

AUDIT COMMITTEE

13 DECEMBER 2012

REPORT OF HEAD OF INTERNAL AUDIT

A.2 REPORT ON INTERNAL AUDIT – APRIL – NOVEMBER 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 April to November 2012.

EXECUTIVE SUMMARY

The report provides a review of the activity of the Internal Audit function over the period April to November 2012.

Progress on planned work was better than anticipated, given that full staffing was not achieved until late in the period under review, but is marginally behind schedule. The position is considered recoverable.

During the period under review there was only one report where the assurance was less than adequate.

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. CIPFA have consulted on draft standards, but no announcement has been received to date regarding approval of these standards. CIPFA currently propose to publish guidance notes on the new standards in March 2013. 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 22nd March 2012, and have previously been subject to an annual review. It is currently intended that the Terms of Reference and Internal Audit Strategy next be reviewed following publication of the new CIPFA standards and guidance. The current Terms of Reference and Internal Audit Strategy are considered to be fit for purpose, in the context of the CIPFA Code of Practice 2006, and will be used as a basis

for the production of the 2013/14 Internal Audit Plan. The publication date for guidance does not allow sufficient time for revision of these documents if the Internal Audit plan for 2013/14 is to be approved at the March 2013 committee meeting.

Internal Audit Plan – The 2012/13 plan was approved by this committee on 22nd March 2012. 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 2012/13 Progress – The Internal Audit Plan approved by the Audit Committee in March 2012 continues to be kept under review.

Appendix A provides detail of the status of each audit as at mid November 2012. At this point 56% of the plan had been achieved.

The Internal Audit Plan approved assumed full staffing throughout the year. Due to the need to await the outcome of the function's Fundamental Service Review, full staffing could not be achieved until October 2012. Whilst there has been some slippage in the plan this has been less than anticipated, and efforts are being made to recover the position.

The level of audit coverage in the year to date regarding Proactive Anti Fraud audits has been limited, pending the publication of the Audit Commission's "Protecting the Public Purse 2012" document (8th November 2012), to enable emerging fraud themes to be considered for coverage in the remaining part of this financial year.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the year to date 93% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

Management Response to Internal Audit Findings – There are processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action has been taken. Development work is to be undertaken to enable statistical information to be reported to future meetings on the effectiveness of Departments in resolving issues raised and reported by the Internal Audit function.

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 year to date 26 audits have been completed. In order to be able to provide assurance to the Committee in June 2012, the Head of Internal Audit's annual report at that time included detail regarding audits completed by mid May. This report therefore covers those audits completed since that date. Appendices B and C include brief details from each audit report issued of findings scored as medium risk or higher where assurance was either limited or adequate.

Assurance	Colour	Number this Period	Year to Date	
Minimal	Red	0	0	-
Limited	Pink	1	1	Appendix B
Adequate	Light Green	12	18	Appendix C
Substantial	Dark Green	5	7	-

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.

Issues to draw to the attention of the Committee

The following issues are drawn to the attention of Members: -

Life Opportunities Timesheets and Allowance Claims

The audit identified incorrect processes in place for the calculation of payment in lieu of holiday entitlement for casual staff at Leisure sites. Extrapolation of the results suggested a potential underpayment in total of around £15,000 for a full year. Corrective action is understood to have been taken, and this will be subject to review in a follow up audit to be undertaken early in 2013.

Whilst the Leisure function is the largest user of casual staff, it is not the only user. Audit checks have been undertaken on all other functions employing such staff, and corrective action instigated where necessary.

Staffing Audits (formerly Timesheets and Allowance Claims)

A recurring issue identified this period has been regarding the checking, for officers undertaking business mileage, of driving licence, insurance and MOT documentation. In each case the Department had records of checks on some, but not all functions. This has been a consequence of restructuring where records previously held do not appear have been transferred to those now responsible. Action has been agreed to bring these records up to date.

