Head of South West London Audit Partnership

Annual Internal Audit Report 2015-16

Royal Borough of Kingston upon Thames
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1 EXECUTIVE SUMMARY

Introduction

1.1 Internal Audit work is carried out in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards 2016 (PSIAS). Internal Audit procedures are designed to allow the Council’s Head of Internal Audit to provide an annual opinion on the adequacy and effectiveness of internal controls to mitigate principal risk exposures to the Council.

Planned coverage and output

1.2 The total number of audit and fraud days commissioned for 2015/16 was 1370 days. This was made up of the following:

<table>
<thead>
<tr>
<th>No. of days</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>657.5</td>
<td>Internal audit plan</td>
</tr>
<tr>
<td>142.5</td>
<td>AfC audit plan</td>
</tr>
<tr>
<td>570</td>
<td>Fraud plan days</td>
</tr>
<tr>
<td><strong>1370</strong></td>
<td></td>
</tr>
</tbody>
</table>

1.3 The Audit Committee in April 2015 agreed a plan of 679 audit days for the financial year 2015/16. This was 21.5 days over and above what was commissioned by the Shared Service Board (657.5 days) but it was anticipated that a number of the audits may not take place during the year and also that flexibility would need to be built into the plan to accommodate work as required on the transformation and commissioning programme. A further 285 days were agreed for the AfC Audit Plan, split equally between Kingston and Richmond (142.5 days each).

1.4 On the basis of the above, we can report that we have completed 100% of the total number of commissioned audit days (800 days) for 2015/16. Only 86% of the fraud days were delivered due to a number of staff vacancies carried by the service resulting in a budget underspend. This underspend has been shared between the partner authorities through a reduced charge for 2016/17.

1.5 The plan was compiled with reference to the Council’s Corporate Risk Register and following discussions with each of the Directorate Management Teams (DMTs). This ensured that audit work was focused on the council’s key risks and targeted areas where senior managers required independent assurance over controls in their service areas.

1.6 Changes to the plan and updates on progress were discussed at DMTs quarterly and significant changes reported to the Audit and Governance Committee in the Audit Update Reports.
1.7 In terms of reports delivered by the audit team, the audit plan at the start of the year included 48 audits (and a further 25 audits for AfC); the plan is always flexible to allow for movement in the number of audits in the plan and days delivered reflecting changing client needs. The overall number of reports will be subject to change over the course of the year as audits may be deferred or no longer required. However, additional reviews may be added if concerns are raised about a specific control area or existing reviews may have their budgets increased. During the year, 7 additional reviews were added to the plan.

1.8 To date, 36 reports have been issued as final or are at draft stage. This is covered in more detail in the planned coverage and output section. A further 10 reports are nearing completion and were due to be issued at the time of this report. Any high priority issues relating to these will be reported to Audit Committee in September 2016. 5 audits have been carried forward to 2016/17 and 4 audits have been cancelled from the original plan.

1.9 Although only 36 out of an original 48 audits were completed in 2015/16, there were an additional 21.5 days included in the original audit plan (see above) that were not resourced.

Implementation of recommendations

1.10 Follow up of priority 1 recommendations is undertaken quarterly and progress reported to SLT prior to Audit Committee twice a year. Management responses to reports issued this year have been positive. However, whilst management have agreed and set timely target dates for Priority 1 recommendations; limited progress in completing recommendations during the year was made.

1.11 We reported in April that there were 13 Priority 1 recommendations that were past their originally agreed due date. This is an area that Internal Audit will focus on in more detail to try and improve progress and reduce the number of unimplemented recommendations.

Operational assurance

1.12 To date we have issued 36 reports and were able to place reliance on the operation of all of the key systems reviewed. A further 10 reports were due to be issued at around the time of writing this report and any high priority issues relating to these will be reported to the next Audit Committee. 5 audits have been carried forward to the 2016/17 plan at the request or agreement of the Service.

