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To: All Members of the Audit Committee

Please ask
for:

Steve Jones (01793 463602)
email:
stevejones@swindon.gov.uk

Dear Councillor,

Audit Committee – Tuesday, 28 June 2016

I refer to the agenda for the above meeting and enclose report(s) in relation to the following Agenda Item(s):

10. Head of Internal Audit Annual Report (Pages 3 - 36)

Yours faithfully,

Steve Jones (01793 463602)
for Director of Law and Democratic Services



Stephen P. Taylor M.A (Oxon), Solicitor
Director of Law and Democratic Services

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Head of Internal Audit Annual Report

Audit Committee

Date: 28th June 2016

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present Members with the Head of Internal Audit's annual report for 2015/16.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework. It is therefore essential that this Committee seek assurance from the Head of Internal Audit regarding the work of the Internal Audit section and his opinion with regard to the Council's overall arrangements for internal control.
- 1.4 It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit delivers an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
 - the opinion
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that the contents of the report be noted.

3. Detail

- 3.1 This annual report provides a summary of the work completed by Swindon Internal Audit Services for 2015/16 and provides the Head of Internal Audit's overall opinion on the Council's system of internal control.
 - 3.2 The aim of Internal Audit is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the
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Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Annual Report

Audit Committee

Date: 28th June 2016

Council's internal control environment, risk management and governance arrangements. This then allows us to provide assurance and support to the:

- Audit Committee in discharging its responsibilities as set out in their terms of reference.
- Council Leader and Chief Executive in their certification of the Annual Governance Statement
- Board Director: Resources (in his role as Chief Finance Officer), in discharging his responsibilities under Section 151 of the Local Government Act
- Board Director: Resources, in his capacity as lead Board Member for risk management
- External Auditor in relation to their audit of the Council's financial statements through our audit work on the Council's main financial systems.

3.3 Summaries of every internal audit finalised during the year have been presented to the Council's Audit Committee.

3.4 The internal control arrangements relating to the Council's main financial systems during 2015/16 were found to be **satisfactory**, this along with the outcomes of other audits completed in the plan result in an overall risk assessment to the Council as being '**moderate**'.

3.5 The Head of Internal Audit's annual report is included as Appendix 1.

4. Alternative Options

4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

5.3 It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit delivers an annual audit opinion.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Annual Report

Audit Committee

Date: 28th June 2016

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.4 None

Links to One Swindon, Strategic Objectives, Plans and Policies

5.5 Effective systems of governance and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

5.6 None

Risk Management

5.7 Not applicable

6. Consultees

6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

6.2 All Heads of Service, Board Directors and Members who have contributed to individual audits during the course of 2015/16.

7. Background Papers

7.1 None

8. Appendices / Background papers

Appendix 1 – Head of Internal Audit's Annual report: 2015/16

9. Key Decision/Decision in Forward Plan

Not Applicable

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**Head of Internal Audit
Annual Report**

**2015 - 2016
DRAFT**

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Executive Summary

This annual report provides a summary of the work completed by Swindon Internal Audit Services for 2015/16 and provides the Head of Internal Audit's overall opinion on the Council's framework of governance, risk management and control. It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit should give this opinion.

Based on our work carried out during the year, my overall opinion is that the Council's framework of governance, risk management and control during 2015/16 are considered to be **satisfactory**, resulting in a '**moderate**' level of risk.

More detail as to how this opinion has been reached is contained later in the report.

Introduction

The aim of Internal Audit is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the internal control environment. This then allows us to provide assurance and support to the:

- Audit Committee in discharging its responsibilities for:
 - (a) Advising on the adequacy and effectiveness of the Council's risk management, internal control and governance processes in accordance with the requirements of The Accounts and Audit Regulations 2015.
 - (b) Supporting the Board Director: Resources with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit.
 - (c) Monitoring the adequacy and effectiveness of the Internal Audit Service and Director's/Heads of Service responsibility for ensuring an adequate control environment.
- Council Leader and Chief Executive in their annual certification of the Annual Governance Statement.
- Director of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- External Auditor in relation to our work on the main financial systems audits.

By ensuring that governance, risk management and internal control arrangements are effective helps the Council to deliver its objectives and priorities.

Statutory Framework

Internal Audit is a statutory requirement for local authorities. There are two principal pieces of legislation that impact upon internal audit in local authorities:

- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- Section 5 of the Accounts and Audit Regulations 2015 (England and Wales) 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 Regulations also require the Council, each year, to conduct a review of the effectiveness of its system of internal control.
- All principal local authorities subject to the Accounts and Audit Regulations 2015 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The CIPFA statement on the Role of the Chief Financial Officer in Local Government states that the Chief Financial Officer must:
 - Ensure an effective internal audit function is resourced and maintained
 - Ensure that the authority has put in place effective arrangements for the internal audit of the control environment
 - Support the authority's internal audit arrangements; and
 - Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively
- The CIPFA statement on the Role of the Head of Internal Audit states that the Head of Internal Audit plays a critical role in delivering the organisation's strategic objectives by:
 - Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
 - Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control

To perform this role the Head of Internal Audit must:

- be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee
- lead and direct an internal audit service that is resourced to be fit for purpose; and
- be professionally qualified and suitably experienced

Definition of Internal Audit

Internal Audit is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (source: Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector).

