Audit Committee
27 January 2020

INTERNAL AUDIT PROGRESS REPORT – JANUARY 2020

1   Purpose

1.1   To receive the Internal Audit Progress Report of activity undertaken since April 2019.

2   Recommendations

2.1   The committee is recommended to note the progress report.

3   Supporting Information

3.1   This report provides an update on the progress made against the 2019/20 Internal Audit Plan and includes information on:

- Internal audit reviews completed and in progress
- Changes to the 2019/20 internal audit plan
- Implementation of agreed audit actions

3.2   The Committee requested that all internal audit reports are presented in full. These are included in Appendix 3.

4.   Reasons for Recommendations

4.1   Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the Council.

5.   Resource Implications

5.1   There are no resource implications to report.

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Background papers: None

Internal Audit

Progress Report

January 2020

Contents

1. Activity and progress

The 2019/20 internal audit plan was approved by the Audit Committee in July 2019. A summary of the plan is included in Appendix 2. We monitor progress against the plan during the year and advise the Audit Committee of any changes.

Final reports issued since the previous Committee meeting

Name of review	Risk rating*	Date of report	No of findings *			
			🔴 Critical	🟠 High	🟡 Medium	🟢 Low
Council Tax and Business Rates	Low	Jan 20	-	-	1	1
Taxi Licensing	Medium	Jan 20	-	-	2	1
HR Management	Low	Jan 20	-	-	1	2
Corporate Fraud	n/a	Jan 20	-	-	-	-

* See Appendix 1 for the basis for classifying internal audit findings and reports.

The full reports are attached in Appendix 3 and summarised below:

Council Tax and Business Rates

This report is classified as low risk; we identified one medium and one low risk finding. The purpose of the review was to assess the control design and operating effectiveness with regards to AVDC's discount arrangements, refunds and recovery processes for Council Tax and Business Rates.

We tested a sample of ten Council Tax single person discounts and ten Business Rates accounts with discounts or exemptions. This demonstrated that the Council applied these according to policy, and only after receiving all required documentary evidence. There are also procedures in place to ensure that all discounts and exemptions are reviewed. However, there is still a level of risk in this area, as no checks were documented to demonstrate that the work of the contractor who performed the full single person discount review had been reviewed by the team.

The Council recently updated the refund process as a result of an increasing number of frauds involving refunds across Local Authorities. Our testing identified that this process was not yet being consistently applied.

Our review also assessed the robustness of the interfacing between Tech1 and Northgate systems. As has previously been reported in the 2018/19 General Ledger audit, there had been issues in the file upload resulting in Northgate accounts holding inaccurate data on account balances. Over the last 18 months, there has been a large scale data exchange

project to update this transfer process. The previous method used Unix scripts and Repliweb software to transfer data from Tech1 to Northgate. The new method will use OptiFLOW cloud-based software instead. There are two remaining files using Unix scripts which will be decommissioned by the end of January 2020 which should resolve the previous issue.

Our findings are summarised as follows:

- There were instances of refunds being processed via cheque despite original payments being made by batch BACS and bank details being taken via the phone. These actions are not in line with the Council's new policy. (Medium).

- The Council contracted a third-party company to undertake a review of the Council's active cases with a single person discount granted, however did not document the action that was taken to gain assurance over the accuracy of the review (Low)

Good Practice Noted

A number of areas of good practice were noted:

- Supporting documentation had been provided and reviewed before the relevant Council Tax or Business Rates discount or exemption had been granted

- A review had been undertaken of Business Rates accounts with exemptions within the quarterly on-going inspections

- Sufficient, timely and appropriate recovery action had been undertaken for a sample of Council Tax and Business Rates accounts in arrears, in line with the Council's Corporate Debt Management Policy

- A sample of debts had been written-off after sufficient recovery action had been attempted, with the reasoning for write-off being in-line with Council guidelines and authorisation within approval limits

- In order to combat the recent cash posting failings between Northgate and Tech1, daily reconciliations are completed between the two systems by a Finance Officer. The data transfer failure will be rectified through the use of a different software. The initial planned completion date of November 2019 has been postponed to the end of January 2020

- Monthly reconciliations are completed between Tech1 and Northgate. These are reviewed and approved by an independent officer.

