

**Progress of Internal Audit activity, 7 months to 30<sup>th</sup> October 2020**

1. Introduction

1.1 The work completed by Internal Audit to date for the Financial Year 2020/21 is reported here to the Joint Audit and Standards Committee.

1.2 Internal Audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1<sup>st</sup> April 2013, were revised on 1<sup>st</sup> April 2016 and have been further revised on 1<sup>st</sup> April 2017.

**2. Internal Audit reports with Adverse Opinions**

2.1 One audit has been issued with an audit opinion of ‘Limited Assurance’ in this period. All audits conducted this period are listed in Section 6 below.

The reviews that returned an audit opinion on the control environment of ‘Limited Assurance’ in the last financial year (2019/20) where actions were outstanding have been kept under review by audit and, where appropriate, the management actions have been reassessed with the appropriate manager. These audits, with their present status are outlined below:

2.1.1 IT purchasing: Internal Audit Opinion: ‘Limited Assurance’

Key Risk	Issue	Management Response
<p>Unauthorised IT purchases may be made</p>	<p>There is no internal proof of IT goods received to confirm against the purchase order. Furthermore, there is no formal monitoring or records maintained of who receives the equipment.</p>	<p>The Assistant Director, Customer Services, Digital Transformation and Improvement will discuss with the Acting Corporate Manager, Information and the Finance Business Partner to establish sound controls are in place, ensuring IT requests are validated by the end users' line manager and an audit trail is maintained.</p>
<p>Present Status:</p> <p>The Corporate Manager for ICT reports the following;</p> <ol style="list-style-type: none"> <li>1) In terms of large software purchases made by the IT Department, contracts etc are proof of purchase.</li> <li>2) Smaller items (Laptops, PCs, Peripherals) that are purchased through the Service Catalogue are tracked and monitored by SCC on our behalf, but we do, now, review this list annually (particularly laptops, pcs etc) as part of our ICT Service Charge review process.</li> <li>3) Where items are purchased by the wider organisation it is the responsibility of the wider organisation to receipt these.</li> </ol>		

4) We are reviewing assets not mentioned above (e.g. Tablets etc) with a view to understanding numbers, ownership and financial impact.

2.1.2 Workplace Security: Internal Audit Opinion: 'Limited Assurance'

Key Risk	Issue	Management Response
<p>Access to the workplace is not secure and controlled.</p> <p>Printing is not secure and sensitive data is not disposed of safely.</p> <p>IT equipment is not kept secure at all times and compliance with the Councils' IT policies are not adhered to.</p>	<p>Council responsibility for Health and Safety matters in Endeavour House (EH) is unclear.</p> <p>Instances were identified at EH and Creting Road Depot where IT and security policies and procedures have not been followed.</p>	<p>Corporate Manager responsible for Health &amp; Safety - as a resident in EH the responsibility for the contact with Vertas sits with Property Services (PS). To support PS with this the Health &amp; Safety team have provided information to Vertas regarding security issues and two of the team take part in the Building User Group.</p> <p>The Assistant Director, Customer Services, Digital Transformation and Improvement will meet with BMSDC's Communications Team to establish the best channels to promote Password and Data Security.</p> <p>Corporate Manager, Waste - Contracted cleaners will be reminded of the building security and Babergh and Mid Suffolk staff reminded of password/IT security policies and processes.</p>
<p>Present Status:</p> <p>Advice and guidance on general security measures have been communicated to staff in the Councils' Working Together newsletter.</p>		

2.1.3 Contract Management: Internal Audit Opinion: 'Limited Assurance'

Key Risk	Issue	Management Response
<p>The Councils are vulnerable to reputational and financial risks as contracts may fail to</p>	<p>Although no issues were identified during the testing, due to a lack of meeting</p>	<p>The Corporate Manager for Finance and Commissioning and Procurement</p>

