

AUDIT COMMITTEE

22 SEPTEMBER 2011

REPORT OF HEAD OF INTERNAL AUDIT

A.1 REPORT ON INTERNAL AUDIT – APRIL 2011 – JULY 2011

(Report prepared by Steve Blake)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period April 2011 to July 2011.

EXECUTIVE SUMMARY

The report provides a review of the activity of the Internal Audit function over the period April 2011 to July 2011.

Progress on planned work was on target for the period, however as a consequence of vacancies arising in the Internal Audit function future delivery of the plan will be affected, and as part of a managed response, priority will be given to the key financial systems audits to ensure that adequate coverage of these systems is achieved during the year.

There were three audit reports issued during the period where the level of assurance given was limited.

RECOMMENDATION(S)

- (a) That the contents of the report be noted
- (b) That Members determine which, if any, of the audit reports completed in the period they wish to receive for detailed consideration at the next Audit Committee meeting.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The Internal Audit function is operating within the budget set.

Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION**BACKGROUND**

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) (the code) requires the Head of Internal Audit to make arrangements for reporting to the organisation during the course of the year. The code identifies the types of issue that the Head of Internal Audit should bring to the attention of the Audit Committee.

CURRENT POSITION**CIPFA Code of Practice 2006**

The code was published in December 2006. The code's requirements are mandatory for all local authorities subject to the Accounts and Audit Regulations.

The Internal Audit function is currently considered to be fully compliant with the requirements of the Code of Practice.

Internal Audit Objectives

The code requires the Head of Internal Audit to submit to the Audit Committee documents that describe how the Internal Audit function will fulfil its objectives. The documents are: -

Internal Audit Terms of Reference and Internal Audit Strategy – These were last approved by this committee on 16th December 2010, and are subject to an annual review. In the current financial year this review will not be undertaken until the future delivery of the Internal Audit function has been determined following the tender process currently underway as reported to the Committee at its June 2011 meeting. The delay should not have an adverse impact on the future internal audit work and the documents will be reviewed once the outcome from the tender process is known, so that it reflects organisational review and tender outcome.

Internal Audit Plan – The 2011/12 plan was approved by this committee on 24th March 2011. Progress regarding the plan is covered elsewhere in this report.

Progress Against Objectives

The code requires the Head of Internal Audit to report to the Audit Committee on progress made against objectives set. The progress made in the period under review is as set out below: -

Internal Audit Plan 2011/12 Progress – The Internal Audit Plan approved by the Audit Committee in March 2011 continues to be kept under review.

Appendix A provides detail of the status of each audit at 31st July 2011.

Performance over the period under review has been above target level, and at the 31st July 31% of the plan had been achieved.

The Internal Audit function has been operated with reduced staffing over the period under review due to maternity leave, however the officer in question has now resigned thus resulting in a vacant post. Whilst the Internal Audit Plan contained a provision for the maternity leave as this was known at the time the plan was prepared, no provision was allowed for any vacancies. Although not in the period under review, two further members of staff have subsequently resigned. This leaves the function with 2.4 staff in post from October 2011 compared to an establishment of 4.9 with an anticipated reduction of around 240 days available for work on specific audits, if no corrective action were taken.

This position is set against the on-going review of the future provision of Internal Audit Services and the associated tender process currently in progress. Therefore a pragmatic and proportionate approach is proposed in the interim period which includes:

- Temporary filling of one of the vacant posts.
- Available resources to be targeted at key systems audits as the overriding priority to ensure adequate coverage is provided before the financial year end.
- Reviewing the level of audit work required for each audit. It may be possible to undertake a limited level of testing etc that provides the necessary outcomes to form an audit opinion.
- Looking to release resources from elsewhere within the Internal Audit Service and direct to the delivery of the audit plan.
- Allocating resources to all remaining audits on a continuing risk based approach or take account of operational factors especially in light of the significant reorganisation currently in progress.

Audits at risk of not being undertaken have been identified within the current plan – see Appendix A.

At present the above is felt to be a reasonable and managed response. However as always the position will be subject to on-going review to ensure that the exposure to risk to the Council posed by the reduction in available Internal Audit resources is minimised.

