

Report for Resolution

Report to Audit Committee
25 June 2009

Report of Head of Finance

Subject Annual Report on Internal Audit 2008/09

4

Purpose

To ask members to review the work of the internal audit and financial consultancy section for 2008/09.

Recommendations

Members are asked to receive the annual audit opinion, review the work of audit for 2008/09 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.

Strategic Priority and Outcome/Service Priorities

The report helps to achieve the strategic priority “Aiming for excellence – ensuring the Council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners.”

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Background Documents

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 2008/09 provide moderate assurance on the overall adequacy and effectiveness of the internal control environment
6. However, audit work on two IT systems and three financial systems could only provide limited assurance, and in another case no assurance could be given.
7. In addition, internal and external audit work in relation to NELM grant claims is still in progress, and 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. Some of the years where the audits have been completed have resulted in a qualified opinion.
8. For the above reasons, the audit manager can only provide limited assurance on the overall adequacy and effectiveness of the internal control environment.

Summary of audit work undertaken in 2008/09

9. Audit reports (draft or final) have been issued for the following reviews carried out during the year:

- Data protection compliance
- Business continuity planning
- Operating systems security (advisory review)
- Accounts receivable
- Accounts payable
- Housing rents
- Housing and council tax benefits
- Recruitment, including CRB checks
- Payroll
- Asset management
- Residents service team
- Parking services
- Income system
- Best value performance indicators 2007/08

10. A summary of the main findings from the above reviews is shown in Annex 1. In some cases the actions are still subject to final agreement.

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 review of on-street parking was followed up during the year. Satisfactory progress had been made towards implementing the recommendations.

Annual audit plan – progress

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

Description	Days in Plan	Days Delivered	Percentage
Systems audits	360	170.5	47%
Other non-systems and consultancy work	230	377.8	164%
Allowance for unplanned work	50	40.7	81%
TOTALS	640	589	92%

14. Further details of progress against the annual audit plan for 2008/09 are in Annex 2, showing the planned and actual days for systems and regularity audit work.
15. As recommended by the Audit Commission, Annex 2 also shows the other areas of non-audit and consultancy work, which goes to make up the total workload of the section.
16. Annex 2 shows that there were 550 planned available audit days, against a requirement in the plan of 640 days. The deficit was due to long-term sickness within the audit team, and as previously reported it was agreed to commission PricewaterhouseCoopers (PwC) to assist with a number of key audits (we already use Bentley Jennison for technical IT audit reviews).
17. At a previous meeting members requested details of the staffing resource plan, therefore Annex 3 shows how the planned chargeable days of 550 were calculated, followed by the actual figures for each category in 2008/09.
18. Although the actual audit days delivered were higher than anticipated, 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 longer than anticipated. 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 continued throughout 2008/09, but we are now at a stage where claims are now up to date and we are responding to queries arising from the audit.
 - Time spent responding to external audit queries for Interreg schemes took longer than planned. This was mainly due to the fact that the European team was wound down early in 2008/09, which meant that the internal auditor was the only member of staff with the knowledge to answer the queries arising from the external audits of the schemes.
19. The audit manager considers that sufficient progress was made against the key audits in the plan to draw a conclusion on the overall adequacy and effectiveness of the internal control environment.

Issues relevant to the annual governance statement

20. The Audit Commission had previously reported on the diversion of audit resources to non-audit work and the risks that this presented to the completion of the audit plan. The known resource shortfall in 2008/09 was addressed by the use of PwC for a number of key audits, and resources in 2009/10 will be closely monitored to minimise risks to the completion of the plan.
21. The audit manager's 'limited assurance' opinion has been reported in the annual governance statement.
22. The audit review of asset management by PwC resulted in a 'no assurance' opinion, principally due to funding for the approved investment strategy not being identified and a significant reduction in the maintenance budget for specified works. The response to the findings and action plan is currently being considered by the council's corporate management team.

Performance of internal audit

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

Measure	Target	Actual
Percentage of audits completed	90%	78%
Percentage of staff chargeable time	72%	78%
Average time taken to produce draft reports	20 days	25 days

24. While the percentage of audits completed is below the target, it is an improvement on the previous year and the audit manager considers it is satisfactory given the continued diversion of audit resources.
25. The issuing of draft reports was affected by the complexity of the review of the residents service team and Comino, which had to be split into four reports.
26. Work will be progressed in the current year to develop more measures for internal audit under the 'balanced scorecard' approach.