Independence

The Head of Internal Audit continued to report directly to the Chief Executive during 2015/16 ensuring the section's independence. The Head of Internal Audit reports in his own name to Audit Committee and has unfettered access to the Chair and members of the Committee.

The Head of Internal met regularly with the Board Director: Resources (Section 151 Officer), the Director of Law and Democratic Services (Monitoring Officer) and Chair of Audit Committee during 2015/16.

Annual Governance Statement

The outcome of the audits performed during 2015/16 help to inform Internal Audit's overall opinion on the adequacy of the Council's systems of governance, risk management and internal control which will then feed in to the Council's Annual Governance Statement. Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework.

The Accounts and Audit Regulations 2015 require an Annual Governance Statement to be published, in accordance with proper practices, following the Council's review of its system of internal control. The Annual Governance Statement is required to include the following disclosures:

- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.

- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

Internal Audit coverage includes areas included on the previous year's Annual Governance Statement. Of those areas included on the statement Internal Audit reviews considered that there had been sufficient progress made in order for the following to be removed from the Statement: Isambard Community School; Supporting Vulnerable Children; Licensing: Taxis and Private Hire; Waterside Depot improvement plan and Corporate Buildings: Statutory Compliance.

The following areas should remain on the Statement: Information governance and security; Capacity and capability in the context of large scale change; GCSE Attainment; Financial relationships with wholly owned companies and provision of the IT Service

Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provides a key source of assurance to the committee as to whether controls are operating effectively. Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and processes for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective audit committee helps to convey to staff and to the public the importance Members and Officers attach to governance arrangements and internal control.

The Council has adopted best practice in implementing a stand-alone Audit Committee that is independent of the Executive. Members promote the need for internal control and risk management. The Chief Executive, Board Directors, Heads of Service and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations thereby helping to raise the profile of the work of internal audit.

The Committee has an agreed set of terms of reference that encompass the recommendations/guidance issued by CIPFA and External Audit. These terms of reference set out the following main responsibilities of the Audit Committee:

- (a) The effectiveness of the Council's risk management, internal control and its overall assurance framework.

- (b) The effectiveness of the Council's financial and non-financial performance to the extent that it might impact upon (a) above.
- (c) Reviewing the performance of the Council's Internal Audit section; enhance and promote the profile, status and authority of the internal audit function and to demonstrate its independence.
- (d) Receipt and review of External Audit's reports and liaison with external auditors on significant matters identified.
- (e) Advising upon and/or reviewing the effectiveness of any other matters referred to the Audit Committee by the Executive, the Overview and Scrutiny and Regulatory Committees.
- (f) Ensuring effective scrutiny of treasury management policies and practices including the annual investment strategy.

The Committee also has the responsibility of agreeing the Council's statement of accounts and the Annual Governance Statement.

Members have self-assessed the Audit Committee arrangements against the *Toolkit for Local Authority Audit Committees* produced by the CIPFA Better Governance Forum.

Meetings of the Committee have been well attended and Members have ensured that there has been debate on a range of topics. The Committee has produced an annual report to Council setting out their activity over the past year.

External Audit

The Council's External Auditors, Grant Thornton, examine the work of Internal Audit on an annual basis and seek to place reliance on that work when they come to audit the Council's financial statement of accounts.

External Audit carry out a high level review of Internal Audit's overall arrangements. They also review Internal Audit's work on the Council's key financial systems. In their audit plan, reported to the April 2016 meeting of the Audit Committee, they set out their results of their interim visit and stated that *'overall we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit has not identified any weaknesses which impact on our audit approach'*.

Public Sector Internal Audit Standards

The standards the section works to are the Public Sector Internal Audit Standards. These standards set out:

- The definition of internal auditing
- Code of ethics
- International standards for the professional practice of internal auditing. These standards cover the following areas:
 - Purpose, authority and responsibility
 - Independence and objectivity
 - Proficiency and due professional care
 - Quality assurance and improvement programme
 - Managing the internal audit activity
 - Nature of work
 - Engagement planning
 - Performing the engagement
 - Communicating results
 - Monitoring progress
 - Communicating the acceptance of risks

The section works closely with the Council's External Auditor to ensure that we can provide the required assurance both as far as coverage and quality of our work.

Internal assessment

The section's Quality Assurance and Improvement Programme sets out how Internal Audit will comply with the requirements of the Public Sector Internal Audit Standards. Areas of improvement identified through the Quality Assurance and Improvement Programme are set out on page 13 of this report

External Assessment

The Public Sector Internal Audit Standards requires that a public sector internal audit provision should have an external assessment to ensure compliance with the Standards at least once every five years. In order to meet this requirement an external review will be undertaken by Bristol City Council in June 2016. The results of this review will be reported back to the Council's Corporate Management Team and Audit Committee.

Internal Audit Coverage

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The Internal Audit plan for 2016/17 was based to a large extent on the Council's corporate risk register. These were complemented by:

- Priorities identified by Board Directors
- Heads of Service key risks
- The requirements of the Board Director: Resources in his role as Section 151 Officer
- External Audit and;
- Those concerns/issues raised by Internal Audit in previous audits and our knowledge of potentially high-risk areas.

