



Internal Audit Mid-Year Progress Report 2023 to 2024

Introduction

The purpose of this report is to:

- provide a flavour of the work undertaken by the internal audit team during the first half of 2023 to 2024
- highlight any areas of significant concern arising from that work
- advise on progress against the 2023 to 2024 audit plan

1. Overview

- 1.1 As further detailed below, during the period we have performed a variety of work including the following:
 - completed four added value reviews, three audits, and four follow up audits, with a number of audits and other work currently being finalised or currently in progress
 - provided assurance over the utilisation of COVID-19 grants
 - National Fraud Initiative work
 - financial due diligence work and advice as requested by the services
 - certification work in respect of a number of grants received
- 1.2 Overall, we consider that reasonable progress has been made against the annual audit plan of work approved by the Performance and Audit Scrutiny Committee (PASC) in June 2023, and we expect to complete sufficient work to enable a robust annual audit opinion to be provided to the May 2024 PASC.
- 1.3 Based on the work completed to date, we consider that in general the control environment has continued to be robust, with the audit opinions issued within the period being 'Good' or 'Reasonable'. However, there are areas where further improvements could be made and a flavour of these is given below. One particular issue to bring to this committee's attention is that the council was subject to a supplier bank mandate fraud within the period covered by this report, further details are included at paragraphs 5.14 – 5.19. The Finance team has confirmed that existing controls have been reinforced in this area as well as additional controls introduced, as set out in paragraph 5.19.

2. Added value work

- 2.1 These are areas that were identified by management and internal audit as likely to benefit from internal audit reviewing relevant arrangements on behalf of management and assisting in making improvements where appropriate.
- 2.2 Work in this area by the internal audit team has included the following.

Budget monitoring

- 2.3 This work was carried out to provide assurance over the adequacy and effectiveness of the council's budget monitoring arrangements. A number of suggested improvements were made in relation to budget responsibilities, monitoring, and reporting, including the production of guidance for staff to refer to around monitoring and reviewing budgets; and consideration of whether further improvements could be made to budget monitoring reports sent to each service.

Ordering and stock control (workshop and depot)

- 2.4 This piece of audit work focused on a review of stock control regarding workshop spare parts, tools, equipment, refuse bins purchases and fuel. A number of actions for improvement were suggested, including a more corporate approach could be considered for procurement opportunities within the Operations Directorate; and service level agreements and contracts with external customers should include an annual review of prices to take into consideration inflation.

Software as a Service (SaaS)

- 2.5 This audit work considered how Software as a Service (SaaS) is currently procured and aimed to provide advice to strengthen the current process. The main output from this piece of work was to produce a draft guidance document offering advice to help service areas who are responsible for procuring their own software.

Note: Software as a Service (SaaS) is a method of software delivery and licensing in which cloud-based software is purchased via a subscription and accessed via the internet rather than bought and installed on on-premise server hardware.

Performance Management

- 2.6 A change in the reporting of performance management occurred in quarter four of 2021 to 2022 – this refreshed the indicator set, changed the route through the organisation and the way performance is displayed, removed most targets and 'Red Amber Green' (RAG) ratings, and provided comparisons with previous years. Our review, which aimed to confirm that

the appropriate data is being used to report on, concluded that the services do use the reported data to improve performance, and no fundamental issues were identified including no concerns over data quality for the sample of KPIs reviewed.

Change and service improvement programme

- 2.7 We have continued to provide significant capacity and skills into the corporate change and service improvement programme. Over recent months this has included undertaking work within the following service teams: Cemeteries, Licensing, Property Helpdesk and the Planning and Regulatory Support Team.

3. Main financial systems and corporate and business area audits

- 3.1 These include the audits of the main financial systems that support the running of the council and reviews of systems and processes where the internal controls are tested and evaluated.

Operational Risk Management

- 3.2 This high-level review focused on understanding and considering the effectiveness of arrangements for the management of operational risk within a number of services to ensure that significant risks are identified and assessed and appropriate responses to those risks are chosen. An audit opinion of **reasonable assurance** was given. The audit recommended that a standardised approach to recording and monitoring of risks within operational service areas be adopted. This was agreed by management and a follow up audit will be undertaken in due course to monitor the successful implementation of this recommendation.

Treasury management

- 3.3 This audit 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 **good assurance** opinion being given, with no recommendations arising.

Disabled facility grant from the Department for Levelling Up, Housing and Communities

- 3.4 This audit was carried out to provide assurance to both West Suffolk Council and Suffolk County Council that for the year 2022 to 2023, the conditions of the disabled facility grant allocated to, and spent by West Suffolk Council, have been complied with. An audit opinion of **good assurance** was given, with no recommendations arising.

4. Follow-up audit work

- 4.1 The follow-up work below has been undertaken to check the extent to which agreed recommendations and actions have been implemented in respect of previous audits undertaken.

