



## Performance and Audit Scrutiny Committee 27 November 2013

### Mid-Year Internal Audit Progress Report 2013/2014

#### 1. Summary and reasons for recommendation

- 1.1 This report advises Members of the work of the Internal Audit Section for the first half of 2013/14 (**Appendix A**) and gives Members a flavour of the variety of projects and corporate activities which are supported through the work of the team.
- 1.2 The report also provides an update of progress made against the 2013/2014 Internal Audit Plan (**Appendix B**) previously approved by this committee, and explains and seeks approval for changes to the Audit Plan attached as (**Annex A**) in order to accommodate additional Internal Audit assistance with various corporate and Finance projects.

#### 2. Recommendation

- 2.1 Members are asked to:
- (i) note the contents of this report, including progress made against the 2013/2014 Internal Audit Plan;
  - (ii) approve amendments required to the Plan to reflect changes in priority and service needs (**Annex A**).

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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 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 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.

4.2 The purpose of this report is to update Members on progress made against the 2013/14 Audit Plan (**Appendix B**), (approved by this committee in April 2013), and to seek Members approval for amendments required to the Plan (**Annex A**) to reflect changes in priority and service needs.

### **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)

<b>Risk area</b>	<b>Inherent level of risk</b> (before controls)	<b>Controls</b>	<b>Residual risk</b> (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 Annex A – Overview of Internal Audit Work April – October 2013

Appendix A – Summaries of Internal Audit Reports Issued April – October 2013

Appendix B – Progress against the 2013/14 Internal Audit Plan

## **St Edmundsbury Borough 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 2013/2014 Audit Plan (approved by this committee in April 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 have 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
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suitability to undertake specified contracts. Within the period this has included financial vetting advice on the flumes and cladding works at the Bury Leisure Centre, 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 & 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 1 (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 Allowances and Expenses and Members and Officers Gifts & Hospitality), 2 are at draft report stage, and 3 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.***

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### **3. Changes to the 2013/2014 Audit Plan**

- 3.1 The 2013/2014 Internal Audit Plan, approved by this committee in April 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 non-fundamental 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
  - 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
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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, are 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 1st April 2013 local government internal audit work is guided by the Public Sector Internal Audit Standards (PSIAs).
- 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.



**Summaries of Internal Audit Reports Issued April – October 2013**

**1. Introduction**

- 1.1 During the period, 19 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. 7 of these audit reviews relate to work undertaken on behalf of East Cambs DC, the results of which have not been included within this report.
- 1.2 The following sections contain a summary of the content of the internal audit reports issued during 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 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, at Section 14. 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. 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. This has now however 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<sup>st</sup> 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. Members Allowances and Expenses and Members and Officers Gifts & Hospitality

- 6.1 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.
- 6.2 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. A **full assurance** audit opinion was given in respect of Members Allowances and Expenses, and a **substantial assurance** opinion for Members and Officers Gifts & Hospitality.

### Key areas where improvements are required

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

### 7. Treasury Management

- 7.1 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

- 7.2 SEBC and FHDC finance teams became a shared service during the summer of 2013 which has provided greater resilience in respect of treasury management activities. As a result, an operational review of treasury management is in progress with a view to aligning procedures / practices.

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

- 7.3 Reconciliations are generally performed monthly, but management trails of review of these reconciliations could be clearer. A full management trail of all monthly reconciliations should exist, with management review and sign off to ensure they are completed accurately and in a timely fashion.
- 7.4 Checks performed by investment authorisers should ideally be evidenced. Such checks ensure investment proposals are appropriate and within agreed council policy.

### **8. IT Software Licensing**

- 8.1 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**

- 8.2 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.

### **9. Apex Follow Up**

- 9.1 Following the opening of the Apex in late 2010, Internal Audit provided a consultancy review on various aspects of the operation. Subsequent to the consultancy work, in September 2011 an in depth audit was undertaken of the key financial areas of cash handling and transaction management, purchasing of goods and services, and stock management.
- 9.2 A review of the progress of agreed actions from the 2011 audit, and control risks from the original consultancy review, has been undertaken. A number of agreed actions have been implemented, while other agreed actions have evolved into some further recommendations for management to consider implementing in line with good practice.

### **10. Bury Festival Cash Handling Follow Up**

- 10.1 A follow up has recently been undertaken on the Bury Festival Cash Handling Audit report issued in October 2012.
- 10.2 This report concluded that whilst progress had been made in tightening controls, there remains scope to further improve controls around floats, event ticket sales, programmes / merchandise sales and reconciliations.

**11. West Suffolk House – Health & Safety Arrangements Follow Up**

- 11.1 An audit on the Health & Safety Arrangements at West Suffolk House was undertaken in 2009, subsequent reviews to assess the progress against the actions were undertaken in 2010/11 and 2011/12.
- 11.2 Outstanding actions have subsequently been reviewed in 2013 with only one action (consistency of information held on the West Suffolk House and St Edmundsbury intranet web pages) remaining as work in progress.

**12. Abbey Gardens Cash Handling Arrangements Follow Up**

- 12.1 A follow up audit was undertaken on the actions arising from the Abbey Gardens Cash Handling Review completed in June 2011. This is the second follow up review of the progress of agreed actions.
- 12.2 All significant agreed actions have now been implemented, resulting in no need for any further follow up audit work in this area.

**13. Tourist Information Centre Cash Handling Arrangements Follow Up**

- 13.1 This was the third follow up audit undertaken on the report originally issued in October 2009.
- 13.2 All agreed actions have now been implemented.

#### 14. Meaning of Opinions given in audit reviews

<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.

**Progress against the 2013/2014 Internal Audit Plan**

The following table shows the audits included within the 2013/2014 Internal Audit Plan approved by the Performance and Audit Scrutiny Committee earlier this year, and the current status of each audit at the end of October 2013.

<b>AUDIT AREA</b>	<b>STATUS</b>
<b><u>Core Financial Systems and Fundamental Review Work</u></b>	
Main Accounting System / General Ledger	Not yet started
Accounts Payable (Creditors)	Work in progress – testing underway
Accounts Receivable (Debtors)	Work in progress – testing underway
Payroll	Work in progress – testing underway
Treasury Management	Complete
Council Tax	Work in progress – testing underway
Non Domestic Business Rates	Work in progress – testing underway
Housing and Council Tax Benefits	Work in progress – testing underway
ICT – Software Licences	Complete
Cash Handling – Car Parks	Work in progress – testing underway
Risk Management Arrangements	Not intended to be undertaken in 2013/2014
<b><u>Non-Fundamental Review Work</u></b>	
Compliance with Legislation – Anti Money Laundering	Complete

## Appendix B

Compliance with Legislation – Bribery Act	Complete
Compliance with Legislation – Payment Card Industry Data Security	Complete
Elections Account	Draft report stage - testing complete, draft report issued and currently being discussed with management
Members Allowances and Expenses / Members and Officers Gifts and Hospitality	Complete
Payment Cards	Draft report stage - testing complete, draft report issued and currently being discussed with management
Compliance with Legislation – CCTV	Complete
Contract Procedures	Not intended to be undertaken in 2013/2014
Fees and Charges	Not intended to be undertaken in 2013/2014
Performance Indicators	Not intended to be undertaken in 2013/2014