

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	9 MARCH 2012
TITLE OF REPORT:	INTERNAL AUDIT PROGRESS 2011/12
	INTERNAL AUDIT - FINANCE AND COMMERCIAL SERVICES

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 thirteen reviews. Three reviews are in draft. No significant issues were raised in any of these audits.
- There are 17 audits being completed. These include General Ledger, IT, Creditors and a review of the balances brought forward on the Agresso system.
- An internal payment fraud has been reported to Internal Audit. This fraud and related matters are currently being investigated by Internal Audit.
- Audit Services are 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 in Appendix 1.

Alternative Options

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

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

Reasons for Recommendations

- 2 To ensure compliance with good practice as set out in the Chartered Institute of Public Finance Accountants (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom.

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
38	13	3	17	2

- 5 Sixteen audit reviews and reports have either been finalised or are in draft. While in each area control processes could be strengthened, no significant issues were raised and all of the areas were graded either as "Adequate" or "Substantial". Where we have made recommendations these have been agreed by management and are being actioned. We have provided further information in Appendix 2 and 3 of our how we grade our audit reports and our audit recommendations.
- 6 There are currently a number of reviews being completed by Audit Services. Work on these is progressing well. Two reviews in the audit plan are being scoped and agreed with members of the Council's Leadership Team or other Directors/Managers as appropriate. Our reviews of HALO and the Adult and Social Care functions have been deferred awaiting the outcome of separate Council led reviews. Additionally, KPMG we will be providing assistance and guidance to the Chief Officer: Finance and Commercial on the Council's PFI project rather than completing a detailed audit of this area.
- 7 Audit Services remains confident that sufficient audit work will be completed by the year end so that the Head of Audit Services can form an opinion on the Council's system of internal control.

Summary of key audits

- 8 We have completed our review of the payroll function. We noted that the Council managed the payroll function transitioning to HOOPLE in a controlled manner. However, there were areas that required improvement in payroll processes. These included implementing additional controls that would highlight unauthorised low value changes to an employee's payroll details, circulating establishment lists to management, the use of exception reports and the Agresso system being updated to ensure that it records and holds details of officers who have made changes to payroll data.
- 9 We have also completed an initial review of the Council's Anti-Fraud and Corruption arrangements. This area was graded as Adequate Assurance. There were a number of areas where the Council needed to develop its Anti-Fraud processes and procedures. These included further developing its Counter Fraud Policy, promoting a culture of anti-fraud within the organisation, clarifying the role of the Housing Benefit Team moving forward and assessing fraud risks as part of its risk management process. 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 March 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 FMS – Bank reconciliations;
 - Risk Management;
 - Business Continuity;
 - Health and Safety;
 - Shared Services - Governance;
 - CYPD – 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.

Fraud and other matters

- 12 On Friday 17 February, a possible payment fraud was reported to Internal Audit. The Council has reported this matter to the Police and we are currently undertaking an investigation into the possible fraud itself and related matters.
- 13 Audit Services is also contributing into a number of other reviews for the Council. We have provided further details on this in Appendix 1.

Current and Forthcoming Audit Reviews

- 14 We are currently completing our review of the Council's planning function. This audit will focus on a number of aspects, including reviewing a sample of applications to assess if they have been processed in accordance with the Council policies, ensuring any planning decisions are made with reference to the Council's Local Development Framework/Plan and planning applications are fully discussed at the appropriate Planning Committee and the results of the discussions are adequately documented.

Other Audit Input

- 15 Audit Services is also contributing to a number of other reviews for the Council. We have provided further details on this in Appendix 1.

Audit Planning for 2012/13

- 16 We are currently in the process of developing the Internal Audit Plan for 2012/13. This process will involve meeting with members of the HPSLT and other Director's and Manager's within the Council to understand the key issues affecting the organisation and how these will impact the Internal Audit Plan for 2012/13. Alongside this process we have initially begun to populate the Plan with key areas which we believe should be subject to Internal Audit Review in the forthcoming year. Some of these areas are detailed below:

- AMEY;
- The impact of the current Welfare Reforms;
- HOOPLE Client Side Management;
- Adult and Social care;
- Budgetary Control;
- Project Management;
- Data Protection;
- Other Income Streams; and
- Environmental Health – Food Licensing.

Any areas that will be subject to audit will be agreed in advance with the management and members of the Audit and Governance Committee.

Community Impact

- 17 This report does not impact on this area.

Equality and Human Rights

- 18 This report does not impact on this area.

Financial Implications

- 19 There are no financial Implications.

