

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21 SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL ASSURANCE REPORT 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES</b>

**CLASSIFICATION:** Open

## **Wards Affected**

County-wide

## **Purpose**

The purpose of this report is to provide Herefordshire Council with a summary of the internal audit work undertaken in 2011/12 and to provide an overall internal audit opinion based on this work.

## **Key Decision**

This is not a Key Decision.

## **Recommendation**

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

## **Key Points Summary**

- In the opinion of Internal Audit the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives except for those areas highlighted as limited.
- Four areas have received substantial assurance including key areas of Treasury Management and Housing Benefit.
- Significant progress in improving controls has been made to date on key areas.
- Prior year recommendations have been implemented.
- The Council can demonstrate it undertakes appropriate and timely action to improve controls in areas requiring improvement.

## **Alternative Options**

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

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Further information on the subject of this report is available from  
Darren Gilbert – Head of Internal Audit on (01432) 260425

## **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 The annual report is required to ensure that the Committee is informed of the internal audit work undertaken in 2011/12.
- 4 The report also provides the Council's Section 151 Officer (The Chief Officer – Finance and Commercial Services) with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes.

## **Key Considerations**

5. The audits have been conducted in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government. This framework is required to be used by all local authorities and has led to an assurance assessment based on:
  - All audits undertaken during the year;
  - Any significant recommendations not accepted by management and the consequent risks;
  - The effects of any significant changes in the Council's objectives or systems;
  - Matters arising from previous reports to the Audit and Governance Committee; and
  - Any limitations which may have been placed on the scope of the internal audit.
6. The internal audit plan was approved by the Audit & Governance Committee on 23<sup>rd</sup> August 2011. Sufficient internal audit work has been carried out to draw a reasonable conclusion about the adequacy and effectiveness of the Council's risk management, control and governance processes. In 2011/12 a total of 28 audit reviews and reports have been either finalised or are in draft. The attached appendix provides further information on these reviews.
7. The report also assess whether the internal audit service complies with the CIPFA Code of Practice on Internal Audit, which contains 11 standards. The service fully complies with seven and partially complies with the remaining four. Actions are indicated to ensure the four partial compliance areas meet full requirements. This will be monitored by the Chief Officer - Finance & Commercial in regular liaison meetings with KPMG.
8. The report notes that the Council has faced a number of challenges in 2011/12. These range from the impact of the government's deficit reduction programme to local issues such as determining the future of the AMEY partnership.

## **Financial Implications**

9. There are no financial Implications.

## **Legal Implications**

10. There are no Legal Implications.

## **Risk Management**

11. 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 plan is monitored on a regular basis in order to mitigate this risk. The Chief Officer: Finance & Commercial receives monthly reports on progress.
12. It is important that the council's governance, risk management and control processes provide assurance so that no major weaknesses can be exploited. The most that can be provided to a council's section 151 officer is reasonable assurance.

## **Appendices**

### **Appendix 1- Internal Audit Opinion - 2011/12**

## **Background Papers**

- Audit Plan 2011/12 approved by the Audit and Governance Committee on 23<sup>rd</sup> August 2011.

### Internal Audit Opinion

#### 1. Section 1

##### 1.1. Introduction

1.1.1. This section sets out the respective roles of Internal Audit and Management and how we formulate our opinion on the Council's risk management, control and governance processes.

##### 1.2. Role of Management and Internal Audit

1.2.1. Under the Accounts and Audit Regulations Act, the Council has a duty to ensure that its financial management is adequate and effective, that there is a sound system of internal control and robust risk management arrangements are in place. The primary responsibility for maintaining effective risk, control and governance arrangements rests with management. It is management's responsibility to establish and maintain the systems of internal control so that activities are conducted in an efficient and well-ordered manner. This management responsibility is devolved under Section 151 of the Local Government Act 1972 to the Council's Chief Financial Officer. At Herefordshire Council this responsibility rests with the Chief Officer – Finance and Commercial Services.

