



Performance and Audit Scrutiny Committee 21 May 2014

Internal Audit Annual Report 2013/14 and Outline Internal Audit Plan 2014/15

1. Summary and reasons for recommendations

1.1 This report:

- Summarises the work undertaken by Internal Audit during the year and the resulting annual audit opinion;
- Shows the work undertaken to fulfil the requirement for an annual review of the effectiveness of internal audit;
- Provides details of the outline Internal Audit Plan for 2014/15; and
- Shows progress made during the year in developing anti-fraud and anti-corruption arrangements and actions taken where fraud or misconduct have been identified.

2. Recommendations

- 2.1 The contents of the Annual Internal Audit Report for 2013/14 are **noted**.
- 2.2 Endorse the conclusion drawn in respect of the annual review of the effectiveness of internal audit.
- 2.3 The Internal Audit Plan for 2014/15 be approved.
- 2.4 The contents of the Managing the Risk of Fraud, Theft and Corruption Report are **noted**.

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3. Strategic priorities

- 3.1 The recommendation made in this report is intended to support and enhance the council's ability to deliver its priorities.

4. Key issues

Background Information

- 4.1 Internal Audit is an independent, objective assurance and consultancy function designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Annual Internal Audit Report 2013/14

- 4.2 In accordance with the Public Sector Internal Audit Standards the Internal Audit Manager is required to provide an annual written report to those charged with governance, timed to support the Annual Governance Statement, which includes an opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, including the internal control environment. The attached Internal Audit Annual Report (**Appendix A**) summarises the audit work carried out during the year, presenting an opinion based upon the work performed.

Review of the Effectiveness of Internal Audit

- 4.3 The Accounts and Audit Regulations 2011 require the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Further it must at least once in each year, conduct a review of the effectiveness of its internal audit and have the findings considered by a committee. This report sets out evidence which the Performance and Audit Scrutiny Committee can look to rely on when reviewing whether internal audit is effective, including relevant completed checklists at **Appendix B**.

Internal Audit Plan 2014/15

- 4.4 In accordance with the Public Sector Internal Audit Standards an Audit Plan (**Appendix C**) has been prepared covering a period of one year. The work of Internal Audit is based upon this Plan which is prepared after consulting with stakeholders, including the Chairs and Vice Chairs of the Performance and Audit Scrutiny Committees at both West Suffolk councils, the External Auditors, and Joint Leadership Team.

Managing the Risk of Fraud, Theft and Corruption Report

- 4.5 Theft, fraud & corruption are an ever present threat to the resources available in the public sector. The purpose of this report (**Appendix D**) is to demonstrate the council's progress in developing and maintaining an anti-fraud and anti-corruption culture and publicise the action taken where fraud or misconduct have been identified.

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 The Internal Audit Plan has been compiled in consultation with stakeholders, including the Chair and Vice Chair of the Performance and Audit Scrutiny Committee, the External Auditors, and Joint Leadership Team.

7.2 Consultation with key officers is also carried out 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

<p>The authority is required to maintain an adequate and effective system of internal audit in accordance with the Accounts and Audit Regulations 2011. Failure to consider the effectiveness of its system of internal audit, and the opinion on council's control environment, could result in non-compliance with the requirements of the Regulations.</p>			
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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 – Internal Audit Annual Report 2013/14

13.2 Appendix B - Performance and Audit Scrutiny Committee and Internal Audit Checklists

13.3 Appendix C – Outline Internal Audit Plan 2014/15

13.4 Appendix D – Managing the Risk of Fraud, Theft and Corruption Report

13.5 Appendix E – Summary of Audit Reports Issued

INTERNAL AUDIT

St Edmundsbury Borough Council Annual Internal Audit Report 2013/14 and Internal Audit Plan 2014/15

1. Background

- 1.1 The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2011 which requires a local authority to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. These 'proper practices' are those now contained within the new Public Sector Internal Audit Standards which came into effect from 1 April 2013 (having replaced the CIPFA Code of Practice for Internal Audit in Local Government).
- 1.2 These new Public Sector Internal Audit Standards are mandatory and underpin the internal audit arrangements within the council. The Internal Audit Manager considers that we already substantially comply with these Standards and will report on conformance with these Standards in future annual reports.
- 1.3 Similar to the CIPFA Code of Practice, the new Standards require the Internal Audit Manager to report periodically to senior management and the Performance and Audit Scrutiny Committee on Internal Audit's purpose, authority and responsibility and performance relative to its Audit Plan. Also, the Internal Audit Manager continues to establish a risk-based plan to determine the priorities of the internal audit activity consistent with the council's priorities.

2. Reporting to Senior Management and the Performance and Audit Scrutiny Committee

2.1 Organisational Independence

- 2.1.1 The new Standards require Internal Audit to confirm to the Performance and Audit Scrutiny Committee, at least annually, the organisational independence of the audit activity. Internal Audit effectively achieves this through the Performance and Audit Scrutiny Committee's involvement in the following:
 - approval of the risk-based internal audit plan;

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- receiving communications from the Internal Audit Manager on the internal audit activity relative to the audit plan and other matters; and
- approval of the internal audit charter as and when required, but not necessarily annually.

2.2 Performance against the 2013/14 Revised Audit Plan

2.2.1 During 2013/14, all audits included within the audit plan were completed. In total, 32 audit reports were issued, an overview of the conclusions and main findings of each audit, together with a brief summary of progress made, is provided at **Appendix E**.

