

Report

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| Report to: | Risk and Audit Scrutiny Forum |
| Date of Meeting: | 5 February 2013 |
| Report by: | Executive Director (Finance and Corporate Resources) |

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| Subject: | Internal Audit Activity as at 16 January 2013 |
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Forum on progress by and performance of the Internal Audit Service in the period to 16 January 2013
- ◆ Seek endorsement of amendments to the 2012/2013 Audit Plan

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted
- (2) that revisions to the 2012/2013 Audit Plan are endorsed

3. Background

3.1. Findings from internal audit assignments are reported to the Forum throughout the year. The last progress report to the Forum was in November 2012. This reported on work completed in the period 1 August to 12 October 2012. This report covers all work completed in the period 13 October 2012 to 16 January 2013. Performance information is also included.

4. Performance

- 4.1. As at 16 January 2013, 60 out of a total of 108 assignments (55.6%) included in the 2012/2013 Audit Plan, have been delivered to draft report stage. 91% of all 2012/2013 assignments are in progress which reflects the strategy of delivering audit fieldwork in the first three quarters of the year. Of the assignments not started, 8% relate to either follow-ups or year-end reports and activities. Only one planned assignment has not started and research work is currently underway with fieldwork due to start in February 2013. The other key performance indicators reflecting quality, on time and within budget are summarised in Appendix One together with explanations. 90% of draft reports have been delivered on time and 71% within budget. Quality continues to be monitored through internal quality control procedures.
- 4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly once agreed. 82% of audit assignments were concluded to a signed action plan within the target seven weeks exceeding the target set of 80%.

5. Findings

- 5.1. Appendix Two lists all assignments completed in the period 13 October 2012 to 16 January 2013. Detailed findings from the more material pieces of work follow, linked to the strategic risks to which the area is most closely aligned.
- 5.2. Assurance over financial risks:
- ◆ I211216 Accounts Payable
Adequate controls are in place to mitigate the risk of fraudulent payments with significant control improvements to processes and procedures since June 2010. Further areas for development were identified in relation to regular reviews of supplier 'standing data' to keep the number of active Oracle Accounts Payable suppliers to a minimum and to report functionality to facilitate this review work. Work is currently ongoing to further strengthen segregation of duties controls by introducing new user roles which restrict the tasks that a single employee can carry out. Two recommended actions are not due to be implemented until September 2013 due to the feasibility of the actions needing to be investigated and the need for Oracle Accounts Payable report improvements to be developed in conjunction with the implementation of Oracle Version 12. The risks associated with these actions require to be managed during the interim period.
- 5.3. Assurance over procurement risks:
- ◆ I680334 Procurement Capability Assessment
Following a well coordinated cross-Resource exercise, a much improved score was attained in the 2012 Procurement Capability Assessment (PCA). The score of 55% falls within the category of "improved performance". The improved score also accurately reflects the Council's overall procurement capability in terms of the quality of evidence provided for the PCA. A substantial investment by all Resources was made for this year's PCA and consideration of the costs and benefits should be given to repeating the exercise in future years.
- 5.4. Assurance over governance risks:
- ◆ I686339 Information Governance
The audit obtained evidence of adherence by Social Work Resources to the Council's Freedom of Information procedures, with an adequate level of assurance that controls are effective within all 'Third Party' arrangements. Findings suggest that a more proactive approach is required to safeguard and ensure information relating to service users, which is shared with third party organisations, continues to be held securely and in accordance with the Data Protection Act 1998. Delivery of actions will justify the reliance placed on contractual terms and indemnities within contracts in the future.
 - ◆ I686338 Governance Assurance
Good level of assurance that arrangements are in place to progress governance and improvement actions and to prepare the Council's annual Governance Statement. The introduction of a comprehensive audit file to support consideration of the sixteen areas within the framework is a positive improvement since last year. This could be further strengthened by some additional, minor, improvements. Although there are some exceptions, good progress has been made with regards to the majority of governance improvement actions. There are still some inconsistencies in the interpretation of 'scores', but this does not materially impact on the overall Governance Statement.
- 5.5. Forum members are asked to note findings.

6. Amendment to the 2012/13 Audit Plan

- 6.1. In September 2012, the Forum sought verbal assurances following the presentation of findings from a 2011/2012 planned audit assignment, I216208 Review of Roads Costing System. A verbal update was provided at the meeting of the Forum in November 2012 with a commitment to bring forward formal programmed follow-up work from 2013/2014 to 2012/2013.
- 6.2. A further audit assignment had also been included in the 2012/2013 Audit Plan to extend the remit of the original audit to include a review of the interface between i-procurement and the roads costing system, building upon the work of the audit that had been reported to the Forum in September 2012. Recent discussions with the Resource as part of the 2013/2014 audit planning process has established that this interface is not, as yet, operational and that work in this area should be deferred to a later year.
- 6.3. This deferral releases thirty planned audit days in 2012/2013 that had been allocated to review the interface between i-procurement and the roads costing system. The follow-up work requested by the Forum can now be undertaken in greater detail (10 days). Additional time has also been requested by the Resource to review procedures within one of their depots and it is proposed that the balance of available time from the deferred assignment (20 days) should be used for this purpose.
- 6.4. This proposed reallocation of time within the 2012/2013 Audit Plan ensures coverage of original planned areas of work whilst assisting in the mitigation of risks that have been identified by a client.
- 6.5. Forum members are asked to endorse the amendment to the 2012/2013 Audit Plan.

