

**Meeting:           AUDIT COMMITTEE**

**Agenda Item:   6**

**Date:               15<sup>th</sup> June 2011**

## **INTERNAL AUDIT PROGRESS REPORT**

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### **1. PURPOSE**

1.1 The purpose of this report is for the Audit Committee to receive and consider progress against the 2011/12 Internal Audit Plan.

### **2. RECOMMENDATIONS**

2.1 The Internal Audit quarterly report as at 31<sup>st</sup> May 2011 be noted.

### **3. BACKGROUND**

3.1 The Audit Committee receive periodic progress updates against the Annual Internal Audit Plan, the most recent of which was brought to this Committee on 7<sup>th</sup> March 2011.

3.2 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that progress reports also includes proposed amendments to the agreed annual audit plan.

### **4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

#### Audit Plan Progress

4.1 As at 31 May 2011, 13% of the 2011/12 Audit Plan was delivered. Progress against the 2011/12 Internal Audit Plan is attached, see Appendix A. The following 2011/12 reports and assignments have been issued or completed in the period:

- Internal Audit input to the Annual Governance Statement

- Ad hoc advice was provided on five occasions, including advice on misplaced cash and an internal Housing Benefits applicant.
- Internal Audit used days from the contingency in order to preserve the continuation of services (eg Contract payments and National Fraud Initiative) until the transfer to other officers within Stevenage Borough Council. Contract payment probity checks were transferred to Accountancy on 4 May. From the 18 May Legal services have taken on the responsibility for the Ethics and Probity training course and the completion of the National Fraud Initiative. Internal Audit have supported the handover arrangements for the services that have been transferred.

4.2 The Internal Audit service was transferred to the Shared Internal Audit Service (SIAS) hosted by Hertfordshire County Council from the 1 June 2011.

4.3 The Audit Committee requested at its meeting on 13 December 2010 details of the actual time taken to deliver individual audit assignments. This detail has been provided in Appendix A.

#### High Priority Recommendations

4.4 It was agreed at a previous Audit Committee that Internal Audit progress update reports would include the high priority recommendations and their implementation status. Appendix B details six high priority recommendations that have been formally agreed with Council officers. Two recommendations have been partially implemented, two recommendations have been implemented (of which one is subject to verification of evidence), one recommendation has been closed and one is not yet due for implementation. Members will continue to be updated on a quarterly basis on the status of high priority recommendations.

4.5 It is Internal Audit's responsibility to bring to Members attention the non implementation of high priority recommendations. However, it is the responsibility of Officers to implement the recommendations by the agreed date. Members have the right to call the appropriate Officers to the Audit Committee meeting, if they have questions in relation to the non implementation of any high priority recommendations detailed in Appendix B.

#### Car Parks Audit

4.6 The Final Car Parks Internal Audit Report was issued on 17 March 2010 and was agreed with the responsible officers prior to finalising. Based on the audit findings, a Limited Assurance opinion was given to the system and procedures which underpin the Car Parks control processes. In total seven high priority recommendations, 42 medium priority and 23 low priority recommendations were made to improve the control environment and to minimise the risks to the non achievement of the service objectives.

4.7 The Audit Committee at its meeting on 14 June 2010 noted the Car Parks Internal Audit report and progress update. The Committee requested that progress updates to the Car Parks Internal Audit Report be reported to Members at future meetings, and a progress update report was presented to the Committee on 6 September 2010, 13 December 2010 and 7 March 2011.

4.8 Internal Audit has verified the evidence provided by management to support the progress being made to implement the recommendations in the Car Parks report. The table below summaries progress as at 31 May 2011.

Recommendation Priority	Implemented	Substantially Implemented	Partially Implemented	Not Implemented	Total
High	6*	0	1	0	7
Medium	37**	4	0	1	42
Low	21	2	0	0	23

\*For two recommendations the residual risk has been accepted by management and for one recommendation the evidence needs to be verified by internal audit.

\*\* For five medium priority recommendation the evidence needs to be verified by internal audit.

4.9 Over 97% of all recommendations have been fully or substantially implemented.

4.10 Appendix C details one recommendation that has been implemented subject to verification of the evidence by internal audit and another that has been partially implemented.

## 5. IMPLICATIONS

### 5.1 Financial Implications

5.1.1. This report is financial in nature and consequently financial implications are included in the body of the report.