2.2.2 In addition to undertaking audit reviews Internal Audit has had significant involvement in corporate work including advice and assistance. During 2013/14 this aspect of the section's work has included:

- Leading the corporate governance review as contained within the Annual Governance Statement (AGS) and its associated documents;
- 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;
- Implementation of the new Financial Management System (FMS) – Internal Audit involvement in this project has consisted of performing a project assurance role in the early stages of the project, review of project documentation, and data migration testing. To date our testing of data migration to the FMS has been undertaken with no significant issues to report;
- Tender for the Provision of Banking Services – Internal Audit have assisted and supported Finance, Legal and Procurement colleagues in this procurement exercise to determine a new banking provider from 1 April 2014. This 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;
- Credit Cards– Internal Audit have been involved in the arrangements to align the acceptance and charges for credit cards across West Suffolk;
- Attendance at Joint Leadership Team meetings to brief senior managers in relation to the outcomes of work undertaken by the section;
- Responding to approximately 60 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts

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- Acting as Independent Examiner for the 2012/13 West Stow Anglo Saxon Village Trust Accounts and 2012/13 Friends of Kevelaer Account;
- Contributing to e-learning modules for Payment Card Industry Data Security Standards and Anti Money Laundering; and
- Continuing to provide advice to service areas on internal controls.

2.3 Annual Audit Opinion 2013/14

- 2.3.1 Internal Audit, having taken into account other internal and external assurance processes of the council, has an obligation to provide independent, objective assurance from the work undertaken in respect of the effectiveness of the risk management, control and governance processes operating within the council.
- 2.3.2 The system of control should help the council to manage and control the risks which could affect the achievement of the council's objectives rather than eliminate them completely. Internal Audit and the other assurance processes can therefore only provide within the Annual Governance Statement reasonable and not absolute assurance of adequacy and effectiveness.
- 2.3.3 Based upon an independent and objective assessment of the framework of risk management, control and governance processes, Internal Audit can provide reasonable assurance that the framework has operated adequately and effectively during the year. Our work has, however, identified a number of areas where existing arrangements could usefully be improved, and details of these are provided in **Appendix E**.

2.4 Review of the Effectiveness of Internal Audit and the Quality Assurance and Improvement Programme

- 2.4.1 The Accounts and Audit Regulations 2011 requires the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Further it must at least once in each year, conduct a review of the effectiveness of its internal audit and have the findings considered by a committee. For 2013/14 this review of effectiveness has been achieved through the **quality assurance and improvement programme** and an **assessment of the workings of the Performance and Audit Scrutiny Committee against good practice** – further details are included below.

Quality Assurance and Improvement Programme

- 2.4.2 Currently, the quality assurance and improvement programme mainly consists of the following elements:
- annual internal self-assessments are undertaken by completing checklists which measure the extent to which Internal Audit is complying with current applicable internal audit standards (these are now the Public Sector Internal Audit Standards as explained in para 1.1);

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- checklists completed in conjunction with the Chair and Vice Chair of the Performance and Audit Scrutiny Committee, covering that committee's view of Internal Audit's role within the authority and Internal Audit's performance;
- a quality review process is undertaken for each individual audit;
- customer satisfaction questionnaires are issued with audit reports; and
- performance against the Audit Plan is measured via two local performance indicators (see paragraph 2.4.7).

Annual Internal Self-Assessment

2.4.3 An initial self-assessment against the new Standards which came into effect on 1 April 2013 has been completed to assess our compliance with them. There are eleven standards in all, four attribute standards (setting the scene in terms of internal audit's role within the council) and seven performance standards (measuring day to day operational practice). The initial self-assessment indicated that, as expected, Internal Audit's current practices are generally in compliance with the Standards. However, in common with other councils, further work is needed to more fully understand some areas of application as well as considering the extent to which value would be added to our work through achieving further compliance, bearing in mind that it will always be extremely difficult for small Internal Audit sections (such as West Suffolk) to fully comply with these Standards. A number of areas have been identified for further consideration, and these include:

- An external assessment of Internal Audit to be undertaken at least every 5 years.
- Quality Assurance and Improvement Programme (QAIP) to be further developed; and
- Existing working procedures / practices to be further updated to capture the requirements of the new standards.

Performance and Audit Scrutiny Committee's Review of Internal Audit's Role in the Authority and Internal Audit Performance

2.4.4 Checklists have been completed in conjunction with the Chair and Vice Chair of the Performance and Audit Scrutiny Committee and the Head of Resources and Performance to assess compliance with good practice. These checklists are included at Appendix B and demonstrate a high degree of compliance with good practice.

Quality Review Process

2.4.5 For each audit undertaken, the Internal Audit Manager ensures that:

- all Internal Audit working papers are reviewed to ensure that audit work has been performed in accordance with the agreed objectives for that audit, and sensible conclusions have been arrived at and are based on evidence clearly recorded within the audit working papers;
- the draft audit report issued to management at the end of each audit is accurate, clear, concise, includes all relevant findings, conclusions, and a supportable audit opinion, as well as recommendations to

management which are achievable, make sense, and mitigate risks / add value to the service; and

- the quality review process is robust and properly documented to ensure external audit (currently Ernst & Young) are able to place maximum reliance on Internal Audit's work.

Customer Satisfaction Questionnaires

- 2.4.6 At the conclusion of each full audit undertaken the relevant service (e.g. Finance, if it is a financial system being audited) is asked to complete a customer satisfaction questionnaire and give their view of the quality and usefulness of the audit review undertaken. From an analysis of the returned customer satisfaction questionnaires, it is pleasing to report that satisfaction levels remain at a high level with all responses falling within the 'very good' category. It should also be noted that the section regularly receives informal feedback regarding work carried out which is generally very favourable.

Local Performance Indicators

- 2.4.7 As mentioned above in paragraph 2.4.2 internal audit performance against the Audit Plan is measured throughout the year, via two local performance indicators.

- (1) The percentage of the planned fundamental financial and information systems audits completed during the year – these being the main audits upon which assurances regarding the Annual Governance Statement are based and upon which the external auditors seek to place reliance for their work on the annual statement of accounts.

100% of planned fundamental systems audits were completed for the year 2013/14.

- (2) External audit opinion on internal audit work – based on the extent to which external audit are able to place reliance on the work of internal audit.

In respect of external audit's opinion on internal audit work this is to be confirmed but expectation based on past experience is that they will be able to place reliance on our work where they have planned to do so.

