

Report of:	Chief Internal Auditor
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Report Track:	Audit & Governance Committee only

Audit & Governance Committee
1st April 2014
Internal Audit - Quarter 3 Report for 2013-14

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information the Internal Audit Quarter 3 Report for 2013-14.

2 Recommendations

- 2.1 That the Committee notes the contents of the Internal Audit Report for Quarter 3 of 2013-14.

3 Key Issues and Reasons for Recommendation

- 3.1 Attached at Appendix 1 is the Internal Audit Report for the third quarter of 2013-14.
- 3.2 Fourteen audits have been completed to draft stage and a further twelve audits were in progress at the end of the quarter. Whilst this is slightly behind the planned completion of twenty two audits when the work in progress is taken into account it is still predicted that the Audit Plan will be substantially completed by the end of the year. Although there may be one audit not completed.
- 3.3 Five audits completed in the quarter were classified as Requiring Some Improvement and three were classed as Effective.
- 3.4 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are

being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.

4 Report Detail

4.1 Please see Appendix 1 for the report detail.

5 Implications**5.1 Financial**

None

5.2 Legal

None

5.3 Human Resources

None

5.4 Section 17 (Crime Prevention)

None

5.5 Human Rights Act

None

5.6 Data Protection

None

5.7 Risk Management

None

5.8 Equality & Diversity

None

5.9 Best Value

None

6 Appendices to the Report

Appendix 1 – Internal Audit Quarter 2 Report for 2013-14

Background Papers

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

Cannock Chase District Council Internal Audit Quarter 3 Report 2013-14

March 2014



Working Together

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1. Introduction

1.1 This report is the third progress report to the Audit and Governance Committee on the work carried out in 2013-14 by the Internal Audit Section. It covers the period 1st April 2013 to 31st December 2013.

1.2 The report contains details of:-

- the performance of the section against the Internal Audit Plan for 2013-14 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 2013-14 Audit Plan has been profiled across the year. 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	12	4	12	4
Quarter 2	26	9	38	13
Quarter 3	26	9	64	22
Quarter 4	36	12	100	34









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 third quarter of 2013-14 (April to December 2013):-

	Planned Audits	Actual Audits			
	Number	Complete	% Complete	Work In Progress	% WIP & Complete
Audit Plan	22	14	63.6%	12	118%

- 2.4 At the end of Quarter 3 of 2013-14, 14 audits have been completed to at least draft stage. This is lower than the anticipated 22 audits at this stage in the year. However a number of audits are in progress of which there are several of the large reviews covering Shared Service functions. In addition one member of the team has had a period of sick leave in the quarter which has affected the number of reviews completed.
- 2.5 When the 11 audits in progress are taken into account it is still predicted that the Audit Plan will be completed by the end of the year with the exception of one audit, fleet management which was deferred due to the period of sickness.

3 Audits Completed in the Quarter

Audit	Head of Service	Assurance	Status	Number of Recommendations			
				High	Medium	Low	Total
Cemeteries	Head of Commissioning	Requiring Some Improvement 	Final	0	6	8	14
Culture & Leisure Services Contract Monitoring	Head of Commissioning	Requiring Some Improvement 	Final	0	13	1	14
Central Control	Corporate Director	Requiring Some Improvement 	Final	0	14	1	15
Housing Benefit Fraud Investigation Team	Head of Financial Management	Requiring Some Improvement 	Draft	1	1	1	3
Environmental & Physical Access Controls (IT Audit)	Head of Technology*	Requiring Some Improvement 	Draft	15	17	4	36
Insurance	Head of Governance	Effective 	Final	0	0	7	7
Food Safety Inspections & Enforcement	Head of Environmental Health	Effective 	Final	0	2	2	4
PR & Communications	Head of Policy	Effective 	Final	0	2	3	5

* Services led by Stafford Borough Council as part of Shared Services

- 3.1 Summaries of the key findings for audits not classified as effective can be found below.

Cemeteries

- 3.2 A systems review of the processes and procedures established for the operation of the Council's Cemeteries was carried out.
- 3.3 It has been identified that there is an appropriate and effective operating framework in place in respect of the administration of the Cemeteries, from liaising with funeral directors to arrange funerals, approving memorials to be erected by approved memorial masons, to ensuring that all relevant paperwork is completed and statutory records including the appropriate registers and maps are being maintained.
- 3.4 The main weakness identified related to the lack of a robust framework of policies and procedures for the day to day operation and routine maintenance tasks carried out by the Cemeteries operatives. There is an over reliance on the knowledge and experience of the team rather formally documented and agreed working practices. This could impact on Health & Safety arrangements.
- 3.5 In addition formal tenancy agreements were not available for the resident employees at all of the sites and an issue was identified in relation to whether VAT was included in one of the standard charges.

Culture & Leisure Services Contract Monitoring

- 3.6 A large follow-up review was carried out in relation to the monitoring arrangements for the Culture & Leisure Services Contract.
- 3.7 Whilst the Council has established some monitoring arrangements due to the limited resources available the Council relies fully on the information supplied by the Contractor and does not carry out any independent verification. Based on this the area is classified as Requiring Some Improvement.
- 3.8 Management currently accepts the level of risks in the current process and stated that they have a very good working relationship with the Contractor and are happy to rely on the information provided.

