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| Committee: | Audit Committee |
| Meeting Date: | 18 May 2016 |
| Lead Councillor/s: | Councillor Michael Bond |
| Local Councillor/s: | All |
| Director: | Geoff Dobson, Director of Resource Management Tel 01473 264347 Email: geoff.dobson@suffolk.gov.uk |
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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 19 February 2016 and the 25 April 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.

New Audit Work

9. Audit work has been completed between 19 February 2016 and 25 April 2016 on the following:-
 - a) Pensions Scheme Investment;
 - b) Oracle Receivables (Income systems);
 - c) Oracle Payables (Expenditure systems);
 - d) Mental Health Pooled Fund.
10. Appendix A summarises the results of these pieces of work.

Follow-up Audit Work

11. In addition, there are some audits previously carried out that have been followed-up to ensure agreed actions have been implemented:-
 - a) Treasury Management;
 - b) Mental Health Pooled Fund (actions from the 2014/15 Audit);
 - c) Data Protection Obligations and Local Public Service Data Handling Guidelines;
 - d) Economy, Skills and Environment Claims for Transport;
 - e) Better Care Fund;
 - f) ICT Disaster Recovery and Business Continuity Management;
 - g) Budgetary Control;
 - h) Local Bus Subsidy Grant;
 - i) Financial Assessments Children and Young People's Services;
 - j) Financial Assessments Adult and Community Services;

Agreed Actions

12. Where an audit identifies that there is scope to improve the internal control environment or the delivery of services, actions are agreed with service managers following the completion of the audit. Whilst Audit Services track

the implementation of outstanding actions, it is management's responsibility to ensure that the relevant controls are in place.

13. Appendix B provides Audit Committee Members with a summary of the actions that are being tracked by Audit Services to ensure implementation or where appropriate action has been taken against the audit finding by the agreed implementation date (as at 30 April 2016). Audits where actions have been implemented are not included in the table.

Assurance Framework Reviews

14. Audit Services have dedicated resources to begin creating an assurance framework for the Council. The assurance framework provides a structured means of identifying and mapping the main control areas of the key governance, risk, statutory and service areas against the Three Lines of Defence model, taking into account the Council's priorities and the transformation and enabling programmes. This will enable assurances to be drawn from different sources and utilise audit resources effectively.
15. Auditors identify and determine key control areas that need to be in place, ascertain what assurance exists for the identified controls and where assurance is not evident establish whether further work is required. This will feed into the risk-based planning tool.
16. To establish its maturity and effectiveness, each control area is rated by the auditor. This enables an overall opinion of the area under review to be provided, ranging from full, substantial, moderate and limited assurance. This feeds into the annual Head of Audit opinion and the Annual Governance Statement.
17. Details of the outcomes of the Assurance framework work mapped since the last progress report are reported in the Appendix C.

Certification

18. The Head of Audit Services certified the 2014/15 Lowestoft Local Links Grant during the period following audit work.

Fraud

19. 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.
20. A detailed report on fraud was presented to the Audit Committee in January 2016.
21. Since the March 2016 progress report, there has been one further irregularity reported to Audit Services. Following a review of the issues reported no further action has been required.

Advice

22. 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.

23. 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;
- d) Planning and Performance Board; and
- e) Highways Gateway Review.

Sources of Further Information

- a) Accounts & Audit Regulations 2015
- b) Public Sector Internal Audit Standards.
- c) Audit Committee - Audit Services – 2016/17 Internal Audit Plan (6 March 2016)
http://committeeminutes.suffolkcc.gov.uk/searchResult.aspx?qry=c_committee~~Audit%20Committee
- d) Audit Committee - Audit Services Progress Report (16 March 2016)
http://committeeminutes.suffolkcc.gov.uk/searchResult.aspx?qry=c_committee~~Audit%20Committee
- e) Audit Committee – Anti Fraud and Corruption (28 January 2016)
http://committeeminutes.suffolkcc.gov.uk/searchResult.aspx?qry=c_committee~~Audit%20Committee

