



St Edmundsbury
BOROUGH COUNCIL

D259

Performance and Audit Scrutiny Committee 28 January 2013

Third Quarter 2012/13 Internal Audit Progress Report

1. Summary and reasons for recommendation

- 1.1 This report advises Members of the work of the Internal Audit Section for the first nine months of 2012/13. The report also seeks to provide Members with an understanding of the variety of projects and corporate activities which are supported through the work of the team.

2. Recommendation

- 2.1 Members are asked to note and endorse the contents of the Third Quarter Internal Audit Progress Report for 2012/13.

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3. Corporate priorities

3.1 The recommendation meets the following, as contained within the Corporate Plan:

Corporate priority: *'working together for an efficient council'*.

4. Key issues

4.1 Management are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly.

4.2 Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls, including risk management, corporate governance and arrangements for providing best value for money.

4.3. The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective system of internal audit. The Internal Audit Service performs the internal audit work to satisfy this legislative requirement, and part of this is reporting the outcome of its work to the Performance and Audit Scrutiny Committee.

4.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 states that 'in addition to the annual report, the Head of Internal Audit should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report'.

4.5 The Performance and Audit Scrutiny Committee monitors the activity and outcomes of internal audit work against the Internal Audit Plan, receiving the regular progress reports referred to in paragraph 4.4 above.

5. Other options considered

5.1 N/A

6. Community impact

6.1 **Crime and disorder impact** *(including Section 17 of the Crime and Disorder Act 1998)*

6.1.1 None arising directly from this report.

6.2 **Diversity and equality impact** *(including the findings of the Equality Impact Assessment)*

6.2.1 None arising directly from this report.

6.3 **Sustainability impact** *(including completing a Sustainability Impact Assessment)*

6.3.1 None arising directly from this report.

6.4 **Other impact** *(any other impacts affecting this report)*

6.4.1 None arising directly from this report.

7. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

7.1 No external consultation was required or undertaken in producing this report. Internal consultation is carried out with key officers during the audit process and in the production of individual internal audit reports and follow up work.

8. Financial and resource implications *(including asset management implications)*

8.1 There are no direct financial implications arising from this report. All internal audit recommendations must be considered in terms of their cost effectiveness.

9. Risk/opportunity assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
Internal controls within the Council may not be efficient and effective and as a result the Council may not be identifying significant weaknesses that could impact on the achievement of the Council's priorities and/or lead to fraud, financial loss or inefficiency.	Medium	Members receive and approve the internal audit plan and receive progress reports throughout the year. The audit plan is based on an assessment of risk for each system or operational area. External Audit reviews the work of the internal audit section and internal control arrangements.	Low

10. Legal and policy implications

10.1 The provision of the Internal Audit Service allows the Council to meet its statutory obligations with regards to the Local Government Act 1972, the Local Government Finance Act 1982 and the Accounts and Audit Regulations 2011

11. Ward(s) affected

11.1 All

12. Background papers

12.1 N/A

13. Documents attached

13.1 Appendix A – Overview of St Edmundsbury BC Internal Audit Work October – December 2012
Annex A – Summaries of St Edmundsbury BC Internal Audit Reports October – December 2012

INTERNAL AUDIT

Overview of St Edmundsbury BC Internal Audit Work
October – December 2012



1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code) which has been deemed as proper practice under the Accounts and Audit Regulations 2003, states under 'Standard 10 – Reporting' that 'in addition to the annual report, the Head of Internal Audit should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report'.
- 1.2 The purpose of this report is to update Members on progress made against the 2012/13 Internal Audit Plan.

2. Background

Role of Internal Audit

- 2.1 Management are responsible for the systems of internal control within the council and should set in place policies and procedures to help ensure that systems function correctly. It is the role of internal audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, corporate governance, and arrangements for providing best value for money. This is achieved by undertaking audits across the full range of the council's functions in accordance with a risk based audit plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.
- 2.2 Internal Audit also undertake other consultancy style work at the request of management, ranging from general financial advice and assistance and financial appraisals of contractors, to involvement in major council initiatives and projects, as well as undertaking special projects and investigations, including investigations into suspected irregularities or fraud.

