

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	11 MAY 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 13 reviews. Nine reviews are in draft. Further information on these audits is provided at paragraph four.
- There are nine audits being completed. These include a review of Debtors, General Ledger and Planning.
- A suspected fraudulent payment was reported to Internal Audit. Consequently this was investigated by Internal Audit. Further information is provided in paragraph 25.
- Audit Services are continuing to provide support, guidance and information in a number of areas to Council officers in respect of specific reviews. Further information is contained at 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) 260426

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.

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	Audits Deferred	Assistance and Guidance provided
38	13	9	9	2	5

5. A total of 22 audit reviews and reports have been either been finalised or are in draft. These are set out in Appendix 1 along with the audit opinions given to reviews which have been finalised or have been issued in draft where appropriate (i.e. where draft reports have been accepted by management subject to formal agreement of recommendations). We also have provided further information in Appendix 2 and 3 about the methodology used to grade audit report and audit recommendations.
6. There are currently nine reviews being completed by Audit Services. These reviews should be completed by the end of April/early May.
7. Audit Services remains confident that sufficient audit work to enable the Head of Audit Services to form an opinion on the Council's system of internal control.

Summary of key audit issues

8. The findings from each of the issued reports since the last Audit and Governance Committee as set out below. This is split between reports that have been issued in draft (where management have agreed the initial findings and we are awaiting formal management responses) and those which have been agreed and finalised.

Draft Reports

9. We have issued 8 audit reports in draft since the last Audit and Governance Committee. We have summarised the findings for each of these reports below.

Draft Reports – Limited Assurance

10. We have issued “Limited Assurance” opinions over four areas as follows. In each case, management have accepted the issues raised and are putting in place formal action plans to address issues raised:
11. **Creditors (Agresso system)** - Agresso is the new integrated support services system which includes the Council’s financial management system. It is used to record all the Council’s financial transactions and has a number of separate modules which help the Council run its services. These modules include payroll (used for payments to staff), creditors (used to raise purchase orders and pay invoices) and debtors (used to raise invoices for council run services). At the request of the Council’s Chief Finance Officer (CFO) audit reviewed the adequacy of the design of the creditors system to mitigate key operational and fraud risks. We concluded that there were some system weaknesses both from an IT and operational perspective that have exposed the Council to risk. We have issued a comprehensive report setting out the areas where procedures need to be tightened. These include management of the supplier masterfile (the creation and amendment of supplier information), IT access to the system (who has access to what functions) and the use of direct payments (invoices where there is no order).
12. **Agresso IT Controls** - Alongside the work on Creditors (Agresso) the CFO requested audit services to undertake a review of the IT controls over the Agresso system. IT controls are important in ensuring that staff only have access to appropriate functions related to their role and that data is protected and secure. We identified that the IT access and security controls operating over the system were weakened during the implementation of Agresso. The Council had already tightened up controls before the end of the audit and work continues to address other issues.
13. **Health and Safety** - The Council had already identified that this area required further significant development prior to the commencement of the audit. In conjunction with KPMG a scope of work was agreed that sought to review existing control issues and advise on how these could be resolved. As part of our audit we noted weakness in the Council’s control systems which assured the management of key H&S risks particularly over legionella, fire safety and asbestos. In response to these the Council developed an action plan which outlined the key work streams for improvement. The action plan was reviewed and it was concluded that with the necessary commitment and resource agreed by senior management, it was sufficiently focused to deliver the outcomes the Council required.
14. **Business Continuity** - The Council identified that this key area required further development and positively engaged with KPMG so that key control weaknesses could be identified and resolved. As part of our work we noted that while the Council does not have an up to date Corporate Business Continuity Plan (BCP) or key service line BCP’s in place in all areas it has processes which enable it to cope in the event of a Business Continuity event occurring. These processes and the role of the Incident Team were evidenced in action when the Council’s IT systems were recently affected. The Council is aware that the lack of up to date BCP’s present a significant risk and this has been raised as an urgent action with senior managers. To mitigate this risk the Council has developed a long term strategy which seeks to develop effective Business Continuity Management processes. The Council’s long term strategy was reviewed and assessed as sufficient to ensure the Council has an effective Business Continuity process in place in the future.

Draft Reports – Adequate Assurance

15. We have issued “Adequate Assurance” opinions over three areas, as follows:
16. **Risk Management** - The Council has developed, with NHS Herefordshire, a risk management policy and framework which reflects good practice principles. However, the application of the framework across the organisation is variable. This is a common issue we identify across all public sector organisations. As well as some areas of best practice, there are areas that require further development including ensuring that risk is considered at every level of the organisation, risk registers are completed regularly and a formal risk management training programme is developed.
17. **ICT Services** - This audit covered the controls over the Council’s IT infrastructure. It was found that there are robust policies and processes for backing up systems, and client data. We noted that backups are undertaken daily, weekly, monthly and six monthly. There were some areas that required development including how the Council interacts with Hoople and the NHS over ICT roles and responsibilities. These processes include documenting the roles and responsibilities of the three parties in relation to ICT.
18. **Hoople Governance** - Hoople has made steady progress implementing the structures and processes required to ensure sound corporate governance. A Hoople Board and constituent Committees with appropriate terms of reference are in place, a Business Plan has been developed which sets out clear narratives on its vision, values, operations, financial management processes have been established and Service Level Agreements are in place with Partners. Work continues in developing processes in other areas (e.g. formalising the business planning and budget cycle and embedding key organisational objectives via the performance management framework) under the oversight of the Hoople Audit Committee.