1.2.2. Internal Audit is the independent appraisal function established by management to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

1.2.3. Internal Audit also acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement.

#### 2. Section 2

##### 2.1. Internal Audit Opinion

2.1.1. This section sets out our opinion and how we have arrived at this based on the work undertaken.

##### 2.2. Formulation of opinion

2.2.1. Our internal audit work was carried out in accordance with the approved Internal Audit Plan. This was approved by the Audit and Governance Committee on 23 August 2011. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes. Our report provides one element of the evidence that underpins the Annual Governance Statement ("AGS") the Council is required to make within its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of its governance, risk management and control processes. Other sources of assurance on which the Council may rely on could include:

- The work of the External Auditors;
- The result of any quality accreditation;
- The outcome of any visits by government agencies;
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement; and
- Other external review agencies (i.e. Ofsted).

## **2.3. Opinion**

2.3.1. As the providers of internal audit to the Council, we are required to provide the Section 151 Officer (The Chief Officer – Finance and Commercial Services) with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Section 151 Officer is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken during the year;
- Any significant recommendations not accepted by management and the consequent risks;
- The effects of any significant changes in the Council's objectives or systems;
- Matters arising from previous reports to the Audit and Governance Committee; and
- Any limitations which may have been placed on the scope of the internal audit.

2.3.2. We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. In our opinion, the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives except for those areas highlighted as limited in Appendix 1. In these areas agreed improvement plans are in place.

## **2.4. Basis of Opinion**

2.4.1. The opinion is based on the specific results of our work and our assessment of how effectively the Council manages key aspects of its business, such as its risks, projects, performance and its staff.

## **2.5. Results of our Work**

2.5.1. We have completed all of our reviews and special assignments either in draft or in final. In many areas the Council's arrangements are adequate. We have also issued seven Limited Assurance opinions which mean that the Council needs to improve control environments in a number of areas. These were its Accounts Payable and General Ledger functions, its IT system, Agresso, and other corporate functions including Health and Safety, Business Continuity, Performance Management and Sustainability. These are critical systems and as such improvements will need to be made quickly to manage risks.

## **2.6. Overall view**

2.6.1. The Council faced and continues to face a number of challenges that have come together at a single moment in time. These include addressing key issues such as the financial management arrangements in Adult and Social Care, managing activities within a significantly reduced funding envelope as a result of government cuts, determining the future of the AMEY

partnership, working through its waste management partnership with Worcestershire, bedding in working arrangements with Hoople and driving through efficiency savings in the way in which all services are delivered. This is a significant change agenda on top of delivering business as usual. At such a time there is a requirement that core business processes – risk management, performance management, project management and people management – to be robust and effective.

2.6.2. Through our work, we have seen a number of examples which indicate that whilst on paper the right policies and procedures exist the application of them in practice, in some areas, has not delivered the expected results. We have given our view on the effectiveness of core business processes below:

- Risk management – policies and procedures are in place and the framework looks robust however the effectiveness of risk management is judged primarily through the achievement of successful outcomes. The results of work in areas such as business continuity, health and safety, adult and social care and performance management indicate that the results are mixed. Our work also indicates that the sound application of existing processes and the conviction that risk management will help achieve good results is variable. We believe the leadership needs to continue to push the importance of risk management.
- Performance management – the quest for a performance dashboard that gives real time information and assurance about how well the organisation is doing is critical. The Council continues to invest time in getting this right but there are still issues around how reliable information is, whether the right information is reported and whether the different dimensions of performance (quality, value for money, customer satisfaction etc) are adequately covered. This is reflected in our work on the Council's performance management process.
- Project management – the Council has well defined project management processes which on the whole appear to work well. However, the application of these processes is variable and the Council needs to ensure that there is greater focus on ensuring that the benefits of projects are realised.
- People management – people are the organisations greatest asset – they manage risks at the front line and are the customer face of the organisation. We have identified through our audit work, officers in some cases not following procedures that help and prevent the Council being exposed to risk. Whilst this is to some degree inevitable in an organisation of the Council's size, a re-emphasis on getting the basics right is important as in our experience it can hamper growth and transformation.

