

County Council

Report Title:	Annual Report of the Audit Committee
Meeting Date:	16 March 2017
Lead Councillor(s):	Councillor Michael Bond
Local Councillor(s):	All Councillors
Author:	Councillor Michael Bond

Brief summary of report

1. This report provides the County Council with a review of the work undertaken by the Audit Committee since December 2015.

Action recommended

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| <ol style="list-style-type: none"> 2. The Council is asked to consider and comment on the activity of the Audit Committee. |
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Reason for recommendation

3. The Audit Committee is expected to report regularly to the County Council.

Alternative options

4. Councillors could make comments to the Chairman of the Audit Committee or to the Head of Audit Services.

Who will be affected by this decision?

5. All residents of Suffolk.

Main body of report

6. The Committee was greatly saddened during the year by the death of our much respected member, Cllr Peter Bellfield, who had contributed enormously to our work.
7. Cllr Michael Gower agreed to join the Committee.
8. A summary of the matters considered by the Audit Committee since December 2015 is attached at Annex A.

Internal Audit and Control

9. This report is slightly later than those of earlier years in order to round off the account of audit work closer to May, when the current council is dissolved. As in every year, the Committee has worked very closely with Internal Audit, whose work we are required to monitor. The head of this service, Mr Peter Frost, is incidentally required to provide an annual formal opinion on the state of governance, risk management, and internal control. This feeds into the Annual

Governance Statement which is also relied upon by the statutory auditors when they perform their own audit.

10. The establishment of the Audit service at the end of the year was 7.4 full-time equivalents, one of the lowest among the county councils. I shall make “control” the main theme of my oral report to you in March, but it is obvious from this one stark statistic that the burden of responsibility for good governance, risk management, and control must lie, and does lie, squarely upon the directorates of the Council.
11. An “independent external quality assessment”, required every 5 years by the Public Sector Internal Audit Standards, was carried out during the year by an inspector appointed by the Chartered Institute of Public Finance and Accountancy. Conformance with a string of standards was checked. Documents were scrutinised. Individuals were interviewed, including me(!). Internal Audit were found to comply with the necessary standards.
12. The inspector also endorsed a new procedure in Suffolk County Council, in which the Audit Committee no longer approve an annual plan for internal audit work, but instead expect the work to reflect the risks as they emerge, or diminish for that matter. This approach has brought about a nimbler, more agile service that makes better use of our few people.
13. Moreover, the Chartered Institute of Internal Auditors awarded their prize for the Outstanding Public Sector Team to Mr Frost and his staff for his innovation (The “Man Without a Plan”, as he has been dubbed within the profession.)
14. Forty internal audit tasks were done in the past year, and the affected managers overwhelmingly agreed upon the remedial actions that were needed. Weaknesses were generally peculiar to the unit, rather than widespread, and again generally the controls were found to be sufficiently sound to make a serious breakdown unlikely. Even so, the internal audit service will of course follow up unsatisfactory cases.
15. On the other hand, the internal audit service must react to the unforeseen too. Where loss of money of a material value was discovered, the Police or Suffolk County Council (SCC) Legal Services can always be consulted, but as I have reported to you before, the Police themselves can lack the expertise to investigate certain matters owing to lack of knowledge of Council processes, and the internal audit service get put under more strain as a result. There is a full breakdown of fraud-related cases in the table at Annex B.
16. A further list of types of cases is provided at Annex C. Some cases attracted disciplinary action including dismissal.
17. The Audit Services team also has some ongoing cases; it would not be just to include the detail of these until they have been concluded.
18. Finally, some £1 million has been recovered for the County Council stemming from the National Fraud Initiative and other audit work over the last two years. This is mostly made up of administrative errors following the deaths of people in care homes, and duplicate payments. Most of the money has been recovered from the firms concerned. If nothing else, these cases vividly illustrate the enormous importance of sound financial controls. Suppliers have been told that they must improve this part of their management, and our own internal controls are being reviewed and strengthened.

19. A further lesson to be drawn from the annexes to this report is the wholly disproportionate relationship between the tasks undertaken by the internal audit service and its actual size of 7 people. Every year I have felt the need to resist further pressure to reduce its size. Despite the extremely uncertain picture of future public funding, the Audit Committee takes the view that the work of the service is a contribution to the overall health of the County Council that is so important that a cut in its strength would be a dangerously false economy.

Standards

20. Since my last report, the Monitoring Officer has received one complaint that a councillor has breached the Code of Conduct, a resolution to which is being sought. We thus have had a total of thirteen complaints about councillors since the current arrangements prescribed by the Localism Act 2011 were introduced. The Suffolk monitoring officers reviewed the Code of Conduct at a recent meeting and concluded that it remained satisfactory. SCC gave training to its independent persons last year, and the training was also attended by people from other Suffolk and Norfolk councils.
21. The Committee on Standards in Public Life published their Annual Report in July 2016 and noted that there was some evidence to suggest that the role of the independent person was generally well received and that vexatious complaints were falling. However, lack of sanctions continued to vex the Committee.

Statutory Audit by Ernst and Young

22. In their annual audit letter to the Council, Ernst and Young confirmed that they had issued an unqualified opinion on the financial statements for the 2015/16 financial year. This reflects much credit upon the professionalism of Mrs Louise Aynsley and all her people, who have served SCC so well.

