

## AUDIT COMMITTEE

19 JANUARY 2012

### REPORT OF HEAD OF INTERNAL AUDIT

#### A.1 REPORT ON INTERNAL AUDIT – August 2011 – December 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 August 2011 to December 2011.

##### EXECUTIVE SUMMARY

The report provides a review of the activity of the Internal Audit function over the period August 2011 to mid December 2011.

Progress on planned work over the period was better than had been anticipated, given the reduced resources available to the Internal Audit function, but some slippage has occurred. Action has been and continues to be taken to minimise the impact to ensure that adequate audit coverage is maintained.

There was one report issued in 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 16<sup>th</sup> December 2010, and are subject to an annual review. As reported previously the 2011/12 review has been delayed pending determination of the future delivery of the Internal Audit function. It is proposed to undertake this review early in 2012 and to bring the review to the next meeting of this Committee.

**Internal Audit Plan** – The 2011/12 plan was approved by this committee on 24<sup>th</sup> March 2011. Progress regarding the plan is covered elsewhere in this report. The 2012/13 plan is scheduled to be brought to the next meeting of this Committee.

### **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 mid December 2011. The format of Appendix A has been revised as requested at the last meeting of the Committee.

At the 30<sup>th</sup> November 55% of the plan had been achieved.

The Internal Audit function has been operated with reduced staffing over the period under review due to vacancies. The function currently has 2.4 permanent full time equivalent staff members (fte's) in post compared to an establishment of 4.9 fte's. Action has been taken to increase the resources available for Internal Audit by a combination of secondment and the working of extra hours by a part time member of staff. The resources currently available are the equivalent of 3.6fte's. Action has been taken, and continues to be taken, to minimise slippage by reviewing and revising audit techniques and the audit work necessary on each audit whilst ensuring that the level of coverage remains sufficient to be able to give the required level of assurance

As previously presented to the Committee, this approach was part of a managed and pragmatic response, in the interim period, whilst the future provision of the Internal Audit Service was subject to a tender process. The outcome of the tender process is set out elsewhere on the agenda and subject to the Committee's approval of the In-House bid, the re-establishment of a full compliment of staff, consistent with that set out in the bid, will be undertaken as soon as possible to ensure the relevant level of Audit Coverage can be delivered during 2012/13.

Appendix A shows the position regarding each audit in the 2011/12 plan. A small number of audits are shown as Cancelled – this is as a consequence of changes making the audits unnecessary at this time, the timing now being inappropriate, or as a result of incorporation of the work within other audits. In each case a brief explanation is provided in the appendix. In order to better balance the plan to the resources available it is not intended to add replacement audits at this time. The situation regarding those audits shown as unallocated remains under review – these will either be undertaken if resources permit or considered for deferral and inclusion in the 2012/13 plan in due course. The lowest risk audits have been marked in the appendix as being at risk of deferral.

**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: -

<b>Performance Indicator</b>	<b>2011/12 Target</b>	<b>Target April – Nov 2011</b>	<b>Actual April – Nov 2011</b>	<b>Profile August – Nov 2011</b>	<b>Actual August – Nov 2011</b>
Percentage of planned audit work completed	90%	60%	55%	30%	24%
Percentage of draft and final reports issued within target deadlines	90%	90%	94%	90%	94%

Percentage of satisfactory responses to satisfaction surveys issued with audit reports	90%	90%	98%	90%	100%
Overall satisfaction level following periodic satisfaction survey	3 (on scale 1 – 5)	N/A	N/A	N/A	N/A

**Adequacy of Management Response to Internal Audit Reports** – At mid December there were five audit reports where a response was overdue, and in all instances reminders have been issued, but none had yet reached the stage that requires action by the Committee.

### **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 21 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:

<b>Assurance</b>	<b>Colour</b>	<b>Number this Period</b>	
Minimal	Red	None	-
Limited	Pink	1	Appendix B
Adequate	Green	13	Appendix C
Substantial	Green	7	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.

Limited Assurance was achieved in only one instance this period, this being with regard to the Credit and Debit Card Payments audit, and Members attention is drawn to the issues concerning PCI DSS standards (Appendix B).

