

Report to the Audit and Governance Committee

25th June 2014

Internal Audit Progress Report as at 31st May 2014 Incorporating the Audit and Risk Manager's Annual Report for 2013/2014

Report of the Audit and Risk Manager – FIN 336

1. Purpose

- 1.1 The Committee has a responsibility to review the Internal Audit Progress report to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit. In addition, to fulfil its functions, the Committee receives the annual report from the Audit and Risk Manager.

2. Recommendations

- 2.1 The Committee is requested to receive these reports and note progress to date.

3. Reasons for the Recommendations

- 3.1 The Committee has a responsibility to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit.

4. Background

Work Completed

- 4.1 Since the last report, as at 14th February 2014 the following reviews have been completed:

Audit Title	Audit Opinion
Housing Benefits	Full Assurance
Treasury Management	Full Assurance
Creditors	Substantial Assurance
Housing Rents	Full Assurance
Procurement	Substantial Assurance
Payroll	Substantial Assurance
FMS	Substantial Assurance
Budgetary Control	Full Assurance
IT Data Management	Limited Assurance
Cash and Bank	Full Assurance

Work in Progress

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

4.3 High priority findings in this period

Data Management

This review looked at how data is held at the Council, to ensure compliance with the Data Protection Act 2000 and to meet business requirements.

We found that there was a large volume of obsolete data on the network, both work related and private and some sensitive, personal data that was accessible to the whole of the Council.

Action has been agreed with the Head of People and Technology to review the use of shared drives and the data held on them with a view to information that is no longer required being deleted and data that should be confidential being moved into a secure area on the network. We will report the outcome of this review at the September meeting of this committee.

Creditors

During our review of the Creditors system, we identified a duplicated payment that had not been identified by Finance or the section for whom the invoice was paid. This was in the sum of £16,836.97 and was caused by a supplier, whose name changed, having two codes allocated to it. It can be confirmed that the duplicate sum has been recovered.

At the time of this review, an effective process for identifying duplicate payments was not in place. Since the audit, work has been done with the FMS team to strengthen controls in this area and the Interim Head of Finance has confirmed that Meridian have come back to the Council to undertake duplicate invoice testing. If no duplicates are found this service is free. Otherwise, a percentage of the duplicate value is paid to Meridian.

We will review this area again shortly and 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 15th February 2014 and 31st May 2013, we have processed 287 requests and of these, 12 responses were sent to the requester outside of the 20 working day deadline. This was due to annual leave and the complexity of the requests. We wrote to the requester in all cases to apologise for the delay and provided the information as quickly as possible.

5. Annual Report

It is a requirement of the Public Sector Internal Audit Standards, which apply to UK local authorities, for the Audit and Risk Manager to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This report is contained at Appendix B to this report.

6. **Background Papers**

6.1 None.

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ENDS

Internal Audit Plans 2013/14 and 2014/15

Progress Report as at 31st May 2014

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Housing Benefits	2013/14	Full		
Treasury Management	2013/14	Full		
Creditors	2013/14	Substantial	1	
Housing Rents	2013/14	Full		
Procurement	2013/14	Substantial		
Payroll	2013/14	Substantial		
FMS	2013/14	Full		
Budgetary Control	2013/14	Full		
IT Data Management	2013/14	Limited	2	
Cash and Bank	2013/14	Full		
B. Work In Progress				
NFI Data Matching 2013/14	2013/14			
FOI Requests – day to day work	2013/14			
Responsive Repairs	2013/14			
Corporate Governance	2013/14			
Risk Management	2014/15			
Shared Audit Arrangement Mid Sussex DC	2014/15			
Disabled Facility Grants	2014/15			
Other Work				
Maidenbower Pavilion	2014/15			Presented at this meeting
Advice on new Parking Arrangements	2014/15			Complete
C. Follow Up Audits				
Rent Deposit Scheme	2014/15			Progress is being made towards the implementation of new actions agreed with Heads of Service. We will undertake work to confirm that the measures are effective and bring our conclusions back to this Committee in September 2014.

AUDIT AND RISK MANAGER'S ANNUAL REPORT 2013/2014

1. Purpose

- 1.2 This report has been prepared to:
- 1.3 Summarise the work undertaken by Internal Audit during 2012/13 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.
- 1.4 Summarise the effectiveness of audit work.
- 1.5 Provide a statement on conformance with the Public Sector Internal Audit Standards.

2. Recommendations

- 2.1 The Committee is requested to receive this report and note progress to date.