Summary of Audit Work

19 February to 25 April 2016

1. The activities of Audit Services are conducted in conformance with the Public Sector Internal Audit Standards (PSIAS) – “Enhancing and protecting organisational value by providing risk-based and objective assurance, advice and insight”.
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 19 February and 30 April 2016**Pension Fund Investments**

| | | | |
|-----------------------|---------------|--------|-----|
| Overall Opinion | High Standard | | |
| Date Completed | 01.03.2016 | | |
| No. of Agreed Actions | 0 | | |
| | High | Medium | Low |
| | 0 | 0 | 0 |
| Date of Follow-up | N/a | | |

5. Testing was undertaken on the key controls of the investment process which included looking at the reasonableness summaries received from the custodian, the movement of investment reconciliations and the management of cash flow. Additionally the governance and strategy of the Pension Investment Fund was examined using the Local Authority Working Group on the Audit of Investment Managers (LAWGAIM) good practice guide.
6. 2015/16 saw the introduction of the Local Pension Board, which Audit Services reviewed. This has been successfully set up in line with the Statutory Instrument 2015 No. 57 of the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

Oracle Receivables

| | | | |
|-----------------------|----------------|--------|-----|
| Overall Opinion | Effective | | |
| Date Completed | 14.03.2016 | | |
| No. of Agreed Actions | 9 | | |
| | High | Medium | Low |
| | 3 | 6 | 0 |
| Date of Follow-up | September 2016 | | |

7. Audit testing confirmed that documentation has been retained to support the raising of invoices, credit notes and adjustments, and that these are appropriately authorised. Management undertake a regular sample-check of transactions completed by the Banking and General Debt Team. Details of aged debtors are reported in monthly S151 reports. Bank accounts are reconciled on a monthly basis, as is the reconciliation of Oracle Receivables to the General Ledger. Debt recovery and write-offs are undertaken in accordance with the corporate policy; reminders are issued for non-payment, and instalments to repay debt are agreed and monitored.
8. Between April and December 2015, approximately 33,000 County Council general debts were raised totalling over £57 million. In the same period, nearly 3000 credit notes were also raised, totalling over £2 million.

9. Adult and Community Services (ACS) have recently introduced 'integrity checks' on the accuracy of spreadsheets used to raise invoices for home care. However, ten out of eleven ACS areas had not reviewed the results of the checks at the time of the audit. Failure to undertake these checks could result in incorrect charges made to customers.
10. Reports that identify income not posted to a cost centre in the accountancy system are not always produced and reviewed monthly, and audit testing identified that not all transactions have been cleared in a timely manner. On rare occasions, income received was not banked – cheques without any supporting information are sometimes received by the Banking and General Debt Team, and the relevant invoice or cost centre code cannot be identified, so the cheque is returned to the bank. No record was maintained by the Banking and General Debt Team of which cheques they subsequently returned to the bank.

Mental Health Pooled Fund

| | | | |
|-----------------------|--------------|--------|-----|
| Overall Opinion | Effective | | |
| Date Completed | 05.04.2016 | | |
| No. of Agreed Actions | 1 | | |
| | High | Medium | Low |
| | 1 | 0 | 0 |
| Date of Follow-up | October 2016 | | |

11. The audit review identified that two of the pooled fund contracts did not have clear outcome and funding details within them.
12. Decisions concerning refunds for the 2014/15 underspend had not been made at the time of audit, ongoing discussions with partners were underway with a view to underspends being used to fund other elements within the pooled fund.
13. The S75 agreement now covers 2 years and contract renewals have been aligned to financial years and now include objectives and outcomes that match those of the S75 agreement.

