

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Internal Audit	Report Number: JAC91
To: Joint Audit and Standards Committee	Date of meeting: 14 November 2016

INTERIM INTERNAL AUDIT REPORT 2016/17

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 2016/17 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. Recommendation

- 2.1 That the content of this report, supported by Appendix A, 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. Legal Implications

- 4.1 There are no direct legal implications arising from this report.

5. Risk Management

- 5.1 This report is not linked with any of the Councils' Significant Business Risks. The key risk, however, is 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.

6. Consultations

- 6.1 The 2016/17 Audit Plan was approved by the Joint Audit and Standards Committee on 18 April 2016 (Paper JAC76), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

7. Equality Analysis

- 7.1 There are no equality implications with this report.

8. Shared Service / Partnership Implications

- 8.1 The overall approach has been to develop a single shared model for internal audit delivery and management for both Councils.

- 8.2 The Internal Audit delivery builds on past joint working facilitating the integration of the service with the aim of reducing costs and increasing capacity and resilience. It enables both Councils to be in a position to improve service delivery through advocating, supporting and reviewing system processes and outcomes.

9. Links to Joint Strategic Plan

- 9.1 The delivery of a comprehensive internal audit service supports the Council objectives, in particular:

An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons.

However, the internal audit coverage is designed to support all five of the Councils' strategic themes.

10. Key Information

- 10.1 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.

As part of the preparation for the 2016/17 Audit Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions. (Details are contained in the 2016/17 Audit Plan (JASC 18 April 2016 Paper JAC76)).

- 10.2 As the Councils' Delivery Programme continues and re-shapes and transform its services the demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities continues. The Corporate Manager – Internal Audit monitors requests, with a risk based approach, for the re-allocation of Internal Audit resources from the approved 2016/17 Audit Plan.

- 10.3 Full audits conducted are split into two types, Fundamental and non-Fundamental (Risk Audit) reviews. Historically Fundamental reviews had been conducted in the latter half of the financial year to meet with External Audit testing requirements.

Following on from the successful engagement with the Corporate Manager – Financial Services during last Financial Year, these audits are planned to be materially completed by the end of December 2016. This is primarily to assist the Finance team in their preparation for punctual closing of the 2016/17 Accounts.

- 10.4 Appendix A provides a summary of the work undertaken to date. This work will contribute to the 2016/17 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.

11. Appendices

Title	Location
Appendix A - Overview of Internal Audit Work	Attached

12. Background Documents

- 12.1 There are no further documents.

Authorship:

John Snell
Corporate Manager – Internal Audit

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

K:\Governance\DOCS\Committee\REPORTS\Joint Audit & Standards\2016\141116-Interim Internal Audit Report.docx



Appendix A

Overview of Internal Audit Work 2016/17

1 Introduction

The work completed by Internal Audit for the first six months of the Financial Year 2016/17 (up to September 2016), 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:

Section Reference:

- 3 Council Governance**
- 4 Risk Management**
- 5 Probity**
- 6 Audits conducted**
 - 6.1 Fundamental Audits (Core Financial Systems Audits)**
 - 6.2 Risk Audit Reviews**
- 7 Business support activities**
- 8 Complaints**

3 Council Governance

- 3.1 The Corporate Manager – Internal Audit continues as 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.
- 3.2 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.
- 3.3 Internal Audit has led on the production of the Annual Governance Statement (AGS) which is completed again as at the end of the financial year 2015/16, presented to the Committee on 20 June 2016 (Paper JAC80), alongside an Assurance Mapping exercise across the Councils designed to identify gaps in good practice and aid the 2016/17 audit planning process. The outcome of the planning was reported to this Committee on 18 April 2016 (Paper JAC76).

- 3.4 The Corporate Manager – Internal Audit continues on the Governance 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 helped to draft 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.

4 Risk Management

- 4.1 Audit continues to maintain and facilitate development of the Significant Risk register with Councillors and Senior Management. As a living document Audit regularly review the content with management. Whilst the present register was reported to the April meeting of the JASC. (18 April 2016 Paper JAC79) this has been subject to further review and refinement during the present period.
- 4.2 The Risk Management Strategy and Register was presented to the Executive and Strategy Committees for approval on 6 June 2016 (X/33/16) and 9 June 2016 (Paper S9) respectively.
- 4.3 Audit has continued to 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. Further support is planned to be provided through the financial year and in ensuring a continuous and robust challenge to the project management resources.