Taxi Licensing

This report is classified as medium risk and we identified two medium and one low risk findings.

We tested a sample of 20 new licence applications and 20 renewed licences. We found that documentary evidence is being acquired and uploaded to Salesforce prior to a licence being issued. However, we identified four instances where vehicle licences should have been subsequently suspended due to grace periods for secondary checks being missed.

Our review included the assessment of Salesforce usability and capability. There has been significant improvement since the previous audit which assessed the Council's old Uniform system, with all previously identified issues having now been resolved. However there are still control design gaps.

The audit also noted the manner in which management information and Freedom of Information requests are processed. If input data is not complete, accurate and timely, then the resulting output is unreliable. We observed this through our sample testing as application statuses were not accurately updated.

Our findings are summarised as follows:

- When processing applications within Salesforce, there is a lack of monitoring of vehicle licences that should be suspended. Circumstances where this should have happened include an overdue second enhanced vehicle check and incorrect log books. There is also scope for system improvement for operator licence applications. (Medium)

- Application statuses within Salesforce are not being updated to 'complete' when a licence has been issued. Therefore, there is a lack of completeness when this data feeds into management information reports. There is also inconsistency in raising report requests, and the manner in which finalised reports are saved. (Medium)

- Within the new complaints 'triage' process, Salesforce does not easily allow the monitoring of cases (Low)

Good Practice Noted

A number of areas of good practice were noted:

- For all four operator licence applications tested, there was adequate evidence for all requirements, including a DBS check, right to work and a site visit

- For all 16 vehicle licence applications tested, there was evidence of a valid insurance certificate and successful MOT test before licences were issued

- Following the previous audit, enhanced controls around an applicant's right to work have been implemented. The Licencing Team Manager undertakes monthly checks to ensure licence expiry dates are the same as, or prior to, visa expiry dates

- For all ten renewed driver licence applications tested, there was evidence of all required checks being undertaken prior to licence renewal, including safeguarding training and right to work

- There is a proactive annual plan of enforcement checks to ensure drivers are not continuing to operate with an expired licence. These checks include walkabouts of taxis and working alongside the police and other local authorities to share information about non-compliance

- The Taxi Licensing Team have implemented a new complaints process, which incorporates a rating system to ensure all complaints are managed within acceptable timeframes

- Through the use of live reports held on Salesforce, management information is regularly produced and monitored.

HR Management

This report is classified as low risk; we identified one medium and 2 low risk findings.

AVDC's HR Management team are responsible for ensuring basic and enhanced DBS checks are completed and supporting evidence is maintained for employees who require DBS confirmation, in line with their role profile. HR also conduct right to work checks and retain supporting evidence within the HR management system. We noted that, whilst role profiles include the requirements for DBS, there is no central register of all roles that require DBS checks.

As at November 2019, there were 95 contractors/agency staff under a contractual arrangement with the Council. HR are required to check the IR35 status regularly for each contractor/consultant (for staff on agency contracts this is covered by the employment agency). We noted that improvements are required to centrally record, monitor and review the IR35 status of consultants.

In addition, we noted that staff data on the central training record reports were incomplete and HR did not systematically review the compliance of mandatory safeguarding and data protection training. As a result action was not taken to address any outstanding training.

