

CANNOCK CHASE COUNCIL
AUDIT & GOVERNANCE COMMITTEE
24TH NOVEMBER 2011
REPORT OF THE CHIEF INTERNAL AUDITOR
INTERNAL AUDIT - QUARTER 2 REPORT FOR 2011-12

1. Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information the Internal Audit Quarter 2 Report for 2011-12

2. Recommendations

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| 2.1 | That the Committee notes the contents of the Internal Audit Report for Quarter 2 of 2011-12 |
| 2.2 | That the Committee notes the IT Audit plan contained within the report. |

3. Key Issues

- 3.1 Attached at Annex 1 is the Internal Audit Report for the second quarter of 2011-12.
- 3.2 Of the audits completed in the quarter, one has been given Limited assurance, three qualified assurance and two adequate assurance.

4. Legal Implications

- 4.1 The role of the Internal Audit Section provides an effective mechanism and tool to identify weaknesses within the control systems of the Council that could potentially present the Council with various legal difficulties. The Council is accountable for its actions and the resources expended in the provision of services. Accordingly, it is vital that any deficiencies that may exist in the organisation that may undermine the delivery, discharge and performance of the Council's duties and obligations are identified and remedial action taken.
- 4.2 Failure to carry out proper and extensive inspections of the Council's activities and procedures could expose the Council to legal challenge through litigation whether that be through civil actions or criminal prosecutions, should appropriate and necessary steps not be undertaken.

5. Financial Implications

- 5.1 There are no financial implications arising directly from this report

6. List of Background Papers

- Audit Plan File
- Audit Time Recording System
- Internal Audit Reports

7. Annexes to the Report

Annex 1 – Internal Audit Quarter 2 Report for 2011-12

8. Report Author Details

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Internal Audit Quarter 2 Report 2011-12

November 2011



Working Together

Audit Report Confidentiality and Freedom of Information Statement

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However, there are several Freedom of Information Act exemptions to which parts, or all, of this report may be subject. Primarily, but not exclusively these are:

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- information held for the purpose of criminal investigations or proceedings;
- information whose disclosure would be likely to prejudice the enforcement of the law;
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- information which is subject to a legal duty of confidentiality; and
- information whose disclosure would prejudice the commercial interests of the Council or some other person.

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Similarly, this Audit Report, or extracts from it, should not be included in, or appended to, any Council Report, nor should it be quoted as a background paper to any Committee Report without firstly consulting with the Chief Internal Auditor.

1. Introduction

- 1.1 This report is the second progress report to the Audit and Governance Committee on the work carried out in 2011-12 by the Internal Audit Section. It covers the period 1st April 2011 to 30th September 2011.
- 1.2 The report contains details of:-
- the performance of the section against the Internal Audit Plan for 2011-12 for the year to date;
 - a summary of the level of assurance issued for each of the reports that have been issued in the quarter (A definition of each level of assurance is contained in Appendix 1); and
 - the results of the follow-ups undertaken in the quarter; showing the original and the revised assurance after the follow-up has been completed.

2 Audit Performance

- 2.1 The 2011-12 Audit Plan has not allocated specific audits to quarters, however based on last year's profile a target number of audits has been set. The following targets will be used for the cumulative completion of the full year's plan.







	Quarter %	No of Audits for Quarter	Cumulative %	Cumulative Total Number of Audits
Quarter 1	11	3	11	3
Quarter 2	27	7	37	10
Quarter 3	27	7	65	17
Quarter 4	35	9	100	26

- 2.2 The profiling for the first quarter is lower than others due to the finalisation of work from the previous year and likewise the profiling for the fourth quarter is higher as much of the audit work is finalised at the year end.
- 2.3 The following table contains the cumulative performance against the Audit Plan at the end of the first quarter of 2011-12 (April to September 2011):-

	Planned Audits	Actual Audits			
	Number	Complete	% Complete	Work In Progress	% WIP & Complete
Audit Plan	10	8	80%	2	100%

- 2.4 At the end of Quarter 2 of 2011-12, 8 audits have been completed to draft stage and a further 2 were in progress. Although the section is slightly below the target this is offset by the audits in progress at the end of the quarter. There are no major concerns about the completion of the audit plan at present as the second quarter of the year has seen a significant proportion of team's annual leave taken during the summer months.

