

Mid-Year Internal Audit Progress Report 2015/16

1. Introduction

- 1.1 The Public Sector Internal Audit Standards require the Service Manager (Internal Audit) to report periodically to senior management and committee on Internal Audit's performance relative to its Audit Plan. Reporting should also include any significant risk exposures and control issues where relevant, including fraud risks and governance issues. The Performance and Audit Scrutiny Committee is the designated committee to receive these periodic reports.
- 1.2 The purpose of this report is to update Members on progress made against the 2015/16 Audit Plan (approved by this committee in June 2015), and also provide a flavour of the work undertaken in the year to date.

2. Review of Internal Audit work for the seven months to October 2015

- 2.1 An overview of the work of Internal Audit for the first seven months of 2015/16, and progress made towards achieving the Audit Plan for the year, is set out below.

Corporate and Consultancy Work

- 2.2 A similar approach to last year's Internal Audit Plan is being taken in that as well as continuing to perform the usual statutory fundamental systems audits and other audit responsibilities, Internal Audit is also performing corporate and consultancy style work. This approach recognises that early audit input to activities can often help prevent or bring early resolution to internal control issues, and also bring audit skills and increase available resource on significant corporate projects. For 2015/16 to date the team has assisted in the following work areas:
 - re-designing service processes (Freedom of Information, Locality Budgets, Committee Administration, and Permits);
 - production of the West Suffolk Annual Governance Statement and its associated documents;
 - West Suffolk Strategic Risk Register;
 - fees and charges;
 - project development, delivery and management of projects across the West Suffolk councils;

- information governance;
- records management; and
- input to corporate projects such as the proposed Housing Development Company, solar energy projects, and investment in the commercial asset portfolio at Brandon.

2.3 During the year to date Internal Audit has also:

- responded to around 40 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts for the councils; and
- continued to provide advice to service areas on internal controls.

2.4 Internal Audit is currently working on developing an approach to undertake project 'health checks' on selected council projects. This work is in recognition that there are a number of new projects which are key to the councils achieving their strategic objectives, and this work will contribute towards the councils' management of their project risks. These project health checks will review the governance of selected projects and check that these projects are on track and well managed. Results of these project health checks will be shared as appropriate and learning points, including examples of good practice, will be disseminated amongst all project managers. This is a new area of work for Internal Audit and the approach will be trialled from the end of the 3rd quarter 2015/16.

Fee Earning Work

2.5 Internal Audit is continuing to undertake fee earning work during 2015/16 and by the end of the financial year this is likely to result in approximately £23k of income being earned. Fee earning work consists of the following:

- work on behalf of East Cambridgeshire District Council as part of the agreement in place whereby West Suffolk provides that council with internal audit resources to assist in completion of their annual audit plan;
- audit of the council tax, non-domestic rates, and housing and council tax benefits systems at the Anglia Revenues Partnership (ARP) on behalf of East Cambridgeshire District Council (this is in addition to the work referred to above) and Breckland Council; and
- fee earning grant certification work for Suffolk County Council to provide assurance to the Department for Business Innovation & Skills that the conditions of the specific grant determination (Business Growth Programme and Employer Ownership Grant Scheme) have been complied with.

2.6 As mentioned above (paragraph 2.5 refers) the West Suffolk Internal Audit Team currently undertakes the council tax, housing benefit and non-domestic rates reviews for Breckland Council, East Cambridgeshire District Council, Forest Heath District Council and St Edmundsbury Borough Council. Waveney

District Council, Suffolk Coastal District Council and Fenland District Council have recently joined the ARP and discussions are currently in progress to determine the future internal auditing arrangements at ARP.

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

2.7 The following audits must be undertaken every year as these form the foundations of the annual internal audit opinion:

- Council Tax (in progress)
- Non Domestic Business Rates (in progress)
- Housing and Council Tax Benefits (in progress)
- Cash Handling (in progress)
- Accounts Receivable (in progress)
- Accounts Payable (in progress)
- Payroll
- Treasury Management
- Main Accounting System

2.8 At the time of writing this report, as can be seen at paragraph 2.7 above, the majority of the core financial systems / fundamental review work audits are currently in progress, while the remaining audits have not yet commenced. This is normal for this time of the year as these audits generally need to cover as much of the financial year as possible and are therefore not normally commenced until at least the third quarter. The work undertaken on these audits forms the basis of the annual internal audit opinion which will be reported to Performance and Audit Scrutiny members in the 2015/16 Annual Internal Audit Report.

Non-Fundamental Review Work

2.9 This work includes reviewing internal controls within departmental systems, and other non-fundamental audits.

2.10 During the first half of the financial year 2015/16 the following work within this category was carried out:

- an audit review of the housing register (**Choice Based Lettings**) identified that satisfactory controls are in place for the allocation of housing and that needs are appropriately assessed. A substantial assurance opinion was provided, however actions have been agreed to improve the transparency of the decision making process to strengthen this further. Also, a new software system is due to be introduced in April 2016 and suggestions have been made for the Service to take forward with the new supplier to provide further automation, reports and functionality; and
- audit reviews have taken place (with work currently at draft report stage) in respect of **Markets, Apex Cash Handling Arrangements and Homelessness**. The results of these audits will be reported to Performance and Audit Scrutiny members in the 2015/16 Annual Internal Audit Report.