Sources of further information

The agendas, reports and minutes of meetings of the Audit Committee for the period under review can be found on the County Council's website at: <http://committeeminutes.suffolk.gov.uk/>

Summary of Matters considered by the Audit Committee since December 2015

Meeting held 28 January 2016

Suffolk Fire and Rescue Service Annual Statement of Assurance (2014-15)
Performance and Risk Management Annual Report 2015
Audit Services Charter and Audit Plan Key Themes 2016/17
Anti-Fraud and Corruption
Corporate Property

Meeting held 16 March 2016

Ernst & Young Audit 2015/16 Audit Plan
Audit Services – 2016/17 Internal Audit Plan
Information Bulletin – Standards update
Audit Services Progress Report

Meeting held 18 May 2016

Ernst & Young Audit 2015/16 Audit Plan – update
Audit Services Progress Report
Audit Services – Annual Report 2015/16 including a review of the effectiveness of internal audit 2015/16
Annual Governance Statement 2015/16
Audit Services – Audit Resources
Role Profiles of Councillors with Special Responsibilities

Meeting held 13 July 2016

Ernst & Young Audit 2015/16 Audit Plan – update
Code of Corporate Governance
Information Bulletin – a briefing on the financial impact of the Better Care Fund and the financial consequences for the Council of the Government's announcement that all schools would become academies

Meeting held 30 September 2016

2015/16 Statement of Accounts Covering Report
Suffolk County Council 2015/16 Audit Results Report – ISA (UK and Ireland) 260
Suffolk Pension Fund 2015/16 Audit Results Report – ISA (UK & Ireland) 260
Unaudited Statement of Accounts
Compliments, Comments and Complaints Annual Report (incorporating a summary of the Annual Report from the Local Government Ombudsman)
Information Bulletin – Savings for Children in the Care of the Local Authority

Meeting held 29 November 2016

Annual Audit Letter for year ended 31 March 2016
End of employment matters
Suffolk Fire and Rescue Service Annual Statement of Assurance (2015-16)
Treasury Management Mid Year Report
Audit Services Progress Report

Meeting to be held 30 January 2017

Performance and Risk Management Annual Report 2016
Audit Services Charter 2017/18

Matters programmed for the remainder of the Council year:

End of employment matters

Ernst & Young 2016/17 Audit Plan

Internal Audit Planning Process and Key Themes 2017/18

Audit Services Progress Report

Contract procedures

Fraud Related Investigations

In the table below are the fraud figures for the calendar year 2016 (1 January to 31 December 2016).

The figures in the brackets are those reported for the calendar year 2015 (1 January to 31 December 2015).

The figures within 'other crime' includes such allegations as mandate fraud, cybercrime etc.

Fraud Type	b/f from 2015	2016 Number Referred (calendar year Jan 01 st 2016 to Dec 31 st 2016)	2016 Number Completed	2016 Number Proven (i.e successfully disciplined/Prosecuted)	c/f to 2017
Procurement fraud	0 (4)	5 (3)	5 (7)	5 (4)	0 (0)
Insurance fraud	0 (1)	0 (0)	0 (1)	0 (1)	0 (0)
Social care fraud	2 (0)	3 (9)	4 (7)	0 (0)	1 (2)
Economic and third sector support fraud	1 (1)	4 (1)	4 (1)	0 (1)	1 (1)
Payroll and employee contract fulfilment fraud	0 (0)	2 (2)	1 (2)	0 (1)	1 (0)
Expenses fraud	1 (0)	2 (2)	3 (1)	1 (1)	0 (1)
Abuse of position fraud	2 (2)	3 (6)	5 (6)	0 (2)	0 (2)
Theft/ Loss of Equipment	0 (2)	6 (6)	6 (8)	0 (1)	0 (0)
Other fraud	1 (1)	11 (6)	9 (6)	0 (2)	3 (1)
Total	7 (11)	36 (35)	37 (39)	6 (13)	6 (7)

A wide range of irregularities have been reported to Audit Services throughout 2016. These include:

- 1) Thefts of cash;
- 2) Thefts of personal items, assets, and intellectual property;
- 3) External fraudulent activity on a procurement card;
- 4) The invoicing for services that have not been delivered;
- 5) Misuse of direct payments;
- 6) A member of staff receiving payments for hours not worked;
- 7) Mandate fraud;
- 8) Cybercrime;
- 9) Submissions of fraudulent claims (grant funding)

Types of Fraud Related Investigation

- a) Thefts of cash;
- b) Thefts of personal items, assets, and intellectual property;
- c) A misuse of IT during working hours, including accessing inappropriate websites and excessive personal use;
- d) A member of staff driving without a valid UK driving licence;
- e) Staff submitting invoices for work undertaken during salaried working hours;
- f) Nepotism during a recruitment process;
- g) External fraudulent activity on a procurement card;
- h) The invoicing for services that have not been delivered;
- i) Misuse of direct payments;
- j) A member of staff receiving payments for hours not worked;
- k) A business making claims as part of the small grants fund when the business had actually ceased trading; and
- l) Misuse of Pyramid Funding held by a school.