

## INTERNAL AUDIT YEAR-END REPORT 2012/13

## OPINION ON THE OVERALL CONTROL ENVIRONMENT

1. This is an opinion based on internal audit risk based work and includes the core financial systems work for 2012/13 and the results of the management assurance exercise for 2012/13.
2. The adequacy and effectiveness of the organisation's control environment for the 2012/13 financial year has been assessed as "good" based on the following:
  - 86% of the traffic lighted systems reviewed during 2012/13 were given an amber, an amber/green or a green assurance rating;
  - 99% of recommendations made during 2012/13 were agreed for implementation;
  - 83% of recommendations followed-up have been implemented, 16% are in progress or are planned at the time of follow-up thus it is expected that in due course 99% will be implemented. 94% of follow-ups resulted in an improved assurance rating.
  - 10 suspected financial irregularities were reported to Internal Audit during 2012/13, the majority of irregularities investigated by Internal Audit were either caused by a break down/lack of control or where fraud was involved this was a contributing factor. In 5 (50%) cases there was no loss or the loss has been recouped (e.g. from banks, insurance or individuals); in 1 (10%) case there was a loss of over £2000 and in 4 (40%) cases work is ongoing to establish whether a loss has occurred and/or the level.
  - The management assurance exercise confirmed that 94% of key controls in place to manage the authority's most significant corporate risks were operating and effective in either reducing or managing the risk.
  - 87% of controls reviewed within the Council's core financial systems were either operating fully or substantially, with 13% operating partially.