The plan was submitted to Corporate Board before being approved by the Council's Audit Committee.

We managed to complete 85% against a target of 90% of the number of audits included in the plan. This coverage included 100% of the main financial system audits that provide the Board Director: Resources with assurance regarding the Council's these key financial systems.

Details of all the internal audit reports issued during 2015/16 are set out in [Appendix 1](#).

Head of Internal Audit's Overall Opinion

It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit should give an opinion regarding the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

The audit opinion on a risk/system is based on both the materiality and impact of the system and the auditor's opinion on the internal control arrangements within the system. The combination of these factors then results in a category of risk to the Council as shown in *Table 1* below:

| | | MATERIALITY AND IMPACT | | |
|----------------|-----------------------------------|------------------------|------------|----------|
| SYSTEM CONTROL | | High | Medium | Low |
| 1 | High standard | Moderate | Minimal | Minimal |
| 2 | Satisfactory | Moderate | Moderate | Minimal |
| 3 | Significant improvements required | Of Concern | Moderate | Moderate |
| 4 | Fundamental weaknesses identified | Significant | Of Concern | Moderate |

Our work in 2015/16 identified that five of the main financial systems (Treasury Management, Council Tax, NNDR, Debtors and Housing Rents) were found to have a high standard of internal control. Another five (Main Accounting, Creditors, Housing Benefits, Payroll and Asset Management) were found to have had a satisfactory level of system control. In the opinion of the auditor all eleven of the main financial systems audited were found to present only a **moderate** risk to the Council.

Therefore, based on our work carried out during the year, my overall opinion is that the Council's overall internal control arrangements during 2015/16 are considered to be **satisfactory**, resulting in a '**moderate**' level of risk.

A number of the other areas audited during 2015/16 did indicate a 'Significant' or 'Of Concern' risk to the Council. However, it should be noted that as the audit plan is risk-based and has been compiled with input from Board Directors and Heads of Service, on areas that they had concern with, it is to be expected that the level of audit opinion for these areas would be lower.

One audit identified a '**significant**' risk to the Council: Corporate Buildings: Statutory Compliance.

Those systems reported during the year where an '**of concern**' risk to the Council was reported were: SWIFT: System control and integrity, Isambard Community School, ICT Security Governance, Taxi and Private Hire Licensing, Stores: Equipment Management, Pot Hole Strategy, Complaints procedure, Taxi income reconciliation, Housing Voids; ID Badges and Contract Management: Housing Capital Programme.

The key recommendations relating to these systems have been reported to Audit Committee and full reports, with agreed action plans, have been reported to the relevant Board Director/Head of Service.

Internal Audit – Successes

In addition to achieving 100% of the fieldwork on the main financial systems as required by External Audit, some of our other successes during 2015/16 include:

- External Audit assessment – External Audit have been able to place reliance on our work and assessed our work as complying with the required standards.
- 89.47% of the feedback from our customers rated the audits as GOOD or EXCELLENT, the remaining audits were ranked between good and average, none were rated as 'poor'.
- Internal Audit was successful in establishing a Corporate Fraud team after obtaining funding from the DCLG for Counter Fraud work during 2014/15. The funding was used to appoint a Corporate Fraud Investigator and a Corporate Fraud Intelligence Officer on fixed term contracts to set up a Corporate Fraud team. A full report on the work of the Corporate Fraud Team is set out in [Appendix 2](#). The funding from the DCLG only ran until 31st March 2016 however, due to the success of the team further funding has been gained for 2016/17.
- We continued to provide an excellent internal audit provision at Wiltshire and Swindon Fire Authority as per customer feedback received from the Fire Authority and their External Auditor (KPMG).
- We were successful in obtaining further 'external' work from Public Power Solutions Ltd, Academy schools and the University Technical College.
- We have continued to support and develop our staff (continuing our 'grow your own' strategy). One of the Principal Auditors successfully completed her Institute in Risk Management qualification; another passed the ITIL 2011 Foundation examination (IT service management), one of our Senior Auditors is studying for Certified Information Systems Auditor (CISA) and both our new Audit Trainees have started to study for their Practitioner with the Chartered Institute of Internal Auditor (PIIA) examinations.
- The Head of Internal Audit continues to be a Board member on the National Anti-Fraud Network (NAFN).
- Internal Audit's Principal Auditor (ICT) provided significant advice and assistance in order to help the Council prior to the appointment of a Head of ICT. Since the subsequent appointment of a new Head of ICT the Principal Auditor has worked closely with him regarding ICT risks, controls, policies etc.

- Internal Audit continues to develop IDEA to allow the data matching of Council data. Duplicate payments of over £10,844 were found during 2015/16. Internal Audit will continue to run this data match on a regular basis. Data matching with other key internal data sets will also be carried out during 2016/17.

Internal Audit – Whistleblowing and Investigations

The Internal Audit section continues to support the Council's Whistleblowing process in liaison with the Director of Law and Democratic Services. The section received five new whistleblowing cases during the year and a further three new investigations were also started 2015/16. In total thirteen investigations were completed three of which ended in successful prosecutions in Court.

