

**Body:** AUDIT AND GOVERNANCE COMMITTEE

**Date:** 3rd DECEMBER 2014

**Subject:** Internal Audit Report to 30<sup>th</sup> September 2014

**Report Of:** Internal Audit Manager

**Ward(s)** All

**Purpose** To provide a summary of the activities of Internal Audit for the second quarter of the financial year 2014/15.

**Recommendation(s):** That the information in this report be noted and members identify any further information requirement and timescales.

That the committee consider and rank, in terms of importance, the outstanding reviews.

That the committee consider and agree the updated Anti-Fraud and Corruption Policy and the new Corporate Fraud Strategy.

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## **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 2014/15 was agreed by the Audit and Governance Committee in March 2014.

## **2.0 Review of work in the second quarter of the financial year 2014/15.**

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April to 30<sup>th</sup> September 2014 is as follows:

Benefits (Annual 2013/14)	Performing Well
Cash and Bank (Annual 2013/14)	Performing Excellently
Council Tax (Annual 2013/14)	Performing Excellently
Creditors (Annual 2013/14)	Performing Excellently
Debtors (Annual 2013/14)	Performing Excellently
Main Accounting (Annual 2013/14)	Performing Well
NNDR (Annual 2013/14)	Performing Excellently

Payroll (Annual 2013/14)	Performing Excellently
Treasury Management (Annual 2013/14)	Performing Well
IT (Annual 2013/14)	Performing Excellently
Theatres Reconciliation (Annual 2013/14)	Performing Well
Events	Performing Adequately
GIS LLPG	Performing Adequately
Daily Cash Reconciliations	Performing Well
Risk Management	Performing Well
Housing Rents (Annual 2013/14)	Performing Excellently
Tourist Information Centre	Performing Adequately
BACAS Cemeteries System	Performing Excellently

### 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 Appendix A shows the work carried out against the annual plan to the end of September 2014. The following comments explain the main points to be noted from the table:

- Annual audits for BDO – The number of days taken to carry out the work currently refers to work which relates to the last financial year but which was carried out in this year.
- Government Connect – this was originally carried out as four separate reviews but these were collated into one this year. The review took longer than was anticipated.

2.3 It should be explained that it is highly unlikely that all the reviews on the plan will be completed this year. This is due to the IT Auditor leaving, the new member of staff being trained and work being undertaken to set up the Corporate Fraud team.

The IT Auditor could not begin new reviews before her departure but did complete what had been started and collated some working programmes for our future use. The work that she carried out on the National Fraud Initiative has been passed to another Internal Auditor and has, consequently, slightly impacted on their time in carrying out their own reviews.

The Internal Audit Manager is training the new Auditor which limits time which could be spent on trying to complete other reviews on the plan. Added to this is the time spent on ensuring that plans are progressing in setting up the new Corporate Fraud team.

After Christmas work must begin on the annual reviews which must be completed for the external auditors to review.

At this stage it is not yet possible to state exactly how much will not be completed. The work listed in Appendix A is to the end of September and work has since been commenced on other reviews.

Below is a list of reviews not yet commenced in order of risk based on the risk assessment carried out at the end of the last financial year.

<b>RISK LEVEL AND SCORE</b>	<b>REVIEW</b>	<b>LAST AUDITED</b>
Medium - 31	Leasing and Licensing	March 2011
Medium - 30	Planning System	New system not audited
Medium - 28	Waste	August 2005
Medium - 24	Customer Contact	Not previously audited
Medium - 24	Internet Controls	September 2006
Low - 19	Change Controls	December 2009
Low - 17	Elections Computer System	March 2004
Requested after plan	Backup and Storage	Not previously audited
Requested after plan	Right to Buy (EBC side)	Not previously audited

Points to note are:

- Change Controls and Elections Computer Systems are both low risk but were included in the plan because of how long ago they were last audited.
- Waste contract was last specifically audited in 2005. However, since that date other cross cutting reviews of contracts have been undertaken.
- Backup and Storage and Right to Buy did not appear on the original plan but were requests for work early in the financial year.

If the committee agrees then any time available will be spent on reviews in the order in which they have been listed above. It can be assured that any reviews which are not carried out this year will automatically be transferred into next year's audit 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. NB. These are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed.
- 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.

There are just three items to point out in Appendix C. The first is Corporate Complaints. A follow up is actually overdue. However, there needs to be a

critical mass of cases in order to carry out testing. As this has not been reached the follow up has been postponed until December.

Secondly, a review was also due for Business Continuity Planning. Progress on this was awaiting the outcome of talks with iESE and Lewes. Discussions are currently ongoing with Lewes.

Lastly, the original review of Records Management was carried out in April 2013. A further review has been carried out by a consultant and requires substantial work to put in place. It is therefore proposed to not carry out any further follow ups but to undertake a new review once the new processes are in place.

- 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. Appendix D is designated as "Confidential" to reduce the risk of opportunities to commit fraud. 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.

### 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 benefit fraud of over £10k was reported in the second quarter of 2014/15. The details are given below:

Overpayments over £10,000 between 01/07/14 and 30/09/14					
Suspected Fraud	Proven Fraud	Source of Info	Completed	Progress & Outcome	Over payment
Undeclared Capital	Undeclared Capital	Anon letter	04-09-14	Proven-being repaid	£13,380.05

### 4.0 Corporate Fraud

- 4.1 Work has been ongoing to prepare for the transfer of staff from the Benefit Fraud team to the new Corporate Fraud team as of 1<sup>st</sup> November.

The Fraud Investigations Manager has been working on updating job descriptions and person specifications for the team and these are currently with HR.

- 4.2 The Anti Fraud and Corruption Policy has been updated to reflect the new

team and is attached for approval. The amendments are just the addition of references to the new team and a whole paragraph under section 3 on page 9 of the policy.

- 4.3 Additionally a Corporate Fraud Policy (see attached) has been written to explain the culture, objectives and role of the Corporate Fraud team. It also states how work will be monitored and reported and lists the areas within the scope of work to be carried out. This policy will be reviewed annually.

Currently there are areas of work such as the remit of the SPOC post and the work on Housing Benefits Pensions that have not yet been clarified by the DWP. It is therefore requested that the policy be adopted as it currently stands and once better information is received from the DWP the policy will be fully updated and brought back to the committee for approval.

- 4.4 Progress against the action plan included in the report to committee in September is attached at Appendix G.

## **5.0 Eastbourne Homes Limited**

- 5.1 Eastbourne Homes are currently considering options for provision of Internal Audit Services as their current contract is nearing the end of its term. The Council's Internal Audit function has been requested to provide a business case to propose providing this service. If the proposal is accepted it is anticipated that a 0.5 FTE would be required to cover the extra audit work. Audit plans would take into account both areas of work for reporting purposes.

## **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 requirement and timescales.

That the committee consider and rank, in terms of importance, the outstanding reviews.

**Jackie Humphrey**  
**Internal Audit Manager**

**Background Papers:**

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

*None*