

Committee:	Audit Committee
Meeting Date:	16 March 2016
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Audit Services - Progress Report

Brief summary of report

1. The Audit Committee has a role to maintain oversight and to monitor the effectiveness of internal controls and risk management processes as well as the internal audit activities.
2. The report provides the Committee with a summary of the activities carried out by Audit Services between 01 October 2015 and 19 February 2016. This includes audit work and information pertaining to Audit Services' operations and effectiveness that will be of interest to the Committee.

Action recommended

3. The Committee is asked to consider this progress report and supplementary information to ensure it is satisfied with the work and activities of the internal audit service with a view to the Head of Audit Services being able to provide a year-end opinion on the overall control environment of the County Council, in accordance with the Public Sector Internal Audit Standards (PSIAS).

Reason for recommendation

4. This action is within the terms of reference of the Committee. The Committee is required to approve and monitor delivery of the internal audit activity of the Council.

Alternative options

5. The Committee may request further information before agreeing the action recommended.

Who will be affected by this decision?

6. All stakeholders.

Main body of report

7. Audit Services provide management with an objective assessment of whether systems and controls are working properly. Internal audit is a key part of the Council's internal control system because it independently measures and evaluates the adequacy and effectiveness of controls so that:
 - a) The Council can establish the extent to which they can rely on the whole system; and
 - b) Individual managers can establish how reliable the systems and controls for which they are responsible are.
8. It is a management responsibility to develop and maintain the internal control framework (i.e. appropriate risk management processes, control systems, accounting records and governance arrangements) and to ensure compliance. It is the responsibility of the internal audit service to form an independent opinion on the adequacy of the systems of internal control.
9. The planning process, agreed by the Audit Committee in March 2015, enables a flexible approach in ensuring audit work meets the needs of the County Council in this ever changing risk and control environment. A risk-based 'assurance & planning' tool, developed by Audit Services, is used to determine the focus of audit work.

New Audit Work

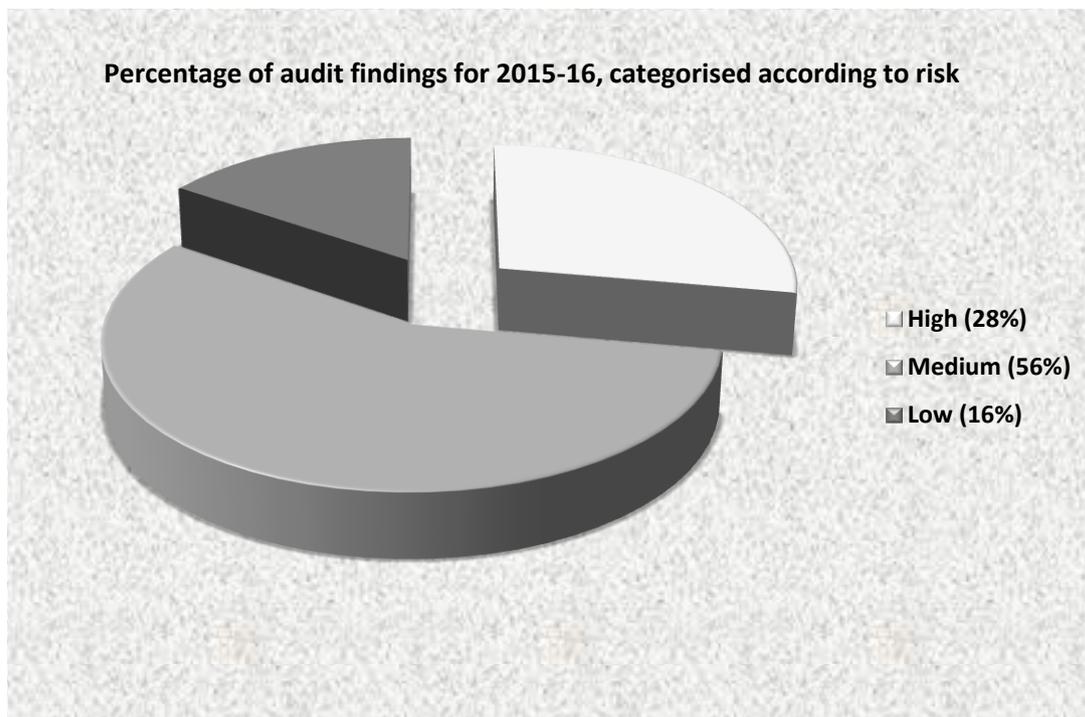
10. Audit work has been completed between 01 October 2015 and 19 February 2016 on the following:-
 - a) Payroll;
 - b) Pension Scheme Administration;
 - c) Treasury Management;
 - d) General Ledger;
 - e) HMRC – Payroll Audit
 - f) Building Security, Riverside, Lowestoft
 - g) Mileage payments Review;
 - h) Temporary Traffic Restrictions process;
 - i) ICT Access Control and user Management;
 - j) Assurance framework – Information Management.
11. Appendix A summarises the results of these pieces of work, all of which contribute to the 2015/16 overall opinion on the Authority's control environment provided by the Head of Audit Services, as required by the Accounts and Audit (England) Regulations 2015.

