Corporate Governance Committee Update

September 2018

Introduction

1. This report provides an update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

2. The report provides an update as at September 2018 on:

   • Internal Audit reports recently issued;

   • Progress on Internal Audit work to date in 2018–19;

   • Progress with counter fraud work;

   • Results of the National Fraud Initiative (NFI) 2016–17 exercise; and

   • Internal Audit performance standards.

Internal Audit reports recently issued

3. The following section provides an overview of recent Internal Audit reports, including the overall Assurance Rating and the number of Risks/Issues raised in the report's action plan.

Definitions of Assurance Rating

Green	High Assurance	Risks and controls well managed and objectives being achieved
Yellow	Medium Assurance	Minor weaknesses in management of risks and/or controls but no risk to achievement of objectives
Amber	Low Assurance	Significant weaknesses in management of risks and/or controls that put achievement of objectives at risk
Red	No Assurance	Fundamental weaknesses in management of risks and/or controls that will lead to failure to achieve objectives

Definitions of Risks/Issues

Green	Low	Advisory issues discussed with managers during the audit and not included in audit reports and action plans
Yellow	Moderate	Operational issues that are containable at service level
Amber	Major	Corporate, strategic and/or cross-service issues potentially requiring wider discussion at SLT and/or CET
Red	Critical	Significant issues to be brought to the attention of SLT, CET, Cabinet Lead Members and Corporate Governance Committee

Catering Services – September 2018

4. Our review focused on the effectiveness of financial controls within non-school and school establishments. We concluded that:

    a. Overall controls in place for income management and stock control arrangements for Café R were adequate. We identified significant weaknesses in a couple of controls, which were addressed at the time of the review.

    b. From the seven schools sampled, there were good controls in place for income security and stock control for the provision of school meals.

5. Schools have different means for recording arrears: some schools use electronic payment systems such as 'ParentPay' and the 'Impact' system, while other schools are still using manual systems. Catering Services has direct access to the 'Impact' system to view arrears levels; however, it relies on schools to submit a weekly catering return to them to obtain a breakdown of arrears at a particular point in time. Sample testing of the catering returns highlighted that not all schools have been completing the arrears information. This makes it difficult to gain an accurate overall arrears figure for school meals. Improvement actions have been identified to address this situation.

6. Set menus are drawn up by Catering Services which are devised to make it easier for schools to order and maintain the appropriate level of stock. We confirmed that stock levels were not excessive which helps to ensure that food waste is kept to a minimum. The schools are completing monthly stock controls sheets, which are sent to Catering Services. Catering Services use the stock control forms as a monitoring tool to ensure the meals served and the food ordered for school meals correspond and that any variances are easily identified. We did, however, identify inconsistencies in the weekly catering forms received from

schools around the level of information being recorded. An improvement action has been identified to resolve the issue.

7. Regular monitoring of free school meals (FSM) is carried out by the Operations and Business Support Team, who compare the uptake against the entitlement in relation to FSM. Catering Services Team use these results to promote FSM update through the schools. The Council partakes in the annual national benchmarking exercise and this shows that the Council's performance compares well overall. The monitoring of the information is currently carried out annually, but the team are considering increasing the frequency from annually to quarterly to improve the monitoring process in place.

8. The Catering Services Managers are part of the Universal Credit Board, which has been proactive in implementing and addressing any potential issues arising from recent changes to legislation e.g. Welfare Reform Act 2012, although the full implications of the changes brought about by the legislation are not yet clear in relation to FSM.

9. Catering Services have a 'Collection of Dinner Money' procedure, and all schools were sent a copy in October 2016. During our review, Catering Services updated the procedure: from September 2018 the charge for school meals will increase from £2.10 per meal to £2.20, and the arrears trigger level for the recovery of school meal arrears will be reduced from £20 to £11 (equating to 5 unpaid meals).

10. Based on the results of our review, the controls in place both at non-school establishments and schools together with the improvements made during the review, we are providing a 'Medium' assurance.

Progress in delivering the Internal Audit Assurance 2018-19

11. The following table shows a summary of Internal Audit's work to date for this year. This table will be added to during the year as more projects commence.

12. Where projects have been completed since 1 April 2018, the table provides assurance ratings and number of issues raised for the completed reviews.