<p>meet performance expectations, exceed budget and/or breach compliance.</p> <p>Poor communication with contractor fails to correct performance.</p>	<p>minutes, it was not clear for all contracts tested, what actions take place to address any service delivery issues should they arise.</p> <p>It could not be:</p> <ul style="list-style-type: none"> <li>○ Evidenced that contracts include expected performance measures and associated penalties for not meeting these.</li> <li>○ Confirmed that appropriate contractor insurance is in place as no evidence was obtained by contract managers.</li> </ul> <p>Inconsistent operating model to describe relationship and service provision between Contract Manager and the Procurement Business Partners.</p>	<p>commissioned a piece of work with the East of England Local Government Association to undertake a review of the entire commissioning and procurement function. The review will involve a workshop, interviews and a survey to understand how this function is operating within the organisation, with recommendations for best practice and a programme of implementation for improvements to follow, including a training programme for managers on effective contract management and establishing their responsibilities.</p>
<p>Present Status:</p> <p>The fieldwork started in February 2020 but was not completed until September 2020 due to the COVID-19 disruption. The draft report was issued on 6<sup>th</sup> October 2020 and summarises the outcomes and recommendations from the challenge process. Internal Audit had planned to undertake a review based on the findings of this report. However, as the report has yet to be finalised and a programme of work agreed and embedded, Internal Audit have agreed with the Corporate Manager for Finance and Commissioning and Procurement to push back the audit in to Quarter 1 of 2021/22.</p>		

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

**Section Reference:**

**3 Council Governance**

**4 Risk Management**

**5 Probity**

**6 Audits conducted**

**7 Business support activity**

### **3 Council Governance**

#### **3.1 Annual Governance Statement (AGS)**

Internal Audit has led on the production of the AGS, which was completed as at the end of the financial year 2019/20, presented to this Committee on 27<sup>th</sup> July 2020 (Paper JAC/19/16) alongside an assurance mapping exercise across the Councils designed to identify gaps in good practice and aid the 2020/21 Internal Audit planning process.

#### **3.2 Statutory Officers Working Group**

The Corporate Manager – Internal Audit and Data Protection attends this meeting in his capacity as ‘Head of Internal Audit’ and as the Councils’ Deputy Monitoring Officer to provide appropriate professional determination on governance matters as they arise. This Group also has responsibility for managing information governance and compliance with the requirements of the General Data Protection Regulations (GDPR) 2018. This element of reporting will be presented to the Senior Leadership Team as we move forward to ensure that senior management is aware of issues within their directorate.

#### **3.3 Deputy Monitoring Officer (DMO)**

The Corporate Manager – Internal Audit and Data Protection is one of two DMOs for the Councils with the specific duty to ensure that the Councils, their officers and elected councillors maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.

### **4 Risk Management**

Internal Audit continues to maintain and facilitate development of the Councils’ Significant Risk register with councillors and senior management. As a living document Internal Audit regularly review the content with management and report annually to this Committee. The last report being presented on 11<sup>th</sup> August 2020 (Paper JAC/19/23). This report also includes areas where we have strengthened the risk management process.

Audit has provided support to Corporate Managers in the development of their operational risk registers, which forms part of their service plans.

### **5 Probity**

Full details of the anti-fraud and corruption work undertaken during the year was reported to this Committee in a report entitled ‘Managing the Risk of Fraud and Corruption’. The last report was for 2019/20 and presented on 27<sup>th</sup> July (Paper JAC19/18).

The data requirements and data specifications for the 2019/20 National Fraud Initiative (NFI) exercise commenced in October 2019 using the NFI’s secure electronic upload facility. Elections and single person discounts data were uploaded in December 2019. Final outcomes are to be confirmed, but already the exercise has identified one case with a recoverable overpayment of £6,300. The overpayment was

caused by the claimant not notifying that they were a full-time student and in receipt of student finance.

The release of matches of information across all the contributor's data 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.

## 6 Audits Conducted

In line with the 2020/2021 Internal Audit Plan, reporting of outcomes is associated with all the Councils' strategic priorities. Both audits in progress and completed are reported below, with the latter given with their associated audit opinion on the control environment.

