

BABERGH DISTRICT COUNCIL AND MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: JAC39
To: Joint Audit and Standards Committee	Date of meeting: 10 November 2014

INTERIM INTERNAL AUDIT REPORT 2014/15

1. Purpose of Report

- 1.1 The purpose of this report is to inform Members of the work undertaken by Internal Audit for the first half of 2014/15 and gives Members a flavour of the variety of projects and corporate activities which are supported through the work of the team – **Appendix A and supporting Annex.**

2. Recommendations

- 2.1 That the contents of this report, **Appendix A** and supporting **Annex** be noted.

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.	Unlikely	Bad	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 2014/15 was approved by the Joint Audit and Standards Committee on 3 March 2014 (Paper JAC21), having previously been endorsed by both S151 Officers and Management Team.

6. Equality Analysis

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

7. Shared Service / Partnership Implications

- 7.1 The Internal Audit Plan builds on past joint working facilitating the integration of the service with the aim of reducing costs, increased capacity and resilience, and will enable both Councils to be in a position to improve service delivery through advocating, supporting and reviewing the processes and outcomes from the transformation work.

8. Key Information

Requirement of Internal Audit

- 8.1 The Public Sector Internal Audit Standards require the Corporate 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 significant risk exposures and control issues where relevant, including fraud risks and governance issues. The Joint Audit and Standards Committee is the designated committee to receive these periodic reports.

Additional demand on Internal Audit services

- 8.2 The first six months of the year have shown an increased demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities. The Corporate Manager – Internal Audit continues to monitor these requests to ensure that these demands do not have an adverse impact on the delivery of the Audit Plan. A summary of this work is documented in **Appendix A and supporting Annex**. As the Council's Delivery and Enabling Programmes develop it is anticipated that these types of requests will increase requiring a refresh of how the Audit Plan is to be develop next year to meet demands on a risk based approach.

Completed audit reports

- 8.3 3 non-fundamental audits have been completed. Whilst each audit has been assessed as 'Ineffective' (controls in place are not being consistently applied – improvements are required) and will be followed up later in the year, Management have accepted the findings and acted promptly and positively to address the issues identified. A summary of the 3 completed audits can be found in the supporting **Annex**.

9. Appendices

Title	Location
Appendix A - Overview of Internal Audit Work, April – September 2014 Annex – Summary of Internal Audit Reports issued during the first six months	Attached

10. Background Documents

10.1 None

Authorship:
John Snell
Corporate Manager – Internal Audit

01473 825822/01449 724567
john.snell@babbergh.gov.uk



Overview of Internal Audit Work April – September 2014

1. Introduction

- 1.1 The Public Sector Internal Audit Standards require the Corporate 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 Joint Audit and Standards Committee is the designated committee to receive these periodic reports.

2. Review of Internal Audit work for the six months to September 2014

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

- 2.2 Internal Audit has had significant involvement within the period in a number of different activities/issues. These include:

- Two different complaints (both for Mid Suffolk) have been referred to Internal Audit to provide an independent assessment/evaluation. Complaint one identified a training need which management has now addressed. Work on the second complaint is ongoing.
- Internal Audit led on the production of the Annual Governance Statement (AGS) that was approved by this Committee on 1st September 2014 (Paper JAC33). The production of the AGS is a significant piece of work and was well received by Members of this committee and both sets of external auditors. 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 and Members in relation to the outcomes of work undertaken by the section where corporate issues are covered, e.g. Risk Management.
- The Corporate Manager – Internal Audit is heavily involved in developing appropriate processes, procedures and governance arrangements for the administration of the Community Infrastructure Levy funds to enable sustainable growth.