13. The following projects have not yet commenced but are scheduled for the coming months:

- Homelessness

- Revenues and Benefits

- School Governance

- Grants Management

Internal Audit Assurance Plan Areas of Work	2018–19 Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
2018–19 Projects								
Catering	33	33	Complete	Medium	0	0	2	
Risk Management	4	10	Fieldwork					Nearing completion
Business Continuity Management	3	10	Fieldwork					Monitoring development of the Business Continuity Plan
Homelessness	5	30	Scoping					

Internal Audit Assurance Plan Areas of Work	2018-19 Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Housing Rents	48	50	Draft					
AONB Grant Certification	2	2	Complete	N/a				
Welsh Government Grant Certification: • Pupil Deprivation Grant • Education Improvement Grant	12	12	Complete	N/a				
Section 106	22	25	Closing meeting					
Welsh Transport Grant	12	15	Draft					
Single Access Route to Housing (SARTH)	1	10	Scoping					
Revenues and Benefits	4	40	Scoping					
School Governance	1	20	Scoping					
Grants Management	3	20	Fieldwork					
Projects Brought Forward from 2017-18								
Procurement	7	10	Complete	Low	0	1	1	Joint audit with Flintshire County Council of the shared service. Issues are consolidated into two root causes.
Project Management	5	5	Complete	Medium	0	1	1	

Internal Audit Assurance Plan Areas of Work	2018-19 Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
School Transport	24	25	Complete	Medium	0	0	5	
Health & Safety in Schools	9	10	Complete	Low	0	1	4	
Travel & Subsistence	1	1	Complete	Medium	0	1	3	
CCTV Partnership	1	1	Complete	Medium	0	0	3	
IT Procurement of Resources	11	15	Closing meeting					Nearing completion.
ALN & Inclusion / Recoupment & Out of County Placement / Special Education	5	10	Draft					
Pooled Budgets	1	5	Fieldwork					Ongoing
Registrars	14	20	Closing Meeting					
Court of protection	33	40	Fieldwork					Additional work requested.
Fraud & Corruption Work								
National Fraud Initiative	14	40	Ongoing					2016-17 exercise complete. 2018-19 exercise commencing.
Housing Tenancy Fraud	5	20	Scoping					
General fraud enquiries and counter fraud work	32	50	Ongoing					

Internal Audit Assurance Plan Areas of Work	2018–19 Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Follow–up Reviews								
IA project follow-ups	20	30	Ongoing					Includes devising new follow up process
Management of follow-ups	16	20						
Other Areas of Work								
School Fund admin & audits	19	40	In progress					Audit of outstanding school fund certificates due to commence.
Corporate Governance Framework	9	15	2017–18 complete					
Corporate working groups	10	35	In progress					
Consultancy & corporate areas	20	70	In progress					
IA Support & Management								
Team Meetings / 1:1s	32	50						
Management	16	40						
Training & development	5	40						
Total Days	459	869						

Progress with Counter Fraud Work

Referrals 2018/19

Date Referred	Investigation Details	Outcome
Ongoing from 2017/18		
September 2017	Concern raised regarding emptying of property as well as other allegations.	Ongoing.
Referrals from 2018/19		
April 2018	Conflict of interest, employee using their position to gain work for their own company.	Employee dismissed.
April 2018	Potential abuse of the Council's Cycle to Work Scheme	Allegation unproven. Additional controls put in place over the Cycle to Work Scheme.
May 2018	Allegation that external company gaining work through deception and false claims.	Matter referred to Welsh Government for investigation.
May 2018	Allegation of theft involving a school caretaker.	Allegation unproven. Officer dismissed in relation to non-compliance issues.
May 2018	Member of staff stole money from a safe with intention of returning it before it was due to be banked.	Allegation proved. Money recovered and member of resigned.
July 2018	Allegation of money stolen using prepaid cards	Ongoing. Matter referred to North Wales Police for investigation.
July 2018	Allegation that members of staff committing fraud.	Investigation concluded. Nothing proved.
August 2018	Allegation involving a member of staff with relation to illegal trade.	Allegation unproven.

14. In addition to the referrals listed above, counter fraud work carried out during 2018/19 includes:

- Providing advice on counter-fraud to officers on request;

- Co-ordinating the National Fraud Initiative (NFI) data matching exercise. Preparation for the NFI 2018-19 exercise is underway;

- Involvement with the Welsh Chief Auditor's Group to share learning regarding potential vulnerabilities and control weaknesses; and

- Investigating the potential for the Council to partake in a pilot all Wales Fraud Hub run by CIPFA (Chartered Institute for Public Finance) and coordinated via the Welsh Chief Auditor's Group.

- Preparing to visit schools that have voluntary school fund certificates which are long overdue.

National Fraud Initiative 2016-17 Results

15. The Auditor General conducts the biennial NFI data-matching exercise in Wales in order to help detect and prevent fraud and overpayments from the public purse. Participants submit their data securely, which is matched against the data of other local authorities and central government departments. This includes data for payroll, housing benefit, creditors, insurance and transport passes. Reports are provided that contain matches that specifically relate to the Council to investigate.

16. The Wales Audit Office reports that:

    "Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £35.4 million of fraud and overpayments in Wales and £1.69 billion across the UK. The NFI 2016-17 resulted in the detection and prevention of overpayments worth £5.4 million in Wales".

