

North Somerset Council

Report to the Audit Committee

Date of Meeting: 23rd November 2023

Subject of Report: Internal Audit Update November 2023

Town or Parish: None

Officer/ Member Presenting: Peter Cann - Audit West

Key Decision: No

Recommendations

The Audit Committee is asked to:

- Note progress in delivery of the 2023/24 Annual Internal Audit Assurance Plan.
- Note the associated Fraud prevention and unplanned work that has been completed.

1. Summary of Report

This report provides an update on progress in delivering the 2023/24 Annual Assurance Plan and summarises activity from 1st April to 1st November 2023.

2. Policy

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient in ensuring delivery of the council's objectives.

3. Details

The summary position as of November 2023 is as follows:

- Work on the plan continues to progress and as at the 1st November approximately 60% of audit activity was in progress or complete.
- There have been no audit reports issued to date where it was considered that the overall systems of control provided limited or no assurance.
- All recommendations that were due to be implemented have been followed up.
- One investigation was started and completed. Separate to this, time has been spent on further internal and external whistleblowing concerns.
- Due to the additional time spent on unplanned work, it is estimated that some planned audit activity may have to be deferred into the following year's plan.
- The National Fraud Initiative exercise has delivered estimated savings of c£161k.
- We continue to highlight the importance of fraud prevention throughout the Council, including published information and guidance in association with International Fraud Awareness Week.

1) **SIGNIFICANT ISSUES**

Assurance Levels and Significant Risks

- 1.1 From the audits completed since April 2023 where an assurance rating has been given, there have been no internal audit reports issued to date where it was considered that the systems of internal control were poor (Level 1) or weak (Level 2).
- 1.2 A number of weak controls were however identified during an investigation that was completed by the Internal Audit Service and these are reported in section 1.4 of this report.

Investigations and Unplanned Work

- 1.3 There have been two whistleblowing referrals made by employees during the financial year. One of these was investigated by the Internal Audit Service, whilst the other was discussed with Management and referred to them to deal with. These are as follows:

1.4 Employee Whistleblowing Investigation (1)

An allegation was made that two other employees were conducting a relationship at times when they should have been working.

The Head of Audit and Assurance, alongside Human Resources, investigated the matter. It was found that whilst the original allegation could not be fully substantiated, other instances of non-compliance with Council policy around time recording and leave were identified in respect of one of the officers. The resulting action was:

- Actions being followed up with the employee to ensure adequate recording of time and leave,
- Reminders to teams involved regarding the policy for time and leave recording,
- A verbal warning, to be retained on file for 12 months, was issued to one employee.

1.5 Employee Whistleblowing Referral (2)

An employee contacted the Head of Audit to make allegations about practices which were said to have taken place within the Children's Social Services Directorate.

Due to the nature of the referral, it is not possible to detail the findings within this report. Committee Members are assured however, that this was matter was reviewed and referred onwards to an Assistant Director who then looked into the concerns and held necessary discussions with staff that the allegations were against. It was subsequently concluded that there were no issues with the practices that had been followed and therefore no further action was required.

- 1.6 In addition to the internal whistleblowing referrals described above, an external concern was received through the Council's Whistleblowing/ Fraud email inbox, which described safeguarding concerns about a local charity. The concern was in the form of a complaint letter and included allegations of discrimination, harassment, and poor governance at the charity. It also included a concern over safeguarding arrangements and the letter alleged the employment of a known offender.

A version of the letter also appeared to have been sent to a range of commissioners and funders of the charity. The Council do not have any contractual arrangement in place with the charity, however NSC have made grant payments to them over recent years. The Head of Audit contacted the complainant and advised them that the primary point of contact for investigation, given as the complaint related to a charity and not a direct operation of the Council, would be the Charity Commission. The complainant was also signposted to the North Somerset Safeguarding Adults Board (NSSAB), where they could make a detailed safeguarding referral.

