



St Edmundsbury
BOROUGH COUNCIL

C299

Performance and Audit Scrutiny Committee 30 January 2012

Third Quarter Internal Audit Progress Report

SUMMARY

This report advises Members of the work of the Internal Audit Section in the third quarter of the current financial year.

The Committee is asked to note and endorse the contents of the Third Quarter Internal Audit Progress Report for 2011/12 (**Appendix A**).

PURPOSE OF THE REPORT

To update Members on work undertaken by Internal Audit in the third quarter of the current 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

30 January 2012

Third Quarter Internal Audit Progress Report

1. Recommendation

- 1.1 That the contents of the Third Quarter Internal Audit Progress Report for 2011/12 be noted and endorsed.

2. Purpose of 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 third quarter of the financial year 2011/12 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 nine months to December 2011

4.1 An overview of the work of Internal Audit for the third quarter of 2011/12, and progress made towards achieving the audit plan for the year, is set out below.

Corporate work including work on behalf of the Chief Finance Officer

4.2 During the third quarter of the financial year 2011/12 this aspect of the section's work has included the following:

- 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;
- responding to 44 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts;
- 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 Six of these audit reviews have been completed and issued as final reports, these being:

- Risk Management
- Treasury Management
- Central Government Data Requirements and Key Performance Indicators
- ICT Audit (Disaster Recovery Follow Up)
- ICT Audit (Laptop Security Follow Up)
- National Indicators 2010/11 (Follow Up)

Summaries of the first two audits are shown at Appendix A, whilst the results of the latter audits were reported to this Committee in summary form at the October 2011 meeting.

4.6 Two of the fundamental systems audits are at the stage where testing has been completed and we are awaiting agreement of draft reports and agreed action plans:

- Main Accounting System and Budgetary Control
- Payroll

4.7 A number of audit reviews have audit testing in progress, they include:

- Accounts Receivable
- Accounts Payable
- Council Tax
- Non Domestic Business Rates
- Housing Benefits

The results of the audits referred to in paragraphs 3.6 and 3.7 above, as well as audits not yet commenced (namely the Capital Accounting and IT audits), will be reported to Performance and Audit Scrutiny Members in the Annual Internal Audit Report in April 2012.

Departmental Systems Reviews

4.8 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.

4.9 During the first nine months of the financial year 2011/12 seventeen internal audit reports have been issued within this category, namely:

- Contract Procedures
- Contract Procedures Follow Up
- E-commerce Follow Up
- Cash Handling Abbey Gardens
- Cash Handling Car Parks
- Apex / Public Halls
- Data Protection Arrangements Follow Up
- Emergency Planning and Business Continuity Follow Up
- Car Parks Follow Up
- Parks Follow Up
- West Suffolk House Car Parking Arrangements Follow Up
- Tourist Information Centre Cash Handling Follow Up
- Concessionary Travel Follow Up
- Moyse's Hall Cash Handling Arrangements Follow Up
- Gifts and Hospitality Follow Up
- West Stow Cash Handling Follow Up
- Grants (Paid) Follow Up

A summary of the first two of these audits are shown at Appendix A, whilst the results of the remaining audits were reported to this Committee in summary form at the October 2011 meeting.

4.10 The following audits are at the stage where testing has been completed and we are awaiting agreement of draft reports and agreed action plans:

- West Suffolk House Building Security Follow Up
- Partnerships Follow Up
- Registers of interest

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

Probity

- 4.11 Work is continuing on raising fraud awareness within the Council, for example, a number of messages have been included in the Council's internal bulletin to remind staff of their responsibilities regarding:-
- Declaration of interests, gifts and hospitality
 - Expenses claims
 - Information security
- 4.12 The bi-annual fraud awareness newsletter continues to be published to staff. It is designed to highlight areas of fraud in the workplace and to help staff understand why we need to combat it effectively.
- 4.13 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 working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.

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. The audit plan is on track for substantial completion by 31st March 2012, allowing the Audit Commission the opportunity of placing maximum reliance on Internal Audit's work and also enabling the Internal Audit Manager to form a robust annual audit opinion on the Council's control environment in support of the 2011-12 Annual Governance Statement.
- 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. Work is also currently being undertaken to explore the possibility of achieving a shared internal audit service with Forest Heath DC in 2012/13.

Summary of Internal Audit Reports Issued in 2011/12

1. Introduction

- 1.1 Audit reports are issued as final where their contents have been agreed with client management, in particular, responsibility for actions and timescale. During the nine months to date, twenty three audit reviews have been completed to final report stage.
- 1.2 The following sections contain a summary of the content of the internal audit reports issued during the third quarter of 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 six. 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. Risk Management

- 2.1 The audit review considered the adequacy and suitability to the Council's needs of current risk management arrangements, including the reasonableness of the corporate risk register, as well as risk management in respect of the shared services agenda. The work also included progress made towards implementing agreed actions arising from previous audit reviews. Arrangements continue to work well with a ***substantial assurance*** opinion provided.

Key areas where improvements are required

- 2.2 Whilst progress has been made against some actions arising from previous reviews, controls could be strengthened further, in respect of the following:
- 2.3 Suggestions have been made in respect of improving further the application of risk management for projects.
- 2.4 Improvements could be made to the consideration and recording of risk within committee reports.
- 2.5 A small number of recommendations have been suggested in respect of risk management and the Council's shared services agenda.

3. Treasury Management

- 3.1 This audit review covered controls relating to the management of the Council's short term and long term investments with approved organisations to achieve the best possible rate of return. Audit work undertaken resulted in a **substantial assurance** opinion being given.

Key areas where improvements are required

- 3.2 Controls around investments could be improved further by investment authorising officers being advised of the need to review relevant information on which to base their authorisation decision. This ensures investment proposals are appropriate and within agreed Council policy.
- 3.3 The list of authorised signatories in respect of those staff who can authorise investments requires updating to ensure there are sufficient numbers of staff available for the effective transmission of funds.

4. Contract Procedures

- 4.1 This is an audit review that is undertaken on an annual basis by Internal Audit. The purpose of the audit was to test tendering processes adopted by departments for a sample of new contracts and to review a range of framework agreements entered into, recording arrangements for 'call offs' and evidence/ document retention relating to the 'call off'. A **substantial assurance** opinion was provided.

Key areas where improvements are required

- 4.2 Controls could be strengthened through the creation of a single contracts register made publicly available via the website, which would streamline the recording of contracts and enable transparency in reporting.
- 4.3 In the spirit of continuous improvement a number of enhancements could be made for improving recording and framework contract processes.

5. Contract Procedures Follow Up

- 5.1 This was a follow up review to an audit report issued in February 2011. Progress has been made in tightening controls and addressing the original actions. Remaining actions include those around the advertising and review of the standing list of pre vetted companies in use within Property Services, and the need for the Council's standard conditions of contract within the tender template, website and intranet being aligned so that they are consistent with one another.

6. 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.