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| Report To: | AUDIT PANEL |
| Date: | 1 November 2016 |
| Reporting Officer: | Ian Duncan – Assistant Executive Director (Finance) Wendy Poole – Head of Risk Management and Audit Services |
| Subject: | PROGRESS REPORT ON RISK MANAGEMENT AND INTERNAL AUDIT ACTIVITIES APRIL TO SEPTEMBER 2016 |
| Report Summary: | To advise members of the work undertaken by the Risk Management and Internal Audit Service between April and September 2016 and to comment on the results. |
| Recommendations: | <ol style="list-style-type: none"> 1. That members note the report and the performance of the Service Unit for the period April to September 2016. 2. Members approve the Information Governance Policy at Appendix 1. 3. Members approve the Information Governance Conduct Policy at Appendix 2. 4. Members approve the Information Security Incident Reporting Procedure/Practice Note at Appendix 3. 5. Members approve the Subject Access Requests Guidance at Appendix 4. 6. Members support the Peer Review process for the Assessment of Internal Audit outlined in Section 4 of the report. |
| Links to Community Strategy: | Internal Audit supports the individual operations, which deliver the objectives within the Community Strategy. |
| Policy Implications: | Effective Risk Management and Internal Audit supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance. |
| Financial Implications: (Authorised by the Section 151 Officer) | Effective Risk Management and Internal Audit assists in safeguarding assets, ensuring the best use of resources and reducing losses due to poor risk management. It also helps to keep insurance premiums and compensation payments to a minimum and provides assurance that a sound control environment is in place. |
| Legal Implications: (Authorised by the Borough Solicitor) | Demonstrates compliance with the Accounts and Audit Regulations 2015. |
| Risk Management: | Assists in providing the necessary levels of assurance that the significant risks relating to the council's operations are being effectively managed. |

Access to Information:

The background papers can be obtained from the author of the report, Wendy Poole, Head of Risk Management and Audit Services by contacting:



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1. INTRODUCTION

- 1.1 This is the first progress report for the current financial year and covers the period April to September 2016.
- 1.2 The main objective of this report is to summarise the work undertaken by the Risk Management and Internal Audit Service during the first half of the year in respect of the approved Plan for 2016/2017, which was presented to the Audit Panel in May 2016.

2. RISK MANAGEMENT AND INSURANCE

- 2.1 The Risk Management and Insurance Team provide services to the whole Council including schools. The key priorities for the team during 2016/2017 are:-

To review the risk management system and

- facilitate the delivery of risk workshops for managers to enable risk registers to be updated.
- To facilitate the continued implementation of the Information Governance Framework by:-
 - Providing advice and guidance in relation to information governance;
 - Keeping the framework up to date and fit for purpose with any new guidance issued by the Information Commissioners Office (ICO);
 - Delivering and monitoring training for general users and for staff in high risk areas.
- To review the Business Continuity Management system in place to streamline the process to create a management tool that is workable, with a capability to provide knowledge and information should a major incident occur.
- To continue to support managers to assess their risks as services are redesigned to ensure that changes to systems and procedures remain robust and resilient offering cost effective mitigation and that claims for compensation can be successfully repudiated and defended should litigation occur.

- 2.2 The risk management system is under review. The Corporate Risk Register is now presented to the Senior Management Team on a quarterly basis and a separate report is on the agenda presenting the October update to the Panel. During quarter three operational risk registers will be compiled by service areas using the corporate risk register template and this will be facilitated by the Head of Risk Management and Audit Services.

- 2.3 With regards to Information Governance Framework a number of the documents have been revised to take into account some minor structural or procedural changes as follows:-

- Information Governance Policy – Updated to reflect structural changes and the addition of the revised Subject Access Request Guidance, see **Appendix 1**.
- Information Governance Conduct Policy – Updated to reflect the additional Subject Access Request Guidance, see **Appendix 2**.
- Information Security Incident Reporting Procedure – Updated to reflect some structural changes and to include a practice note for undertaking investigations, see **Appendix 3**.
- Subject Access Requests Guidance – Refreshed to ensure consistency across all areas of the Council, see **Appendix 4**.

- 2.4 Business Continuity Management will be assessed as part of the work undertaken with service areas to identify Operational Risk Registers as a methodology that is fit for purpose needs to be established.

3. INTERNAL AUDIT

3.1 The Audit Plan approved on 31 May 2016 covered the period April 2016 to March 2017 and totalled 1,798 Days. This was made up of 1,323 days on planned audits and 475 days on reactive fraud work.

