

Audit Committee – 29 November 2024

Title of paper:	Internal Audit & Counter Fraud Update	
Director(s)/ Corporate Director(s):	Stuart Fair, Interim Corporate Director of Finance & Resources	Wards affected: All
Report author(s) and contact details:	Parama Datta, Interim Head of Internal Audit	
Other colleagues who have provided input:	Rajeev Dasgupta, Interim Head of Service Improvement for Risk, Internal Audit and Insurance John Slater, Group Assurance and Audit Governance Manager Paul Jordan, Corporate Counter Fraud Team Leader	
Does this report contain any information that is exempt from publication?		
<p>Yes</p> <p>An appendix to the report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). Having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose this information because it highlights weaknesses in security that would be at risk of being exploited.</p> <p><i>(Refer to Annex C – separate paper)</i></p>		
Brief Summary		
<p>This report provides an update on:</p> <ul style="list-style-type: none"> • Delivery status against the 2023/24 annual audit plan, including results of finalised internal audit reports. • Counter Fraud outcomes for 2023/24. • Work undertaken to develop the risk-based audit plan for 2024/25. • Summary of progress made against the risk and IA Improvement Plan. 		
Recommendation(s):		
1	To note the status of the 2023/24 audit and counter fraud delivery	
2	To approve the annual audit plan for 2024/24	
3	To not the improvement actions taken to stabilise the Risk and Internal Audit function.	

1 Reasons for recommendations

1.1 The Audit Committee's terms of reference include:

- (w) To approve the risk-based internal audit plan, including Internal Audit resource capabilities and the approach to using other sources of assurance and any work required to place reliance upon those other sources
- (x) To approve significant interim changes to the risk-based internal audit plan and resource requirements if any.
- (y) consider summaries of specific internal audit reports as requested.

Detailed Summary

1. 2 Progress against delivery of the 2023/24 Internal Audit Plan

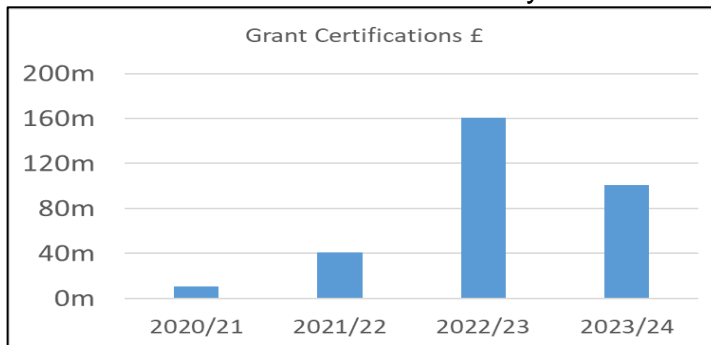
- 1.2.1 Since the last update made to Audit Committee in June 2024, the team has made steady progress to deliver the remainder of the audit plan. As at the date of this report, we have finalised all audit reports except, one full audit of Estate Rent and a follow up review of Accounts Receivable. Both reports are currently awaiting management response and are expected to be finalised imminently (refer Annex A). We have further continued engagement with East Midlands Shared Services (EMSS) and successfully delivered all four agreed reviews providing assurance over the controls related to payroll processing, systems, accounts receivable and accounts payable.
- 1.2.2 It must be highlighted that the team has been functioning at reduced resource levels from 11.05 FTE to 6.29 FTE since 2021. This was further impacted by the resignation of the Head of Audit and the Audit Manager in early 2024, that consequently led to diminished pace of overall delivery and reduced business engagement, resulting in audit work delivered over an extended period of time. A new management team comprising of Interim Head of Service Improvement for Risk, IA and Insurance and Interim Head of IA (HIA) joined the Council in September 2024, and has been actively working with stakeholders across the Council and partner organisations, namely East Midlands Shared Services (EMSS) and Leicestershire County Council (LCC) to bring stability and improvement in the delivery of risk and audit work, whilst building credibility of the overall function.
- 1.2.3 Annex B includes the executive summaries for audits concluded since our last update report to the Audit Committee. Included within the summary of completed audits are further 'No Assurance' reports; the executive summary for one of these will feature as an exempt appendix, whilst others are in the appendices for this report.
- 1.2.4 Audit Committee's attention to audit outcomes and service actions is required to ensure that improvement is achieved in a timely manner, and to identify where further support or direction is needed. It must be noted that all these audit reports were issued prior to appointment of the current Interim HIA.
- 1.2.5 Tracking of high priority recommendations are managed by the IA team and the status of these will be reported to the next Audit Committee meeting in February 2025.