CIPFA Code of Practice for Internal Audit

27. 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.
28. The section substantially 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.

Significant Findings and Recommendations 2008/09

Audit	Weakness	Recommendation	Response	Action Date
Purchasing and accounts payable (moderate assurance)	There is no independent review of changes or additions to the supplier masterfile	Ensure that changes and amendments to the supplier masterfile are independently reviewed. Evidence of the review should be retained.	Agreed	September 09
Accounts receivable (limited assurance)	There is inadequate segregation of duties in relation to Accounts Receivable (A/R) activities.	Review current roles and responsibilities to ensure that adequate segregation of duties is achieved.	Agreed	January 09
	The Council is currently in breach of Payment Card industry (PCI) legislation.	Ensure compliance with relevant PCI legislation	Under review	
	The control of debt recovery is poorly managed.	Give serious consideration to redesigning the debt collection process.	Agreed	From Qtr 1 2009/10
Housing and council tax benefits (limited assurance)	The reconciliation between the benefits system and the subsidy claimed is not appropriately completed and reviewed.	Sign and date reconciliations as evidence of both completion and independent review on a timely basis.	Agreed	May 09
Data protection (limited assurance)	Some uncertainty around responsibility for certain data protection tasks. No departmental Data Protection Co-ordinators have been assigned.	Management should review and formalise the roles and responsibility for data protection co-ordination, with detailed activities being reflected in the relevant job descriptions.	Under review	
	There has not been a full data audit completed to identify all the personal information processed by the Council.	Management should carry out a data audit to ensure that all processing of personal data within the Council has been identified, the Information Commissioner has been adequately notified and that data collected is relevant and not excessive for the purposes for which it is being processed.	Under review	
	Some key public and staff data collection forms contained none or insufficient data protection clauses and fair processing information.	Management should review the staff contracts and data collection forms used throughout the council where personal data is collected to ensure they contain adequate consent agreements, data protection statements & fair processing information.	Under review	

Audit	Weakness	Recommendation	Response	Action Date
	<p>The Council has adopted retention guidelines produced by the Local Government Group of The Records Management Society, but not all staff are aware of their existence.</p> <p>There are no procedures in place for the secure disposal of computer media such as floppy disks, CDs and hard disk drives.</p>	<p>Management should ensure that staff are fully aware of the retention guidelines adopted by the Council, and that monitoring procedures are adopted to ensure compliance.</p> <p>Procedures for the destruction of manual and computerised records in line with the retention guidelines should be defined, documented and communicated to all staff.</p>	Under review	
	<p>Staff guidance fails to mention how requests for data held by the Council should be received and the process for dealing with it.</p> <p>Staff and the public are not informed that they have rights as data subjects to request details of their personal information held by the Council.</p>	<p>Staff and the Public should be adequately informed of their rights to request access to their personal data.</p> <p>Formally documented and approved subject access request procedures should be introduced.</p>	Under review	
	<p>Data protection guidance to staff is very brief, and does not give clear guidance to staff.</p> <p>There is a lack of data protection training provided to staff.</p>	<p>The Data Protection Guidance to Officer's should be reviewed and updated to provide more complete information.</p> <p>The Council should provide all staff with data protection awareness training.</p>	Under review	
Business continuity planning (limited assurance)	A complete Business Impact Analysis has not been undertaken to establish what will actually be required in the event of a disaster in order for the Council to remain operational.	A Business Impact Analysis should be completed as a matter of priority.	Under review	
	The Business Continuity and IT Disaster Recovery Plans were in draft form at the time of the review.	Management should implement formally approved comprehensive disaster recovery/business continuity plans for the services provided and used by the Council.	Under review	
	Overall responsibility at the Council for business continuity and IT disaster recovery planning has not been formally assigned to a specific individual or committee.	Management should ensure responsibilities for business continuity planning have been appropriately assigned.	Under review	