3.2 Table 1 below provides an update on progress against the plan to 30 September 2016. The actual days delivered at quarter 2 are 761, which equates to 42% of the total audit days planned for 2016/17 at 1,798, compared to 41% at this stage during 2015/16, 50% in 2014/15 and 45% in 2013/14.

3.3 The table below shows how the audit plan is profile across the year and demonstrates that at the end of Quarter 2 Internal Audit have delivered 117 days short of the planned target of 878 days. Performance to date has been affected by reduced resources, annual leave and ad hoc requests for reviews, advice and support, which were not included in the original plan that were a greater priority in relation to the planned work. The Audit Plan is responsive to the needs of the organisation and as such it is normal practice to review and amend the plan during the year.

3.4 An Auditor left at the beginning of June and one of the Fraud Investigators/counter fraud Specialists left at the end of August. Recruitment has been completed and a new Auditor has recently started with the team and the new Fraud Investigator will take up post in November.

3.5 **Table 1 – Annual Audit Plan Progress as at 30 September 2016**

| Service Area / Directorate | 2016/17 Plan | 2016/17 Q1/Q2 Profile | 2016/17 Actual Days Q2 | 2016/17 Q2 Variance | 2016/17 Q3/Q4 Days to Deliver |
|--|--------------|-----------------------|------------------------|---------------------|-------------------------------|
| People | 250 | 172 | 141 | -31 | 108 |
| Public Health | 51 | 30 | 22 | -8 | 21 |
| Place | 222 | 98 | 75 | -23 | 139 |
| Governance and Resources | 262 | 125 | 93 | -32 | 167 |
| Schools | 175 | 80 | 76 | -4 | 113 |
| Cross Cutting | 63 | 39 | 21 | -18 | 24 |
| Greater Manchester Pension Fund | 300 | 97 | 95 | -2 | 203 |
| Planned Days 2016/17 | 1,323 | 641 | 523 | -118 | 775 |
| Proactive Fraud Work and Irregularity Investigations | 475 | 237 | 238 | 1 | 238 |
| Total Days 2016/17 | 1,798 | 878 | 761 | -117 | 1,013 |

3.6 A detailed review of the audit plan is currently underway in conjunction with senior management to ensure that the plan is still relevant and meets with available resources in the team. The original plan of 1,798 days which represented planned work was based on estimated resources at the beginning of the year. A revised plan will be reported to a future meeting of the Panel.

- 3.7 During the first half of the year, 10 Final Reports were issued in relation to systems, risk and managed audits, the results of which are summarised in table 2 below.

Table 2 – Final Reports Non-Schools

| Opinion | Number | % | Total To Date | Total for 2015/16 |
|---------------|---------------|------------|---------------|-------------------|
| High | 1 (1) | 11 | 1 (1) | 6 (4) |
| Medium | 8 (5) | 78 | 8 (5) | 14 (3) |
| Low | 1 (1) | 11 | 1 (1) | 5 (0) |
| Totals | 10 (7) | 100 | 10 (7) | 25 (7) |

Note: The figures in brackets relate to Final Reports issued for the Pension Fund.

- 3.8 In addition to the final reports issued above, 7 Draft Reports have been issued for management review and responses and these will be reported to the Panel in due course.
- 3.9 Not all work undertaken by the team generates an audit opinion and several pieces of work undertaken in the period fall into this category:-
- Hattersley Collaboration Agreement
 - Public Health Grant
 - Local Transport Settlement Grant
 - Troubled Families Financial Claim Verification
 - Pension Scheme Verification Checks
 - Bus Subsidy and Pinchpoint Grants
 - Terms and Conditions Assurance work
 - Pension Fund – Valuation Assurance Work
- 3.10 2 School Audits were completed during the period, the results of which are summarised in table 3 below.

Table 3 – Final Reports Schools

| Opinion | Number | % | Total To Date | Total for 2015/16 |
|---------------|----------|------------|---------------|-------------------|
| High | 1 | 50 | 1 | 9 |
| Medium | 1 | 50 | 1 | 7 |
| Low | 0 | 0 | 0 | 5 |
| Totals | 2 | 100 | 2 | 21 |

- 3.11 In addition to the final reports issued above, 6 visits have been completed and the draft reports are being reviewed before they are issued to the Schools for management review and responses and these will be reported to the Panel in due course.
- 3.12 Post Audit Reviews are undertaken approximately six months after the Final Report has been issued, however, where a low level of assurance is issued the post audit review is scheduled for three months to ensure that the issues identified are addressed. 8 Post Audit Reviews have been completed during the period. Internal Audit was satisfied with the reasons put forward by management where the recommendations had not yet been fully implemented. A further 12 Post Audit Reviews are in progress, which will be reported to the Panel at a future meeting.

