Herefordshire Council

MEETING:	**AUDIT AND GOVERNANCE COMMITTEE**
DATE:	**5 JULY 2013**
TITLE OF REPORT:	**INTERNAL AUDIT PROGRESS 2012/13**
PORTFOLIO AREA:	**CORPORATE AND ASSETS**

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 Audit and Governance Committee wishes to make, the report be noted.

Key Points Summary

- Audit Services has finalised a number of audits, these are: General Ledger, Debtors, Legal Services, Benefits (Council Tax and Housing), Public Health – Food Licensing, reviews of Income Collection Procedures (over three separate Council functions), Treasury Management and Data Protection.

- There are a number of audits being completed. Draft reports have been issued in connection with Payroll, Creditors, Hoople (Governance and Performance Management). Additionally, Audit Services is on site and completing audits of Procurement, Budgetary Control and Follow Up's on a number of different corporate functions, such as Health and Safety.

- Audit Services is continuing to provide support, guidance and information in a number of areas to Council Officers in respect of specific reviews. We have provided further information on these areas at points 9 to 13.

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
Darren Gilbert – Head of Audit Services on (01432) 260425

Reasons for Recommendations

2.   To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

Introduction and Background

3.   The purpose of this report is to ensure that the Committee is informed of the status of internal audit work and any key internal control issues identified from work completed in the last quarter.

Key Considerations

Summary of progress against the audit plan

4.   The Internal Audit plan was approved by the Audit and Governance Committee on 6 July 2012. We have set out the number and type of audit reviews to be completed in Appendix 1.

5.   Internal Audit Services is progressing with the Internal Audit Plan. To date, 21 audit reviews have been either completed or are in draft. There are currently eight reviews being completed by Audit Services, with draft reports issued in another four areas.

Audit Reviews completed

6.   Our review of the General Ledger was given an "Adequate" assurance opinion. While we noted that the control framework over the function had improved (this area was given a "Limited" opinion in 2011/12), further work was required to improve controls over journals and holding accounts. Our review of the Debtors function was given a "Substantial Assurance" opinion. We found a number of good controls operating within the function and made four low priority recommendations following our review.

Audit and Other reviews in progress

7.   There are currently a number of reviews being completed by Audit Services. Work on these is progressing well with draft reports issued in areas such as Payroll and Aggresso – Access Controls. There are also a number of audits where on-site work is currently being completed, these include, follow up reviews over the Health and Safety, Business Continuity, Sustainability and Performance Management functions.

8.   We will report any significant issues arising from these reviews to future meetings of the Audit and Governance Committee.

Other Audit Input

9.   Audit Services has reviewed the system by which the Council capitalises highways expenditure. This audit was requested by the Chief Officer, Finance and Commercial Services. This review assessed how the Council accounts for this type of expenditure and ensures compliance with the CIPFA Code of Practice on Local Authority Accounting. Related to this review, we have also reviewed the Council's capital planning process which identifies and agrees capital expenditure schemes. We have issued draft reports to the Chief Officer, Finance and Commercial Services in these areas.

10. Audit Services was also requested by the Chief Officer, Finance and Commercial Services to review and assess internal controls within the Integrated Community Equipment Store (ICES). This function is funded through Section 75 of the National Health Service Act 2006 and provides medical equipment to aid independent living. We have issued a draft report to the Chief Officer, Finance and Commercial Services in this area.

11. The Council has worked together with KPMG in reviewing key aspects of its Adult Social Care function. This work has involved reviewing aspects of the function's IT systems, such as the link between Framework I and the Council's Agresso financial system, in addition to how it procures Care Services. We have issued a draft report to the Chief Officer, Finance and Commercial Services in this area.

12. Audit Services has also completed work in other areas as requested by the Chief Officer, Finance and Commercial Services and other officers within the Council. For example, we have reviewed the process by which the Council is seeking to make payments to its partners as part of the Borders Broadband project.

13. Audit Services along with KPMG is also completing work in other areas, such as the Direct Payments process within Adult Social Care, reviewing the use of mobile phones within the Council and assisting in the external validation of ISO 27001 which the Council has in place.

