

Mid-Year Internal Audit Progress Report 2017/18

1. Introduction

- 1.1 The Public Sector Internal Audit Standards require the Service Manager (Internal Audit) to report periodically to senior officers 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 2017/18 Audit Plan (approved by this committee in May 2017), 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 2017

- 2.1 An overview of the work of Internal Audit for the first seven months of 2017/18, 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 2017/18 to date the team has assisted in the following work areas:
 - production of the West Suffolk Annual Governance Statement and its associated documents;
 - West Suffolk Strategic Risk Register;
 - information governance, including:
 - conducting early morning walk rounds of the main council offices and depots with feedback provided to the Officer Information Governance Working Group on any identified weaknesses that could result in data security risks; and

- carrying out record retention spot checks to ascertain if records within service areas are being retained, destroyed or disposed of in accordance with the Records Management Guidance.
- carrying out a review looking at project feasibility spend to determine whether project procurement activity is conducted with openness, probity and accountability and that clear contractual agreements exist as appropriate. The review also sought to identify if improvements could be made to the way in which this procurement activity takes place or improvements and / or changes to the procurement framework;
- undertaking a piece of work to consider if improvements could be made to how commissioned services are currently engaged and managed by the councils, and to determine whether there are opportunities for increasing learning and skills transfer to be brought into the councils following their use;
- conducting a General Data Protection Regulation (GDPR) health check to consider the potential impact of the new Regulation on the councils and any steps that need to be taken to ensure compliance;
- inputting to the Election Project Team to look at the delivery of elections and electoral registration;
- working with Waste Enforcement Officers to design more streamlined processes for reporting and taking action against fly tipping and abandoned vehicles. It should be noted that these new processes cannot be introduced until the trade waste project has been concluded;
- performing the project assurance role for the Mildenhall Hub Project and in doing so, consider for each stage of the project whether it is on track and in accordance with agreed governance;
- carrying out a piece of work reviewing a number of licensing processes to ensure that they are achieving the best experience for the customer and are carried out in the most efficient way for the councils;
- reviewing and commenting upon the new Procurement Card Policy and Guidance produced by Finance; and
- other work on behalf of the Assistant Director (Resources and Performance) including financial due diligence related to areas of potential council investment, as well as data gathering / research regarding the councils cash collection arrangements.

2.3 During the year to date Internal Audit has also:

- responded to around 30 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.

Fee Earning Work

- 2.4 Internal Audit is continuing to undertake fee earning work during 2017/18 and by the end of the financial year this is likely to result in approximately £11,000 - £13,000 of income being earned. Fee earning work consists of the following:
- audit of the council tax, housing and council tax benefits, and housing benefit overpayments systems at the Anglia Revenues Partnership (ARP) on behalf of East Cambridgeshire District Council and Breckland Council;
 - fee earning grant certification work for the following organisations to check that the conditions of the relevant specific grant determinations have been complied with:
 - New Anglia LEP - to provide assurance to the Department for Business Innovation & Skills (Growth Hub Funding); and
 - Suffolk County Council - to provide assurance to the Trading Standards Institute (Safety at Ports and Borders Team and Single Point of Contact for Border Controls)
- 2.5 A service level agreement has been agreed with the ARP partners to provide a more streamlined internal audit review of ARP. This has resulted in the West Suffolk Internal Audit team undertaking the annual audit of Housing Benefit, Council Tax and Housing Benefit Overpayments for the seven authorities. The East Suffolk Internal Audit team are responsible for performing the Business Rates (NNDR) review with the Fenland Internal Audit team performing the review of ARP Enforcement.
- 2.6 Further service level agreements are in place between West Suffolk and Breckland Council, and West Suffolk and Local Government Shared Services (on behalf of East Cambridgeshire District Council) to undertake the ARP work on their behalf.

Main Financial Systems (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, the status of each of these audits for 2017/18 as at the end of October 2017 is shown in brackets:
- Council Tax (in progress)
 - Housing and Council Tax Benefits (in progress)
 - Housing Benefits Overpayments (in progress)
 - Car Parks Cash Handling (in progress)
 - Debtors (in progress)
 - Creditors (in progress)
 - Treasury Management (in progress)
 - Non Domestic Business Rates (yet to commence – audit being undertaken by East Suffolk)
 - Payroll (yet to commence)
 - ARP Enforcement (yet to commence – audit being undertaken by Fenland DC)
 - Main Accounting System (yet to commence)

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 2017/18 Annual Internal Audit Report in May 2018.