Assessment of the workings of the Performance and Audit Scrutiny Committee against good practice

- 2.4.8 When looking at the effectiveness of internal audit, this incorporates more than just the Internal Audit section: the Performance and Audit Scrutiny Committee is a key element of this process.

A checklist has been completed reviewing the Performance and Audit Scrutiny Committee against an Audit Committee self-assessment of good practice. The Internal Audit Manager has concluded that the function and operation of the Performance and Audit Committee essentially satisfies the

key requirements of this good practice document (Toolkit for Local Authority Audit Committees). See attached completed checklist at **Appendix B**.

Conclusion on Review of Effectiveness of Internal Audit

- 2.4.9 The completion of checklists referred to above provides evidence to the Performance and Audit Scrutiny Committee that internal audit is effective and the opinion of the Internal Audit Manager in this Annual Report can be relied upon as a key source of evidence in the production of the Annual Governance Statement.

3. Internal Audit Plan 2014/15

- 3.1 In accordance with the new Public Sector Internal Audit Standards an annual risk based Audit Plan has been established to determine the priorities of the internal audit activity, consistent with the council's goals, for approval by the Performance and Audit Scrutiny Committee.
- 3.2 The proposed 2014/15 Audit Plan is provided at **Appendix C** and has been compiled in consultation with stakeholders, including the Chair and Vice Chair of the Performance and Audit Scrutiny Committee, the Head of Resources and Performance (as the councils' Section 151 Officer), Joint Leadership Team and the external auditors.
- 3.3 The Audit Plan is clearly influenced by the resources made available by the council for Internal Audit. For this reason a balance needs to be achieved in terms of keeping costs at a realistic level, whilst ensuring that the level of coverage is appropriate, sufficient and effectively deployed to achieve the Audit Plan and that the external auditors (Ernst and Young) are satisfied that they can place reliance on the work of Internal Audit for the purpose of auditing both councils' annual financial statements.
- 3.4 The Audit Plan provides for the annual review of all the main financial systems together with corporate governance review and support.
- 3.5 Whilst Internal Audit must be in a position to give an opinion/assurance that covers the effectiveness of risk management, control and governance processes in relation to both existing and new systems / developments it is essential that such work is undertaken in a flexible and supportive manner, in conjunction with senior management, to ensure that both risks and opportunities are properly considered. For this reason, Internal Audit includes time in the Audit Plan to support and work with management / staff by providing advice and guidance on controls to ensure an adequate control environment is in place to mitigate significant risks. In addition, time is included in the Audit Plan for continued assistance with corporate projects / pieces of work relating to major developments / changes.
- 3.6 In times of significant transformation, organisations must manage change effectively and ensure that core controls remain in place. Both West Suffolk councils are facing significant financial pressures as a result of the national reduction in public sector spending, whilst engaging in a number of major projects, developments and restructurings, including the corporate shared

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services programme, procurement of a single financial management system and the customer access project which are all looking at changes in the way services are delivered. It is important for Internal Audit to add value to both councils through providing objective and relevant assurance, and contributing to the effectiveness and efficiency of risk management, control and governance processes. The proposed 2014/15 Audit Plan seeks to ensure that this is the case, by retaining enough flexibility to enable Internal Audit to react to changing risks and priorities.

4. Managing the Risk of Fraud, Theft and Corruption

- 4.1 The council has a sizeable workforce, significant levels of income and expenditure, and provides a variety of services. Despite occasional incidents, probity is judged to remain at a high level.
- 4.2 Managing the risk of theft, fraud and corruption is considered in detail at **Appendix D.**

Performance and Audit Scrutiny Committee's Self Assessment

Issue	Yes (Y) / No (N) / Partial (P)	Comments/action
Establishment, Operation and Duties		
Role and Remit		
1. Does the audit committee have written terms of reference?	Y	
2. Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	Y	
3. Are the terms of reference approved by the council and reviewed periodically?	Y	
4. Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Y	
5. Can the audit committee access other committees and full council as necessary?	Y	Performance and Audit Scrutiny Committee can make recommendations to committees and/or Council and can ask for information from other committees.
6. Does the authority's statement on internal control include a description of the audit committee's establishment and activities?	Y	
7. Does the audit committee periodically assess its own effectiveness?	Y	This checklist is considered by Performance and Audit Scrutiny Committee annually.
8. Does the audit committee make a formal annual report on its work and performance during the year to full council?	Y	
Membership, Induction and Training		
9. Has the membership of the audit committee been formally agreed and a quorum set?	Y	
10. Is the Chairman independent of the executive function?	Y	
11. Has the audit committee Chairman either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Y	Appropriate training is received
12. Are new audit committee members provided with an appropriate induction?	Y	Members are provided with training via the Members Induction Programme.
13. Have all members' skills and experiences been assessed and training given for identified gaps?	Y	Training may be provided where appropriate.
14. Has each member declared his or her business interests?	Y	
15. Are members sufficiently independent of the other key committees of the council?	Y	

Issue	Yes (Y) / No (N) / Partial (P)	Comments/action
Meetings		
16. Does the audit committee meet regularly?	Y	
17. Do the terms of reference set out the frequency of meetings?	Y	
18. Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	Y	
19. Are members attending meetings on a regular basis and if not, is appropriate action taken?	Y	
20. Are meetings free and open without political influences being displayed?	Y	
21. Does the authority's S151 officer or deputy attend all meetings?	Y	
22. Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	Y	
Internal Control		
23. Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?	Y	
24. Does the audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?	Y	
25. Does the audit committee consider how meaningful the Annual Governance Statement is?	Y	
26. Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Y	
27. Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	N/A	Risk Management is a quarterly agenda item of the Performance & Audit Scrutiny Committee.
28. Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?"	Y	<p>The council's Anti-Fraud and Anti-Corruption Strategy meets current good practice as set out in the CIPFA Better Governance Forum guidance 'Managing the Risk of Fraud: actions to counter fraud and corruption'.</p> <p>An appendix of the Annual Internal Audit Report relates to fraud and demonstrates the progress made by the council annually in developing anti-fraud arrangements; and publicises the actions taken where fraud or misconduct has been identified.</p>
29. Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	Y	

