

**INTERNAL AUDIT SERVICE
ANNUAL REPORT FOR THE YEAR ENDING 31 AUGUST 2012**

(Report by the Internal Audit & Risk Manager)

1. INTRODUCTION

1.1 This is the annual report of the Internal Audit & Risk Manager required by the 2006 Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government.

1.2 As required by the Code, the report includes the Internal Audit & Risk Managers annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

The opinion is based upon

- the work carried out by Internal Audit during the year; and
- the assurances made available by external assessors and similar providers

1.3 The report also provides information on:

- the delivery of the annual audit plan;
- audit reports issued and issues of concern;
- implementation of agreed actions; and
- internal audit's performance.

2. OVERALL OPINION

Audit Opinion

Based upon work undertaken and understanding of the statements from external assurance providers, it is my opinion that the Council's internal control environment and systems of internal control provide **adequate** assurance over key businesses processes and financial systems.

Any system of internal control can provide only reasonable, rather than absolute assurance that assets are safeguarded, transactions are authorised and properly recorded and material errors or irregularities are either prevented or would be detected within a reasonable period of time.

David Harwood
Audit & Risk Manager

September 2012

***Definition of Adequate** : 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 valuation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.*

- 2.1 Over the last year it should be noted that:
- Only two 'limited' assurance opinions were issued during the year; the majority of the review resulted in 'adequate' opinions.
 - The overall number of agreed internal audit actions has reduced from 120 in 2011 to 50 in 2012.
 - The implementation rate of the actions has however decreased – both in respect of actions introduced on time and introduced late.
- 2.2 The external assurance received upon the internal control environment and systems of internal control is detailed at Annex A. These reports have not identified serious control weaknesses in controls or procedures.
- 2.3 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.

3. DELIVERY OF AUDIT PLAN

- 3.1 The internal audit plan, approved by the Managing Director (Resources) in July 2011 contained 27 audit reviews. The audit plan is not a static document but is amended to reflect changing circumstances. 5 audits have been omitted from the approved plan, and five reviews added. Panel were informed of these changes at their March meeting. See Annex B.

Internal Audit Reports issued

- 3.2 A summary of the audit reports issued during the period 1 September 2011 to 31 August 2012 are listed in the table below. All the reports can be accessed by Members via the Internal Audit intranet pages.

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							
Housing Benefits	✓✓				---	---	
Payroll	✓✓				---	---	
Treasury Management		✓			---	2	
Other systems reviews							
Register of Interests		✓			---	---	
Voluntary redundancy		✓			---	---	
Markets		✓			1	4	
Web strategy		✓			---	5	

Table continues

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
IT Staff continuity planning		✓			---	4	
One Leisure		✓			---	4	
GIS & LLPG		✓			---	3	
Mobile & Office telephone use		✓			---	3	
Countryside Services Visitor Centre		✓			---	2	
Payments in Lieu			✗		---	4	
Computer Audit							
Disaster Recovery, Backup & Server Room		✓			---	2	
Business Continuity Planning			✗		2	---	

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.

3.3 In addition to the reviews listed above, a number of reviews were conducted on areas where assurance opinions were not given due to the nature and scope of the work. These included:

- review of corporate governance arrangements to support the 2011 annual governance statement process.
- review of specific elements of the land charges system at the request of management (3 amber actions); and
- monitoring of the 'abuse' email inbox (3 amber actions).

3.4 Internal audit have also been involved in a number of other initiatives and reviews In addition to those listed above. These include

- 2010/11 final accounts process
- Consideration of NFI data output (reported to Panel in December 2011)
- Outsourcing of HR and Payroll to LGSS, including a review of all agreed audit actions prior to the date of service transfer
- Managing whistleblowing allegations received
- Community Infrastructure Levy
- Home Improvement Agency shared service
- IT protocols for shared services

Guidance has also been provided on an ad-hoc basis on a wide variety of control and fraud issues.

- 3.5 The table in para 3.2 above excludes those key financial systems that are to be reviewed under the continuous audit process.
- Council tax
 - Creditors
 - Main accounting system
 - Debtors

Key controls in these areas have been agreed with the appropriate managers and the process will be fully operational by December.