Our findings are summarised as follows:

- There is not a central list of all roles that require DBS checks against which compliance can be monitored. Our sample testing of 15 staff members identified one case where the role required an enhanced DBS check but it had not been done (Medium)

- There is no tool to centrally monitor IR35 status and record key information such as, date of IR35 check, result, date for review. In our sample of 10, we noted that status checks had been performed and evidence retained (Low)

- In relation to monitoring the completion of mandatory Safeguarding training, of the sample of 15 staff members tested, we noted 2 instances where staff were not included on the monitoring report. We also noted that training was shown as "in-progress" or "not started", but there was no evidence that this had been followed up (Low)

- In relation to monitoring completion of Data Protection training, HR confirmed that there has been a lack of resource to perform active monitoring of Data Protection training completion and no reports have been run since February 2019, when 100% of staff completed the mandatory elearning. It is however part of the mandatory induction process, signed off by line managers (Low)

Good Practice Noted

A number of areas of good practice were noted:

- HR Management maintain a comprehensive on-boarding form for all new joiners and retain supporting evidence within the HR management system

- The Council maintained clear DBS policy guidance. We reviewed a sample of 15 staff members and their corresponding role profiles and noted that each role profile clearly stated whether a DBS check was required and the type of check required

- All role profiles clearly determined whether Level 1,2,3,4 safeguarding training is required to be completed as part of an employee's role

- Our sample testing of 15 staff members noted that supporting evidence for the right to work in the UK was clearly evidenced for all cases reviewed

- Evidence is retained of IR35 assessments and outcomes

Corporate Fraud

A Fraud Risk Assessment was undertaken to identify any areas of fraud, corruption and bribery risks and if necessary prioritise actions to address them. The Fraud Risk Assessment did not identify any 'urgent' priority risks. Overall the results of the assessment indicate that there is an established control environment designed to mitigate the risk of fraud occurring. Officers had good awareness of the fraud risks and internal controls in their area.

Two 'important' priorities have been identified. These relate to training and guidance being provided to relevant staff, and the inherent risk of fraud occurring prior to the transition to the new unitary Buckinghamshire Council in April 2020. One action has been raised to address this risk.

In any organisation, including ones that are going through significant change, a risk of collusion will always remain where internal controls are bypassed by two or more employees. This is often enhanced due to structural changes creating resourcing gaps, meaning there may no longer be a segregation of duties, and providing an opportunity for existing controls to be bypassed. This risk is more likely to materialise during a period of change due to 'disgruntled employees' who may be provided with a motivation to commit fraud, as well as the opportunity presented by these gaps in the control framework. With a number of officers, particularly at a senior level, vacating posts, and not being replaced, this may have an impact on the control environment and the ability to ensure sufficient coverage of authorisation and an adequate segregation of duties.

The controls currently in place at AVDC, including independent checks on changes to standing data, such as the creditors system, and timely and effective budgetary control will continue to remain as compensating controls in these instances providing there is sufficient independence in these areas. In the lead up to vesting day, some this risk will be further

mitigated through increased oversight from the new Buckinghamshire Council Corporate Management Team.

Summary of changes to the 2019/20 internal audit plan

To remain relevant, the annual internal audit plan should be flexible to respond to emerging or changing risks. With budget constraints, there is also a need to ensure prioritisation is given to work which will achieve the greatest value to the organisation.

In December 2019 an emerging risk was identified in the area of Housing and Homelessness Prevention. No audit had been performed in this area since the introduction of the Homelessness Reduction Act and the current Homelessness Strategy (approved December 2018). It was therefore considered to be a priority for internal audit review.

The review commenced in January 2020 and will provide assurance over the design and effectiveness of controls currently in place around the housing application process. The review will consider whether AVDC is acting in accordance with the Act in terms of acceptance of prevention and/or relief duty, discharging or closure of cases, case management, record keeping, performance monitoring and the escalation of potential safeguarding concerns.

The audit of s106 Agreements, which started in 2018/19 will not be concluded. Work performed by BDO internal auditors in 2018/19 has been reviewed and this is no longer considered to be a priority area for focus.

A summary of the audit plan and any changes is set out in Appendix 2.

2. Implementation of agreed audit actions

We monitor the implementation of actions and recommendations raised by internal audit reviews to ensure that the control weaknesses identified have been satisfactorily addressed. Actions arising from low risk audit findings are followed up by management and reviewed, but not validated, by internal audit.

A full review of all outstanding audit actions, and the risks they were designed to mitigate, has been undertaken. In the context of transition to a unitary authority, this has assessed whether the associated systems, processes and policies will remain post vesting day, and whether or not the level of resource required to complete is proportionate to the risk being addressed.