1.7 Unplanned Work - Clevedon Seafront/ Hill Road Scheme

Internal Audit were also asked to complete an independent review of the life of the Clevedon Seafront / Hill Road scheme. The purpose of the review was to understand whether there are any areas that North Somerset Council could learn from when planning and undertaking similar work in the future.

The Internal Audit report was presented to the Council's Executive on 6th September: [Executive Meeting - 06/09/2023](#)

The report was also distributed to the Audit Committee and an informal meeting to discuss the report was held on 14th September.

Counter Fraud

1.8 Fraud Awareness Week

On an annual basis in November, 'International Fraud Awareness Week' is held. This year it covered the period 12th-18th November and to coincide with this, we produced an article for The Knowledge along with a separate newsletter for staff. The newsletter discussed fraud and reminded staff of the counter-fraud arrangements at North Somerset Council:

[International Fraud Awareness Week - Newsletter](#)

1.9 Data Analytics

Data matching on internal datasets held by the Council takes place throughout the year in order to prevent and detect internal fraud and error. This matching is partly completed via IDEA – an internal audit data analytics software tool. The work completed in 2023/24 did not identify any fraud, however, it did identify 84 potential duplicate payments totalling £29,637 which had already been picked up by Accounts Payable and already cancelled or reversed. One further duplicate payment was identified to the value of £228.96 which had not previously been picked up but has now been recovered.

Further details of the tests undertaken and findings are shown on the following page:

No	Match type	Fraud or Error Identified	Value of Fraud /Error	Total matches identified	Comments
1	Duplicate payments by invoice number, supplier I.D. and amount.	No	n/a	84	A total of 84 potential duplicate payments were identified from the data match. The total value of the matches was £29,637. However, the average value was only £705, due to the highest value invoice being for £20,000. The matches were investigated, and it was identified that that the payments had already been identified by Accounts Payable and had been either cancelled off or reversed. As a result, no outstanding duplicates remained.
2	Duplicate payments by invoice number and amount.	1 error	£228	136	A total of 136 potential matches were identified from the initial data matching. For 1 invoice for £228.96 was identified as being a duplicate, and accounts payable have confirmed that the money has been recovered. No other issues of genuine duplicates were identified, with the matches either being separate payments or having previously been identified and corrected by accounts payable.
3	Supplier gap detection - General Suppliers.	No	n/a	8	A total of 8 gaps were detected in the general supplier file. All the gaps had been previously identified and were the result of issues when the Agresso system was originally set up. No new gaps have been detected.
	Supplier gap detection - Ukraine Grant programme.	No	n/a	7	A total of 7 gaps were detected in the supplier numbers for the Ukraine support payment, no payments have been made and the suppliers were never set up on the system.
	Closed Covid-19 Suppliers.	No	n/a	2	All of the suppliers that had been set up to received Covid-19 payments had been closed down on the system, with the exception of two which were identified as part of the audit. The two open Covid suppliers have subsequently been closed.
4	Duplicate suppliers by bank account.	No	n/a	162	A total of 162 potential matches were identified. These were reviewed and legitimate reasons for the matches exist.

5	Payroll match by bank account.	No	n/a	19	A total of 19 matches were identified relating to staff that had duplicate bank details. The matches were reviewed, and steps taken to ensure that the employees were real. The issue is primarily the result of staff using joint bank accounts with their partner.
6	Duplicate National Insurance Number.	No	n/a	0	No staff were identified as having duplicate national insurance numbers. Staff with multiple jobs were reviewed. No issues with sickness or exceeding maximum hours worked were identified.
7	Over retirement age checked. Employees under the age of 18.	No No	n/a n/a	60 3	A total of 60 employees were identified as being over the retirement age. There is no obligation for staff over retirement age to retire. A review of the staff identified that they were employed mainly in casual or part time roles. A total of 3 employees were identified as being below the age of 18. One employee was 15 the other two 17 years old. All of the roles were casual and appear to be compliant with guidance for employment of individuals under 18.
8	Creditors to payroll by bank details.	No	n/a	116	A total of 116 transactions were identified. A sample of transactions were reviewed, and no concerns were identified.