## **2.7. Significant Control Issues**

2.7.1. The Council is required to include in its Annual Governance Statement (AGS) any significant control issues. Based on the reviews undertaken by Internal Audit we believe the following issues should be included:

- The Council needs to strengthen controls within the Accounts Payable and General Ledger functions to ensure that the design and operation of systems are sufficient to manage key risks;
- The controls within the Agresso IT system need strengthening to ensure that risks in relation to inappropriate access and manipulation of data are mitigated;

- The Council need to develop controls within its key corporate systems such as Health and Safety, Business Continuity, Performance Management and Sustainability to ensure that they can meet their objectives and manage key risks; and
- The controls within the Adult and Social Care function are strengthened to ensure that the system can meet its objectives in terms of the service it delivers and the financial resources being managed.

It should be noted that there is already evidence that controls in the Agresso system have been strengthened.

### 3. Section 3

#### 3.1. Work completed

3.1.1. This section sets out the work which we completed during the year, the audit opinions given to each audit area, together with the number and priority of recommendations which we made. This section also details the results of our follow up work on recommendations made in 2010/11.

#### 3.2. Internal Audit Plan

3.2.1. The Internal Audit plan was approved by the Audit and Governance Committee on 23 August 2011. 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 in Progress	No of Audits deferred	Advice and Support provided
38	27	1	2	3	5

3.2.2. 28 audit reviews and reports have been either finalised or are in draft. We have set out in Appendix 1, the audit opinions we have given to reviews which have been finalised. This appendix also provides further detail on the findings flowing from each of the Limited reviews.

3.2.3. An overall summary of the gradings and the priority of the recommendations made over the year are set out within the graphs below. We also have provided further information in Appendix 2 and 3 of how we grade our audit reports and our audit recommendations.

3.2.4. Our draft report on the AMEY contract has been issued to management. However, the findings flowing from the report have not been agreed as negotiations with AMEY continue.

3.2.5. Two reviews are in progress. One piece of work involves Audit Services on behalf of the Council compiling the Annual Governance Statement (AGS). This is due to be completed shortly and a draft of the AGS will be submitted to the Audit and Governance Committee for approval in September 2012 prior to it being included within the Council's Financial Statements. We are also currently completing our work on the Rising to the Challenge (RTTC) project.

3.2.6. Three audits were deferred. Our reviews of HALO and the Adult and Social Care functions were deferred awaiting the outcome of separate Council led reviews. In relation to ASC KPMG were separately commissioned to input into this work. Our work in relation to the schools function was deferred due to the Financial Management Standard in Schools (FMSiS) process being 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.

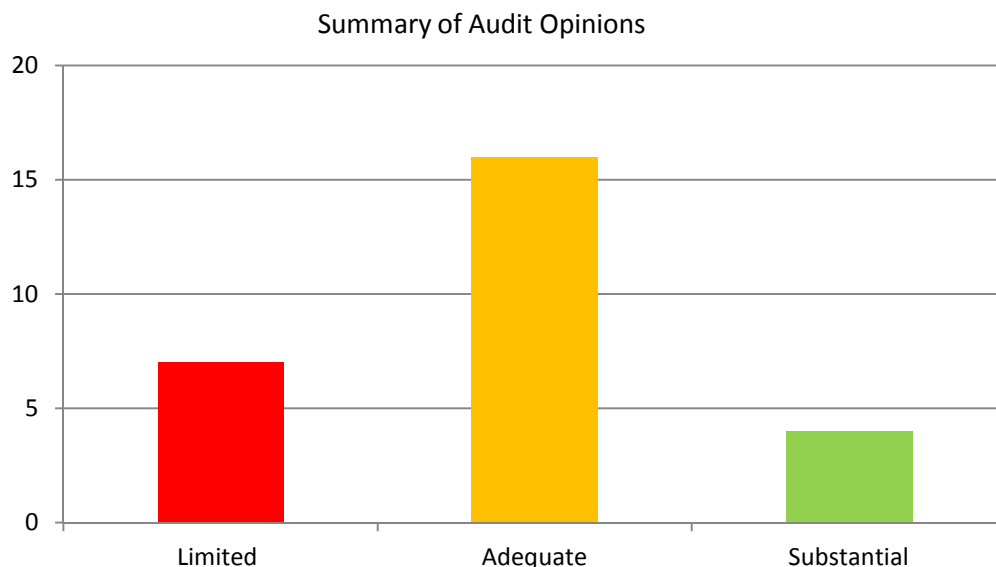
3.2.7. Audit Services has also contributed into a number of other reviews for the Council. We have provided further details on this in Appendix 2.

