



Performance and Audit Scrutiny Committee 12 November 2012

Mid Year 2012/2013 Internal Audit Progress Report

1. Summary and reasons for recommendation

- 1.1 This report advises Members of the work of the Internal Audit Section for the first six months of 2012/2013. 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.

2. Recommendation

- 2.1 Members are asked to note and endorse the contents of the Mid Year Internal Audit Progress Report for 2012/2013.

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3. Corporate priorities

3.1 The recommendation meets the following, as contained within the Corporate Plan:

Corporate priority: *'working together for an efficient council'*.

4. Key issues

4.1 Management are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly.

4.2 Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls, including risk management, corporate governance and arrangements for providing best value for money.

4.3. The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective system of internal audit. The Internal Audit Service performs the internal audit work to satisfy this legislative requirement, and part of this is reporting the outcome of its work to the Performance and Audit Scrutiny Committee.

4.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 states 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'.

4.5 The Performance and Audit Scrutiny Committee monitors the activity and outcomes of internal audit work against the Internal Audit Plan, receiving the regular progress reports referred to in paragraph 4.4 above.

5. Other options considered

5.1 N/A.

6. Community impact

6.1 **Crime and disorder impact** *(including Section 17 of the Crime and Disorder Act 1998)*

6.1.1 None arising directly from this report.

6.2 **Diversity and equality impact** *(including the findings of the Equality Impact Assessment)*

6.2.1 None arising directly from this report.

6.3 **Sustainability impact** *(including completing a Sustainability Impact Assessment)*

6.3.1 None arising directly from this report.

6.4 **Other impact** *(any other impacts affecting this report)*

6.4.1 None arising directly from this report.

7. **Consultation** *(what consultation has been undertaken, and what were the outcomes?)*

7.1 No external consultation was required or undertaken in producing this report. Internal consultation is carried out with key officers during the audit process and in the production of individual internal audit reports and follow up work.

8. **Financial and resource implications** *(including asset management implications)*

8.1 There are no direct financial implications arising from this report. All internal audit recommendations must be considered in terms of their cost effectiveness.

9. **Risk/opportunity assessment** *(potential hazards or opportunities affecting corporate, service or project objectives)*

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
Internal controls within the Council may not be efficient and effective and as a result the Council may not be identifying significant weaknesses that could impact on the achievement of the Council's priorities and/or lead to fraud, financial loss or inefficiency.	Medium	Members receive and approve the internal audit plan and receive progress reports throughout the year. The audit plan is based on an assessment of risk for each system or operational area. External Audit reviews the work of the internal audit section and internal control arrangements.	Low

10. **Legal and policy implications**

10.1 The provision of the Internal Audit Service allows the Council to meet its statutory obligations with regards to the Local Government Act 1972, the Local Government Finance Act 1982 and the Accounts and Audit Regulations 2011.

11. **Ward(s) affected**

11.1 All.

12. **Background papers**

12.1 N/A.

13. **Documents attached**

13.1 Appendix A – Overview of Internal Audit Work April 2012 – September 2012
Annex A – Summary of Internal Audit Reports April 2012 – September 2012

INTERNAL AUDIT

Overview of Internal Audit Work April 2012 – September
2012



1. Introduction

- 1.1 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'.
- 1.2 The purpose of this report is to update Members on progress made against the 2012/13 Audit Plan.

2. Background

Role of Internal Audit

- 2.1 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.
- 2.2 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

- 2.3 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit.
- 2.4 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.

3. Review of Internal Audit work for the six months to September 2012

- 3.1 An overview of the work of Internal Audit for the first six months of 2012/13 is set out below.

Corporate Work including Advice and Assistance

3.2 During the first six months of the financial year 2012/13 this aspect of the section's work has included the following:

- drafting the Annual Governance Statement (AGS) as presented to this Committee on 30 July 2012: production of the AGS is a significant piece of work;
- ongoing membership and contribution to the Strategic Risk Management Group;
- responding to over 60 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 2011/12 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 2011/12 have been complied with;
- one team member is currently on the Council's Business Process Re-engineering team which is reviewing and re-designing the Forest Heath and St Edmundsbury's service processes and methods of interaction;
- the drafting of Joint Anti-Money Laundering and Whistleblowing Policies covering both Forest Heath and St Edmundsbury; and
- continuing to provide advice to service areas on internal controls.

Core Financial Systems and Fundamental Review Work

3.3 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.

3.4 As in previous years we are commencing the majority of this work from September / October to enable them to place as much reliance on the work of Internal Audit as possible, resulting in potentially reduced external audit 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).

3.5 Six audit reviews relevant to this category of audit work have been completed and issued as final reports, these being:

- Key Performance Indicators
- ICT Back Up Arrangements Follow Up
- Cash Handling – Car Parks Follow Up
- Cash Handling – Abbey Gardens Follow Up
- Government Data and Key Performance Indicators Follow Up
- E-commerce Follow Up

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

- Cash Handling
- General Ledger
- Council Tax
- Non Domestic Rates
- Benefits
- Treasury Management
- Payables
- ICT Social Media Arrangements

The results of these audits will be reported to Performance and Audit Scrutiny members in the Annual Internal Audit Report in April 2013.

Departmental Systems Reviews

3.7 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.