1.10 National Fraud Initiative (NFI)

The Internal Audit function also carry out other anti-fraud activity, such as co-ordinating the National Fraud Initiative (NFI) on behalf of the Council's Section 151 Officer.

The NFI is a Cabinet Office initiative, matching data from a large number of public and private sector organisations. These organisations provide data from their systems as prescribed by the Cabinet Office. The data is then matched and data matching reports are made available for each participating organisation to review. It is for each organisation to make the necessary enquiries and any identified fraud is recorded within the NFI system to enable the effectiveness of the initiative to be monitored.

For Local Authorities such as North Somerset Council, example data sets for matching purposes include; Housing Benefit, Adult Social Care Personal Budgeting and Disabled Parking (Blue Badges).

Results from 2022/23 NFI Exercise

The results from the latest exercise have given estimated savings as follows:

Report title	Total matches	Fraud/ errors	Outcome	Cabinet Office Estimates	Total
Housing Benefits	46	0	£0.00	£0.00	£0.00
CTax Reduction Scheme	220	3	£519.35	£116.16	£635.51
Payroll	29	0	£0.00	£0.00	£0.00
Blue Badges	808	185	£0.00	£120,250	£120,250
Waiting List	135	0	£0.00	£0.00	£0.00
Creditors	1377	1	£40,544.52	£0.00	£40,544.52
Procurement	20	0	£0.00	£0.00	£0.00
TOTAL	2635	189	£41,063.87	£120,366.16	£161,430.03

i) Blue Badges – Estimated Savings £120,250

The Blue Badges matches were in relation to service users that have passed away but the badges remained active. It should be noted that the savings are based on Cabinet Office estimated national ‘averages’ for the worth of a badge (street value of badges are worth much more in London for example). There is no confirmation that any of the badges have been used inappropriately, as a result the estimated savings provided by NFI might not reflect actual savings to the council.

The reason for the matches is due to the fact that the Blue Badges team are not being informed when a service user passes away, and as a result the badges are not being cancelled. It should be noted that evidence was provided that all of the notifications received through the councils “Tell Us Once” system had been processed by the Blue Badges team. An audit review of this system will be considered as part of the proposed 2024-25 audit plan.

ii) Duplicate Payment - £40,544.52

A separate audit review of the ‘root-causes’ of duplicate payments was completed and this included investigation as to how the overpayment of £40,544.52 identified in the NFI was able to occur. Essentially, it was confirmed that this payment was not picked up as would usually happen with a duplicate purchase order number and value, due to the fact that the contract was a value order. With a contract value order, a company can send in multiple invoices across the year against one purchase order number. The purchase order number does however have a financial limit set against it, so once the limit is reached then subsequent invoices would be rejected. Since at the time of the duplicate invoice coming in the limit had not been reached it was accepted.

