

INTERNAL AUDIT SERVICE : ANNUAL AUDIT REPORT

1. Delivery of Audit Plan: August 2010 to July 2011

- 1.1 The internal audit plan, approved by the Director of Commerce & Technology, contained 35 audit reviews. The audit plan is not a static document but is amended to reflect changing circumstances. A number of changes were made during the year. This resulted in five audits being omitted from the plan (car mileage payments [as a result of the budget saving review], contractual review of new accommodation [as a result of the redundancy of the project manager], development control decisions [considered by O&S], corporate governance arrangements and a review of the implementation of the Citrix system). Internal audit staff were involved in a number of fraud related investigations which required substantial time input. All the audits have been issued to draft report stage or further.
- 1.2 The Internal Audit & Risk Manager has had no constraints placed upon him in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

2. Internal Audit Reports issued

- 2.1 A summary of the audit reports issued during the period 1 September 2010 to 31 August 2011 are listed in the table below.

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
Key Financial Systems							
Council Tax	✓✓				---	---	
Housing Benefits	✓✓				---	---	
Payroll	✓✓				---	---	
NNDR	✓✓				0	1	
Debtors		✓			0	4	
Creditors, incl. e-marketplace		✓			0	8	
Loans & Investments		✓			1	4	
Main Accounting System		✓			1	3	
Other systems reviews							
Budgetary Control & Management Info	✓✓				---	---	
Refuse & Kerbside Waste Collection	✓✓				0	2	
Customer Services	✓✓				0	2	
Building Control fees	✓✓				0	2	
Catering contract : Lancaster's		✓			---	---	
Job Evaluation		✓			0	1	
Inspection of Invoices ²		✓			0	2	
Electoral Registration		✓			0	2	
One Leisure : Bars & Catering		✓			0	4	
S106 Agreements		✓			0	4	
Planning Application & Dev Control fees		✓			0	4	
Staff Travel & Subsistence ²		✓			0	4	

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
Gifts & Hospitality & Register of Interests		✓			0	4	
Licensing		✓			0	9	
Performance Indicators		✓			1	0	1 ^{red}
Appointment of Casual & Temp Employees		✓			2	2	
Management of Health & Safety			✗		0	7	
Management of Car Parks			✗		1	6	
Housing – Homeless Families			✗		3	6	
Supermarket car park income agreements				✗✗	4	1	
Computer Audit							
Application Review : Key Financials		✓			0	3	
: ResourceLink ²		✓			0	3	
: e-marketplace		✓			0	4	
Disaster Recovery, Backup & Server Room ²		✓			0	4	
Business Continuity Planning ²			✗		2	0	

¹ There are occasions when a risk identified during an audit is acknowledged and accepted by a Manager and they decide that no further action is required. The right hand column of this table records any such instances.

² Draft report issued as at 31 August 2011.

All the audit reports listed in the table above can be accessed by Members via the Internal Audit intranet site.

2.2 In addition to the reviews listed above, internal audit have also been involved in a number of other initiatives and reviews. These include reviewing the output from the National Fraud Initiative, managing whistleblowing allegations received, preparing a staff guide on ethics and fraud, considering the effects of the Bribery Act and reviewing voluntary redundancy calculations. Guidance has also been provided on an ad-hoc basis on a wide variety of control and fraud issues.

Business Continuity

2.3 Arising from the work that has been completed in the reporting period, the only issue of concern that I wish to raise is in the area of business continuity planning. The Council has a “Corporate Service Resumption Plan”, which contains much of the detail that would normally be expected within a business continuity plan, however, it has not been updated since June 2008. The findings from the previous audit of this area (September 2008) were acknowledged by management but agreed actions were not implemented citing lack of resource availability. It is my opinion that the lack of an up to date business continuity plan is sufficient to warrant referencing in the annual governance statement.

Issues of Concern from Previous Years

Code of Procurement

- 2.4 Following the highlighting of issues in my 2009 and 2010 annual reports, the Panel requested reassurance from the Directors of Commerce & Technology and Central Services that steps would be taken to improve the level of compliance with the provisions of the Code of Procurement.

A further review of compliance with the Code of Procurement has been completed. A draft report had been issued. Whilst the audit identified a number of breaches of the single tender/quotation procedure, having reviewed these and considered the reasons why the decisions were made, it is my view that these would have been accepted for single pricing by the Director.

I am satisfied that compliance with the Code is improving, notwithstanding the single tender/quotation breaches identified and have indicated to the Managing Director (Resources) that I do not intend to undertake a further review in the current audit plan year.

