

## Report for Resolution

**Report to** Audit committee  
21 June 2011

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**Report of** Audit manager

**Subject** Annual report on internal audit 2010-11

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### **Purpose**

To inform members of the work of the internal audit and financial consultancy section for 2010-11.

### **Recommendations**

Members are asked to receive the annual audit opinion and review the work of internal audit for 2010-11.

### **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 "One council:

- customer focus – putting customers at the heart of everything we do;
- continuous improvement of our services; and
- cost conscious – efficient and effective service delivery "

### **Contact Officers**

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### **Background Documents**

## Significant Findings and Recommendations 2010-11

Audit	Significant weakness	Recommendation	Management Response	Action Date
Treasury management (moderate assurance)	Treasury management records are not regularly reconciled to the GL records for investment / borrowing balances and interest earned / paid	Investment / borrowing balances and interest will be agreed on a monthly basis to the GL, and a full reconciliation, will continue to be made after each year end.	Agreed	April 2010
Accounts payable	Internal controls do not provide full assurance that all purchase invoices have been accounted for	Reconcile supplier statements from major suppliers on a monthly basis (to ensure that all purchase invoices have been accounted for)	Monthly statements will be requested and reconciled for our Top 10 suppliers (by value) to identify any missing invoices.	August 2010
	The authorised signatory list was not kept up to date. Authorisation controls not operating as expected (N.B. the manual ordering system has been replaced – orders are now placed via Oracle Financials – the following recommendation relates to this replacement system)	The Oracle system should be changed in order to only allow orders against approvers' cost codes.	Not agreed. There is a significant amount of set up and then maintenance required to do this. The benefit it brings is outweighed by the resource required to maintain the system. Oracle approvers will be reminded to check the code on the requisition and if it is not one of their codes they should reject it	-
	There is no independent review of changes or additions to the supplier master file	Ensure that changes and amendments to the supplier master file are independently reviewed. Evidence of the review should be retained. As payments by BACS increase, it is particularly important that suppliers' bank details are correct and that there are adequate controls over any amendments to these details.	For the team leader to review each account that it is set up is not practical. Agree that regular reviews should take place and that spot checks should be introduced. Procedure notes already provide guidance on how and when to accept new and amended bank account details.	October 2010

## Annex 1

Audit	Significant weakness	Recommendation	Management Response	Action Date
Accounts receivable (outsourced – partial assurance, equivalent to moderate assurance elsewhere)	The Council is currently in breach of Payment Card Industry (PCI) legislation (this issue was from the previous audit which resulted in limited assurance)	Ensure compliance with relevant Payment Card Industry (PCI) legislation by August 2010	Waiting for amended software from a supplier to meet some of the requirements - we will not be compliant until this has been installed. There is also a need to buy additional hardware/software for mobile working, linked in to the Gov Connect requirements which is being treated as high priority work, but not able to comply by August 2010	September 2011
Cemetery (limited assurance)	Operational proposals reported to executive and scrutiny not fully implemented.	Fully implement the report proposals	Immediate instructions from ESDM that all plots must be 4 interments. Committee report to be created to manage this and all other issues	June 2010
	No overall reconciliation on each file of income/expenditure with a final total identifying cost/refund to the council	A reconciliation sheet of all income received and expenditure for each contract funeral will be created, identifying the final cost to the council and authorised by the budget holder when completed	Agreed.	June 2010
Governance of key partnerships (outsourced - good assurance for the corporate framework and HCA; moderate for CoNP)	No significant weaknesses			
Norman Centre (moderate assurance)	No significant weaknesses			

## Annex 1

Audit	Significant weakness	Recommendation	Management Response	Action Date
The Halls (moderate assurance)	There is no evidence of procedures covering external bar stock checks or the actions to take on receipt of the reports	Procedures to be implemented to cover external stock checks and any implications for internal check, ie frequency and reconciliations	Agreed	October 2010
Right to buy (good assurance)	No significant weaknesses			
Business continuity management (outsourced – average score for the seven modules = 60%)	Mission critical activity prioritisation and threat analysis needs to be improved	The mission critical activity list needs to be developed to have a greater degree of prioritisation, to be widely understood and supported and to have greater rationale behind the priorities as well as the underlying process or system requirements. There should only be one list.  Develop a detailed threat analysis which includes key mitigation measures	Agreed	In progress
	There is no consistent "big picture" understanding of the main strategies for dealing with the main threats	The council should consider developing a simple corporate overview of the main threats and the preferred strategies.	Agreed	In progress
Homes and communities agency contract (good assurance)	No significant weaknesses			
Licensing (good assurance)	No significant weaknesses			
Housing benefits (outsourced – partial assurance)	No significant weaknesses			