Performance of the Internal Audit service

1.13 A requirement laid down in the Accounts and Audit (England) Regulations 2015 states that “the relevant body shall, at least once in a year, conduct a review of the effectiveness of its internal audit”. Previously, an annual self-assessment against CIPFA’s Code of Practice for Internal Audit in Local Government was carried out and reported to Audit Committee.

1.14 The Code of Practice was replaced by new standards and guidance following the launch of new Public Sector Internal Audit Standards (PSIAS) in 2012. These came into effect from 1st April 2013, were revised in 2016 and the 2015/16 assessment has been undertaken against these updated standards.
1.15 A separate report will be presented to the Committee with the detailed self-assessment, and the resultant Quality Action Improvement Plan (QAIP) as is required by the new standards. In summary, the self-assessment has demonstrated substantial compliance with the standards – 99.7% fully or partially compliant.

1.16 The key focus of the review of the effectiveness of internal audit is the delivery of the service to the required standard in order to produce a reliable assurance on internal controls and the management of risks in the authority. In coming to a view on the effectiveness of the system of internal audit, the following are all indicators that should be taken into account:

- Performance of the internal audit provider (in-house and / or contractor) in terms of both quality & cost
- Views of external audit & reliance placed on work by internal audit
- Role and effectiveness of the Audit and Governance Committee
- The extent to which internal audit adds value to the organisation and helps delivery of objectives

1.17 During 2015/16, the internal audit service has achieved the following:

- Delivery of 100% of the Audit Plan
- 100% client satisfaction for audit work
- Successful transfer of fraud staff to South West London Fraud Partnership in May 2015
- Expansion of the South West London Audit Partnership to a 4 Borough Shared Service to include LB Merton from the 1st October 2015 and LB Sutton from the 1st April 2016.

Overall assurance

1.18 As Head of the South West London Audit Partnership and Statutory Head of Internal Audit for the Royal Borough of Kingston upon Thames, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion upon:

- All internal audit assignments undertaken during the year;
- Any follow-up action taken in respect of previous audit work;
- Any significant recommendations not accepted by management and the consequent risks;
- Matters arising from previous reports to the Audit Committees;
- Any limitations which may have been placed on the scope of the internal audit;

**Opinion**

I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council’s control environment. In my opinion, the Council does have an adequate and effective control process to manage the achievement of its objectives. However, I must caveat this opinion in respect of the key issues reported below in Section 2.
2 PLANNED COVERAGE AND OUTPUT

Actual days compared to planned days

2.1 The annual plan, approved by the Audit Committee in April 2015, was for a total of 679 days that would be flexible to take account of the nature of skills required and the areas under review. The audit plan agreed by committee exceeded the number of days commissioned from the Shared Service (657.5 days) as it was accepted that, as in previous years, there would be changes to the plan during the course of the year. During the year the Audit Plan was revised to reflect changes in management requirements and consequently a plan of 679 days was developed through consultation with DMTs. On the basis of the 657.5 commissioned days, we delivered 100% of the audit plan. This was through the use of a combination of in-house auditors and specialist staff in areas such as computer audit.

Actual Assignments against planned assignments

2.2 As above, a number of revisions were made to the original plan approved by the Audit Committee in April 2015. As with any Internal Audit plan, the plan needs to offer flexibility during the year for changing priorities and specific issues arising within individual service areas. To accommodate this, some of the original reviews were deleted, replaced or moved into 2016/17. A summary of the planned against actual days is provided in Table 1 below:}