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

There were no unscheduled investigations undertaken in the period.

The audits undertaken included the Parking Services audit, which included a follow up regarding the issues identified in the unscheduled investigation undertaken last year. The audit included substantive testing which demonstrated that there were no ongoing problems of cash shortages. The audit however identified a number of further improvements that could be made to the control environment, and action was taken to immediately where appropriate to implement the changes required.

## **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

Audit Subject	Status	Opinion	Comments
<b>Assurance Work - Compulsory</b>			
Asset Management	Completed	Adequate Assurance	
Bank Account	Allocated		
Business Rates	Fieldwork		
Cashiers	Fieldwork		
<i>Corporate Governance and Risk Management</i>			
Corporate Governance and Risk Management (2010/11)	Completed	Adequate Assurance	
Corporate Governance and Risk Management (2011/12)	Unallocated		
Council Tax	Draft Report		
Creditors - Central Functions	Allocated		
Housing Benefits	Allocated		
Housing Rents	Fieldwork		
Housing Repairs and Maintenance	Completed	Adequate Assurance	
<i>Main Accounting System</i>			
Main Accounting System (2010/11)	Completed	Substantial Assurance	
Main Accounting System (2011/12)	Allocated		
Payroll - Central Functions	Completed	Adequate Assurance	
<i>Purchasing and Invoice Authorisation</i>			
Community Services Purchasing and Invoice Authorisation (2010/11)	Completed	Adequate Assurance	
Public Experience Purchasing and Invoice Authorisation (2011/12)	Allocated		
Life Opportunities Purchasing and Invoice Authorisation (2011/12)	Draft Report		
<i>Sundry Debtors - Central Function</i>			
Sundry Debtors - Central Function (2010/11)	Completed	Adequate Assurance	
Sundry Debtors - Central Function (2011/12)	Allocated		
Treasury Management	Allocated		

Audit Subject	Status	Opinion	Comments
<b>Assurance Work (Systems and Other Audits)</b>			
Abandoned Vehicles	Completed	Adequate Assurance	
Architectural and Building Services	Completed	Adequate Assurance	
<i>Architectural and Building Services Term Contracts</i>			
Gas Servicing Contracts	Unallocated		
Heating Refurbishment	Draft Report		
<i>BACS</i>			
BACS (2010/11)	Completed	Adequate Assurance	
BACS (2011/12)	Unallocated		
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
<i>Contract Audit</i>			
Vyntoner House Refurbishment Phase 3	Fieldwork		
Windows and Doors 2008/09 - Weeley and Great Bromley	Completed	Adequate Assurance	
Pier Avenue South – Highway Improvements	Completed	Adequate Assurance	
Dovercourt Toilets	Fieldwork		
Spendells Close Phase 3	Completed	Substantial Assurance	
Windows and Doors 2009/10 – Harwich and Dovercourt	Draft Report		
Windows and Doors 2010/11 – Groom House and Greenfields	Completed	Substantial Assurance	
Emergency Repairs Open Stone Revetment West End Dovercourt	Completed	Substantial Assurance	
Window and Door Replacement 2010/11	Completed	Substantial Assurance	
Credit and Debit Card Payments	Completed	Limited Assurance	
Estates Management	Completed	Adequate Assurance	

