

Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

Audit Committee

on

19th June 2013

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Agenda
Item No.

Summary Audit Progress Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2012/13.

2. Recommendation

- 2.1 **The Audit Committee notes the progress made in delivering the Internal Audit Strategy for 2012/13.**

3. Performance Targets

- 3.1 **Appendix 1** shows performance against the 2012/13 targets. Despite the staffing issues experienced during the year:
- productivity was above target and time lost through sickness absence remained low
 - the majority of the audit plan was delivered before the end of May
 - external audit was able to rely on internal audit's work and the audit approach adopted by the team complies with relevant professional standards.

4. 2012/13 Audit Plan

- 4.1 **Appendix 2** shows the current status of planned audits for the year. Any updates made to the status of each audit since the last meeting are shown in bold for ease of reference.
- 4.2 The focus this quarter has been on completing the financial systems audits. This includes checking that last year's recommendations have been implemented. As it proved possible to access additional resources from April 2013, a number of audits that had not been started when reporting to the March Audit Committee have been progressed. This work will be completed by July 2013.
- 4.3 **Appendix 3** summarises the key themes arising from the audit reviews completed during this quarter. The only audit where significant improvement opportunities were identified was in relation to the Southend Adult Community College. This review was undertaken at the request of the College's Principal and primarily identified the need formalise the control framework operated.

- 4.4 Financial systems work took up a significant amount of internal audit resource, limiting the potential for the team to undertake service delivery focused risk based work.
- 4.5 From October 2012 to May 2013 the financial systems audit covering 2012/13 transactions was undertaken. Ten core financial systems were:
- reviewed to evaluate whether the processes as designed included adequate and effective controls
 - tested to establish whether the key controls identified operated consistently and effectively throughout the year, where this was possible.
- 4.6 Whilst reliance could be placed throughout the year on the control environment of many of the Council's key financial systems, this was not so with those operating on the Agresso software application (integrated financial management and Human Resource system) although it did improve particularly in the latter part of the financial year.
- 4.7 Priority action continues to be taken to strengthen arrangements with regard to all the systems audited. Financial staff should be commended for the work done and are continuing to do to address many of the control issues identified at the conclusion of the last audit with regard to those systems operating on the Agresso software application.
- 4.8 **Appendix 4** summarises the 2012/13 audit opinions for each of these key financial systems and it explains how audit opinions are formulated. The following paragraphs summarise these findings and outlines some of the more significant control issues experienced during the 2012/13 financial year.
- 4.9 For ***Council Tax, National Non Domestic Rates, Housing Benefit, Treasury Management, Cash Receipting and Banking and Housing Rents***, it was concluded that:
- the design of controls were adequate or good, which means, if the controls are applied, transactions should be processed properly; and / or
 - the key controls were generally working consistently throughout the year.
- 4.10 It should be noted that with regard to the accuracy and completeness of transactions recorded within the cash and banking system reliance is placed on the:
- final accounts work undertaken by the Council's external auditors (BDO LLP)
 - testing of individual, regular reconciliations of cash received completed by officers as part of the audit of each financial system.
- 4.11 For ***General Ledger, Accounts Receivable (General Debt), Accounts Receivable Recovery of Social Care Debt, Accounts Payable and Payroll***, it was concluded that:
- the design of controls was not satisfactory; and / or
 - a number of the key controls in place were not working consistently or effectively throughout the year.
- 4.12 The aim during the year was to review staff permissions on Agresso to ensure they were in line with their roles and responsibilities. This was raised as a concern as part of the 2011/12 system audit. However this work has still to be undertaken therefore this control weakness remains. The impact of this has been considered when determining the audit opinions on a number of financial systems.

4.13 Examples of the more significant system specific weaknesses that affected the adequacy of the control environment during the year include:

- For **Accounts Payable**, the implementation of an improved “no purchase order, no payment” process was not fully completed by the end of 2012/13. This potentially means invoices paid may not have corresponding authorised orders raised at the point committing the expenditure.

This increases the potential for inappropriate goods and services to be purchased which may also not represent best value for money.

- For **Accounts Receivable** (of sundry debts), debts which have been suppressed from routine recovery action (“parked debt”) have not been independently reviewed and challenged to identify any inappropriate action taken.

In addition, processes for taking legal action to recover debts have not been developed restricting the choices available to the Council. In the interim all debts after reminders have been sent are being referred to debt collection agencies.

- However, it must be recognised that the control frameworks relating to the **Accounts Receivable and Accounts Payable (general debt)** systems improved generally in the latter part of 2012/13 as many of the recommendations arising from the 2011/12 audit had been addressed.

For **Account Receivable** (of Social Care debts), there is not a sufficiently robust, systematic set of management controls to oversee and report on any individual recovery action or the overall debt position. Therefore it was not possible to test controls in this area.

- For **Payroll**, the controls required to ensure input of, and amendments to, data are independently checked can be bypassed. In addition there are insufficient controls to detect instances of unauthorised or inappropriate action.

Therefore to gain some assurance over the payroll process, a more substantive testing approach was adopted. This did not highlight any significant concerns with data input and amendments to data in the sample transactions audited. In these cases the actions taken were supported by the required documentation that had been independently authorised.

- For **General Ledger**, the bank reconciliation was not fully reconciled at the end of 2011/12 and it has carried a very minimal un-reconciled item for the whole period which is why this opinion remains as it is. Nevertheless, good progress is being made to resolve this issue and a much stronger control environment operated throughout the 2012/13 financial year.

Resourcing

4.14 An auditor has been appointed at Castle Point Borough Council on a six month contract starting in May 2013. Arrangements have been made to purchase supervisor cover through the framework contract in the short term. Action is still being taken to recruit to the vacant auditor post at Southend.

4.15 A review of the joint team structure and longer term resourcing needs will take place in June / July 2013.

5. Implementing recommendations made

- 5.1 Action plans are now being followed up in full when all the agreed implementation dates have passed. There are also a few remaining outstanding recommendations from previous reports that still need to be followed up.
- 5.2 This quarter there was only the one report to follow up as outlined below.

RECOMMENDATIONS FOLLOWED UP	BEING	AGREED			OUTSTANDING			
		H	M	Total	H	M	N/A	Total
Delivering Financial Savings		0	2	2	0	0	1	0

N/A = no longer applicable

- 5.3 At the March 2013 meeting, members requested feedback on any future action proposed to deal with recommendations outstanding from the Serious Case Review work. Following discussions with the Corporate Director for People, the intention is to ask individual agency internal audit teams to evidence the implementation of recommendations by including this requirement in the multi-agency child protection procedures for Southend, Essex and Thurrock, (SET Procedures) which are due to be revised this year.

6. Corporate Implications

6.1 Contribution to Council's Aims and Priorities

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

6.2 Financial Implications

The audit plan was 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 and property 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 and priorities.

For the team, there are specific risks relating to its ability 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 periodically.

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: 2012/13 Performance Indicators**
- **Appendix 2: Internal Audit Plan 2012/13**
- **Appendix 3: Key Themes Arising from Audit Reviews**
- **Appendix 4: Key Financial Systems Audit Opinions 2012/13**