3. Reasons for the Recommendations

- 3.1 To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013.
- 3.2 The Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

4. Background

- 4.1 The main purposes of the report are to:
- 4.2 Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- 4.3 Comment on the performance of the Internal Audit Section during the year.
- 4.4 Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance improvement programme.

It should be emphasised that internal audit work can provide reasonable, not absolute, assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based solely on the audit work undertaken.

4.5 Quarterly Reports

The Audit and Governance Committee receives quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

4.6 Annual Audit Plan

The Audit and Risk Section works to a one year annual audit plan, prepared by the Audit and Risk Manager and aims to review the Council's major areas of operation and systems over a three year rolling cycle. The annual plan was developed using a risk based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or which are considered to be high risk, are reviewed on an annual basis.

4.7 Staffing

During 2013/14, the internal audit section operated with 3 full time members of staff as opposed to the usual 4 between 1st April 2013 and 30th November 2013. This was due to the Auditor being seconded to a Payments Intervention project. A temporary auditor was engaged and worked in the section from December 2013 to March 2014. The reduction in staff resulted in the annual audit plan being revised, with some audits being carried forward into the 2014/2015 audit plan, and some being re-risked and removed all together. All auditors have the requisite experience to effectively fulfil their responsibilities; the Audit and Risk Manager is a Member of the Certified Institute of Internal Auditors, one Senior Auditor has passed the CISA computer audit exams and the other Senior Auditor is a Certified Fraud Examiner. The temporary auditor has many years experience in internal auditing both in local government and other public sector and private sector organisations.

5. Statutory and Policy Background

- 5.1 The Accounts and Audit (England) Regulations 2011 state that "a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." This responsibility is discharged through the Council's Internal Audit Section.

6. Relevant Government Policy / Professional Standards

- 6.1 Internal Audit follows the new Public Sector Internal Audit Standards (PSIAS) which came into force on 1st April 2013.

7. Relevant Council Policy

- 7.1 Section 1.12 of the Council's Constitution supports the statutory requirements outlined above at section and states 'The Head of Finance, Revenues and Benefits is responsible for the proper administration of the financial affairs of the Council and provision of an adequate internal audit function. The Audit and Risk Manager reports on a quarterly basis the results of internal audit work, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

8. Compliance with the Public Sector Internal Audit Standards

- 8.1 The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1st April 2013.

- 8.2 These new standards require the Audit and Risk Manager to undertake an annual self assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report.
- 8.3 Under the Transformation Programme, it has been agreed that only those policies and procedures that are required by statute should be in place. It was therefore agreed by CMT that an Audit Charter for the Internal Audit section should not be drawn up. This was discussed with the external auditor, Ernst and Young and they confirmed that as long as there is a commitment to adherence to the PSIAS, such a Charter was not necessary. I have therefore measured the internal audit service against the Standards and recognise that there is some work to be undertaken to ensure compliance namely formalising internal audit procedures. This process has been ongoing during the year under review, in line with the Purpose and Measures exercise and will be completed later in the financial year, once the shared audit service arrangement with Mid Sussex District Council has been operational for a sufficient length of time.
- 8.4 It is also a requirement of the PSIAS that an external assessment has been carried out, or is planned to be carried out, at least once every 5 years. The Sussex Audit Group, of which Crawley Borough Council is a member, is developing a peer review approach which it is anticipated could be used across county boundaries to ensure independence and keep the review costs to a minimum. If and when the review is required, we will work together to facilitate this review.
- 8.5 The Internal Audit Team has maintained its independence throughout 2013/14 in accordance with the PSIAS.

9 Effectiveness of Internal Audit

9.1 Progress against Annual Audit Plan

The annual audit plan is always flexible, allowing for audits or other pieces of work to be undertaken which are not in the plan if they are deemed to be of a higher risk than those contained in the plan. In addition, there are always a small number of days allocated to contingency for unexpected work to be completed.

During the year, the majority of audits were completed, although 4 were carried forward into the new financial year (and have now also been completed).

9.2 Implementation of Agreed Actions

The Audit and Risk Section reports all high priority findings or all findings if an audit has received a rating of limited or no assurance, to the Audit and Governance Committee on a quarterly basis. Implementation of agreed actions is then confirmed and reported back to that Committee.

9.3 Reporting

Draft audit reports and working papers are subject to a quality review undertaken by the Audit and Risk Manager before the final report is issued. During the period under review, a new process was introduced whereby the auditor meets face to face with the 'auditee' at the end of the audit fieldwork to discuss findings arising and to devise agreed actions. This is considered to be a more collaborative approach and makes the end to end process of the audit quicker.

