

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	14 November 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 24 October 2018
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Committee (RASC) on progress by, and performance of, the Internal Audit service in the period to 24 October 2018

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted
- (2) that Members suggest ideas for inclusion in the 2019/2020 Internal Audit Plan
- (3) that the Council's responses in relation to the National Fraud Initiative self-appraisal checklist are noted

3. Background

3.1. Findings from internal audit assignments are reported to the Committee throughout the year. The last progress report to the Committee was in September 2018. This reported on work completed in the period 19 May to 29 August 2018. This report covers all work completed in the period 30 August to 24 October 2018. Performance information is also included.

4. Performance

- 4.1. As at 24 October 2018, approximately 75% of the 2018/2019 Audit Plan has been started. The other key performance indicators reflecting quality, on time and within budget for the period to 30 September 2018 are summarised in Appendix One together with explanations. 80% of draft reports have been issued on time and 68% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.
- 4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly, once agreed. 88% of audit assignments were concluded to a signed action plan within four weeks of the issue of a draft report against a target set of 80%.
- 4.3. Members are asked to note performance.

5. Findings

- 5.1. Appendix Two lists all assignments completed in the period 30 August to 24 October 2018 and the key messages, in respect of the following significant assignments completed in this period, have been appended to this report:

- ◆ I612111 Tenancy Fraud (Appendix Three)
- ◆ I613112 Abandoned Properties (Appendix Four)

- 5.2. Members are asked to note findings.

6. Progress against Strategy

- 6.1. The Public Sector Internal Audit Standards (PSIAS) require progress against the audit strategy to be monitored and reported to the Committee as part of regular monitoring reports that are presented at each meeting.
- 6.2. Delivery of the strategy will be evidenced by completion of the 2018/2019 Plan and this will be monitored through the performance indicators regularly reported to the Committee. Any subsequent changes to the Plan will be presented to the Committee which will include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

7. Internal Audit Plan 2019/2020

- 7.1. Work is about to commence in the preparation of the 2019/2020 Internal Audit Plan. Consultation meetings will be convened with Resources and External Audit by the end of the calendar year to discuss ideas and suggestions for inclusion in the Plan. Suggestions are also being sought from the Risk and Audit Scrutiny Committee. These should focus on specific risk areas where there are known control weaknesses.
- 7.2. Once the consultation process has been concluded, the comprehensive list of audit 'ideas' will be risk assessed and an audit plan presented to the Committee for approval that ensures adequate coverage across all risk areas.

8. National Fraud Initiative

- 8.1. The Risk and Audit Scrutiny Committee was advised in September 2018 that preparation for the 2018 National Fraud Initiative (NFI) exercise had started and Internal Audit would continue to co-ordinate this exercise within the Council.
- 8.2. The required privacy notices were published in September 2018 and data in relation to the specified datasets for South Lanarkshire Council were uploaded on 8 October 2018. This information will now be matched against other data sets provided by the range of public bodies participating in the exercise and relevant matches returned to South Lanarkshire Council for investigation. Further reports will be presented to the Risk and Audit Scrutiny Committee detailing the matches returned for investigation and the subsequent outcome of any reviews.
- 8.3. Audit Scotland recommend that public bodies participating in this process, self-appraise their involvement in NFI prior to and during the exercise. A checklist was developed by Audit Scotland to facilitate this self-appraisal exercise, an element of which includes a number of areas where it is recommended that an Audit Committee should seek to gain assurance around the organisation's approach to the NFI exercise. The relevant extract is attached at Appendix Five and includes suggested responses to each of the self-assessment questions.

8.4. Only one action has been identified and Members are asked to note the responses detailed within the self-appraisal checklist.

9. Employee Implications

9.1. There are no employee issues.

10. Financial Implications

10.1. At present, a breakeven position is forecast to the end of the financial year for the Internal Audit section.

11. Other Implications

11.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.