Computer audit work is currently outsourced. Adverse weather conditions last winter impacted on the timing of the work and the bulk of the work as a consequence was undertaken in March 2011, with draft reports made available early April. It has since proved problematic to get the contractor to finalise these reports, and the last was not issued until late August. The contractor has been advised that this is not acceptable. The first of the 2011/12 computer audits is scheduled for September and the situation will be

monitored to ensure that reports are delivered in a more timely manner.

Quality Assurance – The Internal Audit function uses four indicators as a measure of its performance. Detail of performance in the period under review, and for the year to date is as follows: -

Performance Indicator	2011/12 Target	Profile April 2011 – July 2011	Actual April 2011 – July 2011
Percentage of planned audit work completed	90%	30%	31%
Percentage of draft and final reports issued within target deadlines	90%	90%	95%
Percentage of satisfactory responses to satisfaction surveys issued with audit reports	90%	90%	96%
Overall satisfaction level following periodic satisfaction survey	3 (on scale 1 – 5)	N/A	N/A

Adequacy of Management Response to Internal Audit Reports – At 31st July there were two audit reports where a response was overdue, and in both instances reminders have been issued, but neither had yet reached the stage that requires action by the Committee. In both cases the required response has subsequently been received.

Outcomes of Internal Audit Work

The code requires the Head of Internal Audit to report to the Audit Committee on the outcomes of internal audit work undertaken. In the period under review 25 Internal Audit reports were issued. Appendices B – D include brief details from each audit report issued of findings scored as medium risk or higher. As requested by the Audit Committee, the appendices have been redesigned to provide colour coding of the audit opinion and to rank the reports by opinion as follows:

Assurance	Colour	Number this Period	
Minimal	Red	None	-
Limited	Pink	3	Appendix B
Adequate	Green	13	Appendix C
Substantial	Green	9	Appendix D

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances. Pink has been used for Limited Assurance due to amber not being in the range of colours available in the current version of the audit software in use.

In respect of the Limited Assurance items, these relate to the Tourist Information Centres and CAPS Application Review as a result of the issues identified, and these are drawn to the attention of the committee. There was also an unscheduled investigation undertaken regarding issues concerning the administration of the Condition Management Programme at Clacton Leisure Centre which identified control weaknesses of some concern which has also been included in the Limited Assurance category, however it should be noted that this scheme has now ceased. A summary of the findings relating to these three audits is included at Appendix B.

There were no reports issued in the period where an opinion of Minimal Assurance was given.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

- A.1 Appendix A – Internal Audit Plan 2011/12 Progress Report
- A.1 Appendix B - Internal Audit Reports Issued – Limited Assurance
- A.1 Appendix C - Internal Audit Reports Issued – Adequate Assurance
- A.1 Appendix D - Internal Audit Reports Issued – Substantial Assurance

Tendring District Council Internal Audit Plan 2011/12 - Progress Report - 31st July 2011