Reports are issued to Standards Committee on the progress of the Whistleblowing investigations. The investigations can be both time consuming, and lengthy. A fraud/Investigation update is presented to Audit Committee on an annual basis.

Internal Audit – Other Activity

- Annual Governance Statement** – the Head of Internal Audit has been tasked by Corporate Management Team to co-ordinate the compilation of the Council's Annual Governance Statement including the co-ordination of the Group Directors/Head of Services' assurance questionnaires.
- Anti-Fraud** - the Internal Audit section continues to assist in promoting an anti-fraud and corruption culture. We have issued Fraud Bulletins to all staff highlighting recent scams and frauds that had occurred in both the public and private sectors. In conjunction with the Director of Law and Democratic Services and the Head of Children, Families and Community Health, we have reviewed the Council's anti-fraud and corruption strategy and whistleblowing policy.
- National Fraud Initiative** - The Council, via Internal Audit, has participated in the Cabinet Office's National Fraud Initiative as part of the statutory external audit requirements. The National Fraud Initiative brings together data from across the public sector including local authorities, NHS, the Home Office/other government departments and other agencies to detect "matches" i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

For the latest exercise, data sets in respect of the following sources were nationally obtained and matched:

Housing Benefit; Housing Tenancy; Student Loans; Payroll; Illegal immigrants; Individuals with no recourse to public funds; Pensions; Licence holders - Taxi Drivers, Market Traders and Alcohol; Blue Badge Records; Deceased persons; Concessionary fares; Residential Care; Insurance and Creditor Records.

- **Raising Fraud Awareness** – in addition to the Fraud Bulletins regular use of the Council's Core Brief has also been used to raise staff awareness of the Council's anti-fraud and corruption strategy and whistleblowing policy.

Internal Audit staff continue to make use of fraud awareness groups, both nationally and regionally, to maintain awareness of frauds occurring that could affect the Council.

- **Fraud Benchmarking and Fraud Statistics** – The CIPFA Fraud survey was completed and submitted in May 2015. The survey was used as an additional source of information to inform Internal Audit's proactive fraud work.
- **Advice and consultancy** – members of Internal Audit continue to provide advice both during the course of audits and responding to ad-hoc queries.
- **Attendance at and contribution to, working groups etc.** – members of the section continue to contribute to the development of the Council and ensuring that we are up-to-date with best practice by attending the following committees, working groups etc.
 - Audit Committee
 - Standards Committee
 - Resources Senior Management Team (as a guest)
 - West of England Chief Internal Auditors Group and its sub groups – Children Services, Adult Services, Contract Audit, I.T. Audit and Fraud
 - Western Unitaries Audit Group
 - National Anti-Fraud Network (Head of Internal Audit represents the West of England on the National Board)
 - Risk Management ALARM Group

Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards requires that the Head of Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The section has a '*Performance Management and Quality Assurance Framework*' that has been presented to, and approved by, the Audit Committee.

- (a) **Performance Management** – the section's key performance indicators are set out in the section below. Two of the three key indicators have been met or exceeded. The coverage of the audit plan was slightly below target (85% against a target of 90%). This was due in the main to the time required to embed four new members of staff in to the section and the complexity of a number of the fraud cases investigated.

The section had three key performance indicators in 2015/16:

- **The percentage of audits completed against the number identified in the agreed Audit Plan.**

Justification for this performance indicator: to ensure that Internal Audit provides sufficient coverage to ensure that the requirements of the Council's section 151 Officer and External Audit are met and that Internal Audit can give sufficient assurance to the Audit Committee regarding the Council's systems of internal control and the completion of the Annual Governance Statement.

Target: 90%

Achievement: 85%

Therefore target not achieved in 2015/16

The Audit Committee, Chief Executive and Board Director: Resources were kept informed of progress against the audit plan throughout the year. The main reasons for not achieving the target figure were:

- The number and complexity of the fraud investigations
- Embedding four new members of staff in to the section
- Establishing a Corporate Fraud team

- **The percentage of audits of the Council's main financial systems completed against the number identified in the agreed Audit Plan.**

Justification for this performance indicator: to ensure that Internal Audit provides sufficient coverage and assurance to the Council's Section 151 Officer that appropriate External Auditors regarding the systems of controls in place in relation to the main financial systems.

Target: 100%

Achievement: 100%

Therefore target achieved in 2015/16

- **85% of feedback forms rated the audit as GOOD or EXCELLENT.**

Justification for this performance indicator: to ensure that Internal Audit provides sufficient the level of service required by its clients.

Target: 85%

Achievement: 89.47% (the other 10.53% rated the service as good/average)

Therefore target exceeded in 2015/16

- (b) **Quality Assurance** – The Performance Management and Quality Assurance Framework aims to provide assurance to the various stakeholders of Internal Audit that it performs its work in accordance with its Charter; operates in an effective and efficient manner and is perceived by its stakeholders as adding value.

The results of the quality assurance programme show that Internal Audit generally meets the requirements of the Public Sector Internal Audit Standards but recognised that improvements were required in the following areas: issue of reports on a timely basis; prioritisation of investigations; completion of high priority audits; improvement in the follow-up process.

