


Crawley Borough Council

	Report No: FIN/302	
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Report to Audit and Governance Committee

25th June 2013

Internal Audit Progress Report as at 31st May 2013

Incorporating the Audit and Risk Manager's Annual Report for 2012/2013

1. Key Points

- 1.1 The purpose of this report is primarily to update the Committee on progress towards the completion of :-
- 2012/13 and 2013/14 Internal Audit Plans; and
 - to report on the progress made in implementing previous recommendations.

This report also incorporates the Internal Audit Annual Report 2012/2013 at Appendix B.

2. Recommendation

- 2.1 The Committee is asked to receive the report and to note progress to date.

Gillian Edwards
Audit and Risk Manager

3. Background

Work Completed

- 3.1 Since the last progress report, as at 13th March 2013 the following reviews have been **completed**:

Audit Title	Audit Opinion
IT Project and Programme Management	Full Assurance
Play Service	Limited Assurance
Ernst and Young Testing: <ul style="list-style-type: none">• Council Tax• NNDR• Accounts Receivable	To be passed to Ernst and Young by end of June 2013
Treasury Management for Horsham DC	N/A
Mower Query – Metcalf Way	Limited Assurance

Work in Progress

- 3.2 The reviews in progress and other work that we have undertaken in the period are shown at Appendix A.

3.3 High priority findings in this period

3.3.1 **Play Service Audit 2012/13**

This audit was undertaken as part of the programmed work for 2012/13 and was scheduled to be started just after the theft from the Play Service was notified to the Audit and Risk Section. We therefore concentrated on investigating the theft and ensuring that interim controls were put in place to prevent further losses in the first instance, and more recently have worked with the Play Service to strengthen the control environment.

- 3.3.2 During the course of the review, we identified four high priority findings. These related to the absence of risk assessments for cash handling and transportation of cash to the Town Hall for banking, the absence of rated safes at the Play Care sites and the absence of an effective reconciliation to confirm that all income has been properly accounted for and banked.
- 3.3.3 We also found that tuck shop at the Millpond site had made a substantial loss of approximately £1,232. The Play Service Manager considers that this may be due to theft of stock or cash and is working with Finance to obtain meaningful management information on this in order to monitor it in the future and take action as required.
- 3.3.4 The Play Service Manager has met with the Audit and Risk Manager on a number of occasions to agree the recommendations made and to seek practical ways in which to implement them.

- 3.3.5 We will undertake a follow up review to ensure that the recommendations are being implemented as agreed and will report back to the September meeting of this committee.

Freedom of Information (FOI) Requests

In July 2012, the Audit and Risk Section assumed responsibility for the administration of FOI requests. Our responsibilities cover logging the requests, confirming our receipt with the requester, sending them to the relevant member of staff for their response to the request, monitoring the timescales for dealing with the request, ensuring that the provisions of the FOI Act 2000 and the Data Protection Act 1998 are complied with, and responding to the requester within the 20 working day deadline.

Between 1st March 2013 and 31st May 2013, we have processed 152 new requests and of these, 2 responses were sent to the requester outside of the 20 working day deadline, due to annual leave, complexity of requests and awaiting the outcome of a relevant tribunal. We wrote to the requester in all cases to apologise for the delay and provided the information as quickly as possible.

4. Internal Audit Plan

- 4.1 A commitment was given at the last meeting of this committee that the Audit and Risk Manager would bring forward the audit programme for the quarter 1st July to 30th September 2013. However, before the plan can be drawn up, it is necessary to discuss with Heads of Service the audits that were scheduled for quarter 1 and re-prioritise. The reasons that the audits have not been completed are as follows:

- The Auditor was seconded onto the Payments Systems Thinking Intervention for 9 weeks which has resulted in a loss to the Audit and Risk Section of 45 working days of her time. This has impacted on the plan meaning that audits that were scheduled have not been started;
- We have spent some time working on the Purpose and Measures exercise;
- The work that Ernst and Young have asked us to undertake on their behalf is significantly greater than was anticipated or required by the Audit Commission in previous years. One of the Senior Auditors has been working on this and nothing else except FOI requests and the Waste and Recycling tender.

5. Unplanned Work

- 5.1 There was no unplanned work during the period under review.

6. Ward Members' Views

- 6.1 Internal Audit Coverage does not impact directly on any specific ward.

7. Staffing, Financial and Legal Implications/Powers

None.

