

AUDIT COMMITTEE

22 MARCH 2012

REPORT OF HEAD OF INTERNAL AUDIT

A.2 REPORT ON INTERNAL AUDIT – December 2011 – February 2012

(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 mid December 2011 to February 2012.

EXECUTIVE SUMMARY

The report provides a review of the activity of the Internal Audit function over the period mid December 2011 to February 2012.

Progress on planned work over the period was again better than anticipated, given that the Internal Audit function has been operating with a reduced level of staff resource available. Action has been and continues to be taken to minimise the impact of the reduced staff resources, and to ensure that an adequate level of audit coverage is achieved over the year.

There were no reports issued in the period or significant issues identified that need to be drawn to the attention of the committee.

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.

CIPFA are proposing to introduce a common set of public sector internal audit standards from 1st April 2013. At the current time no details have been circulated, but it is understood that the standards will be based on the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. Further information will be reported to the Committee once available.

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. As reported previously the 2011/12 review has been delayed pending determination of the

future delivery of the Internal Audit function. Updated versions of the Terms of Reference and the Internal Audit Strategy form part of a separate report to this meeting.

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. The 2012/13 plan forms part of a separate report to this meeting.

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 the end of February 2012.

At the 29th February 75% of the plan had been achieved.

The Internal Audit function has been operated with reduced staffing over the period under review due to vacancies. During the period action has been taken to successfully recruit to one of the vacant posts, however the resources currently available remain the equivalent of 3.6 full time equivalent staff members compared to an establishment of 4.9fte's. Action is currently being taken to progress recruitment to the vacancy that will remain within the staffing structure that comes into effect from April. 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.

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. Any audits that cannot be undertaken in the current financial year, have been considered for inclusion in the 2012/13 plan and rolled forward where an ongoing need for an audit has been identified.

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	Target April 2011 – Feb 2012	Actual April 2011 – Feb 2012	Profile Dec 2011 – Feb 2012	Actual Dec 2011 – Feb 2012
Percentage of planned audit work completed	90%	82.5%	75%	22.5%	20%
Percentage of draft and final reports issued within target deadlines	90%	90%	96%	90%	100%
Percentage of satisfactory responses to satisfaction surveys issued with audit reports	90%	90%	98%	90%	100%
Overall satisfaction level	3	N/A	N/A	N/A	N/A

following periodic satisfaction survey	(on scale 1 – 5)				
--	------------------	--	--	--	--

Adequacy of Management Response to Internal Audit Reports – Action continues to be taken to monitor responses and issue reminders as appropriate. At 29th February there were no instances requiring reporting to or action taken 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 8 Internal Audit reports were issued. Appendix B includes brief details from each audit report issued of findings scored as medium risk or higher where assurance was adequate. 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	None	-
Adequate	Light Green	4	Appendix B
Substantial	Dark Green	4	-

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.

There were no reports issued in the period under review where it is considered necessary to bring the issues found to the specific attention of the Committee.

There were no unscheduled investigations undertaken in the period.

BACKGROUND PAPERS FOR THE DECISION
Audit Reports

APPENDICES
A.2 Appendix A – Internal Audit Plan 2011/12 Progress Report A.2 Appendix B - Internal Audit Reports Issued – Adequate Assurance

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

Audit Subject	Status	Opinion	Comments
Assurance Work (Systems and Other Audits)			
Abandoned Vehicles	Completed	Adequate Assurance	
Architectural and Building Services	Completed	Adequate Assurance	
<i>Architectural and Building Services Term Contracts</i>			
Gas Servicing Contracts	Allocated		
Heating Refurbishment BACS	Completed	Adequate Assurance	
BACS (2010/11)	Completed	Adequate Assurance	
BACS (2011/12)	Draft Report		
Brightlingsea Sports Centre	Completed	Adequate Assurance	
Building Control	Completed	Substantial Assurance	
Central Purchasing	Fieldwork		
Concessionary Fares	Completed	Adequate Assurance	
Contact Centre	Deferred		Low priority audit deferred to 2012/13
<i>Contract Audit</i>			
Vyntoner House Refurbishment Phase 3	Completed	Substantial Assurance	
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	
Environmental Improvements Churchill Court Phase 1	Allocated		

