



St Edmundsbury
BOROUGH COUNCIL

B267

Performance and Audit Scrutiny Committee 25 October 2010

Mid Year 2010/11 Internal Audit Progress Report

SUMMARY

This report advises members of the work of the Internal Audit Section for the first six months of 2010/11. Your views and comments on the format and level of detail supplied within the report are welcome.

The report also seeks to provide members with an understanding of the variety of projects and corporate activities which are supported through the work of the team.

PURPOSE OF THE REPORT

To update members on work undertaken by Internal Audit within the first six months of the financial year, and the position regarding progress made towards achieving the 2010/11 audit plan presented to this committee on 26 April 2010.

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Performance and Audit Scrutiny Committee

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Mid Year 2010/11 Internal Audit Progress Report

1. Recommendation

- 1.1 That the contents of the Mid Year Internal Audit Progress Report for 2010/11 be noted and endorsed.

2. Purpose of Report

Mid Year Internal Audit Progress Report

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code) which has been deemed as proper practice under the Accounts and Audit Regulations 2003, states under 'Standard 10 – Reporting' that 'in addition to the annual report, the Head of Internal Audit should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report'.
- 2.2 The purpose of this report is to update members on work undertaken within the first six months of the financial year and the progress made in achieving the audit plan presented to this committee on 26 April 2010.

3. Background

Role of Internal Audit

- 3.1 Management are responsible for the systems of internal control within the council and should set in place policies and procedures to help ensure that systems function correctly. It is the role of internal audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, corporate governance, and arrangements for providing best value for money. This is achieved by undertaking audits across the full range of the council's functions in accordance with a risk based audit plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.
- 3.2 Internal Audit also undertake other consultancy style work at the request of management, ranging from general financial advice and assistance and financial appraisals of contractors, to involvement in major council initiatives and projects, as well as undertaking special projects and investigations, including investigations into suspected irregularities or fraud.

Requirement for Internal Audit

- 3.3 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit.
- 3.4 Internal Audit carries out the work to satisfy this legislative requirement, reporting the outcome of its work to this Committee. The Performance and Audit Scrutiny Committee in its role as the council's audit committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and for scrutinising the Annual Governance Statement prior to its approval at Full Council. The audit work carried

out is therefore a key source of assurance that the internal control environment is operating effectively.

4. Review of Internal Audit work for the six months to September 2010

4.1 An overview of the work of Internal Audit for the first six months of 2010/11 is set out below.

Corporate work including work on behalf of the Chief Finance Officer

4.2 Within the period there has been a high demand for Internal Audit involvement in corporate work due to the section's skills and expertise. During the first six months of the financial year 2010/11 this aspect of the section's work has included the following:

- Drafting the Annual Governance Statement (AGS) as presented to this Committee on 27 July 2010. Production of the AGS is a significant piece of work and was well received by both officers and the Audit Commission;
- Ongoing membership and contribution to the Strategic Risk Management Group and Performance Management Group;
- Attendance at Management Team meetings to brief senior managers in relation to the outcomes of work undertaken by the section where corporate issues are covered;
- Supporting the Shared Services Programme with the Principal Auditor taking on the role of a Shared Services Architect and the Senior Auditor supporting the work of the Finance Workstream;
- Responding to sixteen requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts;
- Acting as Independent Examiner for the 2009/10 West Stow Anglo Saxon Village Trust Accounts;
- Examination of the 2009/10 Receipts and Payments Accounts for two voluntary organisations;
- Performing appropriate work to enable the Chief Executive and Internal Audit Manager to certify to the Homes and Community Agency that the conditions attached to the relevant Growth Fund Grant Determination for 2009/10 have been complied with; and
- Continuing to provide advice to service areas on internal controls.

Core Financial Systems and Fundamental Review Work

4.3 This work is concerned with the documentation, evaluation and testing of the effectiveness of systems of internal control within the council's financial and information systems, including compliance with the council's rules and policies and its overall risk management and corporate governance arrangements.