3 Audits Completed

Audit	Head of Service	Risk	Assurance	Status	Number of Recommendations			
					High	Medium	Low	Total
Virtual Servers Operation & Management (IT Audit)	ICT (SBC) ★	Medium	Limited 	Final	3	8	2	13
Landscape Development	Environmental Services	Medium	Qualified 	Final	0	9	1	10
Leisure Centre Refurbishment (Current Contract Audit)	Leisure & Culture	Medium	Qualified 	Draft	1	6	0	7
Information Management	Policy	Medium	Qualified 	Final	3	11	5	19
Elections & Electoral Registration	Governance	Medium	Adequate 	Draft	0	5	11	16
Housing Property Services	Housing	Medium	Adequate 	Final	0	7	4	11

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Virtual Servers Operation & Management (IT Audit) (2010-11 Audit Plan)

- 3.1 An IT Audit review was carried out on the management and operational controls of the of the Council's Virtual Servers, this was originally included in the 2010-11 IT Audit Plan but deferred at the request of management. Although the servers were found to have been set-up adequately a number of concerns were identified during the audit.
- 3.2 The main areas related to the failure to review or implement the best practice guidelines available from the suppliers in relation to security configurations and patch management. There was also a lack of defined roles for the in-house team who support the servers. ICT Services have taken action to implement the more significant recommendations during the course of the audit.

Landscape Development

- 3.3 A systems based review was carried out on the arrangements for managing Landscape Development projects.
- 3.4 Although the schemes were generally found to be successfully delivered there was a lack of defined project management methodology used by the team. In addition a number of issues were identified in relation to the negotiation practices used by the team during the awarding of work.

Leisure Centre Refurbishment (Current Contract Audit)

- 3.5 A current contract review was carried out on the Leisure Centre Refurbishment. This review focused on the early stages of the contract and not the payments made to the contractor, a subsequent review will look at the procedures for verification and payment of claims.
- 3.6 Generally the procedures were found to be good and the use of a dedicated project manager to support the process was found to be beneficial particularly in providing an overview of the project and to be aware of all actions in progress. However a number of issues were found in relation to the contract letting.

Information Management

- 3.7 A systems based review was carried out on the arrangements established by the Council in relation to Data Protection, Freedom of Information and Document Retention.
- 3.8 Generally procedures were found to be sufficient but a number of areas of concern were identified in the relation to the use and training of Departmental Data Protection Reps. During the course of the audit the Information Manager and Head of Policy began a detailed review of this and are in the process of addressing the weaknesses and clarifying roles and responsibilities within departments for ensuring that the Council complies with the relevant legislation. In addition it was found that there was a lack of documented procedures for dealing with reported breaches of the Act

Adequate Assurance Areas

- 3.9 A systems based review was carried out into the management and operational arrangements for the following systems which all received an adequate assurance -
- Elections & Electoral Registration
 - Housing Property Services

Audits in Progress

- 3.10 During the quarter work has commenced, but not yet been completed, on the following audits:
- Value Added Tax; and
 - Housing Strategy.
- 3.11 Details of the full audit plan for 2011-12 showing progress against all audits is given at Appendix 2.

4 Follow-ups Completed

- 4.1 Internal Audit has carried out follow-ups in relation to a number of reviews undertaken in the previous six months to examine the progress in implementing the recommendations made.
- 4.2 In the first instance the Service Manager is asked to provide information on the actions that have been taken to address the recommendations made in the audit report via a self assessment process. For all audits given Limited assurance and a sample of other areas the Auditors verify, by testing, the information provided by the manager. A list of the follow-ups due to be carried out in 2011-12 is contained in Appendix 3.
- 4.3 The following table indicates the original assurance offered along with the assurance given at the completion of the follow-up for the areas reviewed.

Audit	Head of Service	Original Assurance	Implemented or In Progress	Not Implemented	Total	Revised Opinion
Central Recharges	Financial Management	Adequate ✓	0	7	0	Adequate ✓
Land Charges	Governance	Adequate ✓	5	1	6	Adequate ✓
Treasury Management	Financial Management	Adequate ✓	2	1	3	Adequate ✓

- 4.4 It is pleasing to be able to report areas followed-up in the period were given adequate assurance.
- 4.5 The high number of not implemented recommendations at the time of the Central Recharges follow-up relate to the fact that the service is currently undergoing a transformation and the recharge process is being redesigned.

