

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>27 JANUARY 2012</b>
<b>TITLE OF REPORT:</b>	<b>INTERNAL AUDIT PROGRESS 2011/12</b>
<b>REPORT BY:</b>	<b>INTERNAL AUDIT - FINANCE AND COMMERCIAL SERVICES</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 wish to make the report be noted.**

## **Key Points Summary**

- Audit Services has finalised 12 reviews. One review is in draft, this relates to a review over the Director Assurance Statements process. No significant issues were raised in any of these audits.
- There are 18 audits being completed. These include General Ledger, IT, Creditors and a review of the balances bought forward on the Agresso system.
- Audit Services are continuing to provide support, guidance and information in a number of areas to Council Officer's in respect of The Shared Services Partnership and specific Whistleblowing incidents.

## **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 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

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Further information on the subject of this report is available from  
Saverio DellaRocca – Interim Head of Audit Services on (01432) 260425

## Introduction and Background

- 3 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.

## Key Considerations

### Summary of progress against the audit plan

- 4 The Internal Audit plan was approved by the Audit and Governance Committee on 23 August 2011. We have set out the number and type of audit reviews to be completed in Appendix 1. The following table provides further information on the status of these reviews:

Total number of Audit Reviews	No of Audits Completed	No of Audits completed in Draft	No of Audits on-going and agreed with management	No of Audits to be scheduled and to be agreed with management
36	12	1	18	5

- 5 Thirteen audit reviews and reports have been either been finalised or are in draft. No significant issues were raised.
- 6 There are currently a number of reviews being completed by Audit Services. Work on these is progressing well. The remainder of the reviews in the audit plan are being scoped and agreed with members of the Council's Leadership Team or other Directors/Managers as appropriate.
- 7 A member of the Audit Services Team has been seconded to the Shared Services Partnership until September 2012. Any impact on the section's ability to deliver the plan is being managed through a combination of KPMG and Council staff being used to complete audit reviews. Where appropriate KPMG is also providing specialist input to deliver some audit reviews such as the audits of the Risk Management, Business Continuity and Health and Safety. Audit Services remains confident that sufficient audit work will be completed by the year end so that the Interim Head of Audit Services can form an opinion on the Council's system of internal control.

### Audit Reviews

- 8 Two of the areas where we gave a "Substantial" audit opinion were Member Allowances and Officer Expenses. We found a number of strengths within both processes including clear and documented procedures in place, the accurate and timely completion of member and officer allowance forms and the Council publishing the amount paid in Member allowances in accordance with statutory obligations. We made no recommendations following our review of Member Allowances and made one low level recommendation in respect of the Officer Allowance review.
- 9 We have also completed an initial review of the Council's Anti-Fraud and Corruption arrangements and are in the process of completing our report. Given the importance of this area Internal Audit Services will be running Anti-Fraud and Corruption Workshops which will highlight to officer's their responsibilities in this area and how to identify and report any potential frauds which they become aware of. These workshops will be held in February 2012.

## **Audit and Other Reviews in Progress**

- 10 Audit Services are currently progressing a number of audits. These include:
- Creditors inc Procurement;
  - General Ledger and Financial Management Systems – Bank reconciliations;
  - Risk Management;
  - Business Continuity;
  - Health and Safety;
  - Shared Services - Governance;
  - Peoples Services – Procurement; and
  - Agresso - Transfer of balances.
- 11 These reviews will be completed and draft reports issued in due course. We will report any significant issues arising from these reviews to the next Audit and Governance Committee.

