

Report of Chief Executive and Town Clerk  
to  
**Audit Committee**  
on  
**28 March 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 9 March 2012:

- productivity for the joint team was on target at 74% and time lost through sickness absence remains low
- 78% of the audit plan was either complete or substantially complete although it is unlikely that the team will now deliver 90% of the plan by the 31 March (see section 4).

- 3.2 Performance against the other indicators has not changed this during period.

#### 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.

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

4.2 The main focus this quarter has been to:

- report on the work undertaken to assess the adequacy of the controls within:
  - the financial systems operated between April and October 2011 which were subsequently transferred to the new Agresso system, i.e. the Main Accounting System, Accounts Receivable, Accounts Payable and Payroll
  - the revenues and benefits systems and treasury management covering the whole financial year.
- document and test the adequacy of the controls in the financial systems operated between November 2011 and March 2012
- complete the other work outstanding in the audit plan.

4.3 **Appendix 3** summarises the key findings from work done on the financial systems operated from April to October 2011. The purpose of this work was to assess whether:

- the controls in the financial systems reviewed were sufficient and appropriate to ensure that the system objectives were achieved
- the controls operated consistently throughout the financial year.

4.4 Key themes arising from this systems work are:

- the list of authorised signatories used by Accounts Receivable, Accounts Payable and Payroll had not been updated and maintained. This means that transactions may have been authorised by officers who do not have the delegated authority to do so
- the reduction in the application of management controls regarding, for example:
  - the reconciliation of data between individual systems and the main accounting system
  - the validation of suppressions placed on the recovery of debt
  - the application of the arrears recovery process.

4.5 **Appendix 4** provides the management response to the key themes arising from the financial systems audit work.

4.6 A number of the issues raised were also reported in the previous year, as highlighted by being underlined for ease of reference.

4.7 Therefore on this basis, limited assurance opinions were issued regarding the four systems reviewed i.e. Main Accounting, Accounts Receivable (Sundry Debtors), Accounts Payable (Creditors), and Payroll Systems.

4.8 In doing this work, two levels of control are being evaluated and tested:

- **control actions**, which are undertaken by staff to ensure individual transactions are processed in the manner “designed” by management
  - **key management controls**, which are the overall, management checks that provide assurance all required control actions are taking place consistently and effectively.
- 4.9 Management controls are important as they ensure **all** financial transactions are:
- completely and accurately recorded
  - authorised appropriately
  - supported by sufficient evidence to confirm transactions are genuine
  - recorded in the correct period and the required action takes place promptly
  - subject to appropriate security (e.g. access to financial systems are appropriately restricted).
- 4.10 However where key management controls are absent, it does not necessarily mean that transactions are not processed properly (as outlined per the factors in 4.5). It just makes it more difficult to confirm that the required control actions have taken place effectively and consistently throughout the year. It also increases the risk that fraudulent transactions could be processed.
- 4.11 All bar the Payroll system transferred to Agresso from November 2011. Some work was undertaken to assess whether the controls built into the IT software had been tested sufficiently prior to it going live, to provide assurance that it would operate as designed from the go live date.
- 4.12 It was identified that testing and development of a new system had been ongoing throughout 2011. However, as the project had not included separate planned phases covering systems development followed by system testing and then user testing:
- much of the testing was undertaken on the system as it was being configured to its go live state
  - testing was still being undertaken right up to the implementation date.
- 4.13 Therefore insufficient assurance was not obtained over the adequacy of these controls at that time. Whilst the system has successfully gone live, some further audit work is planned in 2012/13 to provide assurance that the automated or IT system controls are fit for purpose and operating consistently in both this and the other key financial systems. Going forward, assurance will then be sought over the management of system upgrades each year.
- 4.14 Work started on auditing these financial systems in December 2011, focusing on Accounts Payable and Accounts Receivable. Whilst it was possible to document and identify some of the controls established within the Accounts Payable system, this proved to be more difficult for the Accounts Receivable system at that time. Feedback was provided, which highlighted areas for development. These systems were still evolving in some areas and it was not possible to confirm that the arrangements would not develop further over the next few months.

- 4.15 The decision was then taken to postpone this work to provide time for the Accounts Payable and Accounts Receivable systems to implement a more complete set of manual and automated controls taking into account the development areas highlighted.
- 4.16 The Payroll system did not go live until February 2012, so top up testing is being undertaken on the pre November system. Work continued into January to fully reconcile the balances transferred from the pre November systems to Agresso down to a cost centre level although a high level reconciliation of transaction totals from each period being migrated had been completed at the time the systems transferred. It was felt to be preferable not to start this element of the audit until this work had been completed.
- 4.17 Therefore other outstanding work in the audit plan was brought forward and this systems work was rescheduled for later in this January to March quarter. Therefore some of this work will be undertaken before the end of March, but the audits of the Accounts Payable, Accounts Receivable and Payroll systems won't take place until April 2012.
- 4.18 The team are now unlikely to deliver 90% of the audit plan by the end of March primarily because:
- four unplanned reviews have been picked up this quarter. Two have been completed and the other two will be by the end of March
  - of the additional time that has been spent on systems work this year.
- 4.19 However it is anticipated that much of the outstanding work will be substantially complete by the year end.

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

- 4.20 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.
- 4.21 The table below shows the profile of recommendations that were due to be implemented as at 1<sup>st</sup> February 2012 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	50	<b>65</b>
Less those relating to key financial systems	10	42	<b>52</b>
Number left to be audited this quarter	5	8	<b>13</b>
Fully implemented	4	5	<b>9</b>
Further work required - see 4.21 below	1	2	<b>3</b>
Proposed to be closed	0	1	<b>1</b>

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

4.22 Of the three recommendations that require further evidence and or further work before they can be signed off as implemented:

- **Energy Management** (high priority recommendation). The recommended update and approval of the Energy Management policy will be completed when the policy is presented to Cabinet on the 19 June 2012.
- **Home Care Services** (medium priority recommendation). The required reconciliations between home care expenditure recorded on the CareFirst system and the general ledger (Agresso) have not yet been undertaken as the reporting mechanism in Agresso is not yet in place.
- **Shoeburyness Youth Grant** (medium priority recommendation). The recommended action of reporting grant expenditure to the Big Lottery Fund was delayed due to a dispute over a payment with the contractor. This has now been resolved and the final instalment will be paid to the contractor once the snagging has been rectified. After this the date the return will be completed and sent to the Big Lottery Fund.

4.23 It has been agreed to close down one recommendation relating to **Shoeburyness Youth Grant**. The recommended action of retaining certified agreements with partners is no longer relevant as no partners have been involved in the project since November 2011 and the grant is drawing to a close.

4.24 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	50	<b>68</b>

## **5. Resourcing**

- 5.1 The new framework contract for audit, IT and specialist services was awarded to RSM Tenon, for three years and commenced on 25 January 2012.

## **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
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010.

## **8. 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: Financial Systems - Management Response**