8. Risk Implications

8.1 Identified in individual audits.

9. Environmental Impacts

9.1 None.

10. Links to the Sustainable Community Strategy and Corporate Plan

The proposals contained in this report relate to the following key areas of the Sustainable Community Strategy

Community Cohesion	y	Community Safety	y
Young People and Children	y	Health and Well Being	y
Older People	y	The Environment	y
The Local Economy	y	Social Inclusion	y

The following key principles are applicable:-

(i)	Working together	y
(ii)	Dignity, respect and opportunities for all	y
(iii)	Involving People	y
(iv)	Making it last	y

The report relates to the following areas in which the Council operates to enhance the town and the quality of life of local people:-

(i)	Prosperity	y
(ii)	Community	y
(iii)	Environment	y
(iv)	Value for Money	y

12. Reasons for the Recommendation

To enable Members of the Audit and Governance Committee to review the effectiveness of the internal control framework, in line with their responsibilities under the Constitution.

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Appendix A

Internal Audit Plan 2013/14

Progress Report as at 31st May 2013

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
IT Project and Programme Management	2012/13	Full		
Play Service	2012/13	Limited	4	
Treasury Management – HDC	2012/13	N/A		
Ernst & Young Testing: <ul style="list-style-type: none"> • Council Tax • NNDR • Accounts Receivable 	2012/13	N/A		To be passed to Ernst and Young by end of June 2013
Treasury Management Horsham DC	2012/13	N/A		
Mower Query – Metcalf Way	2012/13	Limited	2	
B. Work In Progress				
NFI Data Matching 2012/13	2012/13			
FOI Requests – day to day work	2012/13			
Ernst and Young Year End Testing <ul style="list-style-type: none"> • Payroll • Housing Benefit • Accounts Payable • Housing Rents • Cash and Bank • Treasury Management 	2012/13			
Waste and Recycling	2012/13			The Audit and Risk Section are involved in ensuring that the tender exercise is being conducted in an impartial manner.
Tilgate Park Management Project Follow Up	2012/13			Ongoing
Other Work				
Investigations: CI1213.10				Ongoing
Management of Confidential Information	2012/13			Ongoing
Risk Management Training	2012/13			Training provided on 15 th and 16 th May 2013
Audit Commission Fraud Survey	2013/14			Completed May 2013
Purpose and Measures and Polarities	2013/14			Ongoing
C. Follow Up Audits				
Community Centres	2011/12			On hold due to Systems Thinking Intervention

CRAWLEY BOROUGH COUNCIL

INTERNAL AUDIT ANNUAL REPORT 2012/2013

1. Introduction and Background

Internal Audit is a key part of the Council's internal control and wider governance environment. Central to its role is assessing the adequacy and effectiveness of the systems and controls that have been put in place by management. To this end the work undertaken is designed to:

- Inform the members and senior management to what extent they can rely on the internal controls;
- To make recommendations to enhance controls where weaknesses are identified; and
- Advise individual managers on the reliability of the systems and associated controls for which they are responsible. The internal control environment comprises the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and other controls and also arrangements for ensuring that the Council is achieving value for money from its activities.

Specific requirements for Internal Audit

The requirement for an Internal Audit function in local government is detailed in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in that an authority must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices". The guidance accompanying the legislation states that proper internal audit practices are those contained within the CIPFA Code of Practice for Internal Audit in Local Government 2003 which has been superseded by the 2006 Code of Practice.

The Code defines the way in which the internal audit service should be established and undertake its functions and applies equally to internal audit services which are provided by in-house audit teams and by external contractors who provide either partial services in support of an in-house team or the whole internal audit service.

The Code consists of 11 standards and the Audit and Risk Manager undertook an assessment to ascertain the section's compliance with the standards in March 2012. The Audit and Risk Section is substantially compliant with the Code and no further action is required in this regard.

Annual Governance Statement

A number of initiatives over recent years have raised Risk Management to the top of the Corporate Governance agenda and this remains the case. The principles of the Turnbull report are now being applied to the public sector and in recent years, the Council has been required to publish a Statement of Internal Control (SIC) alongside its annual accounts.

However the SIC was withdrawn four years ago and was replaced by the requirement to produce an Annual Governance Statement, in line with the Framework – Delivering Good Governance in Local Government, issued by CIPFA/SOLACE in 2007. This was reviewed in the Autumn of 2012 by CIPFA/SOLACE and they confirmed that it remains ‘fit for purpose’. The Council is therefore working to this framework.