5 Other Areas

- 5.1 In addition to the planned audit work the section has carried out a grant claim audit for Environmental Health in relation to a Contaminated Land Grant. No issues were found in relation to the grant claim.


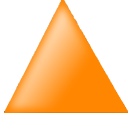

6 IT Audit Plan

6.1 The IT Audit Plan for 2011-12 has been agreed as:-

- Information Security Management;
- General Ledger Application Review;
- Website Content Review; and
- Computer Virus Protection Review.

6.2 All of these reviews will be carried out across both Cannock Chase DC and Stafford BC by the Computer Audit Contractor.

Appendix 1Levels of Assurance for Audit Reports



Assurance Level	Definition
<p>Adequate</p> 	<p>There is an acceptable control framework in place. There may be some control weaknesses but the majority of the expected controls are in place and are operating effectively. However some changes to the controls and how they operate may be beneficial</p> <p>An adequate opinion will be given where controls are generally operating effectively, however minor control weaknesses may have been identified. There are however, no high risk recommendations being made.</p>
<p>Qualified</p> 	<p>The service may be delivering its intended output but the controls in place for some elements of the system are not always appropriate or effective to ensure that this will continue to occur. Controls are not being consistently applied across all elements of the system. This could include breaches of Council policy and the risk of financial or reputational impact on the Council.</p> <p>A qualified opinion will only be given if the areas where the controls are missing or not operational do not represent a significant risk to the system as a whole. Where a qualified opinion is given the report should clearly explain the area or areas to which the qualified opinion relates to.</p>
<p>Limited</p> 	<p>The operation of the system is currently providing an unacceptable risk to the Council. There is an inadequate control framework to ensure that the system can deliver its intended objectives. Controls are absent or not operating across the majority of the system. This will include significant breaches of legislation or the potential for significant impact on the Council such as large financial or reputational losses.</p>

Risk Classification of Audit Recommendations

Classification	Description
High Risk	<p>The risk is considered to be major with a high likelihood of occurring, potentially causing a breach of legislation / legal requirements and / or a substantial risk of loss or damage to Council assets, information and reputation.</p> <p>Immediate action required, ideally within 1 month although it is recognised that this may be insufficient time to totally address the recommendation.</p>
Medium Risk	<p>The risk is considered to be significant with a moderate likelihood of occurring, potentially causing a breach of organisational policies and procedures, loss or damage to Council assets, information and reputation.</p> <p>Action required within next 3 to 6 months</p>
Low Risk	<p>The risk is considered to be minor with a small likelihood of occurring, and minimal impact on the Councils assets, information and reputation; however controls would be enhanced were the area to be reviewed.</p> <p>Action required within next 6 to 12 months</p>

Appendix 2

Audit Plan Monitoring 2011-12

Audit Area	Head of Service	Total Risk Score	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due	Follow-up Completed	Revised Assurance
Virtual Servers	ICT (SBC) ★	Medium	Yes	Yes	Yes	Limited 	April 2012		
Landscape Development	Environmental Services	Medium	Yes	Yes	Yes	Qualified 	February 2012		
Scheme Managers and Sheltered Accommodation	Housing	Medium	Yes	Yes	Yes	Qualified 	January 2012		
Information Management	Policy	Medium	Yes	Yes	Yes	Qualified 	March 2012		
Current Contract Audit - Leisure Project	Leisure & Culture	Medium	Yes	Yes		Qualified 			
Housing Property Services	Housing	Medium	Yes	Yes	Yes	Adequate 	December 2011		
Capital Accounting	Financial Management	Medium	Yes	Yes	Yes	Adequate 	December 2011		
Electoral Registration & Elections	Governance	Medium	Yes	Yes		Adequate 			
Value Added Tax	Financial Management	Medium	Yes						
Strategic Housing	Environmental Health	Medium	Yes						
Housing Benefits	Financial Management	High							
Shared Service - Financial Arrangements	Financial Management	Medium							
General Ledger	Financial Management	Medium							
Council Tax	Financial Management	Medium							
National Non-Domestic Rates	Financial Management	Medium							
Sundry Debtors	Financial Management	Medium							
Creditors	Financial Management	Medium							
Transparency Agenda Arrangements	Corporate	Medium							