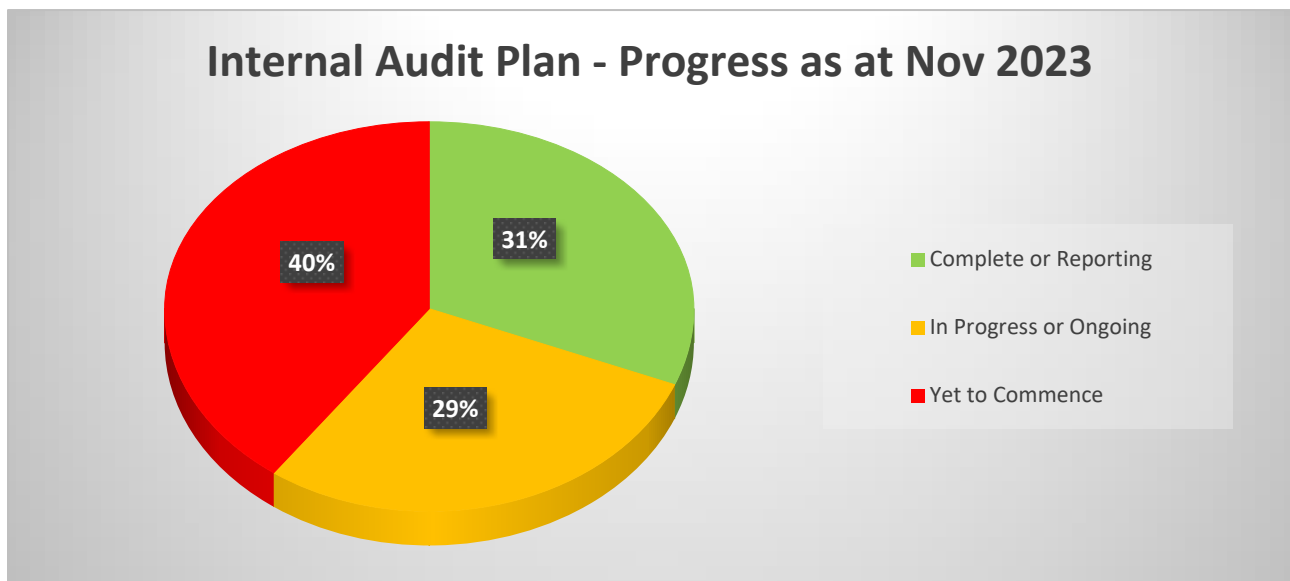
A recommendation has been made that the supplier is added to a watch list on the supplier master file. This will ensure that when any future invoices from the company are received, staff will be prompted about the issue identified in order to improve controls and prevent a recurrence. In addition, enhanced duplicate payment testing by Accounts Payable has been recommended.

The Audit Committee are advised that the duplicate payment of £40,544.52 has been recovered.

2) COMPLETION OF AUDIT PLAN

2.1 There are currently 45 pieces of audit work within the plan. Of the total number of audits:

- 10 Audits had been fully completed and a further 4 were at reporting stage,
- 10 Audits were in progress and a further 3 were ongoing pieces of work,
- 18 Audits were yet to commence, 3 of which we are proposing to defer into 2024/25.



Audit Area	Status	Comments
Metro West – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Biodiversity – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Potholes, Highways and City Deal – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Green Homes Upgrade – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Clevedon Library – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Recruitment and Retention	In Progress	Audit in Progress
Customer Services – Performance	Not Started	Audit Not Yet Commenced
Corporate Health and Safety	Not Started	Audit Not Yet Commenced
Duplicate Payments – Root Cause Analysis	Complete	Complete – Level 4, Substantial Assurance. Findings Described in 1.11
Council Tax and NNDR	Complete	Complete – Level 4, Substantial Assurance
Vehicle Mileage Expense Claims	Reporting	Audit at Reporting Stage
ICT – Governance	Not Started	Audit Not Yet Commenced
ICT – Project Management	Not Started	Audit Not Yet Commenced
ICT – Firewalls	Reporting	Audit at Reporting Stage
ICT – Cyber Security Incident Management	In Progress	Audit in Progress
ICT – Cyber Security Logging and Monitoring Arrangements	Reporting	Audit at Reporting Stage