Appendix A

Audit Subject	Priority	Status	Opinion	Comments
Assurance Work - Compulsory				
Asset Management	Compulsory	Allocated		
Bank Account	Compulsory	Unallocated		
Business Rates	Compulsory	Unallocated		
Cashiers	Compulsory	Unallocated		
Corporate Governance and Risk Management	Compulsory			
Corporate Governance and Risk Management (2010/11)		Completed	Adequate Assurance	
Corporate Governance and Risk Management (2011/12)		Unallocated		
Council Tax	Compulsory	Unallocated		
Creditors - Central Functions	Compulsory	Unallocated		
Housing Benefits	Compulsory	Unallocated		
Housing Rents	Compulsory	Unallocated		
Housing Repairs and Maintenance	Compulsory	Allocated		
Main Accounting System	Compulsory			
Main Accounting System (2010/11)		Completed	Substantial Assurance	
Main Accounting System (2011/12)		Unallocated		
Payroll - Central Functions	Compulsory	Unallocated		
Purchasing and Invoice Authorisation	Compulsory			
Community Services Purchasing and Invoice Authorisation (2010/11)		Completed	Adequate Assurance	
???? Purchasing and Invoice Authorisation (2011/12)		Unallocated		Service to be determined following restructuring
???? Purchasing and Invoice Authorisation (2011/12)		Unallocated		Service to be determined following restructuring
Sundry Debtors - Central Function	Compulsory			
Sundry Debtors - Central Function (2010/11)		Completed	Adequate Assurance	
Sundry Debtors - Central Function (2011/12)		Unallocated		
Treasury Management	Compulsory	Unallocated		
Assurance Work (Systems and Other Audits)				
Abandoned Vehicles		Fieldwork		
Architectural and Building Services		Completed	Adequate Assurance	
Architectural and Building Services Term Contracts				
Gas Servicing Contracts		Unallocated		At risk of deferral
Heating Refurbishment		Allocated		
BACS				
BACS (2010/11)		Completed	Adequate Assurance	
BACS (2011/12)		Unallocated		At risk of deferral
Brightlingsea Sports Centre		Completed	Adequate Assurance	
Building Control		Completed	Substantial Assurance	
Central Purchasing		Allocated		
Concessionary Fares		Completed	Adequate Assurance	
Contact Centre		Unallocated		At risk of deferral
Contract Audit				
Vyntoner House Refurbishment Phase 3		Fieldwork		
Windows and Doors 2008/09 - Weeley and Great Bromley		Fieldwork		
Pier Avenue South - Highway		Fieldwork		
Dovercourt Toilets		Fieldwork		
Spendells Close Phase 3		Fieldwork		
Credit and Debit Card Payments		Allocated		
Estates Management		Completed	Adequate Assurance	
Follow Up of Previous Audits				
Benefits and Revenues Follow Up (2010/11)		Completed	Substantial Assurance	
Environmental Services Follow Up (2010/11)		Completed	Substantial Assurance	
Financial Services Follow Up (2010/11)		Completed	Substantial Assurance	
Human Resources and Customer Services Follow Up (2010/11)		Completed	Adequate Assurance	
Legal Services Follow Up (2010/11)		Completed	Substantial Assurance	

Tendring District Council Internal Audit Plan 2011/12 - Progress Report - 31st July 2011

Appendix A

Audit Subject	Priority	Status	Opinion	Comments
Technical and Procurement Follow Up (2010/11)		Completed	Adequate Assurance	
Food and Health and Safety		Fieldwork		
Frinton Walton Pool		Allocated		
Grants / Financial Assistance		Fieldwork		
Heritage and Conservation		Unallocated		At risk of deferral
Homelessness		Completed	Substantial Assurance	
Household Waste and Recyclable Materials		Unallocated		At risk of deferral
Housing Allocations		Unallocated		At risk of deferral
Housing Benefit Fraud		Fieldwork		
Human Resources		Fieldwork		
ICT Services		Unallocated		At risk of deferral
Insurance		Allocated		
Inventories		Unallocated		At risk of deferral
Legal Services		Allocated		
Major Capital Projects		Fieldwork		
Parking Services		Allocated		
Planning Enforcement		Unallocated		At risk of deferral
Public Conveniences		Allocated		
Regeneration / Special Projects		Unallocated		At risk of deferral
Residential Health		Unallocated		At risk of deferral
Sheltered Units - Wardens		Completed	Adequate Assurance	
Tenant Relations		Completed	Substantial Assurance	
Theatres and Entertainments				
Theatres and Entertainments (2010/11)		Cancelled		Merged into 2011/12 audit
Theatres and Entertainments (2011/12)		Allocated		
Timesheets and Allowance Claims				
??? Timesheets and Allowance Claims		Unallocated		At risk of deferral
??? Timesheets and Allowance Claims		Unallocated		At risk of deferral
Tourist Information Centres		Completed	Limited Assurance	
Assurance Work (Computer Audit)				
Computer Audit				
CAPS Application Review		Completed	Limited Assurance	
Data Protection		Completed	Substantial Assurance	
IT Physical and Environmental Management		Allocated		
IT Project Management		Allocated		
Main Financial System Application Review		Allocated		
Management of 3rd Party IT Services		Allocated		
Computer Audit Follow Ups				
Computer Audit Follow Up (2009/10 and 2010/11)		Draft Report		
Computer Audit Follow Up (2011/12)		Allocated		
Requested Audits				
Leisure External Funding		Cancelled		Cancelled in consultation with Leisure Services due to reduction in external funding
Benefits and Revenues CoCo Compliance		Unallocated		At risk of deferral
Planning Enforcement - Data Security		Completed	Adequate Assurance	
Clacton Leisure Centre - Condition Management Programme		Completed		Control issues identified
Anti Fraud Audit				
Card Fraud		Unallocated		At risk of deferral
Cash Income		Allocated		
Council Tax Discounts		Allocated		
Creditors Details Fraud		Allocated		
Money Laundering		Completed	Adequate Assurance	
Recruitment Fraud		Fieldwork		

