

Southend-on-Sea Borough Council

Agenda
Item No.

12

Report of Corporate Director of Support Services

to

Audit Committee

on

9th January 2013

Report prepared by: Linda Everard, Head of Internal Audit

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 Internal Audit's strategy for 2012/13.

2. Recommendation

- 2.1 **The Audit Committee notes the report.**

3. Performance Targets

- 3.1 Appendix 1 shows the annual performance targets for the financial year 2012/13. In summary as at 23 November 2012:
- productivity for the joint team was above target at 80% and time lost through sickness absence remained low
 - 31% of the audit plan was either complete or substantially complete
 - the only client satisfaction issue was the timeliness of feedback. It was acknowledged that the particular audit covered two departments and therefore the report took longer than normal to finalise.
- 3.2 The work profile this year is skewed to the second half of the financial year to reflect when much of the work needs to be completed i.e. to include:
- transactions in key financial systems audits from all four quarters
 - the new Agresso “no purchase order, no pay” arrangements, updated change control arrangements and automated controls, the new council tax benefit scheme, hardship fund, NNDR and universal credit arrangements
 - schools audits that could not be undertaken until associated investigations have been substantially completed or new appointments started in their posts.
- 3.3 A significant amount of the team's total resource will be bought in during this period to assist in the delivery of this work.

- 3.4 In addition to the work already complete or substantially complete, the team is forecasting to deliver 87% of the audit plan by the target date of 30 April 2013 by completing:
- the work remaining on the 2012/13 key financial system audits
 - schools audits
 - seven audits that are currently in progress plus one more review of outstanding recommendations
 - South Essex Homes' audit plan.
- 3.5 The remainder of the audits planned have either been postponed, deleted or are currently "under pressure".

4. 2012/13 Audit Plan

Current Status

- 4.1 Appendix 2 shows the current status of planned audits for the year as at 20 December 2012. Any updates since the last meeting made to the status of each audit are shown in bold for ease of reference.
- 4.2 The original plan agreed by Audit Committee in March 2012 stated all medium priority reviews except the risk management work were only going to be undertaken if resources allowed. As resources will not be available, they have been removed from the audit plan. It has been agreed with officers to postpone a number of high priority audits until 2013/14 and others have been identified as currently "under pressure". Where possible, these "under pressure" audits will be added back to the plan, primarily resourced through the framework contract (see paragraphs 4.9 and 4.10).

Financial Systems

- 4.3 Much of the audit programme from April to September 2012 was spent finishing six out of the 11 key financial systems 2011/12 audits. This work evaluated and tested the control environment in place for the relevant systems during 2011/12 and early 2012/13.
- 4.4 It was concluded from the work on these six key financial systems there was not sufficiently robust control actions or key management controls to provide assurance that transactions would be processed properly and consistently throughout the periods evaluated i.e. 2011/12 and early 2012/13.
- 4.5 The main areas needing improvement were as follows:
- Comprehensive but proportionate procedure notes should be available that explain how the entire system should operate.
 - Management reports should be produced to enable key systems reconciliations (e.g. bank account to General Ledger) in a timely manner.
 - Management checks should be undertaken and evidenced in all financial systems to provide on-going, timely assurance that required processes are applied accurately and consistently.
 - The manual authorised signatory list should be kept up to date and reflects the automated version.

- 'Process maps' setting out the automated system controls in the Agresso Software application should be available and data validation controls strengthened in some areas.
- Access permissions assigned to staff using the Agresso modules should be in line with their roles and responsibilities, including automated segregation of duties where appropriate.

4.6 Action plans to address the above were agreed in November 2012.

4.7 Work started on reviewing the systems design element of all key financial systems in October 2012 as well as establishing what progress has been made in addressing previously identified design weaknesses.

4.8 There have been some discussions about the process that has been implemented to control changes to the Agresso software application and initial feedback has been provided. Once assurance has been obtained that these arrangements are fit for purpose and operating consistently, the automated controls within the Agresso software system will then be tested.

Resourcing

4.9 It has been a difficult year to accurately estimate the level of staff resources available. This has been due to, but not limited to, the effect and timing of the team restructure in order to deliver the agreed savings for 2012, the integration with the Counter Fraud Team and a recruitment exercise.

4.10 The current forecast is that a minimum of 827 audit plan days will be available this year. This is less than originally planned (1,067 days) but includes South Essex Homes work. Now there is greater clarity about the level of in house resource available for the remainder of the year, the team's ability to deliver any of the "under pressure" audits will be re-evaluated.

5. Implementing recommendations made

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

| | PRIORITY 1 | PRIORITY 2 | TOTAL |
|--|-------------------|-------------------|--------------|
| Due to be implemented in the quarter | 3 | 3 | 6 |
| Less those included in Delivering Savings review - see 5.2 below | 1 | 2 | 3 |
| Due to be followed up in the quarter | 2 | 1 | 3 |
| Fully implemented | 0 | 0 | 0 |
| Further work required - see 5.3 below | 2 | 1 | 3 |

5.2 These relate to improving arrangements for delivering savings in 2012/13 that will be followed up and reported upon as part of the 2012/13 savings work currently underway.

5.3 The status for the three recommendations requiring further work is as follows:

- two relate to developing robust performance and value for money indicators to measure the success of the delivery of Library Services where:
 - evidence is still to be provided to confirm that the service delivery performance indicators have been determined
 - the value for money indicators are being developed as part of the current review of the service so will be checked during the next quarter's work.
- one relates to reconciling the Care First system and Agresso's General Ledger module in relation to the provision of Home Care Services. Work has been substantially completed on this and it is anticipated evidence will be available to confirm this within the next month.

5.4 Recommendations arising from the 2011/12 key financial systems work will be followed up and reported upon as part of the 2012/13 systems work which has recently been started.

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

There are no direct financial implications from accepting this report.

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 and priorities.

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 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**