Acknowledgement

I would like to take this opportunity to thank all Members and Officers for their help in putting the audit plans together and for the courtesy shown to members of the audit section during the course of our reviews.

We do try and make the audit process as constructive and positive as possible by working with Members and Officers. I would welcome any feedback you may have on our performance both on individual audits (where customer feedback forms are provided), or generally. We are always looking to improve our service.

Many thanks,

Nick Hobbs
Head of Internal Audit

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INTERNAL AUDIT – SUMMARY OF 2015/16 INTERNAL AUDITS

| SYSTEM CONTROL | MATERIALITY AND IMPACT | | |
|-----------------------------------|---|---|--|
| | High | Medium | Low |
| High Standard | <ul style="list-style-type: none">NNDRCouncil TaxDebtorsHousing RentsTreasury Management <div>[Moderate risk]</div> | <ul style="list-style-type: none">Improvement Grants <div>[Minimal risk]</div> | <div>[Minimal risk]</div> |
| Satisfactory | <ul style="list-style-type: none">Adult Social Care: Financial AssessmentsCreditorsHousing Benefits – claims processing and overpaymentsPayrollMain accountingAsset Management <div>[Moderate risk]</div> | <ul style="list-style-type: none">Funding High Needs StudentsHealth Protection Assurance FrameworkCommunity Equipment Stores (follow-up)Grange Federation School <div>[Moderate risk]</div> | <ul style="list-style-type: none">Money Laundering <div>[Minimal risk]</div> |
| Significant improvements required | <ul style="list-style-type: none">Isambard Community SchoolSWIFT: System control and integrityICT Security GovernanceTaxi and Private Hire LicensingStores: Equipment ManagementPot Hole StrategyComplaints procedureTaxi income reconciliation (f/up)Contract management: Housing Capital programme <div>[Of Concern risk]</div> | <ul style="list-style-type: none">Section 17 spendSEN Home to school transportSchools Information GovernanceEmergency Assistance FundYouth Engagement Workers and EET provisionConcessionary TravelLydiard ParkCare Leaver paymentsStarters and LeaversAppointee/DeputyshipsCrowds Hill SchoolParking AdministrationHousing Voids (f/up) <div>[Moderate risk]</div> | <div>[Moderate risk]</div> |
| Fundamental weaknesses | <ul style="list-style-type: none">Corporate Buildings: Statutory Compliance <div>[Significant risk]</div> | <ul style="list-style-type: none">Housing VoidsID Badges <div>[Of Concern risk]</div> | <div>[Moderate risk]</div> |

Non-opinion audits:

- Whistleblowing Policy review
 - Trade Waste
 - Brindley Close
 - Garage Strategy
 - Risk Management
- Annual Governance Statement
 - Post Room logistics
 - Shaw Farm landfill
 - Voluntary Sector (MIND)
 - Overtime
- Duplicate payments
 - Allotments
 - Annual Governance Statement f/up (GCSE Attainment and Ofsted)
 - Honorariums
- Review of Contract Standing Orders
 - Performance Management
 - Use of Community Assets
- NNDR RV inspections
 - Bruce Street Bridges
 - Health & Wellbeing Governance
 - MIND Recovery plan

Grants:

- Public Health Assurance Statement
- Troubled Families
- NNDR3 claim
- Carbon Reduction Commitment
- Pinch Point Funding

ICT Consultancy/Guidance:

- Information Governance and Security policy
 - IT Health Check
 - OPEN system control & integrity
- Information Risk policy
 - LAN desk VPN Security
 - Oracle system control and integrity
- PSN Code of Connection
 - ICS Network
 - Northgate system control and integrity
- Key ICT Security issues
 - Hillmead
- PSN Compliance and risk issues
 - Security Standards
 - iTrent system control and integrity

Investigations: 13 Investigations including Whistleblowing (6);

Other: Public Power Solutions Ltd: review of SAGE and RDF follow-up; St. Joseph’s Catholic College – assurance visits; Wiltshire Fire Authority audits (8)

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Anti-Fraud Work

Update

2015 - 2016

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Introduction

CIPFA's Counter Fraud Centre has recently published the local government counter fraud and corruption strategy '*Fighting Fraud and Corruption Locally 2016-2019*'. The strategy aims to '*help local authorities to develop and maintain a culture where fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively to prevent and detect fraud loss, bring fraudsters to account more quickly and efficiently and improve recovery of losses*'.

The document acknowledges that local authorities face a significant fraud challenge. It is estimated that fraud costs local authorities £2.1bn a year. In addition to the scale of losses there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes.

The purpose of this report is to provide assurance on the effectiveness of the counter fraud work completed across the Council.

This report sets out the work of Internal Audit, the Corporate Fraud Team and the Housing Benefit Fraud Team in relation to both proactive and reactive fraud work carried out during 2015/16. A further report will be brought to Audit Committee setting out to what extent the anti-fraud work carried out in the Council complies with the Fighting Fraud Locally Strategy and will identify areas for improvement.