Follow-up Audit Work

12. In addition, there are some audits previously carried out that have been followed-up :-
- a) Data Protection Obligations and Local Public Services Data Handling;
 - b) Information Management in Adult and Community Services (ACS);
 - c) Mental Health Pooled Fund;
 - d) Youth Guarantee Programme;
 - e) Financial Assessments in ACS;
 - f) Financial Assessments in Children and Young People's Services (CYP);
 - g) Cash Controls;
 - h) Train Travel;
 - i) Security Incident Management ;
 - j) Budgetary Control;
 - k) Procurement Regulations;
 - l) Loss of cash from Beccles/Lowestoft Imprest.
13. Some actions remain outstanding after audit follow up; these are detailed in the table found within Appendix B of this report. A brief explanatory note is contained beneath the table. In the majority of instances, where an action remains outstanding, the Head of Audit Services is content that measures are in place to implement actions within agreed revised timescales.

Agreed Actions

14. Where an audit identifies that there is scope to improve the internal control environment, actions are agreed with service managers following the completion of the audit which will assist in the implementation of improvements. Whilst Audit Services track the implementation of outstanding actions, it is management's responsibility to ensure that the relevant controls are in place.
15. Appendix B provides Audit Committee Members with a summary of the actions arising from all audit work completed since 01 April 2015. It also indicates the status of all actions that are being individually tracked by Audit Services, and those which are overdue their agreed implementation date (as at 29 February 2016).
16. The following chart shows the percentage of audit findings for 2015/16, categorised according to risk. This shows that the proportion of medium risks raised is in line with the annual figure for 2014/15 (54%), whilst the number of high risks raised has decreased from 40% for 2014/15 to 28%.



Assurance Work

17. As part of audit coverage, work is being undertaken to identify where assurance can be gained on the operation of controls within the County Council in a more generic form. This is carried out by senior audit staff who assurance map key, risk-assessed, governance areas.
18. Assurance is provided through the “three lines of defence” model:
 - a) assurances from management that designed controls are being implemented on a day-to-day basis;
 - b) assurances from the back-office functions;
 - c) assurance from the internal audit function, and third parties.
19. Key controls are identified and, where assurance can be obtained that confirms effective systems are in place, this helps to form the opinion on the area under examination. In addition, gaps are identified where management action is required, in-depth audit work is needed or external resources engaged to gain further assurance.
20. Another benefit of assurance mapping is that it can help the Council identify duplicated effort which might occur when different elements are working in siloes.
21. The key governance areas currently being mapped are:-
 - a) Information Management;
 - b) Safeguarding;
 - c) Project & Programme Management; and.
 - d) Risk Management.

22. Details of the outcomes of the Assurance framework work will be reported in the next progress report.

Certification

23. The Head of Audit Services certified various government grants during the period following audit work.

- a) Bus Services Operators Grant;
- b) Suffolk Family Focus / Troubled Families Grant; and
- c) Local Transport Capital Funding Grants.

Fraud

24. Audit Services deploy resources in investigative / reactive work (i.e. where systems / processes and regulations are not functioning as originally proposed, and which could result in loss to the Council of money or resources). This can include working closely with the Police.

