

## Internal Audit Service progress report on implementation of the internal audit plan for 2016/17

### 1. Introduction

- 1.1. In March 2016 the Audit and Accounts Committee approved an internal audit plan for 2016/17, which was amended in September 2016 to provide more details about some of the areas included in that plan. The work has progressed well and a number of audits are now complete, and all the remaining work has begun. The Audit and Governance Committee's terms of reference require it to consider regular performance reports from the internal audit function relating to the council's services and governance arrangements, and this report provides information to support that task.

### 2. Summary of progress against the plan

- 2.1. Since the last report to the committee, audit work has been completed on a number of areas of financial control, housing management, the town centre redevelopment programme, and use of disabled facilities grant funding. Fieldwork is also complete on the performance monitoring and risk management audits, and draft reports are being prepared for discussion with the management team. Work is ongoing on the remaining financial controls, and work on procurement and decision making and democratic oversight has recently begun.

### 3. Internal audit work completed

- 3.1. A brief summary of the assurance we have provided for each of the audits relating to 2016/17 and completed by the end of February 2017 is provided in the table below.

System	Assurance
<b>Service-specific controls</b>	
Housing management	Substantial
Town centre redevelopment (phase one)	Full
Use of disabled facilities grant funding	Substantial
<b>Common controls</b>	
Council tax	Substantial
General ledger, budget setting and monitoring	Substantial
Housing benefits	Substantial
National non domestic rates	Substantial
Payroll	Substantial
Treasury management	Substantial

- 3.2. The matters arising from each of these audits are set out in the narrative below. The council's financial controls in particular are well established and operate effectively with only minor issues, generally arising around small human errors and lapses in knowledge of procedures.

- 3.3. We have followed up the implementation of actions agreed in prior audits of common controls. However by agreement with management we will not follow up any other agreed actions from earlier years' audits still outstanding at this point. In particular, it is the board of Rossendale Transport Ltd to ensure that the actions agreed to strengthen Rosso's financial controls have been implemented. We understand that the council is also still working to ensure that the matters we audited in 2015/16 and reported in June 2016 have been implemented in respect of the council's business continuity planning.

**Housing management – refurbishment of properties:** substantial assurance

- 3.4. Members have been made aware through the financial monitoring pack provided to Cabinet that rental income for the year from the housing stock under the council's control (prior to its transfer to Calico Homes) is less than anticipated, and that a provision has been made for irrecoverable debt from current and former tenants. However our audit focussed on the process by which properties have been refurbished prior to their transfer to Calico Homes. At this point we understand that, of the 359 properties taken onto the Empty Homes Programme, the council returned 36 to their owners in 2015/16 and a further 110 will have been returned by the end of 2016/17; 168 have been successfully refurbished and transferred to Calico Homes. The remaining 45 properties remain with the council as at 1 March 2017 but the council intends to transfer these to Calico Homes by the end of March.
- 3.5. We identified only minor issues in the operation of this refurbishment programme. The council's surveyors have surveyed each property included in the refurbishment programme, performed checks to ensure the schedules of works have been completed, issued certificates of partial possession and review final accounts. Contractors were appointed to undertake the refurbishment work followed a procurement and tendering exercise using the council's selective tendering procedure, during which seven contractors were invited to tender. The Procurement Policy was breached in not advertising this exercise on the council's website, but in other respects the process was effective. (We will consider this further as we undertake the procurement audit.)
- 3.6. There have been a number of small problems relating to the retention of documents and evidence that procedures have been properly carried out. One of the 15 properties in our sample had no documented evidence of a survey being carried out and the schedule of works could not be located, and there was no evidence of a certificate of partial possession or final account being issued by the surveyor for another property. Authorisation of additional works costing over £2,000 has lately been required by two individuals but, in one case of ten sampled, the approval could not be found following the departure of the administrator involved. Files could not be located for two properties. Spot checks by surveyors of the works carried out on site have not been recorded at all. Whilst these issues are minor in the context of the overall programme, the council should consider how it obtains and retains information securely to address the risks arising from staff turnover if information is held only informally on individuals' personal drives.

**Town centre redevelopment (phase one):** full assurance

- 3.7. Significant planning and consultation have taken place on this programme and preparations are being made to begin physical works on site. At this stage all action that could reasonably be taken to manage the risks to this programme has been

taken although clearly a number of risks remain. The Rossendale Together Barnfield Joint Venture Partnership has been established for some years, including the council, Barnfield Investment Properties Ltd and Together Housing Group. The plans for the development of the new bus station by Barnfield Construction have been agreed in principle, although the fixed price is still subject to detailed specification of the works. An agent has been appointed to verify the cost and quality of works during the construction phase. Agreement has been reached in principle with Together Housing for its lease of the old town hall but, again, the detailed terms of the lease are still to be agreed.