Other draft reports (not yet agreed with management)

19. **AMEY** - This covers the AMEY contract’s performance management and value for money arrangements. The issues raised in this report are being considered by management and appropriate actions are being put in place to address issues raised. As the Council is currently in discussions with AMEY regarding future arrangements, it is not possible at this time to go into the detail of the report as any reference to whether current arrangements deliver VFM may compromise the Council’s commercial position in relation to future arrangements.

Final Reports

20. We have issued two finalised audit reports since the last Audit and Governance Committee. We have provided further detail on these reports below.

Final Reports – Adequate Assurance

21. **Cash and Deposits** - The Council has a sound control framework in place over the function although there are some areas that need to be addressed. Existing controls are designed to ensure that cash and other income received is accurately banked and recorded on the Council’s systems in a timely manner. There are two key areas that the Council has agreed to address in relation to the handling of safe keys and reversal of cashier transactions.
22. **Director Annual Assurance Statements** - This audit reviewed how officers completed the Annual Assurance Statements. These statements are used to support the compilation of the Council’s Annual Governance Statement. Key areas for improvement included ensuring that there was corporate ownership of the process and updating the format of the Assurance Statements based on user feedback to ensure that they fully reflect key processes and

developing formal procedures that cover the compilation of these Statements.

Audit Reviews in Progress

23. Audit Services are currently completing a number of audits. These are:

- General Ledger;
- Debtors;
- Planning;
- Performance Management;
- Rising to the Challenge – Performance Monitoring;
- Annual Governance Statement;
- Education Transport;
- Schools; and
- Sustainability.

24. 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.

Other audit work

Suspected Fraud

25. The Council suffered a suspected fraud whereby a false invoice appears to have been paid. This matter is now with the Police but we understand that the Council has been informed that the monies will be repaid. In response to the fraud, the Council has:

- prepared a case file (through Internal Audit) which has been given to the Police to assist them;
- under the direction of the CFO reviewed the circumstance of the suspected fraud and reviewed areas of concerns (as set out in paragraphs 11 and 12 above); and
- undertaken further work to assess whether there have been further fraudulent payments – no issues have been currently found.

Support and Guidance

26. KPMG and Internal Audit have also provided assistance and guidance to Chief Officers, Directors and Members in the following areas, Benefits Realisation, Performance “plus” system, Procurement processes within People Services and Fees and Charges.

27. Schools - Internal Audit was previously required to complete work within this area in relation to the Financial Management Standard in Schools (FMSiS) process. This standard was withdrawn in 2011. In conjunction with the Schools Finance team we have now agreed a new audit process and we will use this approach to undertake audits of Schools as part of our 2012/13 audit plan.

28. Audit Services is also contributing into a number of other reviews for the Council. We have

provided further details on this in Appendix 1.

Audit Planning for 2012/13

29. We are currently in the process of developing the Internal Audit Plan for 2012/13. This process has involved meeting with members of the Leadership Team and other key officers 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 should be subject to Internal Audit Review in the forthcoming year. Some of these areas are detailed below:

- AMEY - We will follow up work undertaken in 2011/12 and identify in conjunction with management other areas of focus;
- Hoople Client Side Management - This audit will focus on how the Council develops its relationship with Hoople and establishes monitoring procedures to ensure that Hoople is delivering on its SLA targets;
- Adult and Social care - This review will focus on how the Council is implementing new methods of working in response to a specialist KPMG report on this key area;
- Budgetary Control - As part of this audit will review the Council's controls over budget monitoring and its effectiveness. This audit will also involve meeting with budget holders to understand their views on the Council's budget monitoring processes given the arrangements with Hoople the audit will also review the new arrangement to support budget monitoring;
- Project Management - This audit will focus on the Council's overall project management arrangements and controls. This will involve reviewing a sample of projects and assessing how they have complied with the Council's procedures in this area.
- Data Protection - As part of this audit will review how the Council complies with the requirements of the Data Protection Act 1998.
- Other Income Streams - The Council receives income from a variety of sources. As part of this audit we will review a selection of income streams and assess the controls which the Council has in place which ensure that income received is correctly accounted for.
- Environmental Health – Food Licensing - As part of this audit we will review the controls which the Council has in place in relation to how it issues licences to premises in this area and ensures appropriate standards are being maintained.