25. Since the last progress report to the Audit Committee in September 2015, there continues to be a wide range of irregularities which have been / are being investigated by Audit Services. Examples of the types of irregularity are:

- a) Mandate Fraud (e.g. the submitting of requests to amend bank details to fraudulent bank accounts);
- b) Additional Hours Claims (e.g. employees submitting additional hours claims when they are being paid a full time salary); and
- c) Loss of cash (e.g. error or theft allegations).

26. Since the September 2015 progress report, there have been 14 irregularities reported to Audit Services. The number of irregularities reported to Audit Services for the whole of the financial year 2015/16 to date is 37. This is already a 54% increase from the financial year 2014/15, where 24 irregularities were reported.

27. National Fraud Initiative (NFI) work undertaken by Audit Services has, to date, seen in excess of £570k being recouped for the County Council, including work undertaken to assist services in the improvements of controls and systems. The majority of this is in relation to residential care payments for deceased customers (£478k) and duplicate payments (£70k).

28. A separate report on Anti-fraud and Corruption Arrangements was presented to the Committee at the meeting on 28 January 2016.

Advice

29. Advice from Audit Services is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that could be raised in future audits and contributes to a stronger control environment. In these instances an audit opinion will not be given.

30. Audit Services currently provide advice input into a number of developments / topics, including:

- a) Contract Management Board;
- b) Information Governance Board;
- c) Next Generation Computing; and
- d) Planning & Performance Board.

Quality Assurance Improvement Plan (QAIP)

31. Audit staff carry-out compliance audits from a 'three year' rolling QAIP in accordance with the Public Sector Internal Audit Standards (PSIAS) for internal reviews against the Standard. The self-assessment exercise and compliance audits help identify changes and improvements to the internal audit process.

32. During the period, compliance audits have been completed on managing the internal audit activity, communicating results to clients and monitoring progress of actions. The findings of these reviews have been noted and improvements made to relevant audit processes as a result.

Other

33. Audit Services resources were discussed by the Committee at the January meeting. Additional resources have been procured internally to assist with proactive fraud and internal audit work and will be in place until the end of March 2016. A recruitment process will be embarked upon to employ a further auditor shortly.

Sources of Further Information

- a) Accounts & Audit Regulations 2015
- b) Public Sector Internal Audit Standards.
- c) Audit Committee – 28 January 2016 – Audit Services' Charter and Audit Plan Key Themes 2016/17
- d) Audit Committee – 17 March 2015 – Audit Services – 2015/16 Internal Audit Plan
- e) Audit Committee – 21 July 2015 - Audit Services Progress Report (01 April to 30 June 2015)
- f) The Public Contract Regulations 2015



Internal Audit Progress Report as at 19 February 2016

“Enhancing & protecting organisational value by providing risk-based and objective assurance, advice and insight”

Summary of Assurance Work

01 October 2015 to 19 February 2016

1. The activities of Audit Services are conducted in conformance with the Public Sector Internal Audit Standards (PSIAS).
2. The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given a 'scoring' of one of four levels depending on the strengths of controls and the operation of those controls. The four categories ranging from the highest to lowest are High Standard, Effective, Ineffective, and Poor. The opinion reflects both the design of the control environment and the operation of controls.
3. Explanations of the meaning of these opinions are as follows:-

High Standard (full assurance)	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives.
Effective (substantial assurance)	Whilst there is basically a sound system of control, there are some weaknesses, which put some of the system objectives at risk.
Ineffective (moderate assurance)	There are weaknesses in key areas in the systems of control, which put the system objectives at risk.
Poor (limited / no assurance)	Control is generally weak, leaving the system open to significant error or abuse.