Issue	Yes (Y) / No (N) / Partial (P)	Comments/action
30. Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	Y	
31. Does the audit committee review the authority's strategic risk register at least annually?	Y	Reports are presented to Performance and Audit Scrutiny Committee on a quarterly basis.
32. Does the audit committee monitor how the authority assesses its risk?	Y	
33. Do the audit committee's terms of reference include oversight of the risk management process?	Y	
Financial Reporting and Regulatory Matters		
34. Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	Y	
35. Does the audit committee consider specifically:		The Performance and Audit Scrutiny Committee reviews and challenges the draft accounts before approval. This challenge may include any of the bullet points but it is considered unrealistic for example for Members to have the detailed technical knowledge to challenge suitability of accounting policies. Write-offs are by the appropriate committee in accordance with the policy.
• the suitability of accounting policies and treatments	Y	
• major judgements made	Y	
• large write-offs	N	
• changes in accounting treatment	Y	
• the reasonableness of accounting estimates the narrative aspects of reporting?	Y	
36. Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Y	
37. Does the audit committee review management's letter of representation?	Y	Included within the External Auditors (Ernst and Young) Annual Audit Letter.
38. Does the audit committee annually review the accounting policies of the authority?	N	See response to question 35.
39. Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	Y	Albeit at a very high level.
40. Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Y	A specific duty of a member of the Performance and Audit Scrutiny Committee is to be aware of national developments and best practice relating to scrutiny and to keep the effectiveness of the process under review. Additionally, any new legislative requirements affecting the Committee would always be made known to it via a report.
Internal Audit		
41. Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	Y	
42. Does internal audit have an appropriate reporting line to the audit committee?	Y	

Issue	Yes (Y) / No (N) / Partial (P)	Comments/action
43. Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	Y	
44. Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Y	Follow-ups to previous audit recommendations are included in subsequent reports presented to Performance and Audit Scrutiny Committee.
45. Does the audit committee hold periodic private discussions with the Head of Internal Audit?	Y	Internal Audit Manager attends Chairman's briefing before Committee. Annually the Internal Audit Manager and S151 Officer meets privately with the Chairman and Vice Chairman of the Committee to discuss the audit planning process, and to consult with them on the outline Audit Plan for the forthcoming year.
46. Is there appropriate cooperation between the internal and external auditors?	Y	Internal Audit and External Audit liaise to ensure work is not duplicated and that External Audit is able to place full reliance on the work of Internal Audit.
47. Does the audit committee review the adequacy of internal audit staffing and other resources?	Y	
48. Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom?	Y	Note - the Public Sector Internal Audit Standards apply from 2013-14 onwards. Compliance with these new Standards is covered within the 2013-14 Internal Audit Annual Report.
49. Are internal audit performance measures monitored by the audit committee?	Y	
50. Has the audit committee considered the information it wishes to receive from internal audit?	Y	
External Audit		
51. Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	Y	
52. Does the audit committee hold periodic private discussions with the external auditor?	N	Believed not to be the case - but could if felt necessary.
53. Does the audit committee review the external auditor's annual report to those charged with governance?	Y	
54. Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Y	The Internal Audit Manager does this and would build into internal audit work / action plans where necessary - Internal Audit performance reports cover areas of improvement still required.
55. Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	Y	
56. Does the audit committee assess the performance of external audit?	Y	
57. Does the audit committee consider and approve the external audit fee?	Y	

Issue	Yes (Y) / No (N) / Partial (P)	Comments/action
Administration		
Agenda Management		
58. Does the audit committee have a designated secretary from Committee/Member Services?	Y	
59. Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	Y	
60. Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Y	
61. Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	Y	There is a statutory prohibition against the transaction of business not on an agenda in the case of principal councils (LGA 1972), although urgent issues may be considered with the approval of the Chairman of the Committee, but these must be genuinely urgent, for example the inadvertent omission from an agenda of business required by law to be done at that meeting
Papers		
62. Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	Y	
63. Does the audit committee issue guidelines or a pro forma concerning the format and content of the papers to be presented?	Y	All committees now use the Corporate Report Template. This template is very clear on every area which must be covered when writing a report for Members.
Actions Arising		
64. Are minutes prepared and circulated promptly to the appropriate people?	Y	
65. Is a report on matters arising made and minuted at the audit committee's next meeting?	N/A	If an issue is raised at a meeting and a report or more information is requested at a future meeting, this would be a separate report, but would not necessarily be titled as matters arising, although the report would make it clear that the issue arose at an earlier meeting.
66. Do action points indicate who is to perform what and by when?	Y	

Performance and Audit Scrutiny Committee's Review of Internal Audit's Role in the Authority	
Question	Result (narrative)
1. Do the internal auditors receive the necessary degree of co-operation?	Yes – during the year, all reviews and investigations are carried out with the fullest possible co-operation of officers, at all levels.
2. Do the authority's statements on corporate governance reflect reality?	Yes – these receive input from a number of officers and are subject to various review processes to ensure they are robust.
3. Has there been any attempt to restrict the scope of the internal auditors' work in any way?	No – an Annual Audit Plan is produced which is presented to and approved by the Performance and Audit Scrutiny Committee. The scope of individual reviews are discussed and agreed with officers at the pre-audit meeting. During the year, no attempt has been made by officers to adversely influence the scope of the work to be undertaken.
4. Was the original audit plan modified due to deficiencies in internal control or accounting records?	No
5. Did the auditors have any significant disagreements with management? How were these resolved?	No – all audit recommendations are discussed with operational management at the post-audit meeting. Any significant disagreements would be discussed with senior management and if not resolved this would be reported to Performance and Audit Scrutiny Committee.
6. Do the internal auditors have any concerns about management's control awareness or operating style?	No – during the year there were no concerns regarding the 'tone at the top'. Senior management provide a level of challenge and scrutiny, particularly around control deficiencies identified through the audit review process which lead to audit recommendations.
7. What is the internal auditors' view of their relationship with management?	The Internal Audit Manager believes that the good working relationship with management has continued during the year.
8. Do the internal auditors believe they are under any undue pressure?	No – the Internal Audit Manager believes that the service is not only seen as independent and objective, but is also treated as such.
9. Are there any other matters that, in the opinion of the internal auditors, should be considered by the audit committee?	No

