

Report of Chief Executive and Town Clerk  
to  
**Audit Committee**  
on  
**12 January 2012**

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## Summary Audit Progress Report

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### *A Part 1 Public Agenda Item*

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#### **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:

- as at 30 November 2011 productivity for the joint team was 75% and time lost through sickness absence remains low
- as at 30 November 2011:
  - 32% of the programme was complete. The key points arising from this work are summarised in Section 4
  - 12% of the remaining audit reviews were at draft report stage or the testing was substantially complete
  - the remainder of the programme is scheduled to be at least 90% completed by 31 March 2012 to meet the team's performance indicator
- client satisfaction with audits completed is generally high. The main issue in the one survey where this was not the case was the timeliness of the review rather than the quality of the work.

#### 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.
- 4.2 Mainly as a result of staff leaving at the end of October 2011, 200 days have been removed from the programme. Therefore priority has been given to completing work already planned and the financial systems reviews. All other outstanding work has been deleted from the plan.

##### ***Update on the delivery of the Audit Plan***

- 4.3 The initial findings from the **Performance Management Review** completed in Children and Learning have been discussed with the People and Organisational Development Team and Senior Policy Advisor, the purpose being to:
- confirm the expectations with regards to team plans and performance appraisals using examples found during the fieldwork
  - review whether the focus of the work in the other directorates needed to be revised
  - start discussing how the three teams could support directorates to address the themes that will potentially arise from this audit.
- 4.4 Internal Audit was asked to do some work with a **school** to **review** the robustness of its financial management arrangements. As a result of this substantial piece of work, opportunities to strengthen the arrangements were identified in a number of areas. A detailed report has been agreed with the school and action is being taken to address the issues raised. The intention is to have implemented all but one of the recommendations by the end of January 2012. A follow up review will be planned for early in the new financial year to ensure these new arrangements are embedded in the school's working practices.
- 4.5 When assessing potential audit risks this year, it was not clear how the Council ensures in its arrangements with contractors, partners and suppliers whether:
- they contain appropriate, consistent and up to date requirements with regard to **business continuity, fraud and corruption awareness and reporting and internal audit access**
  - compliance with the requirements specified are confirmed in a consistent manner where relevant.
- 4.6 With regards to business continuity, it was clear that there is no standard guidance on how to:
- assess the level of evidence that should be requested from contractors, partners or suppliers prior to and during arrangements; and
  - build sufficient provisions into contractual or partnership arrangements.

- 4.7 If services are not obtaining appropriate evidence that key third parties' business continuities arrangements would work effectively if required, this could potentially be a serious risk for the Council. Given that the Council will continue to work with others to provide services and the requirements in some of these areas have changed recently, it was felt to be an appropriate time to review current practice and look to standardise expectations wherever possible.
- 4.8 Guidance has been produced for staff to use when determining what to build into contracts / agreements regarding the evidence required from third parties to show that their business continuity arrangements are sufficient for the Council's needs. This has been discussed and agreed with the Emergency Planning Officer, Partnership Advisor for Performance and Planning and Strategic Sourcing Manager and approved by the Corporate Management Team.
- 4.9 In designing this, the aim has been to:
- keep the assessment process quick and easy to complete; and
  - make the requirements proportionate to the risk and impact to the Council if a third party's business continuity arrangements do fail; and
  - ensure there is a consistency in the way this is dealt with across the Council regardless of who is producing or signing of the contract / agreement.
- 4.10 Standard paragraphs are currently being developed for use in any contracts / agreements with third parties with regard to fraud and corruption / whistleblowing and internal audit access.
- 4.11 As part of the **ongoing supportive challenge and development work** being undertaken with regard to the **Local Children Safeguarding Board (LSCB)**, Internal Audit has focused on the robustness of evidence available to support the implementation of recommendations from serious case reviews. This work has made it clear to officers that alongside the need to make recommendations SMART <sup>1</sup> it is also crucial to identify the evidence that is required to demonstrate that they have been fully implemented.
- 4.12 Internal Audit has recently received the following feedback for the overall support provided to the LSCB's Case Review Panel in terms of the work "making a huge difference to the way the Case Review Panel thinks and functions".
- 4.13 The initial piece of work Internal Audit undertook with the LSCB in reviewing the processes in place for ensuring the implementation of action plans from serious case reviews (Audit Plan 2010/11) was specifically identified by Ofsted as good practice within their recent publication "Good Practice by Local Safeguarding Children Boards" (September 2011) see excerpt from publication at **Appendix 3**.