4. The findings within audits are categorised according to risk. These are provided to assist in the planning of implementation of agreed actions:

Priority 1 (High)	Higher risk - management should be implementing actions as soon as possible
Priority 2 (Medium)	Medium risk - actions should be considered as important to address
Priority 3 (Low)	Lower risk - but could be implemented quickly for improvement or benefit

Audits completed between 01 October 2015 and 19 February 20165. Payroll

Overall Opinion	Effective		
Date Completed	19.11.2015		
No. of Agreed Actions	8		
	High	Medium	Low
	3	5	0
Date of Follow-up	May 2016		

A regular audit review is conducted to provide assurance regarding the controls within the payroll system. Testing was based on the key controls of the system in order to establish their effectiveness. As a result, control weaknesses were identified in some areas of operation. These system weaknesses have now been corrected in conjunction with payroll, IT and audit staff.

A follow up of the agreed actions of the previous audit was also carried out as part of this review; all actions have now been implemented.

6. Pension Scheme Administration

Overall Opinion	Effective		
Date Completed	30.12.2015		
No. of Agreed Actions	9		
	High	Medium	Low
	1	5	3
Date of Follow-up	April 2016		

The 2014/15 audit of Pensions Administration saw a significant increase in findings compared to previous years. In part, this was due to additional tests undertaken on, information from the National Fraud initiative and contract management. Audit can report that appropriate controls have been put in place to satisfy those findings and mitigate the risks highlighted. In the light of the work that has been carried out by the Pensions Team throughout the year to respond to the 2014/15 audit findings, a risk-based approach was taken to the audit this time, examining areas of high risk and where historic issues have been identified. The audit again identified a number of processing errors which, although not significant in number to affect the overall audit opinion, needed further consideration. Actions were agreed to ensure staff training and management checks were undertaken in the areas where errors had been detected.

7. Treasury Management

Overall Opinion	High Standard		
Date Completed	25.11.2016		
No. of Agreed Actions	3		
	High	Medium	Low
	1	1	1
Date of Follow-up	March 2016		

The audit of the Council's treasury management activities was carried out in accordance with the principles and practices that are set out in the CIPFA Code of Practice (Treasury Management Code of Practice and Cross-Sectoral Guidance Notes 2011 Edition).

The appetite for risk within the Council is low, with security and liquidity of investments taking precedence over the rate of return. For borrowing, the Council manages the portfolio of debt to minimise refinancing risk. This reflects CIPFA's recommendation that controlling risk should be the prime objective of the treasury management function.

It was found that approved instruments, methods and techniques are in place and in accord with the SCC Treasury Management Practices (2015/16), and these have been adhered to, whilst appropriate controls are in place to mitigate risks.

8. General Ledger

Overall Opinion	Effective		
Date Completed	8.12.2015		
No. of Agreed Actions	8		
	High	Medium	Low
	1	6	1
Date of Follow-up	June 2016		

Oracle Financials is the Council's software system used to monitor, manage and report its budgets. The General Ledger sits within Oracle Financials and records financial activity and produces financial and management reports. An audit is undertaken each year as part of the audit coverage of the Council's key financial systems. These audits provide additional assurance for the External Auditor regarding the controls and processes in place over the financial transactions within the General Ledger, and which subsequently support the production of the Council's Statement of Accounts.

Overall the controls and related systems operating the General Ledger have remained unchanged since the previous audit, and the External Auditor issued an unqualified audit opinion on the 2014/15 Statement of Accounts. However, a restructure of the Finance department was in process whilst the audit was being undertaken, which could result in a change in staff involved in key elements of the closedown of the accounts. This has been recognised by Finance management and has been identified as a risk within their Interim High Level Plan for 2015-16.

9. HMRC – Payroll Audit

Overall Opinion	Ineffective		
Date Completed	30.09.2015		
No. of Agreed Actions	2		
	High	Medium	Low
	2	0	0
Date of Follow-up	February 2016		

This audit is a compliance audit to ensure that the County Council is compliant with the HMRC requirements for the evaluation of self-employment by suppliers and contractors.

The audits tested that, for a sample of individuals who were paid outside of the SCC payroll, there was evidence of their self-employed status by completing and retaining an ESI check (Employment Status Indicator – an online HMRC tool).

This is the fifth audit undertaken on payments made to individuals since 2012. The audits were a stipulation made by HMRC following their identification of a number of failings to properly account for tax. All of the previous audits have had an audit opinion of ‘ineffective’ because of varying levels of non-compliance. The results of this audit show a marked improvement in the awareness of, and the undertaking and retention of ESI checks. Despite this improvement, there remains an issue with a lack of awareness and compliance within schools. Schools have been reminded that any penalty imposed by the HMRC for their noncompliance will be charged to their budget.