Performance and Audit Scrutiny Committee's Review of Internal Audit's Performance	
Question	Result (narrative)
1. Are there formal terms of reference that define internal audit's objectives, responsibilities, authority and reporting lines?	Yes – the Internal Audit Charter address objectives and responsibilities, authority and reporting lines.
2. Has the scope of internal audit work been determined using a risk-based systematic approach and in accordance with the Public Sector Internal Audit Standards?	Yes - a risk based approach is taken when preparing the Internal Audit Plan – also scope of each individual audit is based on a consideration of relevant risks.
3. What are the relative emphases given to internal control reviews, VFM (economy/efficiency/effectiveness) audits and special projects?	Internal Audit's primary objective is to review the internal controls framework. However, increasingly Internal Audit are also getting involved in special projects, at the request of management, where this is appropriate and audit skills can be used to add maximum value.
4. Are any restrictions placed on the scope of internal audit work and, if so, who establishes them?	The only restriction is that of capacity, i.e. number of available person-days. Capacity issues that affect any proposed audit plans would be addressed by the Joint Leadership Team and the Performance and Audit Scrutiny Committee.
5. If internal audit is asked to undertake a special project, how is its independence safeguarded?	The Internal Audit Manager has direct access to all levels of Members and officers.
6. Does internal audit report directly to an appropriate level of management that will ensure audit recommendations are given due weight and attention?	Yes – audit recommendations are agreed by Service Managers, and are often ratified by Heads of Service. In addition, progress of implementation of audit recommendations is monitored by Performance and Audit Scrutiny Committee.
7. Are the internal auditors free from any other responsibilities that could impair their objectivity?	Yes
8. Do internal audit staff have sufficient technical knowledge and experience to ensure that duties are performed to an appropriate standard? Is there sufficient information systems expertise to deal with the level of technology used by the authority?	The Internal Audit Manager is a professionally qualified accountant and has approximately 30 years audit experience covering private practice, local government and the National Audit Office. Remaining audit staff also have good local government and private sector experience. Their qualifications include Accounting Technician and the Diploma in Internal Audit Practice. Internal Audit staff have a basic level of IT skills. If it was felt that additional specialist expertise is needed in say IT we have access to a number of specialists through the Suffolk audit network.
9. Is the work of the internal auditors properly planned, completed, supervised and reviewed? Are there any quality assurance procedures?	Yes - an audit brief is issued in respect of each piece of audit work setting scope, objectives, time allocation, audit approach, etc. The degree of supervision will depend on the complexity of the audit but support is always available. All work undertaken is documented and reviewed according to agreed quality standards within the section.
10. Are internal audit reports issued on a timely basis?	Yes
11. Are reports followed up on a timely basis? Is there evidence that internal audit has a systematic approach to following up recommendations, and reporting on those where little or no action has been taken by management?	Yes

West Suffolk Internal Audit Plan 2014/15

1. Introduction

1.1 The objectives of Internal Audit are to:

- provide a professional, independent and objective assurance and advisory service that assists the Head of Resources and Performance in her statutory duty as Section 151 Officer at both West Suffolk councils and ensure that the finances of each council are properly administered; and
- work with management to improve the operation of the councils.

2. Drivers for the 2014/15 Audit Plan

2.1 This Audit Plan marks a departure from previous annual audit plans in that:

- It is the first truly joint West Suffolk Audit Plan as all audits covering both councils will be undertaken as a single audit review.
- Previously the Audit Plan has provided for a number of non-fundamental audits to be undertaken – however this current year's Plan is instead based on the view that for 2014/15 such time is better used on proactively assisting with corporate projects where timely audit input can help prevent or bring early resolution to internal control or governance issues. 2013/14 has seen a significant period of transformational change within West Suffolk; significant flexibility and dynamism is therefore necessary in the audit plan in order to be responsive to changing risks and this will allow maximum added value to be gained from the audit resource.
- The plan more overtly reflects West Suffolk's drive to behave more commercially, in a number of ways, including:
 - requests for audit assistance will increasingly be considered in the light of assisting West Suffolk to behave more commercially;
 - the audit plan will include the amount of income expected to be generated in the current year; and
 - the team is operating with significantly reduced staffing compared to 2013/14 (see para 8 below) while seeking to do more with less by refocussing work.

- 2.2 The Audit Plan takes into account the need to produce an annual internal audit opinion for each West Suffolk council, in support of, and taking into account the assurance framework operating at both councils. This is achieved through a consideration of the risks of undertaking or not undertaking relevant audit work throughout the year, including fundamental systems audits, corporate project work, ad hoc advice and assistance, etc. This annual internal audit opinion underpins the Annual Governance Statement.
- 2.3 All audit work will be undertaken in the context of adding value wherever possible in support of the vision and priorities contained within the West Suffolk Strategic Plan 2014-16.

3. Core Financial Systems and Fundamental Review Work (audits which must be undertaken every year):

- 3.1 The following audits must be undertaken every year as these form the foundations of the annual internal audit opinion (paragraph 2.2 refers):
- Accounts Payable (Creditors)
 - Accounts Receivable (Debtors)
 - Main Accounting System (General Ledger)
 - Payroll
 - Treasury Management
 - Council Tax
 - Non Domestic Business Rates
 - Housing and Council Tax Benefits
 - ICT Audit
 - Cash Handling
- 3.2 It is worth noting that where complex new systems have recently been implemented, including Accounts Payable, Accounts Receivable, and the Main Financial System, these systems will require significantly more audit resource to audit in the first year or two after implementation to ensure that controls are operating as expected.

