



St Edmundsbury
BOROUGH COUNCIL

C192

Performance and Audit Scrutiny Committee 31 October 2011

Mid Year 2011/12 Internal Audit Progress Report

SUMMARY

This report advises members of the work of the Internal Audit Section for the first six months of 2011/12. 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 2011/12 audit plan presented to this committee on 26 April 2011.

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Performance and Audit Scrutiny Committee

31 October 2011

Mid Year 2011/12 Internal Audit Progress Report

1. Recommendation

- 1.1 That the contents of the Mid Year Internal Audit Progress Report for 2011/12 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 2011.

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 2011

4.1 An overview of the work of Internal Audit for the first six months of 2011/12 is set out below.

Corporate Work including Advice and Assistance

4.2 During the first six months of the financial year 2011/12 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 2011: production of the AGS is a significant piece of work;
- 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;
- responding to 42 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 2010/11 West Stow Anglo Saxon Village Trust Accounts;
- 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 Growth Fund Grant Determination for 2010/11 have been complied with;
- undertaking investigative work on behalf of the Leader of the Council;
- support was provided to the West Suffolk Local Strategic Partnership to assist with the approach to selecting a suitable sustainable legacy project for funding. Advice and guidance on funding processes and on relevant application documentation and assessment process was given. This support also included the review of funding submissions and the assessment of bids as part of a legacy project working group;
- work in support of the Audit Commission's audit of the EEDA grant claims in respect of the Cattle Market; 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 from September 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 Six of these audit reviews have been completed and issued as final reports, these being:

- Central Government Data Requirements and Key Performance Indicators
- National Indicators 2010-11 Follow Up
- Cash Handling - Car Parks
- Cash Handling – Abbey Gardens
- ICT Audit (Disaster Recovery Follow Up)
- ICT Audit (Back Up Arrangements Follow Up)

4.6 A number of core fundamental systems and fundamental review audits are in progress, they include:

- Risk Management
- Main Accounting System and Budgetary Control
- Payroll
- Council Tax
- Non Domestic Rates
- Benefits
- Treasury Management

The results of these audits will be reported to Performance and Audit Scrutiny members in the Annual Internal Audit Report in April 2012.

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 twelve internal audit reports have been issued within this category, namely:

- Data Protection Arrangements Follow Up
- Emergency Planning and Business Continuity Follow Up
- Apex
- West Stow Cash Handling Follow Up
- Moyse's Hall Cash Handling Follow Up
- Tourist Information Centre Cash Handling Follow Up
- Parks Follow Up
- Car Parks Follow Up
- Concessionary Travel
- Grants Paid Follow Up
- Gifts and Hospitality Follow Up
- West Suffolk House Car Parking Follow Up

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

- Contract Procedures
- Partnerships Follow Up
- Registers of Interest
- West Suffolk House Building Security Follow Up

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 Internal Audit have been working closely with key contacts from the Anglia Revenues Partnership to ensure that investigations into NFI matched benefits claims continue as required. We have also provided information to them in relation to the October data matching exercise which matches council tax information with the December 2011 electoral register in order to verify single person discounts.
- 4.12 Work is continuing on raising fraud awareness within the council. The Spring 2011 fraud awareness newsletter has been published while the Autumn newsletter is scheduled to be published soon. In addition, a message has also appeared in the council's internal bulletin reminding staff of their responsibilities regarding information security, further messages in respect of declarations of interest, gifts and hospitality, and expense claims have been drafted for publication over the coming months.
- 4.13 The Bribery Act 2010 modernises the law on bribery and came into force on 1 July 2011. In response to this legislation Internal Audit has:
- undertaken a focussed review to determine current adherence to the requirements of the Bribery Act 2010;
 - drafted bribery messages which have been published via the internal staff and member bulletins and the council's website;
 - sourced an e-learning bribery module describing the main features of the Act and also the duties and responsibilities of all employees;
 - revised the council's Anti-Fraud and Anti-Corruption Strategy to reflect the implications of the Bribery Act;
 - suggested amendments to council documents, including the Pre Qualification Questionnaire used for contract tenders, as a result of requirements of the Act.

