

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>29 JUNE 2010</b>
<b>TITLE OF REPORT:</b>	<b>AUDIT SERVICES ASSURANCE REPORT 2009/10</b>
<b>OFFICER:</b>	<b>CHIEF INTERNAL AUDITOR</b>

**CLASSIFICATION:** Open

## **Wards Affected**

County-wide

## **Purpose**

The purpose of the Interim Assurance Report is to update members on the status of various items of work and bring to their attention any key internal control issues.

## **Key Decision**

This is not a Key Decision.

## **Recommendation**

**THAT subject to any comments the Audit & Governance Committee wish to make the report be noted.**

## **Key Points Summary**

- Ten key issues were identified in the Council's 2009 Annual Governance Statement (Appendix 1 refers).
- There are currently 14 Committee Resolutions that are open (Appendix 2 and 3 refers);
- Four audit reviews were given a marginal audit opinion, one an unsatisfactory audit opinion and one an unsound audit opinion;
- Initial National Fraud Initiative (NFI) work is complete, however it has been a time consuming exercise.
- There are improvements in the progress made by schools in relation to the Financial Management Standard.
- Corporately progress on Good Environmental Management (GEM) audits will need to improve.
- The Council's internal control environment has been given a satisfactory audit opinion by the

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Further information on the subject of this report is available from  
Tony Ford Chief Internal Auditor on (01432) 260425

Chief Internal Auditor.

- The overall rating of internal audit from the CIPFA Audit Customer Satisfaction Survey was good.

## **Alternative Options**

1. There none as this report is for information purposes in compliance with the Code of Practice and the Audit and Governance Code,

## **Reasons for Recommendations**

2. To ensure compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, and the Audit and Governance Code.

## **Introduction and Background**

3. To ensure that the Committee is informed of progress on the Audit Plan and any key internal control issues identified.

## **Key Considerations**

### **Key Issues Identified in 2008/09**

4. The Audit and Governance Committee considered the Annual Assurance report for the year ending 31<sup>st</sup> March 2009 on 19<sup>th</sup> June 2009 at the same time the Committee reviewed and adopted the Annual Governance Statement. The key issues identified for improvement are set out in Appendix 1 along with the comments of the lead officer regarding the current position.

### **Audit and Governance Committee Resolutions**

5. Regarding resolutions made by the Committee from May 2007 to June 2008 (Appendix 2 refers) there are four open and ongoing following the last meeting held on 12<sup>th</sup> March 2010. Replies received from relevant officers have been included in the updated version of the appendix.
6. With reference to resolutions made by the Committee from July 2008 to date (Appendix 3 refers) there are ten open and ongoing following the last meeting held on 12<sup>th</sup> March 2010. Replies received from relevant officers have been included in the updated version of the appendix.

### **Fundamental Systems**

7. The Council's target is that all fundamental systems achieve at least a satisfactory audit opinion. All fundamental systems reviewed were given a good or satisfactory audit opinion.

### **Non Fundamental Systems**

8. There were ten reviews at various stages of progress, with seven being finalised. Of the seven finalised the report on Trade and Domestic Waste was given a Marginal Audit opinion. Although the current Waste Operations Officer has started and continues to improve procedures there was the need for improvements regarding stock control, monitoring of charges and income control. In line with the Council's Financial Procedure Rules the Leader, Chair of the Audit and Governance Committee and Cabinet Member – Environment and Strategic Housing have been sent a copy of the report. In addition four non fundamental

systems were given a satisfactory audit opinion and two a good audit opinion.