<b>Audit Subject</b>	<b>Status</b>	<b>Opinion</b>	<b>Comments</b>
<i>Follow Up of Previous Audits</i>			
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	
Technical and Procurement Follow Up (2010/11)	Completed	Adequate Assurance	
Food and Health and Safety	<b>Completed</b>	<b>Adequate Assurance</b>	
Frinton Walton Pool	Allocated		
Grants / Financial Assistance	<b>Completed</b>	<b>Adequate Assurance</b>	
Heritage and Conservation	Unallocated		At risk of deferral
Homelessness	Completed	Substantial Assurance	
Household Waste and Recyclable Materials	Cancelled		Deferred to a later year due to timing of commencement of new contract
Housing Allocations	Unallocated		
Housing Benefit Fraud	<b>Completed</b>	<b>Adequate Assurance</b>	
Human Resources	Fieldwork		
ICT Services	Unallocated		
Insurance	Allocated		
Inventories	Unallocated		At risk of deferral
Legal Services	<b>Completed</b>	<b>Substantial Assurance</b>	
Major Capital Projects	<b>Completed</b>	<b>Substantial Assurance</b>	
Parking Services	<b>Completed</b>	<b>Adequate Assurance</b>	
Planning Enforcement	Unallocated		
Public Conveniences	<b>Completed</b>	<b>Adequate Assurance</b>	
Regeneration / Special Projects	Unallocated		
Residential Health	Unallocated		At risk of deferral
Sheltered Units - Wardens	Completed	Adequate Assurance	
Tenant Relations	Completed	Substantial Assurance	
<i>Theatres and Entertainments</i>			



<b>Audit Subject</b>	<b>Status</b>	<b>Opinion</b>	<b>Comments</b>
Theatres and Entertainments (2010/11)	Cancelled		Merged into 2011/12 audit
Theatres and Entertainments (2011/12)	Fieldwork		
<i>Timesheets and Allowance Claims</i>			
Resource Management Timesheets and Allowance Claims	Draft Report		
Life Opportunities Timesheets and Allowance Claims	Allocated		
Tourist Information Centres	Completed	Limited Assurance	
<b>Assurance Work (Computer Audit)</b>			
CAPS Application Review	Completed	Limited Assurance	
Data Protection	Completed	Substantial Assurance	
IT Physical and Environmental Management	Allocated		
IT Project Management	Fieldwork		
Main Financial System Application Review	Completed	Adequate Assurance	
Management of 3rd Party IT Services	Allocated		
<i>Computer Audit Follow Ups</i>			
Computer Audit Follow Up (2009/10 and 2010/11)	Completed	Adequate Assurance	
Computer Audit Follow Up (2011/12)	Allocated		
<b>Requested Audits</b>			
Leisure External Funding	Cancelled		Cancelled in consultation with Leisure Services due to reduction in external funding
Benefits and Revenues CoCo Compliance	Unallocated		
Planning Enforcement - Data Security	Completed	Adequate Assurance	
Clacton Leisure Centre - Condition Management Programme	Completed		
<b>Anti Fraud Audit</b>			
Card Fraud	Unallocated		
Cash Income	Allocated		

Audit Subject	Status	Opinion	Comments
Council Tax Discounts	Cancelled		Incorporated into scope of Council Tax audit
Creditors Details Fraud Money Laundering Recruitment Fraud Tenancy Fraud Unsolicited Invoices	Completed Completed Fieldwork Draft Report Unallocated	Adequate Assurance Adequate Assurance	

## Internal Audit Reports Issued August 2011 - Mid December 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

#### Credit and Debit Card Payments (2011/12)

##### 2 - High

E PCI DSS Standards	Latest PCI DSS compliance scan recorded a compliance fail. Third parties to be contacted to update software and then further scan to be undertaken Latest annual PCI DSS self assessment questionnaire submitted more than a year ago. To be undertaken after compliance scan issues resolved
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##### 3 - Medium

E PCI DSS Standards	Following a member of staff leaving there did not appear to have been a reallocation of PCI DSS compliance duties. Now resolved.
J Processing of Credit/Debit Card Transactions	Two refunds made by an unauthorised officer. Authorisation permissions have since been amended which has resolved issue
K Income	Failure to retain evidence of reconciliation of card income to bank account. To now be retained

##### 9 - Head of Department Comments

J Processing of Credit/Debit Card Transactions	The correct officer made the refunds on the understanding that he was authorised to do so. The error was in respect of failing to evidence the authorisation.
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## Internal Audit Reports Issued August 2011 - Mid December 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

#### Abandoned Vehicles (2011/12)

3 - Medium

3F Abandoned and Untaxed Vehicle Administration	Insufficient audit trail where contractor asked to investigate abandoned vehicles, but vehicles moved away before investigation occurs
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#### Application Review - Main Financial Systems (2011/12)