Table 1: Planned v actual days delivered

<table>
<thead>
<tr>
<th>Area</th>
<th>Actual Days 2014/15</th>
<th>Planned Days 2015/16</th>
<th>Revised Days 2015/16</th>
<th>Actual Days 2015/16</th>
<th>% of Planned days to plan delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>62</td>
<td>63</td>
<td>54</td>
<td>48</td>
<td>76</td>
</tr>
<tr>
<td>Key Financial Systems</td>
<td>116</td>
<td>177</td>
<td>178</td>
<td>156</td>
<td>88</td>
</tr>
<tr>
<td>Adult and Health Services</td>
<td>108</td>
<td>106</td>
<td>79</td>
<td>97</td>
<td>91</td>
</tr>
<tr>
<td>Place</td>
<td>86</td>
<td>100</td>
<td>106</td>
<td>104</td>
<td>92</td>
</tr>
<tr>
<td>Finance Services</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Proactive and real-time Auditing</td>
<td>18</td>
<td>15</td>
<td>15</td>
<td>11</td>
<td>73</td>
</tr>
<tr>
<td>Heritage &amp; Culture</td>
<td>11</td>
<td>30</td>
<td>15</td>
<td>17</td>
<td>57</td>
</tr>
<tr>
<td>Organisational Development &amp; Strategic Business</td>
<td>62</td>
<td>25</td>
<td>36</td>
<td>33</td>
<td>132</td>
</tr>
<tr>
<td>Risk Management &amp; Assurance Framework</td>
<td>16</td>
<td>23</td>
<td>23</td>
<td>20</td>
<td>87</td>
</tr>
<tr>
<td>Completion of prior year audits</td>
<td>81</td>
<td>50</td>
<td>50</td>
<td>63</td>
<td>126</td>
</tr>
<tr>
<td>Management &amp; Assurance</td>
<td>65</td>
<td>50</td>
<td>65</td>
<td>68</td>
<td>116</td>
</tr>
<tr>
<td>Follow Up &amp; Contingency</td>
<td>22</td>
<td>20</td>
<td>20</td>
<td>26</td>
<td>136</td>
</tr>
<tr>
<td>Fraud Management and reactive work</td>
<td>-</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>657</strong></td>
<td><strong>679</strong></td>
<td><strong>661</strong></td>
<td><strong>663</strong></td>
<td><strong>98</strong></td>
</tr>
<tr>
<td>AfC</td>
<td>143</td>
<td>143</td>
<td>143</td>
<td>143</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>800</strong></td>
<td><strong>822</strong></td>
<td><strong>804</strong></td>
<td><strong>806</strong></td>
<td><strong>98</strong></td>
</tr>
</tbody>
</table>

% of commissioned days completed: 100

(Figures rounded to 2 decimal places)
2.3 The key changes were as follows:

- **Reduced IT days** – One audit, Civica Housing System, has been carried forward to the 2016/17 plan due to a lack of audit client resource. The Information Governance Toolkit (Phase 2) audit was deemed no longer relevant and was cancelled from the plan.
- **Reduced Adult & Health Services days** – Three audits, Better Care Fund, Care Act 2014 and the Independent Living Fund, were cancelled as it was felt that there was insufficient risk/scope to audit. Consideration may be given to undertaking some work in these areas during 2016/17. One audit, Residential Placements has been moved forwards to Q1 of the 2016/17 audit plan.
- **Reduced Proactive and real-time audit days** – work prioritisation resulted in less time being used in this area than planned. Proactive work on duplicate payments was given priority and resulted in £13k savings being identified during 2015/16. There will be a focus on achieving a greater coverage in the 2016/17 audit plan.
- **Reduced Heritage and Culture days** – One audit, Kingston Theatre Grant, was rolled forward into the 2016/17 audit plan at the request of the service.
- **Increased Organisational Development & Strategic Business days** – One audit, Workforce Planning, was brought forward from the 2014/15 plan. One audit, Flood Resilience Grant, was added at the request of the service.
- **Increased Management Days** – The increase was predominantly due to a failure to include time in the original audit plan to attend Departmental Management Team; and Senior Leadership Team meetings. A small amount of extra time was also used for advice and information and for special project work.
- **Increased Follow Up days** – This was directly related to the large number of Priority 1 recommendations that significantly passed their agreed review date.

**Assurance opinions**

2.4 70% of all the audits undertaken were given either substantial or full assurance (compared to 78% in 2014/15 and 74% in 2013/14). The fall in the percentage of substantial assurance audits is a reflection of the development work and close relationship with DMTs which has helped to focus on areas of management concern, as well as areas identified as audit concern.