Data encryption

- 2.5 Following the burglary at Pathfinder House in 2009, internal audit made a number of recommendations to reduce the risk of the loss of personal data from laptops and portable IT devices. Whilst the recommendation was accepted, there were delays to the encryption project with the target implantation date being pushed backwards on a number of occasions. At the current time, over 200 laptops and 120 USB devices have been encrypted. I consider that this addresses the risk that personal data may be compromised if a laptop or data stick is lost or stolen and do not intend to report further on this matter to Panel.

Fraud issues

- 2.6 Whilst internal audit completed a piece of work in 2009 that verified employees on the payroll, no reports are issued to managers to allow them to undertake their own checks. Controlling the accuracy of the payroll to reduce the opportunity for fraud is a key issue. Reports were issued by the HR and Payroll Systems Manager on 31 August to Head of Service listing employees within their service and requesting positive confirmation that the reports are correct. This exercise is to be repeated six monthly.

Issues outstanding from previous years

- 2.7 Audit reviews that have had either an assurance opinion of 'limited' or 'little' in previous years are listed in the table below together with a summary of the progress made towards implementing the agreed actions.

The right hand column of the table shows a revised assurance opinion, based upon the action that has been taken by the manager and evidence from the follow-up work that has been completed. The revised opinion is only a guide to the potential improvement that would be expected, if the audit was repeated and all other system controls remained effective.

Original level assurance	Agreed Action Status		Audit area and follow-up findings	'Potential' level of assurance
	Red	Amber		
<i>Limited</i>	1	0	Internet Monitoring 2007-08 The red action is outstanding. New monitoring software, which was due to be introduced by March 2011 is unlikely to be introduced until December 2011. The new software should allow the action to be introduced.	➔ <i>Limited</i>
<i>Little</i>	5	4	Payroll & HR All 9 actions have been introduced.	⬆ <i>Adequate</i>
<i>Limited</i>	0	3	Improvements in Procurement Practice All 3 actions have been introduced. Also refer to para 2.4.	⬆ <i>Adequate</i>
<i>Limited</i>	0	4	Cashable Efficiency Savings NI 179 The 4 actions have been introduced. Information in respect of NI 179 was not required to be reported upon from April 2011.	-----
<i>Limited</i>	1	3	Service Developed ICT systems The red action has been introduced. The 3 amber actions are outstanding.	➔ <i>Limited</i>
<i>Limited</i>	1	6	Staff: Work/Life Balance One amber action is outstanding. This deals with the working time directive.	⬆ <i>Adequate</i>
<i>Limited</i>	3	13	Network Infrastructure All the actions have been introduced.	⬆ <i>Adequate</i>

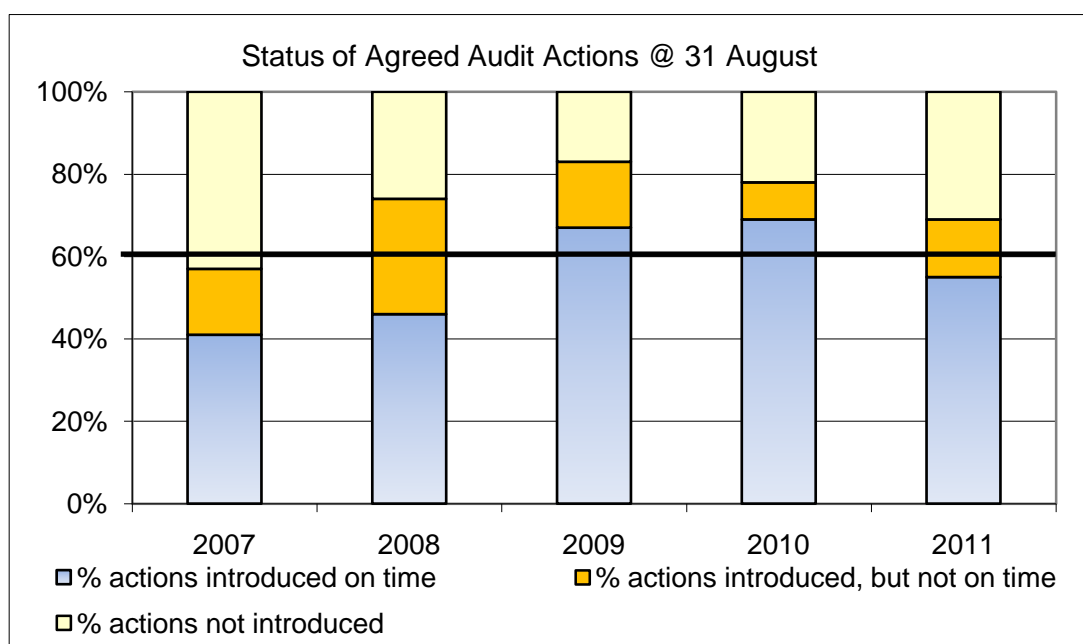
Assurance definitions : for information

<i>Substantial Assurance</i>	✓✓	<i>There are no weaknesses in the level of internal control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.</i>
<i>Adequate Assurance</i>	✓	<i>There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.</i>
<i>Limited Assurance</i>	✗	<i>There are weaknesses in the level of internal control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.</i>
<i>Little Assurance</i>	✗✗	<i>There are major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.</i>

