

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: JAC13
To: Joint Audit and Standards Committee	Date of meeting: 4 November 2013

INTERIM INTERNAL AUDIT REPORT 2013/14

1. Purpose of Report

- 1.1 The purpose of this report is to inform Members of the work undertaken by Internal Audit for the period 1st April to 30th September 2013. The outcomes from completed audit reviews are detailed in Appendix A.

2. Recommendation

- 2.1 That the content of the Interim Internal Audit report for the first 6 months of 2013/14 be noted and endorsed.

The Committee is able to resolve this matter.

3. Financial Implications

- 3.1 There are no direct financial implications arising from this report. All internal audit recommendations must be considered in terms of their cost effectiveness.

4. Risk Management

- 4.1 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective and as a result each Council may not be identifying significant weaknesses that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency. The risk is further compounded with the need to increase savings and staff reductions.	Low	Critical (Potentially)	Members receive and approve the internal audit work programme and receive other reports throughout the year on internal controls. The work programme is based on an assessment of risk for each system or operational area. External Audit reviews the work of the section and internal control arrangements.

5. Consultations

- 5.1 The Audit Plan 2013/14 was approved by Babergh's Overview and Scrutiny (Stewardship) Committee on 19th March 2013 (Paper M175) and by Mid Suffolk's Scrutiny Committee on 28th March 2013 (Paper Y/35/13), having previously been endorsed by both S151 Officers and Management Board.

6. Equality Analysis

- 6.1 There are no equalities implications arising from this report.

7. Shared Service / Partnership Implications

- 7.1 Audits of the functions provided by Customer Services Direct (CSD) on behalf of Mid Suffolk are undertaken jointly between the Audit and Risk Management Services Operational Delivery Team (ODT) and Suffolk County Council (SCC) auditors.

8. Key Information

Role of Internal Audit

- 8.1 Management are responsible for the systems of internal control within each Council and should set in place policies and procedures to help ensure that systems function correctly. It is the role of internal audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, corporate governance, and arrangements for providing value for money. This is achieved by undertaking audits across the full range of both Council's functions in accordance with a risk based audit plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.

Requirement for Internal Audit

- 8.2 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit.
- 8.3 Internal Audit carries out the work to satisfy this legislative requirement, reporting the outcome of its work to this Committee. This Committee has a responsibility for reviewing each Council's corporate governance arrangements, including internal control and for scrutinising the Annual Governance Statement (AGS). The audit work carried out is therefore a key source of assurance that the internal control environment is operating effectively.

Review of the work undertaken by Internal Audit for the period 1st April to 30th September 2013

Internal Audit work

- 8.4 An overview of the work completed by Internal Audit for the first six months of 2013/14, and progress made towards achieving the Audit Plan for the year, is set out below.

Corporate Work including Advice and Assistance

8.5 Internal Audit continues to be actively involved in corporate work across both Councils. During the first six months this aspect of the section's work has included the following:

- Internal Audit drafted the Annual Governance Statement (AGS) that was approved by this Committee on 2nd September 2013 (Paper JAC8). To support the production of the AGS, Internal Audit carried out a detailed review of the assurance framework. The production of the AGS is a significant piece of work and was well received by both officers and both sets of external auditors. The AGS recognised the significant work between Babergh and Mid Suffolk to plan and deliver ways of integrating services and the workforce together as a way of achieving savings and improving capacity and resilience and support for frontline services in an era of public sector cuts. Again, as in previous years, the message to be taken from the work undertaken on the AGS is that both Council's governance arrangements are fundamentally sound.
- Attendance at Management Board/Team meetings and JMIB to brief senior managers in relation to the outcomes of work undertaken by the section where corporate issues are covered, e.g. Risk Management.
- Membership of the Future Back Office Requirements (FBOR) working group in an independent review capacity. This work will increase over the next 6 months as Internal Audit look to work alongside staff in developing process maps and workflows to support the implementation of the new Payroll/HR and Financial Management Systems.
- Continuing to provide advice to service areas on internal controls (e.g. strengthening the 'Due Diligence' checks with regard to Right to Buy applications; and general advice on purchasing arrangements to ensure separation of duties exist).

Core Financial Systems

8.6 The work is concerned with the documentation, evaluation and testing of the effectiveness of systems of internal control within each Council's core financial systems, including compliance with their rules and policies.