### 3.3. Findings from our work

3.3.1. The graphs below show the overall assurance grades we have given for the reports issued and the number and priority of recommendations made in the period. We issued a total of 28 audit reports and made 125 recommendations. Four areas were graded as 'substantial assurance' which reflects positively on the organisation and its control framework. These include areas such as Treasury Management, Member Allowances and Housing Benefit. Sixteen areas have been rated as Adequate and this assurance conclusion suggests scope to improve, but not fundamental control weaknesses. These areas include, Risk Management, Payroll and Debtors.

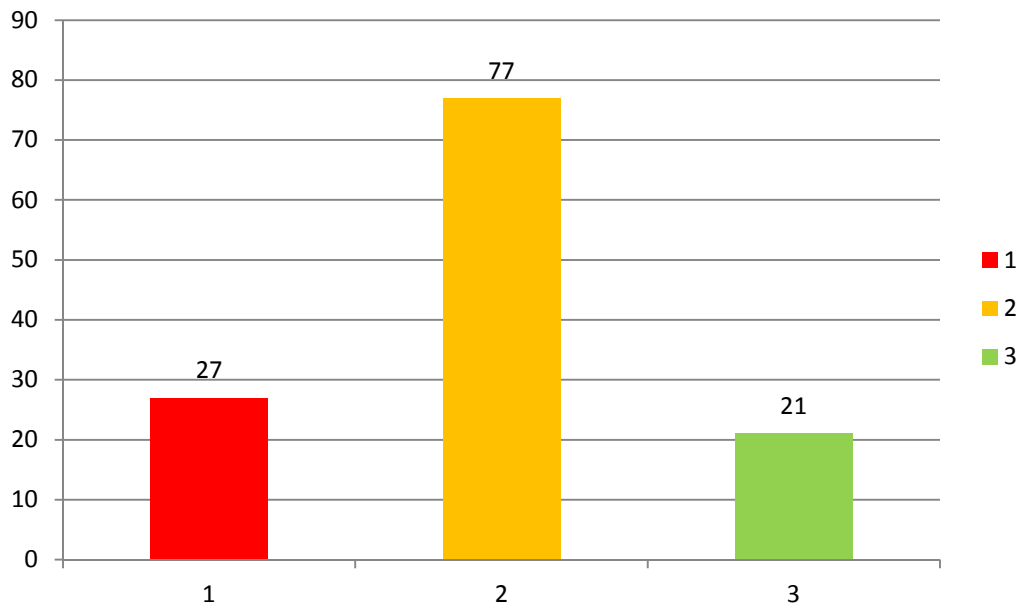
3.3.2. Seven areas were rated as Limited Assurance indicating that the control framework is weak within that area and significant improvements are required to ensure that key risks are being mitigated. Two of these areas are key financial systems, General Ledger and Accounts Payable. Other areas include corporate systems, such as Performance Management, Health and Safety and Business Continuity. The Council has recognised that significant improvements are required to these systems and has put in place action plans to resolve the issues which Internal Audit has highlighted.

#### Graph setting out a summary of Audit Opinions during the year





### Graph setting out a summary of recommendations by Grade



3.3.3. We have set out in Appendix 1, a summary of the findings flowing from each of the reviews where we have given a Limited Audit Opinion.

### 3.4. Follow up of prior year recommendations

3.4.1. As part of our work we reviewed Internal Audit work completed in 2010/11. This was split in two areas. We firstly focused on areas that were graded as providing the lowest level of assurance in the previous year. This was to assess the progress the Council had made in improving the control environment within that function. As part of this work we reviewed the Agency Payments and Education Transport areas. The results of this work are set out in Appendix 1.