Requirement for Internal Audit

- 2.3 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit.
- 2.4 Internal Audit carries out the work to satisfy this legislative requirement, reporting the outcome of its work to this Committee. The Performance and Audit Scrutiny Committee in its role as the council's audit committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and for scrutinising the Annual Governance Statement prior to its approval at Full Council. The audit work carried out is therefore a key source of assurance that the internal control environment is operating effectively.

3. Review of Internal Audit work for the nine months to December 2012

3.1 An overview of the work of Internal Audit for the third quarter of 2012/13, and progress made towards achieving the Audit Plan for the year, is set out below.

Corporate Work including Advice and Assistance

3.2 During the third quarter of the financial year 2012/13 this aspect of the section's work has included the following:

- Ongoing membership and contribution to the Strategic Risk Management Group;
- Membership and contribution to Joint Information Governance Working Group;
- Attendance at Joint Leadership Team meetings to brief senior managers in relation to the outcomes of work undertaken by the section;
- Carrying out a piece of work to provide options for the new Head of Resources & Performance to consider in evolving a combined risk and control management process;
- Responding to approximately seventy requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts;
- Acting as Independent Examiner for the 2011/12 Friends of Keverlaer Account;
- One team member is currently on the Council's Business Process Re-engineering team which is reviewing and re-designing the Forest Heath and St Edmundsbury's service processes and methods of interaction; and
- Continuing to provide advice to service areas on internal controls.

Core Financial Systems and Fundamental Review Work

3.3 This work is concerned with the documentation, evaluation and testing of the effectiveness of systems of internal control within the council's financial and information systems, including compliance with the council's rules and policies and its overall risk management and corporate governance arrangements.

3.4 We have agreed with the External Auditors to commence the majority of this work during the latter six months of the financial year to enable them to place as much reliance on the work of Internal Audit as possible, resulting in potentially reduced External Audit testing and slightly lower fees, while still giving Internal Audit a realistic chance of completing the statutory Audit Plan (that is, the core financial systems reviews).

3.5 Eight of these audit reviews have been completed and issued as final reports, these being:

- Treasury Management
- Cash Handling
- Cash Handling – Car Parks Follow Up
- Cash Handling – Abbey Gardens Follow Up
- Central Government Data Requirements and Key Performance Indicators

- Central Government Data Requirements and Key Performance Indicators Follow Up
- E-commerce Follow Up
- ICT Back Up Arrangements Follow Up

Summaries of the first two audits above are shown at Appendix A, whilst the results of the latter audits were reported to this Committee in summary form at the October 2012 meeting.

3.6 Four of the fundamental systems audits are at the stage where testing has been completed and we are awaiting agreement of draft reports and agreed action plans:

- Accounts Payable
- Main Accounting System
- Risk Management
- Payroll

3.7 A number of core fundamental systems and fundamental review audits are in progress, they include:

- Accounts Receivable
- Council Tax
- Non Domestic Rates
- Housing and Council Tax Benefits
- ICT – Social Media

The results of the audits above in paragraphs 3.6 and 3.7 will be reported to Performance and Audit Scrutiny members in the Annual Internal Audit Report in April 2013.

Departmental Systems Reviews

3.8 This work is concerned with reviewing internal controls within departmental systems, areas for review being identified by a risk analysis undertaken before the start of the financial year.

3.9 During the first nine months of the financial year 2012/13 seven internal audit reports have been issued within this category, namely:

- Heritage Assets
- Information Governance
- Markets
- Car Parks Follow Up
- Parks Follow Up
- West Suffolk House Car Parking Arrangements Follow Up
- Grants (Paid) Follow Up

A summary of the Heritage Assets and Information Governance audits are shown at Appendix A, whilst the results of the remaining audits were reported to this Committee in summary form at the October 2012 meeting.

