

Mid-Year Internal Audit Progress Report 2014/15

1. Introduction

- 1.1 The Public Sector Internal Audit Standards require the Internal Audit Manager to report periodically to senior management and committee on Internal Audit's performance relative to its Audit Plan. Reporting should also include any significant risk exposures and control issues where relevant, including fraud risks and governance issues. The Performance and Audit Scrutiny Committee is the designated committee to receive these periodic reports.
- 1.2 The purpose of this report is to update Members on progress made against the 2014/15 Audit Plan (approved by this committee in May 2014), 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 2014

- 2.1 An overview of the work of Internal Audit for the first seven months of 2014/15, and progress made towards achieving the Audit Plan for the year, is set out below.

Corporate Consultancy Work

- 2.2 The approach to this year's Internal Audit Plan is different to previous years in that as well as continuing to perform the usual statutory fundamental systems audits, and other audit responsibilities, the emphasis given to proactively assisting with corporate or consultancy style work has increased. The reason for this is 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. Work we have recently been, or are currently, engaged in includes:
 - examining processes and controls in the Customer Services area;
 - reviewing, and advising on, debt management and recovery processes across West Suffolk;
 - producing a West Suffolk Fees and Charges Policy and reviewing information related to this;
 - considering the processes and controls operating around fuel receipts for mileage claims, and other related areas;

- research and groundwork on a number of financially related external initiatives on behalf of the Head of Resources and Performance to consider whether these may be of any interest to the councils;
- assisting in reviewing financial aspects of renewable energy investment options; and
- participation in the Housing Investment Project Group – a group of officers looking at investment options, for future consideration by Cabinet, to support and increase the delivery of housing across West Suffolk.

Other Non-Statutory Audit Work

2.3 Other non-statutory audit work which the section has undertaken during the period includes membership and contribution to the following groups:

- Joint Governance Group – this officer group leads on the production of the Annual Governance Statement and its associated documents;
- Joint Strategic Risk Management Group – this is a member and officer group which meets on a quarterly basis to review and update the West Suffolk Strategic Risk Register before being presented to the Informal Joint Performance and Audit Scrutiny Committee;
- Information Governance Working Group - this is an officer group which provides oversight of the proper and secure handling of information by both councils; and
- Records Management Working Group – the role of this officer group is to design and implement a record management framework for the West Suffolk councils.

2.4 During the year to date Internal Audit has also:

- responded to over 60 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts for the councils. This has included financial vetting advice for the Waste and Street Scene Software System, CCTV Upgrade Project and Brandon Leisure Centre Heating Replacement. A significant piece of (fee-earning) financial vetting work was also undertaken on behalf of the Home of Horse Racing regarding the National Horse Racing Museum fit-out works;
- continued to provide advice to service areas on internal controls; and
- undertaken audit 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. The majority of this fee-earning work has now been completed for 2014/15.

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

- 2.5 The following audits must be undertaken every year as these form the foundations of the annual internal audit opinion:
- Payroll (in progress)
 - Treasury Management (in progress)
 - Council Tax (in progress)
 - Non Domestic Business Rates (in progress)
 - Housing and Council Tax Benefits (in progress)
 - Cash Handling (in progress)
 - Accounts Payable
 - Accounts Receivable
 - Main Accounting System
 - ICT Audit
- 2.6 At the time of writing this report, as can be seen at paragraph 2.5 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 (included in each year's Annual Internal Audit Report) and is the main work undertaken by Internal Audit that the external auditors seek to place reliance on when performing their annual audit of the Statement of Accounts. The results of all audits undertaken within the year will be reported to Performance and Audit Scrutiny members in the 2014/15 Annual Internal Audit Report.

Follow-Up Work

- 2.7 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.
- 2.8 Five follow up audit reviews relevant to this category of audit work have been completed and issued as final reports (the council to which they relate is denoted in brackets), these being:
- **Criminal Records Bureau (CRB) Checks (SEBC and FHDC)** – follow up review on an audit covering CRB checks in relation to HR recruitment processes, and licensing.
 - Recruitment – the original recommendations have all been implemented; and
 - Licensing – whilst all agreed actions have been implemented, a new minor recommendation has been suggested in respect of reviewing and aligning documents to ensure that up to date information and requirements are clearly set out.

- **Apex (SEBC)** – follow up review on an audit covering the key financial areas of cash handling and transaction management, purchasing of goods and services, and stock management. The review confirmed that the vast majority of the original recommendations had now been implemented although some limited further work was still required to address some medium risk recommendations in the areas of cash handling and purchase of goods and services.
- **Bury Festival (SEBC)** – follow up review on an audit covering cash handling arrangements at the Bury Festival. The review confirmed that the majority of the agreed actions have now been implemented, with only a small number (medium risk recommendations) outstanding around further improving the recording of income for programme and merchandise sales.
- **WSH Health and Safety (SEBC)** – follow up review on an audit on the health and safety arrangements at West Suffolk House. All of the agreed actions have now been completed.
- **Human Resources (SEBC and FHDC)** – follow up review on an audit covering processes to support recruitment, promotion and termination of service, pay and remuneration, and career development. The review confirmed that no significant actions remain to be implemented from the original audit report issued.

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), 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.
- 3.2 For the 2014/15 NFI exercise data was extracted week commencing 6th October 2014, with the anticipated date for the release of matches being 29th January 2015, upon which match investigations will be performed on a risk based approach.
- 3.3 No significant non-ARP frauds or cash losses have been sustained at either council within the period. However, council officers did alert the police to a situation at a Newmarket industrial unit where there were concerns over possible illegal activities. Local press subsequently reported that a cannabis farm consisting of 90 plants and hydroponics equipment had been discovered.
- 3.4 The West Suffolk Anti Fraud and Anti Corruption Policy, drafted by Internal Audit, was approved and adopted within the period. This Policy was last reviewed by both councils in 2011 and was reviewed again this year to ensure it continues to reflect best practice, legislation and shared services arrangements. The main change in updating the Strategy (re-named as a Policy) was to include a section on social housing fraud in recognition of the Prevention of Social Housing Fraud Act 2013 which as well as creating new criminal offences in this area gave greater powers to local authorities to investigate social tenancy fraud through better access to data from banks and utility companies.

4. Resources

- 4.1 For much of 2014/15 the Internal Audit Section has comprised of the Internal Audit Manager and two Senior Auditors, and from October 2014 the part-time Auditor who had been on maternity leave since the New Year returned to work.
- 4.2 The Internal Audit Manager, in conjunction with the Head of Resources and Performance, is monitoring the situation to ensure that resources are adequate to provide a robust annual audit opinion for 2014/15, and is considering what internal audit resources are required going forward.

5. Conclusions

- 5.1 The Internal Audit Manager currently considers that progress on the core financial systems audits (paragraph 2.4 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 2014/15 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.