8.7 Internal Audit has a commitment to reviewing all of each Council's core financial systems each year, as these are the audits which form the basis of the Corporate Manager – Internal Audit's annual audit opinion and which External Audit place reliance on.

8.8 For the remaining 6 months all resources have been directed to completing each Council's main financial systems.

Non-fundamental Review Work

8.9 This work includes reviewing internal controls within corporate and departmental systems, areas for review being identified by a risk analysis undertaken before the start of the financial year.

8.10 Two joint audits, Dangerous Trees (Follow up) and Social Media, have been completed from the 2013/14 audit plan. Summaries of these audits are shown in **Appendix A**. Two further audits, Housing Repairs and ICT are being currently worked on.

Changes to the 2013/14 Audit Plan

- 8.11 Against a backdrop of service restructures and ongoing staff changes, which has also seen a reduction in Internal Audit resources, it became apparent during the first half of the year that it would not be appropriate or feasible to undertake a number of audits included within the original 2013/14 Audit Plan and that the remaining 6 months should concentrate on each Council's core financial systems for the reason stated in paragraph 8.7 above and supporting the system design stage of the projects for implementing the new Payroll/HR and Financial Management System.
- 8.12 The list of those non-fundamental systems audits within the original 2013/14 Audit Plan, but currently not intended to be undertaken are as follows:
- Data Management
 - Grants
 - Procurement
 - Robustness of decision making
 - Financial Management

Probity

- 8.13 Councils are required to participate in the biennial National Fraud Initiative (NFI), the Audit Commission led exercise involving data matching of records nationally from public service databases. Internal Audit takes a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) and the Benefit Fraud Partnership working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 8.14 The release of matches in January 2013 is being managed on a risk based approach by Internal Audit and the system users.
- 8.15 Later in the year Babergh and Mid Suffolk's Anti Fraud and Corruption Policy will be reviewed with the aim of producing one aligned document in line with best practice. For ease of reference it is intended to incorporate the Money Laundering Regulations and Bribery Act polices into this document, thus forming a comprehensive Anti-Fraud and Corruption document. All staff will be made aware of the revised Policy which will be available on each Council's website and intranet.
- 8.16 The Home Office has produced a high-quality, engaging, interactive multimedia document fraud e-learning training tool to assist staff with spotting fraudulent documents that may be presented as evidence of a right to work or reside in the UK. In a wider context this e-learning tool is extremely useful for staff who handle documents in respect of ID. E.g. Housing and Homeless; Licensing; Grants and anywhere in the organisation that provides a service/asset to someone. The e-learning training tool also includes an assessment at the end of each topic.
- 8.17 The e-learning training tool has been issued to the Integrated Management Team with a request that they forward this onto their staff where their role includes verifying documents and identities and they are actively encouraged to successfully complete the assessments.

- 8.18 Full details of the anti-fraud and corruption work undertaken during the year will be reported separately, as with last year, to this Committee in a report entitled 'Managing the Risk of Fraud and Corruption – Annual Report 2013/14.

Resources

- 8.19 The ODT recruitment process has had a significant impact on the progress of the Audit Plan. Following the first and second recruitment rounds the Audit and Risk Management services ODT was 1FTE down, which represented a third of the approved team. The reduced resources have further been compounded as one member of the new team has been on maternity leave since April 2013. An agency worker has been brought to provide maternity cover although this does not fully cover the hours lost.
- 8.20 The current FTE position stands at just below 2 (down 1.03 FTEs). The agency worker is leaving at the end of October 2013, however, the position will slightly improve from the beginning of November 2013 when the member of staff returns from maternity leave. The ODT position will increase to 2.25 FTEs, still 0.75FTE down.
- 8.21 A calculation of available audit days against the statutory audits required to be completed for the remaining 6 months (October 2013 to March 2014) shows a shortfall of approximately 35/40 days. To help reduce the shortfall the Corporate Manager – Internal Audit has allocated a number of his days to undertake audit testing.
- 8.22 The Corporate Manger – Internal Audit is currently looking at various options, both internally and externally, to fill the shortfall in audit days. The situation will be closely monitored to ensure that the reduced resources do not result in an inability to provide a robust annual audit opinion.