Tendring District Council Internal Audit Plan 2011/12 - Progress Report - 31st July 2011

Appendix A

Audit Subject	Priority	Status	Opinion	Comments
Tenancy Fraud		Fieldwork		
Unsolicited Invoices		Unallocated		At risk of deferral

Internal Audit Reports Issued April 2011 - July 2011 (Appendix B)

This appendix lists only those Internal Audit reports with findings of a medium or higher risk

Audit Opinion / Area	Issues Raised In Report
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Limited Assurance

CAPS Application Review (2010/11)

2 - High

E-Data integrity and protection.	Public access data in one module allowed data relating to expired cases to be viewed. Data integrity had not been maintained in one module by the deletion of expired records
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3 - Medium

A-System Management.	Each module has own administrator, but no officer with overall corporate responsibility for system management
B-System Development.	Council not achieving full return from its investment in the system. For some modules paper based system primary system. Data still incomplete regarding one module several years after implementation.
C-Training and Guidance.	Level of training and guidance across service areas inconsistent
D-Performance Management.	Reporting facilities within the system to monitor performance and resource utilisation were underused.
F-Access Controls.	Inconsistent approach to system user names resulting in a small number of duplicate accounts.
G-Audit trail.	Insufficient audit trail available to trace transactions back to user accounts.

Clacton Leisure Centre - Condition Management Programme Cash Discrepancy (2011/12)

2 - High

Clacton Leisure Centre Investigation	Three claims totalling £440 had not been made to recover money from Condition Management Programme No management checks on process or cash float
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3 - Medium

Clacton Leisure Centre Investigation	Inadequate and incomplete audit trail
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9 - Head of Department Comments

Head of Life Opportunities This matter arose largely due to the responsible officer being on maternity leave, and delegation for responsibility not being passed to
Comments to Audit Committee another member of staff. The Condition Management Programme and its subsequent functions ended in March 2011

Tourist Information Centres (2010/11)

2 - High

F Income Collection Box Office System non compliant with card standards. System in process of being replaced.

3 - Medium

D Data Security End of Day Reports for Box Office System, which include personal data, not stored adequately.
F Income Collection Banking arrangements pose a potential risk to staff.
No procedures in place if primary receipting systems unavailable.

Internal Audit Reports Issued April 2011 - July 2011 (Appendix C)

This appendix lists only those Internal Audit reports with findings of a medium or higher risk

Audit Opinion / Area	Issues Raised In Report
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Adequate Assurance

Architectural and Building Services (2010/11)

3 - Medium

3F Dangerous Structures	Old cases were shown on the system as still active, but had been resolved. System subsequently updated to correct status for each case. The Dangerous Structures database had not been fully updated. Costs incurred since 2007 regarding some dangerous structures had not been invoiced as liable party not identified.
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BACS (2010/11)

3 - Medium

1B Follow Up of Previous Audit Findings	The checking of BACS submissions and filing of batch input reports identified at the previous audit remained outstanding.
3C Corporate Functions	Potential exists for files where total transactions exceed agreed limits to be processed and submitted to BACS.
3G BACS - Leisure Services	Batch Input reports are not viewed or retained.
3D BACS - Financial Services	Documentation relating to Sundry Debtors Direct Debit runs is not retained.
3G BACS - Leisure Services	The output file from the Leisure Management system does not include the required record count, resulting in a need to copy and manipulate output files prior to submission to BACS.
3D BACS - Financial Services	Access to directories holding BACS files not adequately restricted.
3G BACS - Leisure Services	Access to BACS files generated by Leisure Management system is not adequately restricted.

