

Report of Chief Executive and Town Clerk
to
Audit Committee
on
21 September 2011

Report prepared by: Linda Everard, Head of Internal Audit

Summary Audit Progress Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the summary progress report on the delivery of Internal Audit's strategy and performance targets for 2011/12.

2. Recommendation

- 2.1 The Audit Committee accepts the report.

3. 2011/12 Targets: Performance Summary

- 3.1 **Appendix 1** shows the annual performance against targets for the financial year 2011/12. In summary:

- productivity for the joint team was 74% and time lost through sickness absence remains low
- as at 31 August 2011:
 - 13% of the programme was complete. This was against a target of 22%. The key points arising from this work are summarised in Section 4
 - 10% of the programme was at draft report stage or testing was substantially complete
 - 52% of the programme have agreed terms of reference or work is due to start in Q3
- client satisfaction with audits completed is high.

4. Audit Plan 2011/12

4.1 **Appendix 2** shows the current status of planned audits for the year. Any updates made to the status of each audit are shown in **bold** for ease of reference.

Summary Audit Findings

4.2 **Appendix 3** summarises the findings from 2011/12 audits completed since May 2011, including ad hoc work undertaken during the period.

4.3 Sufficient evidence was obtained in most areas reviewed during this period, for it to be concluded that their control environment was at least adequate or in the case of grant claims, they were compliant with their grant instructions.

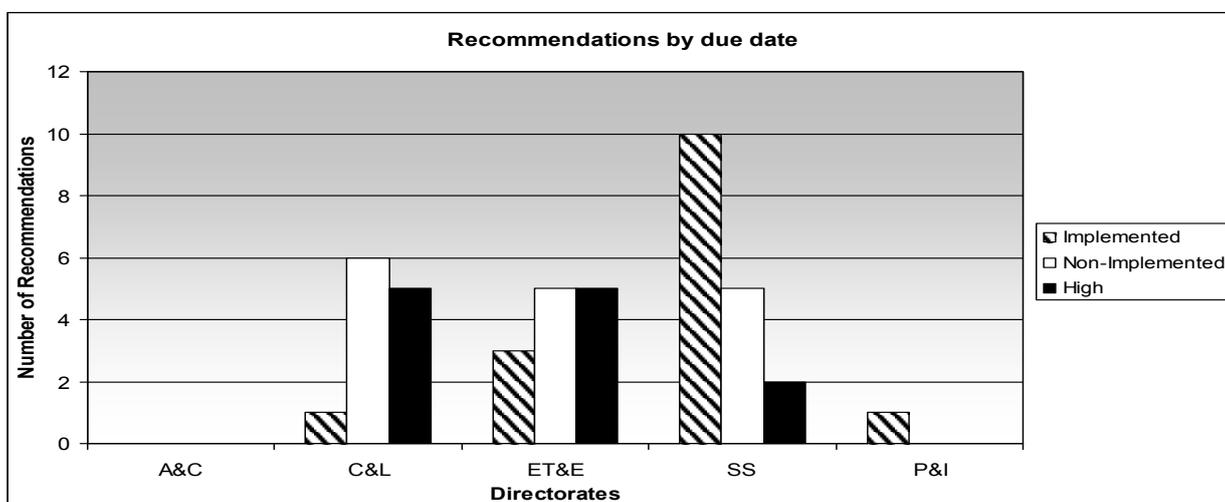
4.4 The two key messages arising from the completed this quarter are that:

- Contract Procedure Rules are inconsistently applied for purchases below the EU thresholds. Feedback will be provided to individual departments as to areas where non-compliance was identified. Looking to the future, Internal Audit is working with the Corporate Procurement Unit to support a number of corporate initiatives to address non-compliance.
- there is a need to formally consider the lessons learnt from the two occasions where the Agresso system has not been implemented as planned so that these can be addressed for future phases of the project.

4.5 Work is in progress to assess the impact on the Audit Plan of the departure of a member of staff from early November 2011. This will reduce the amount of work that the team will be able to deliver in 2011/12. All audit work not yet started is potentially at risk with the exception of the financial systems and schools reviews.

Implementing recommendations made

4.6 The following graph shows, for each directorate, the number of recommendations implemented during the quarter, the total number outstanding and the number of high priority actions within that total.