Audit	Weakness	Recommendation	Response	Action Date
	The Business Continuity and IT Disaster Recovery Plans held by Steria and the Council have not been comprehensively tested.	Management should ensure that the Business Continuity and IT Disaster Recovery Plans are tested on an annual basis. Any issues identified during the testing phase should be formally documented and adequately resolved.	Under review	
	A copy of the contracts in place between the Council and CityCare was not available, therefore unable to provide assurance that appropriate continuity arrangements have been agreed.	Management should ensure that appropriate continuity arrangements are in place between the Council and CityCare.	Under review	
	There is a risk that backup media may be unavailable as a result of exclusion zones being created around City Hall or CityCare, resulting in lack of service continuity/availability.	Management should ensure that backup media is appropriately located so that it can be easily accessed in the event of a disaster which may affect the primary processing site.	Under review	
Housing rents (moderate assurance)	No significant weaknesses			
Recruitment incl. CRB checks (moderate assurance)	CRB checks are not being refreshed on a 3 year basis as required by the CRB	<p>Conclude discussions with Unison and undertake the three year checks as a matter of urgency.</p> <p>Use the HR system to enter data on when CRB checks are performed and for which employee. This data could then be used to generate a report on a monthly basis of which employees need a CRB refresh. The system may also have the functionality to set up electronic reminders of when CRB checks are due. This should be investigated.</p>	Agreed	July 09
Payroll (limited assurance)	Authorisation reports for payroll processing by Arvato were found to be incomplete in some instances.	Add signatures and dates to hard copy authorisation reports and then fax or email a scanned copy to Arvato. This should be completed for all payrolls (e.g. monthly, weekly etc).	Not agreed – response prepared for final report	

Audit	Weakness	Recommendation	Response	Action Date
		Ensure all checks are completed and checked by the authorising officer prior to signature. Maintain signed hard copy authorisation forms on file with evidence attached to support the checks completed.		
	Reconciliations between the general ledger and data supplied by Arvato on the payroll system have not been completed throughout the year and are on an informal basis.	Undertake monthly reconciliations and ensure these are reviewed by the Corporate Finance Manager or Senior Finance Systems Officer and signed on a timely basis on a standard form. Any reconciling items need to be cleared and corrected. Supporting papers should be attached as evidence of the information reviewed in the reconciliation.	Finding agreed, but not degree of risk, as reconciliation up to date	
Asset management (no assurance)	Funding for the approved investment strategy has not yet been identified.	Discuss options for funding with the AMG and take a revised paper to the Executive Committee for consideration and approval. The paper should include clear identification of where the funding will come from and detail timescales for the funding to be released	Response to be agreed by corporate management team	
	The maintenance budget for specified works for 2009/10 has been reduced by £750k and now only £46k remains available against an original budget of £1.116m.	Review the asset management portfolio to establish if disposals can be made to generate revenue that can be used for investment purposes.	As above	
	A number of standard key performance indicators (KPIs) in relation to asset management are not currently being reported upon.	Establish which KPIs it would be beneficial to report upon in order to improve management information for key decision making purposes	As above	
	The asset management database (Uniform) has significant data discrepancies and as a result the Council's property portfolio is currently being managed by an excel spreadsheet.	Prioritise the data cleansing of the Uniform system. Enter into discussions with the software supplier to establish if identified functionality issues can be resolved	As above	
Parking operations	Reliance on agency temps for operations and finance functions.	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Agreed	July 09

Audit	Weakness	Recommendation	Response	Action Date
	IT systems for on- and off-street parking do not provide robust data	As above	Agreed	July 09
	Some controls over cash collections, including for other clients, are not robust	As above	Agreed	July 09
Best value performance indicators 07/08	Results for street cleanliness indicators qualified by Audit Commission	No significant recommendations, as data quality issues being addressed by performance management improvement board		
Income system	Cashiers – some weaknesses in the 'dual' key control system	The exchange controls will be formalised for the cashiers strong room and safe keys dual control systems	Under review	
	Some controls over ad hoc pay-ins were not robust	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Agreed	Immediate - implemented
	Some controls over the income for stray dog releases were not robust	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Under review	
Residents service team	The handling of appeals and challenges to penalty charge notices (PCN) needs to be strengthened to ensure consistency. Includes specific training.	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Under review	
	Some staff have inappropriate access levels to the IT system used to manage PCNs	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Under review	
	Some controls over car park season tickets and contract parking were not robust	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Under review	
	The Comino workflow system does not have sufficient controls for some of the functions for which it is being used	A number of detailed recommendations were made to address this, which have been accepted by management where practical to implement	Under review	