### 5.2 Legal Implications

5.2.1. None identified at this time.

## 6. BACKGROUND DOCUMENTS

- None

## 7. APPENDICES

- Appendix A - Progress against the 2011-12 Audit Plan as at 31 May 2011
- Appendix B - High Priority Recommendations
- Appendix C - Car Parks High Priority Recommendations Progress Update as at 31 May 2011

**APPENDIX A      PROGRESS AGAINST THE 2011/12 AUDIT PLAN AS AT 31 MAY 2011**

**2011/12 Audit Plan**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			BUDGETED DAYS	DAYS DELIVERED AGAINST THE PLAN	ACTUAL DAYS TAKEN	STATUS/COMMENT
		H	M	L				
<b>Key Financial Systems – 117 days</b>								
2010-11 Year end controls testing					7	4	4	Fieldwork in progress
Housing Benefits					12			
Payroll					12			
Creditors					10			
Debtors					10			
Main Accounting System					10			
NNDR					12			
Council Tax					12			
Fixed Assets					12			
Cash and Payments					12			
Treasury Management					8			
<b>Operational Audits – 60 days</b>								
Working Together Programme Themed audits					18			
Scheme of Delegation					8			
Single Status					12			
Building Compliance Contract					12			
Voluntary Grants Aid Extended Follow Up					10	2	2	Planning in progress
<b>Risk Management and Governance – 19 days</b>								
Risk Management					8			
Corporate Governance					8			

APPENDIX A

PROGRESS AGAINST THE 2011/12 AUDIT PLAN AS AT 31 MAY 2011

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			BUDGETED DAYS	DAYS DELIVERED AGAINST THE PLAN	ACTUAL DAYS TAKEN	STATUS/COMMENT
		H	M	L				
Annual Governance Statement 2010/11					3	3	3	Audit input complete
<b>IT Audits – 20 days</b>								
IT Governance Arrangements					10			
IT Penetration Testing					10			
<b>Advice, Consultancy and non Assurance work – 25 days</b>								
Ad hoc advice					25	5	5	Advice provided
<b>Procurement – 45 days</b>								
Contract Payments					15			
<b>Counter Fraud – 35 days</b>								
Whistle blowing Arrangements					5	1	1	
<b>Follow Up of Previous Audit Report Recommendations – 60 days</b>								
Follow up audits to be agreed					7			
Car Parks					6	2	2	
Members Allowances					3			
Partnerships – Corporate Arrangements, Stevenage Leisure Limited and SoStevenage					6			
High Priority Recommendations Quarterly Follow Up					8	2	2	
<b>Management – 24 days</b>								
Audit Committee					4	1	1	
External Audit Liaison					4	1	1	
Annual Report and Head of Internal Audit Opinion 2010/11					8	4	4	
2012/13 Audit Plan					8			

**APPENDIX A**

**PROGRESS AGAINST THE 2011/12 AUDIT PLAN AS AT 31 MAY 2011**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			BUDGETED DAYS	DAYS DELIVERED AGAINST THE PLAN	ACTUAL DAYS TAKEN	STATUS/COMMENT
		H	M	L				
<b>Contingency</b>					15			
Continuation of services and handover Arrangements					20	20	20	
<b>TOTAL</b>					<b>350</b>	<b>45</b>	<b>45</b>	

## APPENDIX B – HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	Auditor Comment as at 31 May 2011
1.	Integra GL Finance Application Audit 2008/09	<p>It is recommended that, as per the stated implementation date of December 2009, management develop their Business Continuity Plan (including the technical element). Once implemented, management should adequately test the plan on a frequent basis to ensure its continued effectiveness. Management should also ensure that the Integra application can be recovered at an alternative site in line with agreed business expectations.</p> <p>Risk implications – Prolonged service disruption. Loss of data.</p>	Agree. The technical solution is to be in place by June 2009. A fully documented BCP plan for the IT element is to be in place for December 2009.	Head of E-Government & Business Systems	<p>Original date - December 2009</p> <p>Revised date – 31 December 2010</p> <p>Latest revised - date July 2011</p>	<p>February 2010 Update - The system has been moved to the Council's 'virtual' infrastructure, which is core to the organisation's Business Continuity arrangements. Herts County Council's offices in Stevenage have been identified as a potential secondary site and discussions about the feasibility and associated costs are ongoing.</p> <p>May 2010 Update - Options for a second site are being investigated and it is anticipated that recommendations will be made alongside the outcomes of the review into the recent ICT security incident. The timescales for this review are yet to be agreed with the chair of the committee.</p> <p>August 2010 Update – Head of Customer Services and Business Improvement presented a paper on IT Security to the Audit Committee on 22<sup>nd</sup> July 2010. Funding for the alternative site has been approved by Board.</p> <p>November 2010 Update - Implementation of a second site is underway and is anticipated to be ready by April 2011. Migration of</p>	<p><b>Recommendation closed</b></p> <p>An audit of ICT Business Continuity which specifically deals with this issue has been recently undertaken. Therefore this recommendation has been closed and management will be working on implementing the recommendations in the ICT Business Continuity report.</p>