In addition, if there is nothing to report, or just a minor or advisory finding has been identified, this is reported via a memo rather than a full audit report. This also reduces the end to end time taken to complete an audit and reduces the time spent by the auditor on writing reports.

10. Opinion on the Control Environment

10.1 This section of the report draws attention to any issues the Audit and Risk Manager considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.

10.2 My overall opinion is that "**Substantial**" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year and project work. The number of outstanding agreed action items from audit follow ups has also been taken into account.

Assurance Areas:	
Governance	The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice. The Local Code of Corporate Governance was approved by the Audit and Governance Committee on 12 th March 2014.
Risk Management	<p>The Council's Risk Management Strategy was updated in 2012 and is due to be reviewed again before the September meeting of the Audit and Governance Committee.</p> <p>This Strategy is a move in the culture from being risk adverse to risk cautious. A risk adverse culture is one where there is a tendency to try and mitigate all risks. A risk cautious culture is one where account is taken of the significance of the risk, the costs of the mitigation and the potential missed benefits in deciding whether to mitigate risks.</p> <p>One consequence of these changes was the need for greater challenge as to the need for some controls. The second change in emphasis is away from completing forms (such as risk matrices) and towards ensuring that due consideration is given to risks and that they are managed. For instance, there will be an expectation that managers can articulate how they have considered risks rather than expecting it to be recorded in a prescribed format.</p>

	<p>In relation to significant risks it is expected that there would also be evidence of the consideration of risks. However, that often exists in the form of notes from one to ones or other meetings, reports, e-mails, etc. There is no need for that evidence to be duplicated through being recorded elsewhere.</p> <p>During the period under review, Internal Audit has focused its resources on areas considered to be of highest risk both in capital projects and operationally. Any findings have been reported to the Audit and Governance Committee and action taken to mitigate the risks identified.</p> <p>Work was ongoing at the year end to confirm that the new approach, as outlined above, is being operated satisfactorily and the outcome of this work will be reported to management and the Audit and Governance Committee in due course.</p>
Internal Control	<p>Internal controls are basically sound in most areas however we identified a number of significant weaknesses as shown below. The outcome of these audits were reported to the Audit and Governance Committee at the time of the audits and appropriate follow up action undertaken.</p> <p><u>Play Service</u></p> <p>Following a theft of cash from one of the Adventure Playgrounds, the Audit and Risk Section undertook a review of procedures in place for dealing with cash. We found that:</p> <ul style="list-style-type: none"> • A risk assessment in respect of cash handling and transportation had not been undertaken; • Cash taken which had not yet been banked was not held securely; • No effective checks were undertaken to confirm that all takings had been banked; • One of tuck shops suffered a loss on sales and no reconciliations had taken place to identify this and reasons; • Procedures held on the Council's intranet in respect of CRB checks were inconsistent and out of date. <p>Actions to strengthen the controls were agreed and these have been implemented over the course of the year.</p> <p><u>Tilgate Park</u></p> <p>Following a theft of cash from the Walled Garden Café, the Audit and Risk Section undertook a review of procedures in place for dealing with cash. We found that:</p> <ul style="list-style-type: none"> • The theft had been investigated internally and the Audit and Risk Section was only notified several weeks after the event. This is contrary to agreed procedures. Consequently, it was not possible to identify if the loss was error or theft. • Cash handling procedures had not been drawn up for staff; • A cash float was in place and the practice of using 'IOUs' had developed, making the control of cash complicated and not secure;

	Actions to strengthen the controls were agreed and these have been implemented over the course of the year.
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Summary of Work Undertaken in 2013/2014

INTERNAL AUDIT ASSURANCE OPINIONS				
AUDITS	FULL	SUBSTANTIAL	LIMITED	NO
Commercial Properties (including Rents)	✓			
Play Service			✓	
Tilgate Park – loss of cash			✓	
Council Tax	✓			
Council Tax Reduction Scheme	✓			
DWP CIS Compliance	✓			
Ernst and Young Testing – Accounts Receivable	✓			
Ernst and Young Testing – Council Tax	✓			
IT Project and Programme Management				
IT Risk Assessment				
Mower Query – Metcalf Way			✓	
Housing Benefits	✓			
Treasury Management	✓			
Creditors		✓		
Housing Rents	✓			
Procurement	✓			
NNDR	✓			
FMS	✓			
Budgetary Control	✓			
Payroll	✓			
Sundry Debtors	✓			
Cash and Bank	✓			