

**AUDIT COMMITTEE  
26 SEPTEMBER 2013**

**REPORT OF AUDIT AND GOVERNANCE MANAGER**

**A.1 REPORT ON INTERNAL AUDIT – June to August 2013**  
(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 June – August 2013.

**EXECUTIVE SUMMARY**

- Progress continues regarding assessing compliance with the Public Sector Internal Audit Standards. One issue regarding compliance has been identified and included in this report.
- The Internal Audit function's performance is currently on target.
- There were three audits completed during the period where assurance given 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 Public Sector Internal Audit Standards require the Audit and Governance Manager, in his role as Chief Audit Executive, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

#### **CURRENT POSITION**

##### **Public Sector Internal Audit Standards**

The standards were introduced from 1<sup>st</sup> April 2013. A report was presented to the June meeting of this committee providing detail on the standards.

Work is progressing to assess compliance with the standards, and to update the Internal Audit Manual to reflect the standards and recent changes in working practices. Concurrent with this the CIPFA Checklist for assessing conformance with the standards is being completed and evidence linked in to provide a suitable self assessment document pack for the periodic internal assessment that will be required in due course. Once this exercise is complete an action plan will be reported to a future meeting of the committee identifying all issues of non – conformance and any actions necessary to redress the issues identified.

Whilst the standards apply to all public sector internal audit providers, standard 1322 provides a mechanism for disclosure of non – conformance as it will not always be appropriate or practical to be fully compliant. In the work undertaken to date one issue has been identified where an alternate approach to that required by the standards is deemed necessary.

Standard 1130.A2 requires that “**assurance engagements for functions over which the chief audit executive (the Audit and Governance Manager) has responsibility must be overseen by a party outside the internal audit activity**”. It has been identified that there is currently one audit in the plan, Corporate Governance, where the Audit and Governance Manager’s responsibilities regarding the Annual Governance Statement and the Council’s Code of Corporate Governance conflict with his Internal Audit role. The standards require in such circumstances for the audit to be overseen by a party outside of the internal audit activity.

This requirement is not considered practical for a number of reasons: -

- Many senior managers from outside the Internal Audit function will also have a conflict of interest regarding one or more aspects of the Corporate Governance audit.
- Senior managers do not currently have sufficient Internal Audit expertise, access to Internal Audit records, or training in the PAWS computer system used. The level of overseeing required makes it unviable to train and provide access for a senior manager for a one off event, and without sufficient knowledge or training proficiency issues regarding the standards could arise.
- The level of overseeing necessary for this one audit makes it likewise unviable to seek an external solution.
- The risks are deemed to be low, in this instance.

Until 2011, the then Head of Internal Audit had substantial non – audit responsibilities. To provide independence arrangements were at that time in place for the then Audit Manager to oversee audits where a conflict of interest arose and the Head of Internal Audit's only involvement was as auditee. As this has been proven to be an effective alternative, it is intended that to meet the independence and objectivity requirements of the standards in future the Principal Auditor undertakes the Audit and Governance Manager role regarding the Corporate Governance audit, and that the Audit and Governance Manager's role be restricted to auditee only. A declaration to this effect will be included in the working papers for that audit.

If further conflicts of interest arise in the future then the arrangements will be subject to further consideration.

**Internal Audit Plan 2013/14 Progress** – The Internal Audit Plan approved by the Audit Committee in March 2013 continues to be kept under review.

Appendix A provides detail of the status of each audit as at August 2013. At this point the Internal Audit was on target regarding the percentage of the plan that had been achieved. The function remains fully staffed, and there are currently no known issues that impact on future service delivery.

**Quality Assurance** – The Internal Audit function issues satisfaction surveys for each audit completed. In the year to date 100% 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. Where appropriate follow up audits have been arranged to revisit significant issues identified after an appropriate time.

#### **Outcomes of Internal Audit Work**

The standards require the Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. In the period under review 18 audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues. Appendix B provides brief details regarding the more significant issues identified.

Assurance	Colour	Number this Period	Year to Date	
Minimal	Red	0	0	-
Limited	Pink	3	4	Appendix B
Adequate	Light Green	14	20	-
Substantial	Dark Green	1	3	-

A traditional 'traffic light' approach has been used and for the purpose of this 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 and where relevant relate to audit work undertaken where the service has sought assurances and improvement recommendations: -

#### **Information Management**

At the time of the audit, policies were found to be out of date, subsequently a new Information Security Policy Framework has been approved and implemented. There was no central record for Freedom of Information / Environment Information Requests, and testing identified some failures to respond within deadlines.

