



## **Performance and Audit Scrutiny Committee 29 January 2014**

### **Third Quarter 2013/14 Internal Audit Progress Report**

#### **1. Summary and reasons for recommendation**

- 1.1 This report advises Members of the work undertaken by Internal Audit in November and December 2013 and also provides an update of progress made against the revised 2013/14 Internal Audit Plan approved by this committee in November 2013.

#### **2. Recommendation**

- 2.1 Members are asked to note and endorse the contents of this report, including progress made against the 2013/14 Internal Audit Plan.

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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 advise Members of the work undertaken by Internal Audit in November and December 2013, and update Members on progress made against the revised 2013/14 Audit Plan (approved by this Committee in November 2013).

### **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 Internal Audit 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. Wards affected**

11.1 All

**12. Background papers**

12.1 N/A

**13. Documents attached**

13.1 Annex A – Overview of Internal Audit Work November – December 2013

13.2 Appendix A – Summaries of Internal Audit Reports Issued November – December 2013

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

## **St Edmundsbury Borough Council Overview of Internal Audit Work (November – December 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 This report advises Members of the work undertaken by Internal Audit in November and December 2013, and also provides an update of progress made against the revised 2013/14 Internal Audit Plan approved by this committee in November 2013.

### **2. Review of Internal Audit work for November to December 2013**

- 2.1 An overview of the work of Internal Audit for November and December 2013 is set out below. Summaries of all completed audits are included at **Appendix A**, and the status as at December 2013 of all audits included within the revised 2013/14 Audit Plan is shown at **Appendix B**.

#### Corporate Work

- 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 (FMS) – Internal Audit involvement in this project within the period has mainly consisted of liaising with external audit and the FMS Project Manager with a view to agreeing areas where audit review can add value which are likely to include review of key controls in the new procedures, review of data migration methodology, and review of testing plans for the new system and outcomes of this testing.

- Tender for the Provision of Banking Services – Internal Audit have continued to assist and support Finance, Legal and Procurement colleagues in this procurement exercise to determine a new banking provider from 1<sup>st</sup> April 2014. This has included drafting the Tender Evaluation Plan, supporting the tender evaluation process, arranging meetings for the project team, and drafting project updates and presenting these at Programme Board.
- Contract Procedures Rules Review - the Contract Procedure Rules Working Group includes a representative from Internal Audit. New Contract Procedures have been drafted; in addition, the group are working to produce a streamlined process across West Suffolk.

2.3 Additional corporate work which Internal Audit has undertaken in the period includes:

- 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. Internal Audit has undertaken a 'building security' check on behalf of the group, with further ongoing checks taking place on a quarterly basis;
- Continuing to provide advice to service areas on internal controls.

#### Non-Fundamental Review Work

2.4 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.

2.5 During this period one non-fundamental audit has been completed (Payment Cards), and one audit in this category (Election Account) is at draft report stage. In addition, two audits for East Cambridgeshire DC have been completed.

### **3. Probity**

3.1 Work is continuing on raising fraud awareness within the council, for example, the annual fraud messages have been published in the West Suffolk internal staff newsletter, the main objective of these messages is to raise awareness and provide information on declaring interests, offers and acceptance of gifts and hospitality, and completing expense claims. In addition, a message has also appeared in this newsletter reminding staff of the Joint Anti-Money Laundering Policy.

3.2 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. Arrangements are currently underway for the council tax and electoral role data extract, although matches will not be released until March 2014.

## 4. Conclusions

- 4.1 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**, and the Internal Audit Manager considers that there are no additional audit related matters that currently need to be brought to the attention of this committee.
- 4.2 The Internal Audit Manager continues to expect that the 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.

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**Summaries of Internal Audit Reports Issued**  
**November – December 2013**

**1. Introduction**

- 1.1 During the period, three 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. Two of these audit reviews relate to work undertaken on behalf of East Cambridgeshire 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 in November and December 2013. Each summary provides an indication of the issues arising from the reviews, as well as action taken in response to previous audit reports where relevant.
- 1.3 Core financial systems / fundamental review audits are undertaken on an annual basis and therefore recommendations (agreed actions) arising from these audits are followed up as part of the following year's audit. Recommendations arising from other audits are subject to a follow up audit within a twelve month period, the results of which are reported to this committee.
- 1.4 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.
- 1.5 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 3. 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. Payment Cards**

- 2.1 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.

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**

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.

- 2.2 Procedures and guidance should be subject to periodic review to ensure they are up to date.
- 2.3 Consideration should be given to exploring the management information facility on card use available from the payment card provider.
- 2.4 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.

**3. 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 2013/14 Internal Audit Plan**

1. The following table shows the audits included within the revised 2013/14 Internal Audit Plan approved by the Performance and Audit Scrutiny Committee in November 2013, and the current status of each audit at the end of December 2013.
2. Members are reminded that the approach to completing the fundamental systems audits within the Audit Plan has changed for 2013/14 resulting in more of these audits being in progress, but less actually completed, than would normally be planned for at this time of year.

<b>AUDIT AREA</b>	<b>STATUS</b>
<b><u>Core Financial Systems &amp; Fundamental Review Work</u></b>	
Main Accounting System / General Ledger	Work in progress – early stages
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	Draft report stage - testing complete, draft report prepared for discussion with management
<b><u>Non-Fundamental Review Work</u></b>	
Compliance with Legislation – Anti Money Laundering	Complete
Compliance with Legislation – Bribery Act	Complete
Compliance with Legislation – Payment Card Industry Data Security	Complete

## APPENDIX B

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	Complete
Compliance with Legislation – CCTV	Complete

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