The results of this exercise is set out in Appendix 4 and summarised as follows:

- 40 actions remain for AVDC to complete. These should all be completed by the end of February and status will be reported to the Audit Committee meeting in March. This does not include new actions arising from the audit reviews reported to the Audit Committee in January

- 12 actions have been completed

- 12 actions have been closed. These are no longer relevant for AVDC to complete, or have been superseded by more recent audit reviews

- 8 actions are to be transferred to Buckinghamshire Council for review as new controls, processes and systems are developed

The status of all remaining audit actions will be reported to the final meeting of the Audit Committee in March 2020.

Appendix 1: Internal audit opinion and classification definitions

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual findings are considered against a number of criteria and given a risk rating based on the following:

Finding rating	Assessment rationale
Critical	A finding that could have a: • *Critical* impact on operational performance; or • *Critical* monetary or financial statement impact [quantify if possible = materiality]; or • *Critical* breach in laws and regulations that could result in material fines or consequences; or • *Critical* impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • *Significant* impact on operational performance; or • *Significant* monetary or financial statement impact [quantify if possible]; or • *Significant* breach in laws and regulations resulting in significant fines and consequences*; or* • *Significant* impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • *Moderate* impact on operational performance; or • *Moderate* monetary or financial statement impact [quantify if possible]; or • *Moderate* breach in laws and regulations resulting in fines and consequences; or • *Moderate* impact on the reputation or brand of the organisation.
Low	A finding that could have a: • *Minor* impact on the organisation's operational performance; or • *Minor* monetary or financial statement impact [quantify if possible]; or • *Minor* breach in laws and regulations with limited consequences; or • *Minor* impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2: Internal audit plan and progress tracker

The 2019/20 Annual Internal Audit Plan was approved by members of the Audit Committee in July 2019.

The plan reflects the changing nature of AVDC's objectives and risks during the period of transition to the new Buckinghamshire Council. Reviews have been identified where they will directly add value to the objectives of achieving an orderly transition, balanced against the desire not to place additional burden on already stretched teams. Contingency days have been built in to allow for additional reviews should the need arise during the period. It is important the plan remains flexible to adapt to changing risks and priorities.

A summary of progress on completion of the plan and changes is reported below.

Review	Description	Status/Comment	Overall Risk Rating
Finance – Fraud Risk Assessment	Focus on fraud risk across council operations and services. The review will identify any areas of risk and make recommendations as appropriate.	Complete	Advisory
People & Culture – HR Management	Review of HR Management processes using "checklist" approach to ensure orderly transition of staff and accurate, complete employment information	Complete	Low
Section 106 Agreements	Conclude and report on the review that started in 2018/19.	Removed – Work performed in 2018/19 has been reviewed and this is no longer considered to be a priority area for focus. Replaced with Housing audit (see below).	-
Council Tax and Business Rates	Controls and processes will continue into Unitary. Review to focus on changes to discount arrangements.	Complete	Low
Digital Contact Team	Review of customer contact processes. Actions identified will feed into the Unitary Customer Workstream	Complete	Low
Taxi Licensing	Focus on processes post implementation of RegServce	Complete	Medium
Pembroke Road Redevelopment	Advisory review of the governance of the programme (Capital Projects and Operations)	In progress. Report to January Audit Committee meeting.	
Follow up of audit actions	Validation that agreed internal audit actions have been implemented.	Ongoing	n/a
Disabled Facilities Grant	Grant compliance requirements	Complete	No issues
Reviews identified as a result of emerging risks:			
Housing - Homelessness	Review design and effectiveness of controls in place around the housing application process	Review started Jan 2020 and will be reported to March Audit Committee	

Appendix 3: Internal audit reports

The Committee requested to see all internal audit reports in full. Those completed since the last meeting are attached below.

1. Council Tax and Business Rates
2. Taxi Licensing
3. HR Management
4. Corporate Fraud

Appendix 4: Review of audit actions