

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER: **J135**

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING: 17 November 2009

INTERIM INTERNAL AUDIT AND FRAUD TEAM REPORT 2009/10

1. **PURPOSE OF REPORT**

1.1 The purpose of this report is to inform Members of the work undertaken by the Internal Audit and Fraud team for the period 1st April to 30th September 2009.

2. **RECOMMENDATION**

2.1 That the content of the Interim Internal Audit and Fraud team report for 2009/10 be noted and endorsed.

The Committee is able to resolve this matter.

3. **FINANCIAL IMPLICATIONS**

3.1 None.

4. **RISK MANAGEMENT**

4.1 This report is most closely linked with the Council's Significant Business Risk No. 7 – Financial, Performance & Risk Management. Key risks are set out below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Internal controls within the Council may not be efficient & effective and as a result the Council may not be identifying significant weaknesses that could impact on the achievement of Council aims and priorities and/or lead to financial loss or inefficiency.	Low	Critical (Potentially)	Members receive and approve the internal audit work programme together with other reports throughout the year. External Audit reviews the work of the section.

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Failure to take a proactive stance against fraud and corruption would expose the Council to financial risk and loss of reputation.	High	Critical	<p>The Council promotes a strong ethical culture and is clear about how it expects its staff and Members to behave. There is a strong control framework in place which includes:</p> <ul style="list-style-type: none"> ▪ Corporate Risk Register; ▪ Anti-Fraud and Corruption and Whistleblowing Policy; ▪ Financial Procedures and Regulations; ▪ Procurement & Contract Procedure Rules; ▪ Other individual divisional procedures – working manuals; ▪ Codes of Conduct for staff and Members; ▪ Complaints Procedure; and ▪ The Constitution of the Council.

5. **KEY INFORMATION**

BACKGROUND

- 5.1 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code), which has been deemed as proper practice under the Accounts and Audit Regulations 2003, states under Standard 10 – Reporting, that in addition to the annual report, the Head of Internal Audit should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report.
- 5.2 Management is responsible for the systems of internal control within the Council and should have in place policies and procedures to help ensure that systems function correctly.
- 5.3 It is the role of Internal Audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management and corporate governance. This is achieved by undertaking audits across the full range of the Council’s functions in accordance with a risk based audit plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.

- 5.4 It is important that this Committee challenge, in their role as the Audit Committee, the work and any progress reports undertaken by the Internal Audit and Fraud team, and also to consider whether there are any areas where the Committee may want specific feedback on.

REVIEW OF THE WORK UNDERTAKEN BY THE INTERNAL AUDIT AND FRAUD TEAM FOR THE PERIOD 1ST APRIL TO 30TH SEPTEMBER 2009

Internal Audit work

- 5.5 An overview of the work of Internal Audit for the first six months is set out in Appendix A. It should be noted that due to Internal Audit's increasing involvement in corporate work, a number of audits are currently work in progress. Several of these are near completion and are currently undergoing internal and report clearance quality review processes. These are listed in Appendix A, section 1.3. The results of these audits will be included within the Annual Internal Audit Report to this Committee next year.
- 5.6 All reports with an audit opinion have been assessed as '*Acceptable – significant assurance can be given that there is generally sound systems of control in place*', with the exception of Information Technology. Members are advised that Management have acted swiftly to put in place actions to address the issues raised. Internal Audit will follow up on these actions later in the year.
- 5.7 Members are advised that the core financial systems and fundamental review work were started in September and October and are now substantially complete. These have been reported as work in progress. See Appendix A, section 1.3.
- 5.8 Members are reminded that in the Annual Internal Audit Report 2008/09 (Paper J21) it was reported that all 'Not Fully Acceptable' audits had been followed up and the issues reported had been fully resolved to audit's satisfaction.