Follow-Up Work

- 2.11 Follow-up work is 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.
- 2.12 Five such follow up audit reviews have been completed and issued as final reports (the council to which they relate is denoted in brackets), these being:
- A **Contract Procedures (SEBC and FHDC)** follow up audit was completed to assess the progress of actions from previous audits undertaken. Many of the original actions have been completed through the introduction of new Contract Procedure Rules, while four actions remain as work in progress, focussing around the use of consultants, temporary staff and the continued maintenance of the Contracts Register.
 - A follow up review on a 2013/14 audit on the compliance with **Payment Card Industry Data Security Standards (PCI DSS) (SEBC and FHDC)** for outlying sites was undertaken. Arrangements for the storage and disposal of card holder data have been addressed and an e-learning training module is being created to ensure staff are aware of their responsibilities.
 - A follow up audit was conducted on the original 2013/14 **CCTV (SEBC and FHDC)** audit. This follow up review highlighted that it had been possible to make only limited progress on recommendations made in the original audit regarding staff guidance and record keeping requirements relating to CCTV – this was due to the resource intensive new CCTV systems project covering the Bury St Edmunds and Haverhill public areas. Internal Audit have since assisted the Service by producing and issuing CCTV guidance notes to outlying sites ensuring staff are aware of Data Protection requirements, record keeping requirements and appropriate use of the system.
 - A high level review to assess the progress of agreed actions from the 2013/14 **Elections (SEBC and FHDC)** audit was undertaken. As significant changes have occurred within the Service the new Service Manager is now reviewing working practices and will be introducing efficient processes for the delivery of elections which will address the outstanding actions.
 - A follow-up has been undertaken on the **Social Media and Mobile Computing (SEBC and FHDC)** audit report issued in April 2013. The review confirmed that all recommendations in respect of mobile computing have been implemented although some further work is still required to address some fairly minor recommendations made in respect of social media.

3. Probity

- 3.1 Councils are required to participate in the biennial National Fraud Initiative (NFI), an exercise involving data matching of records such as benefits, payroll, pensions, student awards, housing rents (where applicable), licences, parking permits, and travel concessions. Internal Audit takes a leading role in co-ordinating this exercise working across a number of service areas, as well as

ARP, to support those staff to provide their data so that they can then investigate and record the results of their matches. A significant number of these matches relate to council tax and housing benefits and these matches are investigated by ARP on behalf of the West Suffolk councils.

3.2 In respect of the current NFI exercise:

- Of the 1829 matches reported for St Edmundsbury Borough Council, 616 have been processed. A risk-based approach is taken when reviewing matches, with recommended matches as identified by the NFI application being addressed first (there were 423 of these), and a sample of remaining matches then reviewed. Whilst no frauds were detected, 10 errors totalling £25,285 were identified and arrangements are in place to recover this via credit notes, housing benefit adjustments or the housing benefit overpayment process.
- In respect of Forest Heath District Council - of the 902 matches reported, 297 have been processed. Again, a risk based approach is taken when reviewing matches, with recommended matches as identified by the NFI application being addressed first (there were 187 of these), and a sample of remaining matches then reviewed. Whilst no frauds have been detected, 5 errors totalling £5,423 were identified and are being recovered through either credit notes, liability being added to the council tax or the housing benefit overpayment process.

3.3 In order to further understand the fraud risk level within the councils, a fraud risk assessment review was undertaken with the objective of assessing the controls in place to reduce or detect fraud and to formulate an action plan for the residual risks. The review concluded that the West Suffolk councils generally have good controls in place with the risk of fraud thought to be low overall but it should be recognised that fraud can never be entirely mitigated. Fraud awareness work is therefore undertaken, through including short messages on the intranet on fraud related topics at periodic intervals.

3.4 The new CIPFA Code of Practice on Managing the Risk of Fraud and Corruption provides five key principles to embed effective standards for countering fraud and corruption. While the code is voluntary, an assessment is currently in progress to assess West Suffolk against these principles and may identify areas which could be strengthened.

3.5 Internal Audit has reviewed expenditure made on Government Procurement cards in use at the West Suffolk councils to check that no inappropriate transactions have been made – no significant issues arose from this work.

4. Resources

4.1 The staff complement of the team is currently 3.57 Full Time Equivalent (FTEs) comprising of the Service Manager Internal Audit (1 FTE), two Senior Auditors (2 FTEs), and an Auditor (0.57 FTE).

5. Conclusions

- 5.1 The Service Manager (Internal Audit) currently considers that progress on the core financial systems audits (paragraph 2.6 refers), as well as other audit responsibilities, is in line with expectations and therefore the Audit Plan should be completed on time, resulting in an ability to deliver a robust annual audit opinion in the 2015/16 Annual Internal Audit Report.
- 5.2 There are no significant risk exposures or control issues arising from the audit work undertaken during the period that need to be specifically drawn to the attention of the Performance and Audit Scrutiny Committee.