4. REVIEW OF INTERNAL AUDIT

- 4.1 The review of Internal Audit reported to the Audit Panel on 31 May 2016 against the Public Sector Internal Auditing Standards (PSIAS) highlighted that the service is fully compliant with the requirements of the standard.
- 4.2 The Public Sector Internal Audit Standards (PSIAS), introduced from April 2013, require at Standard 1312 that each organisation's internal audit service is subject to an external assessment "once every five years by a qualified, independent assessor or assessment team from outside the organisation".
- 4.3 Across AGMA and the wider North West a Peer Review process has been developed by the Chief Audit Executive Group and piloted in Blackburn and Blackpool. The feedback from both the reviewers and those being assessed is summarised below:-
- The greatest value from the peer review process is the sharing of information and best practice which would otherwise not be gained through an external assessment from an external provider;
 - Directors and Audit Committee Chairs value the shared knowledge and experience of other Councils;
 - Benchmarking information could be collated and shared across the region
 - Being reviewed by professionals in a similar role, facilitates understanding of the issues facing the team under review;
 - Teams under review are open in describing the issues they face to fellow professionals; and
 - A suite of standard working papers have been developed for consistency including interview questions tailored for Directors/Members.
- 4.4 Three options have been considered and are detailed in table 4 below.

Table 4 – External Assessment Providers and Costs

| Provider | Costs |
|---|---|
| Local Authority Peer Review | No direct costs. Reciprocal time to undertake reviews |
| Chartered Institute of Public Finance and Accountancy | £900 per day Estimated to take 4-6 days (£3,600 - £5,400) |
| Chartered Institute of Internal Auditors | Full External Assessment £14,300 Validated Self-Assessment £11,700 |

- 4.5 Evaluation by the Chief Audit Executive Group supported the Peer Review Process. All members of the group were asked to consult their Section 151 Officer during July/August and the Peer Review process was supported overwhelmingly. This was ratified by the Greater Manchester Treasurers at their meeting on 12 August 2016. Currently the programme of reviews is being compiled, however, as we are in the process of upgrading our audit management system Galileo, we have requested a review during the latter part of 2017.
- 4.6 The Audit Panel is therefore requested to support this option for the Council.

5. ANNUAL GOVERNANCE STATEMENT 2015/16

- 5.1 The Annual Governance Statement presented to the Audit Panel on 31 May 2016 and approved by the Overview (Audit) Panel on 12 September 2016 highlighted four areas for development. Table 5 below provides an update on progress to date.

5.2

Table 5 – Annual Governance Statement Development Areas

| Development | Progress to Date |
|---|---|
| <p>The ongoing level of change across the organisation, reduced resources and staff capacity to deliver the challenges faced by the Council is managed by ensuring that proper governance procedures and risk management are in place to safeguard that the overall control environment is not adversely affected.</p> | <p>A risk based Internal Audit plan is in place which addresses the keys risks facing the council. Risk management is embedded in service delivery as all reports submitted for decisions by both officers and members have to detail the risk implications to ensure that they are being managed. Assistance from Risk Management and Audit is provided when requested. The Corporate Risk Register is reviewed quarterly by Senior Management Team.</p> |
| <p>As we move towards an Integrated Care Organisation it is critical that strong governance arrangements are in place to ensure that positive outcomes are achieved through robust systems and procedures that are open and transparent and monitored accordingly.</p> | <p>Ongoing meetings are taking place to ensure that strong governance arrangements are introduced. The Internal Auditors for both the Council and the Clinical Commissioning Group are involved in reviewing progress. The Chief Executive has been appointed as the Accountable Officer for the NHS Tameside and Glossop Clinical Commissioning Group. Joint management meetings are now scheduled.</p> |
| <p>Vision Tameside, which is a multi-million pound project in partnership with Tameside College, is delivered in accordance with agreed milestones and that the risks to service delivery during the interim period are kept under review to minimise disruption to the people and businesses of Tameside so that together the mutual benefits of the project will be recognised and celebrated. It is also important to ensure that the benefits of the new building are realised in terms of different ways of working and reducing future running costs.</p> | <p>Regular reports are provided to the Senior Management Team, Board and Cabinet.</p> <p>A project board meets regularly.</p> |
| <p>Greater Manchester Pension Fund is working with other large metropolitan LGPS funds to create a £35 billion asset pool. Pooling of assets will provide greater scope to allow the funds to invest in major regional and national infrastructure projects such as airport expansion, major new road and rail schemes, housing developments and energy production growth, all driving economic growth and prosperity. Strong governance arrangements will need to be in place, underpinned by robust and resilient systems and procedures to ensure the desired outcomes are realised.</p> | <p>The Fund has chosen pooling partners and submitted a response to Government. Feedback is awaited and will inform future actions.</p> <p>Professional advice will be sought throughout process.</p> |