Corporate Work including Advice and Assistance

- 5.9 Within the period there has been a high demand for Internal Audit's involvement in corporate work due to the section's skills and expertise. During the first six months of the financial year 2009/10 this aspect of the section's work has included the following:
- Significant involvement in gathering information and liaising with various staff regarding the Audit Commission's Use of Resources annual self assessment for 2009. This was a significant piece of work in terms of the time and effort required, and the resulting outcomes;
 - Internal Audit drafted the Annual Governance Statement (AGS) that was presented to this committee on 23rd June 2009 (Paper J44). Members will be aware that the AGS is a relatively new document (first required for 2007/08) that the Council is required to prepare and publish annually to meet the requirements of the Accounts and Audit Regulations covering the six laid down core governance principles, which the Council has to judge itself against. To support the production of the AGS, Internal Audit carried out a comprehensive and detailed review of the Council's assurance framework, key documents and processes to assess their effectiveness. Production of the AGS is a significant piece of work and was well received by both officers and by PKF, the Council's external auditors. The message to be taken from the work undertaken on the AGS is that Babergh's arrangements are fundamentally sound.

- Attendance at Management Team (MT) meetings to brief senior managers in relation to the outcomes of work undertaken by the section where corporate issues are covered, e.g. Risk Management.

Work undertaken by the Fraud Team

5.9 The following fraud work has been undertaken so far this year. This is not part of the Internal Audit Plan:

- Audit & Fraud Investigation Officers have assisted colleagues from Housing, Council Tax, and other areas with advice and work in respect of issues arising. The Senior Audit & Fraud Investigation Officer has been involved in wider issues than just benefit fraud. This includes responsibility as the Council's Key Contact for NFI (from the previous Audit Manager) and is working alongside the current Acting Audit Manager to identify areas to target anti-fraud and corruption work and awareness training to ensure a pro-active approach to all potential frauds is adopted.
- Work is progressing on raising fraud awareness within the Council. This work includes a Fraud Awareness Survey for staff to complete; promoting anti-fraud and corruption; and work on CIPFA's Managing the Risk of Fraud: checklist of best practice arrangements, as well as the Audit Commission's Protecting the Public Purse checklist.
- A report on actions and progress, linked to the Use of Resources Improvement Plan, will be presented to this Committee later in the year and will include an update on those actions proposed in January 2009, (Paper H177).
- The Fraud team is currently working on the results of the National Fraud Initiative (NFI), a national data matching exercise carried out by the Audit Commission, matching information nationally from public service databases. This exercise helps to provide assurance that the Council has effective procedures in place to prevent fraud, while at the same time identifying potential fraudulent matches where people may be receiving benefits, payments or services from more than one public body, for which they might not have a valid entitlement.

A total of 1,664 matches were identified. As at 30th September 2009 a total of 615 data matches have been checked and processed, this includes all 158 recommended priority matches. Of the 615 data matches checked, the Fraud team have proven 7 cases of fraud that were sanctioned with benefit overpayments totalling £27,400. A number of other cases are currently under investigation. Other matches are awaiting further clarification from other agencies such as DWP before being progressed.

Two further data match sets will occur during 2009-10. A new one matching Social Housing Data against tenancy data. This was previously a pilot exercise that the government has now decided to roll out nationally. Local Authorities are expected to carry out a lot of work, previously not undertaken in this area. There is also a new Council Tax/Electoral Registration match due to take place on 29 January 2010.

- Benefit referrals for the first 2 quarters of 2009-10 totalled 283. Should this trend continue through the year, this would result in an increase of between 15-20% more referrals than 2008-09. At a time of economic downturn it would be usual for higher levels of referrals, as well as an increase in data matches produced from NFI and HBMS to occur. These are being managed within existing resource levels and demonstrate the commitment of the Council and in particular, the Fraud team, to counter fraud and corruption. The amount of all benefit overpayments discovered by the Fraud team, including the £27,400 mentioned above, for the first 2 quarters of 2009-10 totalled around £90,000¹.
- The number of benefit fraud sanctions as at the end of the first 2 quarters of 2009-10 totalled 28. This is on course for an increase of between 15-25% on sanctions achieved in 2008-09. The number of prosecutions is expected to decrease slightly due to the increase in the cash levels for automatic prosecution consideration. Members agreed the threshold change in the Housing Benefit and Council Tax Benefit Prosecution Policy last year from £1000 to £2000.

