

| | |
|---------------------------|---|
| Body: | AUDIT AND GOVERNANCE COMMITTEE |
| Date: | 25 TH JUNE 2014 |
| Subject: | Internal Audit Report to 31 ST March 2014 |
| Report Of: | Internal Audit Manager |
| Ward(s) | All |
| Purpose | <p>To provide a summary of the activities of Internal Audit for the year 1st April 2013 to 31st March 2014.</p> <p>To document the Internal Audit Manager's opinion of the internal control environment as required for the Annual Governance Statement.</p> <p>To consider compliance with the Public Sector Internal Audit Standards.</p> |
| Recommendation(s): | That the information in this report be noted and members identify any further information requirements. |
| Contact: | <p>Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk</p> |

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2013/14 was agreed by the Audit and Governance Committee in March 2013.

2.0 Review of work in the financial year 2013/14.

- 2.1 A list of all the audit reports issued in final from 1st April 2013 to 31st March 2014 is as follows:

| | |
|---|-------------------------|
| Theatres Reconciliations (Annual 2012/13) | Performing Inadequately |
| Treasury Management (Annual 2012/13) | Performing Excellently |
| Council Tax (Annual 2012/13) | Performing Excellently |
| Information Governance – Records Management | Performing Inadequately |
| Debtors (Annual 2012/13) | Performing Excellently |

| | |
|-------------------------------|-------------------------|
| Benefits (Annual 2012/13) | Performing Well |
| IT (Annual 2012/13) | Performing Excellently |
| Payroll (Annual 2012/13) | Performing Excellently |
| Project Management Controls | Performing Adequately |
| Cemeteries and Crematorium | Performing Excellently |
| Café Purchasing | Performing Excellently |
| Café Creditors | Performing Well |
| Creditors (Annual 2012/13) | Performing Well |
| Catering | Performing Inadequately |
| Repairs and Renewals (EHL) | Performing Excellently |
| Safeguarding | Performing Excellently |
| Community Grants | Performing Well |
| Destination Management System | Performing Excellently |
| Land Charges and Searches | Performing Well |
| Civica Icon | Performing Adequately |
| Business Continuity Planning | Performing Excellently |
| Corporate Equalities | Performing Excellently |
| HR Management | Performing Well |
| Corporate Complaints | Performing Adequately |
| Leaseholders Recharges | Performing Well |
| Tenancy Management | Performing Inadequately |
| Community Enforcement | Performing Well |

Levels of Assurance - Key

| | |
|-------------------------|---|
| Performing inadequately | Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk. |
| Performing adequately | Some important weaknesses. Key controls need to be improved. – Medium to high risk. |
| Performing well | Important strengths but some areas for improvement. – Medium to low risk. |
| Performing excellently | Major strengths. Minor or no recommendations. A good example of internal control. – Low risk. |

2.2 During this quarter one review has been issued with an assurance level of Inadequate. The reasons for this assurance level are documented in Appendix B. All four reviews given an inadequate assurance level during the year are further considered in the covering report to the Annual Governance Statement.

2.3 Appendix A shows the work carried out against the annual plan. The following comments explain the main points to be noted from the table:

- Annual audits for BDO – work has just started on this year's reviews so the total days shown are a mixture of last year's work completed in this and the start of work for this year.
- Work on Benefits has gone over the allocated time. This is due to some work which is no longer included in the grant claim but still needs to be tested. This has therefore been included in the annual review. The time allocation for the next financial year has therefore been increased.

- Work on Grant claims has gone over allocated time as extra work was required by the external auditors.
- A review of Void Management had been requested and was included in the annual audit plan. However the Senior Head of Community, in discussion with Eastbourne Homes Ltd, has agreed that this review does not now need to be carried out.
- The review of Land Charges and Searches exceeded the time allocated in the plan. This was due to both the time allocated being inadequate and issues with the level of access given to the auditor to the necessary software to adequately audit the work.
- No consultancy work was carried as planned. Consultancy from Internal Audit is a new concept for the authority and, as yet, there has been little take up of this service. This is being partially addressed in the new year plan by carrying out a few audit reviews that are a mixture of checking controls and consultancy work.
- Five reviews planned were requested to be postponed to the new financial year, most of these being because of work that is ongoing in these areas. All of these will be carried out as part of the new financial year plan.

2.4 Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Excellently", with any issues highlighted in the reviews which informed the assurance level given.

2.5 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.

2.6 Where the column "priority" in Appendix C shows "High" the outstanding recommendations, and client comments from the report, have been listed at Appendix D. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.

2.7 Appendix D was reviewed by CMT and comments from Heads of Service have been included in the final column.

3.0 Frauds over £10k

3.1 It is a requirement that frauds over £10k are reported to our external auditors. Usually such frauds are only found by the Benefit Fraud section however a request is now also sent quarterly to Eastbourne Homes Ltd to ask them to confirm whether they have been aware of any frauds over £10k within that quarter.

3.2 The Benefit Fraud section now report these frauds to Internal Audit on a quarterly basis and these are passed on to the external auditors.