1. 3 Grant certification

- 1.3.1 In addition to delivery of the planned audits, the team provides objective assurance and advice designed to add value and systematically improve the organisation's operations. It also ensures access to grant funding through

certification audits, where required by grant conditions, which in 2023/24 amounted to £101.9m.

Chart 1: Grant Certifications by IA over the last 4 years

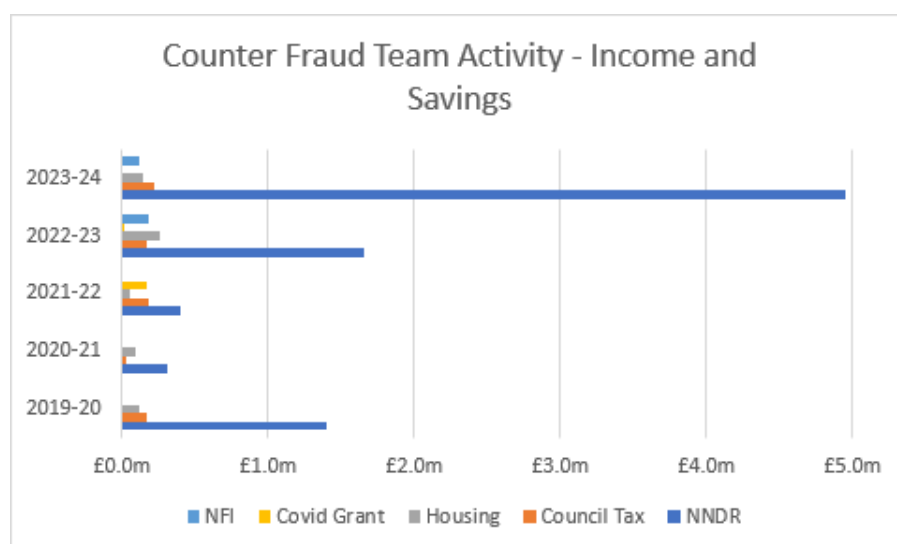
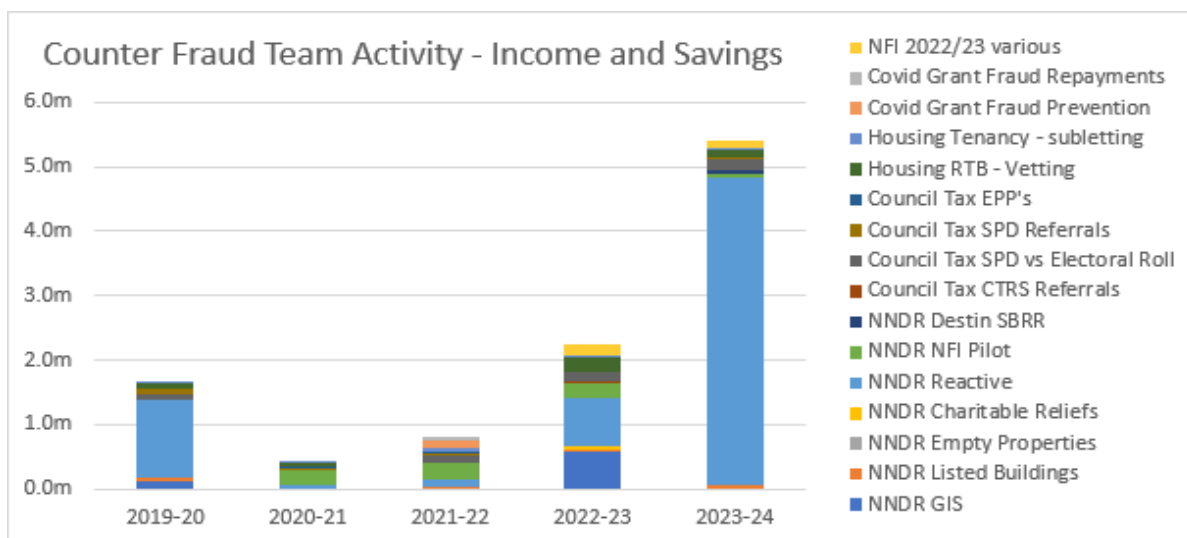


1.4 Counter Fraud Outcomes for 2023/24

1.4.1 Counter Fraud Team activity has been planned and deployed where we believe the controls and officer resource levels applied are insufficient to detect and prevent fraud or where there are significant fraud incentives which have the potential to overcome controls. These areas have been determined through use of a CIPFA tool for managing the risk of fraud and through identification of control and resource deficiency areas by IA.