5 Probity

- 5.1 The data requirements and data specifications for the 2015/16 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 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.

- 5.2 EU Elections expense payments - Internal Audit was asked to carry out an audit by the Interim Democratic and Electoral Services Manager of the process undertaken and that all other expenses relating to the EU Referendum were correctly paid, as due to an error in processing no PAYE deductions were made. (See Annex for detail).
- 5.3 Full details of the anti-fraud and corruption work undertaken during the year is reported annually to this Committee in a report entitled ‘Managing the Risk of Fraud and Corruption. The last report was for 2015/16 and presented on 18 April 2016 (Paper JAC77).

6 Audits conducted

The audits conducted are split into two: Fundamental / Core Financial Systems Audit and Risk Audit reviews. The audits that have been completed, and the Final Report issued, are summarised in the Annex below.

6.1 Fundamental Audits / Core Financial Systems Audits

As mentioned in the covering Committee report these audits are planned to be undertaken during the third quarter and materially completed by the end of December 2016. This is primarily to assist the Finance team in their preparation for punctual closing of the 2016/17 Accounts. To date the briefs have been passed to the Corporate Manager – Financial Services and the audits for Treasury and Local Taxation (covering Council Tax & NDR) have been started.

As is customary, initial observations emanating from the testing have been discussed with the Corporate Manager – Financial Services.

Ipswich Borough Council Audit Team undertake review of SRP Revenues and Benefits, which provides the Corporate Manager – Internal Audit with assurance on the controls exercised over income processing. They have issued their Draft report for 2015/16, which has an overall opinion of 'Good'. *(All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and the associated risks are being mitigated.)*

6.2 Risk Audits

6.2.1 This planned audit work is determined by a number of considerations including: Management concerns; perceived risk and controls environment; strategic importance; and past experience.

The audit work is classified into non-Fundamental reviews and Delivery Programme reviews.

6.2.2 Non-Fundamental reviews

Building Control procedural review - the key building control processes, including the application procedure, allocation of fees, payment receipt, and performance monitoring. The report is currently in Draft for discussion.

Procurement – contract management – This review commenced in the previous financial year and was concluded subsequent to Management restructure of the Asset Management and Capital Project service area within Housing.

Procurement – Housing. This work is under way as review of how Housing uses Works Orders from Open Housing, linking into the new joint system and common procedures to reflect best purchase to pay practise. Audit have mapped processes and are continuing to work with Procurement to identify opportunities and provide guidance on compliance and best practice.

Grants – This audit is nearing completion of fieldwork and on target to be complete to plan.

6.2.3 Delivery programme

The 2016/17 audit plan included provision for audit to support and advise on changes and developments planned and proposed for the year, which included:

JOSIE - The JOSIE project has been established across Babergh and Mid-Suffolk District Councils (BMSDC) to support the introduction of a single, operational IT system for a number of the Councils' services. The approach adopted for this governance review was to establish the current arrangements and comment/evaluate the robustness of these arrangements and make recommendations where necessary.

The date of the second part of this audit (the actual process of receiving and distributing funds and the management thereof) is planned for November 2016 when the data testing will commence.

Building Control - Audit provided templates to aid management in financial review and continue working with the Corporate Manager, Building Control, to explore the financial viability and potential to develop shared partnership ventures for the building control service. Internal Audit is also working with colleagues on the Local Authority Building Control review and assessment.

Community Infrastructure Levy (CIL) - The approach adopted for this governance review was, in outline, to establish the current arrangements and comment / evaluate the robustness of these arrangements and make recommendations where necessary.

The date of the second part of this audit (i.e. collecting and monitoring of allocated funds) is to be agreed with the Assistant Director (Planning for Growth) as it is subject to CIL funds collected. Research by the Infrastructure Team shows that other Councils have not collected significant income until year 3 of implementing CIL.

7 Business support activities

7.1 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 Fixed Assets, Risks, Budgetary Control and Systems Administration.

7.2 Business Continuity – Internal Audit has worked with business managers to develop and evolve both the Councils and individual departmental business continuity plans. The Plans are “corporate” documents which give guidance to senior managers tasked with leading recovery activities and prioritising resources in the event of an incident.