3.10 In addition, two audits are in progress and/or nearing completion and these are listed below:

- Contract Procedures
- Fees and Charges

The results of these audits will be reported to Performance and Audit Scrutiny members in the Annual Internal Audit Report in April 2013.

Probity

3.11 Work is continuing on raising fraud awareness within the council, for example, a message has been included in the West Suffolk internal bulletin reminding staff of their responsibilities regarding declaration of interests, gifts and hospitality. Two further messages will appear in the bulletin over forthcoming months relating to expense claims and information security.

3.12 A joint West Suffolk National Fraud Initiative (NFI) strategy has been produced, building on the original strategy produced by SEBC and now incorporating FHDC. The strategy contributes to the councils' duty to protect public funds, reduce crime and disorder and to be an efficient and effective council. The Strategy defines the key roles and responsibilities for all stakeholders involved with the NFI exercise and also provides a means of ensuring staff have the correct knowledge, understanding and support in order to discharge these NFI roles and responsibilities.

3.13 NFI data has been successfully extracted and data matching is being undertaken by the Audit Commission. Data matches, potentially requiring investigation, will be released in January 2013.

4. Whistleblowing

4.1 The Internal Audit Manager is the designated officer for whistleblowing issues having recently taken responsibility for the maintenance and for ensuring compliance with the WhistleBlowing Policy across both West Suffolk councils (following new management restructure).

4.2 In making the council accountable and transparent in all its dealings the promotion of our whistleblowing arrangements is critically important. A Joint West Suffolk Whistleblowing Policy was approved in the Summer of 2012 and is available on both the website and intranet. In addition, an internal leaflet aimed at summarising the council's whistleblowing arrangements and advising of what action to take if concerns are suspected has been drafted, a reminder of the whistleblowing process will be appearing in the internal bulletin, and a whistleblowing page will be created on the website which will include an on-line referral form for raising concerns.

5. Internal Audit Shared Service

- 5.1 Internal Audit became a shared service with FHDC early in 2012/13. The vision for the new service continues to be realised with working practices being aligned, knowledge sharing, and colleagues successfully carrying out work across both authorities.
- 5.2 In addition to carrying out work across both Forest Heath and St Edmundsbury, the new shared Internal Audit service also continues to carry out income generating audit work for East Cambs DC (95 days planned for 2012/13) and also for the first time in 2012/13, Breckland DC in respect of the audits of Council Tax, Non Domestic Rates, and Housing and Council Tax Benefits systems. This means that for the first time, in 2012/13, the Anglia Revenues Partnership (ARP) will be subject to audit by just one team of internal auditors thus creating a more streamlined and efficient audit process for ARP.

Summaries of St Edmundsbury BC Internal Audit Reports Issued October – December 2012

1. Introduction

- 1.1 Audit reports are issued as final where their contents have been agreed with client management, in particular, responsibility for actions and timescale. During the nine months to date, fifteen audit reviews have been completed to final report stage.
- 1.2 The following sections contain a summary of the content of the internal audit reports issued during the third quarter of the current financial year. Each summary provides an indication of the issues arising from the reviews, as well as action taken in response to previous audit reports.
- 1.3 It should be noted that each summary below represents the situation at the point in time that the audit work was undertaken and therefore it is likely that a number of agreed key improvements will subsequently have been made.
- 1.4 In line with CIPFA good practice guidance, opinions are provided on the operation of control mechanisms where a full audit has been undertaken for the area reviewed. A key to these opinions can be found at the end of this annex, at Section 6. Where a follow up review has been undertaken full testing of controls will not always be undertaken and therefore an opinion on the operation of controls will not normally be given.

2. Treasury Management

- 2.1 This audit review covered controls relating to the management of the council's short term and long term investments with approved organisations to achieve the best possible rate of return. Audit work undertaken resulted in a ***substantial assurance*** opinion being given.