Corporate and Business Area Audits

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

2.10 During the first seven months of the financial year 2017/18 the following audit has been carried out and issued as a final:

- Cyber Security- the purpose of this audit was to review the design and effectiveness of cyber security arrangements across West Suffolk. A *substantial assurance* opinion was provided, however, actions have been agreed to further strengthen arrangements.

2.11 The following audits are at draft report stage:

- Procurement Compliance – this audit review is being undertaken to determine whether contract procedure rules are being followed and that value for money can be demonstrated;
- Contract Extensions – this audit review is being carried out to ensure that the councils are only taking the option of a contract extension in appropriate circumstances, based on satisfactory performance and continued value for money; and
- Cash Handling Spot Checks - unannounced visits have been undertaken at a number of cash handling locations (leisure sites) within St Edmundsbury to establish the adequacy of internal controls over receipting, reconciliation and banking of monies received.

The results of these audits will be reported to Performance and Audit Scrutiny members in the 2017/18 Annual Internal Audit Report.

2.12 The following audits, included within the 2017/18 Audit Plan are yet to commence:

- HMRC – Off Payroll Engagement (IR35) – the aim of this audit will be to check that payments to consultants, contractors and interim payments are treated correctly for tax and national insurance purposes to ensure HMRC regulations and agreements are being complied with.
- Declarations of Interests – assessment of the arrangements in place to ensure that any relevant employee interests are declared and appropriately managed.

- Gifts and Hospitality – assessment of the arrangements in place for promoting appropriate conduct in respect of gifts and hospitality.

Follow-Up Work

2.13 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. During the first half of the year, a separate follow up audit report was issued in respect of the following:

- Payment Card Industry Data Security Standards – the review concluded that one action remains outstanding to ensure that staff receiving credit and debit card payments are made aware of their responsibilities by completing the e-learning training module.

Other Work

2.14 Other audit related work undertaken during the year to date includes the following.

2.15 Provision of an Independent Examiners Report on the West Stow Anglo Saxon Village Trust accounts for the year ending 31 March 2017, thereby providing independent assurance on the accounts provide by the Finance team for the charity’s trustees.

2.16 The Public Sector Internal Audit Standards (the Standards) require that internal audit ‘must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity’. An important objective of this ‘programme’ is to check internal audit’s conformance with the Standards - in order to achieve this, a series of quick audits reviewing conformance with the Standards has commenced. The first of these audit reviews – on the planning of audit reviews (Engagement Planning) – has been completed with a number of agreed actions relating to improved evidencing of internal processes within the audit team.

3. Probity

3.1 Councils are required to participate in the biennial National Fraud Initiative (NFI) which is run by the Cabinet Office. This is an exercise involving data matching of records such as benefits, payroll, pensions, student awards, housing waiting list, taxi driver licences, personal alcohol licences, parking permits and creditor payments. 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 services’ data so that they can then investigate and record the results of their matches.

3.2 The data for the council tax exercise which focussed on single person discounts and those turning 18 years of age was released in December 2016. A review of these matches continues, but to date, has identified:

- FHDC: a total of 13 frauds, producing £5,979.08 of savings which is being recovered; and
- SEBC: a total of 137 errors and frauds, producing £111,752 in savings with £60,027 being recovered.

The reviewing of the matches is continuous across the 7 partner authorities by the ARP Fraud Team, with the majority of SEBC being completed and FHDC now being looked into.

3.3 The review of housing benefit, payroll, creditor, licensing, market trader and housing waiting list matches released in January 2017 continues. To date the following has been identified:

- FHDC: 1 error (£6,498) which is a duplicate creditor payment and had already been returned by the supplier; and
- SEBC: 4 errors (£34,072) which are duplicate creditor payments, dating back to 2013 and had already been identified by internal processes. 2 overpayments (£492) have also been identified and are being recovered through housing benefit.

Housing benefit frauds are now passed to the Single Fraud Investigation Service (SFIS). In 2017, 8 FHDC and 5 SEBC cases from the NFI exercise have been referred to the SFIS to investigate.

3.4 A proactive approach is being taken with corporate anti-fraud work, including:

- monthly intranet messages;
- completion of various checklists which concluded that the risk of fraud is generally deemed to be low, however, the audit plan will continue to include work to support these findings; and
- completion of the CIPFA Fraud and Corruption Tracker survey which examines the levels of fraud and corruption detected across the public sector, the results of which will be used to direct future audit and proactive fraud work.

4. Resources

4.1 The staff complement of the team is currently 3.57 Full Time Equivalents (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 2.7 refers), as well as other audit responsibilities, is in line with expectations and therefore the Audit Plan should be substantially completed on time, resulting in an ability to deliver a robust annual audit opinion in the 2017/18 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.