

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Internal Audit	Report Number: JAC56
To: Joint Audit and Standards Committee	Date of meeting: 15 June 2015

ANNUAL INTERNAL AUDIT REPORT 2014/15

1. Purpose of Report

1.1 The purpose of this report is to inform Councillors of the work undertaken within Internal Audit for 2014/15 and gives Councillors a flavour of the variety of projects and corporate activities which are supported through the work of the team.

2. Recommendations

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

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. As a result each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.	Unlikely	Bad	Councillors receive and approve the internal audit work programme and other reports on internal controls throughout the year. The work programme is based on an assessment of risk for each system or operational area. External Audit reviews the work of the Internal Audit section and the 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.

5.2 The Interim Internal Audit report for the year was reported to the Joint Audit and Standards Committee on 10 November 2014. (Paper JAC39).

6. Equality Analysis

6.1 There are no equality implications with 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. It enables 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

8.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)

The PSIAS checklist comprises around 350 questions under the key headings of:

- Attribute Standards – those that apply to the organisation, which means the local authority and the individual auditors; and
- Performance Standards – which describe the nature of the internal audit service and the criteria against which it can be measured.

The PSIAS require the Corporate Manager – Internal Audit to report periodically to senior management and this Committee on Internal Audit's performance relative to its Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues. This report is passed to the S151 Officer.

A review of the internal audit service was undertaken by the Corporate Manager – Internal Audit for 2014/15 which confirmed substantial compliance with the standards. This review has also identified that the Corporate Manager – Internal Audit should complete an Assurance Mapping exercise across the Councils during 2015/16.

8.2 Additional demand on Internal Audit services

As the Councils' Delivery Programme develops there has been 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 requests, with a risk based approach, and these demands did not have an adverse impact on the approved 2014/15 Audit Plan. A summary of this work is documented in Appendix A and associated Annex. An explanation of the Internal Audit opinions can also be found there.

The Audit Plan for the forthcoming year accommodates more engagement with the Councils' Delivery Programme in the allocation of Internal Audit resources.

8.3 Conducted audits.

The audits conducted are split into two types: Fundamental and non-Fundamental reviews. A summary of the nature and detail of completed audits can be found in the supporting Appendix A and associated Annex.

Four non-Fundamental audits have been completed in the year. Three were found to be operating 'ineffective' controls. Management have accepted the findings and acted promptly and positively to address the issues identified. Subsequent follow up reviews by Internal Audit have revised one of these opinions to 'Effective'.

One planned audit, Procurement, has been held over to enable the changes in the procurement processes to be bedded in.

Eight Fundamental (Core financial systems) audits, and one undertaken by Ipswich Borough Council, were conducted across both Councils. With the exception of Capital Accounting (see Appendix A and associated Annex) all planned Fundamental Audits have been completed, and the opinion for each was 'Effective'. Management engagement has been positive during the year with all the audit findings and proposals for control improvements being accepted and plans established for implementation.

8.4 Opinion of the Corporate Manager – Internal Audit

This opinion relies on the key financial controls being in place and the corporate governance framework operating effectively.

Based on the findings of the managed audits and corporate reviews carried out throughout 2014/15, and the outcomes of external assurance provider reports, it is the opinion of the Corporate Manager – Internal Audit that each Council's control environment provides assurance that the risks facing the Councils are addressed and financial administrative systems are, on the whole, 'Effective'.

9. Appendices

Title	Location
Appendix A - Overview of Internal Audit Work	Attached
Associated Annex – Table of Audits undertaken	Attached

10. Background Documents

10.1 None.

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Appendix A



Overview of Internal Audit Work 2014/15

1. Introduction

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, was reported to the Joint Audit and Standards Committee on 10 November 2014. To provide the Committee with a complete picture for the year 2014/15 this report covers both that initial period and includes work undertaken in the second six months to 31 March 2015.

