

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Internal Audit	Report Number: JAC63
To: Joint Audit and Standards Committee	Date of meeting: 19 October 2015

INTERIM INTERNAL AUDIT REPORT 2015/16

1. Purpose of Report

- 1.1 The purpose of this report is to inform Councillors of the work undertaken within Internal Audit for the first part of 2015/16 and provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

2. Recommendations

- 2.1 That the contents of this report, supported by Appendix A, 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. 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 2015/16 was approved by the Joint Audit and Standards Committee on 16th March 2015 (Paper JAC48), having previously been endorsed by the S151 Officer and Management Team.

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 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.

8.2 Additional demand on Internal Audit services

As the Councils' Delivery Programme develops and generally looks to re-shape and transform its services 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. These demands have been considered in compilation of the approved 2015/16 Audit Plan, which accommodates more engagement with the Councils' Delivery Programme in the allocation of Internal Audit resources.

8.3 Full audits conducted are split into two types, Fundamental and non-Fundamental reviews. Historically Fundamental reviews have been conducted in the latter half of the financial year to meet with External Audit testing requirements. This year, in conjunction with both External Audit and the Interim Corporate Manager – Financial Services, these audits have been brought forward and are planned to be materially completed by the end of December 2015. This is primarily to assist the Finance team in their preparation for punctual closing of the 2015/16 Accounts.

8.4 Appendix A provides a summary of the work undertaken to date. This work contributes to the 2015/16 overall audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

9. Appendices

Title	Location
Appendix A - Overview of Internal Audit Work	Attached

10. Background Documents

10.1 None.

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Appendix A

Overview of Internal Audit Work 2015/16

1. Introduction

The work completed by Internal Audit for the first six months of the Financial Year 2015/16 (up to September 2015), and progress made towards achieving the Audit Plan for the year, is reported here to the Joint Audit and Standards Committee.

2. Audit Activity

As well as conducting audit reviews Internal Audit had significant involvement within the period in a variety of different Council activities/issues, which included:

2.1 Council Governance:

- The Corporate Manager–Internal Audit has been a lead in the Information Governance project across the Councils and has authored the Information Governance Policy. The aim of this Policy is to outline an information governance framework that ensures both Councils treat information as a valuable asset, maintain compliance with relevant UK and European Union legislation, for example the Data Protection Act 1998 and meet other governance requirements.

In addition Internal Audit has collated the Information Governance risk log which captures the risks that the Councils are exposed to within the framework of law and best practice that regulates the manner in which information (including information relating to and identifying individuals) is managed, i.e. obtained, handled, used and disclosed.

- Internal Audit has previously led on the production of the Annual Governance Statement (AGS) which will be completed again at the end of the financial year alongside an Assurance Mapping exercise across the Councils designed to identify gaps in good practice and aid the 2016/17 audit planning process.
- Assisting the Commissioning and Procurement Manager (from a governance view point) to complete the Procurement Policy and Procedures guide. The Policy and Procedures will be the basis upon which Internal Audit will undertake compliance testing later this year.
- The Corporate Manager – Internal Audit is part of a working group tasked with looking at 'Business Planning' across the Councils and ensuring that working practices and supporting governance arrangements are robust. As a result the Corporate Manager – Internal Audit has drafted a governance 'health check' for discussion which provides staff with key pointers that should be addressed/considered to demonstrate good governance in the working environment.

2.2 Risk Management:

- Audit continues to maintain and facilitate development of the Significant Business Risk register with Councillors and Senior Management, ensuring its continual link to the Councils Strategic Objectives. As a living document Audit regularly review the content with management.
- Audit help Council management to refine the underlying business risk registers, and have recently worked with the Corporate Legal Team to articulate their relevant risks and associated controls.
- Audit provide guidance and challenge to the development programme across the Councils through risk workshops and continuing support to project leads, assisting the drafting of new project risk registers aligned to the Significant Business Risk register. This support is planned to be provided through the remainder of the financial year in ensuring support to the new project management resources being put in place.

2.3 Project development:

- The 2015/16 audit plan included provision for audit to support and advise on changes and developments planned and proposed for this year which included:

Open Housing migration; Information Governance; Community Infrastructure Levy (CIL); HRA New Build; Integrated planning 'Josie'; and the Leisure Centre contract review.

Preliminary audit work has been undertaken on all of these initiatives, but changes to business priorities and imperatives has meant that some of these projects have not developed as foreseen when the Audit Plan was drafted with Senior Officers, and demand for audit resources has changed. This has seen audit time spent on other council developments and support to management initiatives. These changes have been managed by the Corporate Manager–Internal Audit to ensure that the delivery of audit objectives in line with the Strategic Objectives continues as one of the functions key priorities.