3.4.2. We identified that the Council had made good progress in implementing recommendations made within these reviews with the majority having been implemented within the required timescales.

3.4.3. A second element of our work involved reviewing priority one recommendations made within audit reports issued in 2010/11 to assess if they had been effectively implemented. This was through either Internal Audit reviewing the same function as part of the Internal Audit Plan 2011/12 or requesting an update from management on the status of the recommendation they were responsible for implementing. Both of these processes only focused on Priority 1 recommendations. The table below details the findings from this assessment:

No of Rank 1 Recommendations	Implemented	No longer applicable	Outstanding	Total
50	44	6	-	50

3.4.4. It is clear overall good progress has been made in implementing prior year recommendations. This demonstrates that the Council once made aware of areas for improvement undertakes appropriate and timely action to improve controls within that area.

### 3.5. Other work completed

#### 3.5.1. Assistance and Guidance

Internal Audit has provided assistance and guidance to Chief Officers, Directors and Members in the following areas in five areas, PFI, Benefits Realisation, Performance +, Procurement processes within People Services and Fees and Charges rather than completing detailed audits.

### 3.6. Alleged Fraud

3.6.1. In the year, the Council identified that a false invoice was paid. The council's section 151 officer took very prompt action and referred the matter to the Police and Internal Audit. 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;
- reviewed the circumstance of the fraud and sought to close down weaknesses that allowed the fraud to be committed – this work is still ongoing; and
- undertaken further work to assess whether there have been further fraudulent payments – no issues were found.

## 4. Section 4

### 4.1. The Internal Audit Function

4.1.1. This section sets out how the Internal Audit function has performed against its Key Performance Indicators (KPI's) together with an analysis of the audit resource required to deliver the reviews.

### 4.2. Performance of Internal Audit

4.2.1. There a number of ways Internal Audit measures its performance. These include assessing performance against a set of Key Performance Indicators, reviewing compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 and feedback from management through regular meetings.

### 4.3. Key Performance Indicators

4.3.1. The table below details the performance of the Internal Audit function against its KPI's:

Performance Measure	Target	Actual	Comment
<b>The percentage of Audits completed within plus 10% of target times</b>	80%	80%	-
<b>Managers review of draft reports within 15 days of receipt from the Auditor</b>	80%	100%	-

<b>Final Reports issued within 10 days of agreement by client</b>	80%	98%	-
<b>Percentage of recommendations accepted by management</b>	95%	100%	-
<b>The percentage of Service managers satisfied with the Service measured through the CIPFA Audit Satisfaction Survey.</b>	-	-	See below

#### **4.4. Feedback from management**

4.4.1. Historically there has been a very low level of response to the Audit Feedback surveys issued to Managers. Therefore, Internal Audit has obtained feedback directly from Council staff who have been involved in the audit process through face to face meetings and e-mail. We have summarised below the key themes arising from these discussions.

- Management believe that Internal Audit has worked more effectively in collaboration with officers to ensure that audits focus on key risks and do not duplicate other related work e.g. our work on fees and charges was deferred pending the Council's own scrutiny review;
- Managers believe that recommendations flowing from the audits are focused and can make real improvements to the controls within that function, for example, flowing from our ABG Grant review management commented that our recommendations made a real difference to how they monitored projects and how they ensured that projects were delivering on their objectives;
- Managers believe that Internal Audit is responsive and flexible to requests made to complete audit work in response to an urgent issue, for example, we completed audit work in relation to the attempted fraud at short notice re-prioritising our existing work; and
- Management appreciate Internal Audit bringing in specialist KPMG resource where necessary to really make a difference to the work being completed. This occurred in our reviews of the Council's Health and Safety and Business Continuity functions.

4.4.2. There were areas for development highlighted by the feedback; these included the timeliness of reporting and specifically ensuring that draft reports are sent through to management as soon as possible after the de-brief date. We have discussed these issues and made changes in working protocols to ensure reports are issued promptly.