Central Control

- 3.9 A large follow-up review was carried out in relation to the operation and management of the Central Control function.
- 3.10 In the original audit report, issued during April 2013, we assessed the internal control environment as Needs Fundamental Change. The original audit report acknowledged that it would take time to implement changes. In most cases work is ongoing and revised timescales have been set for the full implementation of the agreed recommendations. In other areas, however, there has been no significant progress although it is again acknowledged that it will take time to fully address and implement all of the agreed actions. It is also recognised that some actions are partly dependent on inputs from other sections of the Council (e.g. ICT) and / or external organisations (e.g. Staffordshire Police).
- 3.11 We are satisfied that management are working to address the weaknesses identified but that some areas still require time to be fully addressed and we have therefore classified the function as Requiring Some Improvement. It should be noted that this is a significant improvement from the previous position.

Environmental & Physical Access Controls (IT Audit)

- 3.12 An IT Audit review was conducted in relation to the Physical and Environmental Controls relating to IT Equipment at the Council sites.
- 3.13 A number of weaknesses were identified, around some of the server rooms particularly at outlying sites. A significant risk was identified in relation to the operation and notification of procedures for the Fire Suppression System at Stafford when employees are working in the server room which presented a significant Health & Safety risk. We did identify a breach of the IT Security Policy in relation to a member of IT sharing their password to allow an agency worker to access the network.

Housing Benefit Fraud Investigation Team

- 3.14 A review of the operation and management of the Housing Benefit Fraud Investigation Team was carried out.















Overall the function was found to be operating effectively. However a potential issue was identified which only applies to Stafford Borough Council investigations this is being reviewed by the Head of Law & Administration. The area has been classified as Requiring Some Improvement pending the outcome of the review by the Head of Law & Administration.

Audits in Progress

3.15 During the quarter work has commenced, but not yet been completed, on the following audits:

- Staff Expenses;
- Hednesford Park Heritage Lottery Fund Work Project;
- Development Control (Planning Applications & Enforcement);
- Council Tax;
- Housing Benefits;
- National Non-Domestic Rates;
- Payroll;
- Sundry Debtors;
- Members Allowances, PCs and Other Expenses;
- ICT Business Continuity Arrangements (IT Audit)
- End-user & Bespoke Developments (IT Audit); and
- Review of Housing System Implementation (IT Audit).

4 Follow-ups Completed

Audit	Head of Service	Original Assurance	Implemented / In Progress	Not Implemented	Total	Revised Opinion
General Ledger (IT Audit) 2 nd Follow-up	Technology*	Requiring Some Improvement 	7	0	7	Requiring Some Improvement 
Property Management	Planning & Regeneration	Requiring Some Improvement 	9	0	9	Effective 
Refuse Collection & Recycling	Housing & Waste Management	Requiring Some Improvement 	9	1	10	Effective 
Homelessness & Housing Advice	Regeneration & Planning	Requiring Some Improvement 	11	0	11	Effective 
BACS Application (IT Audit)	Technology*/ Financial Management	Requiring Some Improvement 	5	0	5	Effective 
Computer Virus Protection (IT Audit) 2 nd Follow-up	Technology*	Requiring Some Improvement 	9	0	9	Effective 
E-payments Project Management & Post Implementation Review	Technology*	Requiring Some Improvement 	10	0	10	Effective 

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- 4.1 It is pleasing to be able to report that sufficient progress has been made to provide a revised opinion for six of the seven areas which are now classified as Effective.




General Ledger (IT Audit) 2nd Follow-up

- 4.2 This is the second follow-up of the General Ledger Application as it remained Requiring Some Improvement at the time of the first follow-up.
- 4.3 It was found that some progress has been made and one recommendation had been implemented in full. However six medium risk recommendations remained in progress at the time of the audit and as such it has not been possible to revise the level of assurance for this area.
- 4.4 It is recognised that the majority of these areas were likely to be addressed as part of the scheduled upgrade of the Ledger application due to be carried out before the end of March 2014. As we anticipate most of the recommendations will be addressed by the end of the Financial Year we are not recommending any action is taken by the Audit Committee at this time.

5 Other Areas

- 5.1 In addition to the planned audit work and a number of ad hoc queries for advice and guidance, the section has carried out the following pieces of work:-
- National Fraud Initiative Datamatching,
 - ad hoc queries and advice around changes to systems and procedures;
 - a number of financial appraisals for contracts; and
 - revision of policies relating to Anti-fraud & Bribery, Confidential Reporting and Money Laundering













Appendix 1Levels of Assurance for Audit Reports



Assurance Level	Definition
<p>Effective</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 effective opinion will be given where controls are generally operating effectively, minor control weaknesses may have been identified. There are however, no high risk recommendations being made.</p>
<p>Requiring Some Improvement</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>Needs Fundamental Change</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.</p> <p>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. Action is needed to address weaknesses in the control environment.</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; the area may not be following best practice principles. Controls would be enhanced were the area to be reviewed.</p> <p>Action required within next 6 to 12 months</p>