1.4.2 Performance is measured year by year and the following graphs provide details of the areas of activity and value over the last 5 years (to Feb 2024). The income and savings are reported through the relevant cost centre. Note that in 2020-21 and to some extent in 2021-22 Counter Fraud Team activity was diverted to help provide assurance to Covid grants, mainly for businesses – the value of savings through that activity is not known.

1.4.3 As part of the 2023/24 audit, IA have discussed outcomes for Business Rates (NNDR) with service management, who have undertaken to ensure a full range of inspections and reviews is delivered and to engage with Counter Fraud to learn from the approaches they have taken, where applicable.



2. 2024/25 Internal Audit Plan

2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit (HIA) must 'establish risk-based plans to determine the priorities of the internal audit (IA) service, consistent with your organisation's goals'. The plan for 2024/25 has been developed in a time of significant challenge and change as the Council continues to respond and act upon the Improvement Plan resulting from the Commissioner led intervention in early 2024. The plan reflects the current service development priorities and for 2024/25 these include increased continued emphasis on management accountability, organisational change and risk management. In preparing the plan we have considered the inputs of corporate leadership team and senior management, reviewed the corporate risks and previous IA work to ensure that the plan remains relevant.

Please refer to the 2024/25 IA Plan (draft) that is shared as a separate report.

3. Progress against Improvement Plan - Programme 10

3.1 We have continued to make steady progress against the Risk and IA Improvement programme within the Council Improvement Plan approved by Council in August 2024 and have taken a prioritised approach in delivering each activity. The Committee is asked to note the progress made since the new management team for the service has been in post:

- Completed review of the IA function against PSIAS and the new requirements of the 2024 IA Standards. The outcomes of the review and potential future delivery models are being reassessed.
- Repurposed existing IA resource capacity to complete high priority activities e.g. 2023/24 audit work and 2024/25 audit planning.
- Engagement across directorates to finalise IA work for 2023/24.
- Completed 2023/24 IA work for EMSS including final reporting to relevant Committees.
- Completed 2024/25 IA planning for EMSS with audit fieldwork started in early November 2024 and work expected to complete by end of March 2025.
- Completed engagement across directorates to develop 2024/25 annual IA plan.
- Provided inputs towards the drafting of the NCC Annual Governance Statement for 2022-23 and 2023-24.
- Commenced review of NCC risk management strategy and framework against ISO31000.
- Commenced refresh of strategic (corporate) and operational (service) risk registers.
- Supported quarterly review of risks at DLT level for Growth and City Development, Children and Education Services, Adults, Health and Commissioning and Communities, Environment and Resident Services (including production of risk reports for DLT wherever required).

3.2 We will continue to act upon the agreed improvement plan actions and report progress to relevant Groups and Committees. Our focus for remainder of the current calendar year includes:

- Present outcomes of IA function review including options for future delivery models (including potential partnerships with other organisations including LAs)
- Design and roll out refreshed audit actions tracking, follow up, escalations and reporting process
- Present outcomes of Risk function review and action plan to address significant gaps against ISO31000
- Refresh strategic (corporate) risk register and engage with CLT to fine tune, define mitigating actions and agree review frequency
- Refresh operational (service) risk registers and engage with CLT and DLT to finalise
- Design and roll out refreshed risk review process including frequency, responsibilities, escalation and reporting processes

4. Published documents referred to in compiling this report

- The Accounts and Audit Regulations 2015
- The Public Sector Internal Audit Standards 2017 (CIPFA)

- The Global Internal Auditing Standards 2024 (GIIA)
- Consultation on Internal Audit Standards in the UK Public Sector 2024 (IASAB)
- Audit Committee 23Sep23 – Internal Audit Progress Update
- Audit Committee 23Feb2024 – Internal Audit Update