### **Governance and Anti-fraud**

9. The nature of the National Fraud Initiative (NFI) means that work is ongoing, however the current status can be summarised as follows.
  - a. **Benefit Matches** – There were in total 1,942 cases of which 1,570 have been processed and closed, with 79 cases as work in progress. One benefit fraud case has been completed, which related to a taxi driver. The overpayment is recorded as £542 and an official caution was applied.
  - b. **Council Tax Matches** – There were in total 1,387 cases of which 1,342 have been processed and closed with 25 cases work in progress, a total of 129 instances were identified where customers were not entitled to the single persons discount which resulted in some £63,600 (as at 22<sup>nd</sup> March 2010) being saved in relation to discounts given. The outcome was due to the combined effort of the Revenues Team and the Benefit Fraud and Intervention Team. There were also 58 incidences of none declared changes in circumstances in relation to rising 18 year olds (as shown on the Electoral Register); as a result of this work a total saving of some £15,500 was achieved.
  - c. **Payroll Matches** - There were 131 matches, investigation identified no instances of fraud.
  - d. **Creditor Payments** – There were five reports detailing a potential duplicate creditor payments match (via differing criteria types e.g. by duplicate creditor name and address; bank account numbers; invoice amount, reference number and creditor name). There were 878 individually matched transactions. Given the high number of matches a risk based approach was taken based upon Audit Commission guidelines. Those investigated did not identify any incidences of fraud.
  - e. **Blue Badges** - There were 76 matches identified, follow up action confirmed that 62 badge holders were deceased.
  - f. **Concessionary Travel Passes** – There were 96 matches identified, follow up action has identified that 62 holders were deceased.
  - g. **Insurance Claims** - There were nine matches, which were investigated by Audit Services in liaison with the Corporate Risk Team. No instances of fraud were identified.
  - h. **Company House Matches** – This was a report available to the Audit Commission who requested that Audit Services review its contents. Following scrutiny of the Council's Payroll and Creditor systems and physical examination of a sample of payments no incidences of fraud were identified.
10. Following the completion of the travel and subsistence report, a marginal audit opinion was given due to data quality, and the need to complete the form correctly, as well as authorising officers ensuring that forms are correct and complete. The committee requested further information on the actions currently being taken to ensure that travel and subsistence claims are correctly processed. This report was submitted to the committee at its meeting of 12<sup>th</sup> March 2010.

11. A review of procurement and contractual procedures has been completed in Property Services and a marginal opinion given; this was due to the need for procedures within the service area to be updated to ensure compliance with the Council's Standing Orders. The newly appointed Contracts and Commissioning Officer is carrying out a review of the practices and procedures. In line with the Council's Financial Procedure Rules the Leader, Chair of the Audit and Governance Committee and Cabinet Member – Resources have been sent a copy of the report. At the request of the Committee, the Head of Asset Management and Property submitted a report to the committee on the actions taken by the service on areas for improvement previously identified.
12. The rolling programme of inventory checks continues, there are no concerns in this area.

### **Other Key Systems**

13. As part of the work on the Council's Annual Governance Statement key officer Statements of Assurance for the period to June 2009, September 2009, December 2009 and March 2010 have been requested.
14. Reports relating to members expenses were given a satisfactory audit opinion.
15. The revised Antifraud and Corruption Policy was presented to the Audit and Governance Committee on 12<sup>th</sup> March and approved.
16. CRB consultancy work was to provide advice and guidance regarding the robustness of the new CRB System in place for Herefordshire Council and ensure that procedures are in line with the Herefordshire Council Criminal Records Bureau Policy and Procedure (HR009) and the CRB Code of Practice.
17. The review of the ISIS payments system has been completed and a Marginal Audit Opinion given, members should be aware that this system was given an Unsatisfactory Audit Opinion last year. Audit Services are of the view that management are making progress in this area.

### **ICT Protocols and Controls (Council-Wide)**

18. Work on reviewing the Council's ISO27001 arrangements with the four areas reviewed raising no concerns. In addition the access controls review of major financial systems was given a Satisfactory Audit Opinion.

### **Establishments**

19. Work continues to assess the financial management arrangements within primary schools in line with the Department for Children, Schools and Families (DCSF) Standard. Currently 21 have met the standard, two have a conditional pass and three have not met the standard. Future follow up work will be carried out by the Audit Services team.

### **Verification and Probity**

20. Both Good Environmental Management (GEM) System audits have been completed, with a minor non conformance being issued for each.
21. The GEM audit plan is supported by trained auditors across the Council, as previously reported information from the GEM team showed there were 56 audits due for completion, with only thirteen been completed, four postponed or cancelled, with 39 still to be completed by the end of March 2010.
22. Although most auditors on the programme had indicated that they would be able to complete

their allocated audits by the March 2010. The final position for 2009/10 was that only 29 audits (52%) were completed, with the remaining 27 being postponed or cancelled.

### **Recommendation Follow up**

23. Audit Services recommendation follow up action showed that 74% of Recommendations were either fully completed or mostly completed, the full outcome is listed below.