Licensing




The integrity of the licensing database had been compromised due to the manual deletion of some records. However at the time of the audit, the function was still maintaining full paper records, and therefore an adequate audit trail existed, which mitigated the situation. The maintenance of both computer and full paper records is inefficient. Procedures have since been amended to stop deletion of records, and this will enable the paperwork held to be reduced.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports






APPENDICES

Appendix A – Internal Audit Plan 2012/13 Progress Report
Appendix B - Internal Audit Reports Issued – Limited Assurance
Appendix C – Internal Audit Reports Issued – Adequate Assurance

Audit Subject	Status November 2012	Opinion	Comments
<u>Assurance Work – Key Systems</u>			
<i>Bank Account</i>			
Bank Account (2011/12)	Completed	Substantial Assurance	
Bank Account (2012/13)	Allocated		
<i>Cashiers / Income Control</i>			
Cashiers / Income Control – Pre Implementation Review of Proposed Systems	Completed	Substantial Assurance	
Cashiers / Income Control	Allocated		
<i>Corporate Governance and Risk Management</i>			
Corporate Governance and Risk Management (2011/12)	Completed	Adequate Assurance	
Corporate Governance and Risk Management (2012/13)	Unallocated		
Council Tax	Fieldwork		
Creditors	Draft Report		
<i>Departmental Procurement</i>			
Public Experience Purchasing and Invoice Authorisation (2011/12)	Completed	Adequate Assurance	Reported to June 2012 Committee
Planning Department Procurement (2012/13)	Draft Report		
Resource Management Procurement (2012/13)	Draft Report		
Housing and Council Tax Benefits	Fieldwork		
<i>Housing Rents</i>			
Housing Rents (2011/12)	Completed	Adequate Assurance	Reported to June 2012 Committee
Housing Rents (2012/13)	Fieldwork		
Main Accounting System	Allocated		
National Non Domestic Rates	Fieldwork		
Payroll	Allocated		

Tendring District Council Internal Audit Plan 2012/13
(Position at November 2012)

Appendix A

Audit Subject	Status November 2012	Opinion	Comments
<i>Sundry Debtors</i> Sundry Debtors - Central Function (2011/12) Sundry Debtors (2012/13)	Completed Allocated	Adequate Assurance	Reported to June 2012 Committee
<i>Treasury Management</i> Treasury Management (2011/12)	Completed	Substantial Assurance	
Treasury Management (2012/13)	Allocated		
<u>Assurance Work (Other Systems)</u>			
<i>Architectural and Building Services Term Contracts</i> Gas Servicing Contracts (2011/12)	Completed	Substantial Assurance	
BACS (2011/12)	Completed	Adequate Assurance	
Central Purchasing (2011/12)	Completed	Adequate Assurance	Reported to June 2012 Committee
Clacton Leisure Centre and Lifestyles	Completed	Adequate Assurance	
Coastal Projects and Engineering Services Corporate / Cross Cutting Projects <i>Contract Audit (2011/12)</i> Dovercourt Toilets	Draft Report Allocated		
	Fieldwork		Awaited information received November 2012
Environmental Improvements Churchill Court Phase 1	Completed	Adequate Assurance	Reported to June 2012 Committee
Painting Group 1 Clacton 2009/10	Completed	Adequate Assurance	Reported to June 2012 Committee
Structural Repairs 43 / 45 Harcourt Avenue <i>Departmental Staffing</i>	Completed	Substantial Assurance	Reported to June 2012 Committee
Corporate Services Staffing (2012/13)	Completed	Adequate Assurance	

Tendring District Council Internal Audit Plan 2012/13
(Position at November 2012)

Appendix A

Audit Subject	Status November 2012	Opinion	Comments
Life Opportunities Timesheets and Allowance Claims (2011/12)	Completed	Limited Assurance	
Life Opportunities – Casual Staff Holiday Pay – Follow Up (2012/13)	Allocated		Follow up of issue identified in Life Opportunities Timesheets and Allowance Claims (2011/12).
Public Experience Staffing (2012/13)	Completed	Adequate Assurance	
Development Management	Allocated		
Emergency Planning	Fieldwork		
Facilities Management	Completed	Adequate Assurance	
Frinton Walton Pool (2011/12)	Completed	Adequate Assurance	
Household Waste and Recyclable Materials	Allocated		
Housing Allocations	Draft Report		
Housing Repairs and Maintenance	Draft Report		
Housing Strategy and Development	Unallocated		
Human Resources	Unallocated		
Information Management	Unallocated		
Insurance (2011/12)	Completed	Adequate Assurance	
Licensing	Completed	Adequate Assurance	
Performance Management	Unallocated		
Planning Enforcement	Draft Report		
Public Relations	Unallocated		
Regeneration	Unallocated		
S106	Draft Report		
Street Sweeping	Draft Report		
Telephony / Switchboard	Unallocated		