PERFORMANCE

Utilisation of Internal Audit Time

- 5.10 Most of the internal audit team's resources are now procured from Suffolk County Council through the joint working agreement. The arrangement with Suffolk County Council allows greater flexibility of staff, joint training and potential to use the County's audit management software, Galileo. This is producing savings compared to the establishment budget. As noted in this report, there have been, and continue to be, increasing demands placed on the section in terms of the level of contribution required to corporate areas such as Corporate Governance, Use of Resources and Risk Management.
- 5.11 The aim, however, is to complete all of the priority 1 Audit Plan work, plus the risk management and corporate governance work. This has been agreed with the Director of Finance. Internal Audit is on track to achieve this.
- 5.12 Taking into account expected future progress against the Audit Plan, Internal Audit consider they will be able, as last year, to deliver a reliable audit opinion on the effectiveness of internal controls to this Committee in their Annual Internal Audit Report next year.

Partnership Working

Suffolk Working Audit Partnership (SWAP)

- 5.13 Internal Audit actively contributes to the SWAP. This partnership allows local authorities in Suffolk to share resources, knowledge and experience regarding internal audit issues in order to identify and promote the adoption of best practice, primarily through an extranet facility. The partnership identifies common training needs and initiates joint training where necessary.

¹ The Council receives a 40% subsidy for overpayments discovered in respect of fraud and claimant error on top of the amount the Council can recover.

Shared Services

- 5.14 The Suffolk Chief Executives have identified internal audit as one of the services that could be delivered more efficiently across all Councils through a shared approach. Initial discussions with other Councils have proved positive, and it is hoped that this can be developed further.

Suffolk Risk Managers' Forum

- 5.15 This recently formed forum plans to meet on a quarterly basis. Similar to the SWAP, this forum allows authorities in Suffolk to share knowledge and experience regarding risk managements arrangements, to help and promote the adoption of best practice, and join forces where possible for training opportunities.

6. **APPENDIX**

A – Summary of Internal Audit reports issued as at 30th September 2009.

7. **BACKGROUND PAPERS REFERRED TO**

None.

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Summary of Internal Audit Reports Issued As At 30th September 2009

1. Introduction

- 1.1 The following sections contain a brief summary of the contents of the internal audit reports issued during the first half of the financial year. Each summary provides the auditors opinion and key messages arising from the reviews. A key to these opinions can be found at the end of this Appendix, at Section 7.
- 1.2 It should be noted that a significant amount of other work has also been undertaken during the period which does not reflect in the issue of an audit report, including corporate and risk management work outlined in the body of this committee report.
- 1.3 It should also be noted that work on a number of audits is substantially complete but it has not been possible to complete internal quality review and finalise reports in time to report to this Committee. These reports, listed below, will be summarised within the Annual Internal Audit Report to this Committee next year.
- Creditor Payments
 - Benefit Assessment
 - Benefit Overpayment
 - General Ledger
 - Payroll/HR
 - Corporate review of Financial Management
 - Cash & Bank
 - Local Taxation
 - Data Quality
 - Joint Refuse Contract

2 Business Continuity

Audit Opinion – Consultancy Work

- 2.1 The Council has produced a Local Authority Business Continuity Plan which took effect from 1st April 2009. The plan will be reviewed annually, and when legislation or best practice guidance necessitate review action.
- 2.2 Internal Audit reviewed the current action plan against the standard expected controls as set out in the CIPFA control matrices.
- 2.3 Should identified actions as set out within the Action Plan agreed by the Business Continuity Management Group be implemented, audit requirements with reference to CIPFA matrices will be achieved.
- 2.4 Internal Audit will include a review of the Business Continuity Plans in their audit plan for next year.

3 Safeguarding Children

Audit Opinion - Acceptable

- 3.1 An audit of safeguarding children was undertaken as an additional piece of work to the audit plan for 2009/10.

- 3.2 The subject matter of safeguarding children has assumed much greater prominence recently given the publicity following the 'Baby P' tragedy. Whilst the main impact is likely to be in Councils providing Children's Services. (Suffolk County Council). Section 11 of the Children Act 2004 places a duty on key people and bodies (which includes local authorities) to make arrangements to ensure their functions are discharged with regard to the need to safeguard and promote the welfare of children.
- 3.3 It is evident, after a review of practices in place at Babergh District Council, that there is an awareness of the importance of Safeguarding Children, with reported incidents following guidance.