2. Audit Activity

As well as conducting audits Internal Audit had significant involvement within the period in a variety of different activities/issues. These included:

2.1 Council Governance:

- Internal Audit led on the production of the Annual Governance Statement (AGS) that was approved by this Committee on 1 September 2014 (Paper JAC33). The AGS for 2014/15 is being presented as a separate paper to this Committee.
- Assisting the Commissioning and Procurement Manager (from a governance view point) to draft a Procurement Policy and Procedures guide. The Policy and Procedures will be the basis upon which Internal Audit will undertake compliance testing next year.
- A Joint Business Continuity Plan issued with a review of existing Business Continuity processes and plans, reflecting the new structures and working practices. This replaces the existing individual plans for each authority. The policy sets out clear roles and responsibilities, along with the methodology that will be used to assess, design and manage Business Continuity arrangements across the authorities.

2.2 Management, due diligence and risk management:

- Attendance at Management Board/Team meetings and JMIB to brief senior managers and Councillors in relation to the outcomes of work undertaken by the section where corporate issues are covered, e.g. Risk Management.
- Audit of Flooding Repair and Renew Grant Scheme applications - performed due diligence checks on submitted applications to ensure each claim is verified in terms of eligible expenditure and complies with the Grant conditions.
- Continuing to provide advice to service areas on internal controls (e.g. financial procedures around the cashier duties at the Needham Market Office).

- A Risk workshop was held with members of senior management to draft a new risk register aligned to the Strategic delivery plan. A subsequent refinement meeting, planned for the second half of 2014 has not yet taken place as the plan is under review.

2.3 Project development:

- 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.
- The Corporate Manager – Internal Audit has been nominated to act as a project sponsor/critical friend/mentor to one of the significant planning development proposals, Community Infrastructure Levy. The role is to help ensure the Project Lead and team give careful thought to the corporate perspective/strategic priorities and ask the right corporate questions in an empowered and supportive way through to delivery of the outcome of the project.
- Internal Audit sits on the Recharges Project Team responsible for developing a Housing 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.
- In addition to the project engagement earlier in the year the Corporate Manager – Internal Audit has actively collaborated with senior management in the evolving Projects and Change environment.
- Following a management request, Internal Audit completed an independent review of the governance over the New Build Affordable Homes Consortium. A number of recommendations resulted, now being implemented by Officers, which will help to strengthen the Councils' controls over projects and multi-function working.

2.4 Complaints and Freedom of Information:

- 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.

2.5 Probity:

- The data requirements and data specifications for the 2014/15 National Fraud Initiative (NFI) exercise have now been completed and successfully uploaded using the NFI's secure electronic upload facility.

The release of matches of information across all the contributors data in February 2015 is managed on a risk based approach by the system users, supported by Internal Audit. The system users access their data from the NFI and can investigate, in conjunction with the matched partner / contributor, to evaluate the potential fraud indicated by the match.

- 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.

- Babergh's Supported Housing Team - Internal Audit were made aware of a potential fraud affecting the 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.
- A combined revised Prevention of Financial Crime Policy (previously called the Anti-Fraud and Corruption and Whistleblowing Policy) was presented to this Committee in January 2015, Paper JAC49.

This document ensures that the Policy is in line with current regulations, peer behaviour and adopts best practice from both Councils' existing documents. It is more succinct, easier to reference and better imparts the messages of financial prudence and probity than previously experienced. It is located on the Council's Intranet and hyperlinks are incorporated to assist in navigation through the document when used electronically.

- Following an enquiry from a Councillor of this Committee, advice and guidance has been produced and issued to all Councillors on how they can make a positive contribution towards improving the fight against benefit and housing tenancy fraud.
- The Department for Communities and Local Government (DCLG) invited local authorities to submit funding proposals that would result in real financial savings through effective counter fraud measures. Babergh and Mid Suffolk, along with other public and private sector partners, jointly submitted a bid under the title heading 'East Suffolk Corporate Fraud Partnership Bid' with Ipswich Borough Council taking the lead.

Unfortunately the bid was unsuccessful. However, through the Suffolk Working Audit Partnership (SWAPs) and other partners we will continue to look for opportunities to work together in tackling fraud, encompassing detection, prevention and deterrence.

Full details of anti-fraud and corruption work undertaken during the year was reported separately to this Committee in a report entitled 'Managing the Risk of Fraud and Corruption – Annual Report' 2014/15, Paper JAC47, 16th March 2015.

3 Audits conducted

The types of audit conducted are split into two, Fundamental and non-Fundamental reviews.