## **Current and Forthcoming Audit Reviews**

- 12 In the Internal Audit Plan we provisionally set out a number of key focus areas, but agreed with Herefordshire Public Services Leadership Team that further discussions would be held with Directors and Senior Manager's to determine the exact status of audit input. As part of this process we have held discussions with a number of officers, including the Resilience Team Manager with whom we have agreed the scope of our audits of the Council's Health and Safety, Risk Management and Business Continuity functions. Within each of these areas we have focused on key issues, for example within Risk Management we are focusing on how effective the Council's risk policies are in ensuring that risk is adequately controlled and monitored. In Health and Safety we have reviewed the controls which ensure the Council complies with Health and Safety legislation and in Business Continuity we have focused on how effective the Council's policies and controls are in ensuring that it can continue its services in the event of a significant issue impacting the organisation.
- 13 We also attended the Places and Communities Directorate's Management Team Meeting in November 2011. At the meeting we discussed a number of audit reviews which impact on the Directorate, including reviews of the HALO and AMEY contracts. We recently met with the Head of Highways and Community Services and discussed the AMEY contract. We agreed to review a number of particular areas within the AMEY contract including overall governance arrangements, the use of key performance indicators in contract monitoring, a review of internal verification arrangements for the processing of payments and the rationale for the potential extension of the current contract. We have also met with the Cultural Services Manager regarding the HALO project and agreed specific terms of reference for our review of this area. Our work will include a review of the Council's governance framework over the HALO leisure management contract, the methods for capturing and reporting HALO performance to management and Members and how the Council inputs into the setting of Fees and Charges for the use of Leisure Facilities managed by HALO.

## **Other Audit Input**

- 14 Audit Services has provided input into a review of the Council's Whistleblowing process which was requested by the Assistant Director (Law, Governance and Compliance). This included documenting the Whistleblowing process through a flow chart of the current framework and providing analysis and feedback on how it could be improved and streamlined.
- 15 Audit Services has also provided input and assistance into the Council's Task and Finish Group on Fees' and Charges. The Group's aim is to assess if the current charging policy can support service delivery and understand the rationale behind subsidisation of some Council services.

## **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.

## **Consultees**

21 The views of the HPSLT and the Chief Officer, Finance and Commercial were consulted in the drafting of this report.

## **Appendices**

**Appendix 1 – Status Audit Plan 2011/12**

**Appendix 2 – Audit Opinions**

## **Background Papers**

22 None

## Appendix 1

### Herefordshire Council - Internal Audit Plan 2011/12

#### Progress Update – January 2012

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

No	Audit Review	Status / Provisional Timescale for completion	Audit Opinion
1	Payroll	In progress	-
2	Member Allowances	Finalised	Substantial
3	Creditors inc Procurement	In progress	-
4	Treasury Management	Finalised	Substantial
5	Debtors and other Income Streams	To be started Jan 2012	-
6	General Ledger inc FMS Bank Reconciliations	In progress	-
7	NNDR and Council Tax	Finalised	Adequate
8	Housing Benefit	Finalised	Substantial
9	Cash and Deposits	Terms of reference and timing being agreed with officers.	-
10	Education Transport	Terms of reference and timing being agreed with officers.	-
11	ISO 27001	Work completed on site – draft report being compiled.	
12	Application Testing – Agresso inc Trf of balances and ISIS	In progress	-
13	IT Strategy	Terms of reference and timing being agreed with officers.	-

14	Anti-Fraud and Corruption – Review of Council's arrangements and Awareness Training.	The review of the Council's Anti-Fraud and Corruption arrangements has been completed and a draft report is to be issued shortly.  The Anti-Fraud and Corruption Awareness Training has been arranged for February 2012.	-
15	AMEY Contract	In progress	-
16	HALO Leisure Management	To be completed in February 2012	-
17	ABG Grant Review	Finalised	Adequate
18	Anti-Fraud and Corruption – Hot Topics – Officer Expenses	Finalised	Substantial
19	Director Annual Assurance Statements	Draft Report issued	Draft - Adequate
20	Risk Management	In progress	-
21	Health and Safety	In progress	-
22	Business Continuity/ Emergency Planning	In progress	-
23	Performance Management	To be completed in February 2012.	-
24	Rising to the Challenge – Project Monitoring	Currently completing and on site.	-
25	Benefits Realisation	Finalised.	Feedback provided to the Chief Officer – Finance and Commercial. Formal report not issued
26	Project Management – Performance Plus	Finalised.	Feedback provided to the Assistant Director, People, Policy and Partnerships. Formal report not issued.

27	Annual Governance Statement	March 2012	-
28	Shared Services - Governance (on-going)	In progress	-
29	Licensing - Taxi's	Finalised	Adequate
30	Schools	Terms of reference and timing being agreed with officers.	-
31	CYPD Proc Audit	In progress	-
32	Gifts and Hospitality	Finalised	Adequate
33	Anti Money Laundering	Finalised	Adequate
34	Sustainability	January 2012	-
35	Planning	Terms of reference and timing being agreed with officers.	
36	Follow Up – Agency Payments	Finalised	Adequate

## 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 an unacceptable 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).