Herefordshire Council

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	26 NOVEMBER 2013
TITLE OF REPORT:	INTERNAL AUDIT PROGRESS REPORT
REPORT BY:	INTERNAL AUDIT - FINANCE

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 is in the process of completing audits that have been set out within the Internal Audit Plan for 2013/14. We have issued a draft report following up our recommendations on Food Licensing. We are also due to issue draft reports in respect of Procurement, Council Tax/NNDR and the ISO 27001 function shortly. The remaining audits within the plan are currently being completed or being agreed with officers.

- Audit Services have finalised a number of audits relating to the 2012/13 Internal Audit year, two reports remain in draft and will be finalised shortly.

- 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 13 to 14.

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.

4.   Over the previous six months Audit Services has been completing internal audit work relating to the current Internal Audit Plan (2013/14) and also finalising work relating to the previous year's Internal Audit Plan (2012/13).

Key Considerations

Audit work completed – Internal Audit Plan 2013/14 (Current Internal Audit Year)

5.   The Internal Audit plan for 2013/14 was approved by the Audit and Governance Committee on 13 May 2013. We have set out the number and type of audit reviews to be completed in Appendix 1.

6.   We have issued a draft report on our follow up work on the Council's Food Licensing function. Additionally, we are due to issue draft reports on the Procurement, Council Tax/NNDR and ISO 27001 functions shortly. We have also commenced on site work on the following audits:

- Treasury Management;

- Budgetary Control;

- Income Collection – Follow Up;

- Asset Register; and

- Data Protection – Follow Up.

7.   Once these reports have been issued and finalised we will report any significant issues arising from these reviews to future meetings of the Audit and Governance Committee.

8.   We are in the process of agreeing the remaining audits set out within the Internal Audit Plan with Council officers.

Audit work completed – Internal Audit Plan 2012/13 (Previous Internal Audit Year)

9.   Audit Services has completed and issued reports for all of the audits set out within the 2012/13 Internal Audit Plan. Two audit reports remain in draft because of delayed responses from management, these relate to Agresso Access Controls and Hoople (Governance and Performance Management). These reports will be finalised shortly.

10.   Our follow up audits of Performance Management, Sustainability and Business Continuity were given "Adequate Assurance" gradings. These functions were given "Limited Assurance" gradings in 2011/12. The Council has worked hard to improve control frameworks in these areas and the improved grading does reflect the improvements that have been made. The

Council should continue to ensure processes and controls are improved so that effective control frameworks are embedded within these functions.

11. Our audits of General Ledger, Payroll and Creditors were also given "Adequate Assurance" opinions. In 2011/12 these were given "Limited Assurance" gradings. We noted that again the Council has made good progress in improving controls in these areas. Some further work is required to ensure that fully effective controls are in place and both the Council and Hoople are working hard to ensure that this occurs.

12. Our follow up review of the Council's Health and Safety function was given a "Limited Assurance" opinion. There have been some improvements made to the Council's health and safety management system since our last audit. For example, management reporting on health and safety has been developed and health and safety is included as a key risk within the Council's risk register. However, other key processes have yet to be progressed. For example, developments to control systems which ensure that health and safety legislation is complied with, particularly in connection with legionella, asbestos and fire safety have not been implemented. We were informed by management that in some instances this has been due to a lack of Council resource. While we acknowledge that the Council is reducing its cost base due to decreases in its funding, it should ensure that this key area is appropriately resourced to ensure it is fully complying with its Health and Safety obligations. As part of our Audit Plan for 2013/14 we are due to review this function again and will report to the Audit and Governance Committee the progress the Council has made in this area in 2014.

Other Audit Input

13. At the request of management, Audit Services along with KPMG has also completed work in other areas, such as the Direct Payments process within Adult Social Care and reviewing the arrangements for monitoring and controlling the use of mobile phones within the Council.

14. Audit Services has also reviewed the systems and controls the Council has in place over the Troubled Families Grant process and has issued a draft report in this area to officers. One of the conditions of the grant paying body was that there is an appropriate internal audit assurance mechanism in place to support the periodic returns the Council has to submit.

Community Impact

15. This report does not impact on this area.

Equality and Human Rights

16. This report does not impact on this area.

Financial Implications

17. There are no Financial Implications.

Legal Implications

18. There are no Legal Implications.

Risk Management

19. 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

20.   The SLT and the Section 151 Officer were consulted in the drafting of this report.

Appendices

Appendix 1 – Status of Audit Plan 2013/14

Appendix 2 – Audit Opinions – Definition of Assurance Grading

Appendix 3 – Rating of Recommendations

Background Papers

21.   None

Appendix 1 – Status of Audit Plan 2013/14 – November 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	November 2013	-	-		
Creditors	January 2014	-	-		
Treasury Management	November 2013	-	-		
Income Collection (Follow up)	November 2013	-	-		
General Ledger	January 2014	-	-		
Council Tax/NNDR	-	-	Draft Report to be issued shortly		
Benefits (Housing and Council Tax)	December 2013	-	-		
Asset Register	In progress	-	-		
Procurement	-	-	Draft Report to be issued shortly		
Transport Team	December 2013	-	-		
Root and Branch (Governance)	February 2014	-	-		
Health and Safety	March 2014	-	-		
Business Continuity	March 2014	-	-		
Legal Services	March 2014	-	-		

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
IT Systems					
ISO 27001 Information Security	-	-	Draft Report to be issued shortly		
Access Controls review - Agresso, Academy, ISIS and Abacus	February 2014	-	-		
Data Protection (Follow Up)	November 2013	-	-		
IT Strategy	February 2014	-	-		
Anti-Fraud Systems					
Anti-Fraud and Corruption – Hot Topics and Risk Areas	December 2013	-	-		
Audit Commission - Anti-Fraud Survey	March 2014	-	-		
Governance Systems					
Risk Management	December 2014	-	-		
Performance Management	March 2014	-	-		
Savings and Benefits Realisation	January 2014	-	-		
Operational Systems – Directorates					
Places and Communities - Public Health – Food Licensing (Follow Up)	-	-	Draft report issued		
Places and Communities – Highways Contract Management	March 2014	-	-		
Places and Communities – Delivery of Projects funded by the Skills Funding	February 2014	-	-		

Agency					
Audit Review	**Status**	**Audit Opinion**	**Recommendations**		
			P1	P2	P3
Places and Communities – Broadband rollout – project and financial management	December 2014	-		-	
Places and Communities - HALO	February 2014	-		-	
Places and Communities - Homelessness & Housing	December 2013	-		-	
Corporate Services - Digital channels project	January 2014	-		-	
Schools					
Financial Management	January 2014	-		-	

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, ie 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.