#### **Theatres and Entertainments**

The failure to adequately involve all relevant parties regarding the implementation of the new Box Office computer system, and with regard to the setting up of the in house licensed bar facility impacted upon the results of this audit. A further audit has been scheduled for January – March 2014 to review the effectiveness of action taken since the audit to rectify the issues raised.

#### **Seafont**

Control issues were identified regarding accounting for equipment, procurement and cash income that needed to be addressed urgently. Due to the seasonal nature of this function a follow up audit has been undertaken, but the audit report had not been finalised at the time of producing the committee report, and the results of that exercise will be reported to the next meeting of the committee.

### **BACKGROUND PAPERS FOR THE DECISION**

Audit Reports

### **APPENDICES**

Appendix A – Internal Audit Plan 2013/14 Progress Report  
Appendix B - Internal Audit Reports Issued – Limited Assurance

**Tendring District Council Internal Audit Plan**  
(Position at 31<sup>st</sup> August 2013)

**Appendix A**

Audit Subject	Status 31 <sup>st</sup> August 2013	Opinion	Comments
<b><u>2012/13 Internal Audit Plan</u></b> (Audits where Final Report not issued as at 31 <sup>st</sup> March 2013)			
<b><u>Assurance Work – Key Systems</u></b>			
Cashiers / Income Control	Completed	Adequate Assurance	Reported June 2013
<b>Corporate Governance</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
Council Tax	Completed	Adequate Assurance	Reported June 2013
Planning Department Procurement	Completed	Limited Assurance	Reported June 2013
Housing and Council Tax Benefits	Completed	Adequate Assurance	Reported June 2013
Housing Rents	Completed	Adequate Assurance	Reported June 2013
National Non Domestic Rates	Completed	Substantial Assurance	Reported June 2013
<b><u>Assurance Work - Other Systems</u></b>			
<b>Corporate / Cross Cutting Projects – Families with Complex Needs</b>	<b>Completed</b>	<b>Substantial Assurance</b>	
Contract Final Account Audit - Dovercourt Toilets	Draft Report		
<b>Development Management</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<b>Emergency Planning</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<b>Household Waste and Recyclable Materials</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<b>Housing Allocations</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
Housing Repair and Maintenance Contract Audit - Crooked Elms Stair Tower Extension	Completed	Adequate Assurance	Reported June 2013

**Tendring District Council Internal Audit Plan**  
(Position at 31<sup>st</sup> August 2013)

**Appendix A**

<b>Audit Subject</b>	<b>Status 31<sup>st</sup> August 2013</b>	<b>Opinion</b>	<b>Comments</b>
<b>Human Resources</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<b>Information Management</b>	<b>Completed</b>	<b>Limited Assurance</b>	
<b>Performance Management</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
Regeneration	Completed	Adequate Assurance	Reported June 2013
Telephony / Switchboard	Completed	Substantial Assurance	Reported June 2013
<b>Theatres and Entertainments</b>	<b>Completed</b>	<b>Limited Assurance</b>	
<b><u>Assurance Work - Computer Audit</u></b>			
<b>Computer Audit Follow Up</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<b>Disaster Recovery</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<b><u>Proactive Anti Fraud Audits and Initiatives</u></b>			
Housing Tenancy Fraud			Draft Report
<b><u>2013/14 Internal Audit Plan</u></b>			
<b><u>Assurance Work – Key Systems</u></b>			
Bank Account		Unallocated	
Cashiers / Income Control		Unallocated	
Corporate Governance		Unallocated	
Council Tax		Unallocated	
Creditors		Allocated	

**Tendring District Council Internal Audit Plan**  
(Position at 31<sup>st</sup> August 2013)

**Appendix A**

<b>Audit Subject</b>	<b>Status 31<sup>st</sup> August 2013</b>	<b>Opinion</b>	<b>Comments</b>
<i>Housing and Council Tax Benefits</i>	Fieldwork		
Local Council Tax Benefits Scheme – Post Implementation Review	Fieldwork		
<i>Housing and Council Tax Benefits</i>	Unallocated		
<i>Housing Rents</i>	Allocated		
<i>Main Accounting System</i>	Unallocated		
<i>National Non Domestic Rates</i>	Allocated		
<i>Payroll</i>	Allocated		
<i>Procurement</i>			
<i>Life Opportunities Procurement</i>	Allocated		
<i>Public Experience Procurement</i>	Allocated		
<i>Sundry Debtors</i>	Unallocated		
<i>Treasury Management</i>	Unallocated		
<b><u>Assurance Work - Other Systems</u></b>			
<i>Asset Management</i>	Allocated		
<b>BACS</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<i>Big Society Fund</i>	Fieldwork		
<b>Building Control</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<i>Cemeteries and Crematorium</i>	Draft Report		
<b>Cheques</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<i>Coast Protection</i>	Allocated		
<i>Corporate / Cross Cutting Projects</i>	Unallocated		
<i>Credit and Debit Card Payments</i>	Draft Report		
<i>Departmental Staffing</i>			