3.1 Fundamental Audits / Core Financial Systems Audits

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: the change of bankers from Barclays and Co-Op to Lloyds; the implementation of a new financial system across both Councils; the change to IT infrastructure and provision; and a newly constituted finance team.

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 on which External Audit may place reliance.

The audit plan recognises ten audits in this category which, for the first time this year, have been conducted simultaneously for both Councils with a joint report. In some circumstances, where IT Applications, Policies and Procedures or other working constraints differ, separate reports have been produced for each Council.

Through the Shared Revenues Partnership the Audit Team in Ipswich Borough Council undertake reviews of the Housing Benefits, Council Tax and Business Rates systems and procedures.

In all cases the findings and recommendations in these reports have been accepted by Council's Management who are implementing changes that will further enhance the control environment in operation within the Councils.

A summary of Fundamental reviews is attached in the Annex.

3.2 Non-fundamental Review Work

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.

A summary of these reviews is attached in the Annex.

4. Resources

Internal Audit lost a team member in September 2014 but were able to recruit internally the following month, with little disruption to the delivery of the Audit Plan. The opportunity to bring in new resource enabled a review of the skills mix, aims and objectives required to deliver the Councils' Plans, reflected in the 2015/16 Audit Plan.

5. Conclusions

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

Fundamental Audits / Core Financial Systems Audits

Audit area:	Audit review contained:	Audit Opinion
General Ledger	Coding Structures, Feeder Systems, Journal entries; Operation & Security of the System and Year end procedures.	Effective
Housing Rents	Rent Calculation, Income Collection, Arrears Management, Adjustments, Starting & Ending Tenancies, and Security.	Effective
Income Collection	Income Collection, Banking, Security, Finance and Petty Cash.	Effective
Information Technology	IT Access security access to applications, Physical security of laptops and Physical security of passwords.	Effective
Payables	Ordering, Receipt of Orders, Invoice Checks, Invoice Payments, Procurement Cards and Data Integrity and System Security.	Effective
Payroll	Starters, Leavers, Payments, Deductions, Variations, Security, Pensions & CAT (Computer Assisted Technique).	Effective
Receivables	Raising Invoices, Raising Credit Notes, Adjustments, Security, Monitoring, Receipt of Income, Reconciliations, and Debt Recovery & Write Off.	Effective
Shared Revenue Partnership feeder system & Finance reconciliations	Council Tax, NNDR Housing Benefit Overpayments: Direct Debits, Cash receipts, Banking receipts and Nominal ledger postings from feeder systems.	Effective
Treasury Management	Policies & Procedures, Cash Flow Forecasting, Investments made & returned, Money market Fund (MMF) deposits & withdrawals, Loans received, repaid & given and Security.	Effective
Capital Accounting	To assess the implementation of the new Fixed Asset module within the Integra Finance System. Initially MSDC data was to be migrated by March 2015. Due to resourcing constraints this was delayed into the 2015/16 financial year and the Audit held over.	n/a
SRP management and processing	HB, NNDR and Council Tax management by SRP. Audit by Ipswich BC hosted under SRP partnership agreement.	IBC Audit opinion Adequate*

Non-fundamental Review Work

Audit area:	Audit review contained:	Audit Opinion
Data Management	Follow Up audit considering aspects of: Accessibility; Usability and Accountability.	Ineffective **
Social Housing Fraud	Subjects included: Training & Awareness, Policies & Procedures and Operational.	Ineffective
Right to Buy (RTB) process	Information regarding RTB is readily available & a register is maintained; Correct application procedures; Section 125 (Offer Notices) & valuations managed; Financial transactions are appropriate.	Ineffective (Subsequently Effective)
Car Park Income	Subjects included: Cash Collection; Contracts; Reconciliations; and Tariffs.	Effective

Ineffective: (controls in place are not being consistently applied – improvements are required) Positive action has been agreed with management to address the issues identified.

Effective: Systems described offer most necessary controls. Audit tests showed controls examined operating effectively, with some improvements required.

***IBC Adequate** – Controls exist but there is some inconsistency in their application. This means that a few of the risks in the audit may need attention.

**Data Management has now become a major project within the Councils and the Corporate Manager – Internal Audit attends the newly formed Information Governance Board.