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<sup>1</sup> Where SMART stands for Specific, Measurable, Achievable / Agreed, Relevant / Resourced and Timely / Timetabled

4.14 This quarter, the team has focused on:

- evaluating and testing those financial systems that were being transferred to the new Agresso integrated finance and human resources system (i.e. general ledger, accounts payable, accounts receivable, cash and bank and payroll)
- documenting and evaluating the design of these systems within new Agresso

4.15 Work on evaluating the design of the remaining systems (i.e. housing rents, council tax, housing benefits, national non-domestic rates and treasury management) will start in January 2012.

4.16 The aim this year to report on key financial system work is:

- to finalise a report which will include audit opinions, on the systems operated prior to Agresso going live by the end of December 2011
- to provide interim feedback via memos for the other systems after the evaluation of design and then testing phases. The memos will contain:
  - a conclusion for each system as to the robustness of its design
  - details of the issues and resulting risks identified and the controls that need to be put in place to address them
- to provide a high level summary report at the conclusion of all the work with the audit opinion plus the conclusions given at each stage.

4.17 The field work has been completed with regards to this year's school visits and it is currently being reviewed. This work will be completed by the end of December 2011.

4.18 For details of progress made with regard to Corporate Fraud and Corruption Support, refer to the Anti Fraud and Corruption Update Report.

#### ***Implementing recommendations made***

4.19 The team are following up recommendations contained in last years financial systems reports as part of the work that is currently being undertaken. Therefore these recommendations have been excluded from these figures. Feedback on whether these controls are now in place and operating effectively will be provided as part of the financial systems reporting process.

4.20 The table below shows the profile of recommendations that were due to be implemented as at 25 October 2011 and whether this was achieved:

	<b>PRIORITY 1 (HIGH)</b>	<b>PRIORITY 2 (MEDIUM)</b>	<b>TOTAL</b>
Due to be implemented in the quarter	15	45	<b>60</b>
Less those relating to key financial systems	10	39	<b>49</b>
Number left to be audited this quarter	5	6	<b>11</b>
Fully implemented	3	3	<b>6</b>
Further work required - see 4.21 below	2	2	<b>4</b>
Proposed to be closed	0	1	<b>1</b>

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

4.21 Of the four recommendations that required further work:

- two relate to the Local Safeguarding Children Board report regarding serious case reviews. Sufficient work has been undertaken to address the implementation of the recommendations at this stage. However because of their significance in improving the safety of children, Internal Audit consider it prudent to revisit these particular recommendations until this first serious case review action plan has been signed off to ensure processes have become embedded
- one relates to the refresh of the Procurement Toolkit. This is being progressed by the recently-appointed Head of Procurement and is scheduled to be completed by the end of December
- one relates to reconciling all individual home care service payments to the general ledger (Cedar before 4 November and Agresso thereafter). Now Agresso is place, it should be possible to complete this task as it was not easy to extract the information required from Cedar.

4.22 It has been agreed to close down one recommendation as the service has decided to tolerate the risk. This relates to regularly producing and reviewing reports of “security violation” incidents to the Carefirst system. The service considers that the updated Carefirst system has adequate overarching controls to restrict user access and permissions.

4.23 The total number of recommendations rolled forward as not implemented from this quarter or becoming due in future quarters is:

	<b>PRIORITY 1 (HIGH)</b>	<b>PRIORITY 2 (MEDIUM)</b>	<b>TOTAL</b>
All recommendations to be followed up in future:	18	55	<b>73</b>

## **5. Resourcing**

- 5.1 To cover the vacant posts, resources are being called down from both the Service Level Agreement with Essex County Council and the framework contract with an external supplier.
- 5.2 Five companies have been invited to tender for the internal audit service framework contract. Submissions were received on 1 December 2011 and the evaluation process will be completed before the end of the month.
- 5.3 The team currently has insufficient capacity to continue to support the Cross Partner Internal Audit Working Group. Therefore no further work will be done in this area for the foreseeable future.

## **6. Corporate Implications**

### 6.1 Contribution to Council's Aims, Priorities and Outcomes

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

### 6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

### 6.3 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.

#### 6.4 People and Property Implications

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

#### 6.5 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.

#### 6.6 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.

#### 6.7 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, aims, priorities and objectives.

Failure to complete the Audit Plan due to:

- the external supplier not delivering contracted in work within the required deadlines to the expected quality standards
- temporary or permanent reduction in staff resources either through budget cuts, departures or sickness without additional funds to purchase cover or
- a significant number of unplanned investigations arising meaning staff time is spent on those investigation rather than the reviews included in the audit plan.

#### 6.8 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.

#### 6.9 Community Safety Implications and Environmental Impact

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

## **7. Background Papers**

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

## **8. Appendices**

- **Appendix 1: 2011/12 Performance Indicators**
- **Appendix 2: Delivering the 2011/12 Audit Plan**
- **Appendix 3: Excerpt from Ofsted Report: Good Practice by Local Safeguarding Children Boards**