Brightlingsea Sports Centre (2010/11)

2 - High

Audit Opinion / Area	Issues Raised In Report
G Use of Facilities and Income Collection 3 - Medium	Block Booking Debts system report not run or used to control debts.
E Joint Use Agreement	Present agreement does not cover all current working arrangements.
F Charges	Testing identified a number of incorrect till prices.
G Use of Facilities and Income Collection	Bookings attended were not all keyed on system as "attended" thus reducing attendance statistics. No show charges rarely levied. No evidence of management review of any cash discrepancies Reasons for refunds given not recorded.
D Data Security	No minimum password length on Leisure Management system.

Community Services Purchasing and Invoice Authorisation (2010/11)

3 - Medium

3D Certification and Payment of Invoices	VAT incorrectly treated in some instances Order status incorrect on ordering system
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Concessionary Fares (2010/11)

3 - Medium

3E Concessionary Bus Fares	Proof of entitlement and residence not always obtained and retained.
3D Data Security	Officer had access level to system that exceeded requirement for their job role. Access subsequently amended.

Estates Management (2011/12)

3 - Medium

3E Appearance of Estates	Testing identified considerable variation in numbers of block and estate inspections and recording of remedial actions taken.
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Follow Up Of Previous Audits - Human Resources and Customer Services (2010/11)

Audit Opinion / Area**Issues Raised In Report**

3 - Medium

C Follow Up of Previous Audit Findings - H R & CS Timesheets & Allowance Claims

Adequate checks not undertaken on claim forms resulting in several errors occurring.

Process of checking documents had not been completed.

Records not maintained in logical order.

D Follow Up of Previous Audit Findings - Facilities Management (2006/07)

Spreadsheet used to record meter readings incomplete. Irregularities not checked.

Follow Up of Previous Audits - Technical and Procurement (2010/11)

3 - Medium

G Follow Up of Previous Audit Findings - Parking Services (2009/10)

Password parameters set too low. Subsequently amended.

Money Laundering (2010/11)

3 - Medium

G Money Laundering - Financial Services

Sundry Debtor overpayments received not investigated to ensure money laundering not occurring.

Planning Enforcement Files - Data Security (2011/12)

2 - High

D Data Security

Enforcement files not held sufficiently securely.

No permanent records identifying who has had access to each file.

3 - Medium

C Documented Procedures

Existing data protection protocol focussed towards planning applications rather than enforcement. Enforcement protocol to be produced.

D Data Security

Sensitive documents not marked as such. Marking introduced during audit.

Sheltered Units - Wardens (2010/11)

3 - Medium

3F Guest Rooms Arrangements for banking guest room income found to be insecure

Sundry Debtors (2010/11)

3 - Medium

3F Account Adjustment / Ability to raise credit notes on system is not restricted due to system functionality limitations.
Amendment

Lack of division of duties regarding authorisation of credit notes.

3H Debt Management and Responsibility for recovery action by Central Debtors function not defined. Subsequently addressed.
Recovery

No Corporate Debt Recovery Policy in place. Non compliance with Constitution.

6 - Efficiency

2J Periodic Income Current process involves matching matching a system printout to manual records for each periodic account. System based solution to be investigated.

Internal Audit Reports Issued April 2011 - July 2011 (Appendix D)

This appendix lists only those Internal Audit reports with findings of a medium or higher risk

Audit Opinion / Area	Issues Raised In Report
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Substantial Assurance

Building Control (2010/11)

3 - Medium

3D Data Security	Retention of documents not in accordance with the Council's Retention Policy.
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6 - Efficiency

3F Building Regulation Applications	Manual process control sheets maintained although similar control data held on computer system
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Fees calculated manually because computer system not upgraded for new fee structure.

The information to be entered on a check sheet mirrored that on another document on each file.

3G Inspections

Debtor payment information recorded on copy invoices duplicating data held on computer system.

Data Protection (2010/11)

3 - Medium

Processes for managing changes to data collection and processing	No centrally maintained database of data sharing agreements in place.
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Homelessness (2011/12)

3 - Medium

E Homelessness Cases	Authorisation to Make Enquiries forms not always signed by applicants
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6 - Efficiency

E Homelessness Cases	Current procedures require two authorisation signatures when adequate control could be achieved with one.
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Audit Opinion / Area

Issues Raised In Report

Main Accounting System (2010/11)

3 - Medium

1B Follow Up of Previous Audit Findings Office procedures for Asset Accounting had not been written.