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| <b>MEETING :</b>        | <b>AUDIT AND GOVERNANCE COMMITTEE</b>  |
| <b>DATE:</b>            | <b>13 MAY 2013</b>                     |
| <b>TITLE OF REPORT:</b> | <b>INTERNAL AUDIT PROGRESS 2012/13</b> |
| <b>REPORT BY:</b>       | <b>HEAD OF INTERNAL AUDIT</b>          |

## 1. Classification

Open.

## 2. Key Decision

This is not a key decision.

## 3. Wards Affected

County-wide.

## 4. 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.

## 5. Recommendation

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

## 6. Key Points Summary

- Audit Services has finalised a number of audits, these are: Legal Services, Benefits (Council Tax and Housing), Public Health - Food Licensing, reviews of Income Collection Procedures (over three separate Council functions), Treasury Management and Data Protection.
- There are a number of audits being completed. Draft reports have been issued in connection with Payroll, Debtors and Hoople (Governance and Performance Management). Additionally, Audit Services is on site and completing audits of Procurement, General Ledger, Creditors and IT Controls.
- 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 points 13 to 16.

## 7. Alternative Options

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

## **8. Reasons for Recommendations**

- 8.1 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.

## **9. Introduction and Background**

- 9.1 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 in the last quarter.

## **10. Key Considerations**

### **Summary of progress against the audit plan**

- 10.1 The Internal Audit plan was approved by the Audit and Governance Committee on 6 July 2012. We have set out the number and type of audit reviews to be completed in Appendix 1.
- 10.2 Internal Audit Services is progressing with the Internal Audit Plan. To date, ten audit reviews have been finalised. There are currently seven reviews being completed by Audit Services, with draft reports issued in three areas. The remainder of the reviews in the audit plan are being scoped and agreed with members of the Council's Leadership Team, the Council's Chief Officer: Finance & Commercial and Directors as appropriate.
- 10.3 Audit Services is confident that sufficient audit work will be completed so that the Head of Internal Audit can form an opinion on the Council's system of internal control. However, it is also closely monitoring its progress against completing all of the audits set out within the Internal Audit Plan and any consequent impact on the delivery against the plan. This process involves assessing the impact of additional reviews which have been requested, changes to staffing within the section (involving a team member becoming part time), and other members of staff being unavailable due to sickness. These issues have been discussed as part of our regular meetings with the Chief Officer: Finance & Commercial.

### **Audit Reviews completed**

- 10.4 Our review of the Council's Legal Services function was given a "Limited Assurance" opinion. We noted that officers who request advice and assistance from Legal Services are happy with the quality of service they receive from the function and are kept fully updated on the progress of cases and also feel the legal service meets their service needs. However, we identified a number of areas where processes and controls could be improved. For example, the function needing to develop specific and measurable service priorities and objectives, in addition to completing a benchmarking exercise to assess if the function is delivering a value for money service. We also noted that the function needed to develop a Practice Manual for staff and as part of this process agree performance objectives for officers. The Council is aware of these areas for development and the new Head of Service has developed an action plan that seeks to address the issues which have been identified.
- 10.5 Our review of the Council's Data Protection function was given a "Limited Assurance" opinion. Our review did identify some controls in place to assist with Data Protection Act compliance. For example, the Council has established an Information Governance Delivery Plan and a Risk Treatment Plan which it will use as an action plan to help fulfil its Data Protection responsibilities. Additionally, responsibility for data protection compliance within

the Council and its directorates has been formally assigned to the Knowledge and Information Service Manager. However, we noted that the Council needed to develop processes in some key areas.

- 10.6 For example, the Council has yet to carry out a personal data audit to ensure the current data protection notification held by the Information Commissioners Office is fully representative of the data currently held. We also noted that there is a risk that Council data can be downloaded onto unencrypted USB devices and Council staff can access confidential and sensitive data on home computers. Additionally, we noted that Council staff should complete annual training on data protection and the safe processing of personally identifiable information.
- 10.7 As part of our Internal Audit Plan for 2013/14 we will assess the progress the Council has made in progressing the recommendations which we have raised in our Legal Services and Data Protection reports and present our findings to a future meeting of the Audit and Governance Committee.
- 10.8 Our review of the Benefits (Council Tax and Housing) function was given a “Substantial Assurance” opinion. We found a number of good controls operating within the function and made no recommendations following our review.

#### **Audit and other reviews in progress**

- 10.9 There are currently a number of reviews being completed by Audit Services. Work on these is progressing well with draft reports issued in areas such as Payroll and Debtors. There are also a number of audits where on-site work is currently being completed, these include:
- Creditors;
  - General Ledger;
  - Procurement;
  - IT Access Controls; and
  - Anti-Fraud and Corruption - Hot Topics and Risk Areas.
- 10.10 We will report any significant issues arising from these reviews to future meetings of the Audit and Governance Committee.

#### **Other audit input**

- 10.11 Audit Services has reviewed the system by which the Council capitalises highways expenditure. This audit was requested by the Chief Officer: Finance & Commercial. This review assessed how the Council accounts for this type of expenditure and ensures compliance with the CIPFA Code of Practice on Local Authority Accounting. Related to this review, we have also reviewed the Council’s capital planning process which identifies and agrees capital expenditure schemes. We have issued draft reports to the Chief Officer: Finance & Commercial in these areas.
- 10.12 Audit Services was also requested by the Chief Officer: Finance & Commercial to review and assess internal controls within the Integrated Community Equipment Store (ICES). This function is funded through Section 75 of the National Health Service Act 2006 and provides medical equipment to aid independent living. We have issued a draft report to the Chief Officer: Finance & Commercial in this area.

- 10.13 The Council has worked together with KPMG in reviewing key aspects of its Adult and Social Care function. This work has involved reviewing aspects of the function's IT systems, such as the link between Framework I and the Council's Agresso financial system, in addition to how it procures Care Services. We have issued a draft report to the Chief Officer: Finance & Commercial in this area.
- 10.14 Audit Services has also completed work in other areas as requested by the Chief Officer: Finance & Commercial and other officers within the Council. For example, we have reviewed the process by which the Council is seeking to make payments to its partners as part of the Borders Broadband project.

## **11. Community Impact**

- 11.1 This report does not impact on this area.

## **12. Equality and Human Rights**

- 12.1 This report does not impact on this area.

## **13. Financial Implications**

- 13.1 There are no financial implications.

## **14. Legal Implications**

- 14.1 There are no legal implications.

## **15. Risk Management**

- 15.1 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.

## **16. Consultees**

- 16.1 The HPSLT and the Chief Officer: Finance & Commercial were consulted in the drafting of this report.

## **17. Appendices**

- 17.1 Appendix 1 - Status of Audit Plan 2012/13
- 17.2 Appendix 2 - Audit Opinions - Definition of Assurance Grading
- 17.3 Appendix 3 - Rating of Recommendations

## **18. Background Papers**

- 18.1 None.