Annex A – Summary of the audits completed as part of 2023/24 Internal Audit Plan


Directorate	Division	Audit Title	Review Type	Overall Opinion
Adults Social Care & Public Health	Public Health	Caldicott Governance	Follow Up	Limited
Children and Education	Education	Schools Procurement	Full Audit	No Assurance
Community, Environment & Resident	Communities	Women's Aid Grant Payments	Full Audit	Moderate
Community, Environment & Resident	Resident Services	Highways Procurement	Full Audit	Moderate
East Midlands Councils	EM Councils	EM Councils	Full Audit	Moderate
EMSS Partnership Joint Committee	EMSS	EMSS Accounts Payable	Follow Up	Significant
EMSS Partnership Joint Committee	EMSS	EMSS Accounts Receivable	Follow Up	Moderate
EMSS Partnership Joint Committee	EMSS	EMSS IT Fusion	Follow Up	Limited
EMSS Partnership Joint Committee	EMSS	EMSS Payroll	Follow Up	Limited
Finance & Resources	Commercial & Procurement	IT Procurement	Follow Up	Limited
Finance & Resources	Customer Services	Council Tax	Follow Up	Moderate
Finance & Resources	Customer Services	Housing Benefits	Full Audit	Significant
Finance & Resources	Customer Services	NNDR	Follow Up	Limited
Finance & Resources	Finance	Bank Reconciliations	Follow Up	Moderate
Finance & Resources	Finance	Colleague Expenses	Full Audit	No Assurance
Finance & Resources	Finance	NCC Accounts Payable	Follow Up	Limited
Finance & Resources	Finance	Procurement Card Usage	Full Audit	Limited
Finance & Resources	Finance	Treasury Management	Full Audit	Limited

Finance & Resources	HR & EDI	NCC Payroll	Follow Up	*
Finance & Resources	IT	NCC IT Fusion	Follow Up	Limited
Finance & Resources	Legal & Governance	Business Continuity	Follow Up	No Assurance
Finance & Resources and Adults Social Care & Public Health	Customer Services	Appointeeship	Follow Up	No Assurance
Finance & Resources and Growth & City Development	Customer Services	Estates Rent	Follow Up	Limited
Finance & Resources and Growth & City Development	Economic Development & Property	Physical and Environmental	Follow Up	No Assurance

* No opinion provided, but improvement noted (5 recommendations remain open)

Annexe B – Audit Executive Summaries – Final Reports issued since last update

Accounts Payable 2023-24

Directorate: Finance & Resources Division: Finance Previous review: 2022/23	Overall Opinion: Limited Assurance	Direction of Travel:  Improving
<p>Scope and Approach: This review considered the following aspects of Accounts Payable:</p> <ul style="list-style-type: none">• Workforce resourcing available to Accounts Payable• Breaches of Approval Limits• Progress of the Finance Improvement Plan• Monitoring of compliance with Financial Regulations• Impact of s114 Spending Controls• Follow-up of recommendations from the previous Internal Audit		

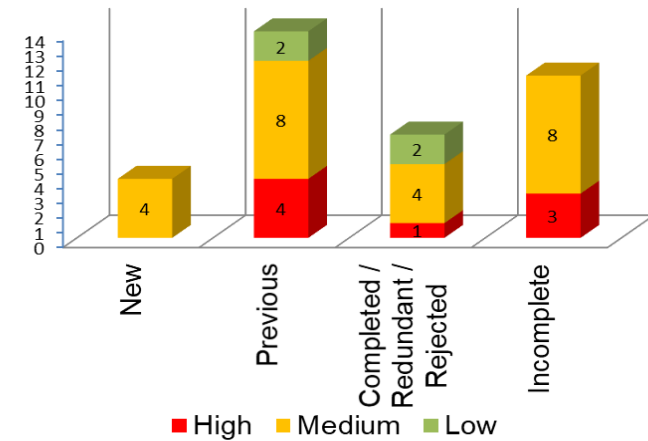
High Priority Recommendations

2022-23 R5 - The late payments reports should be routinely reviewed, and reasons sought from Service Areas where they are persistently paying suppliers late.


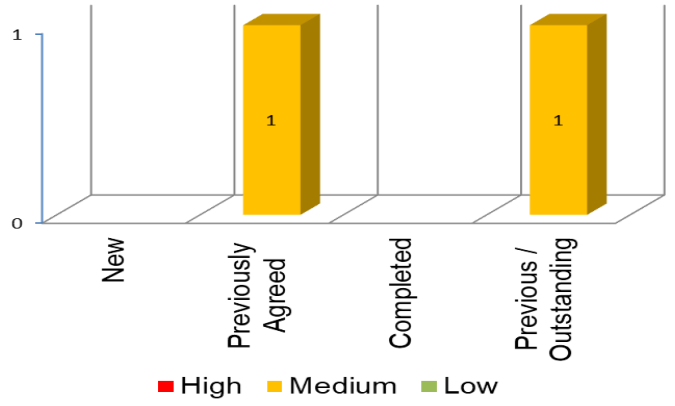
2022-23 R3 BN - Due to the weaknesses in controls and inherent higher risk of fraud, Grant Payments should no longer be processed through the OTP system.

2022-23 R4 BN - Finance must ensure adequate checks are being undertaken [to scrutinise the approval/authorisation process of OTP Payments].