2.5 For each audit carried out, Internal Audit provides an opinion as to the quality of the control environment in the following processes:

- Risks have been identified, evaluated and managed
- Internal controls reduce risks to acceptable levels
- Action is being taken to promptly remedy significant failings or weaknesses
- The current levels of monitoring are sufficient

2.6 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit. The auditor will agree with management a number of recommendations which, when implemented, will result in a reduction of the exposure to risk. Each recommendation is given a priority ranking and an implementation date and these are monitored on a regular basis by the internal audit team. Priority 1 recommendations are defined as being those where major issues have been identified for the attention of senior management.
Levels of assurance

<table>
<thead>
<tr>
<th>Levels of Assurance</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Assurance</strong></td>
<td>There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.</td>
</tr>
<tr>
<td><strong>Substantial Assurance</strong></td>
<td>Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.</td>
</tr>
<tr>
<td><strong>Limited Assurance</strong></td>
<td>There are significant weaknesses in key control areas, which put the system objectives at risk.</td>
</tr>
<tr>
<td><strong>No Assurance</strong></td>
<td>Control is weak, leaving the system open to material error or abuse.</td>
</tr>
</tbody>
</table>

Priority of recommendations

<table>
<thead>
<tr>
<th>Priority</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Major issues that we consider need to be brought to the attention of senior management.</td>
</tr>
<tr>
<td>2</td>
<td>Important issues which should be addressed by management in their areas of responsibility.</td>
</tr>
<tr>
<td>3</td>
<td>Detailed problems of a minor nature that were resolved through on-site discussion with local management.</td>
</tr>
</tbody>
</table>

2.7 Table 2 below identifies the overall levels of assurance provided for the Key Financial System audits:

Table 2: Levels of Assurance (KFS)

<table>
<thead>
<tr>
<th>Audit Assignment</th>
<th>Assurance given 2014/15</th>
<th>Assurance given 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Substantial</td>
<td>Substantial*</td>
</tr>
<tr>
<td>Council Tax</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>General Ledger</td>
<td>Not covered this year</td>
<td>Substantial*</td>
</tr>
<tr>
<td>Housing Rents</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>NNDR (Business Rates)</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Payroll &amp; Staff Expenses</td>
<td>Substantial*</td>
<td>Substantial</td>
</tr>
<tr>
<td>Pensions Administration</td>
<td>Not covered this year</td>
<td>Substantial</td>
</tr>
<tr>
<td>Pensions Investments</td>
<td>Not covered this year</td>
<td>Not covered this year</td>
</tr>
<tr>
<td>Treasury Management</td>
<td>Not covered this year</td>
<td>Substantial</td>
</tr>
<tr>
<td>Housing Benefits</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Cash &amp; Bank</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>Not covered this year</td>
<td>Limited*</td>
</tr>
</tbody>
</table>

*Subject to issue of final report

2.8 In addition to the in-house work, there has been a joint 4 borough audit undertaken on the iTrent payroll system. This was led by the London Borough of Sutton as host authority for the system, and they commissioned an ISAE audit report, the scope for which was agreed by all 4 boroughs now using the system (Kingston, Richmond, Sutton and Merton). The audit was awarded a Reasonable Assurance opinion (equivalent to Substantial Assurance).
2.9 Table 3 below identifies the other audits where ‘Limited’ audit assurance was given or where Priority 1 recommendations were made.