National Initiatives / Developments

Fighting Fraud and Corruption Locally

As stated above the Fighting Fraud and Corruption Locally (the strategy for local government counter fraud and corruption) has been updated by the CIPFA Counter Fraud Centre. The strategy runs from 2016 - 2019. The strategy is divided into three sections:

1. The Fraud Challenge – this section sets out the scale of fraud losses, the changes to the national and public sector fraud landscape and issues raised by stakeholders.
2. The Strategic Response – describes the response required from local authorities to address the challenges it is facing.
3. Delivery Plan – Sets out the recommendations and the framework for delivery.

A link to the full report is below:

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally> .

The strategy has informed the work plans of both Internal Audit and the Corporate Fraud Team during 2016/17.

The Head of Internal Audit will carry out an assessment against the strategy and accompanying checklists and report findings back to a subsequent Audit Committee meeting.

Audit Commission

The Local Audit and Accountability Act 2014 made it possible for the Audit Commission to close on 31 March 2015. The Audit Commission's counter fraud work covered two specific areas:

1. The National Fraud Initiative – this has been running since 1996. It is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.
2. The Counter Fraud Team – the team undertook annual surveys of local authorities, fraud briefings and produced an annual report, Protecting the Public Purse

Since the closure of the Audit Commission the NFI operations have transferred to the Cabinet Office and the remainder of their counter-fraud functions, including the Protecting the Public Purse series and fraud briefings, have transferred to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Fraud Surveys

Since the closure of the Audit Commission both CIPFA and The European Institute for Combatting Corruption and Fraud (TEICCAFI) have carried out annual fraud surveys of local authorities and produced reports:

- Fraud and Corruption Tracker – CIPFA <http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>
- Protecting the English Public Purse 2015 – TEICCAF1 <http://www.teiccaf.com/protecting-the-english-public-purse-2015/>

Both reports, as well as providing details on levels of reported fraud also provide details of common fraud areas. These include:

- Housing and council tax benefit; council tax discount
- Housing tenancy and right to buy
- Social care
- Insurance
- Procurement
- Economic and voluntary sector
- Abuse of position and internal fraud
- Disabled parking (blue badge) concessions
- Business rates
- Payroll and expenses
- No recourse to public funds

National Crime Agency

The National Crime Agency tackles fraud across the UK and beyond. It operates a number of distinctive commands, with one, the Economic Crime Command having a specific focus on fraud. The Economic Crime Command works by sharing knowledge and intelligence across the counter fraud community.

National Anti-Fraud Network

The National Anti-Fraud Network (NAFN) provides a range of services to support the work of local authorities. NAFN has a large local authority membership and over 10,000 users. The organisation is widely recognised as a provider of data and intelligence to local authorities. These include on-line access to credit referencing agencies, current vehicle keeper details from the DVLA. NAFN also provides regular bulletins and intelligence alerts on developing threats. The Head of Internal Audit is an Executive Board member of NAFN.

Single Fraud Investigation Service

The previous coalition Government established the Single Fraud Investigation Service (SFIS) in 2013. SFIS has consolidated the benefit/tax credit fraud investigation teams across the Department for Work and Pensions (DWP), local authorities and HM Revenue and Customs with the aim of delivering a single investigative organisation through the DWP's Fraud and Error Service.

Swindon's Housing Benefit fraud team was in the last batch of councils to transfer to DWP in February 2016.

National Fraud Initiative

The Council, via Internal Audit, has again participated in the Audit Commission's National Fraud Initiative (NFI) as part of the statutory external audit requirements. The NFI brings together data from across the public sector including local authorities, NHS, the Home Office/ other government departments and other agencies to detect 'matches' i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

Since its launch in 1996, the NFI is reported to have identified fraud, overpayments and error totally in excess of £1.17billion, nationally.

The Council submitted data for the latest exercise from the following data sets:

- Payroll
- Trade creditors' payment history and Trade creditors' standing data
- Housing
- Housing benefits
- Council tax
- Electoral register
- Private supported care home residents
- Transport passes and permits (including residents' parking, blue badges and concessionary travel)
- Insurance claimants
- Licences - Market trader/operator, Taxi driver and Personal licences to supply alcohol

Local Government Transparency Code 2014

The Local Government Transparency Code 2014 requires councils to publish annually the following information, in relation to fraud, from February 2014:

- Number of occasions they use the Prevention of Social Housing Fraud (Power to require information) (England) Regulations 2014, or similar powers.

- Total number (absolute and full-time equivalent) of employees undertaking investigations and prosecutions of fraud.
- Total number (absolute and full-time equivalent) of professionally accredited counter fraud specialists.
- Total amount spent by the authority on the investigation and prosecution of fraud.
- Total number of fraud cases investigated.

These details have been published on the Council's internet site and will be updated in June 2016 for 2015/16.

Internal Audit

Internal Audit continually reviews its approach to fraud work. Resources have been allocated within the plan to carry out proactive work and a contingency is also included to carry out reactive work such as fraud investigations.

Areas identified within the reports and initiatives mentioned above i.e. housing tenancy, procurement, council tax discounts and housing and council tax benefits, were also reviewed and informed the planning for 2016/17.