4.4 We have agreed with the Audit Commission to commence the majority of this work during the latter six months of the financial year to enable them to place as much reliance on the work of Internal Audit as possible, resulting in potentially reduced Audit Commission testing and slightly lower fees, while still giving Internal Audit a realistic chance of completing the statutory Audit Plan (that is, the core financial systems reviews).

4.5 Three of these audit reviews have been completed and issued as final reports, these being:

- Data Protection Arrangements
- ICT Audit (Disaster Recovery Follow Up)
- ICT Audit (Laptop Security Follow Up)

4.6 A number of these audit reviews are in progress, they include:

- Council Tax
- Non Domestic Rates
- Housing and Council Tax Benefits
- Accounts Payable
- ICT Audit (Internet Controls)
- National Indicators

The results of these audits will be reported to Performance and Audit Scrutiny members in the Annual Internal Audit Report in April 2011.

Departmental Systems Reviews

4.7 This work is concerned with reviewing internal controls within departmental systems, areas for review being identified by a risk analysis undertaken before the start of the financial year.

4.8 During the first six months of the financial year 2010/11 ten internal audit reports have been issued within this category, namely:

- Grants Paid
- Fees and Charges
- Bury Bus Station Cash Handling Follow Up
- Tourist Information Cash Handling Follow Up
- Concessionary Bus Travel Follow Up
- West Suffolk House Building Security Follow Up
- West Suffolk House Car Parking Follow Up
- Parks Follow Up
- Partnerships Follow Up
- Car Parks Follow Up

4.9 In addition, a number of audits are in progress and/or nearing completion and these are listed below:

- Contract Procedures
- West Stow Cash Handling Follow Up
- Moyses Hall Cash Handling Follow Up
- West Suffolk House Health and Safety Follow Up
- Human Resources

Probity

4.10 The council is required to participate in the biennial National Fraud Initiative (NFI), the Audit Commission led exercise involving data matching of records such as benefits, payroll, pensions, student awards, housing rents (where appropriate), licenses, parking permits, and travel concessions. Internal Audit takes a leading role in co-ordinating this exercise within the council working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.

- 4.11 The new NFI exercise has begun with the council's NFI Key Contact ensuring compliance with the Code of Data Matching by checking that all relevant forms have the correct wording, and our website provides a link to further information. Staff are also being advised (via the council's internal bulletin and payslips) that payroll data will be processed as part of the exercise, while appropriate service areas have been informed of the data extraction requirements, and the timetable for extracting data from a number of systems.
- 4.12 Work is continuing on raising fraud awareness within the council. An anti-fraud survey was circulated for staff to complete in April 2010 and the second bi-annual fraud awareness newsletter has been published. In addition, a message has also appeared in the council's internal bulletin reminding staff of their responsibilities regarding information security.
- 4.13 In August 2010 the council was alerted to a fraud whereby fraudsters are contacting organisations and falsely stating that bank account details of the companies they purport to represent have changed. To date, the fraudsters have falsely presented themselves as representing construction companies, housing associations, and other organisations. The payments section was alerted to this threat of fraud and has updated their records, and as an additional measure, staff who have access to the council's financial system have been reminded not to provide creditor reference information to outside organisations.

5. Performance

Utilisation of Audit Time

- 5.1 Internal Audit continues to have a full staff complement and we are on track to achieve the statutory Audit Plan.

Partnership Working – Suffolk Working Audit Partnership

- 5.2 Internal Audit actively contributes to the Suffolk Working Audit Partnership (SWAP). This partnership allows local authorities in Suffolk to share resources, knowledge, and experience regarding internal audit issues in order to identify and promote the adoption of best practice, primarily through an extranet facility. The partnership identifies common training needs and initiates joint training where necessary. This is all achieved at minimal cost.

Partnership Working – Shared Services

- 5.3 In order to ensure that Internal Audit make further progress towards working more closely with Forest Heath District Council a number of initiatives are being planned or have already taken place, including agreeing that Internal Audit liaison meetings with the Audit Commission will now be held jointly by the two authorities, and the annual audit planning process will start earlier in the year to allow both Audit Managers to jointly consider opportunities for reciprocal and joint audit work at each authority. In addition, CIPFA's draft Statement on the Role of the Head of Internal Audit is being jointly considered by both Audit Managers to ensure that efforts to achieve continuous improvement of each internal audit service are made in the context of the shared services agenda.
- 5.4 In addition, the Suffolk Chief Executives have identified Internal Audit as one of the services that could be delivered more efficiently across all councils through a shared approach. In order to take this forward a Suffolk Internal Audit Partnership Board has been established to lead the process. The Board members meet on a regular basis, and provide progress reports to the Suffolk Chief Finance Officers.

