

**Summary of Internal Audit Reports Issued in 2013/14**

**1. Introduction**

- 1.1 During the period, 26 audit reviews have been completed to final report stage. Audit reports are issued as final where their contents have been agreed with management, in particular responsibility for actions and timescale. 8 of these audit reviews relate to work undertaken on behalf of East Cambs DC, the results of which are not included within this report.
- 1.2 The following sections contain a summary of the content of the internal audit reports issued during the 2013/14 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. **The audit summaries covered by sections 2 – 9 below were previously reported to Performance and Audit Scrutiny Committee in the November 2013 half yearly report and January 2014 third quarter progress report.** They are re-presented here for the sake of completeness and to enable the Internal Audit Manager to discharge his responsibility to present a summary of the audit work which forms the basis of the annual opinion on the overall adequacy and effectiveness of the organisation's control environment.
- 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 appendix. 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.
- 1.5 Progress towards implementing the required key improvements referred to below will be reviewed by Internal Audit during 2014/15 and reported to Performance and Audit Scrutiny Committee as appropriate.

**2. Compliance with Legislation – Money Laundering Regulations**

- 2.1 The Money Laundering Regulations 2012 came into force on 1st October 2012. Money laundering is the process by which criminally obtained money or other assets (criminal property) are exchanged for clean money or assets with no obvious link to their criminal origins. It also covers money, however come by, which is used to fund terrorism. This high level audit reviewed the framework in place at the council to identify potential money laundering activity, staff understanding of money laundering, and awareness of the councils' Joint Anti-Money Laundering Policy. A **substantial assurance** opinion was provided.

### Key areas where improvements are required

- 2.2 Staff awareness of the Policy could be improved. However, this has now been addressed by including a note in the weekly staff newsletter, Wavelength, reminding staff of this Policy and requesting them to familiarise themselves with its contents.
- 2.3 The ongoing practice of reducing cash payments, encouraging the increased use of self-serve and on-line payments through the Business Process Re-engineering project will assist in providing transparent transactions.

### 3. Compliance with Legislation – Bribery Act

- 3.1 The Bribery Act 2010 became effective from 1 July 2011, its aim to reduce the levels of corruption across the UK without being unduly burdensome to organisations.
- 3.2 This audit was undertaken to provide assurance regarding the controls in place for compliance with legislation, specifically, the six principles (proportionate procedures; top level commitment; risk assessment; due diligence; communication including training; and monitoring and review) that organisations should adopt to prevent bribery from being committed. A **substantial assurance** audit opinion was given.

### Key areas where improvements are required

- 3.3 In the spirit of continuous improvement, reference should be made in some key council documents (e.g. Contract Procedure Rules and Employees Code of Conduct) to the council's zero tolerance to bribery, and this should be communicated to staff and others who perform services for the council in order to help in deterring bribery.

### 4. Payment Card Industry Data Security Standards

- 4.1 The Payment Card Industry Data Security Standard (PCI DSS) is a worldwide security standard developed to protect cardholders' personal information. It is applicable to any organisation that stores, transmits or processes cardholder information. A **substantial assurance** opinion was provided.
- 4.2 Across both councils there are a number of locations and departments which process payments; many of these are through an integrated system which is PCI DSS compliant. However, a number of locations have separate systems; the audit review focused on the processes followed at these 'stand-alone' sites to assess compliance and storage of card holder data.

**Key areas where improvements are required**

- 4.3 Whilst no instances of card data misuse were identified in the audit, arrangements regarding recording and storage could be further improved upon.

**5. Compliance with Legislation – Review of Arrangements for CCTV**

- 5.1 This was the first review of the arrangements for CCTV systems across Forest Heath and St Edmundsbury councils. The review considered whether CCTV systems are fit for purpose, how images captured are stored and used, and the training and support given to staff involved in the use of CCTV. A **substantial assurance** opinion was provided.

**Key areas where improvements are required**

- 5.2 The councils run several CCTV systems and each system is run independently meaning that sharing of knowledge and resources between systems could be better managed.
- 5.3 Improvements could be made in the training given to the staff who operate some of our CCTV systems.
- 5.4 Controls around system images could be improved upon to ensure they are retained for only as long as is necessary.

**6. Treasury Management**

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

**Key areas where improvements are required**

- 6.2 The control environment around treasury management activities we found to be strong and therefore, there are no findings or actions to report on following this audit work.

**7. IT Software Licensing**

- 7.1 This audit was undertaken to ensure that procedures regarding the operation of IT Software Licensing are open and transparent and that sound financial controls are in place. A **substantial assurance** audit opinion was provided.

**Key areas where improvements are required**

- 7.2 Due to the changes being undergone in the Council, and because of actions already underway to improve controls no further actions are felt appropriate from this audit.