#### **4.5. CIPFA Compliance**

4.5.1. The CIPFA Code of Practice for Internal Audit in Local Government sets out how the Internal Audit service should be provided within a local authority. On an annual basis compliance against the Code of Practice should be assessed and reported to members

4.5.2. The following table sets out the key standards within the code, if the Internal Audit function is complying with the standard, fully or partially and any comments flowing from the assessment.

Standard	Fully Met	Partially Met	Not Met	Comments
Scope of Internal Audit	-	Y	-	The Audit Charter that sets out the scope of Internal Audit requires updating. This will be completed in September 2012.
Independence	Y	-	-	-
Ethics for Internal Auditors	Y	-	-	-
Audit Committee's	-	Y	-	The Audit Committee has not had the opportunity to meet privately with the Head of Internal Audit. This issue will be raised with members at the September 2012 Audit and Governance Committee.
Relationships	Y	-	-	-
Staffing, Training and Continuing Professional Development	-	Y	-	Job descriptions for the Internal Audit Team require updating following their transfer to Hoople. This will be completed in September 2012.
Audit Strategy and Planning	Y	-	-	-
Undertaking Audit Work	Y	-	-	-
Due Professional Care	Y	-	-	-
Reporting	Y	-	-	-
Performance, Quality and Effectiveness	-	Y	-	We have redrafted our audit satisfaction questionnaire to ensure that it can be more easily completed by management and we can obtain more useful feedback on the audit process.

4.5.3. The above assessment shows that the Internal Audit function is either complying or partially complying with all of the standards set out within the Code. Where the assessment has highlighted areas of partial compliance these are to be resolved in the forthcoming months.

#### 4.6. Audit Resource

4.6.1. In 2011/12 audit days were delivered through a combination of Council staff and secondments from KPMG. For the first 3 months of the year Council staff completed work on the previous year and other ad-hoc work. In the Annual Internal Audit Plan 2011/12 which we presented to the Audit and Governance Committee in August 2011 we envisaged inputting a total of 850 days in order to complete the Internal Audit Plan. We have set out below further detail on how these days were allocated in 2011/12:

Area	Days
Council Team	600
KPMG input (secondments)	200
Subtotal	800
Other ad-hoc work	50
Total	850

4.6.2. The above analysis shows that the audit plan was delivered within the number of days set out within the Annual Internal Audit Plan for 2011/12.

## Appendix 2 – Status of Audit Plan 2011/12 – July 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
<b>Directorate: Corporate Services</b>						
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.	Finalised – June 2012	Adequate	-	4	-
5	Director Annual Assurance Statements	Finalised – March 2012	Adequate	-	5	-
6	Risk Management	Finalised - August 2012	Adequate	-	7	-
7	Health and Safety including Public Health	Finalised – June 2012	Limited	8	3	-
8	Business Continuity/ Emergency Planning and ICT Disaster Recovery	Finalised – May 2012	Limited	1	2	1
9	Performance Management	Finalised – May 2012	Limited	-	10	-
10	Rising to the Challenge – Project Monitoring	In progress – to 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 Statement	In progress – to be issued shortly	-	-		
14	Follow Up – Agency Payments	Finalised – December 2011	Adequate			

No	Audit Review	Status	Audit Opinion	Recommendations		
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	-		
<b>Hoople</b>						
17	Payroll	Finalised – February 2012	Adequate	-	4	2
18	Accounts Payable	Finalised - June 2012	Limited	3	2	2
19	Debtors	Finalised - July 2012	Adequate	-	2	-
20	General Ledger inc FMS Bank Reconciliations and Transfer of Balances on Agresso	Finalised – June 2012	Limited	2	2	
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	Finalised –February 2012	Adequate	-	4	-
25	Agresso IT Controls	Finalised – June 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
<b>Directorate: People Services</b>						
29	Education Transport (Follow Up)	Finalised June 2012	Adequate	-		
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 July 2012.	-	-		

No	Audit Review	Status	Audit Opinion	Recommendations		
32	Procurement Audit	Advice and support provided by KPMG to the Director for People Services	-	-		
33	Adult and Social Care including ISIS Framework 1, 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.	-	-		
<b>Directorate: Places and Communities</b>						
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	Draft Report issued –Final September 2012	Limited	6	1	-
38	Planning	Finalised – June 2012	Adequate	-	4	-

