

AUDIT COMMITTEE

12 DECEMBER 2013

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.4 REPORT ON INTERNAL AUDIT – September to October 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 September – October 2013.

EXECUTIVE SUMMARY

- Progress continues regarding assessing compliance with the Public Sector Internal Audit Standards.
- The Internal Audit function's performance is currently on target.
- There were two 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 1st April 2013. A report was presented to the June meeting of this committee providing detail on the standards.

Work continues regarding assessing compliance with the standards, and updating the Internal Audit Manual to reflect the standards, changes in working practices to reflect the standards, and other 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. The level of work required to cover off various requirements within the standards and the checklist is exceeding that originally anticipated, but is being undertaken in a way that minimises the impact on the day to day activities of the Internal Audit function. 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.

Standard 2100 requires that the internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. The Internal Audit Plan for 2013/14 includes audits on Corporate Governance, Risk Management and the control processes within the Council's key systems. The standards include within the governance heading a requirement for assessment of the information technology governance arrangements. Audit of such arrangements has previously been undertaken as separate IT audits on specific aspects with the frequency of audit of each aspect being determined by a risk based planning approach and limited by the level of IT audit resources available. The 2013/14 plan currently provides limited coverage. The Audit and Governance Manager is seeking guidance on this issue and will provide an update to the meeting regarding any Internal Audit Plan changes necessary to ensure compliance with the standards.

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 October 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.

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. Since the last report 8 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	2	6	Appendix B
Adequate	Light Green	4	24	-
Substantial	Dark Green	2	5	-

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: -

Credit and Debit Card Payments

Although the situation has improved since the previous audit, issues regarding the Payment Card Industry Data Security Standards (PCI DSS) compliance remain, although action continues to be taken to progress addressing the outstanding issues. The issues if remaining unresolved could impact on the collection of income by the card payment method which is governed by external standards. Appropriate action and timescales have been agreed with the relevant function regarding the resolution of the issues raised.

Housing Tenancy Fraud

Some of the processes in place to mitigate the risk of tenancy fraud occurring were not being effectively complied with, or required further development. Actions to improve the situation have been agreed with the function, and a further audit will be included in the 2014/15 Internal Audit plan.

Cash Handling Processes

At the last meeting of the Committee, concern was raised regarding cash handling processes. At that time audits regarding Leisure Sites, Parking Services and the Seafront involving review of cash handling arrangements were in progress. There has been delay in the completion of these audits and at the time of production of this report, none of the

mentioned audits had had a final report issued. The Audit and Governance Manager will provide an update to the Committee regarding any issues that have arisen and been finalised.

There is a follow up audit due in the final quarter of the 2013/14 financial year that will include coverage of cash handling arrangements regarding the Princes Theatre.

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.

The number of high severity issues outstanding was as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	2	Monthly reminders are being issued to resolve these issues.
Not yet due	12	

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