Audit Subject	Status	Opinion	Comments
Structural Repairs 6 Edward Close	Fieldwork		
Painting Group 1 Clacton 2009/10	Allocated		
Structural Repairs 43 / 45 Harcourt Avenue	Allocated		
Credit and Debit Card Payments	Completed	Limited Assurance	
Estates Management	Completed	Adequate Assurance	
<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	Completed	Adequate Assurance	
Frinton Walton Pool	Allocated		
Grants / Financial Assistance	Completed	Adequate Assurance	
Heritage and Conservation	Deferred		Deferred due to Planning FSR
Homelessness	Completed	Substantial Assurance	
Household Waste and Recyclable Materials	Deferred		Deferred to 2012/13 due to commencement of new contract
Housing Allocations	Deferred		Deferred to 2012/13
Housing Benefit Fraud	Completed	Adequate Assurance	
Human Resources	Deferred		Deferred to 2012/13 due to HR workload
ICT Services	Cancelled		Content substantially duplicated by Management of 3 rd Party IT Services audit under Computer Audit heading
Insurance	Fieldwork		
Inventories	Cancelled		Content incorporated in future Departmental Procurement audits
Legal Services	Completed	Substantial Assurance	
Major Capital Projects	Completed	Substantial Assurance	

Audit Subject	Status	Opinion	Comments
Parking Services	Completed	Adequate Assurance	
Planning Enforcement	Deferred		Deferred to 2012/13
Public Conveniences	Completed	Adequate Assurance	
Regeneration / Special Projects	Deferred		Deferred to 2012/13
Residential Health	Deferred		Low priority audit deferred
Sheltered Units - Wardens	Completed	Adequate Assurance	
Tenant Relations	Completed	Substantial Assurance	
<i>Theatres and Entertainments</i>			
Theatres and Entertainments (2010/11)	Cancelled		Merged into 2011/12 audit
Theatres and Entertainments (2011/12)	Deferred		Deferred to 2012/13 to allow audit of new Box Office IT system to be included
<i>Timesheets and Allowance Claims</i>			
Resource Management Timesheets and Allowance Claims	Completed	Adequate Assurance	
Life Opportunities Timesheets and Allowance Claims	Fieldwork		
Tourist Information Centres	Completed	Limited Assurance	
Assurance Work (Computer Audit)			
CAPS Application Review	Completed	Limited Assurance	
Data Protection	Completed	Substantial Assurance	
IT Physical and Environmental Management	Completed	Substantial Assurance	
IT Project Management	Completed	Adequate Assurance	
Main Financial System Application Review	Completed	Adequate Assurance	
Management of 3rd Party IT Services	Fieldwork		
<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		
Requested Audits			
Leisure External Funding	Cancelled		Cancelled in consultation with Leisure Services due to reduction in external

Audit Subject	Status	Opinion	Comments
Benefits and Revenues CoCo Compliance	Cancelled		funding To be incorporated in 2012/13 Benefits and Revenues Computer Application Audit
Planning Enforcement - Data Security	Completed	Adequate Assurance	
Clacton Leisure Centre - Condition Management Programme	Completed		
Anti Fraud Audit			
Card Fraud	Unallocated		
Cash Income	Unallocated		
Council Tax Discounts	Cancelled		Incorporated into scope of Council Tax audit
Creditors Details Fraud	Completed	Adequate Assurance	
Money Laundering	Completed	Adequate Assurance	
Recruitment Fraud	Deferred		Deferred to 2012/13 due to HR workload
Tenancy Fraud	Final Report		
Unsolicited Invoices	Unallocated		

Internal Audit Reports Issued Mid December 2011 - February 2012 (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
----------------------	-------------------------

Adequate Assurance

Heating Refurbishment Contract (2011/12)

3 - Medium

E Tendering	Paperwork relating to previous contract could not be located at the time of the audit. Subsequently located and submitted to Internal Audit. No copy of a letter of intent could be located covering period between commencement of contract and date at which contract was signed
G Identification of and Ordering of Works	Water tests required by the contract specification were not being undertaken

IT Project Management (2011/12)

3 - Medium

Planning and Interim review	Project monitoring spreadsheet did not include any project detail for projects not funded from capital.
Policies and Procedures	The project documentation examined did not detail where there was a requirement for a post implementation review. Action to be taken to detail the criteria required to invoke a post implementation review

Life Opportunities Purchasing and Invoice Authorisation (2011/12)

3 - Medium

D Procurement of Goods, Works or Services	Some instances where orders raised after invoices received due to misunderstanding of how to use ordering system where exact price of goods not known.
E Certification and Payment of Invoices	Number of instances found where no evidence to demonstrate that all checks required on invoices to meet requirements of Financial Procedure Rules had been undertaken Some orders where goods received and invoices paid had not been marked as closed on the ordering system

Audit Opinion / Area

Issues Raised In Report

6 - Efficiency

E Certification and Payment of Invoices

Failure to populate description field on invoice certification slip. Narrative recorded enables transactions to be readily identified when monitoring budgets or reviewing expenditure avoiding the need to look up order or invoice details.

Resource Management Timesheets and Allowance Claims (2011/12)

3 - Medium

C Documented Procedures

No documented procedures available regarding processing of allowance claims