The Framework defines the principles that should underpin the governance of each local government body. It provides a structure to help individual authorities with their own approach to governance and whatever form of executive arrangements are in place, authorities are advised to test their structure against the six core principles contained in the Framework.

This report

This annual report has been produced in accordance with the requirements of the Code of Practice. It covers the effectiveness of internal control for the period 1st April 2012 to 31st March 2013.

Whilst the report contributes towards the process outlined above, it should be noted that the system of internal control can provide only reasonable assurance that, for example, assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

It should be noted that it is not Internal Audit’s responsibility to operate the system of internal control; that is the responsibility of management. Furthermore, it is management’s responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept any risks arising from not taking action.

2. Internal Audit activity during 2012/2013

Significant events during the year

- 2.1 Significant events and circumstances during the year are shown in the Annual Governance Statement 2012/2013, which forms part of the Annual Statement of Accounts.

Factors affecting the extent of our internal audit work

- 2.2 There were no factors which affected the extent of our internal audit work during the year.

The Audit Plan

- 2.3 Every three years, the Audit and Risk Manager produces a Strategic Audit Plan, which was presented to the Audit and Governance Committee on 16th March 2011. This covers the period 1st April 2011 – 31st March 2013.
- 2.4 Additionally, on an annual basis, the Audit and Risk Manager produces a one year Operational Audit Plan (taken from the Strategic Audit Plan) for consideration and approval by the Corporate Management Team and subsequently the Audit and Governance Committee. The annual plan for 2012/2013 was approved by the Audit and Governance Committee on 14th March 2012.

Main Issues Arising

- 2.5 All of the work of the Audit and Risk section was reported to the Audit and Governance Committee at regular intervals.

The role and work of the Audit and Governance Committee during the year

- 2.6 During 2012/2013 the Audit and Governance Committee had 5 members, including one member of the Cabinet. Its function was and is to serve as the Audit Committee for the purposes of the CIPFA Code of Practice for Internal Audit in Local Government 2006.
- 2.7 The Audit and Governance Committee meets approximately every quarter, with the option to call meetings more frequently if required. The main body of its work involves acceptance of the annual audit plan, monitoring the implementation of high priority findings and acceptance of Internal Audit's Annual Report.

3. Assurance

Preamble

- 3.1 Internal Audit is required by the CIPFA Code of Practice 2006 to provide the Council with assurance on the whole system of internal control. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given we have taken into account:
- (a) the findings arising from audits undertaken during 2012/2013 and in previous years;
 - (b) the results of management action taken in respect of recommendations made in audits from the current and previous years;
 - (c) whether or not any high or medium priority recommendations have not been accepted by management, and the consequent risks;
 - (d) the effects of any material changes in the Council's objectives or systems;
 - (e) matters arising from previous reports of the external auditor;
 - (f) whether or not any limitations have been placed on the scope of internal audit;
 - (g) whether or not there have been any resource constraints that may impinge on the head of internal audit's ability to meet the full audit needs of the Council; and
 - (h) what proportion of the audit needs has been covered to date.
- 3.2 The matters raised in this report are only those which came to our attention during our internal audit work during the course of the year and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all improvements that may be required.

Overall assurance

- 3.3 In our opinion, for the 12 month period to 31st March 2013 the Council had an adequate, effective and reliable framework of internal control which provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.
- 3.4 Internal Audit has made a number of recommendations classed as high priority during 2012/2013 and these have been reported to both CMT and the Audit and Governance Committee throughout the year.
- 3.5 We have also reported on progress towards the implementation of recommendations classified as high.

Operational assurance

- 3.6 The internal audit service examined systems operating to achieve the Council's objectives in several areas.
- 3.7 During the conduct of our audit work we have had regard to the following objectives of internal audit:
- (a) to review and appraise the soundness, adequacy and application of the whole system of internal control;
 - (b) to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
 - (c) to ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses of all kinds;
 - (d) to ascertain that information is reliable as a basis for the production of financial, statistical and other returns;
 - (e) to ascertain the integrity and reliability of information provided to management including that used in decision making; and
 - (f) to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.
- 3.8 The level of assurance given by an individual audit is directly related to the significance of the findings and categories given to the resultant recommendations. The findings and recommendations ranked as high were reported in detail to the Audit and Governance Committee.
- 3.9 A summary of the reviews completed during 2012/2013 and recommendations made were presented to the Audit and Governance Committee at every meeting held in that year.

