

TITLE OF REPORT: Internal Audit Update

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report provides an update to the Committee on activity undertaken by the Internal Audit and Risk Service.

Background

- 2 The Strategic Director, Corporate Resources is delegated with the authority to maintain an adequate and effective system of internal audit as set out in the Council's Constitution. The terms of reference for the Internal Audit Service are included in the Council's Financial Regulations and the Audit Charter provides a further level of detail in this area.

Governance

- 3 Over the summer, the CIPFA/Solace Joint Working Group consulted on the Delivering Good Governance in Local Government framework. The framework defines the principles that should underpin the governance of local authorities and provides a structure to assist with their local approach to governance. As reported to committee on 5 October 2015, the Council responded to this consultation.
- 4 The Framework is now being drafted to take account of respondents' views and a revised code will be published in April 2016 and will be applicable to the financial year 2016/17.

- 5 The guidance will be based on two overarching principles defining ‘how things should be done’, with five further principles defining ‘what should be done’.

Principles
Acting in the public interest requires a commitment to and effective arrangements for:
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement
In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
D. Determining the interventions necessary to optimise the achievement of the intended outcomes
E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- 6 Once the guidance is published, the Local Code of Governance will be refreshed and aligned to the new principles and reported to a future committee for approval.

Public Sector Internal Audit Standards

- 7 The Public Sector Internal Audit Standards have been in place since April 2013. They are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
- 8 In 2015 the IIA introduced two mandatory elements to the PPF; a Mission and a set of ten Core Principles for the professional practice of internal auditing:
 - *Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*
 - Principles:
 - Demonstrates integrity;
 - Demonstrates competence and due professional care;
 - Is objective and free from undue influence (independent);
 - Aligns with the strategies, objectives and risks of the organisation;
 - Is appropriately positioned and adequately resourced;
 - Demonstrates quality and continuous improvement;
 - Communicates effectively;
 - Provides risk-based assurance;
 - Is insightful, proactive and future-focused; and
 - Promotes organisational improvement.
- 9 The Internal Audit Standards Advisory Board (IASAB) is intending to consult internal audit functions in the public sector to ask whether there are any fundamental reasons why these two new elements should not be part of PSIAS from 1 April this year.
- 10 One important reason for incorporating them is to eliminate the inconsistency for IIA members in the UK public sector, who are now effectively working to two sets of standards. In addition, incorporation will prevent the PSIAS from going out of date.
- 11 The Council's response to the consultation will be the subject of a future committee report.

Progress against Public Sector Internal Audit Standards (PSIAS) Actions

12 Internal Audit were assessed for compliance with the UK Public Sector Internal Audit Standards (PSIAS) by Mazars, the Council's external auditors, during 2014. As reported to the Audit and Standards committee on 26 January 2015, the result of the assessment was positive, with the Internal Audit Service being assessed as substantially compliant. The assessment identified three areas for improvement. The areas identified for improvement and the progress against the actions are shown below:

Findings	Action
Consider presenting the Internal Audit Charter to senior management.	Refresh of charter presented to SMG Services & Performance 28 October 2015
Consider including the Chief Executive in the performance appraisal of the Chief Internal Auditor	To be considered at next Appraisal and Development of Chief Internal Auditor
Action is required to ensure that Internal Audit recommendations are implemented more promptly and accountability increased for non-implementation of recommendations – particularly in schools where performance is significantly below target.	<ul style="list-style-type: none"> • Revised approach reported to SMG Services and Performance 18 March 2015 • Revised approach agreed by Audit & Standards Committee 20 April 2015 • Internal Audit Charter refresh in October 2015 changed management response from “reasonable timescale” to “by agreed date” • Monthly reports are now produced and shared with Business Partners • Performance against the target of 90% has seen a significant improvement. • Performance against “high” and “medium” recommendations is now reported separately. • Additional information to be added to committee reports to show “due date” for those recommendations not yet due

Counter Fraud

- 13 Compliance with Public Sector Internal Audit Standards (PSIAS) outline that the Internal Audit Service must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

Fraud bulletin

- 14 A number of bulletins to raise counter fraud awareness were issued in December 2015 including:

- Members briefing 01/12/15
- Council email news 10/12/15
- Team brief 08/12/15

- 15 Further information is available on the Council's intranet site at <http://council/ict/fraud.html> and the Internal Audit SharePoint site at <http://sharepoint/fmgmt/iass/default.aspx>.

- 16 The Council is a member of the National Anti-fraud Network (NAFN) and receives regular intelligence bulletins from NAFN which are circulated to relevant officers.

CIPFA Fraud and Corruption Tracker

- 17 The CIPFA Counter Fraud Centre carries out an annual survey of fraud and corruption detected in local authorities. Called the CIPFA Fraud and Corruption Tracker (CFaCT), it is similar to the former Protecting the Public Purse survey delivered by the Audit Commission.

- 18 The survey examines:

- Levels of fraud and corruption detected across the public sector in the 2014/15 financial year
- Number of investigations undertaken
- Types of fraud encountered
- Emerging Trends

- 19 The 2015 summary report is attached at Appendix A. There is an option to receive an individual organisation profile to examine how the Council benchmarks against other organisations which will be provided in a future committee report.

CIPFA Counter Fraud and Corruption Toolkit

20 The CIPFA Code of Practice on Counter Fraud and Corruption toolkit is currently being used to ascertain that the Council meets the best practice principles outlined in the Code.

21 The Code of Practice outlines five key areas:

- **Acknowledge responsibility**

The governing body should acknowledge its responsibility for ensuring that risks associated with fraud and corruption are managed effectively across all parts of the organisation.

- **Identify risks**

Fraud risk identification is essential to understand specific exposure to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

- **Develop a strategy**

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibility for action.

- **Provide resources**

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

- **Take action**

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

22 Assessment using the toolkit will enable the Council to:

- Evaluate performance against best practice
- Generate reports and graphs to illustrate performance against the code
- View examples of good practice to help inform assessment
- Record comments and actions for improvement providing a robust evidence base for assessment
- Share and track progress
- An option to benchmark against other authorities
- Support the evidence for the Annual Governance Statement and inform development plans

23 The outcome of the assessment will be the subject of a future committee report and will form part of the evidence base for the production of the Annual Governance Statement for 2015/16. As part of the outcome, the Council's Counter Fraud and Corruption Policy will be reviewed.

National Fraud Initiative (NFI)

- 24 Work continues on the NFI data matching results released in February 2015. Progress will be monitored and reported to the Committee as appropriate.
- 25 The review of the Council Tax Single Person Discount (SPD) has resulted in the discount being removed totalling £269,872 for residents who have responded to the review. Of this £180,418 has been collected. For non-responders, discounts totalling £241,826 have been cancelled of which £126,188 has been collected. In addition, discounts totalling £71,935 have been cancelled in relation to smart referrals. These are when responders have replied stating they are still due to the discount but subsequent checks revealed that the discount is not due. Of this figure £21,858 has been collected.
- 26 In summary, SPD discounts totalling £583,633 have been removed of which £328,464 has been collected.
- 27 Results from other NFI data matches such as Housing Benefit, Payroll and pensions, housing tenancy, blue badges, insurance, creditors and personal budgets will be the subject of a future committee report.

Recommendation

- 28 It is recommended that the Committee note the contents of this report.