5. Performance

Utilisation of Audit Time

- 5.1 Whilst Internal Audit continues to employ four members of staff, two of the team are currently on maternity leave. Some staff resource has been bought in from two Suffolk local authorities to partially cover this reduction in resource and try to ensure that Internal Audit remains on track to achieve the statutory Audit Plan.
- 5.2 In addition to his existing role, the St Edmundsbury Internal Audit Manager continues to perform the role of Acting Internal Audit Manager at Forest Heath, following the departure of the previous post holder in January 2011.

6. Partnership Working – Suffolk Working Audit Partnership

- 6.1 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.

- 6.2 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.

Partnership Working – Shared Services

- 6.3 Internal Audit is supporting the shared services initiative wherever possible through a number of ways. As mentioned earlier in paragraph 5.2 the St Edmundsbury Internal Audit Manager continues to perform the role of Acting Internal Audit Manager at Forest Heath, following the departure of the previous post holder. In addition, one audit team member has acted as a Shared Services Architect, while another member of the audit team has provided support to the Finance workstream for shared services.

Summary of Internal Audit Reports Issued in 2011/12

1. Introduction

- 1.1 During the period, eighteen 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 20. 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. Central Government Data Requirements and Key Performance Indicators

- 2.1 This is an audit review that is undertaken on an annual basis by Internal Audit. The purpose of the audit was to determine whether activities involving the collation, calculation, verification and reporting of key performance indicators is in line with recommended practice. A *substantial assurance* opinion was provided.

Improvements made since the previous audit

- 2.2 Performance indicators are increasingly being both collected and reported electronically, thus reducing the likelihood of calculation errors.
- 2.3 It is also not unusual to see collection spreadsheets being provided direct through government secure websites/databases and linked or recommended complementary collection systems, thus reducing the likelihood that incorrect data is recorded and reported.

Key areas where improvements are required

- 2.4 Business continuity and procedural guidance remain areas that could usefully be improved upon.

3. West Stow Cash Handling Follow Up

- 3.1 This was the second follow up of review of progress made towards completing agreed actions arising from the audit report originally issued in October 2009: the first follow up was undertaken in June 2010.
- 3.2 All previously recommended actions have now been addressed.

4. Data Protection Arrangements Follow Up

- 4.1 This was the first follow up review of progress made towards completing agreed actions arising from the audit report originally issued in September 2010.
- 4.2 The report concluded that progress had been made in tightening controls, specifically, the appointment of the Head of Legal and Democratic Services as the council's Data Protection Officer and the drafting and approval of an Information Sharing Protocol. However, there still remain areas which could usefully be further improved upon, for example, the drafting of a data protection policy 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.

5. ICT Disaster Recovery Follow Up

- 5.1 This was the fourth follow up review to an audit report issued in December 2006: previous follow ups took place in March 2008, April 2009 and May 2010. All previously recommended actions have now been addressed.

6. ICT Backup Arrangements Follow Up

- 6.1 This was the first follow up review of progress made towards completing agreed actions arising from the audit report originally issued in January 2010. The last remaining action in respect of back up tape encryption is on hold pending the outcome of ICT Shared Services when back up methods are planned to change significantly.

7. Cash Handling Review – Abbey Gardens

- 7.1 This was the first time, in recent years, that cash handling arrangements at the Abbey Gardens had been reviewed by Internal Audit. The purpose of this audit was to review the effectiveness of controls over cash collection, retention, and banking systems to ensure that all income due or held by the council is identified, collected, receipted and banked properly and promptly. A *substantial assurance* opinion was provided.

Key areas where improvements are required

- 7.2 On occasions, a staff member can be involved in all aspects of the income and banking process, from checking floats and operating a cash register through to preparing the monies for banking.
- 7.3 Staff awareness of the council's Financial Procedure Rules could be improved.
- 7.4 Staff should be reminded that cancelled or spoilt paying in slips should be retained rather than destroyed.

8. Cash Handling Review – Car Parks

- 8.1 A similar audit to the one undertaken at Abbey Gardens also took place at Car Parks to review their cash handling arrangements. An opinion of *substantial assurance* was given.