4. Corporate Work

- Project Work – projects to be undertaken will be agreed with senior management based on current priorities, risks, and furthering the behaving more commercially agenda. This is likely to include work on fees and charges, specific accounting issues affecting West Suffolk, and a number of other areas to be agreed;
- Significant involvement in the preparation of the Annual Governance Statement;
- Input to corporate working groups including the Information Governance Group and the Strategic Risk Management Group;
- Financial vetting of potential contractors;

- General advice and assistance to departments – there is expected to be fairly high demand for this due to recent system changes and ways of working; and
- Managing and developing the councils' anti-fraud framework including:
 - ✓ Presenting to Performance and Audit Scrutiny Committee an annual report on managing the risk of fraud;
 - ✓ Considering the risk of fraud in planning all audit work;
 - ✓ Maintaining a watching brief on good practice externally;
 - ✓ Regular review and update of fraud related policies as appropriate;
 - ✓ Initiatives to raise fraud awareness and the importance of corporate governance;
 - ✓ Providing significant support to the regular National Fraud Initiative exercise;
 - ✓ Investigating any non-ARP related suspected frauds / irregularities; and
 - ✓ Acting as Money Laundering Reporting Officer – including responsibility for review and maintenance of anti-money laundering arrangements at the councils, plus reporting of any relevant suspicious activity to the National Crime Agency.

5. Follow-Up Work

Follow-up work will be undertaken to check the extent to which agreed recommendations / actions have been implemented in respect of previous audits undertaken. Where this follow-up work relates to a core financial system or fundamental review work, this will form an integral part of the annual audit for that area. However, where this relates to a non-fundamental system a separate follow-up audit will be undertaken and a follow-up audit report issued.

6. Behaving More Commercially

- 6.1 All audit work undertaken will take into account the need for services to behave more commercially and opportunities for this will be specifically considered in audit reviews where appropriate.
- 6.2 Internal Audit Income Generation 2014/15:
 - Approximately £21,000 income is expected to be achieved from audit work undertaken on behalf of East Cambs DC and Breckland DC. This work includes the ARP audits undertaken on behalf of these authorities as well as other audits requested by East Cambs DC.
 - Other possibilities for income generating work are also currently being explored. These possibilities will be considered in the light of staff resources and the needs of West Suffolk.

7. Other Responsibilities

In addition to the audit reviews identified above there is also time allocated in the Internal Audit Plan regarding:

- Managing the annual review of the system of internal audit;
- Further work towards achieving increasing compliance with the Public Sector Internal Audit Standards;
- Reviewing, revising, and creating where necessary new Internal Audit strategies, policies, procedures, and audit approach;
- Reporting Internal Audit activities to the Performance and Audit Scrutiny Committees and Joint Leadership Team;
- Liaising with other Internal Audit services across Suffolk and Cambridgeshire with a view to achieving continuous improvement of the internal audit product; and
- Liaising with External Audit.

8. Staff Resources

8.1 The Public Sector Internal Audit Standards (Standard 2030) require that the Audit Plan explains how Internal Audit’s resource requirements have been assessed. The West Suffolk councils have been going through a significant period of change and it is important that this is reflected in the current and future staffing and skills base of Internal Audit. Internal Audit resource requirements are based on a recognition that:

- recent implementation of (complex) new systems and changes in ways of working will require additional work by Internal Audit to assess the new controls in operation;
- the ability to be flexible wherever possible and react to departments’ need for advice and assistance including corporate project work is a crucial element of Internal Audit’s ability to add maximum value;
- the majority of the fundamental systems work must take place in the second half of the year in order to achieve as much coverage of the year as possible and enable external audit to place maximum reliance on our work (NB external audit proposed fees are partly based on this assumption);
- all services, including Internal Audit, have an ongoing obligation to ensure that the cost of the service is minimised wherever appropriate.

Establishment	Currently in post
Audit Manager	Audit Manager
Senior Auditor x 2	Senior Auditor x 2
Auditor x 3	Auditor x 0.6 (on maternity leave)

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As can be seen above there are currently 3.6 full time equivalent staff in post (0.6 of which is on maternity leave) out of an approved establishment of 6 full time equivalents.

It is intended that one Auditor post will be filled on a temporary basis from approximately July to March while maintaining a watching brief on staff resources to ensure that an adequate and effective audit service is maintained.

Managing the Risk of Fraud, Theft and Corruption Report

1. Introduction

- 1.1 St Edmundsbury Borough Council spends millions of pounds of public money each year on essential local services. It is essential that the council protects and preserves its ability to provide these services by ensuring that its assets are protected against all risks of loss and damage.
- 1.2 The purpose of this report is to bring together in a single document a summary of the work which has taken place during 2013/14 to prevent and detect fraud, theft and corruption. By publicising the report the council aims to show its commitment to minimising the risk of theft, fraud and corruption and deter any would-be fraudsters.

2. The Risk of Fraud

- 2.1 Theft, fraud & corruption is an ever present threat to the resources available in the public sector. The current economic climate means that the likelihood of fraud has increased.
- 2.2 Fraud, theft and corruption are costly, both in terms of reputational risk and financial losses. As a result, the risk of safeguarding the council's monetary and physical assets continues to be included on the corporate risk register and so is subject to corporate monitoring and review arrangements.

3. Protecting the Public Purse

- 3.1 The Audit Commission published a report in November 2013 entitled 'Protecting the Public Purse – Fighting Fraud against Local Government' which provides useful information on the detection of fraud in local government. It considers the key fraud risks and pressures facing councils, along with identifying good practice and markers to future issues.
- 3.2 The report included a fraud checklist in which the council could assess the effectiveness of its governance and counter fraud arrangements. The checklist was completed during 2013/14 and illustrates that the council substantially complies with the requirements.