3. Implementation of Agreed Actions

3.1 Management Team have set a target of 60% of agreed actions should be implemented on time, based on a rolling 12 month approach. The figures for the year ending 31 August 2011 are shown below.

Status of Action							
	Introduced on time		Introduced Late		Not introduced		TOTAL
Red Action	8		3		2		13
Amber Action	58		14		35		107
Total	66		17		37		120
% age	55%		14%		31%		
Head of Service	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Financial Services	1	20	1	2	2	6	32
People, Perf & Partnerships	3	9	2	2		12	28
Info Management Division	1	4		5		4	14
Operations		5		2		4	11
Housing	3	6					9
Law & Democratic Services		7		1		1	9
General Manager, Leisure		3		1		4	8
Customer Services		4		0		1	5
Planning Services						3	3
Accommodation Project Co-ordinator				1			1
Total	8	58	3	14	2	35	120



- 3.2 A sample of actions that have been reported as being completed are checked annually to see that the action introduced sufficiently addresses the risk that has been identified.

If during the review of actions introduced it is found that the action taken does not fully deal with the risk then the action that has been taken to address the risk identified is discussed with the appropriate manager and if necessary, changes to the database are made to reflect the actual position.

- 3.3 Two 'red' actions have not yet been implemented and are detailed below.

Audit: Supermarket car park income arrangements
 Head of Service: Head of Financial Services

Action Agreed	Agreed Implementation Date	Head of Service statement re current position
<p>The calculation of payments to be made in accordance with the contract.</p> <p>A procedure note explaining how the costs and income are calculated is prepared and reviewed annually.</p>	28/02/2011	<p>The investigation of this issue took longer than anticipated.</p> <p>It is not clear whether there were any discussions about the definition of the costs to be included in the financial calculations which were not actually recorded in the written contracts. It was probably not the norm to include full overheads when the agreements were originally signed.</p> <p>We have however come to the conclusion that both agreements do provide an opportunity to argue that additional net expenditure should be brought into the calculation which would benefit the Council.</p> <p>We will be shortly writing to them to agree the basis on which the calculations will be made in the future. This will then be recorded as a procedural note.</p>
<p>The Accountancy Manager will endeavour to recover over payments to the supermarkets for previous years.</p>	31/07/2011	<p>Following the actions referred to above the Council will make a judgement on the appropriateness and likely success of backdating the arrangements. This must take account of both the service and the financial impact.</p>

4. Internal Audit Performance

4.1 External audit view of internal audit

Target : Adequate or better
Achieved: No view expressed.

The Council's external auditors, PriceWaterhouseCoopers, have requested sight of a number of internal audit reports on key financial systems to gain an understanding of the internal control framework. As 2010/11 is their first year of appointment, they have undertaken their own tests on key controls within the financial systems and as such have not yet had cause to place any reliance on the work of internal audit for their work.

4.2 Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
Achieved: 12 months to August 2011 - 94% (from 17 responses)

At the conclusion of all audits, managers are requested to complete an end of audit survey form and give an opinion on the value of the audit. The options available are – very good, good, acceptable, requires improvements or unacceptable. Target information is calculated on a rolling twelve month basis rather than by financial year.

The Head of Financial Services has also undertaken his annual customer satisfaction survey with senior managers. The April 2011 figure showed 60% (69% previous year) of managers felt audit provided a good or very good service. No respondent considered the service required improvement or was unacceptable.

4.3 Service delivery targets

Target: 80% or more of service delivery targets achieved.
Achieved: 12 months to August 2011 – 75%

There are four elements to this target which all relate to the progress of individual audits and the reporting process:

- Complete audit fieldwork by the date stated on the audit brief
- Issue draft audit reports within 15 working days of completing fieldwork
- Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report
- Issue final audit report within 5 working days of receiving full response

Performance indicators are prepared monthly. The targets are also reflected in staff's key performance development targets within the annual appraisal process. Achievement of the targets requires internal audit staff to develop and maintain good working partnerships and the customer's co-operation throughout the period of the audit.

4.4 Service Developments

Delivery of the action plan arising from the review of the internal audit service.