The Council's Anti-Fraud and Bribery Strategy is reviewed regularly to ensure that it sets out best practice and complies with relevant legislation. Internal Audit reviewed the Strategy against other relevant Council policies i.e. the Council's Code of Conduct, Disciplinary Policy, Whistleblowing Policy and Fraud Response Plan.

The Internal Audit section is represented on the West of England Chief Internal Auditor's Fraud Sub Group (which consists of all the county and unitary authorities in the West of England and which the Head of Internal Audit is currently Chair). The sub-group identify areas of good practice and exchange experiences on recent frauds within their authorities, as well as having relevant external speakers attending meetings to discuss new and emerging fraud risks.

Internal Audit keep abreast of local and national developments both through the West of England sub-group mentioned above, through regular liaison with other authorities and through the National Anti-Fraud Network (NAFN) of which the Head of Internal Audit is a member of the Executive Board

An on-line fraud awareness module has been made mandatory training for all staff and is available through the Learning Zone.

Internal Audit has also run a number of fraud awareness sessions including ones for school governors, Human Resources and Adult Social Care teams.

The Internal Audit section also produces a Fraud Bulletin which highlights recent frauds that have occurred throughout the country and asks the question 'are our system controls sufficient to prevent these frauds happening in Swindon?' A copy of the latest bulletin is available in the Members Room and is circulated at Audit Committee meetings.

Fraud Alerts are also issued by Internal Audit when they become aware of scams/frauds that need to be alerted to relevant staff i.e. recent fraudulent attempts to change suppliers' bank account details.

Investigations

Internal Audit carries out a number of investigations each year. Investigations can be as a result of audit work, referrals from management or via the Whistleblowing process. All Whistleblowing cases should be referred to the Director of Law and Democratic Services who will, in liaison with the Chair of Standards (if required) and the Head of Internal Audit agree who is the most appropriate to investigate. The outcomes of all Whistleblowing cases are reported to the Standards Committee.

All alleged cases of fraud or irregularity should be referred to the Head of Internal Audit in accordance with the Fraud response plan. Internal Audit will then consider the most appropriate action to take. This may be in consultation with the Board Director Resources and/or the Monitoring Officer. A contingency is included in the Internal Audit plan to allow for internal investigations.

Internal Audit has concluded six whistleblowing and six other investigations during the year. These investigations have resulted in two prosecutions both of which have been well publicised in the local press i.e.

- Car Parking administration – where, following an Internal Audit investigation in liaison with the Police, Lee Halliday (Parking Administration Officer) was dismissed at an internal disciplinary hearing and was subsequently sentenced to a two year custodial sentence having been charged with £41,000 fraud through abuse of position and £25,000 of theft. It is estimated that approximately £100,000 worth of income was lost to the Council through his actions.
- Head teacher – following a parallel Internal Audit and Police investigation Simon Burrell resigned and was subsequently charged with fraud and forgery amounting to £22,000. He pleaded guilty and received a 12 month suspended sentence.
- Other investigations have found significant fraud and irregularity relating to external grants and third party monies.

In all investigations have resulted in four dismissals/resignations and the two prosecutions mentioned above with the value of fraud/irregularities totalling:

- Council funds: £149,211
- External Grants: £294,704
- Third parties: £130,000

These outcomes demonstrate that the Council treats all allegations seriously and will investigate appropriately and will take all appropriate actions regarding holding people to account, prosecuting and where possible recovering monies. The Council takes a zero tolerance approach to fraud.

Data Matching:

Internal Audit has started to develop the matching of data from various Council databases to try and identify fraud and error. Findings from these data matches are being passed to the Corporate Fraud team for investigation.

It is pleasing to report that one of the data matching exercises undertaken, of duplicate payments, has identified only £634 worth payments so far in 2015/16. This compares to over £56,000 identified in previous years. This highlights that control weaknesses identified in the process by internal Audit have been acted upon thereby reducing the number and level of duplicate payments.

The section is also looking to increase their current data matching to identify further potential fraud or error.

Corporate Fraud Team

Internal Audit was successful in bidding for Counter Fraud money from the Department for Communities and Local Government. This funding ran to the end of March 2016 and has been used to set up a Corporate Counter Fraud team. A Corporate Fraud Investigator and a Fraud Investigation Support Officer have been appointed. The Corporate Fraud Team sits within the Internal Audit section and is managed by one of the Principal Auditors.

The team have already developed a close working relationship with Housing and are now included in the vetting process for right to buy applicants. This has already had positive results (see below). The success of the team was such that the Head of Housing Services agreed to fund the two posts for 2016/17.

The team has also made contact with local Housing Associations with a view of working closer together. A Swindon and Wiltshire Housing Fraud Forum has also been set up by the team.