10. Building Security, Riverside, Lowestoft

Overall Opinion	Effective		
Date Completed	04.01.2016		
No. of Agreed Actions	3		
	High	Medium	Low
	1	2	0
Date of Follow-up	April 2016		

This audit is part of a series of security based audits undertaken by Audit Services and should be set in the context of the level of risk of, and attitude towards, national security currently. The purpose of this audit was to assess some of the new security arrangements at the Riverside Centre, Lowestoft, which is currently accommodated by Suffolk County Council and Waveney District Council staff. Security of Council buildings is of paramount importance to ensure that Council staff, visitors and third parties, information and assets remain safe and secure at all times.

Walk-round testing of the building was undertaken along with observation of cultural habits and adherence to the clear desk policy. Agreed actions have been put in place as a result of the audit.

11. Mileage Payments Review

Overall Opinion	Effective		
Date Completed	18.11.2015		
No. of Agreed Actions	1		
	High	Medium	Low
	0	1	0
Date of Follow-up	April 2016		

Council employees who travel for work are allowed to claim mileage allowances in order to reimburse them for travel expenses. There are several different schemes operated by the Council to administer this. This audit used data matching techniques to interrogate information on mileage claims made through the iTrent (Council's HR and Payroll system). Tests, such as checking accuracy of journey mileages and cross referencing mileage claims to travel allowances received, were carried out.

Overall, the mileage policy documents claim forms are up-to-date and correct. Controls in the mileage claims process are operating effectively.

12. Temporary Traffic Restrictions Process

Overall Opinion	High Standard		
Date Completed	16.10.2015		
No. of Agreed Actions	0		
	High	Medium	Low
	0	0	0
Date of Follow-up	Non Scheduled		

A limited scope audit was undertaken on the subject of traffic restriction orders and roads closures as a result of information received by Audit Services regarding possible

control and process weaknesses within the system. No issues were identified from the audit examination and testing.

13. ICT Access Control and User Management

Overall Opinion	Effective		
Date Completed	01.12.2015		
No. of Agreed Actions	6		
	High	Medium	Low
	1	2	3
Date of Follow-up	June 2016		

The County Council has a number of policies in place governing access controls and user management at various levels. The purpose of this review was to determine whether these policies were fit for purpose, that they are implemented effectively and that an appropriate control environment exists.

The audit concluded that:

- a) policies in place are regularly reviewed and kept up to date;
- b) role based access control is the council’s method of access control and is successfully operated across different systems and applications;
- c) in practice, access controls and user management are managed effectively; and
- d) there are appropriate levels of authorisation when granting, amending or revoking access.

2015/16 ACTION TRACKER

	AGREED ACTIONS			OVERDUE ACTIONS		
	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW
Completed Pre April 2015						
Contract Management in ACS	7	0	0	0	0	0
HMRC Compliance	1	0	0	All Agreed Actions Complete		
Data Protection Obligations & Local Public Services Data Handling (2)	1	19	0	1	14	0
Total	9	19	0	1	14	0

	AGREED ACTIONS			OVERDUE ACTIONS		
	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW
Completed April to June 2015						
Mental Health Pooled Fund (3)	4	13	0	2	6	0
Payroll	0	1	0	All Agreed Actions Complete		
Trading Standards – Information Management	1	1	0	All Agreed Actions Complete		
Youth Guarantee Programme	0	6	0	All Agreed Actions Complete		
Claims for Sight Tests / Glasses	2	0	0	All Agreed Actions Complete		
Financial Assessments in CYP (4)	1	5	0	1	4	0

APPENDIX B

Financial Assessments in ACS (5)	0	5	1	0	3	0
Train Travel	0	4	0	All Agreed Actions Complete		
Dedicated Schools Grant	0	1	0	All Agreed Actions Complete		
Cash Controls	0	3	0	All Agreed Actions Complete		
School Audits (totals)	36	72	31	All Agreed Actions Complete		
Administration of looked after children's funds	6	2	0	All Agreed Actions Complete		
Information Management in ACS	1	0	0	All Agreed Actions Complete		
Capital Expenditure & Reporting	1	0	0	All Agreed Actions Complete		
Total	52	113	32	3	13	0

