

Forest Heath District Council

Overview of Internal Audit Work April – October 2013

1. Introduction

- 1.1 The Public Sector Internal Audit Standards require the Internal Audit Manager to report periodically to senior management and committee on Internal Audit's performance relative to its Audit Plan. Reporting should also include any significant risk exposures and control issues where relevant, including fraud risks and governance issues. The Performance and Audit Scrutiny Committee is the designated committee to receive these periodic reports.
- 1.2 The purpose of this report is to update Members on progress made against the 2013/14 Audit Plan (approved by this committee in May 2013), and to seek Members approval for changes to the Plan set out in **Section 3** below.

2. Review of Internal Audit work for the six months to October 2013

- 2.1 An overview of the work of Internal Audit for the first six months of 2013-2014, and progress made towards achieving the Audit Plan for the year, is set out below.
- 2.2 Internal Audit has had significant involvement within the period in a number of corporate projects at the request of the Head of Resources and Performance. These projects include:

- Implementation of the new Financial Management System – Internal Audit has provided support to this project in a variety of areas, including testing, data management and compliance. As well as attending project board meetings this support has been achieved by attendance at a variety of project workshops, and liaison with External Audit.

Internal Audit has compiled and issued a Testing Strategy document to officers responsible for testing different areas of the new system, including requirements for testing and compilation of test documentation. In addition, a Data Migration Strategy, setting out how best to transfer data from the old to the new system, has been drafted along with advice on data retention requirements.

- Tender for the Provision of Banking Services – Internal Audit has assisted and supported Finance, Legal and Procurement colleagues in this procurement exercise to determine a new banking provider from 1 April 2014. To date, assistance and support has included acting as the key contact; collating of information / data in order to prepare the Tender document and Official Journal of the European Union (OJEU) notice (publication in which all tenders from the public sector which are valued above a certain financial threshold according to EU legislation, must be published); and drafting the Project Initiation Form and presenting this at Programme Board.
- Review of Cash Collection Arrangements – this has involved Internal Audit sourcing and documenting information regarding existing cash collection arrangements across both West Suffolk councils, as well as determining the procurement options available for the cash collection service in the future.
- Contract Procedures Rules Review - the Contract Procedure Rules Working Group includes a representative from Internal Audit. The objective of the Working Group is to align and update the Rules across the two authorities, at the same time also considering electronic tendering, regulatory requirements and procurement best practice requirements.
- Treasury Management Activities Review - Internal Audit are assisting in the drafting of an operating guide for staff to refer to when undertaking daily treasury management activities. At the same time, evaluating opportunities to streamline treasury management activities in order to identify common, simplified and efficient processes for use across both councils.
- Review of Creditors Process – Internal Audit are currently working with Finance to look at how creditors processes will work under the new Financial Management System, including advising on appropriate controls.

2.3 The Internal Audit Manager and Senior Auditor are members of the Joint Governance Group which leads on the production of the Annual Governance Statement and its associated documents. This year the Group has also been involved in raising governance awareness with staff, and providing members with governance training.

2.4 Additional corporate work which the section is involved with includes:

- Ongoing membership and contribution to the Joint Strategic Risk Management Group – this is a member and officer group which meets on a quarterly basis to update both councils’ strategic risk registers before these are presented to each council’s Performance and Audit Scrutiny Committee;
- Membership and contribution to the Joint Information Governance Working Group - this is an officer group which provides oversight of the proper and secure handling of information by both councils;
- Responding to approximately 50 requests for financial vetting or other related financial advice including assessments of organisations’ financial suitability to undertake specified contracts. Within the period this has included financial vetting advice on the Home of Horseracing project, and a number of other contracts;
- Attendance at Joint Leadership Team meetings to brief senior managers in relation to the outcomes of work undertaken by the section;
- Continuing to provide advice to service areas on internal controls.

Core Financial Systems and Fundamental Review Work

- 2.5 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.
- 2.6 Internal Audit has a commitment to reviewing all of the council’s core financial systems each year, as these are the audits which form the basis of the Internal Audit Manager’s annual audit opinion and which External Audit (Ernst and Young) are likely to want to place reliance on. In order to take into account the impact on the Finance area of resourcing a number of significant projects (the most significant of course being the implementation of a new financial management system) Internal Audit has this year adopted a staged approach to carrying out core financial systems audits. This has meant that work on individual audits is spread over a longer period of time in order to take account of Finance staff current workloads. This has resulted in a greater number of these audits being underway at this time of the year, but fewer actually completed to date, than would normally be planned for.
- 2.7 Of the 11 core fundamental systems and fundamental review audits included within the 2013-2014 Audit Plan, 2 have been completed (ICT – Software Licences, and Treasury Management), 7 are currently in progress, 1 has not yet commenced (General Ledger) while the remaining one (Risk Management Arrangements) is now not intended to be undertaken this year (paragraphs 3.1 to 3.4 refer).