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						<p>equipment to make the site operational and a fully documented Business Continuity Plan is anticipated to be implemented by July 2011.</p> <p>February 2011 Update - Preparation of the secondary site at Cavendish Road is continuing before equipment is moved. Implementation is still anticipated to be July 2011.</p> <p>May 2011 Update - We have recently cleared an audit of ICT Business Continuity which deals specifically with this issue and will be working to implement the recommendations in that report.</p>	
2.	Academy IT System Review 2009/10	<p>The System Administrator roles for the systems operated by the Council are fully documented so that the relevant responsibilities of the ICT and user teams are clearly defined.</p> <p>Risk implication – The role of the system administrator and ICT are unclear leading to a lack of accountability.</p>	Accepted	<p>Head of Customer Services &amp; Business Improvement</p> <p>Amendment to responsible agreed:</p> <p>Head of Revenues and Benefits</p> <p>/</p> <p>Business and Knowledge</p>	<p>Proposals by 30 May 2010, then phased implementation of the accepted proposals to be completed by 31 December 2010.</p> <p>Revised implementation date April 2011</p> <p>Latest revised -</p>	<p>August 2010 Update – An outline of the System Administrator role has been drafted and the detail is subject to discussion with staff within Revenues and Benefits. This discussion is expected to take place during September 2010, which will clarify both the role of IT and user teams. It anticipated that any transfer of responsibilities will be phased to ensure that appropriate training can take place.</p> <p>November 2010 Update - A generic role description for a System Administrator has been identified.</p>	<p><b>Partially implemented</b></p> <p>Audit have accepted management's rationale for deferring the full implementation of this recommendation until the work on the shared Revenue and Benefits service business case is concluded.</p>



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				Systems Manager	date July 2011	<p>This will form the basis for specific System Administration roles.</p> <p>February 2011 Update – Work to complete the business case for a shared Revenues and Benefits service is expected to conclude in June 2011, with implementation taking place within the following 3 to 6 months - although dates are yet to be determined.</p> <p>The process of setting up the shared service would involve some restructuring, at which point it is envisaged that the role of a Systems Administrator for the service would be established.</p> <p>May 2011 Update – No change from the February 2011 position.</p>	
3.	Asset Management 2009/10	<p>It is recommended for items on the Asset register that are to be disposed, an asset disposal certificate is completed by the officer disposing the asset, the certificate will:</p> <ul style="list-style-type: none"> <li>state the disposal method e.g. auction, three quotes etc,</li> </ul>	Agreed – Capital Accountant to be in post in June 2010, one of their duties will be to implement the recommendation	Accountancy Services Manager  Capital Group Accountant Head of Property and Estates Group	<p>Original date - August 2010</p> <p>Revised date – 31 October 2010</p> <p>Latest revised date – January 2011</p>	<p>February 2011 – Control is in place however disposal certificates have not yet been received by Finance to confirm that the control is working effectively. This maybe due to the fact that no disposals have been made since the control has been introduced. Accountancy are scheduled to undertake a year end check to identify whether there have</p>	<b>Implemented</b>

## APPENDIX B – HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	Auditor Comment as at 31 May 2011
		<ul style="list-style-type: none"> <li>be signed-off by an appropriate manager before the disposal takes place (if certain disposal thresholds could be breached then the highest appropriate level of authorisation needs to be obtained).</li> </ul> <p>The disposal certificate should then be sent to the Capital Group Accountant to inform them of the impending disposal, the Capital Accountant then signs and dates the certificate and keeps it on file for future reference.</p> <p>Risk implications – Non compliance with financial regulations and inappropriate disposal of Council assets.</p>		<p>Leader Car Parks and CCTV                      Head of Environmental Services                      Environmental Services Manager – Grounds                      Head of Customer Services and Business Improvement</p>		<p>been any asset disposals.</p> <p>May 2011 Update – Accountancy have undertaken the year end check and identified no errors.</p>	
4.	Commercial Properties 2010/11	<p>It is recommended that the Estates Manager takes action to review all expired leases, to determine if the Council's plans, income or reputation are at risk, if an alleged lease by implication was claimed. The results should be documented and retained on</p>	<p>Agreed, that Estates should review all held over leases.</p>	<p>Estates Manager</p>	<p>30 June 2011</p>	<p>No progress made on this yet.</p>	<p><b>Recommendation not yet due for implementation</b></p>