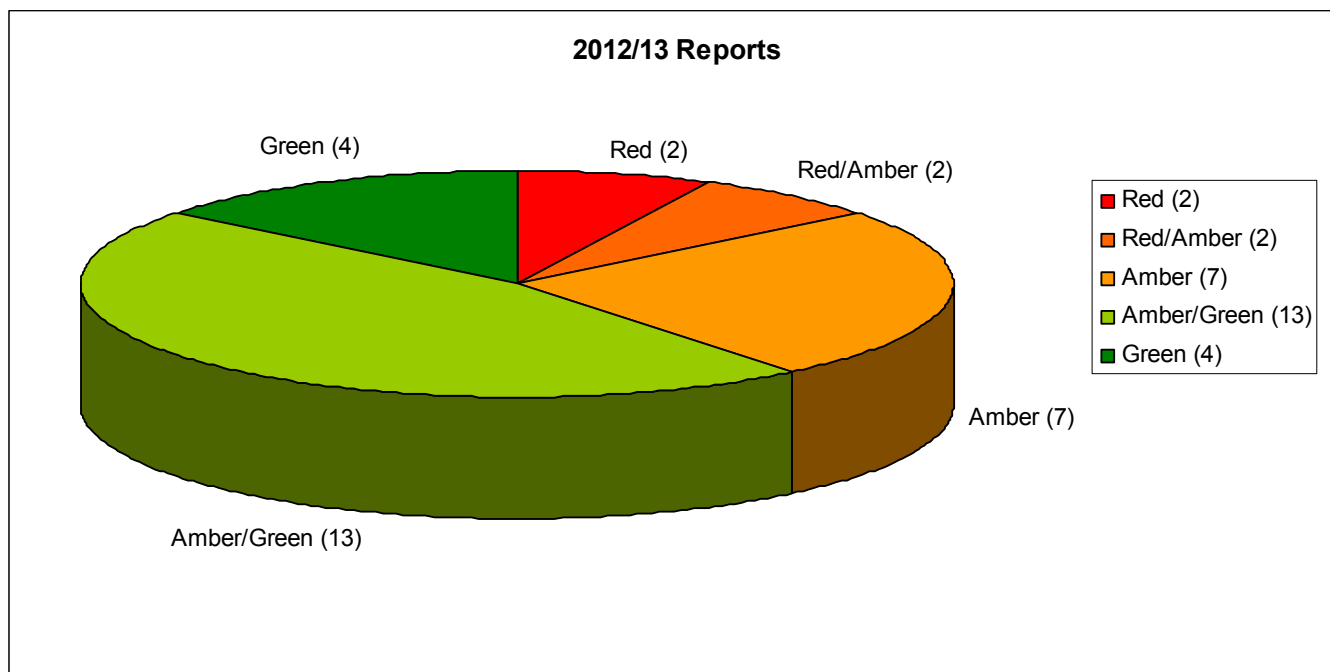
## OVERVIEW OF WORK UNDERTAKEN

3. Overall the Internal Audit Team have achieved 95% of the 2012/13 Annual Audit plan and as 5% of work is still in progress expect to complete 100% in due course. This included 100% achievement of the core financial systems reviews relied upon by the council's External Auditors for their risk assessment of the authority.
4. The original 2012/13 plan contained 42 projects, during the year 4 projects were removed (as a result of a change in requirements or to allow for emerging risks), and 4 new emerging risk projects were added.
5. In addition to this 113 days have been spent on projects carried forward from 2011/12, 67 days have been spent on investigating suspected financial irregularities (7 days more than the annual allocation), 80 days have been spent on providing professional advice on internal control and risk mitigation (19 days more than the annual allocation) and 26 days have been spent on standard follow-ups of audit recommendations (14 days less than the annual allocation). The annual allocation for follow-up is an estimate of how many days will be required for following up red and amber reports based on 2 days per report and is dependent on how many reports are issued.

**Assurance Reports**

6. Audit reports are traffic lighted to indicate the level of assurance that can be obtained from the system under review. This ranges from green reports indicating that a system is well controlled and therefore a low risk to the authority to red reports indicating that a system represents a high risk to the authority needing immediate attention to improve the control environment.
7. As the Internal Audit Plan is risk based it concentrates on systems that have been identified as high risk by management via inclusion in the corporate risk registers or during consultation on the audit plan or by internal audit based on cumulative audit knowledge and audit risk assessment. In 2008/9 41% of assurance levels were red or red/amber; in 2009/10 it was 50% and in 2010/11 it was 42%. However during 2011/12 this fell to 30% and to 14% in 2012/13. This shows an overall improvement in the level of controls in place and operating effectively across the Council and is reflected in the Opinion on the Overall Control Environment (above).
8. A total of 28 Internal Audit reports were issued during the year of which there were 2 red assurance, 2 red/amber assurance, 7 amber assurance, 13 amber/green and 4 green assurance. Table 1 below illustrates the mix of the assurance levels given to reports issued in 2012/13.

**Table 1 – Traffic Light Reports 2012/13**



9. The table shows that 86% of the traffic lighted systems reviewed during 2012/13 were given an amber, an amber/green or a green assurance rating i.e. over 61% expected controls operating at the time of review.
10. Appendix C details all the final reports, draft reports and follow ups issued in 2012/13.

## Recommendations

11. A total of 181 recommendations were made of which 179 were agreed (or alternative actions agreed) for implementation (99%) which exceeds the 95% performance target. One recommendation was not agreed and the remaining recommendation was partially agreed. The specific recommendations, the management response and the audit comment included in the final report are shown in Appendix D.