Legal Implications

20 There are no Legal Implications.

Risk Management

21 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

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

Appendices

Appendix 1 – Status of Audit Plan 2011/12

Appendix 2 – Audit Opinions - Definition of Assurance Grading

Appendix 3 – Rating of Recommendations

Background Papers

23 None

Appendix 1 – Status of Audit Plan 2011/12 – March 2012

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

No	Audit Review	Status	Audit Opinion
1	Payroll (HOOPLE)	Finalised – February 2012	Adequate
2	Member Allowances	Finalised – October 2011	Substantial
3	Creditors inc Procurement (HOOPLE)	In progress – draft report to be issued shortly	-
4	Treasury Management	Finalised – January 2012	Substantial
5	Debtors and other Income Streams (HOOPLE)	In progress	-
6	General Ledger inc FMS Bank Reconciliations (HOOPLE)	In progress	-
7	NNDR and Council Tax (HOOPLE)	Finalised – October 2011	Adequate
8	Housing Benefit (HOOPLE)	Finalised – October 2011	Substantial
9	Cash and Deposits (HOOPLE)	In progress	-
10	Education Transport	Terms of reference and timing being agreed with officers.	-
11	ISO 27001 (HOOPLE/Council)	Draft report issued	Adequate
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.	Draft report issued The Anti-Fraud and Corruption Awareness Training has been arranged for March 2012.	Adequate
15	AMEY Contract	In progress	-

No	Audit Review	Status	Audit Opinion
16	HALO Leisure Management	This audit has been deferred pending the completion of an internal review. The Council are currently completing a review of its Leisure Services which will also focus on HALO and how it fits into the Council's overall aims and objectives in delivering Leisure Services.	-
17	ABG Grant Review	Finalised – October 2011	Adequate
18	Anti-Fraud and Corruption – Hot Topics – Officer Expenses (HOOPLE/Council)	Finalised – January 2012	Substantial
19	Director Annual Assurance Statements	Draft Report issued	Draft - Adequate
20	Risk Management	In progress	-
21	Health and Safety	In progress – draft report to be issued shortly.	-
22	Business Continuity/ Emergency Planning	In progress – draft report to be issued shortly.	-
23	Performance Management	In progress	-
24	Rising to the Challenge – Project Monitoring	In progress	-
25	Benefits Realisation	Finalised – August 2011	Feedback provided to the Chief Officer – Finance and Commercial. Formal report not issued.
26	Project Management – Performance Plus	Finalised – November 2011	Feedback provided to the Assistant Director, People, Policy and Partnerships. Formal report not issued.

No	Audit Review	Status	Audit Opinion
27	Annual Governance Statement	March 2012	-
28	Shared Services - Governance (on-going) (HOOPLE)	In progress – draft report to be issued shortly.	-
29	Licensing - Taxis	Finalised – January 2012	Adequate
30	Schools	In progress	-
31	CYPD Proc Audit	In progress. We are due to meet with the Director for People Services to discuss and finalise this report shortly.	-
32	Gifts and Hospitality	Finalised – August 2011	Adequate
33	Anti Money Laundering (HOOPLE/Council)	Finalised – January 2012	Adequate
34	Sustainability	In progress	-
35	Planning	In progress	-
36	Follow Up – Agency Payments	Finalised – December 2011	Adequate
37	PFI	Advice and support being provided by KPMG to the Chief Officer – Finance and Commercial.	-
38	Adult and Social Care	A separate review of this area is being undertaken by the Council. KPMG are inputting into the review and we will follow up the recommendations flowing from this as part of our 2012/13 Internal Audit Plan.	-

Other work

We are also providing assistance and support into matters raised by Council officers. These include:

Area	Comment
Licensing	Information and advice being provided to the Director of People Services.
Carers Support	Information and support being provided to the Chief Officer – Finance and Commercial.
Procurement of Consultants	Information and support provided to the Chief Officer – Finance and Commercial.
Review of Project Implementation	Information and support provided to the Assistant Director, People, Policy and Partnerships.

Appendix 2 – Audit Opinions – Definition of Assurance Grading

Conclusion	Definition
No assurance	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).
Limited assurance	One or more priority one recommendations, or 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).
Adequate assurance	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).
Substantial assurance	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
Red <i>(Priority 1)</i>	A significant weakness in the system or process which is putting the Council at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation ; 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 immediate attention .	Issues that result in non-compliance with Health and Safety Legislation, i.e. No Health and Safety Policy in place.
Amber <i>(Priority 2)</i>	A potentially significant or medium level weakness in the system or process which could 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, if not addressed .	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.
Green <i>(Priority 3)</i>	Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council's strategic aims and objectives. These are generally issues of good practice 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.