6. IRREGULARITIES/COUNTER FRAUD WORK

- 6.1 Fraud, irregularity and whistle-blowing investigations are conducted by two members of the Internal Audit Team under the direction of a Principal Auditor and the Head of Risk Management and Audit Services to ensure consistency of approach.
- 6.2 All investigations and assistance cases are reviewed by the Standards Panel every month and where appropriate the members of the Panel challenge and comment on the cases and offer further guidance and direction. Assistance cases can range from obtaining information for an investigating officer to actually undertaking a large proportion of the analysis work to provide evidence for the investigatory process.
- 6.3 The number of cases investigated during the period April to September 2016 is summarised in Table 6 below.

Table 6 – Investigations Undertaken from April to September 2016

| Detail | No. of Cases |
|---------------------------------|---------------------|
| Cases B/Forward from 2015/2016 | 12 |
| Current Year Referrals | 7 |
| Total | 19 |
| Cases Closed | 6 |
| Cases Still under Investigation | 13 |
| Total | 19 |
| Assistance Cases | 1 |

- 6.4 Joint working between Internal Audit, Legal and Exchequer Services has led to a recent court success where a man was found guilty of fraudulently spending £53,937, which he had claimed to cover care costs. He pleaded guilty at the Magistrates Court on 28 September and has been referred to Crown Court for sentencing on 3 November 2016.
- 6.5 Work has continued during the period to prepare for the National Fraud Initiative 2016 Data Matching Exercise. Data has now been extracted and uploaded to the Cabinet Office website and matches will be released for investigation in Jan/Feb 2017. The preparation work to achieve this has been coordinated by Internal Audit to ensure that the correct data was extracted and that appropriate Fair Processing Notices were in place as prescribed by the guidance notes issued by the Cabinet Office. Update reports will be provided to the Panel once the data is available.

7. NATIONAL ANTI FRAUD NETWORK DATA AND INTELLIGENCE SERVICES

Interception of Communications Commissioners Office

- 7.1 The National Anti-Fraud Network provides a Single Point of Contact Service for local authority members to acquire communications data under the Regulatory Investigatory Powers Act 2000 (RIPA). In November 2012 the Home Office required that every local authority accessing this data must use the National Anti-Fraud Networks service.
- 7.2 The Interception of Communication Commissioner (IoCCO) is responsible for reviewing the acquisition and disclosure of communications data by intelligence agencies, police forces and other public authorities. They report to the Prime Minister on a half-yearly basis.

- 7.3 The National Anti-Fraud Network is subject to annual inspections by IOCCO and once again emerged with distinction from its recent assessment. The inspectors, who have previously praised the National Anti-Fraud Network, as providing a Rolls Royce service, stated their satisfaction that statutory duties were being carried out responsibly, and the guardian and gatekeeper duties performed effectively. Overall they said very high standards were being achieved. Their recommendations can be found in table 7 below.