**8. Members' Allowances and Expenses, and Members' and Officers' Gifts & Hospitality**

- 8.1 This audit review looked at the systems in place to ensure that the payment of allowances and reimbursement of expenses to Members are appropriate and correctly accounted for. The use and maintenance of gifts and hospitality registers in compliance with the Codes of Conduct for both Members and Officers was also considered.
- 8.2 It should be noted that these are standard areas for occasional inclusion in an annual Audit Plan and the audit review did not arise from any expectation of significant control weaknesses in this area.
- 8.3 The audit review mainly focused on the review of arrangements at St Edmundsbury BC but the main action agreed with management applies equally to both councils (paragraph 8.4 refers).

**Key areas where improvements are required**

- 8.4 Management may wish to consider adopting a unified approach to recording, monitoring, and reporting declarations of gifts and hospitality across both West Suffolk councils.

**9. Payment Cards**

- 9.1 This audit review was undertaken to ensure that procedures regarding the issuing and operation of corporate purchase cards within both councils are open and transparent and that sound financial controls are in place. A **substantial assurance** opinion was provided.
- 9.2 The audit review noted there are currently different corporate purchase card schemes operating at each council although it is currently intended that a streamlined process for card use covering both councils will be introduced in the future.

**Key areas where improvements are required**

- 9.3 The following key areas relate to issues arising at one or both councils and will be relevant to both when considering a single process for card use covering both councils. The results of the follow-up audit on this area, reviewing progress made against recommendations, will be reported to this committee in the 2014/15 committee cycle.

- 9.4 Procedures and guidance should be subject to periodic review to ensure they are up-to-date.
- 9.5 Consideration should be given to exploring the management information facility on card use available from the payment card provider.
- 9.6 Processes should be in place to ensure that corporate purchase card expenditure is consistently entered into the main financial management system in a timely manner.

### **10. Accounts Payable (Creditors)**

- 10.1 The purpose of this audit was to review the controls around the accounts payable system which is designed to record and report on expenditure made on behalf of the council. A **substantial assurance** opinion was provided.

#### **Improvements made since the previous audit**

- 10.2 Significant work has been undertaken during the year to prepare for the introduction of the new financial system (Agresso) which should see improved controls, efficiencies and transparency in reporting.
- 10.3 New West Suffolk Contract Procurement Rules are being created to align procurement practices and threshold across both councils. This work is currently ongoing and due to be introduced during 2014/15.

#### **Key areas where improvements are required**

- 10.4 Controls are generally operating effectively in a period when staff have been focusing on the building of a new financial system and planning the implementation, training and data migration of this new system. It was however identified that orders have continued to be placed with suppliers without following the correct process of raising a requisition which is authorised prior to placing the order.

### **11. Main Accounting System (General Ledger)**

- 11.1 The purpose of the main accounting system is to record all financial transactions and to provide the base information for budget monitoring, preparation of the annual accounts, and financial returns. As such, it is central to ensuring the financial well-being of the council. The purpose of this audit was to ensure that adequate accounting routines exist, they are open and transparent so as to protect the integrity of the system, and that those routines are implemented in practice. There have been some significant changes / developments within the Finance Team. A restructuring of the team has resulted in staff changing roles and responsibilities. In addition, a number of projects have been undertaken, the most significant and resource-intensive of these being the implementation of a new financial management system across

both West Suffolk councils from 1 April 2014. A ***substantial assurance*** opinion was achieved.

**Improvements made since the previous audit**

11.2 There were no recommendations raised in the previous (2012/13) audit review.

**Key areas where improvements are required**

11.3 The debtor and creditor control accounts need to be reconciled more regularly to the general ledger.

**12. Payroll**

12.1 This audit reviewed the key controls for payroll processing, including starters and leavers, amendments, verification, reconciliation and system updates. A ***substantial assurance*** opinion has been given.

**Improvements made since the previous audit**

12.2 Significant changes have taken place within the structure of the Payroll section including the creation of a shared payline and alignment of FHDC and SEBC payroll systems on to the same structure. A great amount of care has been taken by the Payroll team to ensure that this transition has been a smooth one and has not adversely impacted upon the operational controls of the Payroll System. As a result, very few issues arose from the audit review.

12.3 Improvements were apparent in the reconciliation processes.

**Key areas where improvements are required**

12.4 Formally-agreed arrangements are generally in place in regard to services provided to third parties, however a service level agreement remains to be agreed with one organisation.

**13. Accounts Receivable (Debtors)**

13.1 The purpose of the audit was to review the controls around the accounts receivable system to record, collect and report on income received by the council for chargeable services provided. A ***substantial assurance*** opinion was provided.

**Improvements made since the previous audit**

13.2 Actions reported in the 2012/13 audit have been implemented.

**Key areas where improvements are required**

- 13.3 More care needs to be taken to ensure that it is clear why credit notes have been raised and that they have been authorised by the correct person. The new financial system will introduce controls to assist this.

**14. Council Tax**

- 14.1 The council is one of four local authorities which worked together during the year as the Anglia Revenues Partnership (ARP) to provide a shared revenues and benefits service to the residents of Breckland District Council, East Cambridgeshire District Council, Forest Heath District Council and St Edmundsbury Borough Council.
- 14.2 The West Suffolk Internal Audit Team undertook the audit on behalf of the four local authorities. The audit focus was to establish if procedures for key controls were adequately followed, thus reducing the risk of incorrect council tax processing resulting in loss of revenues for the authorities from failure to correctly issue bills. Central Government changes affected the way in which the Council Tax Benefits were paid in April 2013, with a Council Tax Reduction Scheme being required for each authority; this has resulted in Council Tax liability being introduced for many citizens that have not had to pay Council Tax in the past. The consultation and budget process were reviewed within the audit with no significant issues to report. An opinion of **substantial assurance** was given.