- In addition, the Corporate Manager – Internal Audit has been nominated to act as a project sponsor/critical friend/mentor to help support one of the significant planning development proposals. The role is to help ensure the Project Lead and the project team asks itself the right corporate questions in an empowered and supportive way through to delivery of the outcome of the project, and that the corporate perspective/strategic priorities are given careful thought by the project team.
- A member of the Internal Audit team sits on the Recharges Project Team responsible for developing a Recharge Policy and Procedure to be adopted across both Councils. The Project Team was formed in light of audit findings which identified weaknesses within the housing recharge process.
- Audit of Flooding Repair and Renew Grant Scheme applications - Internal Audit has performed due diligence checks on submitted applications to ensure each claim is verified in terms of eligible expenditure and complies with the Grant conditions.
- Internal Audit has been involved from a governance view point in assisting the Commissioning and Procurement Manager to pull together a draft Procurement Policy and Procedures guide. The Policy and Procedures will be the basis upon which Internal Audit will undertake compliance testing next year.
- Continuing to provide advice to service areas on internal controls (e.g. financial procedures around the cashier duties at the Needham Market Office).

Core Financial Systems

- 2.3 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. This is of particular importance this year given the significant changes that have occurred in the Finance section. Namely; change of banks; the implementation of a new financial system supported by a newly constituted finance team.
- 2.4 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.
- 2.5 For the remaining 6 months resources will be directed to completing each Council's main financial systems audit. Work has already begun to scope the approach and audit coverage.

Non-fundamental Review Work

- 2.6 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.
- 2.7 During the first half of the financial year 2014/15, 3 non-fundamental audits have been completed. Each audit has been assessed as 'Ineffective' (controls in place are not being consistently applied – improvements are required) and will be followed up later in the year. Positive action has been agreed with management to address the issues identified. A summary of the 3 completed audits can be found in the supporting **Annex**.

3. Probity

- 3.1 The National Fraud Initiative (NFI) 2014/15 exercise - Work has begun to prepare for the 2014/15 data matching exercise. Staff responsible for extracting and uploading the data to the NFI secure website using the prescribed data specifications have received appropriate training. Internal Audit takes a lead 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.
- 3.2 The release of matches in January 2015 will be managed on a risk based approach by Internal Audit and the system users.
- 3.3 Two Whistleblowing cases have been received (both for Babergh). Following preliminary enquiries it was concluded that in both cases there was insufficient evidence to support a full investigation. No further action is required at this stage.
- 3.4 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 policies into this document, thus forming a comprehensive Anti-Fraud and Corruption document. It will also include the Whistleblowing Policy which has been recently revised as part of the Constitution review. All staff and Members will be made aware of the revised Policy which will be available on each Council's website and intranet.
- 3.5 Internal Audit has been made aware of a potential fraud that has taken place affecting Babergh's Supported Housing Team involving what appears to be a bogus private landlord. Internal Audit has referred the matter to the Police for investigation. As a result Internal Audit has made a number of recommendations to further strengthen the procedures over the use of private landlords.
- 3.6 Following an enquiry from a Member of this Committee advice and guidance has been produced and issued to all Members on how they can make a positive contribution towards improving the fight against benefit and housing tenancy fraud.
- 3.7 Recognising that local authorities have complex and conflicting demands on limited resources and the transfer of benefit fraud investigators to the Single Fraud Investigation Service, the Department for Communities and Local Government recently announced that it was making available up to £16m to local authorities over two years 2014/16.
- 3.8 Local authorities were invited to submit proposals for funding that will result in real financial savings through effective counter fraud measures. Babergh and Mid Suffolk, along with other public and private sector partners, have jointly submitted a bid under the title heading 'East Suffolk Corporate Fraud Partnership Bid' with Ipswich Borough Council taking the lead.
- 3.9 The total funding bid is for £480k of which it is proposed that £370k is fund matched. Babergh and Mid Suffolk's combined contribution over the two years is £40k. The outcome of the bids will be announced in late October 2014.
- 3.10 Full details of the anti-fraud and corruption work undertaken during the year will be reported separately to this Committee in a report entitled 'Managing the Risk of Fraud and Corruption – Annual Report 2014/15.

4. Resources

- 4.1 Internal Audit lost a member of its team in early September but were able to fill the vacancy internally the following month. The team are back to full complement with very little disruption to the delivery of the Audit Plan.

5. Conclusions

- 5.1 Although there has been a change in personnel within the audit team the Corporate Manager – Internal Audit is confident that the Audit Plan will be completed on time, and that he will be able to deliver a robust annual audit opinion in the Annual Internal Audit Report.
- 5.2 The Corporate Manager – Internal Audit considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.