4 Strategic Procurement Framework Audit Opinion - Acceptable

- 4.1 The purpose of the audit was to review the progress of embedding the Procurement Strategy & Framework 2008-11 against the three key themes of: *Achieve savings and efficiencies – Improve Value for Money; Support the Local Economy; and Sustainability.*
- 4.2 The audit found there is evidence that the strategy is being embedded through a working action plan, and the plan is being updated and reported to Management Team on a regular basis by the Procurement Task Group.
- 4.3 Areas for improvement included:
- 'Actions' contained within the original action plan were not checked to ensure they had all been correctly reflected in the working action plan;
 - On occasions the 'Progress to Date' detailed within the working action plan did not clearly link to the 'Action' detailed on the original action plan.

5 Section 106 Agreements Audit Opinion – Consultancy Work

- 5.1 Currently the systems and processes for processing Section 106 Agreements are ad hoc and have evolved historically. Several different departments are involved in the process, which has resulted in the systems, and processes being somewhat disjointed. A working group has been set up and tasked with reviewing the systems and processes within Section 106 Agreements.
- 5.2 Internal Audit would normally provide an overall audit opinion as part of the reporting process. However, the audit has been approached in two parts as follows:
- 5.3 Part One – Internal Audit has worked in consultation with the working group. Internal Audit has documented, in the form of a map, the internal controls it would expect to see across the various Section 106 processes and functions for both HS32 (Small developments (Housing sites less than 1.5 hectares)), and all other Section 106 Agreements (including larger Section 106 Agreements).
- 5.4 Part Two – Following the implementation of controls introduced by the working group, Internal Audit will undertake a full review including testing of Section 106 Agreements to ensure compliance with the new processes.
- 5.5 This is an interim report stating the progress to date. Once the second part of the audit is undertaken, following the embedding of the new system, an audit opinion will be provided.

5.6 Internal Audit has passed the map of internal controls to the working group. It is planned that the working group will undertake a gap analysis later in the year, which will involve comparing what systems and processes are currently in place to the internal control maps produced by Internal Audit. A set of procedures will then be established and documented for implementation. It is intended that to complete part one of the review Internal Audit will review the new systems and process procedure notes to provide assurance.

6 Information Technology Audit Opinion – Not Fully Acceptable

6.1 Information Technology is one of the Council's essential business tools.

6.2 The increasing scrutiny nationally of the management and security of data has resulted in an increased focus on how the public sector manages its confidential and critical data held on its customers.

6.3 The purpose of the audit was to review the policies adopted at Babergh District Council against the Local Government Data Handling Guidelines.

6.4 This review encompassed not only electronically held data but also manual files held within the Authority.

6.5 In addition, Babergh District Council's position was reviewed against the Governments' initiative on safer information and safer recruitment.

6.6 Key areas where improvements are required include:

- A clear desk policy is in place but is not being adhered to.
- There is not a corporate awareness of the amount and organisations to which data is transferred.
- It could not be identified that the Council's contracts with suppliers include terms relating to the use and handling of data on behalf of the Council. The recent contract for responsive repairs was looked at in detail.

6.7 Management have put in place actions to address these issues. Internal Audit will follow up on these actions later in the year.

7 Audit Opinion

Internal Audit reaches an overall audit opinion as part of the reporting process.

When determining the opinion the following is taken into account:-

1. The risk assessment,
2. The controls over the system,
3. The results of the testing of the controls over the system.

The audit opinion is broadly classified into one of the following four categories:

High Standard Full assurance can be given that there is a sound system of internal control and that controls are being consistently applied in all the areas reviewed;

Acceptable Significant assurance can be given that there is a generally sound system of internal control, and that controls are generally being applied consistently. However, there is weakness in the design and/or inconsistent application of control;

Not Fully Acceptable	Limited assurance can be given as there are weaknesses in the design, and/or inconsistent application of controls, in a number of areas reviewed;
Poor	No assurance can be given as there are weaknesses in control, and/or consistent non-compliance with controls, in the areas reviewed.