Recommendations	Fully Completed	Mostly Completed	Partly Completed	Not Actioned	No longer Relevant	Total
Number	127	30	37	15	5	214
Percentage	60%	14%	17%	7%	2%	100%

24. The Risk Management review was given a Marginal Opinion last year and ten recommendations made. The recommendation follow up review showed that two were completed, four were partly completed and no action taken on four. Further follow up work is planned.
25. Joint Management Team has considered a report by an external consultant, they have agreed that there will be annual mandatory risk management training for Directors, Heads of Service and Key Managers, in addition to the setting up of a Corporate Management Risk Group to monitor risks, with a senior officer group tasked to “cross examine” risks across the partnership.

### **Performance Management**

26. At the request of the Audit Commission two indicators relating to 2008/09 are being reviewed. One has been given a Satisfactory Audit Opinion and the Carers Receiving Needs Assessments indicator was given an Unsatisfactory Opinion. The risk assessment for 2009/10 has been completed and indicators identified will form part of future audit work.
27. The final LPSA 2 claim has been signed off by the Chief Internal Auditor with some £836k coming to the Partnership.
28. To date the fieldwork for the review of the Council’s Performance Management Framework has been completed together with the testing on documents supplied, no major issues were identified.

### **Critical Recommendations**

29. Three Critical Recommendations were made in relation to the Llangrove Primary School Report. These recommendations formed part of the action plan signed of by the Head-teacher. Audit Service follow up has shown that of the three only one was outstanding (partly done).
30. Two Critical Recommendations were made in relation to the performance indicator report NI 135 ( Carers Receiving Needs Assessments). Follow up work is due in 2010/11 and members will be informed on progress.

### **Joint Working**

31. The IT Audit and The Good Environmental Management PCT Gap Analysis have been

completed.

### **Audit Opinion**

32. The Chief Internal Auditor has used the Internal Control Audit Opinion Matrix agreed by the Audit and Corporate Governance Committee to form an objective opinion on the effectiveness of the Council's internal control environment for 2009/10. The application of the internal control Audit Opinion Matrix is informed by the matters he has brought to the Committee's attention in Audit Services Assurance Report for 2009/10.
33. The Chief Internal Auditor is of the opinion that the Council's overall level of internal control was satisfactory for 2009/10.
34. The following table summarises the overall position for 2009/10

<b>Internal Control Audit Opinion</b>	<b>Range</b>	<b>Score 2009/10</b>
Good	85-100	
Satisfactory	65 - 84	70.5
Marginal	51 -64	
Unsatisfactory	31 -50	
Unsound	0 - 30	

### **CIPFA Customer Survey**

35. The CIPFA Customer Survey has been received and the overall rating is good, the survey covered 35 headings, which can be summarised as follows:

	<b>Excellent</b>	<b>Good</b>	<b>Adequate</b>	<b>Less than Adequate</b>	<b>Total</b>
Number of headings	1	26	7	1	35

36. The less than adequate issue relates to the lack of value for money review, which has been addressed in the Audit Plan for 2010/11

### **Performance Indicators.**

37. Appendix 5 sets out the Key Performance Indicators applying to the service, the two areas that require improvement relate to sickness levels and the percentage of audits completed within plus 10% of target times. Action is being taken by the Chief Internal Auditor to address these areas.

### **Community Impact**

38. N/a

### **Financial Implications**

39. There are no financial Implications.

## **Legal Implications**

- 40 The Accounts and Audit Regulations 2003 (as amended) established that the Council shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to Internal Control.

## **Risk Management**

41. 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. The Director of Resources and the Chief Internal Auditor keep delivery of the annual Internal Audit Plan under continual review in order to mitigate this risk.

## **Consultees**

42. Relevant officers have been requested to update action taken on key issues identified in 2008/09 and past Audit and Governance Committee resolutions. Their replies have been included in the relevant appendices.
43. The draft report was presented to Joint Management Team and their comments added.

## **Appendices**

**Appendix 1 - Annual Governance Statement 2008/09 Key Issues Identified.**

**Appendix 2 – Audit and Governance Committee Resolutions May 2007 to June 2008.**

**Appendix 3 - Audit and Governance Committee Resolutions July 2008 to 12 March 2010.**

**Appendix 4 – Status Audit Plan 2009/10.**

**Appendix 5 – Audit Service Performance Indicators.**

## **Background Papers**

- The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).
- The Audit and Governance Code.