7. Employee Implications

- 7.1. There are no employee issues.

8. Financial Implications

- 8.1. At the end of accounting period 9 (23 November 2012), the Internal Audit Section was underspent by £23,200 due, in the main, to savings in employee costs.

9. Other Implications

- 9.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.
- 9.2. There are no implications for sustainability in terms of the information contained in this report.

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. There is no requirement to equality assess the contents of this report. Heads of Service are consulted on each and every audit assignment.

Paul Manning

Executive Director (Finance and Corporate Resources)

9 January 2013

Link(s) to Council Objectives/Values

- ♦ Objective – Governance and Risk Management

Previous References

- ♦ Progress report to RASF September 2012
- ♦ Progress report to RASF November 2012

List of Background Papers

- ♦ Figtree extracts of Action Plans

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Key audit performance indicators as at 30 November 2012
Appendix One

| Indicator | Numbers | Percentage | Target | Comment |
|---|---------------------------|--------------------------|-----------------|--|
| Assignments delivered within budget | 62/87 | 71% | 80% | A further 6 jobs were over budget in the period 1 October to 30 November 2012 (19 previously reported as over budget at 30 September 2012). Four related to the conclusion of more complex 2011/2012 assignments. One where the investigation had taken longer than originally anticipated and one, to an assignment where the scope of work was extended. |
| Draft reports delivered within 21 days of fieldwork completion | 72/80 | 90% | 80% | |
| 2012/13 Audit Plan completed to draft by 30 April 2013 | 60/108 (as at 16.1.13) | 55.6% (as at 16.1.13) | 100% by 30.4.13 | A further 32 additional jobs, not included in the 2012/13 Audit Plan, have also been delivered in the period to 16 January 2013. (46% of the 2011/12 Audit Plan had been delivered by 16 January 2012) |
| Audit recommendations delivered on time (as at 31 July 2012) | 131/150 | 87% | 85% | |
| Time taken for clients to agree findings and actions (Target 7 weeks) | 58/71 | 82% | 80% | |

List of assignments completed 13 October 2012 – 16 January 2013 Appendix Two

| Job no. | Assignment name | Draft Issue | Final Issue | Assurance Info |
|----------------|--|-------------|-------------|--|
| 2011/12 | | | | |
| I250210 | Leasing Contracts | 27/04/2012 | 22/10/2012 | Good controls in place to ensure that the leasing decisions represent value for money. |
| I255201 | Early Year Providers Payments | 08/02/2012 | 31/10/2012 | Adequate controls in place to ensure payments are in line with service provision. Improvements required in relation to attendance monitoring within nurseries and follow-up of census returns. |
| I342723 | Teacher Absence/Cover Leave Arrangements | 19/01/2012 | 31/10/2012 | Good controls over teacher absence and leave cover. Some improvements recommended in relation to organisation and referencing of documentation. |
| I685320 | Annual Resource Reports | 08/11/2012 | 08/11/2012 | Annual reports to Resources used to inform 2013/14 audit planning process. |
| I211216 | Accounts Payable | 30/04/2012 | 23/11/2012 | See main report 5.2 |

| Job no. | Assignment name | Draft Issue | Final Issue | Assurance Info |
|----------------|---|-------------|-------------|--|
| 2012/13 | | | | |
| I677356 | Issue of Building Warrant | 25/10/2012 | 25/10/2012 | Checks established isolated incident in relation to an externally forged document. Additional checks now in place within Resource. |
| I232236 | Benefits Overpayment Recovery | 28/08/2012 | 29/10/2012 | Good controls in place over the process. The level of overpayment debt is increasing with the collection rate currently 20% of the overall debt. Service is managing this within constraints, focus should remain on minimising processing errors, identifying overpayments timeously and communication with claimants |
| I612351 | SFR Data Mining | 30/10/2012 | 30/10/2012 | Reported to SFR |
| I310788 | Follow-Up Access Checks Debtors | 10/09/2012 | 30/10/2012 | Audit opinion deferred until additional information provided in relation to one outstanding action in last quarter of 2012/13 financial year. |
| I342755 | Carbon Reduction Commitment Certificate | 12/10/2012 | 31/10/2012 | Good controls in place to monitor, report and make payments to the CRC Energy Efficiency Scheme |
| I252237 | RM Contract Performance | 26/10/2012 | 01/11/2012 | Adequate assurance that service is complying with the terms of the contract. |
| I216238 | Service Costing | 05/10/2012 | 12/11/2012 | Model devised for Service to use with further data to be collected in 2013/14. |
| I679362 | Working Tax Credit | 12/11/2012 | 12/11/2012 | Employee potentially claiming working tax credit in error. Data passed to HMRC and Personnel reviewing to establish if further action required. |
| I675358 | Stolen Laptop | 31/10/2012 | 19/11/2012 | Loss of laptop reported to Police and checks confirmed data was |