A business continuity table top exercise ‘Armageddon’ has been developed by the Business Continuity Working Group with a view to it taking place on 17 November 2016.

8 Complaints

To date, this year, Internal Audit has not received any request from management to investigate complaints.

9 Resources

The Internal Audit team has remained constant during the period which has enabled consolidation and development of the skills mix, aims and objectives required to deliver the Councils' Plans, reflected in the 2016/17 Audit Plan.

10 Professional Practice

10.1 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.

11 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

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Non – Fundamental Audits				
EU Election	The Interim Democratic and Electoral Services Manager asked Internal Audit to review the process undertaken, and that all expenses, relating to the EU Referendum were correctly paid.	<ul style="list-style-type: none"> • Poor reputation and or fines • Further errors leading to overpayments by the Councils and ensuing loss • Ineffective working practices 	<ul style="list-style-type: none"> • One employee (representing a 2% error rate) was overpaid by £40.00. This has now been addressed by HR. • With the exception of the tax issue all other payments were found to be correct. • HR has now written to all internal staff affected and an adjustment of tax will be made in their September’s pay. • Non-staff’s adjustment of tax is being rectified by issuing invoices in September. 	In line with this type of report no opinion is given.
Procurement – contract management	Review the Councils’ contract activities to assure compliance with procurement requirements and ensure accountability for goods and services provided.	<p>Risk exposure from control failures would include:</p> <ul style="list-style-type: none"> • Overspend on Budgets, and cash flows are impaired, through sub-optimal purchasing decisions; • Sub-standard work means that service levels delivered do not meet the VFM needs of the Council; • Legal and reputational damage arise, without recourse, from inappropriate supplier actions or negligence; • Supplier or Council management (in) action gives rise to loss of Council assets; • Ineffective working relationships with the contractor. 	<p>The identified control breakdowns are primarily attributed to failure of governance in the contract management and performance monitoring process within the Councils.</p> <p>It was recognised by the Auditees that Senior Leadership Team action would be required to support the associated cultural changes and key improvements now underway include:</p> <ul style="list-style-type: none"> • evolution of the existing commissioning and procurement process; • development of the budgetary control process; and • structural changes to the functional delivery of the previous asset management services; 	Ineffective

ANNEX

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Delivery programme Audits				
Community Levy Charge (CIL) (Phase 1)	A Governance review to establish the current arrangements and comment / evaluate the robustness of these arrangements.	<ul style="list-style-type: none"> • Council will not be able to secure the correct level of contributions towards infrastructure from major schemes. • Quality of evidence challenged and needing further external work or viability/valuation work undertaken. • Inappropriate mechanisms put in place to oversee the collection and distribution of CIL monies. 	<p>Despite CIL being a new process and a newly formed team for MSDC and BDC, all areas tested had very strong controls.</p> <p>The team is demonstrating their pro-active 'Open for Business' approach by following other cases to ensure our organisations meet customer needs and expectations to a very high standard.</p>	High Standard
JOSIE project (Phase1)	A Governance review to establish the current arrangements and comment / evaluate the robustness of these arrangements.	<ul style="list-style-type: none"> • Historical data will be lost due to different data management processes in MSDC vs BDC. • Stakeholders are not engaged, actions are not owned and outcomes are not fit for purpose/accepted by the organisation/s. • Business as Usual procedures and Supplier management expertise are not in place or not fit for purpose at go live date. • roles & responsibilities for ongoing management of IT systems is not established. 	<p>Audit opinion primarily based upon the lack of a formal project role structure and formalised accountability of all stakeholders, including the Project Manager.</p> <p>As the project progresses it is Internal Audit's view that this can pose a risk to the project as role expectations are not clear.</p> <p>Management have accepted all the findings and recommendations from the review and are implementing changes to improve the position.</p>	Ineffective

Draft Circulation:

Suzie Morley Chair of the Joint Audit and Standards Committee – Mid Suffolk

William Shropshire Chair of the Joint Audit and Standards Committee – Babergh

Lee Parker (Member with Special Responsibility)

Glen Horn (Portfolio Holder)

Peter Patrick (Portfolio Holder)

Katherine Steel Assistant Director, Corporate Resources

Suki Binjal Interim Assistant Director, Law and Governance