4. Corporate Fraud, Theft, Bribery and Corruption Arrangements

4.1 Awareness

- 4.1.1 The council has in place an anti-fraud and anti-corruption strategy; this is being reviewed to produce a joint policy for West Suffolk. Its purpose is to outline the council's approach,

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as well as defining roles and responsibilities, for dealing with the threat of fraud and corruption, both internally and externally. This is available on both the council's website and intranet.

- 4.1.2 The bi-annual fraud awareness newsletter continues to be published to staff. It is designed to highlight areas of fraud in the workplace and to help staff understand why we need to combat it effectively.
- 4.1.3 A number of messages have been included in the council's internal bulletin to remind staff of their responsibilities regarding:-
- Declaration of interests, gifts and hospitality;
 - Expenses claims;
 - Corporate Governance; and
 - Information security.
- 4.1.4 A leaflet has been produced and shared with staff summarising counter fraud arrangements and advising of what action to take if concerns are suspected.
- 4.1.5 A high level audit review of the authority's controls in place to ensure compliance with the Bribery Act was performed with no significant issues arising.
- 4.1.6 A high level audit reviewed the framework in place at the council to identify potential money laundering activity and staff awareness. Quarterly messages in the staff newsletter, Wavelength, have further promoted this awareness and this will be complemented by an e-learning training module.
- 4.1.7 The council is a member of the National Anti-fraud Network (NAFN), recognised as a centre of excellence dedicated to supporting its members in protecting the public purse from fraud, abuse and error. Regular alerts are received which are viewed with action taken where necessary.
- 4.1.8 Additional measures are being considered to data match across all departments of the authority. This will identify fraud within the systems and will also assist in providing more robust measures to prevent fraud from entering the systems.

5. Revenues and Benefits (ARP) Fraud Arrangements

5.1 Awareness

5.1.1 All new staff recruited to the revenues and benefits section are given a half day fraud awareness session which includes an awareness of key documents, the role of the benefits fraud team and the types of fraud that they uncover. Fraud awareness refresher training is provided to all revenues and benefits staff annually, this has recently included Money Laundering Training awareness.

5.2 Reported suspicions

5.2.1 Department for Work and Pensions (DWP) campaign posters are on display at the benefits counters at West Suffolk House, detailing the council's benefits fraud hotline number.

5.2.2 Business cards are available which customers are able to pick up and take away from the West Suffolk House offices. In addition, business cards are also on display within the staff breakout areas of West Suffolk House which provide details of the benefit fraud hotline number.

5.2.3 The benefits fraud hotline is included within the staff weekly newsletter.

5.2.4 Reports are written for the local newspaper each time there is a successful prosecution. Prosecutions are also reported via the Magistrate Court listings within the local newspaper.

5.3 Successful investigations

5.3.1 In all cases recovery is sought from the claimant either by sundry debtor invoice or collection from ongoing benefit, if still entitled.

5.3.2 Examples of successful benefit fraud prosecutions for 2013/14 include (note figures have been rounded):

Mr A made a claim for benefit stating that he was unable to work due to ill health. At no time did he notify any changes in his circumstances to confirm that he had returned to work. Enquiries revealed evidence which suggested that Mr A had returned to work and his income had increased significantly. As a result, Mr A was overpaid benefit in excess of £12,000. He was successfully prosecuted and sentenced by way of 12 month conditional discharge.

Ms B made a claim for benefit on the basis of having no savings or capital. This was false and evidence was obtained

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which revealed that she held capital in excess of £36,000. She was overpaid benefit in excess of £10,000. Ms B was prosecuted for making a false statement to obtain benefit and was sentenced by way of 6 month supervision order.

Miss C made a claim for benefit on the basis of herself and her partner, neither of whom were in employment. Miss C's partner gained paid employment and she failed to notify this change. As a result she was overpaid benefit in excess of £10,000. He was prosecuted for these offences and sentenced by way of 6 month supervision order.

Normal recovery procedures are instigated for these prosecutions.

5.4 Sanctions applied

5.4.1 For the 2013/2014 financial year there have been 15 prosecutions and another 13 pending, 12 formal cautions and 9 administrative penalties.

5.4.2 These compare with last year's figures which were 10 prosecutions, 22 formal cautions and 18 administrative penalties.

5.4.3 Most investigations do not result in a sanction but the investigation itself stops or reduces the amount of benefit paid. Investigations are sometimes closed without a sanction because it is considered to be a genuine error or because there is insufficient evidence of fraud or because the health of the individual at the time the fraud is discovered is worse than at the time of the interview. In these instances the benefit has been corrected and recovery action on any overpayment is taken so a saving to the tax payer has been made although not recorded as a fraud.

5.5 Financial loss recovered and (where appropriate) financial savings

5.5.1 Every effort is made to recover debt caused by fraud in line with Department for Work and Pensions (DWP) guidance.

5.5.2 The recovery of fraud debt for the financial year 2013/2014 is as follows:

	Prosecutions	Cautions	Administrative Penalties	Total
Housing Benefit	£67,855.04	£15,907.30	£18,852.37	£102,614.71
Council Tax Benefit	£19,871.42	£3,476.60	£3,766.15	£27,114.17

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This compares with the 2012/2013 figures which were:

	Prosecutions	Cautions	Administrative Penalties	Total
Housing Benefit	£58,612.12	£24,681.53	£19,638.76	£102,932.41
Council Tax Benefit	£12,865.06	£3,834.12	£9,233.59	£25,932.77

5.5.3 During this year the Revenues and Benefits compliance team, as part of the Anglia Revenues Partnership has undertaken proactive work with regard to false claims to Single Person Discount for Council Tax which could lead to court action. These cases continue and work is ongoing. This follows on from work carried out in the current year of checking data sources and information received from the public.

5.5.4 In addition, NDR investigations are being undertaken to identify accounts where payment has not been forthcoming. Enquiries are ongoing to identify the true circumstances of these account holders/companies with a view to undertaking further recovery action in appropriate cases.