| Job no. | Assignment name | Draft Issue | Final Issue | Assurance Info |
|---------|--|-------------|-------------|---|
| | | | | encrypted. Refreshed guidance being prepared by Internal Audit for issue. |
| I341751 | Wintime Flexible Working | 12/09/2012 | 20/11/2012 | Adequate controls in place although many of key controls lie with local management. |
| I310765 | Follow-Up Education Network | 19/11/2012 | 21/11/2012 | 4/4 actions implemented |
| I342803 | Licensing Income Procedures | 22/11/2012 | 22/11/2012 | 1/1 action implemented |
| I310778 | Follow-Up Cash Income - Spot Checks | 22/11/2012 | 22/11/2012 | 3 actions with 1 high priority action followed-up. 1/1 action implemented. |
| I310775 | Follow-Up Council Tax Discounts and Exemptions | 22/11/2012 | 22/11/2012 | 4/4 actions implemented |
| I672363 | Facility Procedural Breach | 26/11/2012 | 26/11/2012 | Employees identified as breaching procedures within facility and disciplinary procedures instigated. |
| I680334 | PCA Assessment | 13/11/2012 | 26/11/2012 | See 5.3 |
| I342802 | Follow-Up Income Procedures | 29/11/2012 | 29/11/2012 | All of original recommendations implemented and risks mitigated. |
| I674357 | Stolen Vehicle | 03/12/2012 | 03/12/2012 | Vehicle stolen from depot. Subsequent thefts while investigation was ongoing. See I674354 below for findings. |
| I341752 | Top Risks Control Tests – Community and Enterprise Resources | 27/09/2012 | 05/12/2012 | Good controls in place to manage risks in relation to adverse weather. Some improvements required in relation to inspections and updating of administrative systems |
| I686339 | Information Governance | 30/10/2012 | 12/12/2012 | See main report 5.4 |
| I310790 | Follow-Up External Funding | 11/11/2012 | 12/12/2012 | 5/6 recommendations implemented. Final recommendation to be implemented by 31 March 2013 to record all External Funding applications, successful bids and funding received. |
| I674355 | SLLC Missing Money | 13/12/2012 | 13/12/2012 | Reported to SLLC |
| I678365 | Employee conduct | 13/12/2012 | 13/12/2012 | Claims over inappropriate conduct not substantiated after investigation |
| I610350 | SFR Anti Fraud Training | 14/12/2012 | 14/12/2012 | Reported to SFR |
| I674354 | Stolen Vehicles | 11/12/2012 | 17/12/2012 | Disciplinary procedures have been instigated and Police have been notified. |
| I232252 | Benefits Appeals | 12/11/2012 | 17/12/2012 | Adequate controls in place with good improvements to the process in recent years. Some improvements required to ensure that audit trail is clear, complete and provides full evidence of compliance with regulations. |
| I310777 | Follow-Up Taxi Contract VAT and Invoicing | 20/12/2012 | 20/12/2012 | 3/5 actions implemented. Remaining 2 actions not implemented due to restructuring of Procurement Service. Both actions now to be delivered by 31 March 2013 and will be followed-up during 2013/14. |
| I677359 | Contractor Over-charge | 21/12/2012 | 21/12/2012 | Some elements of complaint were substantiated on investigation. However were already known to the Resource and have been resolved. |
| I676360 | Voluntary Organisation Theft | 21/12/2012 | 21/12/2012 | Theft of monies within voluntary organisation. A review of SLC |

| Job no. | Assignment name | Draft Issue | Final Issue | Assurance Info |
|---------|---|-------------|-------------|--|
| | | | | procedures confirmed that processes to verify grant claims were adequate with only one further check recommended to verify cheque payee. |
| I210938 | SLLC CCM | 30/10/2012 | 04/01/2013 | Reported to SLLC |
| I686338 | Governance Assurance | 16/11/2012 | 09/01/2013 | See main report 5.4 |
| I310769 | Follow-Up Accounts Payable | 16/01/2013 | 16/01/2013 | Actions not due to be fully implemented until September 2013 – follow-up work deferred until 2013/14 |
| I310783 | Follow-Up Telecoms | 16/01/2013 | 16/01/2013 | Follow-up work to be incorporated within assignment I252256 and reported at later date |
| I542040 | Interface between roads costing and i-procurement | 16/01/2013 | 16/01/2013 | Proposal to replace with formal follow-up of original action plan and investigative work instructed by Resource. See Section 6. |