Annex

SUMMARY OF INTERNAL AUDIT REPORTS ISSUED DURING 2014/15

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				
Data Management – Follow Up audit	To provide assurance that the Councils manage their data in an appropriate, efficient and secure manner, particularly around accessibility, usability and accountability.	<p>Compliance and legal failures – fines imposed, criminal and civil prosecutions.</p> <p>Adverse publicity / loss of reputation for the council.</p> <p>Confidentiality, integrity and availability of information not protected.</p> <p>Reputational damage to the Council - Lack of trust with the council.</p> <p>Inconsistencies in treatment and attitudes.</p> <p>Discrepancies and inaccuracies arise;</p> <p>Strategic and critical decisions wrongly made.</p> <p>Operational tasks incorrectly performed.</p>	<p>Areas where improvement are required</p> <p><i>Accessibility</i></p> <ul style="list-style-type: none"> • Common data standards need to be agreed by all services and files should be saved using standard formats. • A number of policies and procedures still remain outstanding. Namely: Information Security; Secure Messaging; Protective Marking and a Clear Desk Policy. In addition, guidance on Data Protection and Freedom of Information requires reviewing. <p>Note:</p> <p>It is acknowledged that during testing many of the areas where it was found that controls required strengthening these had been identified and are planned to be addressed as part of the ongoing work on integrating services.</p>	Ineffective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Departmental Systems Reviews				
Social Housing Fraud	The purpose of the report is to ensure that suitable and adequate training and awareness raising is provided for all housing officers and repairs operators. Furthermore, that joint policies exist relating to the process for identifying tenancy fraud.	<ul style="list-style-type: none"> • Lack of awareness of how to spot housing fraud. • Unauthorised occupancy of housing. • Lack of consistency and clarity regarding the approach taken to identify tenancy fraud. 	<p>Areas of good internal control</p> <p>Data sharing has been successful on occasions although it is acknowledged that this can be improved upon.</p> <p>National Fraud Initiative checks are undertaken.</p> <p>Both Councils are members of the Suffolk Tenancy Fraud Forum, which brings social landlords together to help combat tenancy fraud, raise awareness and share in good practice.</p> <p>Areas where improvement are required</p> <p>Only limited training relating to tenancy fraud awareness has been provided.</p> <p>The Councils are not proactively promoting awareness of tenancy fraud.</p> <p>The Social Housing Tenancy Fraud Policy is currently at draft stage.</p> <p>Limited checks are made to verify applicant information.</p> <p>Note:</p> <p>The draft Social Housing Fraud Policy includes an action plan to address the issues raised above.</p>	Ineffective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
			<p>Central government recently announced a new multi million pound fund to help provide councils to combat fraud. Babergh and Mid Suffolk, along with other public and private sector partners, have jointly submitted a bid under the title heading 'East Suffolk Corporate Fraud Partnership Bid' with Ipswich Borough Council taking the lead. If successful this will help in detecting and preventing social tenancy fraud.</p>	
<p>Right to Buy (RTB) process</p>	<p>The purpose of the audit is to ensure RTB applications are correctly dealt with.</p>	<ul style="list-style-type: none"> • Misrepresenting the length of a tenancy in order to gain a greater discount. • Concealing a tenancy history, for example, not disclosing previous rent arrears, possession orders, transfers or evictions. • Attempting to purchase a property whilst not using it as their sole or principal home. • Misrepresenting the household composition, for example, submitting a joint right to buy or right to acquire application with someone who does not reside at the property, or has not done so for the required period. 	<p>Areas where improvement are required</p> <p>Further identification checks on applicants should be undertaken.</p> <p>Details on the RTB application should be cross referenced with the existing tenancy agreement.</p> <p>Bankruptcy and funding source forms should be completed in all cases.</p> <p>The level of checks performed by each solicitor on their client (the applicant) should be confirmed.</p> <p>The calculation of the discount should be checked and agreed by a second appropriate officer.</p> <p>Note:</p> <p>Management advise that an external independent review will be undertaken on the RTB and Leaseholders process. The audit report will feed into the review process.</p>	<p>Ineffective</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
October 2014