3 - Medium

Data input and processing	The process for user account administration was not adequately documented
Data interfaces	The process currently in use for data interfaces provides an opportunity of risk of data alteration. Plans are underway to replace the data interfaces with a more secure system
Data Output	A newer version of Excelerator, which is used for data extraction, providing additional security functionality was available, but had not yet been implemented. Due to be implemented as part of next main accounting system upgrade Printed reports containing sensitive or personal data did not contain any protective or advisory marking. Reports to be reviewed and updated to comply with corporate standards where appropriate

#### Asset Management (2011/12)

3 - Medium

C Documented Procedures	Operational procedures remained unpublished. To be written and published
F Managing Assets	A small number of properties contained incorrect data regarding responsibilities. Database updated to correct anomalies found during audit. Database to be fully checked and updated when restructuring of Council functions completed Disposal checklists were not being fully completed. To be fully completed and evidenced in future

<b>Audit Opinion / Area</b>	<b>Issues Raised In Report</b>
B Follow Up of Previous Audit Findings	Property inspection records were rarely recorded on the database. To be implemented departmentally once restructuring completed.  Some property records on Asset Management database contained some blank fields. Records to be updated  The property policy and practices strategy remained unpublished. To be produced.

## Computer Audit Follow Up (2010/11)

### 3 - Medium

E Follow Up of Previous Audit Findings-Leisure Centre Management System(2008/09)	Password criteria set in Leisure Management system does not meet with corporate standards. Request to be made to software supplier for required password criteria to be included in next upgrade
I Follow Up of Previous Audit Findings - IT Disaster Recovery (2009/10)	Business Impact Analysis has not been reviewed since 2005, except for IT systems in 2008. To be undertaken following restructuring

## Creditor Details Fraud (2011/12)

### 3 - Medium

C Fraud Awareness	The Payroll Manager is not receiving copies of the National Anti Fraud Network newsletters regularly. Payroll Manager to be added to distribution list
D Preventing Fraud	Amendments had been made to supplier bank details but the back up evidence could not be located. Evidence has subsequently been found.  There is no evidence that an independent check of bank detail changes has been made. Evidence to be retained in future to demonstrate that checks have been undertaken
E Detecting Fraud	Evidence had not been retained to demonstrate that creditors staff have carried out the relevant checks to prove the authenticity of bank detail change requests received. Evidence to be retained in future

## Food and Health and Safety (2010/11)

### 3 - Medium

D Data Security	Computer system does not have a minimum length for passwords. System parameters to be examined and a minimum character requirement implemented
E Food Safety	Some paperwork not located during audit - believed due to being elsewhere awaiting scanning.

<b>Audit Opinion / Area</b>	<b>Issues Raised In Report</b>
F Licensing	Inspection records not fully completed, and many unsigned. Issue being raised by manager with relevant staff Inadequate documentation to evidence which officer has authorised each license. Checklist to be introduced identifying authorisation Items of paperwork missing in small number of cases. Filing procedures to be reviewed
<b>6 - Efficiency</b>	
C Documented Procedures	Procedures notes in two different locations, some out of date - procedure notes to be updated and held in one location. Some staff did not have access to user manual for computer system - access to be made available.
E Food Safety	Letters drafted manually rather than using preformatted templates. Letter templates to be introduced.

## Grants / Financial Assistance (2011/12)

### 2 - High

G Approval of Applications	No evidence that some grants had been approved by a senior officer. Action taken to reinstate authorisation process for all grants
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### 3 - Medium

F Applications for Assistance	Recommendations were being acted upon that had not been signed off by occupational therapists. Unsigned recommendations now no longer accepted
I Payments	Certificates of interim completion had not been signed off by senior officers in some instances. Action taken to reinstate an adequate sign off process

## Housing Benefit Fraud (2011/12)

### 3 - Medium

E Counter Fraud Activities	Workload prevented investigations commencing within deadlines set. Priority levels to be reviewed
F Sanctions	Instances where overpayment calculations had initially been incorrectly calculated resulting in later amended figures. Contact with relevant Benefits Managers to be made to resolve issues