Confidential waste service

- 4.2 This review highlighted that progress against one action from the original audit remains outstanding, regarding the tendering of the contract for the confidential waste supplier. A new target date has been set whereby management have agreed to a formal quotation procedure being undertaken before the current agreement expires in June 2024.

Payment card industry data security standards

- 4.3 This review has confirmed that the remaining action from the original audit report has now been closed off due to processes now being in place to capture training, and ongoing improvement is being seen. A compliance review of the training records will be incorporated into periodic audit work.

Geographic information system (GIS)

- 4.4 This follow up review has confirmed one action has been completed whilst the remaining action, relating to review and management of data on the GIS system, remains outstanding. A new GIS Officer is now in place and has been tasked with addressing this action.

Tree Management and Inspections

- 4.5 This review has confirmed that the remaining actions from the original audit report have all now been implemented.

5. Other significant work

- 5.1 Other key work undertaken by the internal audit team during the period includes the following:

Annual governance statement

- 5.2 Co-ordination of the production of the West Suffolk Annual Governance Statement (AGS) 2022 to 2023. The draft AGS was presented to the Performance and Audit Scrutiny Committee in September 2023 for scrutiny and comment; approval by this committee will be sought at a later date and timed to take into account the timetable for the external audit of the 2022 to 2023 Statement of Accounts.

National fraud initiative

- 5.3 The National Fraud Initiative (NFI) is a mandatory exercise run by the Cabinet Office to match and compare electronic data within and between public and private sector bodies to prevent and detect fraud and error. Internal audit co-ordinates the council's participation in this biennial exercise. A review of NFI matches released during 2023 is ongoing with no significant issues reported.
- 5.4 An annual exercise is also undertaken to match council tax records to the electoral register to identify households which may not be eligible for a single person discount. A premium single person discount matching service is available and provides enhanced matching to credit reference agency data as well as the electoral register. Funding was received from Suffolk County Council for a post in 2023 to 2024 within the Anglia Revenues Partnership (ARP) to enable participation in this exercise and this review is currently ongoing.

Anti-fraud

- 5.5 Communication of fraud alerts to service areas to raise awareness of current threats. Fraud alerts for 2023 to 2024 cover a number of areas including council tax fraud, business rates fraud, supplier fraud (invoices received for goods/services not received or received but not ordered), and benefits fraud.

Financial vetting

- 5.6 During the year to date the team has responded to around 20 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts for the council.

Grant assurance work

- 5.7 Energy Bills Support Scheme Alternative Funding (EBSS AF). A package of energy bills support was provided by the Government to support eligible recipients for meeting costs related to the use of energy in 2022 to 2023. The Energy Bills Support Scheme (EBSS) provided a discount on energy bills of £400 for most households and was delivered through domestic electricity suppliers. However there are a number of households who pay for their electricity in a different way, such as through a commercial intermediary and have not received support through the EBSS. The EBSS AF provided a non-repayable payment of £400 to eligible households who did not receive the main EBSS payment automatically. This scheme was jointly administered by the Department for Energy Security and Net Zero (DESNZ) and the Anglia Revenues Partnership on behalf of West Suffolk Council, with payments being made by the West Suffolk Council finance

team. Internal audit carried out a high-level review to provide assurance of the process to issue the payments; there were no issues to report.

- 5.8 Alternative Fuel Payment (AFP). In autumn 2022, the Government announced the AFP scheme. The AFP provides £200 of support for households who did not automatically receive support through their energy supplier as, for example, they do not have a direct relationship with the supplier or do not have a gas connection. The scheme targets households that use alternative fuels as the main source of heating such as heating oil, bottled gas, liquid petroleum gas, wood or other solid fuel to heat their homes. This scheme was jointly administered by the Department for Energy Security and Net Zero (DESNZ) and Anglia Revenues Partnership on behalf of West Suffolk Council, with payments being made by the West Suffolk Council finance team. Internal audit carried out a high-level review to provide assurance of the process to issue the payments; there were no issues to report.
- 5.9 Green Homes Grant (Home Upgrade Grant). This was a Government scheme to help homeowners and landlords in England cover the cost of certain energy saving home improvements. Internal audit provided positive assurance to the Department for Energy Security & Net Zero (DESNZ) that the grant conditions have been complied with.

COVID-19 related grants

- 5.10 Internal audit resource has continued to be assigned to ongoing work to support processes in respect of COVID-19 related grants to businesses, by:
- monitoring the recovery of monies in respect of businesses which were identified post-payment as not being eligible for the grant payments received; and
 - providing the necessary information as requested by external organisations, including Government departments.
- 5.11 Community Outbreak Management Fund. Positive assurance was provided to Suffolk County Council that the funds issued to West Suffolk Council to manage and control the outbreak of COVID-19 in the community were spent in accordance with the conditions of the grant.
- 5.12 Test & Trace Contain Outbreak Management Fund. Positive assurance was provided to the Government that the expenditure incurred was used appropriately to mitigate against and manage local outbreaks of COVID-19.