Table 3: Priority 1 recommendations

<table>
<thead>
<tr>
<th>Audit</th>
<th>Assurance Opinion</th>
<th>Number of Priority 1 recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Project Management*</td>
<td>Limited</td>
<td>1</td>
</tr>
<tr>
<td>Schools Financial Management System</td>
<td>Substantial</td>
<td>1</td>
</tr>
<tr>
<td>Capital Expenditure*</td>
<td>Limited</td>
<td>2</td>
</tr>
<tr>
<td>Your Healthcare</td>
<td>Limited</td>
<td>10</td>
</tr>
<tr>
<td>Occupational Therapy Equipment*</td>
<td>Limited</td>
<td>4</td>
</tr>
<tr>
<td>Right to Buy*</td>
<td>Limited</td>
<td>1</td>
</tr>
<tr>
<td>Housing Team Performance*</td>
<td>Limited</td>
<td>1</td>
</tr>
<tr>
<td>Planning Applications</td>
<td>Limited</td>
<td>4</td>
</tr>
<tr>
<td>Adecco Contract</td>
<td>Substantial</td>
<td>1</td>
</tr>
<tr>
<td>Business Continuity</td>
<td>Limited</td>
<td>0</td>
</tr>
</tbody>
</table>

*Subject to issue of final report

2.10 We now summarise the key issues arising as a result of our work.

**Key issues arising**

**Key Financial Systems**

2.11 Substantial assurance was provided on 11 of the 12 Key Financial Systems in 2015/16. There were 2 Priority 1 recommendations raised in the Capital Expenditure review: we examined four new capital projects and for two schemes worth more than £500,000 found no evidence of a feasibility report being approved by the relevant Strategic Committee or the Infrastructure, Projects and Contracts/Treasury Committee (Sheltered Remodelling and Affordable Housing Development). Capital Budgets are currently not held on the Council’s general ledger system (Agresso) these are recorded on an Excel spread sheet maintained by the Senior Finance Analyst.

**ICT Reviews**

2.12 A programme of ICT audits was completed during 2015/16 and identified control weaknesses in the following main areas:

- **IT Project Management** – For the sample of projects reviewed there was a lack of project documentation, specifically we were unable to identify clear stage sign off documentation including that for user acceptance testing or go live approval. Whilst there was some documentation that could support the sign off decision this was inconsistent in format or incomplete.
- **Schools Financial Management System** – At the time of the audit it was confirmed by schools visited that there was no Disaster Recovery or Business Continuity Plan for the SIMS financial system application.
Other Key findings

2.13 A number of other Priority 1 recommendations were raised during the year:

- Adecco – The contract in place with Adecco with a value of £1.2m was signed by the Contract Manager on behalf of the Council however it was not sealed by Legal Services in accordance with the Council’s Contract Standing Orders.
- Your Healthcare – The audit identified a number of concerns around governance, performance monitoring, compliance with agreed policies/procedures, retention of records, accuracy of data and realisation of objectives. The findings of the report will be reported in detail at the September Committee meeting.
- Occupational Therapy Equipment – Budget monitoring was not being performed routinely or effectively and at the time of the audit the budget was reported as overspent. Reliance could not be placed on the process for authorising payments to the contractor. The Council pays all invoices and then recharges partner organisations, the process is complicated and has resulted in: extra resource being required to administer it at a cost to the Council.
- Right to Buy – Testing identified one instance where the discount had been miscalculated in favour of the house buyer by £5000 resulting in a loss to the Council. The control weakness has since been addressed by the department.
- Housing Team Performance – Sample testing identified that training needs were not routinely being identified through the supervision and appraisal process.
- Planning Applications – The audit was requested by management and identified a number of concerns specific to Telecom applications around the accuracy of planning application validation dates, content of acknowledgement letters, management and access arrangements in relation to the planning system and general administration arrangements. The findings of the report will be reported in detail at the September Committee meeting.
- Business Continuity – Key areas of concern identified during the audit included a lack of participation in the most recent business continuity exercise, plans that were overdue for review, the list of critical services within the corporate business continuity plan was out of date.

Follow up work

2.14 In addition to audits contained within the Audit Plan for 2015/16 Internal Audit introduced formal procedures to carry out follow up work on reports where Priority 1 recommendations have been made. Updates are now provided to SLT prior to reporting to the Audit and Governance Committee.

2.15 We reported in April that limited progress had been made in completing recommendations and at that time there were 13 outstanding P1 recommendations. There are a number of key areas where management action remained outstanding at the previous Audit and Governance Committee.