Community Impact

30. This report does not impact on this area.

Equality and Human Rights

31. This report does not impact on this area.

Financial Implications

32. There are no financial Implications.

Legal Implications

33. There are no Legal Implications.

Risk Management

34. 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

35. 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

36. None

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

We have set out below reviews for 2011/12. These have been split by Directorate and detail the number and priority of recommendations made (we have set out the definitions of the individual priorities in Appendix 3). Where we have finalised reviews, all recommendations made within those audits have been agreed by management.

No	Audit Review	Status	Audit Opinion	Recommendations		
				P1	P2	P3
Directorate: Corporate Services						
1	Member Allowances	Finalised – October 2011	Substantial	-	-	-
2	Treasury Management	Finalised – January 2012	Substantial	-	-	-
3	Anti-Fraud and Corruption – Hot Topics – Officer Expenses	Finalised – January 2012	Substantial	-	-	1
4	Anti-Fraud and Corruption – Review of Council's arrangements and Awareness Training.	Draft report issued – December 2011 The Anti-Fraud and Corruption Awareness Training has been arranged 2012/13.	Adequate	-	4	-
5	Director Annual Assurance Statements	Finalised – March 2012	Adequate	-	5	-
6	Risk Management	Draft report issued – March 2012	Adequate	-	7	-
7	Health and Safety including Public Health	Draft report issued – February 2012	Limited	8	3	-
8	Business Continuity/ Emergency Planning and ICT Disaster Recovery	Draft report issued – February 2012	Limited	1	2	1
9	Performance Management	In progress – be issued shortly	-	-		
10	Rising to the Challenge – Project Monitoring	In progress – be issued shortly	-	-		
11	Benefits Realisation	Feedback provided to the Chief Officer – Finance and Commercial.	-	-		
12	Project Management – Performance Plus	Feedback provided to the Assistant Director, People, Policy and Partnerships.	-	-		
13	Annual Governance	In progress – be issued shortly	-	-		

No	Audit Review	Status	Audit Opinion	Recommendations		
	Statement					
14	Follow Up – Agency Payments	Finalised – December 2011	Adequate	-		
15	PFI	Advice and support being provided by KPMG to the Chief Officer – Finance and Commercial.	N/A	-		
16	Fees and Charges	Advice and support provided to the Task and Finish Group.	N/A	-		
Hoople						
17	Payroll	Finalised – February 2012	Adequate	-	4	2
18	Accounts Payable	Draft report issued – April 2012	Limited	3	2	2
19	Debtors	In progress – be issued shortly	-	-		
20	General Ledger inc FMS Bank Reconciliations and Transfer of Balances on Agresso	In progress – be issued shortly	-	-		
21	NNDR and Council Tax	Finalised – October 2011	Adequate	-	2	3
22	Housing Benefit	Finalised – October 2011	Substantial	-	-	2
23	Cash and Deposits	Finalised – March 2012	Adequate	-	2	-
24	ICT Services Review (ISO 27001), including IDOX and Academy	Draft report issued – December 2011	Adequate	-	4	-
25	Agresso IT Controls	Draft Report issued – March 2012 The audit resource from IT Strategy audit was reallocated to this area based on discussions with management. IT Strategy will be included with the Audit Plan for 2012/13.	Limited	7	12	-
26	Hoople - Governance	Finalised – March 2012	Adequate	-	2	2
27	Gifts and Hospitality	Finalised – August 2011	Adequate	-	3	1
28	Anti Money Laundering	Finalised – January 2012	Adequate	-	-	6

No	Audit Review	Status	Audit Opinion	Recommendations		
Directorate: People Services						
29	Education Transport (Follow Up)	In progress – be issued shortly	TBC	-		
30	Licensing - Taxi's	Finalised – January 2012	Adequate	-	2	-
31	Schools	We have discussed and agreed the scope of this work with management and will be completing this work in May 2012.	-	-		
32	Procurement Audit	Advice and support provided by KPMG to the Director for People Services	-	-		
33	Adult and Social Care including ISIS Framework I, Children Services – Early Years and Integrated Commissioning	A separate review of this area is being undertaken by the Council. KPMG have inputted into the review and we will follow up the recommendations flowing from this as part of our 2012/13 Internal Audit Plan.	-	-		
Directorate: Places and Communities						
34	AMEY Contract	Draft report issued – March 2012	TBC	-		
35	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.	N/A	-		
36	ABG Grant Review	Finalised – October 2011	Adequate	-	4	1
37	Sustainability	In progress – be issued shortly	-	-		
38	Planning	In progress – be issued shortly	-	-		

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.
Whistleblowing process review	Review of process. Feedback provided to the Assistant Director – Law, Governance and Resilience
Contract Compliance	Review of recruitment process. Feedback report provided to Head of Commercial Services.
Fraud	Review of reported fraud. Information and support being provided to the Chief Officer – Finance and Commercial.

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.