

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>18 MARCH 2014</b>
<b>TITLE OF REPORT:</b>	<b>INTERNAL AUDIT PROGRESS REPORT</b>
<b>REPORT BY:</b>	<b>INTERNAL AUDIT - FINANCE</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this Internal Audit Report is to update Members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

### **Recommendation**

**THAT subject to any comments the Committee wishes to make the report be noted.**

### **Key Points Summary**

- Audit Services is in the process of completing audits that have been set out within the Internal Audit Plan for 2013/14. We have finalised a number of audits, including those on the Procurement, NNDR and Council Tax, Housing Benefit functions and an audit of the Council's arrangements against ISO 27001. We have also completed our on-site work and issued draft reports in other areas such as Access Controls (Academy/IDOX).
- The remaining audits within the plan are currently being completed or being agreed with officers.
- Audit Services is continuing to provide support, guidance and information in a number of areas to Council Officers in respect of specific reviews. We have provided further information on these areas at paragraphs 14 to 15.

### **Alternative Options**

1. This report is for information and therefore alternative options are not applicable.

### **Reasons for Recommendations**

2. To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

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Further information on the subject of this report is available from  
Darren Gilbert – Head of Audit Services on (01432) 260425

## Introduction and Background

3. The purpose of this report is to ensure that the Committee is informed of the status of internal audit work and any key internal control issues identified from work completed.

## Key Considerations

### Audit work completed

4. The Internal Audit plan for 2013/14 was approved by the Audit and Governance Committee on 13 May 2013. We have set out the number and type of audit reviews to be completed in Appendix 1.
5. We have completed and finalised nine audits. We issued "Substantial" audit opinion reports over the Council's NNDR and Council Tax, Benefits and ISO 27001 functions.
6. We issued "Adequate" audit opinion reports over the Council's Treasury Management and Procurement functions. We noted that while some improvements could be made in these areas, no major areas for development were identified.
7. We issued "Limited" Assurance reports over the Council's Data Protection, Public Health (Food Hygiene) and Income Collection (Industrial Lets) functions.
8. We previously reviewed the Council's Data Protection function in 2013 and we graded the area as providing "Limited Assurance". As part of our current review we noted that while the Council has made good progress in improving data protection controls and processes since our initial review, further work was required to ensure that a fully effective control framework is in place that prevents breaches of the Data Protection Act 1998 ("the Act"). Further work is required to ensure that the Council understands the type of information that it holds to ensure compliance with the Act. The Council is aware of the actions that it needs to take and has a plan in place that seeks to ensure compliance over the forthcoming year.
9. In 2013 we reviewed the process and controls which the Council has in place to ensure income due for the rent of its Industrial Buildings was fully collected in a timely manner. We reported that significant work was required in this area to ensure rents were being collected promptly. Our sample testing in 2013 found two instances where charges had been raised incorrectly totalling £8k. The errors were corrected promptly. Additionally, as a direct result of our previous review another error was identified and an additional £168k was collected by the Council. As part of our current review of this area we noted that while some progress has been made in income collection process, robust controls have still not been implemented which ensure that all rental income due to the Council is being billed and collected. As part of our testing we again found an example of where income was not being collected as required. The three recommendations which we made in 2013 remain outstanding and further work is required to ensure that an effective control framework is in place in this area.
10. We reviewed the Council's Public Health (Food Hygiene) function in 2013 and issued a "Limited" Assurance opinion. We graded the function as providing "Limited Assurance" on conclusion of our current follow up review. The Council's compliance with relevant legislation and statutory Codes of Practice in relation to food safety and food hygiene has improved and good progress has been made against the recommendations made in our previous audit. However, we have noted that one significant area of non-compliance still exists; this is in respect of the Council's ability to complete a full programme of food hygiene inspections each year in line with the Food Law Code of Practice. We noted a specific decision has been made by management and endorsed by the Council's Regulatory Committee where the Environmental Health (Commercial) Team will undertake a reduced inspections programme using a risk based

approach, with higher risk food establishments taking priority. Although this means the Council is planning to not comply fully with the Code, this is nevertheless a decision that has been reached transparently and taking account of the Council's challenging financial position. It does, however, increase the risk that the Council may not prevent or detect events or circumstances that could compromise the health and wellbeing of individuals, groups and the community as a whole. This risk was recognised in the report that was presented to the Regulatory Committee in June 2013 on the proposed food hygiene inspection programme for the current financial year. Given its significance, it is important that the Council keeps this decision under regular review.

11. We are due to issue draft reports on the Council's General Ledger, IT Strategy, Creditors and Payroll functions shortly. We have also commenced on site work on the following audits:
  - Budgetary Control;
  - Schools;
  - Transport team;
  - Anti-Fraud and Corruption (Hot Topics); and
  - Savings and Benefit Realisation.
12. Once these reports have been issued and finalised we will report any significant issues arising from these reviews to future meetings of the Audit and Governance Committee.
13. We are in the process of agreeing the remaining audits set out within the Internal Audit Plan with Council officers.

#### **Other Audit Input**

14. Audit Services has also reviewed the systems and controls the Council has in place over the Troubled Families Grant process and has issued a draft report in this area to officers. One of the conditions of the grant paying body was that there is an appropriate internal audit assurance mechanism in place to support the periodic returns the Council has to submit.
15. Audit Services is also completing work on the process and controls which the Council has in place over Social Care payments. This review will also focus on how the Council ensures that an effective relationship exists with other stakeholders, such as the Clinical Commissioning Group.