## Follow-ups

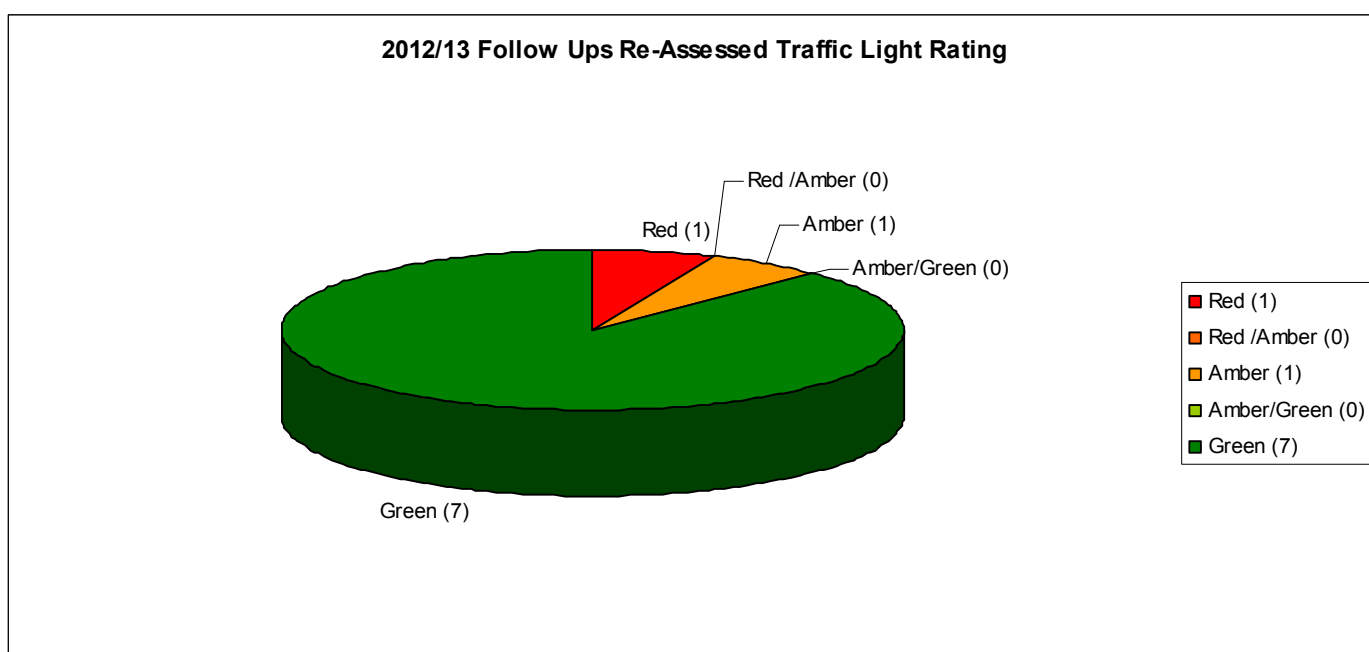
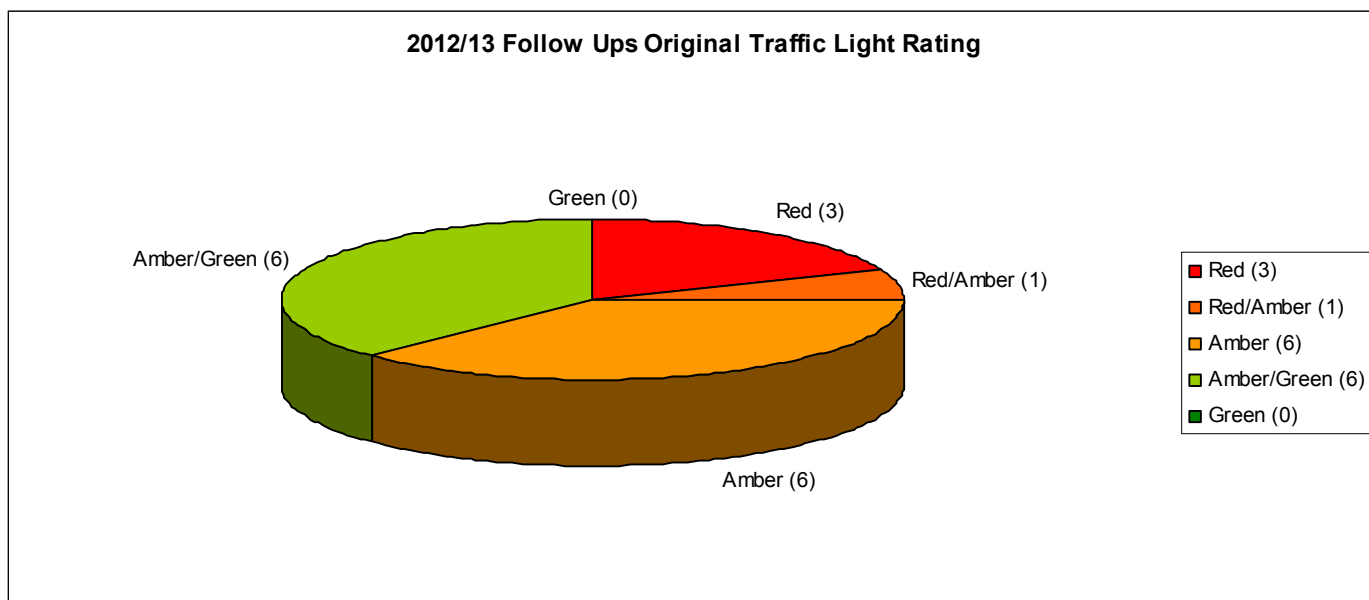
12. The Internal Audit policy on follow-up is to follow-up red and red/amber reports after 3 months and to follow-up amber and amber/green reports after 6 months, reassessing the traffic light of each report. Green reports are not followed up as they are low risk unless it is a core financial system review.
13. During 2012/13 a total of 213 recommendations have been followed up. Of these a total of 175 have been implemented, 31 were partially implemented/in the process of being implemented, 2 were planned for implementation, 3, although originally agreed by management, were not implemented and 2 were no longer applicable due to system changes. This represents an 83% implementation (of recommendations still applicable) however a further 16% are in progress or were planned at the time of follow-up thus it is expected that in due course 99% will be implemented. Of the 36 recommendations part implemented/planned/not implemented, 10 were high risk. Of these it has been confirmed that 8 have now been implemented. See Appendix D for further information on the remaining 2. It was identified that the majority of those not yet implemented at the time of follow-up was due to a slower than agreed implementation timescale. In 2011/12 the implementation of recommendations was 67% and therefore in 2012/13 this represents a 16% increase which is a significant improvement, although it is still below the agreed corporate audit indicator of 90%.
14. Of the 16 reviews followed up, 3 were red reports, 1 was a red/amber report, 6 were amber reports and 6 were an amber/green report. In accordance with the Internal Audit policy on follow-ups the reports shown in table 2 and the pie charts below were reassessed as part of the follow-up and a new audit opinion issued showing the updated traffic light position:

**Table 2 – Re-issued Audit Opinions**

Report	Original Traffic-light	Re-assessed Traffic Light
Sacred Heart CCTV	Red	Green
Grants to Voluntary Organisations	Red	Amber
Customer Service Standards	Amber	Green
Contract Management	Amber/Green	Green
Cannon Lane Junior CCTV	Amber/Green	Green
Aylward CCTV	Amber	Green
Krishna Avanti Financial Controls	Amber	Green
Roxbourne Junior CCTV	Amber/Green	Green
Weald Junior Financial Controls	Amber	Green
Application of CPR	Red	Red
Camrose Financial Controls	Amber/Green	Green
Norbury Data Security	Amber/Green	Green
Stanburn Junior CCTV	Red/Amber	Green
Vaughan Petty Cash	Amber	Green
Stanburn Petty Cash	Amber	Green

Moriah IT Data Security	Amber/Green	Green
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15. 15 of the 16 re-assessed reports showed an improved assurance rating; however 1 report remains a red assurance and therefore a subsequent follow up will be undertaken.



**Emerging Risks**

16. Emerging risks are areas of risk arising during the year that were not apparent at the time of the annual planning process but that are considered significant enough by management/internal audit to warrant audit input. The emerging risk areas arising during 2012/13 were:

- FB60 Payments\*
- Adults Vehicle Hire\*
- Housing Contract Monitoring

- AR End to End Process\*
- Salix Funding
- Agency Staff\*

\* These emerging risks were significant and therefore have become projects in the 2012/13 Internal Audit Plan.

### **Audit of Core Financial Systems – Updated Report**

17. As part of the 2012/13 Annual Plan Internal Audit undertook a key control review on the following systems as part of the agreed approach to the audit of the Authority's core financial systems for the financial year 2011/12 (reported in detail in the 2012/13 mid-year report):

- Housing Rents
- Accounts Payable
- Accounts Receivable
- Capital Programme

18. In addition to satisfy additional requirements of the External Auditors, Control self-assessments were obtained from the relevant managers for the following core financial systems:

- Housing Benefits
- NDR
- Council Tax
- Payroll
- Treasury Management

and systems documentation was reviewed/updated and walkthrough tests were undertaken to confirm the actual system in operation for all the above core financial systems.

19. Overall out of a total of 92 key controls reviewed 56 (61%) were fully operating, 14 (15%) were substantially operating, 19 (21%) were partially operating and 3 (3%) were not operating. In total 48 recommendations were made, 12 were rated as high risk, 30 were rated as medium risk and 6 were rated as low risk. A total of 47 recommendations have been agreed for implementation and 1 recommendation was partially agreed which relates to creating a workflow route for authorisation of a debtor request.

20. For the Housing Rents system 8 recommendations were made to address the weaknesses identified, 3 were rated as medium risk and 5 as low risk. All recommendations have been agreed for implementation.