Audit Plan 2008/2009				
	2009/10			
Systems/Regularity Audit Work	Audit Plan Days	Actual to Wk 52		Comments
Fundamental Systems				
Purchasing & accounts payable	20	1.1		Outsourced - draft report
Accounts receivable	20	0.0		Outsourced - draft report
Payroll	20	1.2		Outsourced - draft report
Housing rents	20	0.1		Outsourced - draft report
Income/cash receipting	20	16.9		Final report
Treasury management	10	2.3		In progress
Housing/council tax benefits	20	0.0		Outsourced - final report
Council tax/NDR	10	7.6		In progress
Asset management - non-housing	30	0.4		Outsourced - draft report
Sub-total	170	29.6		
Corporate Resources				
Workforce system and recruitment	20	0.0		Outsourced - final report
Neighbourhood Renewal Fund	5	1.3		Complete
LEGI	5	4.6		Complete
Sub-total	30	5.9		
Regeneration & Development				
Car parks income	20	28.2		Final report
Concessionary bus fares	10	2.2		Draft report
Landlord services - voids & arrears	15	0.0		Covered in inspection - follow up in 09/10
Premises management & leaseholders	15	2.2		In progress
Sub-total	60	32.6		
Corporate				
Ad-hoc investigations	30	16.4		No major investigations
Probity	20	23.6		
Best value performance indicators	20	20.5		Complete
Outsourced IT audits:	10	6.0		IT security - client role
Data Protection				Draft report
Business continuity planning				Draft report
Unix, Windows & Oracle security				Final report
Sub-total	80	66.5		
To complete 2007/08 plan:				
Residents service team	10	22.5		Final report
Sub-total	10	22.5		
Follow-ups	10	13.4		
Sub-total	10	13.4		
Total for systems/regularity work	360	170.5		
Non-audit & consultancy work				
New Deal - Grant Claims	100	209.1		Ongoing involvement of audit staff
Corporate Governance	40	66.5		Review policies; use of resources
Fraud related, incl. NFI 2008	30	28.2		Wider scope of NFI in 2008
Risk Management	10	5.2		Corporate issue
Interreg Claims	30	63.5		Projects now complete
Financial Appraisals/Tenders/Final A/cs	10	5.1		
Data protection/freedom of information	10	0.2		
Advice, unplanned work, requests	50	40.7		
Total for non-audit/consultancy work	280	418.5		
Total Days	640	589		

Reconciliation of available audit days 2008/09:				
	Planned		Actual	
Available working days (52x5x4)	1040		1044	Difference due to staff in credit at y/e
<u>Less</u> allowance for leave, sickness, etc.	280		292	Higher sickness level than planned for;
				timing of annual leave
Total available working days	760		752	
<u>Less</u> Allowance for non-chargeable time:				
Management/administration	145		115	
Training	20		17	
Other - IT and time recording	45		31	
Total non-chargeable time	210		163	
Chargeable Days	550		589	
Resources needed for Audit Plan	640			
Projected Surplus/(Deficit)	(90)			Some audits outsourced due to the
				projected shortfall in resources
Productivity:				
1. Available working days:				
Expected available days (52x5x4)	1040			
<u>Less</u> expected for holidays, sick, etc.	180			
Target available working days	860			
	Planned		Actual	
Available working days	760		752	Plan took account of known long-term sick
Available working days as % of target	88%		87%	
2. Chargeable days:				
	Planned		Actual	
Available working days	760		752	
Chargeable days	550		589	
Chargeable days as % of working days	72%		78%	

AUDIT & FINANCIAL CONSULTANCY**ANALYSIS OF TIME (EMPLOYEE RESOURCE DAYS) - 2008/09**

	PLANNED TOTAL	ACTUAL TOTAL
1. <u>AVAILABLE WORKING DAYS</u>		
Total Days (52 x 5 = 260)	1,040	1,044
Less: Bank Holidays	28	28
Annual Leave	126	133
Elections	1	1
Sick, Special Leave, etc.	125	130
Available Days (@ Current Level)	760	752
2 <u>NON-CHARGEABLE TIME</u>		
2.1 ADMINISTRATION / MGT		
Administration - General	64	54
Section Meetings	9	2
Service Centre Management	69	57
Departmental Management	3	2
SUB - TOTAL	145	115
2.2 TRAINING ETC		
Training - Courses	20	17
SUB - TOTAL	20	17
2.3 OTHER GENERAL OVERHEAD		
IT Support / Time Recording	30	21
FSA	15	10
SUB - TOTAL	45	31
Total Non Chargeable Days	210	163
Total Chargeable Days	550	589
% NON-CHARGEABLE (DAYS)	28%	22%
% CHARGEABLE (DAYS)	72%	78%