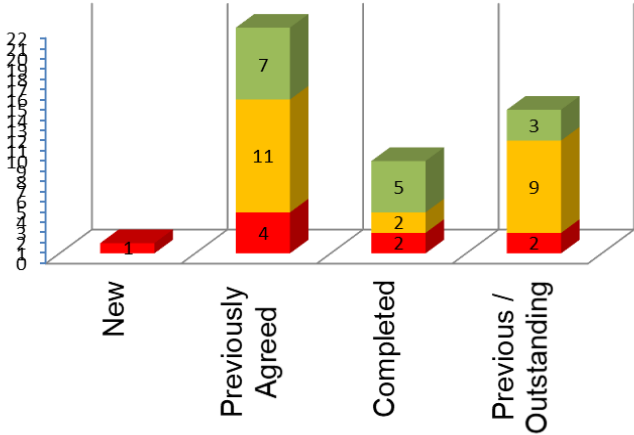
Summary of recommendations by priority




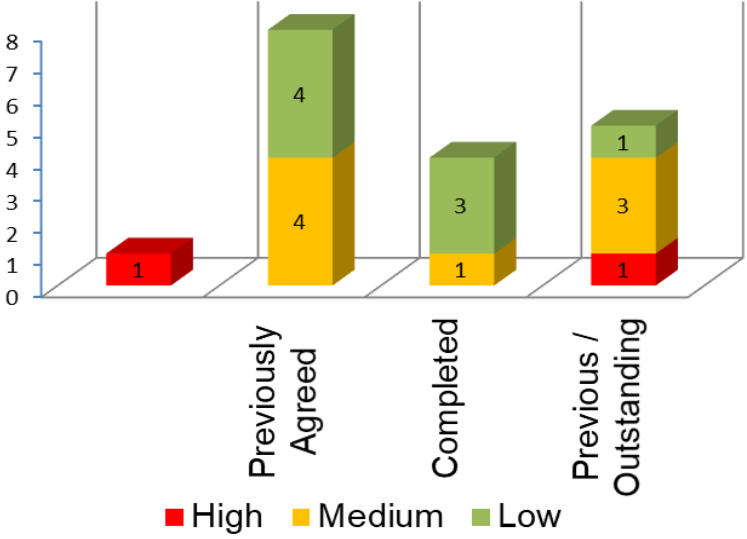
Bank Reconciliation 2023-24

Directorate: Finance and Resources Division: Finance Previous review: Annual audit.	Overall Opinion: Moderate Assurance	Direction of Travel: No Change 																				
Scope and Approach: The scope of the audit covered the reconciliation of the Council's four main bank accounts as follows: <ul style="list-style-type: none">• NCC General Account• NCC BACS Creditor (Fusion BACS)• NCC Fusion Creditor Cheque• NCC Direct Bank Credits (NCC GDBC)																						
High Priority Recommendations No high priority recommendations	<p align="center">Summary of recommendations by priority</p>  <table border="1"><thead><tr><th>Status</th><th>High</th><th>Medium</th><th>Low</th></tr></thead><tbody><tr><td>New</td><td>0</td><td>0</td><td>0</td></tr><tr><td>Previously Agreed</td><td>0</td><td>1</td><td>0</td></tr><tr><td>Completed</td><td>0</td><td>0</td><td>0</td></tr><tr><td>Previous / Outstanding</td><td>0</td><td>1</td><td>0</td></tr></tbody></table>		Status	High	Medium	Low	New	0	0	0	Previously Agreed	0	1	0	Completed	0	0	0	Previous / Outstanding	0	1	0
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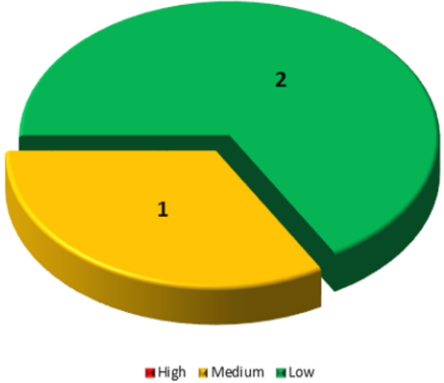
Business Rates 2023/24