2.16 Caldicott Follow up – A review of staff access to systems within Adult Social Care should be undertaken to ensure that staff have defined and documented access rights and that these are agreed by the Caldicott Guardian. Access to folders and drives is being managed through the modern desktop migration, which should be complete for Adult Social Care by the end of April 2016. Audit will re-visit this area to assess implementation.

2.17 Liquid Logic Application Review – Adult Social Care should develop a Business Continuity Plan as soon as possible. This should then feed into the overall Disaster Recovery Plan.
2.18 **Liquid Logic Application Review** – The contract between the Royal Borough of Kingston and Liquid Logic for the IAS system should be checked to see if it has been extended to cover the current period and it should be signed by both parties.

2.19 **Information & Physical Security (Adults’ Establishments)** – It was recommended that a plan be developed and resources allocated to review client data held at Sessions House and Murray House to ensure that it was being held securely and confidentially and that there is a review of archived data within Adult Social Care to ensure that the correct retention and disposal timescales have been applied to existing archived data. Destruction dates have been added to boxes of client data at Murray House and Sessions House however, an update is required with respect to archived data within the rest of Adult Social Care.

2.20 **Asbestos and Legionella** – The Council should satisfy itself that all members of staff, where appropriate, should have the required qualifications and have received the appropriate health and safety training specific for their role. Managers should ensure that this information is captured during the annual performance appraisal process as required.

2.21 Internal Audit attended a Health & Safety Board meeting at the end of May to discuss this issue and to agree a way forward. Further follow-up work will be completed and the results reported back to the Audit, Governance and Standards Committee in September.
3 IMPLEMENTATION OF RECOMMENDATIONS

3.1 Following each internal audit assignment, we make recommendations for improvement. The priority of recommendation can be defined as follows:

Priority 1: - Major issues that we consider need to be brought to the attention of senior management;

Priority 2: - Important issues which should be addressed by management in their areas of responsibility;

Priority 3: - Detailed problems of a minor nature that were resolved through on-site discussion with local management.

3.2 Management has responded to each of our recommendations stating whether action will be taken to implement. 100% of the high priority recommendations reported to management have been agreed.

4 PERFORMANCE OF INTERNAL AUDIT

Quality assurance

4.1 Internal Audit operates a Quality Assurance system for its internal audits. This includes detailed independent review of all planning documents, terms of reference, audit files and reports.

Compliance with Standards

4.2 Based upon our ongoing assignment and review processes, together with the results of our Customer Surveys, we believe that we are substantially compliant with those Performance Standards. The self-assessment against the Public Sector Internal Audit Standards (PSIAS) for 2015/16 identified substantial compliance with 99.7% of the standards fully or partially met. Some areas where processes and documentation could be improved have been included within a Quality Action Improvement Plan which will be monitored by the Shared Service Board. None of the areas for improvement have had any significant adverse impact on the audit work undertaken.

Customer Surveys

4.3 We send out a Customer Survey at the end of each audit assignment in order to assess whether the auditee is satisfied with both the processes and the outcomes of the audit. Since December 2015 we have trialled the use of Survey Monkey to collect survey responses, this option takes less time for respondents to complete and take-up has been positive. 100% of the responses indicated that the auditee found the internal audit to be ‘good’ or ‘satisfactory’.
Quality control

4.4 Quality control is achieved through:

- Preparation of a detailed audit plan which is reviewed by the Director of Finance and the Head of Corporate Governance prior to submission to the Audit Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to a review protocol;
- The use of qualified, trained and experienced staff;
- Monitoring of performance against targets;
- The review of all audit files and reports by the Audit Manager and Head and Deputy Head of the South West London Audit Partnership.
5 FRAUD

5.1 Richmond Council joined the South West London Fraud Partnership (SWLFP) on the 1st April 2015. The SWLFP is a 5 Borough shared fraud investigation service with RB Kingston, LB Sutton, LB Merton and led by LB Wandsworth. The purpose of the shared service was to ensure that an effective fraud investigation and prevention service would be maintained following the transfer of benefit fraud investigation to the Department for Work and Pensions (DWP). The bringing together of retained knowledge and expertise under a single team strengthens resilience for the individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises.