Key: A&C: Adult and Community Services, C&L: Children and Learning, ET&E: Enterprise, Tourism and the Environment, SS: Support Services and P&I: Policy & Improvement

4.7 The table below shows the profile of recommendations that were due to be implemented in the quarter and whether this was achieved:

| | PRIORITY 1 (HIGH) | PRIORITY 2 (MEDIUM) | TOTAL |
|---------------------------------------|----------------------------------|------------------------------------|--------------|
| Due to be implemented in the quarter | 17 | 18 | 35 |
| Fully implemented | 5 | 10 | 15 |
| Further work required - see 4.6 below | 12 | 4 | 16 |
| Proposed to be closed | 0 | 4 | 4 |

Note: Only two categories of recommendations are now reported upon.

4.8 Of the 16 recommendations that required further work:

- six relate to Children and Learning Serious Case Review action plan. The majority relate to delays in getting all partners to submit evidence to the July 2011 Case Review Panel that they have implemented their recommendations. It is expected that this evidence will be presented to the Case Review Panel's September meeting
- three in Enterprise, Tourism and the Environment relate to the delivery of training by Corporate Procurement which is now scheduled for the end of September
- two rely on the implementation of Agresso which is now due to be implemented in November 2011
- the remaining five are substantially complete but additional work is required before they can be signed off as fully implemented.

4.9 **Appendix 4** summarises the current status and progress made in implementing the 16 recommendations where further work is still required.

4.10 **Appendix 5** summarises the four recommendations that have been agreed can be closed due to developments that mean either the original risk identified is no longer relevant or the risk has reduced to an acceptable level.

4.11 Three 2010/11 key financial systems audits were assessed as needing improvement required. At the full Council meeting in July 2011, a request was made for a specific update in implementing the recommendations made in these audits, including those that are not yet due.

4.12 24 recommendations were made as part of these three reviews. Of the 11 due to be implemented this quarter, seven have been implemented and four require further work. These have been included in the figures contained in paragraph 4.7 and are highlighted in **bold** in **Appendix 4**.

4.13 **Appendix 6** summarises the current status of the remaining 13 recommendations not due to be implemented until quarter 3 or 4. For 11 of this 13, the risk is to be tolerated by the recommendation owners until Agresso is implemented, which will then look to address these control weaknesses. For the other two, one is on track to be implemented. The other has required a revised implementation date due to unexpected staff absences.

4.14 Therefore the profile of recommendations made but not yet due to be implemented as at the completion of this quarters exercise is as follows:

| | PRIORITY 1 (HIGH) | PRIORITY 2 (MEDIUM) | TOTAL |
|---------------------------------|----------------------------------|------------------------------------|--------------|
| All recommendations outstanding | 18 | 59 | 77 |

5. Working with others

5.1 The Head of Internal Audit now meets regularly with the Assistant Director, Internal Audit & Risk Management Consultancy Services at Essex County Council (ECC) to share intelligence and explore opportunities for joint working. As part of this initiative, a service level agreement has been established whereby Southend and Castle Point Borough Councils can buy in resources from ECC if required.

5.2 Work is also underway to re-tender the framework contract for the provision of internal audit services. The new contract will be in place by the end of January 2011. At present, seven organisations have signed up to be part of this framework contract. It has been drafted so that others can use it in the future should they wish to.

5.3 A Cross Partner Audit Committee Member Workshop was held in June 2011 to consider two topics:

- Sharing Assurance, A Common Approach; and
- Using the Cross Partner Internal Audit Working Group Effectively.

5.4 The common view from the group was that:

- significant partners should be sharing assurance regarding the operation of their business management (governance) arrangements;
- any process for sharing assurance should use internal organisational arrangements already in place as well as being cost effective and proportionate; and
- no additional resources above those already committed would be available to support the work of the Internal Audit Working Group. However, there was merit in looking to co-ordinate work where partners had identified similar risks in their audit plans, particularly where this related to front line service delivery.

5.5 It was agreed that a short report would be produced setting out options for the partners audit committees to consider.

5.6 The team has also been contacted recently by:

- Southend Equalities Board regarding the way in which the Cross Partner Internal Audit Working Group operates;
- Cheshire East Council regarding the work done with the Local Safeguarding Children's Board on ensuring action plans from serious case reviews have been implemented;
- the organiser of a CIPFA North West Audit Seminar to deliver a session on the Cliff Nicholson Award submission; and
- a government studies student from Japan wishing to learn more about internal auditing in the public sector in the UK. They will be visiting the team in October.

6. Annual Performance Assessment

6.1 Finally the Accounts and Audit (England) Regulations 2011 Section 6 requires the Council to undertake an adequate and effective internal audit of its accounting records and system of internal control in accordance with the proper practices in relation to internal control. In discharging this duty, the Council must, at least once in each year, conduct a review of the effectiveness of its internal audit. The findings of this review must be considered by the relevant committee.