4. ISSUES OF CONCERN

Data Protection

- 4.1 The unauthorised disclosure of personal data has twice been reported to the Corporate Systems & Information Manager during the year. One occurrence was due to human error and involved disclosure by email. The second occurrence is currently being investigated. Both resulted in complaints being received from individuals whose data was released. The Council has tried to mitigate the risk of unauthorised disclosure by encrypting portable storage and media devices.
- 4.2 There has been an issue with LGSS transferring Council confidential information to the County Council computer system in order to improve their workflow/efficiency by using a single server for their everyday work. This is contrary to this Council's Security Policy but the Managing Director (Resources) considers that the efficiency benefit overrides the potential risk of the information being mis-used.

5. ISSUES OF CONCERN FROM PREVIOUS REPORTS

Code of Procurement

- 5.1 A report on compliance with the Code appears elsewhere on the agenda. The overall level of compliance appears to be high. The review has identified a number of areas where improvements can be made. Due to the values involved, this area will continue to be reviewed.

Establishment Control

- 5.2 Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. Reports were sent to Heads of Service listing employees within their services and requesting positive confirmation that the reports were correct. A full response was received and LGSS are currently reviewing it to identify the reasons for any discrepancies.

Issues outstanding from previous years

- 5.3 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		
2010-11				
<i>Little</i>	4	4	Supermarket car park income agreements 1 of the red and 3 of the amber actions have been introduced. Improvements have been made to arrangements for recording and monitoring income. Issues with the contractual agreement are delaying the introduction of the other actions.	 <i>Limited</i>
<i>Limited</i>	0	7	Management of Health & Safety 5 of the 7 actions have been introduced. E-learning is now used for H&S training of new employees. Follow-up review showed that employees were only partially completing or not undertaking the training. Despite managers being informed, there seemed to be no increase in training having been completed.	 <i>Adequate</i>
<i>Limited</i>	0	7	Car park management The actions have been introduced	 <i>Adequate</i>
<i>Limited</i>	3	6	Housing – Homeless families The actions have been introduced	 <i>Adequate</i>
<i>Limited</i>	2	0	Business Continuity Planning Both actions are outstanding although a considerable amount of work has been undertaken to review and update the plan. It is expected that a report will be presented to O&S(Economic Well Being) Panel in November.	 <i>Adequate</i>

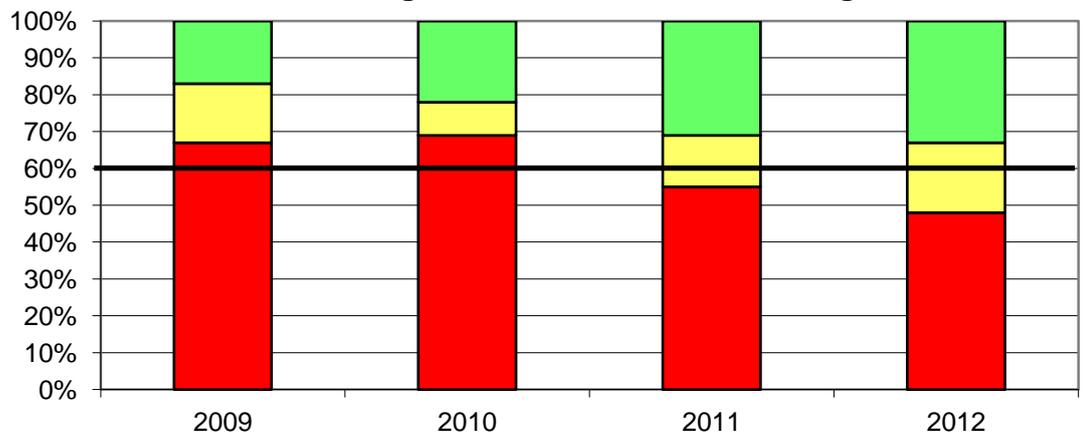
Assurance definitions are included at the end of Annex D.

6. IMPLEMENTATION OF AGREED ACTIONS

6.1 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 2012 are shown below.