	AGREED ACTIONS			OVERDUE ACTIONS		
	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW
Completed July to September 2015						
Budgetary Control (6)	0	5	0	0	3	0
Fire Pension Fund	2	6	3	0	0	0
Procurement Rules	1	0	0	All Agreed Actions Complete		
Better Care Fund	0	2	0	0	0	0
Cash Controls – Adult Social Work Services	7	0	0	0	0	0
ICT Business Continuity	2	7	1	0	0	0
Security Incident Reporting	0	2	0	All Agreed Actions Complete		
Claims for Passenger Transport	0	4	0	0	0	0

APPENDIX B

Pool Cars	0	0	0	No Actions Raised		
Constitution of Governing Bodies	0	0	0	No Actions Raised		
School Purchasing & Bank Account Review - Results and Emerging Issues	0	0	0	No Actions Raised		
School Audits (totals)	16	22	11	0	0	0
Total	28	48	15	0	3	0

	AGREED ACTIONS			OVERDUE ACTIONS		
	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW
Completed October to February 2016						
Payroll	3	5	0	0	0	0
Pension Scheme Administration	1	5	3	0	0	0
Treasury Management	1	1	1	0	0	0
General Ledger	1	6	1	0	0	0
HMRC – Payroll Audit	2	0	0	0	0	0
Building Security, Riverside, Lowestoft	1	2	0	0	0	0
Mileage Payments Review;	0	1	0	0	0	0
Temporary Traffic Restrictions process	0	0	0	No Actions Raised		
ICT Access Control and User Management	1	2	3	0	0	0
Total	10	22	8	0	0	0

SUMMARY

	AGREED ACTIONS			OVERDUE ACTIONS		
PERIOD	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW
Pre April 2015	9	19	0	1	14	0
April to June 2015	52	113	32	3	13	0
July to September 2015	28	48	15	0	3	0
October - February	10	22	8	0	0	0
Total	99	202	55	4	30	0

Notes:-

- (1) Agreed actions are not followed-up until six months after the date the audit was despatched. As such, tracking of actions commences after six months.
- (2) Data Protection Obligations & Local Public Services Data Handling - Suffolk County Council takes its data protection and data handling responsibilities extremely seriously, and has a comprehensive set of policies and procedures and governance arrangements in place to ensure that risks are minimised. The Information Governance Board is now better established than at the time of the original audit and will be able to take the lead on driving forward the improvements and developments referred to in this report. Furthermore, 2015 has been designated the 'Year of Information' within the County Council to assist with the process of ensuring that information is regarded as just as important an asset as staff and buildings, and is managed accordingly. There has been a comprehensive review and streamlining of key information and data activities as part of the Year of Information, which has allowed linkages and synergies to be made between these activities. Key activities are now being run as formal projects with designated project leads, timescales and identified outcomes and milestones. This has brought an added degree of rigour to the management of data and information activities that enhances the Council's approach to dealing with these issues. Inevitably, much of this work will continue into 2016 and beyond as a culture of sound data and information management is embedded throughout the County Council.
- (3) Mental Health Pooled Fund – This area has been subject to follow up and monitoring by Audit Services. Implementation of actions has been hindered by a lack of resources and delays in the signing of the pooled funding agreement. This audit is an annual audit and the actions will be reviewed again at this time. The Head of Audit is content that the Service is aware of the issues and is managing the situation.
- (4) Financial Assessments in CYP – Follow up of actions has identified that some key actions have not been implemented. These have been brought to the attention of the Assistant Director and revised target dates set. Audit Services continue to monitor these and further follow up is imminent.
- (5) Financial Assessments in ACS – Audit follow up identified that some actions remain outstanding. These are not high risk and revised action dates have been set. Audit will continue to monitor.
- (6) Budgetary Control – Actions remain outstanding in this area and Audit Services are content that revised target dates are set as a result of follow up and these will be met.