Other matters of Interest – Public Sector Internal Audit Standards (PSIAS)

- 8.23 The PSIAS became mandatory for all internal audit service providers within the public sector from 1st April 2013. The Standards replace the CIPFA Code of Practice for Internal Audit in Local Government (2006) as 'proper audit practices' as required by the Accounts and Audit Regulations 2011.
- 8.24 Internal Audit's position regarding the conformance to the Standards is currently being appraised. A statement on conformance is required to be provided as part of the Annual Internal Audit report which will be considered by this Committee next year.

9. Appendices

Title	Location
(a) Summary of Internal Audit reports issued in 2013/14	Attached

10. Background Documents

- 10.1 None

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SUMMARY OF INTERNAL AUDIT REPORTS ISSUED & IN PROGRESS DURING 2013/14

1. AUDIT REPORTS ISSUED

1.1 The following section contains a brief summary of the contents of the internal audit reports issued during financial year 2013/14. Each summary provides the auditors opinion, associated risks and key findings arising from the reviews. A key to these opinions, with their definitions, can be found in paragraph 1.2.

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Corporate Audits				
MSDC & BDC - Social Media	The purpose of the audit is to ensure that the risks associated with the Council's Social Media are identified and appropriately managed.	<p>Risks associated with Social Media include:</p> <ul style="list-style-type: none"> • The provision of social media does not support the Council's strategy or vision. • Corruption to the integrity of the Council's IT provision through the introduction of virus, malware etc. • Loss of control of corporate content or 'brand' hijacking. • Fines or censure resulting from non compliance with regulation and legislation. • Inappropriate disclosure of proprietary or personally identifiable information. 	<p>Areas of good internal control</p> <p>Social media and web services are hosted externally and is therefore subjected to the Council's existing IT control environment and protocols, which are deemed effective.</p> <p>Areas where improvement are required</p> <p>No formal policy exists.</p> <p>There is no coordinated diagnostic reporting or analysis of site activity undertaken.</p> <p>No mechanism (such as a User Group) is in place for sharing best practice, ensuring consistency and providing oversight of sites.</p> <p>No Council training or guidance is available to officers.</p> <p>Current position:</p> <p>Since the initial discussion of findings with Council officers a number of initiatives have been undertaken within Corporate Communications, which should strengthen and enhance the use of social media across the Councils. These initiatives include:</p>	Poor (see comments under Current position)

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
			<ul style="list-style-type: none"> • The final Social Media protocol has now been despatched to IMT with an emphasis of 'if in doubt' contact the Comms Team. • A copy has been placed up on both intranets. • A short article will appear in the next WT #74 pointing staff to the protocol. • Social media awareness and training will be incorporated into the modules being pulled together by our external comms trainer targeting Corporate Managers (and to a lesser extent Heads of Service). <p>Internal Audit expect the audit opinion to change from 'Poor' to 'Effective/High Standard' when followed up later in the year.</p>	
Departmental Systems Reviews				
MSDC - Dangerous Trees (Follow Up)	This follow up audit has been undertaken to assess the actions taken to address those control weaknesses identified in the 2012/13 audit. The report received an audit opinion of 'Ineffective' for Mid Suffolk and Thornham Walks.	Risks with poorly maintained trees: <ul style="list-style-type: none"> • Physical obstruction to both vehicles and pedestrians • Root damage to roads and properties • Claims against the Council 	<p>MSDC</p> <p>Implementation of previous recommendations</p> <p>Issues around the tree inspection data have now been resolved by the implementation of new software, used by both Councils.</p> <p>Appropriate measures are now in place at Thornham Walks to meet the Council's obligations until the Management Agreement ends in May 2015.</p> <p>The audit opinion has now been re-assessed as 'Effective'.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
			<p>Areas where improvement are required</p> <p>Implementation of a Joint Tree Management/Dangerous Trees Policy has been deferred until April 2014. This is mainly due to the recent staff restructure. The revised implementation date has been agreed by Internal Audit.</p>	

1.2 Internal Audit reaches an overall audit opinion as part of the reporting process. When determining the opinion the following is taken into account:-

1. The risk assessment,
2. The controls over the system, and
3. The results of the testing of the controls over the system.

The audit opinion is broadly classified into one of the following four categories:

High Standard	Evidence of consistent and effective control framework
Effective	Controls and procedures operate effectively in most cases but show some non-compliance
Ineffective	Controls in place are not being consistently applied – improvements are required
Poor	General control framework is weak

John Snell
Corporate Manager – Internal Audit
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