Status of Action							
	Introduced on time		Introduced Late		Not introduced		TOTAL
Red Action	1		1		4		6
Amber Action	22		8		12		42
Total	23		9		16		48
% age	48%		19%		33%		
Head of Service	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Financial Services		6	1		4	4	15
Law & Democratic Services		6		4			10
Operations	1	3		1		2	7
Corporate Team		1		2		2	5
Information Management		2		1			3
General Mgr, One Leisure						3	3
Environmental Management		1				1	2
Environmental Health		2					2
Customer Services		1					1
Total	1	22	1	8	4	12	48

Status of Agreed Audit Actions @ 31 August



■ % actions introduced on time ■ % actions introduced, but not on time ■ % actions not introduced

- 6.2 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.
- 6.3 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.
- 6.4 Six 'red' actions have not yet been implemented. They are detailed in Annex C.

7. INTERNAL AUDIT PERFORMANCE

- 7.1 Information regarding the performance of internal audit is contained in Annex D.

8. RECOMMENDATIONS

- 8.1 It is recommended that the Panel note the report and take into account the Audit & Risk Manager's opinion when considered the Corporate Governance statement that appears later on the agenda.

ACCESS TO INFORMATION ACT 1985

Internal Audit Reports

Internal Audit Performance Management Information

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EXTERNAL ASSURANCE RECEIVED

Date	Report from	Area covered	Assessment
January 2012	Government Procurement Service	Compliance with the Code of Connection to allow secure email access to the Government's Secure Intranet.	Authorised to remain connected. The next authorisation date is 08/09/2012.
February 2012	EMCQ Ltd	Customer Service Centre and Call Centre.	All four Centres were certified as meeting the Customer Service Excellence Standard (the national standard for excellence in customer service). Certification lasts for 3 years.
February 2012	Local Government Association	<p>The Council's approach to equality and diversity across five areas grouped under the following headings:</p> <ol style="list-style-type: none"> 1. Knowing your communities and equality mapping 2. Place shaping, leadership, partnership and organisational commitment 3. Community engagement and satisfaction 4. Responsive services and customer care 5. A modern and diverse workforce. 	Peer challenge against the Equality Framework for Local Government. The Council was assessed as "achieving" (on the scale, developing, achieving, excellent).

EXTERNAL ASSURANCE RECEIVED

Date	Report from	Area covered	Assessment
March 2012	Interception of Communications Commissioner's Office	Compliance with the requirements of the Regulation of Investigatory Powers Act 2000.	Overall the Council has a satisfactory level of compliance with the Act and Code of Practice.
June 2012	Local Government Ombudsman	Complaints made to the Ombudsman for 2011/12.	"I am pleased to say that I have no concerns about your authority's response times and there are no issues arising from the complaints that I want to bring to your attention".

AMENDMENTS TO THE 2011/12 AUDIT PLAN

Audits omitted

Internet use & monitoring	New firewall to be implemented towards latter part of audit year. Expectation that review will be included in 2012/13 audit plan.
Staff recruitment	Removed due to drop in recruitment and the likelihood of major service changes during the 2012/13 financial year.
Legal debt collection & recovery	Postponed to 2012/13 audit plan year at the request of the Head of Service because of restructuring and an unavoidable delay in filling the new post.
Repairs & maintenance of property	Following initial planning meeting, decision to postpone review taken by Internal Audit Manager due to services updating current IT systems to enable appropriate data to be recorded.
Business continuity	Review postponed due to work being undertaken across all Service areas to review and updated the business continuity plan.

Audits added

Voluntary redundancy	Review of pay calculations and management considerations that supported voluntary redundancy of employees.
Monitoring of abuse emails	Review of action taken to deal with emails forwarded by employees to the Abuse email box.
HR & Payroll follow-up review & payments in lieu of worked hours	Due to likelihood of major service changes during 2011/12 financial year, a follow-up review of previously agreed audit actions was undertaken. This identified a number of issues, consequently a separate audit on salary payments in lieu of worked hours has commenced.
2010/11 final accounts.	Review undertaken at the request of the Corporate Governance Panel.