## Annex 1

Audit	Significant weakness	Recommendation	Management Response	Action Date
Council tax	No significant weaknesses			
Customer contact (outsourced – partial assurance)	No significant weaknesses			
Purchase cards (limited assurance)	A small number of discrepancies were found between the council's and the bank's list of card holders	The bank list of active card holders should be regularly obtained from the bank and cross checked to the card holder log	A date for the initiation of the first cross check and date for management review has been set	August 2011
	The blocking of merchant category codes is not robustly applied	The cessation of merchant category code blocking will be immediately investigated and until the blocking is re-established controls will be put in place	Not agreed - difficulties in enforcing the MCC blocking without negating the utility of the card have resulted in this element of risk management not proving practical	-
	On a number of occasions the bank has used the default 'system user name' instead of the card holders' names on MCC reports and the monthly activity reports; this is due to the bank's failure to update their records promptly	Monitoring of contract failures and poor updating of users on the data reports should be documented and the bank informed promptly of failures	Contract responsibility currently unclear. To be addressed when the current contract is relet	December 2011
Off-street parking – strategic management (good assurance)	No significant weaknesses			
Land charges (draft report - moderate assurance)	No significant weaknesses			
Payroll (outsourced – draft report - partial assurance)	No significant weaknesses			

# 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.

## **Audit manager’s opinion on the overall adequacy and effectiveness of the internal control environment**

5. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate and service policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
6. The audit manager’s opinion is based on the findings of internal audit reviews, including following up previous recommendations and recommendations made by the Audit Commission in annual governance reports.
7. Follow up work is formally reported upon and depending on progress may result in the original opinion being revised.
8. The opinion for 2010-11 includes reviews that were started in 2010-11 but were reported on in 2011-12.

9. There has been a mix of opinions awarded, ranging from limited to good assurance. The opinions are shown in annex 1 and annex 2, but are summarised below:
10. Good assurance:
- Framework for governance of key partnerships and HCA strategic partnership
  - Strategic management of off-street parking
  - Licensing
  - Homes & communities agency (HCA) contract
  - Right to buy

11. Moderate assurance (adequate or partial used by external suppliers):

- Treasury management
- Accounts receivable
- Payroll
- Housing benefits
- Customer contact
- Business continuity/emergency management
- Land searches
- The Halls
- Norman Centre

In addition, audit reviews of council tax and accounts payable involved a mixture of follow up work and further testing, which did not result in an audit opinion (both previously moderate assurance).

12. Limited assurance:

- Accounts receivable (significant issue (PCI) outstanding from previous audit, but the solution is not in the hands of the council)
- Purchase cards
- Cemetery (since followed up and satisfactory progress found on recommendations)

13. A summary of the significant weaknesses from the above reviews is shown in **annex 1**, together with recommendations and management responses.

14. For every review recommendations are agreed with management if possible for inclusion in the final report. Each audit is followed up to review whether the agreed management actions have been implemented, the results of which are reported to management.

15. During 2010-11 two members of the audit team continued to spend considerable time on NELM claims, working with NELM and the Audit Commission to ensure that all the issues raised are fully addressed in order to minimise the risk of loss of funding. This exceeded the estimated time in the plan and had a severe impact on the resources available for the audit plan. Despite outsourcing a number of audits the plan was not achieved.

16. In addition, it was not possible or practical to review fundamental systems relating to housing rents, for which a delay was requested due to the Audit Commission review of the housing improvement plan; or treasury management.
17. Nevertheless, the audit manager is of the opinion that based on the work achieved and the assurances gained, **adequate assurance** can be given on the overall adequacy and effectiveness of the internal control environment.