Department: Finance and Resources Previous review: September 2023 (2022-23)	Overall Opinion: Limited Assurance	Direction of Travel: Improving Limited improvement during 2023-24																				
<p>Scope and Approach: This review considered the following aspects:</p> <ul style="list-style-type: none"> • Transfer of balances between old & new year • The billing process • Review of previous recommendations (19/20), (20/21), (22/23) covering: <ul style="list-style-type: none"> • Liability and interaction with VOA • Reviews of reliefs and exemptions • Income and refund reconciliations • Management of suspense account • Recovery and reporting of collection performance • Debt management and write-off • Staffing 																						
<p>High Priority Recommendations</p> <p>2022-23 R2 – Reviews of Charity, Small Business [SBRR] reliefs and Empty Property exemptions should be programmed and carried out by the Business Rates Team. Progress should be regularly reviewed by senior management</p> <p>2019-20 R2 – An approved policy should be introduced which should be used to determine all discretionary relief awards. All awards of reliefs should be supported by suitable documents.</p>	<p>Summary of recommendations by priority</p>  <table border="1"> <caption>Summary of recommendations by priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>4</td> <td>7</td> <td>11</td> </tr> <tr> <td>Completed</td> <td>2</td> <td>2</td> <td>5</td> </tr> <tr> <td>Previous / Outstanding</td> <td>2</td> <td>7</td> <td>3</td> </tr> </tbody> </table>		Category	High	Medium	Low	New	1	0	0	Previously Agreed	4	7	11	Completed	2	2	5	Previous / Outstanding	2	7	3
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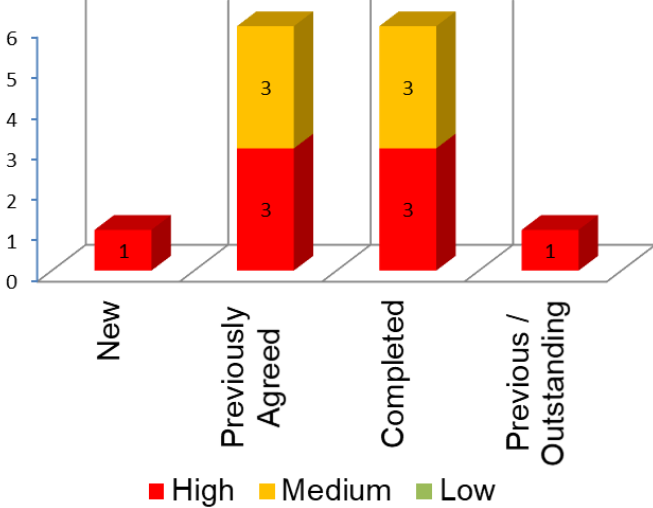
Council Tax 2023-24

<p>Department: Finance and Resources Previous review: May 2023 (2022-23)</p>	<p>Overall Opinion: Moderate Assurance</p>	<p>Direction of Travel: Improving</p> 																
<p>Scope and Approach: This review considered the following aspects:</p> <ul style="list-style-type: none"> • Transfer of balances between old & new year • Opening debit for the current year. • Review of previous recommendations • Reviewing discounts • Income and refund reconciliation of Council Tax to cash receipting and ledger • Review of in year write-offs 																		
<p>High Priority Recommendations</p> <p>2023-24 R01 Risk Registers should be kept and monitored at service and divisional level, and should be shared with the Corporate Risk Manager.</p>	<p>Summary of recommendations by priority</p>  <table border="1"> <caption>Summary of recommendations by priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>Previously Agreed</td> <td>0</td> <td>4</td> <td>4</td> </tr> <tr> <td>Completed</td> <td>0</td> <td>1</td> <td>3</td> </tr> <tr> <td>Previous / Outstanding</td> <td>1</td> <td>3</td> <td>1</td> </tr> </tbody> </table>		Category	High	Medium	Low	Previously Agreed	0	4	4	Completed	0	1	3	Previous / Outstanding	1	3	1
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Highways Procurement 2023-24

Directorate: Communities, Environment & Resident Services Division: Highways Previous review: Not previously reviewed	Overall Opinion: Moderate Assurance	Direction of Travel: Service Area not previously reviewed individually but compared to audit of whole organisation in 2019/20. 								
<u>Scope and Approach:</u> This review considered the following aspects of Highways Procurement:										
<ul style="list-style-type: none"> • Budgetary approval to procure • Framework agreement procurement and monitoring • Procurement route compliance • Procurement advertisement 	<ul style="list-style-type: none"> • Contract Purchase Agreement (CPA) compliance • Publish of Contract Awards • Supplier performance monitoring 									
<h3>High Priority Recommendations</h3> <p>No High Priority Recommendations</p> <div data-bbox="1397 711 2056 1257" style="border: 1px solid gray; padding: 10px; margin: 10px auto; width: fit-content;"> <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <table border="1" style="margin: 10px auto; width: 80%;"> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>1</td> </tr> <tr> <td>Low</td> <td>2</td> </tr> </tbody> </table> </div>			Priority	Count	High	0	Medium	1	Low	2
Priority	Count									
High	0									
Medium	1									
Low	2									