Table 7 – Recommendations from the June 2016 Inspection

| Recommendation | Achieved (Yes/No/Partly) | Description / Comments |
|--|--------------------------|---|
| <p>It is recommended that all Designated Persons should follow the good practice guidance by tailoring their comments to the individual applications as this is the best means of demonstrating that they have been properly considered. If the Single Point of Contacts identify any Designated Persons who are not tailoring their written considerations to the individual applications, then appropriate advice should be provided to assist such Designated Persons to improve the quality of their considerations and make them more robust and immune to challenge. This should also be brought to the attention of National Anti-Fraud Network Single Point of Contact management.</p> | <p>Yes</p> | <p>A circular has been issued to all designated persons and senior responsible officers (attached) highlighting the need to clearly demonstrate considerations when authorising applications.</p> <p>All National Anti-Fraud Network Single Point of Contacts have been instructed to carefully review Designated Person comments and where necessary provide advice and guidance.</p> <p>All instances where advice and guidance is provided are to be reported to the Service Team Manager and escalated where appropriate.</p> |
| <p>National Anti-Fraud Network should undertake a detailed review of all instances where a delay is occurring between submission of the court pack and judicial approval to identify reasons for delay.</p> | <p>Yes</p> | <p>A centralised register will be maintained for the recording of all submissions to court including number of days taken to obtain judicial approval, reason for judicial delay (where it exceeds 5 working days).</p> <p>All Single Point of Contacts are required to maintain the register which is reviewed weekly by the Service Team Manager.</p> |

- 7.4 The National Anti-Fraud Network has significantly enhanced its profile within central and local government. It is an influential member of several national boards including the Communication Data Strategy Board, Professional Oversight Board for communication data training and accreditation, Communications Data Operational Group and Communications Data and Lawful Interception Strategy Group. The National Anti-Fraud Network also Chair and host the National Training and Best Practice Work Group for non-law enforcement agencies involved in the acquisition of communications data.
- 7.5 The National Anti-Fraud Network have played an integral role in the introduction of the Investigatory Powers Bill and is recognised as a key stakeholder by the Home Office.

Performance

- 7.6 During the first six months of 2016/17 the team continue to process data and intelligence requests received from member local authorities, housing associations and other public sector bodies.
- 7.7 The appointment of a Project Manager in May 2016 has provided the capacity to recommence system development in line with the approved business plan.
- 7.8 Membership is stable but with increase in shared services it is acknowledged there is a need to wider promote the services, maximise corporate awareness and sustain targeted marketing campaigns. Currently, the team have limited skills and expertise in this area and the Executive Board are responding accordingly.
- 7.9 A national programme of Roadshows successfully delivered 12 events in Glasgow, Preston, Birmingham, Cardiff, London and Cheltenham to almost 1,000 users. From the survey conducted an overwhelming number of delegates (85%) indicated how beneficial the training received was to their area of work.
- 7.10 The 2016 AGM and Summit is being hosted at the Royal York Hotel in York on 30 November 2016. The theme of the event is Improving Performance and Outcomes and the speakers are practitioners who will share learning and best practice in relation to Cyber Crime, Empty Property, Social Media and Right to Buy investigations.
- 7.11 Table 8 below, shows the number of requests received for the period April to September 2016 compared to the two previous years.

Table 8 – Performance Figures for NAFN April to September 2016

| Type Of Request | April to Sept 2016/17 | April to Sept 2015/16 | April to Sept 2014/15 | % Increase (Decrease) |
|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| General | 23,818 | 34,960 | 35,561 | (32) |
| SSFA | 0* | 9,043 | 31,828 | N/A |
| CTRS | 1,787 | 1,003 | 27 | 78 |
| POSHFA | 2,309 | 1,978 | 1,099 | 17 |
| DVLA | 7,911 | 7,219 | 12,270 | 10 |
| RIPA | 505 | 544 | 2,071 | (7) |
| Online Requests | 27,971** | 29,670 | 26,371 | (6) |
| TOTALS | 64,301 | 84,417 | 109,227 | (24) |

*Transfer of housing benefit investigations to DWP SFIS completed March 2016

**The decrease in use is due to the withdrawal of Equifax Direct service which will be replaced by Equifax PSG Direct. Scheduled go-live October 2016

- 7.12 The reduction in the number of requests received reflects the introduction of the DWP Single Fraud Investigation Service and the increase in shared services across the country.

8. LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

- 8.1 A separate report is on the agenda regarding the changes to the procurement of External Auditors introduced by the Local Audit and Accountability Act 2014.

9. RECOMMENDATIONS

- 9.1 That members note the report and the performance of the Internal Audit Service for the period April to September 2016.
- 9.2 Members approve the Information Governance Policy at **Appendix 1**.
- 9.3 Members approve the Information Governance Conduct Policy at **Appendix 2**.
- 9.4 Members approve the Information Security Incident Reporting Procedure/Practice Note at **Appendix 3**.
- 9.5 Members approve the Subject Access Requests Guidance at **Appendix 4**.
- 9.6 Members support the Peer Review process for the Assessment of Internal Audit outlined in section 4 of the report.