## Other work

We have also provided assistance and support into matters raised by Council officers. These include:

Area	Comment
Licensing	Information and advice provided to the Director of People Services. This involved a review of an application submitted for a County Transportation Badge.
Carers Support	Information and support being provided to the Chief Officer – Finance and Commercial. This process involved Internal Audit assisting the Chief Officer in responding to a query raised by a member of the public.
Procurement of Consultants	Information and support provided to the Chief Officer – Finance and Commercial. This involved reviewing the process by which consultants are appointed to Legal Services.
Review of Project Implementation	Information and support provided to the Assistant Director, People, Policy and Partnerships. This process involved providing guidance to the Assistant Director in the implementation of an IT project.
Whistleblowing process review	A member of the Audit Team assisted in a review of the Whistleblowing process. Feedback was provided to the Assistant Director – Law, Governance and Resilience.
Contract Compliance	Review of recruitment process to assess ways in which it could be streamlined. Feedback report provided to Head of Commercial Services.



Fraud	Review of attempted fraud. Information and support being provided to the Chief Officer – Finance and Commercial.
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## Summary of Findings

The following pages provide a summary of the findings within each of the limited assurance reports which we have issued.

### 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.

### 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 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.

### Performance Management

The Council has developed an overall performance management framework; however, there are some key weaknesses in the way in which it is operated that undermine its quality and integrity. There a number of areas where the Council needs to develop its processes, these include ensuring the performance management process adequately monitors the range of the Council's services, developing controls which ensure that the information being reported is timely and accurate and linking performance and cost.

### Accounts Payable (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), accounts payable (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 accounts payable 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). There is evidence that improvements have been made.

### **General Ledger**

This audit reviewed the Council's controls over its key reconciliations, its suspense and holding accounts, transfer's and journals. We identified that controls operating over these areas, particularly over its bank accounts were weakened during the implementation of Agresso. However, the Council has worked hard to ensure that controls over these processes are currently being adhered to. However, further work is required by the Council to ensure that controls over suspense and journals are robustly applied by the organisation on a consistent basis.

### **Agresso IT Controls**

Alongside the work on Creditors (Agresso) the Chief Officer – Finance and Commercial 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 with Hoople Ltd to address other issues.

### **Sustainability**

The Council arrangements in this area are either not yet in place, or remain embryonic and require further time to develop and become embedded. For example, Cabinet has not to date received reports as to the Council's performance against its 2015 carbon reduction target. The Council recognises the need for improvement in this area and has demonstrated commitment to enhancing the infrastructure required, by appointing the Sustainability Team in January 2012, and has begun to develop a governance structure which includes a Carbon Board and a Carbon Management Team.

## Appendix 2 – Audit Opinions – Definition of Assurance Grading

<b>Conclusion</b>	<b>Definition</b>
<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).

### Appendix 3 – Rating of Recommendations

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
<b>Red</b> <i>(Priority 1)</i>	A <b>significant</b> weakness in the system or process which is putting the Council at <b>serious risk</b> of not achieving its <b>strategic</b> aims and objectives. In particular: significant adverse impact on <b>reputation</b> ; 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 <b>immediate attention</b> .	Issues that result in non-compliance with Health and Safety Legislation, i.e. No Health and Safety Policy in place.
<b>Amber</b> <i>(Priority 2)</i>	A <b>potentially significant</b> or <b>medium level</b> weakness in the system or process which <b>could</b> 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, <b>if not addressed</b> .	Issues that may result in non-compliance with Health and Safety legislation if not corrected or improved, i.e. Health and Safety Policy in place, however, incomplete in one or two sections.
<b>Green</b> <i>(Priority 3)</i>	Recommendations which could <b>improve</b> the efficiency and/or effectiveness of the system or process but which are <b>not vital</b> to achieving the Council's strategic aims and objectives. These are generally issues of <b>good practice</b> that we consider would achieve better outcomes.	Issues that are best practice, i.e. Health and Safety Policy in place, however, could be subject to minor improvement, such as listing new job titles for staff.