## Housing Repairs and Maintenance (2011/12)

### 3 - Medium

E REACTIVE MAINTENANCE CONTRACT (ROALCO)	Number of property inspections later than targets set. Staff to be reminded to immediately record inspections on system. Monthly monitoring check to be introduced
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<b>Audit Opinion / Area</b>	<b>Issues Raised In Report</b>
	Small number of jobs identified where completion date significantly later than target. Process to be amended to identify and review significantly overdue jobs
F OTHER REPAIRS/ MAINTENANCE	Tender documentation not retained in accordance with the Council's Document Retention Policy. Retention Policy to be complied with
D Data Security	Contracts did not include reference to data security standards, contrary to the requirements of the Council's Data Handling Action Plan. Future contracts to incorporate standards. Data handling requirements to be raised with existing contractors
<b>6 - Efficiency</b>	
E REACTIVE MAINTENANCE CONTRACT (ROALCO)	Works orders were unnecessarily printed off and matched to contractor invoices. To be discontinued
	Reconciliation undertaken included a section that did not appear to serve any purpose. To be discontinued

## Parking Services (2011/12)

### 3 - Medium

F Pay and Display Car Parks	Income from the sale of manual tickets is not kept separate for banking purposes, or checked. Revised process implemented The Daily Machine Cash Collection sheets included takings from days other than the date of collection. Separate sheet for each day to be used in future The level of detail recorded where an A ticket was missing, but takings banked was inconsistent and in instances did not demonstrate that any check had been undertaken. Process to be amended to provide evidence of checks Current procedures allow a missing A ticket to potentially go undetected for several weeks. Process to be amended to ensure sequential checks are undertaken following each banking The reconciliations for Realtime machines undertaken do not verify that all A tickets are accounted for. Reconciliation process amended
D Data Security	Function had adopted own document retention policy as the corporate policy made no reference to parking documentation. Amendment to policy to be proposed when next subject to review

## Payroll (2011/12)

### 3 - Medium

D Data Security	Due to staffing changes there no was backup officer with system administrator access for the Payroll system. Action taken to provide backup arrangements.
G Payroll Reconciliations	Periodic checking by departments of payroll data was not currently being undertaken. To be reintroduced
F Payment of Staff and Members	BACS submission summaries not consistently signed to evidence checks on totals. Summaries to be signed in future

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

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Lack of evidence of verification of payroll system run log entries. Evidence of verification to be retained  
No system report available for Maternity pay. Report now available

## Public Conveniences (2011/12)

### 2 - High

E Public Conveniences Cleaning Contract The cleaning contract for the period from 1/5/09 to 30/4/14 had not yet been signed at the time of the audit. Subsequently signed

F Public Conveniences Repair and Maintenance Contract NICEIC certificates had not been received for the periodic inspections which were carried out in June 2011. Contractor subsequently provided certificates. In future payment not to be made until certificates received

### 3 - Medium

F Public Conveniences Repair and Maintenance Contract No evidence of checking of individual jobs to the schedule of rates. Evidence of check to be provided in future

No documentation was being supplied to the client officer regarding works instructions raised out of hours by Careline. Previously agreed process to be enforced

Testing identified that invoice certification slips were not being fully completed. To be fully completed in future

E Public Conveniences Cleaning Contract Testing identified that there were no records of inspections undertaken (other than sheets completed when rectification is required). Records to be maintained

## Windows and Doors 2008/09 - Weeley and Gt Bromley (FA 961)

### 3 - Medium

CON3 CONTRACT FINAL ACCOUNT AUDIT - CURRENT CONTRACT Lack of quotations on file to allow validation of some variations made. Evidence to be sought and retained for future contracts

CON4 CONTRACT FINAL ACCOUNT AUDIT - POST CONTRACT Failure to issue practical completion certificate. Subsequently issued



## Internal Audit Reports Issued August 2011 - Mid December 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

#### Legal Services (2011/12)

3 - Medium

D Data Security

Contract documents retained longer than required by retention policy for operational reasons. Amendment to policy to be considered when policy next reviewed