At present it is expected that audit contribution work will resume on HRA New Build; Integrated planning 'Josie'; and the Leisure Centre contract review later in the financial year.

- The Corporate Manager–Internal Audit continues to be involved in developing appropriate processes, procedures and governance arrangements for the administration of the CIL funds to enable sustainable growth.
- Audit undertook a brief and initial review of the Governance of the Open Housing migration project, which included audit support to local management, to forge improved project engagement and communication. The audit work is not yet complete.

- 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.

2.4 Business support activities:

- Disabled Facilities Grant - a declaration, required for each of Babergh and Mid Suffolk, regarding the use of Disabled Facilities Grant's has previously been completed by the S151 Officer. This year's return had to be signed by the Chief Executive or the Chief Internal Auditor and submitted to the Department for Communities and Local Government. An audit review of applications for appropriateness and compliance was made prior to the approval of the return and 'signed off' by the Corporate Manager – Internal Audit.
- Audit retain a close working relationship with Finance staff, and have provided support and advice on proposed system and control developments, enhancements and changes including: evolution of the reconciliation and reporting processes, finance system development planning, and interface refinements.

The Interim Corporate Manager – Financial Services requested a summary of the outcomes from the Audits conducted in the Finance area during 2014/15, which provided further analysis of our audit recommendations to support the Finance Staff in undertaking change and evolving more robust procedures.

- Business continuity – Internal Audit has worked with business managers to develop and evolve both the Councils and individual departmental business continuity plans. In addition work has been completed on the risk profile, and on communications. There have been incidents this year (IT and telephony outages) which have also been the subject of post event reviews.

2.5 Complaints

- Internal Audit has, at the request of management, provided an independent review into two planning applications which resulted in presenting improvements in processes and communications.

2.6 Probity:

- Babergh Cash Handling - This work was conducted in response to a management request for support regarding cash handling at Babergh, and the likely accessibility to, and possible requirements for, supporting software within Finance to provide appropriate banking capability. The report is issued in draft and is presently the subject of management discussion.

- Mid Suffolk Direct Debit Review - Following the rejection of the two initial MSDC Rent AUDDIS files in early April Internal Audit was asked by Finance Management to review the stages leading up to the event. The event only impacted on Mid Suffolk Housing Tenants. Whilst the audit review identified shortfalls in the Councils change project governance, which were accepted by management, the Interim Corporate Manager – Financial Services has subsequently negotiated compensatory payment from Lloyds Bank.
- Work on the National Fraud Initiative (NFI) 2014/15 exercise continues to be worked on overseen by Internal Audit.
- The Suffolk Tenancy Fraud Forum, which was launched back in October 2013, continues to meet and is well attended by various housing partners across the county. Areas for discussion include; registration and verification processes applied; joint training opportunities; joint advertising/marketing campaign to raise fraud awareness; and case law/legal updates.
- 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 2015/16.'

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 Councils' core financial systems, including compliance with their rules and policies. As mentioned in Section 8 of this report these audits are traditionally undertaken during the end of the Financial Year and would not feature in this report.

During the first quarter of the financial year the Audit Team rewrote the Internal Audit fundamental systems documentation. This was required as now both Councils operations are shared within Finance, and the migration to one External Auditor presented an opportunity to review the internal controls across the finance function's fundamental systems. A further benefit to this work was the opportunity to share these matrices with finance colleagues who are undertaking procedural and control reviews to refine and refresh roles across their team.

This year the Corporate Manager–Internal Audit has responded to a request from the Interim Corporate Manager – Financial Services, and the fundamental audits have been brought forward and are planned to be materially completed by the end of December 2015. (Rather than the customary 31st March). Consequently Internal Audit have now commenced work on several Audits, including Payroll, Treasury and BACS transactions, but the work is not sufficiently complete to report to Councillors at this time.

3.2 Non-fundamental Review Work

Due to the team's planned engagement in Projects and specific management requests, and the business areas readiness to receive timely audit review, there have been no non-fundamental reviews undertaken this year to date. The planned audits are Budgetary Control and Procurement which are, presently, still retained within the plan but remain under review by the Corporate Manager–Internal Audit.

4. Resources

The Internal Audit team has remained constant during the period which has enabled development of the skills mix, aims and objectives required to deliver the Councils' Plans, reflected in the 2015/16 Audit Plan. A member of staff has had recent medical absence, but this has not impacted significantly on the team's ability to complete the plan over the course of the year.

5. Professional Practice

It is important to keep abreast of best professional practice. Internal Audit has strong links with audit colleagues both within Suffolk and nationally and are members of the Suffolk Working Audit Partnership (SWAPs) and the Midland Audit Group.

6. 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.