- 3.3 One fraud over £10k was reported in the last quarter of 2013/14 which means that only two frauds over £10k have been reported in the financial year.

| Overpayments over £10,000 between 01/04/13 and 31/03/14 | | | | | |
|--|-----------------|----------------|-----------|--------------------|--------------|
| Suspected Fraud | Proven Fraud | Source of Info | Completed | Progress & Outcome | Over payment |
| LTAHW | Living Together | HBM S | 11-Jul-13 | Prosecution | £41,030.24 |
| LTAHW | Living Together | HBM S | 26-02-14 | Prosecution | £20,404.35 |

- 3.4. The Fraud Investigations Manager stated that there had been a total of six over £10k cases but four of these were classed as customer error. The manager believes this demonstrates that they have successful fraud awareness in place to help identify fraud at an early stage and claims are suspended promptly, when discrepancies are found, to help minimise overpayments.
- 3.5. In total the team identified £465,332.56 in overpayments and £443,360.00 in weekly incorrect benefit. They have also administered £12,864.20 in administrative penalties (16), administered 8 Formal Cautions to customers and prosecuted 13.

4.0 Annual Governance Statement and Opinion of the Internal Audit Manager

- 4.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors.
- 4.2 It is the opinion of the Internal Audit Manager that internal controls across the authority were generally found to be sound.
- 4.3 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement. Several areas were put forward for consideration and were discussed by CMT. The results are reported in the Annual Governance Statement report.

5.0 Self Assessment

- 5.1 The Public Sector Internal Audit Standards came into effect from 1st April 2013 and so this year the work of the Internal Audit section is assessed for compliance against these standards.
- 5.2 A checklist for compliance has been completed and it is found that the Internal Audit function is "generally conforming" to the standards. Of the 194 (applicable) points against which conformance is measured the following was found:

94.85% conformance
 4.12% partial conformance
 1.03% non conformance

5.3 Areas of partial or no conformance are listed in the attached table with explanations and actions to be taken where appropriate. Progress will continue on addressing the issues required to ensure better compliance and this will be reported to the committee.

6.0 Consultation

6.1 Respective Service Managers and Heads of Service as appropriate.

7.0 Resource Implications

7.1 Financial – Delivered within the approved budget for Internal Audit

7.2 Staffing – None directly as a result of this report.

8.0 Other Implications

8.1 None

9.0 Summary of Options

9.1 None

10.0 Recommendation

10.1 That the information in this report be noted and members identify any further information requirements.

Jackie Humphrey
Internal Audit Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

Public Sector Internal Audit Standards - checklist

| No/ Partial conformance | Requirement | Reason for partial/non conformance | Actions | Timescale |
|-------------------------|---|---|---|-------------------|
| No | Has the Internal Audit Manager carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance? | None have been carried out previously and some training is required in order to carry one out correctly. | The Internal Audit Manager, as secretary of the Sussex Audit Group, is currently researching options for training/mentoring on carrying out such an exercise for all the members of the group. | 6 months |
| Partial | Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team? | The Internal Audit team is small with some specialisms. It is therefore not possible to rotate all engagements. | None planned | N/A |
| Partial | Does the Internal Audit Manager hold a professional qualification, such as CMIIA/CCAB or equivalent? | The Internal Audit Manager holds the PIIA qualification which is the one below CMIIA. | The Internal Audit Manager has applied for the CMIIA qualification by the "Qualified by Experience" route. Closing date end April. Shortlist announced 23 rd May with interviews to be held at the end of June followed by a decision being made. | 4 months |
| Partial | Has the Internal Audit Manager agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive? | The external assessment has to be carried out within 5 years. One has not yet been undertaken so these requirements will be met but not until the assessment is undertaken. | The Audit and Governance Committee have been informed of the need for an external assessment. The discussions around possible options will be reported to the committee in the end of year report. | Before April 2018 |
| Partial | Has the Internal Audit Manager agreed the scope of the external assessment with | The external assessment has to be carried out within 5 years. One has not yet been | These are being discussed with the Sussex Audit Group since there is no adequate | Before April 2018 |

| | | | | |
|---------|---|---|---|-------------------|
| | the external assessor or assessment team? | undertaken so these requirements will be met but not until the assessment is undertaken. | information being provided by CIPFA on how these reviews should be undertaken. | |
| Partial | Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? | The external assessment has to be carried out within 5 years. One has not yet been undertaken so these requirements will be met but not until the assessment is undertaken. | Part of the decision will be made on a cost/benefit basis. | Before April 2018 |
| Partial | How has the Internal Audit Manager used his or her professional judgement to decide whether the assessor or assessment team demonstrate sufficient competence to carry out the external assessment? | The external assessment has to be carried out within 5 years. One has not yet been undertaken so these requirements will be met but not until the assessment is undertaken. | These are being discussed with the Sussex Audit Group since there is no adequate information being provided by CIPFA on how these reviews should be undertaken. | Before April 2018 |
| Partial | Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs. | The external assessment has to be carried out within 5 years. One has not yet been undertaken so these requirements will be met but not until the assessment is undertaken. | Part of the decision will be made on a cost/benefit basis. | Before April 2018 |
| Partial | Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud? | This has not been carried out in any formal way but high level risk areas are considered when putting together the annual audit plan. | The authority is currently considering setting up a Corporate Fraud team and this would be part of their remit. | April 2015 |