Housing Benefits 2023-24

Directorate – Customer Services Division – Revenues and Benefits Previous review: this is an annual audit – 2022-23	Overall Opinion: Significant Assurance	Direction of Travel: Improving 																				
<p>Scope and Approach: This review considered the following aspects of Housing Benefits services:</p> <ul style="list-style-type: none"> • Assurances in respect of MOU with DWP • How the services key assurances are reported • Assurances in respect of IT controls <ul style="list-style-type: none"> ○ Parameters update ○ Access control • Financial control assurance • Staffing arrangements • Automation 																						
<p>High Priority Recommendations</p> <p>2023-24 R1. Risk Registers should be kept and monitored at service and divisional level, and should be shared with the Corporate Risk Manager.</p>	<p style="text-align: center;"><u>Summary of recommendations by priority</u></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <caption>Data for Summary of recommendations by priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>3</td> <td>3</td> <td>0</td> </tr> <tr> <td>Completed</td> <td>3</td> <td>3</td> <td>0</td> </tr> <tr> <td>Previous / Outstanding</td> <td>1</td> <td>0</td> <td>0</td> </tr> </tbody> </table>		Category	High	Medium	Low	New	1	0	0	Previously Agreed	3	3	0	Completed	3	3	0	Previous / Outstanding	1	0	0
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Previous / Outstanding	1	0	0																			

IT Procurement 2023-24

<p>Directorate: Finance and Resources Previous review: IT Procurement 2021/22 Cloud based application 2019/20 – 7th December 2020</p>	<p>Overall Opinion: Limited Assurance</p>	<p>Direction of Travel: Previous recommendations remain outstanding. </p>
<p>Scope and Approach: This review followed up the outstanding recommendations relating to the 2021/22 ICT procurement audit.</p>		

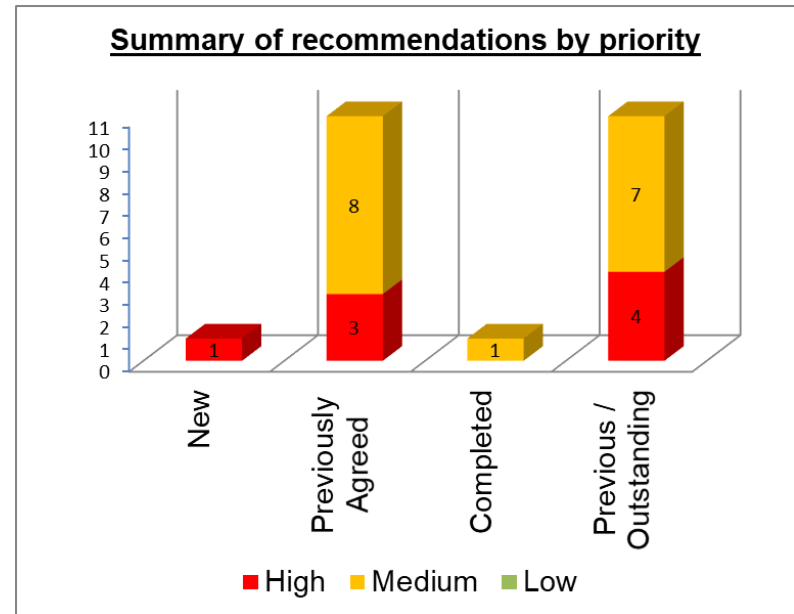
High Priority Recommendations

2023/24 R1 A formal version of the digital strategy should be published to guide the Council's use of technology.


2019/20 R5 A comprehensive asset register should be compiled to ensure that there is a clear accountability for all the assets owned and managed by the City Council. The register should include all applications, their owners, location and level of residual risk. In addition, the register should be linked to the completed DPIA's, ISRA's and contracts register in order that a complete record is available and appropriate assurances provided to management.

2019/20 R7 IT costs should be reviewed and where found to have been incorrectly allocated, corrected to ensure that the Council's financial records are accurate and complete.

2019/20 R8 Budget holders should be instructed as to the correct codes to be used when procuring IT applications and renewing licence agreements.