5.2 During 2015/16, the SWLFP has undertaken counter fraud activities in the following areas:

- National Fraud Initiative (NFI)
- Blue Badge/Parking Permits
- Council Tax Reduction/Discount
- Employee Fraud
- NNDR/ Business Rate Relief
- Social Care fraud
- Housing Tenancy Fraud/abuse

5.3 A Fraud Plan was established and agreed for 2015/16 to ensure that fraud investigation work continued to be directed to areas at highest risk of fraud.

Investigation Caseloads

5.4 In total, 168 cases have been opened as a result of referrals received and concerns highlighted through proactive fraud drives during the year. A breakdown of fraud referrals accepted for investigation is show in Table 4 below:

Table 4: Investigation Caseloads

<table>
<thead>
<tr>
<th>2015/16</th>
<th>Open Cases b/fwd</th>
<th>New Cases in Year</th>
<th>Total Cases</th>
<th>Closed No Sanction</th>
<th>Closed With Sanction</th>
<th>Open Cases c/fwd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenancy Fraud</td>
<td>14</td>
<td>63</td>
<td>77</td>
<td>41</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Right to Buy</td>
<td>0</td>
<td>44</td>
<td>44</td>
<td>16</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Permit Fraud</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Corporate – Internal</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Corporate - External</td>
<td>0</td>
<td>31</td>
<td>31</td>
<td>7</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>16</strong></td>
<td><strong>152</strong></td>
<td><strong>168</strong></td>
<td><strong>70</strong></td>
<td><strong>38</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

National Fraud Initiative (NFI)

5.5 The SWLFP is responsible for co-ordinating the NFI data matching exercises and investigating matches on behalf of the partner authorities.
5.6 On the abolition of the Audit Commission in 2015 responsibility for the NFI was transferred to the Cabinet Office and we are required to provide them with defined sets of data so that they can be matched with information provided by other public bodies.

5.7 Key data sets submitted for the 2015/16 data match were:

- Creditors,
- Market Traders,
- Personal Alcohol Licences,
- Parking,
- Payroll,
- Pensions,
- Personal Budgets,
- Residential Care,
- Council Tax and
- Electoral Registration data

5.8 Kingston, along with other partners within the SWLFP, have been accepted for the Council Tax Reduction (CTR) data match pilot. CTR records were submitted as part of the NFI data matching pilot and from these 1,448 potential matches for investigation were highlighted of which 1,039 matches were within NFI defined high risk reports. In addition, the SWLFP has been piloting joint working with the Single Fraud Investigation Service (DWP) on National Benefit, Housing Benefit and CTR.

5.9 As at the 30th April 2016;

- 1,474 matches had been completed and closed;
- 249 matches were in progress (had some action taken on them)
- 3 matches had been closed as fraud;
- 32 matches were identified as errors.

5.10 In total £194,720.09 has been identified as overpaid/incorrectly paid as a result of the NFI.

5.11 Through the NFI-Flexible Matching Service, the Council Tax and Electoral Registration Data were matched and they were released to view in March 2016 following the completion of the compliance declaration.
Reactive Fraud Investigations

5.12 Reactive fraud investigations are undertaken where suspected cases of fraud and irregularity are identified. These can be identified from a number of different sources:

- By Internal Audit, identified as part of an individual audit assignment;
- Reported under the Council’s Whistle Blowing policy
- Reported via the Confidential Fraud Hotline
- Reported online via the public website (Report a Fraud)
- Reported directly to the Internal Audit or the SWLFP via, staff, members, contractors, members of the public, other local authorities, the police, parking enforcement and other external agencies.

