducing an 'Officer Declaration' statement to further mitigate the risk of any potential allegations of suspected irregularities through collusion or misuse of funding; and

- Implementing the CIVICA module to enable regular DHPs for Universal Credit claimants to be processed.

Internal Audit has made three medium priority recommendations to support Benefit Services in further strengthening the current control framework for the award and monitoring of DHPs.

Management Actions

Management have responded positively to the three medium recommendations made.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During 2017/18 to date (1st April 2017 to 31st December 2017) there have been four potential irregularities referred to Internal Audit, all relating to tenancy issues. All four of these cases are now closed, two of which previously been reported to the Audit and Standards Committee. In respect of the other two cases, both pertaining to allegations of subletting; one tenant has been evicted after failing to pay the rent and not engaging with the Council to resolve the situation. The final case has been closed due to allegation not containing sufficient information/evidence to enable the investigation to progress.

Audit, Risk Assurance (ARA) through the Gloucestershire Counter Fraud Unit has recently commissioned a bespoke piece of work on the Stroud District Council (SDC) housing list. The results of this review will be reported at the next Audit and Standards Committee.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections were collected throughout October 2016 and reports have been provided for investigation. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

Work to review the NFI data matches between Revenues (benefit and Council Tax), the Housing System and the Electoral Register has recently been commissioned by Audit, Risk Assurance (ARA) through the Gloucestershire Counter Fraud Unit. This work is ongoing and the high level outcomes of the review will be provided to the Audit and Standards Committee.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the Council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis. As above, the high level outcomes of the review will be provided to the Audit and Standards Committee.