Oracle Payables

| | | | |
|-----------------------|--------------|--------|-----|
| Overall Opinion | Effective | | |
| Date Completed | 29.03.2016 | | |
| No. of Agreed Actions | 7 | | |
| | High | Medium | Low |
| | 4 | 2 | 1 |
| Date of Follow-up | October 2016 | | |

14. The audit examined the controls relating to expenditure systems encompassing the Payments Section and the activities within to Directorates. A concurrent piece of proactive fraud work was also undertaken on duplicate payment matches that

highlighted shortcomings in invoice processing originating from service areas within Directorates.

15. Duplicate payments and payables testing highlighted some key findings:-
 - a) Duplicate payments have arisen where staff are not carrying out appropriate checks on invoices before sending them to the Payments Section. In 13 out of 55 potential duplicate cases reviewed (23.6%) a duplicate payment was identified and as a result approximately £15K has now been credited back to the organisation. It should be noted that ten of these cases had originated from the ACS Directorate and three from Resource Management. The other payments were found to have been corrected through credit note or adjustment.
 - b) Targets for paying invoices within 30 days are not being met, predominately due to service areas not submitting invoices for payment promptly.
 - c) The volume of manual invoices being processed by some service areas is causing inefficiencies both in the service area itself and in the Payments Section.
16. A weakness in controls was highlighted where access levels in the financial systems for one member of staff do not evidence a separation of duties.
17. Detailed consideration needs to be given to the practices of service areas with a view to reducing their impact on payables processes by using more efficient ways of working, whilst ensuring that key controls remain intact and operating.. The Payments Team stated that the majority of 'manual' (outside the line of business) invoices relate to domiciliary care payments; a pilot scheme for processing such payments has been successful in the northern area of Suffolk and will therefore be rolled out County-wide by the end of 2016/17. This will significantly reduce the number of invoices processed. By implementing the above, the risk of duplicate payments will also be reduced.
18. As part of the rollout the Chief Accountant, through discussions with Finance and Performance Managers, will identify the training needs required to improve the process within the teams and ensure consistent best practice across all areas.

ACTION TRACKER

| Audit Title | AGREED ACTIONS | | | OVERDUE ACTIONS (1) | | |
|--|----------------|--------|-----|---------------------|--------|-----|
| | HIGH | MEDIUM | LOW | HIGH | MEDIUM | LOW |
| Mental Health Pooled Fund (2014/5) (2) | 4 | 13 | 0 | 0 | 2 | 0 |
| Budgetary Control (3) | 0 | 5 | 0 | 0 | 3 | 0 |
| Contract Management in ACS | 7 | 0 | 0 | 0 | 0 | 0 |
| Fire Pension Fund | 2 | 6 | 3 | 0 | 0 | 0 |
| ICT Access Control and User Management | 1 | 2 | 3 | 0 | 0 | 0 |
| Pension Scheme Administration | 1 | 5 | 3 | 0 | 0 | 0 |
| General Ledger | 1 | 6 | 1 | 0 | 0 | 0 |
| Building Security, Riverside, Lowestoft | 1 | 2 | 0 | 0 | 0 | 0 |
| Information Governance Assurance Framework | 2 | 1 | 0 | 0 | 0 | 0 |
| Programme and Project Management Assurance Framework | 0 | 3 | 0 | 0 | 0 | 0 |
| Receivables (Income) | 3 | 6 | 0 | 0 | 0 | 0 |
| Safeguarding Assurance Framework | 0 | 3 | 0 | 0 | 0 | 0 |
| Mental Health Pooled Fund 2015/16 | 1 | 0 | 0 | 0 | 0 | 0 |
| Payables (Payments) | 4 | 2 | 1 | 0 | 0 | 0 |

APPENDIX B

| | | | |
|------------------------------|----------|----------|----------|
| Total Overdue Actions | 0 | 5 | 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) **Mental Health Pooled Fund (2014/15 Audit)**

This area has been subject to follow up and monitoring by Audit Services and also is an annual audit. Two actions remaining outstanding from the 2014/15 audit. One action relates to the contracts for two service providers for the fund. New services will be in place from July 2016 which will have clear outcomes and funding associated with them which will address the audit actions. Audit Services will re visit this action in October 2016 once the contract has been in place and operating for a period. The second action relates to a payment to Public Health - this is an internal transaction for some interdepartmental work for the pooled fund. This is being monitored to ensure budgets are accurate and the fund is accounted for correctly. The Head of Audit is content that the Service is aware of the issues and is managing the situation.