### 6.1.1 Health of the Organisation

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Budgetary Control	To evaluate the internal controls that help determine how budgeting and budgetary control enables the Councils to plan, control, coordinate and appraise its' activities.	<p>Council expenditure exceeds planned limits. This may lead to budgetary pressures and a lack of resources to provide satisfactory services to the public. Non-compliance with the Council's procedures.</p> <p>Where budget managers do not have clarity with regards to how their budgets are formed, this has potential to reduce the level of budgetary control, with managers unable to identify pressures within the budget therefore increasing the risk of potential over-spends.</p> <p>Further risks include fraud; misappropriation; material errors; legal and regulatory penalties; poor decision-making and reputational damage.</p>	Work in Progress	-
Financial Governance	The purpose of the review is to ensure that the Council is maintaining robust Financial Governance in relation to the new COVID-19 arrangements. The review will evaluate the adequacy of key controls around how the Councils collect, manage, monitor and report COVID-19 expenditure.	The risks of poor financial governance include fraud; misappropriation; material errors; legal and regulatory penalties; poor decision-making and reputational damage.	Draft report with management for response	-
Business Grant payments – Support Central Government various Grant Funding Schemes	To provide assurance to Senior Management that BMSDC are following Discretionary Business Grant policy implemented to manage Central Government Business grants, during Covid – 19 pandemic.	<p>First party application fraud – the risk that an applicant may misrepresent their circumstances to qualify for a government grant or scheme;</p> <p>Third party impersonation fraud – the risk that a third party may impersonate a business to extract grant funding from the government.</p>	<p>Adequate controls are in place for the processing of business grants and to help prevent fraud and possible errors.</p> <p>The audit identified one mis-payment due to an administrative error and three miscoding's had occurred within Integra</p>	Sufficient Assurance

			where the grant category had incorrectly applied (which have now been corrected). Recovery of the mis-payment has commenced – the applicant subsequently qualified for a discretionary grant and the initial grant payment was offset against that.	
Discretionary Business Grants - Support Central Government various Grant Funding Schemes			Post payment validation checks were found to be sound in order to mitigate fraud and errors and satisfy the criteria for financial assurance – no errors were found.	Substantial Assurance
Payroll	The audit reviewed Payroll processes to confirm the controls in place are adequate, including the workarounds / detective controls designed to identify and address known issues. The following areas were included: • Starters, Pay Changes & Leavers.	<p>Errors may be made on who and when an employee left the organisation, Arrangements to collect outstanding money/asset may not be made, Loss of money to the Councils.</p> <p>Individuals pay may be incorrect and go unnoticed, Ghost employees may go undetected, Errors may go undetected, Errors may have gone undetected, Errors may go unnoticed, Emergency payments may be uncontrolled, Errors in the changing of standing data may go unnoticed, leading to inaccurate pay</p> <p>Deductions from pay many not be authorised, Non-compliance with IR requirements, Employee deductions are not being paid to the relevant body, Errors may go unnoticed</p>	Draft report with management for response	-

### 6.1.2 Housing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Disabled Facilities Grants	This audit focused on the administration function to ensure grants are awarded in accordance with the Councils' criteria and the conditions set by Central Government.	Funding is not given to the correct people, meeting the correct criteria or reclaimed appropriately.	The conditions attached to the Disabled Facilities Capital Grant Determination (2018-19) No [31/3337] have been complied with.	Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administrating authority, Suffolk County Council.
Housing – Health & Safety	Ascertain and report on whether the Organisation has appropriate policy/procedures to ensure actual compliance (in terms of completion of the statutory checks) with both statutory and	A lack in effective management through an improvement plan may lead to failure in providing sufficient compliance assurance.	The audit highlights a lack of governance and oversight of the Councils' compliance	Limited Assurance (to be followed up

	regulatory health and safety requirements/best practice.	<p>Weak communications and monitoring of performance may lead to failure in identifying opportunities for improvements</p> <p>Failure to implement an agreed Compliancy Action Plan may lead to a lack of focus and critical deadlines for compliance improvements being missed.</p>	<p>with Health and Safety regulations.</p> <p>A compliance dashboard is being developed which will assist in addressing this issue.</p> <p>The areas tested confirms a lack of evidence or access to evidence to demonstrate compliance.</p> <p>Most of the issues identified are included within a compliance action plan which is being developed.</p> <p>A full set of Housing Health &amp; Safety Policies need to be finalised, approved and regularly reviewed to ensure they remain fit for purpose.</p> <p>The operational risk register needs to be updated with risks highlighted within the Consultant's building services update report, as a number of these are significant.</p>	early next year)
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### 6.1.3 Customers