6. Other Matters

- 6.1 We are in the process of developing an Internal Audit page on the council's intranet site, in our ongoing effort to further improve the service we provide. The page will provide information about the section and how it operates, its staff and the services we are able to offer.

Summary of Internal Audit Reports Issued in 2010/11

1. Introduction

- 1.1 During the period, thirteen audit reviews have been completed to final report stage. Audit reports are issued as final where their contents have been agreed with client management, in particular, responsibility for actions and timescale.
- 1.2 The following sections contain a summary of the content of the internal audit reports issued during the current financial year. Each summary provides an indication of the issues arising from the reviews, as well as action taken in response to previous audit reports.
- 1.3 It should be noted that each summary below represents the situation at the point in time that the audit work was undertaken and therefore it is likely that a number of agreed key improvements will subsequently have been made.
- 1.4 In line with CIPFA good practice guidance, opinions are provided on the operation of control mechanisms where a full audit has been undertaken for the area reviewed. A key to these opinions can be found at the end of this appendix, at Section 15. Where a follow up review has been undertaken full testing of controls will not always be undertaken and therefore an opinion on the operation of controls will not normally be given.

2. Data Protection Arrangements

- 2.1 This was the first time, in recent years, that this area has been reviewed by Internal Audit. The purpose of the audit was to determine whether activities involving the processing, collection, usage, retention, disposal and security of personal information are carried out in accordance with the council's Financial Procedure Rules, and whether the requirements of the Data Protection Act 1998 are met. A *limited assurance* opinion was provided.

Key areas where improvements are required

- 2.2 A data protection policy should be drafted to illustrate how the council endorses and seeks to adhere to the principles of data protection, as set out in the Data Protection Act 1998.
- 2.3 The audit review also concluded that a staff member should be formally nominated to act as the council's Data Protection Officer who is then able to carry out /delegate a number of actions included within the internal audit report. It should be noted that Management Team, having discussed the issues raised in the report, agreed that the Head of Legal and Democratic Services will act as the council's Data Protection Officer.

3. ICT Disaster Recovery Follow Up

- 3.1 This was the third follow up review to an audit report issued in December 2006, the first follow up took place in March 2008 and the second in April 2009.
- 3.2 The report concluded that all previously recommended actions are now closed. However, a new action was raised during this review whereby staff should investigate the possibility of introducing penalty clauses into the business continuity contract to ensure that the

council's interests remain safeguarded when the contract is renewed, or next tendered for.

4. ICT Laptop Security Follow Up

- 4.1 This was the third follow up review of progress made towards completing agreed actions arising from the report originally issued in September 2007. All recommendations made have now been addressed.

5. Grants Paid

- 5.1 This was the first time, in recent years, that the grants process had been reviewed by Internal Audit. During this review three different types of grants (core funding, housing, and environmental health) approved by the council were examined to ensure grants are checked for eligibility, and awarded and paid in accordance with relevant approved criteria. A *substantial assurance* opinion was provided.

Key areas where improvements are required

- 5.2 Procedures in all three grant areas require updating and enhancing in order to further improve clarity.
- 5.3 Arrangements regarding monitoring the effective use of grants could be further improved by considering the adequacy of current reporting arrangements to members.
- 5.4 The Funding Sources Guide available to the public on the internet site requires further updating.
- 5.5 The Core Grants Scoring Matrix which Grants Officers use to evaluate grants needs to be reviewed and updated to ensure that this can be more easily used by members to make an informed assessment of each grant application.

6. Fees and Charges

- 6.1 This review focused on the application of the Fees and Charges Policy and the ability of the council to maximise income raised from fees and charges. A *substantial assurance* opinion was provided.