**Improvements made since the previous audit**

- 14.3 Training has been provided to ARP staff on the subject of Money Laundering.
- 14.4 Improvement is apparent in the reconciliations and resolving of variances (applies to all areas of ARP – Council Tax, NDR, and Benefits).

**Key areas where improvements are required**

- 14.5 The responsibility for regularly reviewing credit balances has not been established, resulting in the 2013/14 credit balances increasing.
- 14.6 Management has agreed to consider presenting aligned Write Off values to the Joint ARP Committee and Operational Improvement Board to streamline processes and enable a single method of operation to be applied within ARP (applies to all areas of ARP – Council Tax, NDR, and Benefits).

**15. Non Domestic Rates (NDR)**

- 15.1 Similar to the council tax audit review, this year's review of NDR was undertaken by the West Suffolk Internal Audit Team on behalf of the four authorities working together as ARP.

- 15.2 The audit was undertaken to provide assurance of the controls in place within the NDR System, for managing NDR collection from the borough's commercial properties. NDR collection is an area which forms a high proportion of the income coming into the Authority. The introduction of the Business Rates Retention scheme has seen increased incentive on the council and ARP to increase collection rates; work has already commenced to identify businesses that may not be on the NDR database or are not correctly valued. ARP will also be leading the partner authorities in greater communication between Services and the NDR function (e.g. planning, building and economic development) to improve information exchange, identify local developments and business changes which will affect the NDR income forecasting. In the current economic climate, it is essential that the recovery process is robust and non-payment of NDR does not adversely affect the council's cash flow. An opinion of **substantial assurance** was given.

### **Improvements made since the previous audit**

- 15.3 An independent review of a sample of NDR transactions has been introduced by the ARP Quality Assurance Team to confirm the accuracy of processes.

### **Key areas where improvements are required**

- 15.4 Improvements are required to the process for issuing refunds to ensure that these are appropriately authorised, independently reviewed and the council is informed of high-value refunds to ensure that cash flow is not affected.
- 15.5 General recommendations were made regarding the recording of case notes to demonstrate the action and communication that has occurred on accounts, for example, to demonstrate the action taken to recover a debt or the decision making process to propose a debt for write-off.

## **16. Housing and Council Tax Benefits Review**

- 16.1 Similar to council tax and NDR the West Suffolk Internal Audit Team undertook the audit on behalf of the four local authorities. The audit focus was to establish if procedures for key controls were adequately followed to reduce the risk of incorrect housing benefit assessments and transaction processing, leading to inaccurate payments. The audit also included reviewing compliance with appropriate legislation and data quality within the system. 2013/14 saw the introduction of the Benefit Cap, Discretionary Housing Payments and the Council Tax Reduction scheme, testing in these areas produced confirmation that processes to manage these claims have been successfully implemented. The system achieved a **substantial assurance** opinion for the period under audit.



**Improvements made since the previous audit**

- 16.2 Improvements are apparent in the reconciliations and resolving of variances.

**Key areas where improvements are required**

- 16.3 Management has been asked to consider introducing a risk-based approach to review NFI matches, rather than reviewing all matches.

**17. Car Parks Cash Handling Review**

- 17.1 A number of car parks are operated across the council with significant amounts of income collected during the course of a year. The audit focus was to review the controls surrounding cash collection, retention and banking. Systems were reviewed to ensure that income due to or held by the council is accurately recorded and that income is receipted and banked correctly and promptly. An opinion of **substantial assurance** was given.

**Improvements made since the previous audit**

- 17.2 There were no outstanding significant recommendations to review from 2012/13.

**Key areas where improvements are required**

- 17.3 Only minor recommendations were made to improve the control environment.

**18. Elections Account Review – report in draft stage pending discussion, agreement and issue as a Final**

- 18.1 This was the first review for the Elections Accounts and focused on the financial processes performed for the Suffolk County Council Elections that were held in May 2013. Whilst the public funds used to deliver the elections are not directly from Forest Heath DC, clear accountability should be evident throughout with expenditure managed in line with local procedures and cost savings to be considered where possible. An opinion of **substantial assurance** was given.

**Key areas where improvements are required**

- 18.2 Recommendations were made to expand the Shared Services ethos into the elections framework with a consistent method of payment to election staff being introduced, aligned administration procedures and ensuring best value when procuring goods.

**19. Markets Follow-Up**

- 19.1 A follow-up was carried out on the actions arising from the markets review completed in September 2011.

19.2 A number of recommendations were still in progress and should be addressed moving forward with shared services, the key items were:

- recommendations were made to improve the collection of market rent payments; and
- formal lease agreements are yet to be finalised.

<b>Meaning of words used: -</b>	
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.