### **Annual audit plan – progress**

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

<b>Description</b>	<b>Days required for plan</b>	<b>Planned days to be delivered</b>	<b>Actual days delivered</b>	<b>Percentage against days required</b>
Audit assurance work	450		321.4	71%
Other non-audit and consultancy work	120		188.0	157%
Allowance for unplanned work	35		35.8	102%
<b>TOTALS</b>	<b>605</b>	<b>555</b>	<b>545.2</b>	<b>90.1%</b>

19. Further details of progress against the annual audit plan for 2010-11 are in **annex 2**, showing the planned and actual days for audit assurance work.
20. Annex 2 also shows the other areas of other non-audit and consultancy work, which goes to make up the total workload of the section.
21. Annex 2 shows that there were 555 planned available audit days, against a requirement in the plan of 605 days. The deficit was felt to be manageable at the time, but it became apparent during the year that work on NELM was taking far longer than anticipated; therefore some reviews were outsourced to KPMG (following a tendering exercise) and Zurich (supplied as part of the council's insurance contract).
22. **Annex 3** shows how the planned chargeable days of 555 were calculated, followed by the actual figures for each category which total 545.2 days.
23. The audit manager considers that sufficient progress was made against 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

24. The Audit Commission has 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 2009/10 was addressed by the use of KPMG and Zurich for a number of key audits; however, the audit plan was not completed. This will be reported in section 5 of the annual governance statement.
25. None of the audit reviews resulted in a 'no assurance' opinion. However, three systems (accounts receivable, purchase cards and the cemetery) resulted in limited assurance, and are referred to in the annual governance statement, together with responses to the audit recommendations.

## Performance of internal audit

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

Measure	Target	Actual
Percentage of audits reported on	90%	56%
Percentage of staff chargeable time	70%	70%
Average time taken to produce draft reports	20 days	18 days

27. While the percentage of audits reported on is below the target, the audit manager considers that enough progress had been made in order to form an overall opinion.
28. The figure for the issuing of draft reports was affected by a number of factors: the non-availability of some managers to discuss audit findings; and further work requested by the audit manager prior to the issuing of reports as further information came to light.

## CIPFA Code of Practice for Internal Audit

29. As previously reported to members, the Audit Commission's triennial review of internal audit in 2008-09 found weaknesses in compliance with the code. An action plan to address the weaknesses has been drafted, but work to improve compliance was not progressed during 2010-11 pending options for the future delivery of the internal audit function. This will be reported in section 5 of the annual governance statement.

<b>Internal Audit Plan 2010-11</b>				
<b>Audit Assurance Work</b>	<b>2010-11</b>			
	<b>Estimated Days</b>	<b>Actual to Wk 53</b>	<b>Priority</b>	<b>Comments</b>
<b>Fundamental Systems</b>				
Purchasing & payments	15	6.6	H	Complete
Debtors/recovery	15	0.0	H	Outsourced - complete. Partial assurance
Payroll	15	0.0	H	Outsourced - draft report. Partial assurance
Housing rents	15	3.7	H	Request to slip due to A Comm inspection
Income/cash receipting	15	18.6	H	Complete
Treasury & cashflow management	15	0.0	H	Slip to 2011-12
Housing/c tax benefits, incl. fraud team	15	0.0	H	Outsourced - complete. Partial assurance
Council tax/NDR	15	16.8	H	Council tax complete. NDR in progress
Asset management - non-housing	10	8.3	H	In progress
<b>Sub-total</b>	<b>130</b>	<b>54.0</b>		
<b>Corporate Resources</b>				
Customer contact	20	0.0	H	Outsourced - complete. Partial assurance
General ledger	10	11.8	H	Oracle purchasing system - in progress
Licensing	15	15.4	H	Complete - good assurance
HR - recruitment/leavers	15	3.5	H	In progress
Procurement and purchase cards	15	12.3	H	Final report - limited assurance
<b>Sub-total</b>	<b>75</b>	<b>43.0</b>		
<b>Regeneration &amp; Development</b>				
Private sector leasing	10	1.0	H	In progress
Housing repairs/decent homes	10	0.0	H	Slip to 2011-12
Off-street parking - strategic management	15	14.7	H	Complete - good assurance
Homes & Communities Agency contract	10	7.7	H	Complete - good assurance
Neighbourhood teams	10	0.0	H	No spend from participatory budgets in 2010-11
Care & repair	10	0.0	M	Slip to 2011-12
Choice based lettings	10	6.3	H	In progress
Sports facilities	5	0.4	M	Slip to 2011-12
<b>Sub-total</b>	<b>80</b>	<b>30.1</b>		
<b>Cultural Services</b>				
Leisure Centre	5	0.0	M	Slip to 2011-12
<b>Sub-total</b>	<b>5</b>	<b>0</b>		