6.2 Internal Audit performance standards are set out in the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy (the Code).

6.3 In order to discharge this duty, the Head of Internal Audit undertakes an assessment against the requirements of the Code. This year, this assessment and the supporting evidence have been subject to independent challenge from external audit.

6.4 External Audit has been able to confirm that:

- the reported results of the self assessment undertaken by internal audit, compared to the Code, are supported by the findings of external audit
- the final version of the updated audit approach is fit for purpose and compliant with current professional standards.

6.5 **Appendix 7** summarises the Internal Audit's self-assessment with the actions required to continue to improve both compliance and performance.

7. Anti Fraud and Corruption Update

7.1 A progress report will be presented to the Audit Committee in January 2012 providing a full update on the delivery of the anti fraud and corruption core framework and action plan.

7.2 Progress made to date includes:

- circulating the team briefing note covering the updated Anti Fraud & Corruption, Whistleblowing and Anti Money Laundering to all service managers. They have been requested to discuss this briefing note with their team by the end of October 2011;
- starting work on ensuring the Council has appropriate arrangements in place to meet the requirements of the Bribery Act 2010. A risk assessment methodology is being designed to help confirm the services most likely to be of interest to those who might resort to bribery. All service managers will be required to complete the risk assessment. Training will be provided to those most at risk;
- drawing up a work programme to test whether the Council has adequate arrangements in place to ensure:
 - due diligence checks are undertaken on potential providers of goods and services; and
 - gifts and hospitality are declared.
- redesigning the risk assessment methodology to help identify the services most likely to be exposed to potential money laundering.

8. National Fraud Initiative (NFI)

8.1 Appendix 8 outlines the number of data matches:

- received and reviewed in each area
- that have been cleared
- that have been identified for further investigation
- where a conclusion has been reached following an investigation.

8.2 No significant frauds have been identified from the potential matches reviewed to date.

8.3 To date, only 15 matches have been identified as warranting further investigation, the majority of which involve housing benefits and / or housing processes. Of these, 10 reviews have been concluded.

8.4 From 15,604 matches, 11,030 matches relate to Creditors. A review of these matches has now commenced. From the matches reviewed to date, no fraudulent activity has been identified. It is apparent that the matches are due to poor data quality and steps are being taken by the Creditors team to address the issue.

9. Corporate Implications

9.1 Contribution to Council's Aims, Priorities and Outcomes

Audit work contributes to the delivery of all corporate Aims, Priorities and Objectives.

9.2 Financial Implications

The 2011/12 Audit Plan is on target to be delivered in budget.

9.3 Legal Implications

The Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6 states:

1. A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
2. Any officer or member of a relevant body must, if the body requires:
 - a. make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
 - b. supply the body with such information and explanation as that body considers necessary for that purpose.
3. A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
4. The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control by the relevant committee or body this has been delegated to.

The standards required of internal audit are set out in the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy.

A formal audit plan is required to ensure that Internal Audit coverage is adequate and effective; otherwise the Council will be in breach of its statutory responsibilities under the Regulations. The Code of Practice for Internal Audit in Local Government in the UK (2006) CIPFA (the Code) recommends that progress against the audit plan is regularly reported to Members. This report contributes to discharging this duty.

9.4 People and Property Implications

People issues that are relevant to delivering the Audit Plan are raised in the body of the report.

9.5 Consultation

The audit risk assessment and the plan are periodically discussed with the Chief Executive, Corporate Directors, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed and agreed with the relevant Corporate Directors and Heads of Service before being finalised.

9.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the audit before the Terms of Reference are agreed.

9.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework which may impact of the Council's ability to deliver its corporate objectives.

9.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service annually through its Terms of Reference, Strategy, Benchmarking and Performance Indicators.

9.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

10. Background Papers

- The Accounts and Audit (England) Regulations 2011
- CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

11. Appendices

- Appendix 1: 2011/12 Performance Indicators
- Appendix 2: Delivering the 2011/12 Audit Plan
- Appendix 3: Key Themes Arising from Audit Reviews
- Appendix 4: Recommendations not fully implemented by the due date
- Appendix 5: Recommendations proposed to be closed
- Appendix 6: Recommendations from three Key Financial Systems audit assessed as 'Improvement Required' in 2010/11
- Appendix 7: Joint Annual Performance Assessment Action Plan
- Appendix 8: Audit Commission: National Fraud Initiative Data Matches Update