Improvements made since the previous audit

- 6.2 Since the 2008 audit review the Fees and Charges Policy has been developed, approved and rolled out, and the DR-IVE initiative and budget setting processes both continue to drive the income management process.
- 6.3 Service managers have become increasingly aware of the importance of reviewing fees and charges, identifying new income opportunities and reviewing existing arrangements to ensure these are efficient, effective and more services are accessible and payable direct and online.

Key areas where improvements are required

- 6.4 Whilst it is clear that significant progress has been made, the latest audit review confirmed that more could be done to ensure that all relevant fees and charges are regularly reviewed and compared or benchmarked with other local service providers.

7. Cash Handling Review – Bury Bus Station Follow Up

- 7.1 This was a follow up review to an audit report issued in October 2009. Significant progress has been made in tightening controls with all recommendations made in the previous report now addressed.

8. Cash Handling Review – Tourist Information Centre Follow Up

- 8.1 This was the first follow up review of progress made towards completing agreed actions arising from the audit report originally issued in October 2009. The majority of the agreed actions have been implemented; the remaining actions concern the need to further improve the management trail supporting transactions and for the Insurance Section to issue reminders to establishments regarding insurance requirements.

9. Concessionary Bus Travel Follow Up

- 9.1 This was the first follow up review to an audit report issued in October 2009. The majority of the agreed actions have been implemented; the remaining action concerns the accessibility of information and forms relating to the concessionary travel scheme for potential users of the service.
- 9.2 It should be noted that the council will cease to manage the concessionary travel service from the 1st April 2011, when full responsibility will be transferred to Suffolk County Council.

10. West Suffolk House Building Security Follow Up

- 10.1 This was a follow up review to an audit report issued in September 2009. The report concluded that whilst progress had been made in tightening controls, the security culture could usefully still be further improved.

11. West Suffolk House Car Parking Arrangements Follow Up

- 11.1 This was the first follow up review to an audit report issued in October 2009. This review identified that progress has been made against a number of the agreed actions, however, testing identified that errors still existed within the charging formulae. Also, verification procedures could be further improved to provide a management trail demonstrating that all appropriate checks had been undertaken before informing the Payroll Section of salary deductions to be made in respect of West Suffolk House car parking charges.

12. Parks Follow Up

- 12.1 This was a second follow up review to audit reports issued in December 2007 and July 2009 relating to cash handling issues at two council parks.
- 12.2 This report concluded that whilst significant progress had been made in tightening controls and many of the recommendations made in the previous reports had been addressed, there remained scope to further improve controls over the preparing of monies for banking.

13. Partnerships Follow Up

- 13.1 This was the first follow up review to an audit report issued in July 2008. The review concluded that significant progress had been made, specifically a Partnership Strategy has been adopted and significant partners identified. However, a number of improvements could still be made including more clearly defining governance arrangements within Funding Agreements, and in some instances Service Level Agreements, that are currently in place for key partnerships.

14. Car Parks Follow Up

- 14.1 This was the second follow up to an audit report issued in September 2007, with the initial follow up being undertaken in January 2009.
- 14.2 The majority of the agreed actions have been implemented, the remaining actions concern further improvements regarding the cash counting and recording process, car park signage, and completion of procedure manuals in respect of all relevant aspects of car parks operations.

15. Meaning of Opinions given in audit reviews

Meaning of words used: -	
Full Assurance	The full assurance opinion is given where no significant or fundamental recommendations have been made and where controls within the system should provide full assurance that the risks material to the achievement of the system objectives are adequately managed.
Substantial Assurance	The substantial assurance opinion is given where a small number of significant, but no fundamental recommendations have been made and where controls within the system should provide substantial assurance that the risks material to the achievement of the system objectives are adequately managed.
Limited Assurance	The limited assurance opinion is given where a small number of fundamental and also a number of significant recommendations have been made and where controls within the system provide limited assurance that the risks material to the achievement of the system objectives are adequately managed.
No Assurance	The no assurance opinion is given where little or no assurance could be gained from a system where a large number of both fundamental and significant recommendations were proposed and where controls within the system provide little or no assurance that the risks material to the achievement of the system objectives are adequately managed.