(3) **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.

Assurance Framework Reviews

Corporate Governance

| Assurance Level | Direction of Travel | |
|-----------------|---|---|
| Full Assurance | Corporate governance arrangements are sound and being maintained. |  |

1. CIPFA / SOLACE have recently issued a revision to their document; “Delivering Good Governance in Local Government: a framework”. This emphasises the importance of considering the longer term and the links between governance and public financial management; all key considerations for local authorities in today’s climate.
2. To support the assurance provided within the 2015/16 Annual Governance Statement, Audit Services carried out a review which confirmed that the Council has governance arrangements in place which underpin the principles outlined in the new framework. The Council’s own Code of Corporate Governance (Constitution part 4) will need to be updated to reflect the new framework and this will be presented to the Audit Committee for approval in July 2016.

Safeguarding

| Assurance Level | Direction of Travel | |
|-----------------------|---|---|
| Substantial Assurance | Controls embedded and improving within the Multiagency Safeguarding Hub (MASH). Ofsted inspection of children’s services and the LSCB with an opinion of ‘good’. Action plan to address items raised Safeguarding Adult Board’s statutory footing since April 2015 providing greater scrutiny. |  |

4. The approach to safeguarding in Suffolk is truly collaborative with a multi-agency approach to tackling the risks involved. Two statutory boards, the Local Safeguarding Children’s Board (LSCB) and the Safeguarding Adults Board (SAB) provide governance and oversight comprising of both statutory and other partners, with senior level representation from the County Council. This has promoted collaboration and partnership between numerous organisations, with common goals and objectives. Furthermore, the formation of the MASH in 2014 has further strengthened the multi-agency approach, enabling more effective working and the sharing of confidential information in a secure environment.
5. There is a strong second (LSCB & SAB) and third line of defence (Ofsted & CQC) which Audit Services can place assurance on.

Programme & Project Management

| Assurance Level | Direction of Travel | |
|-----------------------|---|---|
| Substantial Assurance | It was found that corporate processes are maintained, and there is evidence that these are applied in practice. |  |

6. Programmes, and projects that support them, are fundamental to transforming the way in which the Council delivers services to its customers. Not only do they support the achievement of the Council's priorities, but they contribute to the savings which the Council needs to close the budget gap for 2016-18. It is therefore imperative that there is effective programme and project management.
7. The tools available for those tasked with delivering the Council's key programmes, and the monitoring processes in place, provide assurance of a sound governance and control structure which contributes to being able to realise the required outcomes.

Information Governance

| Assurance Level | Direction of Travel | |
|--------------------|--|---|
| Moderate Assurance | Information governance is being monitored and improvements being driven forward by the Corporate Information Governance Board (CIGB) and the projects which support it. Implementation of agreed actions from previous internal audits, and those identified in this review, will contribute to an improved level of assurance. |  |

8. In the last year, the Council has improved Information Security Incident reporting, implemented Egress to assist with protective marking, started to rationalise the use of GCSx mailboxes, provided information for an Electoral data sharing pilot project with Waveney District Council, designed and implemented a new e-learning module for essential information management and has successfully completed a data protection audit.
9. Audit assurance work reviewed the key controls expected to ensure the effective management of information corporately and, whilst gaps were identified, there is a programme of information related projects which ultimately aim to save the Council time and money through managing information better. The Head of Audit Services will track the success of these projects through attendance of meetings of the CIGB.
10. During 2016, the way the Council manages and makes use of its information will step up a gear, in particular with the launch of new Business Intelligence tools from Microsoft, greater use of SharePoint and a new approach to information asset management.