3.8 During the first six months of the financial year 2012/13 five internal audit reports have been issued within this category, namely:

- Markets
- Car Parks Follow Up
- Parks Follow Up
- Grants (Paid) Follow Up
- West Suffolk House Car Parking Arrangements Follow Up

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

- Heritage Assets
- Information Governance
- Contracts Procedures
- Risk Management
- Fees and Charges

Probity

3.10 Councils are required to participate in the biennial National Fraud Initiative (NFI), an 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.

- 3.11 Discussions with system owners took place to prepare for the NFI data extract in October 2012. The anticipated date for the release of matches is 29th January 2013, upon which match investigations will be performed on a risk based approach.
- 3.12 The Summer 2012 fraud awareness newsletter has been issued. In addition, other anti-fraud work being progressed includes completion of anti-fraud self-assessments to ensure arrangements in place are in accordance with current best practice, and the drafting of two internal leaflets aimed at summarising the Council's whistleblowing and counter fraud arrangements and advising of what action to take if concerns are suspected.

4. Internal Audit Shared Service

- 4.1 Internal Audit became a shared service with St Edmundsbury Borough Council early in 2012/13. The vision for the new service is already starting to be realised with working practices being aligned, knowledge sharing, and colleagues successfully carrying out work across both authorities.
- 4.2 During the first quarter of 2012/13 the section was not fully staffed due to one team member moving to another area within the council and another team member being on maternity leave and subsequently returning to work on a part-time basis. The team returned to being fully staffed by the end of July with the recruitment of a new Senior Auditor and a part-time Auditor - both of which we believe to be excellent appointments. This reduced availability of staff resources has however necessarily impacted on the volume of work completed within the first quarter.

Summary of Internal Audit Reports Issued in 2012/13

1. Introduction

- 1.1 During the period, 11 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 annex, at Section 13. 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 The main area where improvements could still be usefully made relates to procedural guidance to ensure there is consistency and transparency in the way that all indicators are collected and reported.

3. Markets

- 3.1 This was the first time, in recent years, that this area has been reviewed by Internal Audit. The purpose of the audit was to provide assurance as to the adequacy and effectiveness of the controls in operation within the markets service. A *substantial assurance* opinion was provided.

Key areas where improvements are required

- 3.2 Controls around insurance arrangements could be improved. Specifically, records should be maintained of the public liability insurance held by stallholders.
- 3.3 Proof of Right to Work in the UK should be requested for all stallholders.
- 3.4 Communication of charges to the stallholders could be clearer.
- 3.5 It would be useful for a data cleansing exercise to be completed to ensure records are current and up to date, and retained for only as long as is necessary.

4. ICT Back Up Arrangements Follow Up

- 4.1 A follow up review was undertaken on the action arising from the audit review originally issued in January 2010.
- 4.2 The action raised at this time (regarding security of back up tapes) has now in effect been superseded as a result of changes made possible by ICT operating as a shared service.

5. Cash Handling – Car Parks Follow Up

- 5.1 This was the first follow up review to an audit report issued in June 2011 relating to cash handling.
- 5.2 All previously recommended actions have been addressed, including ensuring that all appropriate staff have access to and have read the council's Financial Procedure Rules, and ensuring that paying in slips/records are checked periodically by an independent staff member to supporting information to ensure that all income has been banked.

6. Cash Handling – Abbey Gardens Follow Up

- 6.1 This follow up was undertaken on the actions arising from the Abbey Gardens Cash Handling Review completed in June 2011. This was the first follow up review of the progress of agreed actions.
- 6.2 Whilst progress has been made in tightening controls with a number of recommendations made in the previous reports having been addressed, there remains scope to further improve controls around having a separation of duties in place in all aspects of the income and banking process, and to ensure staff dealing with financial administration have access to the corporate and local procedures which have been developed for them to refer to.

7. Government Data and Key Performance Indicators Follow Up

- 7.1 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.
- 7.2 Progress has been made in tightening controls and addressing the original actions. It is anticipated that the remaining actions will be addressed via a waste data project which will look at resolving issues around data recording.

8. E-commerce Follow Up

- 8.1 This was the fourth follow up, with previous follow ups undertaken in March 2009, April 2010 and June 2011. The remaining action is the development of an ICT Strategy which remains 'on hold' pending a customer access review, a key part of the shared services programme with Forest Heath DC in respect of the future delivery of services across West Suffolk.

9. Car Parks Follow Up

- 9.1 A follow up review has been completed on the audit report which was originally issued in September 2007. This is the fourth follow up, with previous follow up audits being completed January 2009, May 2010 and June 2011.
- 9.2 The majority of agreed actions have 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.

10. Parks Follow Up

- 10.1 This was the fourth follow up review to audit reports issued in December 2007, July 2009 and May 2010 relating to cash handling issues at two council parks.
- 10.2 All previously recommended actions have now been addressed.

11. West Suffolk House Car Parking Arrangements Follow Up

- 11.1 A follow up review has been completed on an audit report issued in October 2009. This is the third follow up, with the previous follow up audits being completed in June 2010 and September 2011.
- 11.2 Many of the agreed actions have now been implemented, a single action remains relating to a service level agreement which will be followed up at the start of the next financial year.

12. Grants (Paid) Follow Up

- 12.1 This was the second 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; the remaining action concerns procedures although this has been put 'on hold' in view that they need to be re-written as part of the work to be undertaken in respect of the shared services programme.

13. 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.