- 3.8. Whilst there is still therefore work to be done, the management team is aware of and has plans to achieve this and to mitigate the risks to the success of the programme.

**Use of disabled facilities grant funding:** substantial assurance

- 3.9. The disabled facilities grant scheme operates as part of the Better Care Fund across the whole of Lancashire and involves the county council and NHS bodies as well as the district councils. The effectiveness of the service is impacted to some degree by matters beyond the council's control but officers intend to participate more fully in county-wide meetings to share experience and support improvements to the scheme.
- 3.10. At the time of our fieldwork there was a six-month backlog in non-urgent referrals from occupational therapists although we understand that this is falling and is in line with experience elsewhere. However reporting on the council's performance management system did not highlight this position and instead has suggested that targets are being met. We will consider this further in the audit of performance monitoring and management.
- 3.11. Otherwise we found just a small number of minor issues which may be remedied by reiteration of the council's procedures to the officers involved.

**Council tax:** substantial assurance

- 3.12. Administration of council tax is undertaken by Capita plc on the council's behalf and controls over the system are generally adequate and operating effectively. However the council has not effectively monitored council tax debt recovery or write-off on its behalf by Capita. A monthly debt monitoring report is forwarded by Capita setting out outstanding debt, but the report is not provided in a user-friendly format and is not reviewed. In one case, due to an officer's unfamiliarity with the process, a debt over £5,000 was written off without obtaining approval from Cabinet as required under the current policy, although we understand that this specific issue has now been rectified.

**General ledger, budget setting and monitoring:** substantial assurance

- 3.13. We found no significant issues, although the need to document the authority to transfer funds between budgets, which had been agreed following the previous audit, had not yet been implemented and has been agreed again.

**Housing benefits:** substantial assurance

- 3.14. We identified no significant control issues, but found that three officers had not returned declarations of interest (including nil returns) where they have relatives in receipt of housing benefit.

**National non domestic rates (NNDR):** substantial assurance

3.15. In November 2016 we reported that although we could provide substantial assurance over controls in this area, one landlord was more than £400,000 in arrears (of which £160,000 is due to the council under the current pooling arrangement for NNDR). Legal action is still progressing.

**Payroll:** substantial assurance

3.16. We noted only minor issues; in particular the need to conduct exit interviews as staff leave to ensure that the necessary checks are completed.

**Treasury management:** substantial assurance

3.17. There was very limited treasury management activity in the first six months of the year subject to testing, but the necessary controls have operated effectively.

**4. Update on the National Fraud Initiative (NFI)**

4.1. There are two separate NFI exercises; one which runs annually and is a comparison between council tax and the electoral register and a biennial exercise that includes all other categories of NFI data.

4.2. The main 2014/15 NFI exercise is now complete and there will not be any further updates to the information previously reported. The final figures are as follows

2014/15 exercise	Number of:				Savings £
	Reports	Matches	Frauds	Errors	
<b>Total as at February 2017</b>	73	1,912	13	12	150,934

4.3. Data was uploaded in October 2016 for the 2016/17 exercise. The matches were released in January 2017 and checking of these has begun. Whilst no savings have been identified so far, enquiries are being made regarding a number of matches and a current summary of the results is as follows:

2016/17 biennial exercise: data categories	Number of:				Savings £
	Reports	Matches	Frauds	Errors	
Housing benefit	19	289	0	0	0
Payroll	2	16	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	3	8	0	0	0
Creditors	7	1,034	0	0	0
Council tax reduction scheme	25	447	0	0	0
Housing Tenants	1	1	0	0	0
<b>Total as at February 2017</b>	<b>57</b>	<b>1,795</b>	<b>0</b>	<b>0</b>	<b>0</b>

4.4. The council tax and electoral register data were also uploaded in October 2016 and the results were released in December 2016. We understand that the matches have largely been checked and only minor enquiries are still ongoing. Details of the latest council tax matches and comparisons with previous year's results are as follows:

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<b>Annual exercises: council tax</b>	<b>Number of</b>				<b>Savings £</b>
	<b>Reports</b>	<b>Matches</b>	<b>Frauds</b>	<b>Errors</b>	
Council tax 2014 release	2	386	1	40	16,885
Council tax 2015 release	2	370	0	44	16,521
Council tax 2016 release	2	614	0	103	21,485