Appendix 2Audit Plan Monitoring



















Audit Area	Head of Service	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due
Central Control	Corporate Director	Aug 2013	Dec 2013	Dec 2013	Requiring Some Improvement 	June 2014
Culture & Leisure Services Contract Monitoring (Client Function)	Commissioning	July 2013	Oct 2013	Dec 2013	Requiring Some Improvement 	TBC
Insurance	Governance	Sept 2013	Oct 2013	Nov 2013	Effective 	N/A
Cemeteries	Commissioning	July 2013	Oct 2013	Nov 2013	Requiring Some Improvement 	May 2014
Public Relations & Communications	Policy	July 2013	Oct 2013	Nov 2013	Effective 	N/A
Housing Property Services	Housing & Waste Management	June 2013	August 2013	Oct 2013	Requiring Some Improvement 	April 2014
Sale of Council Houses	Housing & Waste Management	April 2013	June 2013	Oct 2013	Requiring Some Improvement 	April 2014
Housing Maintenance & Stores	Housing & Waste Management	May 2013	August 2013	Sept 2013	Requiring Some Improvement 	March 2014
Utilities Management	Regeneration & Planning	May 2013	June 2013	Sept 2013	Requiring Some Improvement 	March 2014
Streetscene – Street Cleansing Function	Housing & Waste Management	June 2013	June 2013	Aug 2013	Needs Fundamental Change 	Feb 2014
Mortuary & Assisted Burials	Environmental Health	April 2013	May 2013	June 2013	Effective 	N/A
Housing Benefit Fraud Investigation Team	Financial Management	Aug 2013	Dec 2013		Requiring Some Improvement 	





Audit Area	Head of Service	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due
Food Safety Inspections and Enforcement	Environmental Health	Sept 2013	Nov 2013		Effective 	
Environmental & Physical Access Controls (ICT Audit) *	Technology*	July 2013	Oct 2013		Requiring Some Improvement 	
Development Control (Planning Applications & Enforcement)	Regeneration & Planning	Sept 2013	Sept 2013			
Members Allowances, PCs and Other Expenses	Governance	Dec 2013				
Payroll	Human Resources*	Dec 2013				
Sundry Debtors	Financial Management	Dec 2013				
Council Tax	Financial Management	Oct 2013				
National Non-domestic Rates	Financial Management	Oct 2013				
ICT Business Continuity Arrangements	Technology*	Oct 2013				
End-user/Bespoke IT Development (IT Audit)	Technology*	Oct 2013				
Housing Benefits	Financial Management	Sept 2013				
Staff Expenses*	Human Resources	August 2013				
Review of Housing System Implementation	Technology* / Housing & Waste Management	Aug 2013				
Hednesford Park Heritage Lottery Fund Work Project;	Commissioning	July 2013				

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Appendix 3

Follow-Up Monitoring Information

Audit Area	Service Lead Officer	Original Assurance	Follow-up Due	Follow-Up In progress	Follow-up Completed	Revised Assurance	2nd Follow-Up Due?
Computer Virus Protection Review	Technology★	Requiring Some Improvement 	Feb 2013	March 2013	April 2013	Requiring Some Improvement 	October 2013
Information Security Management	Technology★	Requiring Some Improvement 	Feb 2013	March 2013	April 2013	Requiring Some Improvement 	Oct 2013
Local Strategic Partnership	Policy	Requiring Some Improvement 	Mar 2013	June 2013	Completion of the follow-up delayed. Will be included in 2014-15 Plan		
E-payments & Residual Cash	Financial Management	Requiring Some Improvement 	Mar 2013	July 2013	Sept 2013	Effective 	N/A
Property Management	Regeneration & Planning	Requiring Some Improvement 	May 2013	Aug 2013	Nov 2013	Effective 	N/A
Website Content Review	Policy/ Technology★	Requiring Some Improvement 	June 2013				
Refuse Collection	Housing & Waste Management	Requiring Some Improvement 	June 2013	Sept 2013	Nov 2013	Effective 	N/A
Asset Management	Regeneration & Planning	Requiring Some Improvement 	June 2013	June 2013	June 2013	Requiring Some Improvement 	Jan 14
Housing Rents	Housing & Waste Management	Requiring Some Improvement 	June 2013	Aug 2013	Aug 2013	Effective 	N/A
BACS Review (IT Audit)	Technology	Requiring Some Improvement 	Aug 2013	Sept 2013	Oct 2013	Effective 	N/A

Audit Area	Service Lead Officer	Original Assurance	Follow-up Due	Follow-Up In progress	Follow-up Completed	Revised Assurance	2nd Follow-Up Due?
General Ledger (ICT Audit)	Financial Management/ Technology*	Requiring Some Improvement 	Aug 2013	Aug 2013	October 2013	Requiring Some Improvement 	March 14
Homelessness	Housing & Waste Management	Requiring Some Improvement 	Sept 2013	Aug 2013	Dec 2013	Effective 	N/A

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