**Tendring District Council Internal Audit Plan**  
(Position at 31<sup>st</sup> August 2013)

**Appendix A**

<b>Audit Subject</b>	<b>Status 31<sup>st</sup> August 2013</b>	<b>Opinion</b>	<b>Comments</b>
<b>Planning Staffing</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
Life Opportunities Staffing	Draft Report		
Elections / Electoral Registration	Unallocated		
Grants / Financial Assistance	Allocated		
<i>Housing Repairs and Maintenance</i>			
Housing Repairs and Maintenance – Contracts	Fieldwork		
Housing Repairs and Maintenance – Contract Final Account Audit	Unallocated		
Housing Strategy and Development	Unallocated		
Member and Civic Support	Unallocated		
Parking Services	Fieldwork		
Planning Policy	Allocated		
Risk Management	Unallocated		
<i>Seafront</i>			
<b>Seafront</b>	<b>Completed</b>	<b>Limited Assurance</b>	
Seafront Follow Up	Draft Report		
Theatres and Entertainments	Unallocated		
<b><u>Assurance Work - Computer Audit</u></b>			
Cash Receipting Application Review	Allocated		
Code of Connection	Unallocated		
IT Procurement and Disposals	Unallocated		
Northgate Housing Application Review	Unallocated		
<b><u>Assurance Work – Major Council Projects</u></b>			
Coast Protection – Holland – on - Sea	Allocated		

**Tendring District Council Internal Audit Plan**  
 (Position at 31<sup>st</sup> August 2013)

**Appendix A**

<b>Audit Subject</b>	<b>Status 31<sup>st</sup> August 2013</b>	<b>Opinion</b>	<b>Comments</b>
Jaywick – Empty Homes Grants Other Major Council Projects audits	Allocated		Audits not yet finalised
<b><u>Proactive Anti Fraud Audits and Initiatives</u></b> <b><u>Council Tax Discounts and Exemptions</u></b>	<b>Completed</b>	<b>Adequate Assurance</b>	
<i>Procurement</i> Life Opportunities Procurement Public Experience Procurement Sports Sites Cash / Income NNDR Reliefs / Exemptions	Allocated Allocated Fieldwork Allocated		

## Internal Audit Reports Issued June 2013 - August 2013 (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

#### Information Management (2012/13)

##### 2 - High

B Information Governance	At the time of the audit a number of key policies were out of date. Subsequently a new Information Security Policy Framework has been approved and implemented.
C FOI / SAR / EIR	No central record containing all Freedom of Information requests or Environment Information Requests. Some Freedom of Information requests were identified as not being responded to within the deadlines set.

##### 3 - Medium

B Information Governance	The Information Commissioner's Office Model Publication Scheme not being used for the provision of business activity information.
C FOI / SAR / EIR	A number of Freedom of Information requests and responses had not been published on the Council's website. There is no standard approach to responding to Freedom of Information requests and the templates available are not always used. Responses to Freedom of Information requests are not always sent from a central generic email account. Due to devolved responsibility for responding to the public it was not possible to be fully assured that all sensitive / confidential information had been redacted.
C Records Management	The Records Management and Record Retention Policies were last reviewed in 2004. Review is currently underway. Data Sharing Protocols are developed by Departments. As the protocols are not retained centrally it is unknown how many different Data Sharing Protocols exist Corporately.
D Training & Awareness	Whilst the Council has an e-learning module to improve employee awareness of Data Protection, it is not mandatory.

#### Seafront Spot Check (2013/14)

##### 2 - High

C Inventory	No inventory records held for Beach Patrol equipment
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<b>Audit Opinion / Area</b>	<b>Issues Raised In Report</b>
H Income Collection	<p>No stocktakes of equipment have been undertaken</p> <p>No mechanism in place to formally write off damaged or obsolete equipment</p> <p>Controlled stationery not used for issuing tickets for the rental of sunloungers.</p> <p>An inadequate reconciliation of cash at the end of each day to agree tickets issued to cash received</p> <p>No approved scale of charges in place for the hiring out of sunloungers. Scale of charges has subsequently been approved</p>