Summary of Internal Audit Coverage 2012/2013

Audit Area	Budget/ days	Overall Opinion	Number of recommendations by Priority			Findings reported to Audit & Governance	Comments
			High	Medium	Low		
Audit Commission Year End Testing 2011/12: <ul style="list-style-type: none"> • Cash and Bank • Estatemanager • General Ledger • Housing Rents • Treasury Management • Payroll 	15	N/A				27.6.12	Reported by Audit Commission separately
The Hawth Tender - transition	5	Full Assurance				27.6.12	
Budgetary Control	10	Full Assurance				27.6.12	
Review of Rent Deposit Scheme Write Offs	5	Limited Assurance	4	2		27.6.12	
Council Tax	15	Full Assurance				27.6.12	
NNDR	8	Full Assurance				27.6.12	
ICT Service and Continuity Management	7	No Assurance	5			27.6.12	

Audit Area	Budget/ days	Overall Opinion	Number of recommendations by Priority			Findings reported to Audit & Governance	Comments
			High	Medium	Low		
Management of Confidential Information	3	N/A				27.6.12	The Audit and Risk Manager is a member of the Steering Group
CIPFA Benchmarking	1	N/A				27.6.12	Outcome reported to S151 Officer
Audit Commission Fraud and Corruption Survey	1	N/A				27.6.12	Annual Survey
Section 106 Agreements	8	Full Assurance				26.9.12	
Sundry Debtors	8	Substantial Assurance		3	1	26.9.12	
Creditors	10	Limited Assurance	3			26.9.12	
Freedom of Information	8	Full Assurance				26.9.12	
Gas Servicing	10	Full Assurance				26.9.12	
Bewbush Final Account	5	Full Assurance		1		26.9.12	
Langley Green Final Account	5	Full Assurance				26.9.12	
Investigation CI1213.06	10	N/A				26.9.12	Verbal update provided to the Audit and Governance Committee
IT FMS Computer Audit		Substantial Assurance	6	2		11.12.12	

Audit Area	Budget/ days	Overall Opinion	Number of recommendations by Priority			Findings reported to Audit & Governance	Comments
			High	Medium	Low		
Tilgate Park Management Project Tender Exercise	5	Full Assurance				11.12.12	
Tilgate Park Management Project Transitional Arrangements	5	Limited Assurance	5	1		11.12.12	
Worth Park Restoration Project	8	Limited Assurance	2			11.12.12	
Cyclical and Planned Works	15	Full Assurance	1			13.3.13	
CIS DWP Compliance	5	Full Assurance				13.3.13	
Civil Parking Scheme	5	Full Assurance				13.3.13	
NFI	10	N/A				25.6.13	
IT Project and Programme Management	10	Full Assurance				25.6.13	
Play Service	8	Limited Assurance	4	6		25.6.13	
Investigations	40	N/A				As they arose	
Waste and Recycling	8	N/A					The Audit and Risk Section are involved in ensuring that the tender exercise is being conducted in an impartial manner.

Audit Area	Budget/ days	Overall Opinion	Number of recommendations by Priority			Findings reported to Audit & Governance	Comments
			High	Medium	Low		
Query of Commercial Vehicle	3	N/A		2		25.6.13	
FOI Requests	100	N/A				N/A	
Cartel Training	3	N/A				N/A	
Community Centres follow up	8					25.6.13	On hold at present due to systems thinking intervention in Community Services.
Treasury Management – Horsham DC	8	N/A				N/A	This was part of the shared working arrangement with Horsham DC. We receive the services of their Computer Auditor in exchange for work undertaken by our Senior Auditor.
Tilgate Park Management Project follow up	3	N/A					This audit has not yet been concluded. Findings will be reported to the September meeting of the Audit and Governance Committee.
Investigation CI1213.10	3	N/A					This investigation has not yet been concluded. Findings will be reported to the September meeting of the Audit and Governance Committee.

Audit Area	Budget/ days	Overall Opinion	Number of recommendations by Priority			Findings reported to Audit & Governance	Comments
			High	Medium	Low		
Investigation CI1112.07	10	N/A					The defendant in this case was sentenced at Crawley Magistrates Court on 8 th May 2013 to 18 weeks imprisonment.