Key areas where improvements are required

- 8.2 Wherever possible adequate separation of duties should exist between the different income and banking roles - that is, at least two staff should be involved in carrying out the various processes. Where this is not possible it has been agreed that an independent staff member carries out periodic checks between paying in slips / records and supporting information to ensure that all income has been banked.
- 8.3 Staff awareness of the council's Financial Procedure Rules could be improved.

9. Cash Handling Review – Moyse's Hall Follow Up

- 9.1 This was the second follow up review to an audit report issued in October 2009, the previous follow up was undertaken in November 2010. Significant progress has been made in tightening controls with all actions recommended previously now addressed.

10. Cash Handling Review - Tourist Information Centre Follow Up

- 10.1 A follow up has been carried out on a cash handling review which was originally issued in October 2009, this is the second follow up to be completed, with a previous follow up undertaken in June 2010.
- 10.2 The majority of the agreed actions from the initial review have been implemented; the remaining actions concern the need to further improve the management trail supporting transactions, including the handover of monies between officers.

11. Parks Follow Up

- 11.1 This was the third follow up review to audit reports issued in December 2007, July 2009 and May 2010 relating to cash handling issues at two council parks.
- 11.2 This report concluded that whilst progress had been made in tightening controls and many of the recommendations made in the previous reports have been addressed, there remains scope to further improve controls over the preparing of monies for banking.

12. Car Parks Follow Up

- 12.1 A follow up review has been completed on an audit report issued in September 2007. This is the third follow up, with previous follow up audits being completed January 2009 and May 2010.
- 12.2 The majority of the agreed actions have now been implemented, the remaining action relates to the drafting of procedural notes in respect of the Finance Service element of the reconciliation process within the General Ledger.

13. Concessionary Travel Follow Up

- 13.1 This was the second follow up review to an audit report issued in October 2009, with a previous follow up undertaken in August 2010.
- 13.2 St Edmundsbury Borough Council ceased to manage the concessionary travel service from April 2011, when full responsibility was transferred to Suffolk County Council. Whilst the majority of agreed actions had already been implemented; the remaining actions have been superseded due to the change in responsibilities for concessionary travel.

14. Grants Paid Follow Up

- 14.1 This was the first follow up review of progress made towards completing agreed actions arising from the audit report originally issued in August 2010. The majority of the agreed actions have been implemented, remaining actions (including one new action) concern the need to draft and sign off procedures.

15. Gifts and Hospitality Follow Up

- 15.1 This was the second follow up review to an audit report issued in October 2008, with a previous follow up undertaken in October 2009.
- 15.2 The majority of the agreed actions have been implemented, the remaining action relates to the annual drafting of a briefing paper to Corporate Management Team / Management Team reporting upon outcomes from monitoring directorate gifts and hospitality registers.

16. West Suffolk House Car Parking Arrangements Follow Up

- 16.1 A follow up review has been completed on an audit report issued in October 2009. This is the second follow up, with the previous follow up audit being completed June 2010.
- 16.2 Whilst a significant number of agreed actions have been implemented, outstanding actions remain (including a small number of new actions) around verification checks, business continuity where duties are performed by a single officer, revision of the service level agreement, and planning / actioning of the annual staff car parking price increase.

17. Emergency Planning and Business Continuity Follow Up

- 17.1 This was the third follow up review to an audit report issued in April 2008, previous follow ups having been undertaken in March 2009 and March 2010.
- 17.2 All previously recommended actions have now been addressed.

18. Apex

- 18.1 An in depth audit was undertaken of the key financial areas of cash handling and transaction management, purchasing of goods and services, and stock management. As part of stock usage, we also reviewed hospitality arrangements. A ***substantial assurance*** opinion was provided.

Key areas where improvements are required

- 18.2 A number of suggested actions were raised as part of the audit, and agreed with management, regarding improvement of stock management, stock review and stock recording, including performing regular reconciliations, ensuring adequate separation of duties, and ensuring clear procedures are in place for stock operation and management.

**19. Central Government Data Requirements and Key Performance Indicators
2010-11 Follow Up**

- 19.1 This was a follow up review of the actions undertaken in respect of the 2010-11 review of National Indicators. Although these have ceased to be reported centrally, three of the four indicators are still internally collected, monitored and reported.
- 19.2 For the three indicators still internally collected, monitored, and reported all previously recommended actions have now been addressed.

20. 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.