Community Impact

14. This report does not impact on this area.

Equality and Human Rights

15. This report does not impact on this area.

Financial Implications

16. There are no Financial Implications.

Legal Implications

17. There are no Legal Implications.

Risk Management

18. 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

19. The HSLT and the Chief Officer, Finance and Commercial were consulted in the drafting of this report.

Appendices

Appendix 1 – Status of Audit Plan 2012/13

Appendix 2 – Audit Opinions – Definition of Assurance Grading

Appendix 3 – Rating of Recommendations

Background Papers

20.   None

Appendix 1 – Status of Audit Plan 2012/13 – July 2013

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

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
Core Support Systems					
Payroll	Draft report issued	-	-		
Creditors	Draft report issued	-	-		
Treasury Management	Completed	Substantial	-		
Income Collection – Car Parking	Completed	Adequate	-	1	1
Income Collection – Bereavement Services	Completed	Adequate	-	2	1
Income Collection – Industrial Lets	Completed	Limited	1	2	-
Debtors	Completed	Substantial	-	-	4
Budgetary Control	In progress	-	-		
NNDR and Council Tax	Completed	Substantial	-	-	2
General Ledger	Completed	Adequate		1	4
Benefits (Council Tax and Housing)	Completed	Substantial	-		
Asset Register	In progress	-	-		
Procurement	In progress	-	-		
Rising to the Challenge – Project Review	Completed - As this project has now been completed we have input into the Council's Rising to the Challenge Closure Report.	n/a	-		
Health and Safety – Follow Up	In progress	-	-		

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
Sustainability – Follow Up	In progress	-			
Business Continuity – Follow Up	In progress	-			
Legal Services	Complete	Limited	2	7	-
IT Systems					
ISO 27001 ICT Services	Complete	Adequate		4	
ISO 27001 Modern Records Unit	Complete	Adequate	-	4	-
Access Controls – Academy and IDOX	Complete	Adequate	-	2	1
Access Controls review - Agresso, Academy, ISIS and Abacus	Draft report issued	-		-	
Data Protection	Complete	Limited	3	2	-
IT Strategy	Audit deferred as the Council is currently reviewing its overall IT requirements.	-		-	
Anti-Fraud Systems					
Anti-Fraud and Corruption Arrangements	In progress - This work will involve joint KPMG and Council workshops. The aim of the workshops will be to enhance staff understanding of this area	-		-	
Anti-Fraud and Corruption – Procedures Audit	These audits have been incorporated within the Audit Commission's Anti-Fraud and Corruption survey.	n/a		-	
Anti-Fraud and Corruption – Hot Topics and Risk Areas		n/a		-	
Audit Commission - Anti-Fraud Survey	Completed	n/a		-	

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
Governance Systems					
Performance Management – Follow Up	In progress	-	-		
Operational Systems – Directorates					
Hoople – Client Side Management	Completed - We have reviewed (where appropriate) the Council's contract management arrangements with Hoople as part of the audits we have completed.	n/a	-		
Hoople – Governance/ Performance Management	Draft Report issued	-	-		
Adult Social Care – Financial Management and Follow Up	The reviews of these areas have been incorporated within a KPMG consultancy review which is currently being completed.	n/a	-		
Adult Social Care – Procurement (Follow Up)		n/a	-		
Places and Communities - Public Health – Food Licensing	Completed	Limited	1	4	4
Places and Communities – Procurement	In discussions with management the need for this audit has been superseded by the Council needing additional consultancy support in this area which is currently being provided.		-		

Schools			
Financial Management	In discussions with management we have agreed to defer the audit of this area and complete the work as part of the Internal Audit Plan for 2013/14. This will allow us to review and test how Schools are complying with the new Financial Value Standard which fully came into effect in 2013/14.	n/a	-

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 a significant 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 *(Priority 1)*	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 *(Priority 2)*	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, i.e. Health and Safety Policy in place, however, incomplete in one or two sections.
Green *(Priority 3)*	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.