Non-Fundamental Review Work

- 2.8 This work includes reviewing internal controls within departmental systems, and other non-fundamental audits, areas for review being identified by a risk analysis undertaken before the start of the financial year.
- 2.9 During the first half of the financial year 2013-2014, 5 non-fundamental audits have been completed (compliance with Anti-Money Laundering legislation, compliance with Bribery Act legislation, Review of CCTV Systems, Payment Card Industry Data Security, and Members and Officers Gifts and Hospitality and Members Allowances and Expenses), 2 are at draft report stage, and 4 are now not intended to be undertaken this year (paragraphs 3.1 to 3.4 refer).

Summaries of all completed audits are included at Appendix A, while the status as at October 2013 of all audits included within the 2013-2014 Audit Plan is shown at Appendix B.

3. Changes to the 2013-2014 Audit Plan

- 3.1 The 2013-2014 Internal Audit Plan, approved by this committee in May 2013, emphasised the need to retain flexibility within the Plan to ensure that audit work undertaken maximises added value and takes into account changing priorities.
- 3.2 Against a backdrop of service restructures and ongoing staff and system changes, it became clear during the first half of 2013-2014 that it would not be appropriate to undertake a number of the audits included within the original 2013-2014 Audit Plan and that instead, time could be better spent by utilising audit expertise on the Finance and corporate projects referred to in paragraph 2.2 above. These are all significant projects which will enable the Council to operate more efficiently, and Internal Audit's involvement will give the added dimension of helping to ensure that internal controls are given proper consideration at the optimum juncture, an example of this being Internal Audit advice at the system design stage of the project for implementing a new Financial Management System.

3.3 The list of those audits included within the original 2013-2014 Audit Plan, but currently not intended to be undertaken are as follows:

- Performance Indicators
- Fees and Charges
- Contract Procedures
- Use of criminal record checks in recruitment process
- Risk Management Arrangements

3.4 The above audits are all non-fundamental audits other than Risk Management Arrangements which is classed as a fundamental systems audit. The intention to drop these audits from the 2013-2014 Audit Plan and instead put resources into other areas where greater added value could be achieved has been discussed with External Audit and the Section 151 Officer. Both of these stakeholders are supportive of this approach for the current year due to the significant period of change currently underway at St Edmundsbury and Forest Heath.

4. Probity

4.1 Work is continuing on raising fraud awareness within the council, for example, a fraud awareness newsletter has been included in the West Suffolk internal staff newsletter.

4.2 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. A risk assessment was completed by External Audit in June 2013 of the progress that the council has made on data matches released in January 2013. The council has been given a 'green' status, which reflects very good progress to date and no risks to delivery of the NFI work.

5. Resources

5.1 The Internal Audit Section is experiencing a number of staff changes in 2013-2014. Two auditors (1 full-time and 1 part-time) have recently left the council to take up appointments at other councils and another part-time auditor is due to go on maternity leave early in the New Year. The Internal Audit Manager, in conjunction with the Head of Resources and Performance, is closely monitoring the situation to ensure that the reduced resources do not result in an inability to provide a robust annual audit opinion for 2013-2014, and are considering what internal audit resources are required going forward.

6. Public Sector Internal Audit Standards

- 6.1 From 1 April 2013 local government internal audit work is guided by the Public Sector Internal Audit Standards (PSIASs).
- 6.2 A self-assessment is currently being undertaken to confirm the extent to which Internal Audit complies with the Standards and to identify areas where further work may be required. An update on progress made in this respect will be reported to Performance and Audit Scrutiny members in the Annual Internal Audit Report in April 2014. It is currently expected, based on work undertaken in this area to date and similarities with the CIPFA Code of Practice for Internal Audit, that Internal Audit will be substantially compliant with the new Standards.

7. Conclusions

- 7.1 The 2013-2014 Audit Plan has necessarily been reshaped to allow Internal Audit to add value where it is of most benefit by contributing to Finance and corporate projects, while ensuring that the statutory obligation of maintaining an adequate and effective internal audit function is fulfilled.
- 7.2 As described in paragraph 1.1 this report should make reference to any relevant risk exposures and control issues including fraud risks and governance issues. A flavour of issues arising from audits completed to date is shown at **Appendix A**, while a number of other potential risks/control issues are being addressed by the reshaping of the Audit Plan. The Internal Audit Manager considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.
- 7.3 The approach to completing the fundamental systems audits within the Audit Plan has changed for 2013-2014 resulting in more of these audits being in progress, but less actually completed, than would normally be planned for at this time of year.
- 7.4 Despite the loss of staff resources within the year the Internal Audit Manager currently considers that the reshaped Audit Plan will be completed on time, and that he will be able to deliver a robust annual audit opinion in the Annual Internal Audit Report.