11.2. There are no implications for sustainability in terms of the information contained in this report.

12. Equality Impact Assessment and Consultation Arrangements

12.1. There is no requirement to equality assess the contents of this report.

12.2. Heads of Service are consulted on each and every audit assignment.

Paul Manning

Executive Director Finance and Corporate Resources

24 October 2018

Link(s) to Council Objectives/Ambitions /Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ Internal Audit Plan 2018/2019 – Risk and Audit Scrutiny Forum 21 March 2018
- ◆ Internal Audit Activity as at 18 May 2018 – Risk and Audit Scrutiny Forum 13 June 2018
- ◆ Internal Audit Activity as at 29 August 2018 – Risk and Audit Scrutiny Committee 18 September 2018
- ◆ The National Fraud Initiative 2016 – Risk and Audit Scrutiny Committee 18 September 2018

List of Background Papers

- ◆ Figtree extracts of Action Plans

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Key audit performance indicators as at 30 September 2018
One

Appendix

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	15/22	68%	80%	Most assignments delivered outwith budget were marginally over budget. One assignment related to advice and guidance and participation in an internal working group where more days were required than was originally anticipated.
Draft reports delivered within 6 weeks of file review	8/10	80%	80%	
2018/2019 Audit Plan completed to draft by 31 March 2019	6/58	10%	100%	Approximately 75% of 2018/2019 Audit Plan has been started and plans are in place to deliver this programme of work by 31 March 2019.
Internal Audit recommendations delivered on time	55/62	89%	90%	Updates have been provided in relation to outstanding actions and all of these are being progressed with revised implementation dates between December 2018 and March 2019. Actions will be formally followed up in line with Internal Audit procedures and findings reported to the Risk and Audit Scrutiny Committee in line with standard reporting protocols.
Client to agree findings and actions within 4 weeks of draft issue	7/8	88%	80%	

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
Prior Year Assignments				
I612111	Tenancy Fraud	30/03/2018	01/10/2018	See Appendix Three
I613112	Abandoned Properties	30/03/2018	01/10/2018	See Appendix Four

2018/2019				
Internal Audit – Other Output				
I350067	Governance Statement for 2017/18	13/06/2018	18/09/2018	Attended as required, researched, prepared written advice where necessary, completed actions.

2018/2019				
External Clients				
I918075	SLLC Annual Report 2017/18	20/08/2018	05/09/2018	Reported to SLLC
I931087	SEEMIS Annual Report 2017/18	20/09/2018	20/09/2018	Reported to SEEMIS
I913070	SLLC Facility Audit	20/06/2018	01/10/2018	Reported to SLLC
I933081	SEEMIS Information Security	04/07/2018	01/10/2018	Reported to SEEMIS
I943082	IJB Strategic Planning and Commissioning	23/05/2018	02/10/2018	Reported to IJB

Objective

The objective of this audit was to obtain assurance that Council properties are recorded on both the Rent and the Council Tax systems and confirm that there are no indicators of unauthorised sub-letting or succession of Council properties.

Key Summary

Overall, there is an adequate level of assurance regarding the match between the Council House records and the Council Tax system. Manual review was required to match the extracted data sets due to the differences in syntax and spelling of names and addresses present in both systems. There is a small inherent risk that the absence of consistency across Council systems could undermine the accuracy of the data held. The need for manual review was required given that there is no common referencing key between systems. It was noted that the Client is looking to implement a replacement to the legacy Academy system in the medium term.

The succession of Council House tenancies was also examined and tenancies were identified where a tenant had been flagged as deceased during the annual National Fraud Initiative exercise. There was good assurance that there were no indicators that a tenancy had been fraudulently succeeded, however, due to mismatches, timing differences and the inherent risks relating to consistency of data between systems, manual intervention and checking was required to obtain a level of assurance over the succession process.

The Client was consulted in respect of the mismatches identified and undertook to instruct Area Housing Offices to update tenancy records, where appropriate, for name and/or family composition changes.

Identification of Key Findings

- Manual review was required to obtain an acceptable match between systems.
- There was no evidence of illegal subletting.
- There was no evidence of fraudulent succession of tenancies.
- Established procedures in place to ensure applications for sublets and successions are processed timeously and to mitigate the risk of fraudulent or illegal applications.

Areas for Improvement

- Review and refresh of tenancies records in advance of new system implementation.
- Implementation and utilisation of common references to fit with the wider agenda for data matching and sharing where possible.