NCC Fusion ICT Review 2022-23 Follow-up

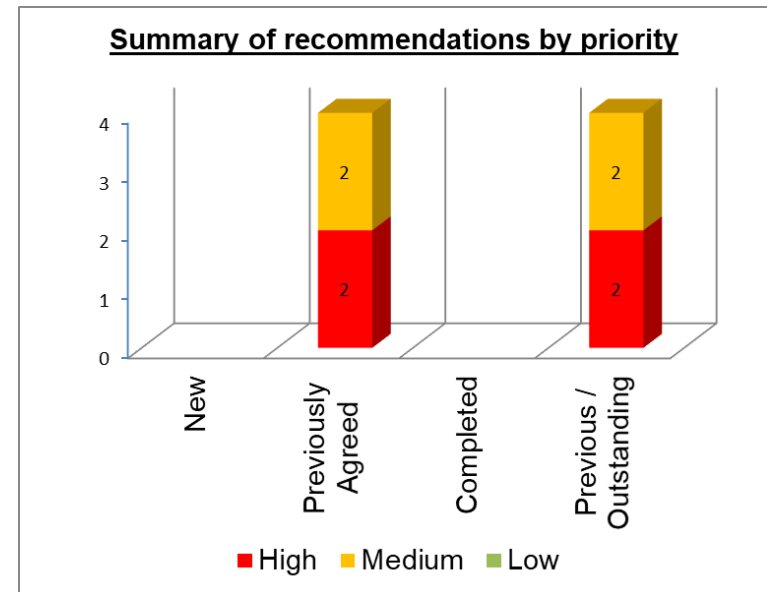
Directorate Finance and Resources Division Finance Previous review: June 2022	Overall Opinion: Limited Assurance & Limitation of scope	Direction of Travel: Previously reported recommendations remain outstanding. 
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Scope and Approach: This review was a follow-up of the outstanding recommendations arising from the 2022/23 review of the NCC Fusion ICT review.

High Priority Recommendations

2022-23 R2 There should be routine review of Fusion user accounts to ensure that they are closed promptly. In addition, any roles that are identified as having an elevated level of access should be reviewed with EMSS System Admin to ensure that level of access continues to be appropriate.

2022-23 R3 A formal reconciliation should be undertaken by Adult Residential Services to ensure that payments are accurate and complete.



Procurement Card Usage 2023-24

Directorate: Finance and Resources
Division: Finance
Previous review: January 2023

Overall Opinion:

Moderate Assurance

Direction of Travel:

Improving



Scope and Approach: The scope for this review include the following:

- Analytical review of spend on cards to identify and investigate categories of transactions that appear to fall outside of the expected trends.
- Review the management and control of purchase cards
- Consider the types of exception reporting that may be produced to improve the management of the process, which should commence with Finance colleagues receiving regular reports.

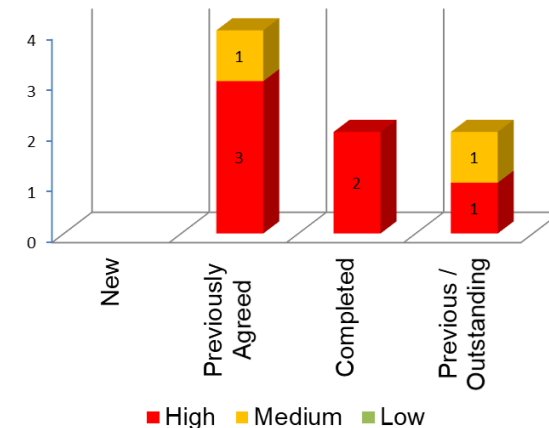
High Priority Recommendations

2022-23 R1 All managers and colleagues with procurement card responsibilities should be written to and the rules concerning their usage clearly be communicated together with the consequences of non-compliance being explained. **Complete**


2022-23 R2 All cardholders should undergo periodic refresher training in order that they are made aware of VAT requirements. **Complete**

2022-23 R4 Heads of Service should be reminded of the need to promptly notify the Procurement Card Administrator when card holders leave NCC

Summary of recommendations by priority



School Procurement 2023-24

Department: Name: Children and Education Previous review: Various audits from 2017 onwards	Overall Opinion: No Assurance	Direction of Travel: 
Scope and Approach: This review considered the following aspects: <ul style="list-style-type: none">• Approval of Financial Administration and Control Policy• Adherence to procurement processes		
Areas of Concern <ul style="list-style-type: none">• Finance policy is not always presented to Governors on a periodic basis• Alternative quotes are not always obtained• Tendering processes are not followed• Governors are not always aware of financial commitments or requirements.• Orders are not always raised or are raised retrospectively• Evidence of checking and authorising invoices is not always available		