21. For the Accounts Receivable system 7 recommendations were made to address the weaknesses identified, 4 were rated as high risk with a further 3 rated as medium risk. A total of 6 of the 7 recommendations have been agreed for implementation. The remaining recommendation has been partially agreed which relates to creating a workflow route for authorisation of a debtor request. A sample check will be undertaken by CAR in Access Harrow to check that the authorising officer is current. However this will not mitigate the risk of a lack of authorisation of all debtor requests leading to debts being raised inappropriately.

22. For the Accounts Payable system 9 recommendations were made to address the weaknesses identified. Two recommendations were rated as high risk, and 7 as medium risk. Some extra work on one-time vendor payments was included in this review and a further 3 recommendations were made to address the issues identified. Two of these recommendations have been rated as high risk and one as medium risk. All recommendations have been agreed for implementation.
23. For the Capital Programme system 21 recommendations were made to address the weaknesses identified, 4 were rated as high risk and 16 were rated as medium risk and 1 as a low risk. Monitoring and Reporting and the Use of Project Management were highlighted as particular areas of strength. The most significant weaknesses relate to the fact that although assurances have been given that capital transaction testing for 2011/12 was carried out for the first 3 quarters of the year, this could not be evidenced due to the fact that the relevant file could not be located and the officer involved has left the authority; similarly detailed testing on virements could not be undertaken for the same reason. Other significant weaknesses relate to the fact that a risk assessment is not carried out for the overall capital programme; there is no protocol in place regarding notifying Finance on completion of a project that all purchase order and commitments have been goods receipted and invoice received, including final retention payments; and capital expenditure is not currently profiled across quarters. All 21 recommendations have been agreed for action.

### Other Work

24. Other work undertaken annually in the first quarter includes the completion of reviews from the previous years plan, the completion of the annual Management Assurance exercise and the annual governance review feeding into the authority's Annual Governance Statement (AGS). Both of these were successfully completed with the results to be reported to the GARM committee in detail separately.
25. Management Assurance: During 2012/13 a review of the management assurance process was undertaken and it was redesigned and aligned to the Corporate Risk Register. Risk owners and Corporate Directors were asked to provide assurance on the operation and effectiveness of key controls in place during 2012/13 to mitigate the Council's most significant risks. Evidence was provided to Internal Audit to support the self-assessments. A summary report is being prepared to be signed off by the Chief Executive and will be reported to the next GARM meeting and the results of the process will feed into the Annual Governance Statement.
26. Corporate Governance: An annual review of governance is undertaken, co-ordinated by Internal Audit, feeding into the Annual Governance Statement and overseen by the Corporate Governance Group.
27. Information Governance Board: Internal audit attends and contributes to the Information Governance Board including reviewing and updating policies and procedures.
28. Improvement Boards: Provision of information on the production of draft and final IA reports and follow-ups undertaken to support quarterly improvement boards.

### Professional Advice

29. A range of professional advice was provided by the IA Team across the council during the year covering controls, risks, compliance with Financial Regulations and Contract Procedure Rules and systems' development. Areas covered included advice to schools,

council tax refunds, HFTRA governance, disposal of assets, IT back ups, E-invoicing, delegations and data quality.

### **Suspected Financial Irregularities**

30. During 2012/13, 10 suspected financial irregularities were reported to Internal Audit. Investigations into 50% of these have been concluded with no significant loss to the Council. See Appendix B.

### **RELIANCE**

31. The Authority's External Auditor's, Deloitte LLP, placed reliance on the work undertaken by Internal Audit as part of the 2012/13 Annual Plan in relation to the Authority's core financial systems in operation during 2011/12 for their risk assessment of the Authority.

### **COMPLIANCE WITH STANDARDS**

32. The CIPFA Code of Practice for Internal Audit in Local Government in the UK was replaced by the Public Sector Internal Audit Standards (PSIAS) from April 2013 and a Local Government application Note was issued by CIPFA in April. Together these now constitute proper practices to satisfy the requirements of larger relevant bodies as set out in the Accounts and Audit Regulations 2011.
33. The Application Note contains a checklist for assessing conformance with the PSIAS and the Local Government Application Note and this will be used to periodically check our compliance.
34. There is also a requirement for an external assessment to be undertaken every five years and we are working with other London Boroughs to set up a series of peer reviews to satisfy this requirement.