Improvements made since the previous audit

- 2.2 Changes were made to the council's lending criteria in December 2011 and incorporated into the 2012/13 Treasury Management and Investment Strategy. The measures should hopefully have the effect of reducing the overall risk of the council's portfolio whilst at the same time supporting the achievement of the council's 1.5% target rate of return.
- 2.3 A joint procurement exercise took place with East Cambridgeshire and Forest Heath District Councils for the appointment of treasury management advisors from 1st April 2012. Our existing treasury management advisors (Sector) were awarded the new 3 year contract with the council managing to secure a slightly higher level of service at a reduced rate.

Key areas where improvements are required

- 2.4 On occasions, there can be difficulties obtaining the necessary number of signatories to authorise an investment transaction. However, this should improve as a result of amending the authorised signatory list to include two new signatories.
- 2.5 Controls around investments could be improved. Whilst investment authorisers have been made aware of what they need to check and where to locate the required document they are not always performing the necessary checks. Such checks will ensure investment proposals are appropriate and within agreed council policy.
- 2.6 Whilst procedures and practices exist it would be useful if they were subject to periodic review to ensure they remain current and up to date, and for all staff involved in the treasury management process to be aware of these documents.

3. Cash Handling – Bury Festival

- 3.1 This was the first time, in recent years, that cash handling arrangements at the Bury Festival have been reviewed by Internal Audit. The purpose of this audit was to review the effectiveness of controls over cash collection, retention, and banking systems to ensure that all income due or held by the council is identified, collected, receipted and banked properly and promptly. A **limited assurance** opinion was provided.

Key areas where improvements are required

- 3.2 Staff awareness of the council's Financial Procedure Rules, Contract Procedures Rules and Employees Code could be improved.
- 3.3 Controls around income collection need to be strengthened, specifically, those relating to the safe custody of monies, creating clear management trails, performing regular reconciliations and having a separation of duties in place to ensure no one individual can control a process from start to finish.

4. Heritage Assets

- 4.1 This was the first time, in recent years, that this area has been reviewed by Internal Audit. The purpose of the audit was to assess effectiveness in the safeguarding and accounting of the council's heritage assets (those examined were the Civic Regalia and the collections held at Moyse's Hall and West Stow) and in making them accessible to the public. A **substantial assurance** opinion was provided.

Key areas where improvements are required

- 4.2 Suggestions have been made in respect of improving inventory arrangements.

- 4.3 It would be useful for procedures to be drafted for the process of looking after the Civic Regalia collection.
- 4.4 Consideration should be given to security marking high value key items.
- 4.5 The insurance value for the majority of the heritage assets is based on valuations of the assets made in 1999, it is highly likely that in some cases the value of items may have changed.

5. Information Governance

- 5.1 The importance of good information governance was highlighted in 2012 in a joint letter sent to local authorities from the Department of Communities and Local Government and the Information Commissioner, in which it set out expectations in respect of the secure handling of sensitive personal information. This audit was therefore undertaken to determine the Council's arrangements in place for information governance. A ***substantial assurance*** opinion was given.

Key areas where improvements are required

- 5.2 Training arrangements around information governance should be reviewed to ensure these are adequate.
- 5.3 Consideration should be given to developing an information sharing protocol and template for staff to use when sharing information outside of the authority. A central register of information that is shared with other organisations should also be developed on a proportionate basis in accordance with the council's needs.
- 5.4 The culture of security could usefully be further improved.

6. Meaning of Opinions given in audit reviews

Meaning of words used: -	
Full Assurance	The full assurance opinion is given where no significant or fundamental recommendations have been made and where controls within the system should provide full assurance that the risks material to the achievement of the system objectives are adequately managed.
Substantial Assurance	The substantial assurance opinion is given where a small number of significant, but no fundamental recommendations have been made and where controls within the system should provide substantial assurance that the risks material to the achievement of the system objectives are adequately managed.
Limited Assurance	The limited assurance opinion is given where a small number of fundamental and also a number of significant recommendations have been made and where controls within the system provide limited assurance that the risks material to the achievement of the system objectives are adequately managed.
No Assurance	The no assurance opinion is given where little or no assurance could be gained from a system where a large number of both fundamental and significant recommendations were proposed and where controls within the system provide little or no assurance that the risks material to the achievement of the system objectives are adequately managed.