**APPENDIX B – HIGH PRIORITY RECOMMENDATIONS**

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	Auditor Comment as at 31 May 2011
		file.					
5.	Commercial Properties 2010/11	<p>It is recommended that the Estates Manager reviews the current arrangements for the Outdoor Market site with a view to documenting and approving the operational procedures. In particular:</p> <p>a. Cash collection arrangements (ensuring adequate separation of duties and management supervision)</p> <p>b. Regular rent reviews in line with the corporate review of fees and charges</p> <p>c. Document the Outdoor Market site layout</p> <p>d. Consider the need for formal agreements with regular traders</p>	<p>Agreed - We have introduced new procedures. Now, cash is only collected on an exceptional basis. All Traders now have individual Integra accounts.</p>	Estates Manager	28 February 2011	<p>Point a, we have now successfully reviewed the arrangements for collecting the rent from each trader from the Outdoor Market and have implemented the new procedure. This includes the raising of weekly invoices and the withdrawal of SBC officers collecting cash payments. I have attached a copy of the new procedure that we are now working too.</p> <p>Points b, c and d need to be fully implemented.</p>	<b>Partially Implemented</b>
6.	Commercial Properties 2010/11	<p>It is recommended that on a monthly basis the total expected Commercial Properties income [fees and charges] is detailed and reconciled to the actual Commercial Property income received on Integra. All variances should be explained or a note of action to be taken. The reconciliation should be</p>	Agreed	Estates Manager	31 March 2011	Reconciliations have been undertaken since March 2011.	<b>Implemented subject to audit verification of evidence.</b>

**APPENDIX B – HIGH PRIORITY RECOMMENDATIONS**

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	Auditor Comment as at 31 May 2011
		signed and dated by the Officer preparing the reconciliation, and signed and dated as reviewed by the Estates Surveyor or Manager. It is suggested that the reconciliation format be reviewed in consultation with the Accountancy who have previously advised other Council services.					

**APPENDIX C – CAR PARKS HIGH PRIORITY RECOMMENDATIONS PROGRESS UPDATE AS AT 31 MAY 2011**

<b>Rec No.</b>	<b>Para. No.</b>	<b>RECOMMENDATION</b>	<b>Priority</b>	<b>Responsible Officer</b>	<b>Management Progress</b>	<b>Implementation date</b>	<b>Current Status / Audit Comment</b>
47	6.6.43	It is recommended that the car parking arrangements with the supermarket is formally reviewed and an agreement between the Council and the supermarket is documented and signed by the appropriate level of management.	H	Head of Property and Estates	Form of agreement has been drafted and is out for comment.  Nine Validators purchased at £380.40 each.  An administration charge to be levied at £10 per validator issued.	30 June 2010  Revised date 30 September 2010  Latest revised date: 30 April 2011	<b>Implemented, subject to verification of evidence by audit</b>  In August 2010, Management sent an agreement for car parking arrangements to the supermarket.  In February 2011, Management stated that revised wording has been agreed with the supermarket which is going to the Council's legal officers to finally clear.
63	6.8.4	It is recommended that a car parks system report for all income received via the Car Parks Pay On Foot Machines should be produced by the CCTV & Parking Services Manager and reconciled to income shown on Integra. This reconciliation should be signed and dated as reviewed on a monthly basis.	H	Accountancy Services Manager  Group Leader CCTV and Parking Services	Group Leader CCTV and Parking Services  -  By email with accountancy (9 April 2010). GLCPS to provide full system report and not just total figure. Scanned	30 April 2010  Revised date 30 September 2010  Latest date 31 April 2011 (1)	<b>Partially Implemented</b>  In October 2010, Management advised that draft reconciliation resulted in a YTD difference of £24,474.96 on Integra. [Surplus]. The spreadsheet is being produced on a monthly basis. However, because of timing differences in the recording

**APPENDIX C – CAR PARKS HIGH PRIORITY RECOMMENDATIONS PROGRESS UPDATE AS AT 31 MAY 2011**

Rec No.	Para. No.	RECOMMENDATION	Priority	Responsible Officer	Management Progress	Implementation date	Current Status / Audit Comment
					<p>copy sent to Car Park Audit team on 23 April 10. Accountancy to review this system report. GLCPS will do May report after completion of the Enturvo software upgrade.</p>		<p>of income this cannot easily be compared other than at year end. It is therefore planned to review the outturn position for 2010-11 and compare it with the closing 2009-10 figures to evaluate any risk. (1)</p> <p>Management comment 3 June 2011 - It has not been possible to complete this exercise due to a systems problem which currently rests the supplier in Germany. Action rests with Group Leader CCTV and parking Services. In an attempt to move this forward a chase up reminder is being sent today (3 June 2011).</p>