### **3 - Medium**

G Procurement of Goods, Works or Services	Some orders raised and invoices received did not include sufficient detail to be able to identify the items purchased
C Inventory	<p>Confirmation Orders are raised after the goods / services have already been received from suppliers</p> <p>No arrangements in place to sign out equipment to other sites.</p> <p>Inventory items deemed mobile and desirable are not adequately security marked.</p> <p>Third party equipment was stored at the Beach Patrol premises without approval.</p>
G Procurement of Goods, Works or Services	As fuel cans are not signed out there is no recorded explanation for fuel use.
H Income Collection	<p>Fuel cans are not uniquely referenced, therefore impacting on the accountability for the use of fuel.</p> <p>The cash float used to provide change to customers was not obtained via the approved process as per Financial Procedure Rules.</p> <p>The safe used for storage of cash takings was not included on the Council's insurance schedules.</p> <p>The start and end ticket numbers are not recorded on the end of day cash up.</p>

## **Theatres and Entertainments (2012/13)**

### **2 - High**

B Follow Up of Youth Theatre Investigation (2010/11)	There was no evidence of Disclosure and Barring Service checks on two key people. The checks have now been undertaken and evidenced.
D Data Security	A room containing data considered to be sensitive was at times left insecure.
F Princes Theatre and Essex Hall	<p>No evidence of check of Public Liability insurance for contracted shows. One instance when records identified that Council had agreed to provide the insurance cover when the Council's insurance does not allow for this.</p> <p>It had not been possible to reconcile show income for a number of shows, including at the time of audit all where tickets had been sold using the new Box Office system.</p> <p>Hire charges were being varied without any evidence of delegated authority to do so.</p>

Audit Opinion / Area	Issues Raised In Report
G Youth Theatre	<p>There was no evidence of Public Liability Insurance checks being undertaken on hirers.</p> <p>Terms and conditions for the Princes Theatre / Essex Hall required a deposit upon application with balance due before the event. In all but one case examined this process was not followed and hirers were invoiced after the event.</p>
H Licenced Bar Facilities	<p>Payments had been made to self employed performers for a show, but the contract was with local dance schools. No invoices had been received.</p>
E Box Office System	<p>Income procedures for the operation of the bar were not discussed with Finance and Procurement as required by Financial Procedure Rules prior to commencement of operation of the facility.</p> <p>End of business till receipting arrangements were inadequate, no Z reports were attached to end of day cash up sheets.</p> <p>No evidence of any formal testing before new Box Office system went live.</p> <p>A number of operational issues identified with new Box Office system that had not been resolved at the time of audit, including refunds, end of day reports, VAT.</p>
B Follow Up of Youth Theatre Investigation (2010/11)	<p>The contract for the provision of a Youth Theatre had not been finalised. The verbal agreement entered into was incorrect.</p>
<b>3 - Medium</b>	
B Follow Up of Youth Theatre Investigation (2010/11)	<p>Inadequate records to substantiate Youth Theatre Salaries journal transfers kept.</p>
C Documented Procedures	<p>Some documented procedures were out of date. Procedures needed to be produced for the Bar processes.</p>
F Princes Theatre and Essex Hall	<p>Two show contracts identified missing signature from one of the parties. Contracts signed by TDC had been signed by an officer who did not have delegated authority to sign contracts, due to the scheme of delegation not having identified this need.</p> <p>Ticket selling price details were not included in two contracts examined.</p> <p>Complimentary tickets issued did not reflect contractual requirements. There was no evidence off agreement between the parties regarding any additional complimentary tickets issued.</p> <p>The new Box Office system requires shows to be entered onto the system by a third party. There was no evidence of internal checks to ensure that shows had been correctly added to the system</p> <p>Show checklists were found to be missing or incomplete</p> <p>At the time of the audit staff were unable to produce a report from the new Box Office system to enable them to balance the cash as part of the end of day process.</p>
H Licenced Bar Facilities	<p>Hire forms had not been completed for all hirings of the facilities.</p> <p>The Bar Cash Float had been used for the purchase of sundry items, when a petty cash float for such items should have been put in place.</p>
D Data Security	<p>Whilst a stocktaking process had been implemented, the analysis of the data produced was incomplete.</p> <p>Approval for use of a generic password was not evidenced.</p>

**Audit Opinion / Area**

**Issues Raised In Report**

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E Box Office System

Password complexity for the new Box Office system was not compliant with the Council's standards.  
Password change parameters for the new Box Office System did not comply with the Council's IT security standards.  
Management were unaware if any parameters had been set on the new Box Office system to lock users out after a predetermined number of unsuccessful login attempts  
Insufficient training of staff given for the new Box Office system.