5.13 A number of corporate cases have been investigated during the year with the following outcomes:

- A referral was received for missing IT equipment linked to the major IT upgrade for Kingston and Sutton as stock piles of essential kit appeared to be lower than expected. Following the review of CCTV, a member of staff was arrested and additional equipment discovered at his home address. The member of staff pleaded not guilty to charges and the case is due to go to trial. Their contract of employment was terminated with immediate effect.
- An employee was identified as working whilst off sick. This was confirmed by the secondary employer and resulted in their resignation.
- An officer was found to have used the Council’s client transport taxi scheme for personal use. This officer resigned prior to the formal disciplinary hearing and repaid the cost of the fares.

5.14 Work has also been undertaken on a number of external cases, not involving Council staff:

- 3 investigations undertaken as part of the NFI Council Tax Reduction (CTR) pilot identified that the claimants had failed to notify of changes in circumstance. All three were issued with Administrative Penalties to the total value of £2,704 based on overpayments totalling £5,409.
- 5 formal cautions were issued where individuals were identified as misusing blue badges.

5.15 Statistics around the number and types of referrals received and sanctions issued as a result of reactive fraud investigations undertaken in 2015/16 are included in Tables 4 and 5.

Housing Fraud

5.16 16 properties have been recovered so far this year which have resulted in notional savings of £288k (16 x £18k). The properties were recovered based on the following:

- 5 for suspected subletting,
- 6 for suspected abandonment,
- 1 false succession,
- 4 for Anti-Social Behaviour.
5.17 The possession of two further properties has been awarded by the courts and we are awaiting eviction. 4 cases are awaiting court hearings and 3 notices to quit the property had been issued as at the 31st March 2016. The notional savings in respect of these cases will be included in the 2016/17 savings figures.

Right to Buy (RTB)

5.18 11 Right to buy applications were withdrawn following intervention in 2015/16. This has delivered notional savings of £1.1m (11 x £100k). There are currently 30 RTB applications being investigated.

Social Housing Investigation Partnership (SHIP)

5.19 The SHIP continues to provide a sound framework for partnership working to identify and respond to tenancy fraud and abuse. This includes facilitating training, promoting fraud awareness, discussions on emerging themes and concerns and the sharing of intelligence. Membership of the SHIP has been extended following the establishment of the SWLFP with other organisations from across the fraud partnership now in attendance.

Summary of Actual and Notional savings identified on Fraud cases

Table 5: Summary of Overpayments and Notional savings

<table>
<thead>
<tr>
<th></th>
<th>2015/16 February 2016</th>
<th>2014/15</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total benefit overpayments/ savings</strong></td>
<td>194,720</td>
<td>556,512</td>
<td>850,495</td>
</tr>
<tr>
<td>Social Housing (notional @ £18k per property recovered* - does not include properties pending recovery)</td>
<td>288,000 (16 prop) + 29 Hsg App w/drawn</td>
<td>360,000</td>
<td>306,000 (17 prop)</td>
</tr>
<tr>
<td>Right to buy (notional @ £100k discount)</td>
<td>1,100,000</td>
<td>1,100,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Blue Badges &amp; Parking Permit (notional @ £500 per case*)</td>
<td>2,500</td>
<td>8,000</td>
<td>15,500</td>
</tr>
<tr>
<td>Internal (notional £5k per case*)</td>
<td>15,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Internal (UKBA @ notional £10k per case*)</td>
<td>0</td>
<td>20,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Savings</strong></td>
<td><strong>1,600,220</strong></td>
<td><strong>2,064,512</strong></td>
<td><strong>2,260,705</strong></td>
</tr>
</tbody>
</table>

(* notional savings figures as per Audit Commission estimates)
6 IMPLEMENTATION OF RECOMMENDATIONS

6.1 Following each internal audit assignment, we make recommendations for improvement. The priority of recommendation can be defined as follows:

Priority 1: - Major issues that we consider need to be brought to the attention of senior management;

Priority 2: - Important issues which should be addressed by management in their areas of responsibility;

Priority 3: - Detailed problems of a minor nature that were resolved through on-site discussion with local management.

6.2 Management has responded to each of our recommendations stating whether action will be taken to implement. 100% of the high priority recommendations reported to management have been agreed.

Alix Wilson
Head of the South West London Audit Partnership

June 2016