Tendring District Council Internal Audit Plan 2012/13
(Position at November 2012)

Appendix A

Audit Subject	Status November 2012	Opinion	Comments
Tendring Careline / CCTV Theatres and Entertainments Tourism and Events	Draft Report Fieldwork Completed	Adequate Assurance	
VAT	Completed	Adequate Assurance	
<u>Assurance Work (Computer Audit)</u>			
Computer Audit Follow Up Disaster Recovery IT Change Management	Unallocated Unallocated Completed	Substantial Assurance	
Management of 3rd Party IT Services (2011/12) Northgate Benefits and Revenues Application Review	Completed Completed	Substantial Assurance Adequate Assurance	Reported to June 2012 Committee
<u>Proactive Anti Fraud Audits and Initiatives</u>			
<i>Housing Tenancy Fraud</i> Housing Tenancy Fraud (2011/12) Housing Tenancy Fraud (2012/13) Mandate Fraud	Completed Allocated Draft Report	Opinion not given	Reported to June 2012 Committee Included within scope of Creditors audit above

Internal Audit Reports Issued June - November 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
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Limited Assurance

Life Opportunities Timesheets and Allowance Claims (2011/12)

2 - High

G Timesheets	Casual staff either not paid for holiday entitlement, or had been paid incorrectly. Follow up audit scheduled for January 2013 to review the corrective action taken
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3 - Medium

F Allowance Claims	Periodic checks not being undertaken to ensure officers undertaking business journeys have valid documentation to be able to undertake such journeys.
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G Timesheets	Timesheets at some sites did not include a field for staff to sign off the document Multiple timesheets at one site not signed off by an authorised officer.
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6 - Efficiency

G Timesheets	Inconsistencies and inefficiencies across Leisure sites regarding the paperwork and processes for recording casual staff time
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Internal Audit Reports Issued June - November 2012 (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

BACS (2011/12)

2 - High

F BACS - Life Opportunities	Lack of segregation of duties in Housing Rents function
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3 - Medium

F BACS - Life Opportunities	No written procedures regarding administration of the BACS process in the Housing Rents function. These have now been produced.
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E BACS - Customer Services	No written procedures regarding BACS for NNDR function. Procedures subsequently documented A proposed upgrade to the software was going to impact on the detail available regarding each BACS run. Upgrade has subsequently been delayed pending a resolution to the issue Council Tax and NNDR BACS rejection reports not annotated to show corrections made. Issue subsequently resolved
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Benefits and Revenues System Application Review (2012/13)

2 - High

Change Management	System changes and upgrade testing documentation not completed in sufficient detail to provide a satisfactory audit trail
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3 - Medium

Change Management	Roll back procedure for failed changes lacked detail and was too generic
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Clacton Leisure Centre and Lifestyles (2012/13)

3 - Medium

F Use of Facilities and Income Collection	One Card user photos not held for some cards issued. Where photos held some were of such poor quality that the user was unrecognisable
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Audit Opinion / Area**Issues Raised In Report**

Examples found where VAT had not been correctly applied regarding block bookings
Incorrect payments types recorded in Leisure Management Information System for some transactions processed.
Some payments received not linked to an activity type on Leisure Management Information System impacting on end of day processes

Corporate Governance (2011/12)

3 - Medium

C Corporate Governance - Focus Business continuity plans were found to be out of date as a consequence of the changes occurring to the officer structure of the Council.
This issue cannot be fully resolved until completion of the Fundamental Service Review process.