17. Within Denbighshire CC, overpayments totalling just over £32k have been identified and are being recovered, with some investigations still in progress (see table below showing a summary of the results). Notable results include:

    a. 23 Housing benefit errors totalling £17,663, which are in the process of being recovered. Errors were mainly due to the customer not informing us of a change of circumstance. The figures do not include the potential frauds that were referred to the Department of Work and Pensions Single Fraud Investigation Service (SFIS).

    b. As the Denbighshire Housing waiting list moved over to the Single Access Route to Housing (SARTH), which is hosted by Flintshire County Council in April 2017 the data on the NFI data set was considered no longer relevant. It was agreed to wait until the next exercise which is imminent.

    c. . Accounts Payable use data matching software to prevent duplicate payments being made. Our annual audit of financial systems reviews the controls in place to prevent duplicate payments and we plan to review a sample of these creditor matches as part of our upcoming review due in Quarter 3. The increase in Creditor matches in 2016/17 (10,073) compared to the 2014/15 exercise (1,039) can be attributed to additional reports being provided for the 2016/17 exercise to show duplicate matches.

    d. A review of Value Added Tax (VAT) referrals revealed two errors totalling £85. One was due to a refund of training course costs because of non-attendance. The other overpayment was from an invoice for Duty and VAT

for goods into the country from a freight company: the VAT should not have been claimed prior to receipt of a C79 form from HMRC.

e. There is a large volume of Council Tax matches to be reviewed and staff are making progress with the matches which were released in December 2017. At the time of writing this report, 22 frauds and eight errors totalling £10,735 have been identified involving mainly incorrect claiming of Single Person Discount. These are being recovered by amending the council tax liability for the property.

f. The new Council Tax Reduction Scheme report produced 1,015 matches, 70 were investigated, and 2 errors were found totalling £3,302. These are in the process of being recovered through the Council Tax billing system. .

g. Welsh Government is now performing the checks on the concessionary travel pass matches; consequently, none of the matches were released to individual local authorities.

18. While a considerable resource is required for investigating the matches, 22 fraudulent activities have been identified, together with other errors. A total of £31,784 is in the process of being recovered. While this is a reduction in the actual number of fraudulent activities identified compared with previous years, there has been an increase in the average value per case. The number of errors identified has reduced considerably from 83 in the previous exercise to 35 currently. This can largely be attributed to the transfer of Housing Benefit Compliance Team to the DWP Single Fraud Investigation Services who investigate potential fraudulent matches the Council refers to them. In addition, several investigations are showing as 'in progress', so further errors and frauds may be identified once these are concluded.

19. The NFI exercise also assists with identifying errors with data held in the Council's systems and provides an opportunity to put controls in place to prevent them happening again.

Detailed results from NFI 2016-17 as at 14 August 2018.

Referral Types	Total NFI Referrals	Recommended NFI Referrals	Tested	Investigation Results	Estimated Savings £
Housing benefit	577	34	192	23 errors 2 in progress	17,663
Payroll	256	51	67	0	0
Companies House*	80	46	45	0	0
Housing tenants	95	26	69	2 in progress	0
Waiting list*	325	314	94	0	0
Right to buy	3	3	3	0	0
Blue badge	172	115	169	3 in progress	0
Creditors	10,073	7,313	0	0	0
VAT	25	9	22	2 errors	85
Private residential care homes	22	16	22	0	0
Concessionary travel pass	0	0	0	0	0
Insurance claims	5	1	5	0	0
Market traders	0	0	0	0	0
Personal budgets	6	3	6	0	0
Resident parking permit	0	0	0	0	0
Council tax single person discount	1,834	1,834	682	20 frauds 4 errors 332 in progress	9,771
Council tax to other datasets*	7,075	7,075	85	1 error 36 in progress	0
Council tax rising 18s	120	120	17	2 frauds 3 errors 32 in progress	964
Council tax reduction scheme	1,015	36	70	2 errors	3,302
Totals	21,683	16,996	1,548	22 frauds 35 errors 407 in progress	31,784

Internal Audit performance standards

20. Internal Audit measures its performance in two key areas:

- Follow-up audit work – Two measures to ensure that Internal Audit carries out its follow-up work promptly and that services implement agreed improvement actions.

- Customer Standards – A range of indicators to ensure that Internal Audit delivers a good service to its customers.

21. The table below shows Internal Audit's performance to date for 2018/19.

Customer Service Standard	Target	Current Performance
Internal Audit will discuss, agree and send services the Internal Audit Project Scoping Document before it commences work.	100%	100%
At the conclusion of its work, Internal Audit will hold a closing meeting with all relevant people to discuss the outcome of its work, and then send services a draft report as soon as possible after that meeting.	Avg. Days (less than 10)	5
Internal Audit will issue a final audit report as soon as possible after agreeing the report and its action plan with services.	Avg. Days (less than 5)	1

Follow Up Action Plans & Service Improvement	Target	Current Performance
Using performance management system (Verto), Internal Audit will monitor and report on the % of agreed improvement actions that have been implemented by services to show that Internal Audit's service is effective in helping to deliver improvement.	75%	73%*

* The new follow up reporting process has been operational for 5 months and is bedding in well. Services are responsible for updating progress themselves and Internal Audit will carry out spot check to confirm accuracy.