Fee earning work

- 5.13 Internal audit has continued to undertake fee earning work and for 2023 to 2024 this will result in approximately £11k of income. This work consists of the audit of council tax billing and benefits, and overpayments recovery, systems at the Anglia Revenues Partnership (ARP) on behalf of East Cambridgeshire District Council and Breckland Council.

Incidents of fraud

- 5.14 Mandate fraud, sometimes known as 'payment diversion fraud' or 'business email compromise', occurs when someone purporting to be from a genuine supplier contacts the council with a request to change bank account details that payments are made to. If the request is actioned, the payments will then be made to the fraudster's bank account.
- 5.15 Criminals are very sophisticated in hacking accounts and compromising emails for mandate fraud, sometimes spending many weeks or months harvesting data or social engineering prior to changing the bank account details.
- 5.16 The council has recently been subject to such an incident resulting in a payment being made to a fraudster instead of the intended supplier. This is the first time that the council has been defrauded in this way.
- 5.17 Internal Audit assisted with the investigation to identify how this occurred and have made a number of recommendations to strengthen controls to reduce the likelihood of this occurring again. We have also subsequently raised awareness around this by including a fraud awareness article on the intranet, and also reviewed and updated our internal audit fraud response plan on the intranet.
- 5.18 The fraud has been reported to the appropriate organisations, however efforts to recover these have been unsuccessful.
- 5.19 The Finance Team has confirmed the following actions have been taken to further improve controls to reduce risk of any such future frauds:
- a training programme has been delivered to invoice processors to emphasise and reinforce required internal control processes. This was accompanied by e-mail and intranet reminders including new training video resource from Lloyds bank; and
 - a report has been set up within our accounting system to highlight any account changes in our supplier base. This will be run by Finance and used to validate checks that have been performed by the commissioning service.

Other

- 5.20 Ongoing internal controls advice and guidance has been provided to service areas.

6. Work in progress

6.1 There are also a number of audits and other work, in progress, including the following:

- VAT
- Housing benefit and council tax billing
- Council tax and housing benefit overpayment recovery
- Contract procedure rules compliance
- Control of ICT Assets
- Payroll
- Civil parking enforcement follow up
- Green Homes Grant (Local Authority Delivery Scheme)
- UK Shared Prosperity Fund (UKSPF) and Rural England Prosperity Fund (REPF) - ongoing work to provide assurance that the authority has in place the processes to ensure proper administration of its financial affairs relating to the UKSPF and REPF allocations
- Project assurance in respect of various projects

7. Internal Audit Standards

7.1 Internal Audit Standards, which are mandatory and govern how internal audit teams operate, are currently in the process of being revised by the relevant external bodies. It is currently expected that the new Standards will be introduced around January or February 2024 with a twelve month period for implementation, and that these will include significant additional requirements.

7.2 Further information, including how this will affect our work and this committee, will be provided to the Performance and Audit Scrutiny Committee in May 2024.

8. Audit opinion definitions

8.1 Audit opinion and risk definitions in respect of the main financial systems and business area audits are set out in the table below.

Audit opinion definitions

Assurance	Definition
Good	<p>A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</p> <p>No significant (medium risk) or fundamental (high risk) issues have been raised.</p> <p>An audit opinion of 'good' assurance will only be issued where sufficient relevant, reliable, and timely evidence has been subject to recent audit review or testing.</p>
Reasonable	<p>There is a generally sound system of governance, risk management and control in place.</p> <p>Some significant (medium risk) issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited; or</p> <p>Sufficient relevant, reliable, and timely evidence may not be available and/or may not have been subject to recent audit review or testing to justify a 'good' opinion.</p>
Limited	<p>Fundamental (high risk) and/or significant (medium risk) gaps, weaknesses or non-compliance were identified, and improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited; or</p> <p>Sufficient relevant, reliable, and timely evidence may not be available and/or may not have been subject to recent audit review or testing to justify a 'reasonable' opinion.</p>
No Assurance	<p>Immediate action is required to address fundamental (high risk) and significant (medium risk) gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited; or</p> <p>Sufficient relevant, reliable, and timely evidence may not be available and/or may not have been subject to recent audit review or testing to justify a 'limited' opinion.</p>

Note: audit opinions are:

- evidence-based and levels of assurance awarded take into account not just control issues or risks raised, but also the adequacy of evidence which has been subject to audit review and testing, and are
- subject to the professional judgement of the Service Manager (Internal Audit)

Risk definitions

Risk	Definition
High	A fundamental control process, or statutory obligation, creating the risk that significant fraud, error or malpractice could go undetected.
Medium	A control process that contributes towards providing an adequate system of internal control.
Low	These issues would contribute towards improving the system under review.