6. Policies and Procedures

6.1 The council has a range of interrelated policies and procedures that provide a corporate framework to counter fraudulent activity. These include:

- Codes of Conduct for Members and Officers
- Code of Corporate Governance
- Constitution – including Contract and Financial Procedure Rules
- Anti-Fraud and Anti-Corruption Strategy
- Whistleblowing Policy
- Anti-Money Laundering Policy
- Recruitment and Selection Procedures
- National Fraud Initiative Strategy

7. National Fraud Initiative

7.1 Councils are required to participate in the biennial National Fraud Initiative, an exercise involving data matching of records such as benefits, payroll, pensions, student awards, housing rents (where appropriate), licenses, parking permits, and travel concessions. Internal Audit takes a leading role in co-ordinating this exercise working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.

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- 7.2 The 2012/13 NFI exercise saw 1426 matches reported with 186 high priority matches. A total of 1015 matches have been processed with another 52 in progress. 87 errors have been identified with a value of £27,973.80. Arrangements are being made to recoup the errors through the Benefits Overpayment process.
- 7.3 An additional flexible matching service was provided free of charge by the NFI to review Housing Benefit Claimants to Student Loans and UK Visas. 25 matches were reported with 5 high priority matches; 20 of these have been processed with three in progress. No errors or frauds have been identified.
- 7.4 In March 2014, the Council Tax Single Persons data and Electoral Register data was matched, producing 785 matches which have been provided to ARP to review.

8. Internal Audit

- 8.1 Fraud and corruption risks are identified as part of the annual audit planning process, with the annual Internal Audit Plan including resources to undertake special irregularity investigative work, co-ordination of the NFI data matching exercise, and proactive anti-fraud and corruption work.

Summary of Internal Audit Reports Issued in 2013/14

1. Introduction

- 1.1 During the period, 32 audit reviews were 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. Eight 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 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 -14 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 1st 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** opinion was provided.

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 St Edmundsbury and Forest Heath 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

- 6.3 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. Payment Cards

- 14.1 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.
- 14.2 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

- 14.3 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.
- 14.4 Procedures and guidance should be subject to periodic review to ensure they are up to date.
- 14.5 Consideration should be given to exploring the management information facility on card use available from the payment card provider.
- 14.6 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.

15. Accounts Payable (Creditors)

- 15.1 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

- 15.2 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.
- 15.3 New West Suffolk Contract Procurement Rules are being created to align procurement practices and thresholds across both councils. This work is currently ongoing and due to be introduced during 2014/15.

Key areas where improvements are required

- 15.4 Controls have generally been 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 purchase order which is that authorisation is required prior to placing an order.

16. Main Accounting System (General Ledger)

- 16.1 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 1st April 2014. A **substantial assurance** opinion was achieved.

Improvements made since the previous audit

- 16.2 Progress is evident in respect of ARP reconciliations; these are being completed and verified in a timely manner.
- 16.3 A significant amount of work has been undertaken to reconcile the council's bank accounts.

Key areas where improvements are required

- 16.4 The debtor and creditor control accounts need to be reconciled more regularly to the general ledger.
- 16.5 Journal transactions could be better supported; it is understood that this will be addressed with the new financial system which will introduce sound audit trails, authorisation limits and mandatory narrative.

17. Payroll

- 17.1 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

- 17.2 Significant changes have taken place within the structure of the Payroll section including the creation of a shared payline and alignment of SEBC and FHDC 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.

Key areas where improvements are required

- 17.3 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.

18. Accounts Receivable (Debtors)

- 18.1 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

- 18.2 Credit notes and supporting documentation was provided to justify the raising of the credit note. This control will be further enhanced with the introduction of Agresso.

Key areas where improvements are required

- 18.3 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 regarding this new system. However, it was identified that the debt recovery process could usefully be improved to ensure that the debtor is contacted in a timely manner and action taken to recover the debt.

19. Council Tax

- 19.1 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.
- 19.2 The West Suffolk Internal Audit Team undertook the Council Tax 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

- 19.3 Training has been provided to ARP staff on the subject of Money Laundering.
- 19.4 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

- 19.5 The responsibility for regularly reviewing credit balances has not been established, resulting in the 2013/14 credit balances increasing.
- 19.6 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).

20. Non Domestic Rates (NDR)

- 20.1 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.
- 20.2 The audit was undertaken to provide assurance on 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

- 20.3 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

- 20.4 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.
- 20.5 Recommendations were made to align the St Edmundsbury BC reminder and final notice payment requirement dates with the partner authorities with an aim to improve debt recovery rates.
- 20.6 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.

21. Housing and Council Tax Benefits Review

- 21.1 Similar to council tax and NDR the West Suffolk Internal Audit Team undertook the audit on behalf of the four ARP 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

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

Key areas where improvements are required

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

22. Car Parks Cash Handling Review

22.1 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

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

Key areas where improvements are required

22.3 Only minor recommendations were made to improve the control environment.

23. Elections Account Review

23.1 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 St Edmundsbury BC, 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

23.2 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.

24. Criminal Records Bureau Checks (Licensing) Follow-Up

24.1 A follow-up was completed on the Licensing elements of the Criminal Records Bureau audit that was originally undertaken in 2009; the Human Resources actions will be followed up separately at a later date. The Criminal Records Bureau (CRB) and the Independent Safeguarding Authority (ISA) have merged into the Disclosure and Barring Service (DBS). The DBS was established in December 2012 under the Protection of Freedoms Act 2012 and carries out the functions previously undertaken by the CRB. Certain roles or jobs require DBS checks, including taxi drivers; the original audit included three action points for Licensing.

24.2 The review recommended a number of improvements including that consideration should be given for the Taxi Driver license guidance notes to include a reference to the authority’s commitment to the DBS Code of Practice.

25. Heritage Assets Follow-Up

25.1 This was a follow-up of an audit conducted in 2012 to assess effectiveness in the safeguarding of, and accounting for, 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.

25.2 A number of recommendations have been implemented or superseded, while some recommendations remain to be fully actioned, including further improvement of inventory arrangements.

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.