Compliance with Council Procurement Processes	In Progress	Audit in Progress
Governance - Annual Governance Statement	Ongoing	2022/23 Complete, 2023/24 TBC
Governance - Audit Committee, Boards, Advice and Guidance	Ongoing	Ongoing Work - Completed Throughout Year
Local Code of Corporate Governance – Review and Update	Not Started	Ties into AGS - Work Not Yet Commenced
Follow-up of Previous Year Recommendations	Ongoing	Ongoing Work - Completed Throughout Year
Fraud – Data Analytics	Complete	Complete – Findings Described in Section 1.9
Fraud – National Fraud Initiative	Complete	Complete – Findings Described in Section 1.10
Fraud – Training, Advice & Guidance	In Progress	Ongoing Work - Completed Throughout Year
North Somerset Environment Company (NSEC)	Not Started	Audit Not Yet Commenced
Public Health Funerals	In Progress	Audit in Progress
Seafront Concessions	Not Started	Proposed Deferral into 2024/25
Planning Services	Reporting	Audit at Reporting Stage
Parking Services	In Progress	Audit in Progress
CIL & Section 106 Funding	Not Started	Proposed Deferral into 2024/25
Highways – Payment Bonds	Not Started	Audit Not Yet Commenced
Tree Management – Risk Management	Not Started	Audit Not Yet Commenced
Climate Emergency Action Plan	Not Started	Proposed Deferral into 2024/25
Tropicana – Income, Stock Control and Utility Costs	Not Started	Audit Not Yet Commenced
Adult Social Services – New Funding Streams	Not Started	Audit Not Yet Commenced
Housing – Lettings Service	Not Started	Audit Not Yet Commenced
Nursing and Residential Homes – Provider Visits	In Progress	Audit in Progress
Adults Safeguarding - Processes	Not Started	Audit Not Yet Commenced
Unpaid Carers	Not Started	Audit Not Yet Commenced
Local Authority Designated Officer – Statutory Responsibilities	In Progress	Audit in Progress
High Cost Care and Education Packages	In Progress	Audit in Progress
School Financial Value Standards (SFVS)	Not Started	Audit Not Yet Commenced
Safety Value Scheme	Not Started	Audit Not Yet Commenced
Children Missing Education	In Progress	Audit in Progress
Clevedon Seafront/ Hill Road Scheme	Complete	Complete – Findings Described in Section 1.10

2.2 As we pass the halfway stage of the financial year, we review progress against our planned activity and consider the impact of any unplanned work against completion of the overall plan.

2.3 Due to the additional time spent on the investigation within the Place Directorate, and the detailed work on the Clevedon Seafront/ Hill Road Scheme (also within the Place Directorate), it is possible that we may have to defer a small amount of audit activity into 2023/ 2024. The Audits put forward for deferral are all within the Place Directorate, as follows:

- Sea Front Concessions
- CIL & Section 106 Funding
- Climate Emergency Action Plan

The deferral of the above internal audits has been put forward to the Place Directorate Leadership Team for discussion and agreement, the outcome of which will be reported to the Audit Committee.

3) IMPLEMENTATION OF RECOMMENDATIONS

3.1 A total of 27 recommendations have been made this financial year. This includes recommendations made from 2022/23 audits where the reports were issued in 2023/24. Specifically, there were 1 High and 23 Medium rated recommendations, as well as 3 opportunities.

3.2 All of the recommendations that are due to be implemented have been followed up with the officer(s) responsible, however the vast majority were not yet due to be implemented.

4. Consultation

In developing and delivering the Annual Audit Assurance Plan the Internal Audit Service has consulted widely with officers and members.

5. Financial Implications

There are no direct financial implications from this report which is focussed on updates.

6. Legal Powers and Implications

There are no direct legal implications from this report which is focussed on updates.

7. Climate Change and Environmental Implications

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are referenced or noted, where appropriate, throughout the report.

8. Risk Management

Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

9. Equality Implications

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

10. Corporate Implications

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide assurance to officers, members, and the public of the soundness of the council's corporate governance.

11. Options Considered

None

AUTHOR

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2023/24

Audit Committee March 2023

Appendix A – Internal Audit Opinions

Assurance Rating	Opinion
Comprehensive Assurance - Level 5	The systems of internal control are excellent with a number of strengths and comprehensive assurance can be provided over all the areas detailed in the Assurance Summary
Substantial Assurance – Level 4	The systems of internal control are good and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Reasonable Assurance – Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Limited Assurance – Level 2	The systems of internal controls are weak and only limited assurance could be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
No Assurance – Level 1	The systems of internal controls are poor , no assurance can be given and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee