

Report for Resolution

Report to Audit Committee
26 June 2008

Report of Head of Finance

Subject Annual Report on Internal Audit 2007/08

6

Purpose

To ask members to review the work of the internal audit and financial consultancy section for 2007/08.

Recommendations

Members are asked to receive the annual audit opinion, review the work of audit for 2007/08 and comment on the adequacy and effectiveness of the system of internal audit.

Financial Consequences

The financial consequences of this report are none directly, but the work of audit helps to promote proper financial arrangements throughout the council.

Corporate Objective/Service Plan Objective

The report helps to achieve the corporate objective to provide strong and ambitious leadership to make the city proud of its council and the service plan objective to ensure the proper administration of the council's financial affairs including reviewing, developing and reporting on the financial aspects of corporate governance.

Contact Officers

Barry Marshall	01603 21 2556
Steve Dowson	01603 21 2575

Background Documents

Audit Committee 27 September 2007 – “Internal Audit Plan 2007/08”

CIPFA Code of Practice for Internal Audit in Local Government – 2006

Relevant audit reports and working papers.

Report

Background

1. Internal audit is part of the corporate governance and internal financial control arrangements within the council.
2. Under the Accounts and Audit (Amendment) Regulations 2006, the council is required to “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control”.
3. The guidance accompanying the regulations states that proper internal audit practices are those contained within the CIPFA Code of Practice for Internal Audit in Local Government – 2006.
4. Under that code the person responsible for managing the internal audit function is required to submit a formal annual report to members which should:
 - Include an opinion on the overall adequacy and effectiveness of the organisation’s internal control environment
 - Disclose any qualifications to that opinion, together with the reasons for the qualification
 - Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on the work by other assurance bodies
 - Draw attention to any issues particularly relevant to the preparation of the statement on internal control
 - Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function
 - Comment on compliance with the *CIPFA Code of Practice for Internal Audit in Local Government*.

Overall adequacy and effectiveness of the internal control environment

5. Some of the audits undertaken during 2007/08 provide adequate assurance on the overall adequacy and effectiveness of the internal control environment
6. However, audit work on two IT systems could only provide limited assurance. Recommendations were made to address the issues, but not all were fully implemented in 2007/08.
7. In addition, internal and external audit work in relation to NELM grant claims going back to the beginning of the project has shown that it is not possible to verify that all the grant conditions have been complied with. Two members of the audit team have spent considerable time working with NELM staff and Audit Commission staff to ensure that all the issues raised are fully addressed in order to minimise the risk of loss of funding.
8. For the above reasons, the audit manager can only provide limited assurance on the overall adequacy and effectiveness of the internal control environment.

Audit Work Undertaken in 2007/08

9. Audit reports have been issued for the following reviews carried out during the year:

- On-street parking (part of the highways agency)
- Best value performance indicator results for 2006/07
- BACSTEL-IP (improved system for BACS payments based on internet protocols)
- Network security
- Management of IT and information security governance

10. A list of the significant findings and recommendations from the audit reviews completed during the year is shown in Appendix 1.

11. For every review recommendations are agreed with management for inclusion in the final report. Each audit area is then revisited after approximately six months to review whether the agreed management actions have been successfully implemented.

Follow up audit work

12. The following areas were revisited during the year:

- Care & repair contract
- Purchasing and accounts payable
- Income systems

13. In all cases satisfactory progress had been made towards implementing the recommendations.

Annual audit plan – progress

14. The table below compares the days planned for the different areas of work with days actually delivered.

Description	Days Planned	Days Delivered	Percentage
Systems Audits	450	419.5	93%
Other Planned Work	190	177.4	93%
Allowance for Unplanned Work	25	39.6	158%
TOTALS	665	636.5	96%

15. Further details of the annual audit plan for 2007/08 are in Appendix 2, showing the planned and actual days for each area of work.

16. The plan also shows the other areas of non-systems and consultancy work, which goes to make up the total workload of the section.
17. Appendix 2 shows that there were 630 planned available audit days, with actual audit days achieved of 637 days, giving a small surplus of 7 days, partly due to reduced time being spent on administrative tasks.
18. Despite the slight surplus, the audit plan itself was not fully completed, due to several factors:
- Work on the New Deal grant claims by two members of staff is taking far longer than anticipated. It has been very difficult to reconcile revenue and capital expenditure to income from funding and capital receipts for the duration of the scheme. This is a high risk area and it is vital that this work is progressed to a satisfactory conclusion which meets the requirements of the Audit Commission. This work has continued into 2008/09, therefore options for supplementing audit resources in order to achieve the plan will be investigated.
 - The on-street parking audit took longer than planned. This was the first time that a joint audit had been carried out with the internal audit team from Norfolk County Council, which resulted in time being spent on protocols for joint working and reporting. In the event, the audit also covered elements of off-street parking and the highways agency agreement, which further increased the time taken, together with meetings arising from the results of the audit.
 - Time spent on auditing claims for Interreg schemes took longer than planned due to one audit by an external auditor and two audits by the secretariat – an Article 4 visit re Liveable Cities and an Article 10 visit re Spatial Metro. Internal audit staff assisted with the queries that arose in order to reach a satisfactory conclusion.

Performance of Internal Audit

19. The performance of Internal Audit is measured against the criteria below.

Measure	Target	Actual
Percentage of audits completed	90%	25%
Percentage of staff chargeable time	74%	78%
Average time taken to produce draft reports	5 days	22 days

20. While the percentage of audits completed is low, this has to be seen against the factors explained above, whereby audit resources were directed to high risk areas.

21. With regard to the issuing of draft reports, it appears that our target is too stringent. Benchmarking against other organisations, including our external IT audit supplier, indicates that 20 days would be reasonable.
22. As previously mentioned, options for supplementing audit resources will be considered to enable the audit plan for 2008/09 to be completed.
23. In its latest regularity report, the Audit Commission made three recommendations relating to internal audit. The relevant extract, together with the council's response, is shown at Appendix 3.

CIPFA Code of Practice for Internal Audit

24. A revised code of practice was issued in 2006 and a gap analysis was carried out in order to gauge the extent to which internal audit arrangements meet the revised code.
25. On the whole the section complies with the code, and areas that have already been identified as requiring action are being addressed. In March 2008 terms of reference, a code of ethics and a strategy for internal audit were approved by the audit committee.

APPENDIX 1

Significant Findings and Recommendations

Audit	Weakness	Recommendation	Response	Responsible Officer	Action Date
On-street Parking	Holding accounts were not regularly reconciled	Monthly reconciliation of the holding accounts will be progressed and action taken to correct any variances	Agreed	Finance Control Manager	Immediate
Best Value Performance Indicators	One set of results for 2006/07 were reserved by the Audit Commission	Steps should be taken to strengthen the data gathering process in order to minimise errors and avoid qualification in future.	Agreed	Policy & Performance Manager	March 08
Network Security	There is no evidence that the Council has an approved IT Strategy	The Council should formally document and submit for approval an IT Strategy.	Agreed	Service Improvement Manager	2007
	The default Administrator account has not been renamed.	To assist in the control framework, the default Administrator account should be renamed and a 'dummy' account created.	Under review	Service Delivery Manager (Steria)	Immediate
	The management and monitoring of audit event logs would benefit the control framework	The capacity of the audit logs should be reviewed and set in accordance with a defined archive strategy. Audit logs should be subject to regular review.	Awaiting guidance Agreed	Service Delivery Manager (Steria)	Immediate
	A patch management framework has not been implemented	A patch management framework should be established to ensure security patches are applied in a timely manner. Where appropriate,	Agreed	Service Delivery Manager	March 08

		the latest security patches and hot fixes should only be applied following successful testing.		(Steria)	
Audit	Weakness	Recommendation	Response	Responsible Officer	Action Date
Management of IT & Information Security Governance	There is no evidence that the Council has an approved IT Strategy	The Council should formally document and submit for approval an IT Strategy.	Agreed	Service Improvement Manager	2007
	The development of system procedures for all aspects of IT operations and management will benefit the control framework.	Detailed system procedures should be developed for all aspects of IT operations and management.	Under review	Service Delivery Manager (Steria)	April 08
BACSTEL-IP	Changes to standing data are not subject to independent review	Management should introduce a procedure for the independent review of standing data such as bank account details.	Agreed	Revenues Manager	March 08
	Whilst there is a system in place for issuing SMART cards to staff, the process for withdrawing and returning cards needs improvement.	Management should review the procedure for issuing, disabling and returning SMART cards to ensure the procedure provides the necessary accountability for the cards.	Agreed	Service Improvement Manager	March 08
	The council and Steria do not have documented business continuity procedures for BACS	Documented business continuity procedures for BACS should be developed, and suitable off-site backup processing facilities identified and tested.	Agreed	Service Delivery Manager (Steria)	Discussions ongoing

Appendix 2

Audit Plan 2007/2008						
	2007/08			Actual to date incl. previous years		
	Audit Plan Days	Actual to Wk 52		Previous Years		Comments
Fundamental Systems						
Purchasing & Payments	15	0.7				
Debtors/Recovery	15	7.3				
Hsg Benefit testing for A. Commission	25					Internal Audit resource not required
Payroll & Personnel	15	3.5				
Council Tax / NNDR	15	5.9				
Housing Rents	15	1.3				
Income/Cash Receipting	15					
Housing Benefits	15					
Accounting Systems - FIP	40	41.1		63.3	104.4	Complete
Sub-total	170	59.8				
Corporate Resources						
New Deal - Grant Claims	100	220.8				Ongoing audit involvement
Neighbourhood Renewal Fund	5	4.4				Ongoing audit involvement
LEGI	5	0.1				Ongoing audit involvement
Sub-total	110	225.3				
Communities & Neighbourhoods						
Voids and Arrears	15					Slip to 08/09
Decent Homes Standard	15					Slip to 08/09
Sub-total	30	0				
Regeneration Development						
On-street Parking	35	72.0			72.0	Joint audit for NHAC - complete
Property Portfolio - Income and Voids	30					Slip to 08/09
Car Parks Income	15					Slip to 08/09 (partially covered under On-street parking)
Sub-total	80	72.0				
To complete 2006/07 plan:						
Treasury Management	10					Slip to 08/09
Highways Agency	20					Slip to 08/09 (partially covered under On-street parking)
Council Tax / NNDR	10	18.6		27.3	45.9	In progress
Residents Service Team	10	34.3		18.9	53.2	In progress - interim report issued
Sub-total	50	52.9				
Follow Ups						
Debtors/Recovery		2.9				
Purchasing & Payments		2.3				
Care & Repair		1.0				
Various, incl. post-audit work		3.3				
Sub-total	10	9.5				
Corporate						
Ad-hoc Investigations	30	9.9				
Data Protection / Freedom of Information	10	2.2				
Probity	10	13.6				
Interreg Claims	30	52.1				Liveable Cities; Spatial Metro; INHERIT
Best Value Performance Indicators	25	16.6				Complete
Computer Audit:	10	9.9				Outsourced - client role
Bacstel-IP						Draft report
Network Security						Final report
IT Management & Security						Final report
Sub-total	115	104.3				
Consultancy Work						
Fraud prevention, incl. NFI 2006 output	20	2.9				
Corporate Governance	25	47.4				
Financial Appraisals/Tenders/Final A/cs	10	11.7				
General Advice / A. Commission liaison	20	11.1				
Unplanned work, including requests	25	39.6				
Sub-total	100	112.7				
Total Days	665	636.5				

Appendix 2

Reconciliation of Available Audit Days 2007/08:						
		Planned		Actual		
Total available days (after allowance for holidays, sickness and special leave)			849		813	
<u>Less</u> Allowance for non-chargeable days:						
Management/Administration		154		110		
Training		20		22		
Other		45	219	44	176	
Chargeable Days			630		637	
Percentage of chargeable days to available days			74%		78%	
Resources needed for Audit Plan			665			
Expected Surplus/(Deficit)			(35)			

Appendix – Action Plan

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Internal Audit failed to deliver their planned work predominantly as a result of involvement in the New Deal claims and involvement in the financial improvement programme. Internal Audit was involved in some aspects of changing processes and providing training in connection with the financial improvement programme (primarily cash income and receipting). This could potentially compromise their independence when carrying out further audit work in these areas	<i>R1 Consider whether the Internal Audit function has the appropriate level of resources.</i>	3	Steve Dowson	Partially	From April 08 the team should revert to normal assurance and consultancy work, and will be able to complete the audit plan, so long as we are not diverted to other projects. We cannot resource ICT audits, but we make use of external auditors to supplement the work of the team.	April 2008
IA reports are detailed, but do not routinely contain action plans which are time-bound and ranked in terms of priority. Additionally, there is substantial delay in finalising some reports.	<i>R2 Consider whether the format of Internal Audit reports should be revised, particularly in terms of the inclusion of prioritised, time-bound action plans</i>	2	Steve Dowson	Partially	All recommendations are agreed with managers and have action dates. Prioritisation and timing issues will be addressed.	April 08
The Accounts and Audit Regulations 2003 as amended in 2006 require the Council to carry out a review of Internal Audit. No such review has been carried out re 2006/07. This is of increased importance with the introduction of the Annual Governance Statement in 2007/08.	<i>R3 Put arrangements in place to review the effectiveness of Internal Audit as required by the Audit and Accounts Regulations.</i>	3	Steve Dowson	Partially	The rough guide to the regulations suggests that the HIA should not drive the review. I will carry out a self-assessment to feed into the review which presumably will be reported to Audit Committee.	April/May 08