During 2016/17 the team:

- 88 allegations received
- 61 cases closed
- 6 Right to Buy applications stopped (leading to a saving in discount that would have been allowed on the sale of properties of £358,718)

- Council houses recovered with an estimated saving (using a nationally recognised figure of £18,000 per property) of £144,000
- A parking permit fraud (discovered through internal data matching) of £2,825
- A Council Tax fraud of £1,631

Examples of cases of Right to Buy applications being stopped and Housing properties being recovered during the year include:

- Case Ref 4: Right to Buy (RTB) application checks conducted by the Corporate Fraud Team found that prior to the application being made the tenant's brother had submitted a Single Person's Discount (SPD) form and had informed the Council that the tenant had moved out. Enquiries revealed that the tenant had been living in Chippenham since November 2014. The Tenant attended the Council offices where she was interviewed informally. She accepted that she had made a false statement on the RTB application and so this was stopped. The Tenant signed a termination form for the property as she was no longer resident and the property was recovered. Her brother was offered a new one bedroomed property, which he accepted. A warning letter was sent to the tenant regarding her actions.
- Case Ref 13: An anonymous letter was received by the Benefit Fraud Team alleging that the tenant was no longer living at the property and had been living at another Swindon address for the last three months. As there were no benefits in payment Benefit Fraud did not investigate but passed it to the Corporate Fraud Team. Intelligence suggested that the tenant was staying with an ex-partner. Both addresses were receiving SPD. Letters were sent to the partner's address regarding the SPD. Conversation with the partner confirmed that the tenant was resident with him. The Council property was recovered and the partner's SPD was cancelled back to an agreed date of 1/4/15.
- Case Ref 14: The case was referred to the Corporate Fraud Team during a Housing Tenancy team meeting. An application was put forward for succession of a property by the deceased tenant's partner. The individual did not qualify for the succession. Misstatements on applications were found to have been made for housing, benefits and Council Tax Reduction (CTR). This fraudulent act was assisted by the late tenant's daughter. An Interview under caution was conducted with the daughter of the deceased. It was later found that she had assisted with the fraudulent applications her mother made to obtain the property in the first place. The daughter denied all. The case was closed and a warning letter was sent to the daughter following the Interview under caution. The public interest test was taken into consideration. The succession and claims for benefits were stopped and the property recovered into the Council housing stock.
- Case Ref 15: A mutual exchange application was made between a grandmother and granddaughter. This application was stopped following a visit by an Exchange Officer who noted that grandmother's property was empty and not lived in. A second application was made in Feb 2015 and approved. Intelligence gathered found that on 04/11/2014 Adult Social Care was informed that the tenant had moved to her son's address. She had been receiving care from that address since. Given this information, the Corporate Fraud Team had discussions with Housing staff to ascertain whether the mutual exchange could be rescinded, but this was not considered appropriate, given the circumstances. As a result of the information provided by

the Corporate Fraud Team, the tenant was visited at her son's address and she completed a termination form and handed the keys to the property back. Further action was not considered against the grandmother as she is a vulnerable person. Additional details established during the investigation around concerns about her welfare have been forwarded to ASC.

The Focus for 2016/17 will continue on Housing Tenancy fraud but will also look at Council Tax discounts and investigating anomalies raised through data matching and emerging area of fraud risk. As stated above, the DCLG grant funding ran out at the end of 2015/16 and funding has been received via Housing for the current year. However, funding for subsequent years has yet to be secured.

Housing Benefit Fraud Team

The Council's Housing Benefits Fraud Team was one of the last to transfer across to the DWP under the Single Fraud Investigation Service. All three staff members transferred across to the DWP in February 2016. Up until that time they dealt with all Housing Benefit related fraud.

During 2015/16 the team:

- 44 cases of fraud detected
- 21 prosecutions, 10 cautions and 13 other sanctions with a fraud value of:
 - £179,980 Housing Benefits
 - £10,946 Council Tax Benefit
 - £20,697 Council Tax Reduction

Conclusion

This update demonstrates the Council's continued commitment to the prevention and detection of fraud. Any allegations of fraud will be taken seriously and appropriately investigated.

There are actions to be taken during 2016/17 to ensure that both Internal Audit and the Corporate Fraud Team meet best practice including an assessment against the Fighting Fraud Strategy that will be reported back to a future Audit Committee.

Funding for the Corporate Fraud Team beyond 2016/17 needs to be confirmed.

Summary

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|-------------------------------------|---|
| <h2>Internal Audit</h2> | <ul style="list-style-type: none"> • 6 Whistleblowing cases concluded • 6 Internal investigations concluded • 2 Prosecutions (1 x 2 year custodial sentence; 1 x 12mths suspended) • 4 Dismissals / Resignations • Fraud and irregularities: <ul style="list-style-type: none"> ▪ Council funds: £149,211 ▪ External grants: £294,705 ▪ Third parties: £130,000 • £634.10 worth of duplicate payments |
| <h2>Corporate Fraud Team</h2> | <ul style="list-style-type: none"> • 88 allegations received • 61 cases closed • 6 Right to Buy applications stopped (discount saving: £358,718) • 8 Council Houses recovered (estimated savings: £144,000) • Parking permit fraud: £2,825 • Council Tax fraud: £1,631 |
| <h2>Housing Benefit Fraud Team</h2> | <ul style="list-style-type: none"> • 44 cases of fraud detected • 21 prosecutions, 10 cautions and 13 other sanctions • Fraud value <ul style="list-style-type: none"> ▪ Housing Benefit: £179,980 ▪ Council Tax Benefit: £10,946 ▪ Council Tax Reduction: £20,697 |