Objective

The objective of the audit was to obtain assurance that abandoned properties within the Council are identified timeously and that adequate steps are taken to recover outstanding rents and the cost of repairs to the abandoned properties, where required. There are adequate procedures in place to ensure that the debts of former tenants of abandoned properties are cleared before a further Council property is allocated and there are adequate procedures in place to identify and report where the abandoned property may have been used for illegal activities. All abandonments of secure tenancies are dealt with in accordance with Sections 17, 18, and 19 of the Housing (Scotland) Act 2001. A review was undertaken of the procedures which detail the process and the documentation that is completed in all cases of tenancy abandonment.

Key Summary

It was confirmed that the client has an established process to engage with tenants who have accrued rent arrears in order to mitigate the risk of continued non-payment and ultimately the abandonment of the tenancy. It was confirmed that efforts are made to timeously identify properties and tenancies at risk of abandonment and proactively engage to manage the situation. It is noted that, as well as increasing rent arrears, other indicators are used to identify 'at risk' tenancies, including whistleblowing, from neighbours and a lack of engagement from the tenant.

It was noted that there is a dedicated resource within the Service that works towards the recovery of rent arrears from former tenants. The recovery of accrued rent arrears and other debt can be problematic due to the tenancy having ended due to an abandonment and the personal circumstances of the individuals concerned. The Housing (Scotland) Act 1987 (as amended) sets out the statutory duty of local authorities when dealing with applications from people who are homeless or threatened with homelessness. Previous rent arrears can only be taken into consideration if the applicant is found to have made themselves intentionally homeless, in that they have lost their accommodation because of rent arrears which resulted from deliberate acts or omissions on the part of the applicant. It was confirmed that only a few of the former tenants were invoiced for property repairs and forced entries, and it was noted that these invoices remain unpaid.

It was noted that there were a few administrative gaps in the completeness and attestation of the local documentation in relation to the sampled abandonment cases.

Finally, it was confirmed that, although Housing Officers adopt a common sense approach to their inspections, it is considered that some refresh and expansion of the guidance regarding post abandonment inspections would be beneficial to the overall post abandonment inspection process. It was noted that, within the sample selected, there was no documentation of any suspicious circumstances during the post abandonment inspection of the selected properties.

Actions have been recommended that, if implemented, will address the identified gaps and augment the controls and processes in place.

Identification of Key Findings

- Service is proactive in engaging with tenants with rent arrears.
- Debt collection remains problematic given the lack of former tenant traceability.

Areas for Improvement

- Documentation of abandonments to be fully completed in line with local procedures.
- Guidance to be redrafted/refreshed to assist in the identification of suspicious activities with Council properties.

Good Practice

- The Council ensures that all properties exceed the SQHS standard when let/re-let.
- Total abandonments are less than 1% of total Council tenancies.

Self-Appraisal Checklist

Appendix Five

Part A: For those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
Leadership, commitment and communication			
1. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes. South Lanarkshire Council has participated in NFI exercises since 2004. Support through Corporate Management Team and Risk and Audit Scrutiny Committee evidenced through allocation of employees across Resources to participate in exercise. Employees and Members are made aware of the exercise through intranet and internet notices and Personnel Circulars.	No further action	No further action
2. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes. Included within the Anti-Fraud and Corruption Strategy as a method of Fraud Detection.	No further action	No further action
3. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Yes. Consideration has been given to this in the past and is being re-considered in 2018/19.	Yes, further use of NFI data-matching services to be considered.	Yvonne Douglas, Audit and Compliance Manager – 31 March 2019
4. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Yes. Included in six-monthly Fraud Statistics reports to the Risk and Audit Scrutiny Committee and outcomes where relevant.	No further action	No further action

5. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	All data sets are submitted to allow matches to be carried out and a decision then taken on the proportion of investigations to be undertaken. The target number of investigations agreed is risk-assessed based on the results of previous NFI exercises, the control environment and existing ongoing reviews in the area. Where other fraud detection arrangements are in place these continue and are reviewed in conjunction with NFI data.	No further action	No further action
6. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes. Internal Audit co-ordinate, monitor and report on NFI exercises.	No further action	No further action
7. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes. Internal Audit follow up results to establish the reason for the fraud or error and to confirm corrective action has been taken where required. Internal Audit also consider whether a review in this area is required and identify high risks areas for inclusion within the annual Internal Audit Plan.	No further action	No further action
8. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	Yes. Reports on NFI outcomes and fraud statistics are presented to the Risk and Audit Scrutiny Committee. Reports to this Committee are public documents.	No further action	No further action