Corporate Services Staffing (2012/13)

3 - Medium

F Allowance Claims Checks on officers' car documentation had not been completed for whole department. Action subsequently taken to complete the exercise

Facilities Management (2012/13)

3 - Medium

F Cleaning of Council Buildings Location descriptions on checklists were imprecise
G Council Buildings Building security system not up to date. Action subsequently taken to update records to meet current access requirements
Visitor access card records incorrect. Issue subsequently resolved
Fire procedures at some sites required review. Reviews have subsequently been undertaken.
H Energy Consumption Energy prices were not being checked to contract prices
E Repair and Maintenance of Council Buildings Building checklists required revision due to inconsistent interpretation of questions
Two different versions of the Building checklist found to exist
Inconsistent approach to the frequency for completion of buildings checklists

Frinton Walton Pool (2011/12)

3 - Medium

Audit Opinion / Area	Issues Raised In Report
F Use of Facilities and Income Collection	Daily cash summary sheets not always adequately signed off. Action has been taken to rectify this The production of e-returns for two days cash had been overlooked. Subsequently rectified Copy bank slips missing for two dates. Action has been taken to minimise risk of repeat of issue
C Documented Procedures	Written procedures did not include a section on the e-return process for reporting income to the Agresso general ledger. Procedures have since been documented
F Use of Facilities and Income Collection	A number of refunds had not been recorded in the refunds book, and not therefore correctly authorised. Corrective action subsequently taken to ensure refunds correctly handled in future

Insurance (2011/12)

2 - High

E Insurance Contracts	At the time of audit the records relating to the insurance tendering process could not be located. The files have subsequently been located
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3 - Medium

C Documented Procedures	No documented procedures found.
D Data Security	Computer records were held on a network drive accessible to staff outside of insurance function. Permissions subsequently revised to restrict access
F Insurance Cover Maintenance	No effective mechanism in place to ensure that the Insurance function is informed of all relevant acquisitions and disposals
G Insurance Claims	No mechanism in place to ensure that staff throughout the Council had ready access / awareness of any insurance conditions relevant to their roles

Licensing (2012/13)

2 - High

I Enforcement	No centralised process for recording enforcement.
J Effectiveness of Licensing Computer System	Manual deletion of historic records had affected the integrity of the database. Paper records had been maintained of all records. Records are no longer being deleted.

3 - Medium

Audit Opinion / Area	Issues Raised In Report
G License Application, Fee Collection, License Approval and Issue	Lack of segregation of duties regarding the processing of license applications in some instances
I Enforcement	No proactive inspections being undertaken to ensure license conditions being complied with
6 - Efficiency	
G License Application, Fee Collection, License Approval and Issue	Previous changes to the taxi license application process had resulted in the need for additional administration that could be avoided. Process has subsequently been changed to resolve this issue
	The frequency of banking required revision to eliminate banking occurring when only low amounts of income held

Public Experience Staffing (2012/13)

3 - Medium

C Documented Procedures	No procedure notes available outlining processes to be followed by staff.
F Allowance Claims	No evidence that mileage claim forms checked for reasonableness and accuracy. Process has subsequently been amended Periodic checks not in place in all parts of department to ensure that officers undertaking business mileage have the correct documentation in place. Subsequently rectified
G Timesheets	Timesheets not signed by an authorised officer. Process has subsequently been amended Incorrect methodology in use for casual staff holiday pay calculations. Corrective action has been taken

6 - Efficiency

F Allowance Claims	Opportunity identified to streamline process for processing allowance claims
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Tourism and Events (2012/13)

3 - Medium

E Airshow	Inadequate quotation records regarding airshow organisers. Procurement Procedure Rules to be correctly followed in future Adequate records not maintained of officer delegated decisions regarding charge setting. Adequate records to be maintained in future
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VAT (2012/13)

3 - Medium

Audit Opinion / Area	Issues Raised In Report
E VAT Registration and Statutory Returns	Redundant tax codes had not been closed to future postings Monthly VAT return always prepared by one officer. No sharing of knowledge regarding this process has occurred
F Accounting for VAT	No mechanism in place to check that VAT invoices had been received for contracts with stage payments. A process has now been set up to centrally check for receipt of the invoices No process in place to reclaim VAT under the Bad Debt Relief regulations
G VAT Regulations	Error identified regarding the treatment of VAT in one instance