#### **Community Impact**

16. This report does not impact on this area.

#### **Equality and Human Rights**

17. This report does not impact on this area.

#### **Financial Implications**

18. There are no Financial Implications.

## **Legal Implications**

19. There are no Legal Implications.

## **Risk Management**

20. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.

## **Consultees**

21. The SLT and the Section 151 Officer were consulted in the drafting of this report.

## **Appendices**

Appendix 1 – Status of Audit Plan 2013/14

Appendix 2 – Audit Opinions – Definition of Assurance Grading

Appendix 3 – Rating of Recommendations

## **Background Papers**

22. None

## Appendix 1 – Status of Audit Plan 2013/14 – March 2014

Note: The scope and timing of audits is subject to confirmation and the agreement of the Project Sponsor.

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
<b>Core Support Systems</b>					
Payroll	In progress	-	-		
Creditors	In progress	-	-		
Treasury Management	Final Report issued	Adequate	-	2	2
Income Collection (Follow up)	November 2013	Limited	1	-	-
General Ledger	In progress	-	-		
Council Tax/NNDR	Final Report issued	Substantial	-	-	2
Benefits (Housing and Council Tax)	Final Report issued	Substantial	-	-	-
Asset Register	In progress	-	-		
Procurement	Final Report issued	Adequate	-	4	2
Transport Team	In Progress	-	-		
Root and Branch (Governance)	-	-	Project no longer in place, audit resource moved to complete other audit reviews.		
Health and Safety	April 2014	-	-		
Business Continuity	April 2014	-	-		
Legal Services	April 2014	-	-		

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
<b>IT Systems</b>					
ISO 27001 Information Security	Final Report issued	Adequate	-	-	5
Access Controls review - Agresso, Academy, ISIS and Abacus	April 2014	-	-		
Data Protection (Follow Up)	Final Report issued	Limited	-	1	2
IT Strategy	In Progress	-	-		
<b>Anti-Fraud Systems</b>					
Anti-Fraud and Corruption – Hot Topics and Risk Areas	In progress	-	-		
<b>Governance Systems</b>					
Risk Management	April 2014	-	-		
Performance Management	April 2014	-	-		
Savings and Benefits Realisation	In progress	-	-		
Audit Commission – Anti-Fraud Return	Completed	N/A	N/A		
<b>Operational Systems – Directorates</b>					
Places and Communities - Public Health – Food Licensing (Follow Up)	Final Report issued	Limited	Follow Up Review		
Places and Communities – Highways Contract Management	April 2014	-	-		
Places and Communities – Delivery of Projects funded by the Skills Funding Agency	April 2014	-	-		

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
Places and Communities – Broadband rollout – project and financial management	In Progress	-	-		
Places and Communities - HALO	March 2014	-	-		
Places and Communities - Homelessness & Housing	April 2013	-	-		
Corporate Services - Digital channels project	In Progress	-	-		
<b>Schools</b>					
Financial Management	In progress	-	-		

## Appendix 2 – Audit Opinions – Definition of Assurance Grading

Conclusion	Definition
<b>No assurance</b>	One or more priority one recommendations and fundamental design or operational weaknesses in more than one part of the area under review (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
<b>Limited assurance</b>	One or more priority one recommendations, <b>or</b> a high number of medium priority recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in a significant exposure to reputation or other strategic risks).
<b>Adequate assurance</b>	One or more priority two recommendations (i.e. that there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
<b>Substantial assurance</b>	No or priority three only recommendations (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).



### Appendix 3 – Rating of Recommendations

At the last Audit and Governance Committee Members requested further clarification on how audit recommendations are graded. We detail below how we assess the importance of recommendations which we make. Within the table we also set out how we can apply these priorities to recommendations we could make in a particular audit. This example is a review of Health and Safety.

Priority	Definition	Health and Safety Example Audit
<b>Red</b> <i>(Priority 1)</i>	A <b>significant</b> weakness in the system or process which is putting the Council at <b>serious risk</b> of not achieving its <b>strategic</b> aims and objectives. In particular: significant adverse impact on <b>reputation</b> ; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the Council's strategic risks will occur. Any recommendations in this category would require <b>immediate attention</b> .	Issues that result in non-compliance with Health and Safety Legislation, i.e. No Health and Safety Policy in place.
<b>Amber</b> <i>(Priority 2)</i>	A <b>potentially significant</b> or <b>medium level</b> weakness in the system or process which <b>could</b> put the Council at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the Council's reputation or for raising the likelihood of the Council's strategic risks occurring, <b>if not addressed</b> .	Issues that may result in non-compliance with Health and Safety legislation if not corrected or improved, ie Health and Safety Policy in place, however, incomplete in one or two sections.
<b>Green</b> <i>(Priority 3)</i>	Recommendations which could <b>improve</b> the efficiency and/or effectiveness of the system or process but which are <b>not vital</b> to achieving the Council's strategic aims and objectives. These are generally issues of <b>good practice</b> that we consider would achieve better outcomes.	Issues that are best practice, ie Health and Safety Policy in place, however, could be subject to minor improvement, such as listing new job titles for staff.