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Cyber Security review	<p>The review considers the Cyber Security controls in place at the Councils using the National Cyber Security Centre's "10 steps to Cyber Security" framework covering the following areas:</p> <p>Risk Management Regime; Network Security; User Education and Awareness; Malware Prevention; Removable Media Controls; Secure Configuration; Managing User Privileges; Incident Management; Home and Mobile Working; and Monitoring</p>	<p>Malware – malicious software that includes viruses, Trojans, worms or any code or content that could have an adverse impact on organisations or individuals</p> <p>Ransomware – a kind of malware that locks victims out of their data or systems and only allows access once money is paid</p> <p>Phishing – emails purporting to come from a public agency to extract sensitive information from members of the public.</p>	Work in progress	-
Shared Revenues Partnership (SRP) – 2019/20 Audit Review	<p><b>Note:</b> This work is undertaken by Ipswich Borough Council's Internal Audit Section as the Partnerships' host authority.</p> <p>The objective of the audit was to ascertain the extent to which the identified risks have been managed and to evaluate whether effective controls to mitigate the risks have been established and have been operating effectively throughout the period under review relating to Council Tax, National Non Domestic Rates and Housing Benefits.</p>	<p><u>Council Tax</u> Failure to ensure precepts are entered accurately may result in inaccurate liabilities and reputational damage.</p> <p>Council Tax monies received or refunded may be incorrectly posted resulting in misstatement of entries in the main financial system.</p> <p><u>NNDR</u> Incorrect multipliers may be used when calculating business rate bills resulting in under or over charging customers which</p>	<p>Key findings for both Councils –</p> <p>The Council Tax &amp; NNDR precepts and annual rateable value multiplier have been input to NRB correctly and reviewed for accuracy.</p> <p>Appropriate segregation of duties exist.</p> <p>The benefits system has been reconciled to</p>	Opinion for both Councils across the three elements: Good (All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and

		<p>may lead to reputational damage and financial loss.</p> <p>Failure to review exemptions and discounts in a timely manner may result in financial loss.</p> <p>Rates due to the Council may not be correctly identified and collected resulting in loss of revenue to the Council.</p> <p><u>Housing Benefits</u> Claims may be paid incorrectly resulting in irrecoverable overpayments made to customers.</p> <p>Unauthorised payments may be made resulting in misappropriation which may lead to financial loss. Overpayments may be incorrectly calculated which may result in financial loss.</p>	the general ledger and independently reviewed on a timely basis.	the associated risks are being mitigated).
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#### 6.1.4 Assets and Investments

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Asset Management	To provide assurance over the adequacy and effectiveness of current controls over Asset Management and provide guidance on how to improve current the controls going forward.	<p>There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed</p> <p>There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers</p> <p>There may be inadequate procedures in place in relation to the monitoring and safeguarding of Council assets leading to increased risk of misappropriation of assets</p> <p>There may be insufficient insurance cover in relation to Council assets resulting in financial loss to the Council</p>	Work in progress	-

## 7 Business support activity

- 7.1 Internal Audit have been part of the Councils' Tactical Management Team responsible for managing emerging risks and directing resources to help ensure critical services are maintained across the two districts.
- 7.2 A member of the Internal Audit team is supporting the Councils' Business Cell by providing assurance over the administering of business grant schemes announced by Central Government in March 2020 and discretionary grant announced in May

2020, and more recently the Test and Trace Support Payment scheme. The work included ensuring that the prescribed criteria in terms of eligibility was correctly applied and met, and managing the risk of fraud using available digital assurance tools, such as Spotlight.

## **8 Resources**

8.1 Covered in Section 2 of Appendix A

## **9 Professional Practice**

### **9.1 Membership of audit bodies**

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.

### **9.2 Public Sector Internal Audit Standards (PSIAS)**

The team has fully reviewed their working practices to ensure that the Internal Audit documents and processes comply with, and can be evidenced to, the PSIAS.

This has resulted in a refining of the Internal Audit Charter Strategy, Internal Audit Services Manual, Internal Audit Risk Log, Quality Assurance and Improvement Programme, procedure notes and working papers. These documents are published on the Councils' intranet, 'Connect', and remain subject to regular review.

Subsequent to this exercise the actions arising from the review are materially implemented.

### **9.3 Independence**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

The Corporate Manager – Internal Audit is also responsible for overseeing the risk management and most recently following the phase 2 management review data protection arrangements across both Councils. Each of these roles has an independent sponsor to champion reports and proposals. These are vested in the Assistant Director, Law & Governance and Monitoring Officer.

## **10 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.

**Draft Circulation:**

Presented to SLT, including the S151 Officer;

Joint Chairs of the Joint Audit and Standards Committee;

Cabinet Members for Organisational Development.