OUTSTANDING 'RED' AGREED AUDIT ACTIONS

Audit	Action Agreed	Agreed Implementation Date	Head of Service' statement re current position
<p>Head of Service : Head of Financial Services</p> <p>The resolution of the first five items has taken longer than anticipated due to the necessary concerted action over the last 18 months to resolve the final accounts issues.</p>			
<p>Supermarket car park income agreements</p>	<p>The calculation of payments to supermarkets are 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>	<p>28/02/2011</p>	<p>Resolution is not straightforward and will necessitate legal advice and potentially negotiation with the supermarkets. It is not in the Council's interests to lose the opportunity to manage these car parks on their behalf both from financial and traffic management perspectives.</p> <p>The main issues hinge on:</p> <ul style="list-style-type: none"> • the fact that the accepted local government definition of overheads covers a wider area now than it did when these historic agreements were created, and • the degree of precedent that derives from the custom and practice of past calculations. <p>These actions will be resolved over the next few months now that the audit of the 2011/12 accounts is virtually complete.</p>
<p>Supermarket car park income agreements</p>	<p>The Accountancy Manager will endeavour to recover over payments to the supermarkets for previous years.</p>	<p>31/07/2011</p>	
<p>Main Accounting System</p>	<p>Quarterly review of Balance Sheet codes to identify and investigate any unexpected movements with adequate justification produced.</p>	<p>29/02/2012</p>	<p>Preparatory work will commence shortly with a view to the first quarterly review being on the position at the end of December.</p>

OUTSTANDING 'RED' AGREED AUDIT ACTIONS

Audit	Action Agreed	Agreed Implementation Date	Head of Service' statement re current position
Main Accounting System	Adequate justification to support yearend balance sheet codes will be produced and certified	29/02/2012	This was carried out for a range of items for the 2011/2 accounts but there was not time to extend to all relevant items. This will be done for the 2012/13 accounts.
Main Accounting System	Investigate and correct code ZK32 for £90,040.92.	29/02/2012	Much of the investigation has been carried out and it is expected that this will be resolved by the end of October.
Asset Register	The Information Manager to prepare a project/plan to include all of the Authority's assets within the CAPS Uniform system. This software system would address the residual risks (actions) 1, 2, 4, and 5. A review of the completed project plan will determine how well risk (action) 3 is addressed.	30/09/2011	A business case has been produced by IMD but it has not yet been possible for them to allocate any resources to undertaking the project.

INTERNAL AUDIT PERFORMANCE

External audit (PWC) view of internal audit

Target : No negative view expressed

The Council's external auditors, in their ISA 260 report issued in July 2012 in respect of the 2010/11 financial year, stated "As part of our audit we have considered the findings of internal audit's work during the year to inform our assessment of the risks of misstatement in the financial statements. There are no issues noted in forming this assessment".

Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
Achieved: 12 months to August 2012 – 92% (from 12 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 2012 figure showed 78% (60% previous year) of managers felt audit provided a good or very good service. No respondent considered the service required improvement or was unacceptable.

Service delivery targets

Target: 80% or more of service delivery targets achieved.
Achieved: 12 months to August 2012 – 72%

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

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

The performance targets for three of the four items above has been achieved. Item b) was not achieved. The expectation is for 90% of draft reports to be issued within 15 working days. Actual performance was only 45%.

INTERNAL AUDIT PERFORMANCE

Service Developments

A number of developments are expected during the next year. These include

- Embedding the continuous audit process including trialling automated software
- Revising the internal audit strategy and terms of reference to take account of the Public Sector Internal Audit Standards
- Reviewing the wider role of the Internal Audit Manager across the Council against the Cipfa publication “The role of the head of internal audit in public sector service organisations”
- Reviewing the performance standards against which the service reports
- The Head of Welland Internal Audit Consortium undertaking a peer review of the service, the results of which will be reported to the Panel

Assurance definitions : for information

Substantial Assurance	✓✓	<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>
Adequate Assurance	✓	<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>
Limited Assurance	✗	<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>
Little Assurance	✗✗	<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>