Audit Area	Head of Service	Total Risk Score	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due	Follow-up Completed	Revised Assurance
Pest Control	Environmental Health	Medium							
CRB Policy & Procedures	HR (SBC) ★	Medium							
Payroll	HR (SBC) ★	Medium							
Strategic Partnerships	Policy	Medium							
Central Control (Social Alarms & CCTV)	Chief Executive	Medium							
Streetscene	Environmental Services	High							
Equality and Diversity	Policy	Medium							
Asset Management	Regeneration & Planning	Medium							


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Appendix 3

Follow-Up Monitoring Information

Audit Area	Service Lead Officer	Risk	Original Assurance	Follow-up Due	Follow-Up Commenced	Follow-up Completed	Revised Assurance	2nd Follow-Up Due?
Remote Desktop Support and Management	Technology (SBC) ★	Medium	Limited ✘	October 2010	October 2010	Yes	Qualified ▲	
GCSX Code of Connection Compliance	Technology (SBC) ★	Medium	Limited ✘	November 2010	December 2010	Yes	Qualified ▲	
Capital Accounting	Financial Management	Medium	Qualified ▲	February 2011	June 2011	Yes	Adequate ✓	
Customer Services & CRM	Policy	Medium	Qualified ▲	April 2011	Deferred at request of Head of Policy			
Central Recharges	Financial Management	Medium	Adequate ✓	April 2011	May 11	Yes	Adequate ✓	
Land Charges	Governance	Medium	Adequate ✓	April 2011	June 2011	Yes	Adequate ✓	
Benefit Fraud Investigation Team	Financial Management	Medium	Adequate ✓	May 2011	May 2011	Awaiting Management Response		
Project Management (2nd Follow-Up)	Leisure & Major Projects	High	Qualified ▲	June 2011	July 2011	Awaiting Management Response		
Treasury Management	Financial Management	Medium	Adequate ✓	June 2011	July 2011	Yes	Adequate ✓	
Bank Reconciliation & Banking Arrangements	Financial Management	Medium	Adequate ✓	July 2011	July 2011	Awaiting Management Response		
Safeguarding Children & Vulnerable Adults	Corporate Director	High	Qualified ▲	September 2011	September 2011	Awaiting Management Response		
PCI Data Security Standard	Financial Management	Medium	Limited ✘	September 2011	September 2011	Awaiting Management Response		
Leisure Centres	Leisure & Culture	Medium	Qualified ▲	September 2011	Deferred due to Contract Appraisal Work			

Audit Area	Service Lead Officer	Risk	Original Assurance	Follow-up Due	Follow-Up Commenced	Follow-up Completed	Revised Assurance	2nd Follow-Up Due?
Risk Management	Governance	Medium	Qualified 	October 2011				
Car Parks & DPE	Environmental Services	Medium	Adequate 	October 2011				
Streetscene	Environmental Services	High	Qualified 	November 2011				
Public Health & Enforcement	Environmental Health	Medium	Adequate 	November 2011				
Capital Accounting	Financial Management	Medium	Adequate 	December 2011				
Housing Property Services	Housing	Medium	Adequate 	December 2011				
Scheme Managers & Sheltered Accommodation	Housing	Medium	Qualified 	January 2012				
Landscape Development	Environmental Services	Medium	Qualified 	February 2012				
Information Management	Policy	Medium	Qualified 	March 2012				
Virtual Server Management & Operation	Technology (SBC) *	Medium	Limited 	April 2012				
Equality and Diversity	Policy	Medium	Limited 	Next Audit				
Housing Benefits	Financial Management	High	Adequate 	Next Audit				
CCTV IT Controls	Chief Executive	Medium	Limited 	Next Audit				
Asset Management	Planning & Regeneration	Medium	Limited 	Next Audit	August 2011	In Progress		
Creditors	Financial Management	Medium	Adequate 	Next Audit				
NNDR	Financial Management	Medium	Adequate 	Next Audit				
Council Tax	Financial Management	Medium	Adequate 	Next Audit				

Audit Area	Service Lead Officer	Risk	Original Assurance	Follow-up Due	Follow-Up Commenced	Follow-up Completed	Revised Assurance	2nd Follow-Up Due?
Payroll	HR (SBC) *	Medium	Adequate 	Next Audit				

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