	Estimated Days	Actual to Wk 53	Priority	Comments
<b>Corporate</b>				
Ad-hoc investigations	20	27.9	M	
Probity	10	21.9	H	Relates mainly to accounts payable
Perf. mgt. system/national indicators	10	0.0	H	National indicators dropped
Business continuity/emergency mgt.	10	0.3	H	Outsourced - complete
Capital programme/major contracts	20	0.0	H	Slip to 2011-12
Grants - various services	10	7.3	H	Incl. LEGI & Interreg. Complete
Outsourced IT audits	10	6.2	H	IT risk assessment outsourced
<b>Sub-total</b>	<b>90</b>	<b>63.6</b>		
<b>To complete 2009-10 plan:</b>				
Accounts receivable	10	12.1	H	Complete
Community alarm service	0	7.9	H	In progress
Right to buy	10	25.7	H	Complete - good assurance
HR - leavers	10	0.0	H	Combined with recruitment (above) - in progress
Land searches	10	22.0	H	Draft report - moderate assurance
Cemetery	5	16.9	H	Complete - limited assurance
The Halls	5	13.3	H	Complete - moderate assurance
Treasury management	0	4.6	H	Complete - moderate assurance
Partnerships framework	0	1.5	H	Outsourced - good assurance
Norman Centre	5	10.4	H	Complete - moderate assurance
<b>Sub-total</b>	<b>55</b>	<b>114.4</b>		
<b>Follow-ups and post audit work</b>	<b>15</b>		<b>H</b>	
Concessionary bus fares		5.2		Satisfactory progress on action plan
Parking services - operations		6.1		Satisfactory progress on action plan
Budgetary control		4.6		Satisfactory progress on action plan
General		0.4		Post-audit work not requiring reports
<b>Sub-total</b>	<b>15</b>	<b>16.3</b>		
<b>Total for audit assurance work</b>	<b>450</b>	<b>321.4</b>		

	Estimated Days	Actual to Wk 53	Priority	Comments
<b><u>Non-audit &amp; consultancy work</u></b>				
New Deal - grant claims	30	90.7	H	2009-10 claim & asset register
Corporate governance	30	27.0	H	VFM (use of resources); AGS
Fraud plan, incl. NFI	40	40.9	H	NFI 2010 matches being investigated
Risk management	10	16.9	H	Setting up corporate risks on Aspireview
Financial appraisals/tenders/final a/cs	10	12.5	L	Work to transfer function to Procurement
Advice, unplanned work, requests	35	35.8	M	Incl. transformation work
<b>Total for non-audit/consultancy work</b>	<b>155</b>	<b>223.8</b>		
<b>Total audit and non-audit work</b>	<b>605</b>	<b>545.2</b>		
<b><u>Audit Resources Available 2010-11:</u></b>	<b>Planned</b>	<b>Actual</b>		
Days available for the audit plan	555	545		See annex 3 for details
Days needed to achieve the above plan	605	605		
Deficit	50	60		

**AUDIT & FINANCIAL CONSULTANCY****ANALYSIS OF TIME (EMPLOYEE RESOURCE DAYS) - PLANNED AND ACTUAL FOR 2010/11**

	PLANNED TOTAL	ACTUAL TOTAL
<b>1. <u>AVAILABLE WORKING DAYS</u></b>		
Total Days (53 x 5 = 265)	962	964.6
Less: Bank Holidays	36	35.0
Annual Leave	116	119.6
Sick, Special Leave, etc.	20	26.5
<b>Available Days</b>	<b>790</b>	<b>783</b>
<b>Less:</b>		
<b>2 <u>NON-CHARGEABLE TIME</u></b>		
2.1 ADMINISTRATION / MGT		
Administration - General	80	62.9
Section Meetings	10	2.1
Service Centre Management	80	116.2
Departmental Management	5	4.4
SUB - TOTAL	175	185.6
2.2 TRAINING ETC		
Training - Courses	20	6.5
SUB - TOTAL	20	6.5
2.3 OTHER GENERAL OVERHEAD		
IT Support / Time Recording	25	27.5
Folder Structure Administration	15	18.7
SUB - TOTAL	40	46.2
<b>Total Non Chargeable Days</b>	<b>235</b>	<b>238.3</b>
<b>Total Chargeable Days</b>	<b>555</b>	<b>545.2</b>
<b>% NON-CHARGEABLE (DAYS)</b>	<b>30%</b>	<b>30%</b>
<b>% CHARGEABLE (DAYS)</b>	<b>70%</b>	<b>70%</b>