### **PRODUCTIVITY**

35. The days available to implement the internal audit annual plan are based on an estimation of the team's productive time. To enable this estimation to be made, and to feed into performance indicator 3 (see section below), each auditor is required to record a breakdown of their time spent each day. Each element of productive time (i.e. every project/element of the annual plan plus any additions e.g. emerging risks) and each element of non-productive time (e.g. annual leave, training, audit management) is allocated a unique code and time is recorded against each code to the nearest 15 minutes.
36. The number of audit days available for the 2012/13 plan was determined via a detailed resource calculation for each auditor taking into account available days, actual days 2011/12 and allowances for annual leave, training etc. A challenging target was set for each member of the team and the combination of these targets determined the days available for the Internal Audit Plan. 914 audit days were identified for the 2012/13 plan based on an average of 191 productive days per Auditor and 150 days for the Service Manager.
37. The year-end position shows that overall the team have achieved 934 productive days which exceeds the target of 914 days by 20 days.

## LEAN REVIEW

38. The Internal Audit Team undertook a lean review in February 2013 using CIPFA guidance and included input from all members of the team. The outcomes of the review included an improved draft report format, the introduction of an Action Planning meeting with clients to expedite responses to recommendations, a revised quality control process and the streamlining of working papers.

## PERFORMANCE INDICATORS

39. The Internal Audit Quality Assurance and Performance Indicators Framework was developed in compliance with the CIPFA Code of Practice and has been operating since 2007/08 (although reviewed/updated at least annually). The aim of the framework is to demonstrate that the internal audit service is:
- meeting its aims and objectives
  - compliant with the CIPFA Code of Practice
  - meeting internal quality standards
  - effective and efficient, continuously improving
  - adding value and assisting the organisation in achieving its objectives.
40. The performance and the effectiveness of internal audit is monitored by the Service Manager Internal Audit to ensure that it improves over time, in terms of both the achievement of targets and generally in terms of the quality of the service provided to the user and to identify areas for improvement.
41. Table 3 below outlines the seven indicators agreed for 2012/13, including the key indicator covering achievement of the IA operational plan and the results achieved.

**Table 3 – Internal Audit Performance Indicator Results 2012/13**

	<b>Indicator</b>	<b>Target</b>	<b>Mid Year Results</b>	<b>Year End Results</b>
1	Recommendations agreed for implementation	95%	99%	99%
2	Final reports issued on/ahead of time	85%	100%	89%
3	Projects completed within budgeted time allowance	85%	100%	88%
4	Target met for issue of draft report after end of fieldwork	85%	100%	95%
5	Follow-up undertaken	100%	100%	100%
6	Plan achieved for Key Control reviews	100%	100%	100%
7	Plan achieved overall (Key indicator)	90%	49%	95%

## Analysis of Results

42. 3 (43%) of the targets have been met, 4 (57%) have been exceeded.

**Table 4 – Corporate Audit Indicators**

	<b>Indicator</b>	<b>Target</b>	<b>Mid Year Results</b>	<b>Year End Results</b>
1	Implementation of recommendations	90%	77%	83%



			(expected to be 97%)	(expected to be 99%)
2	Auditee response times to draft reports within 4 weeks	80%	0%	45%
3	Auditee response times to follow ups within 4 weeks	80%	10%	39%

**Analysis of Results**

- 43. None of the corporate targets have been met.
- 44. Whilst the implementation of recommendations has not met the target of 90%, it is an improvement on the 2011/12 result of 67% and it is expected to be 99% once all recommendations planned for implementation or in progress of being implemented have been fully completed.
- 45. During 2012/13 auditees were given one week longer to respond to draft reports (increasing from 3 weeks to 4 weeks) in an attempt to improve response times however this appears to have had a negative rather than a positive impact as only 45% achieved the target in comparison to 47% in 2011/12. This was picked up in the Lean Review (paragraph 38) and an Action Planning meeting has now been introduced two weeks after the draft report is issued to agree actions to enable reports to be finalised in a more timely manner. Early indications are that this will successfully improve this indicator for 2013/14. The table below shows the excess time taken for responses to be received:

<b>Report – Client Responses</b>	<b>No of Working Days Response Received after 4 week deadline</b>
Housing Rents Key Control – Housing Management	33
Housing Rents Key Control – Housing Voids	10
Corporate Accounts Receivable – Access Harrow	19
Corporate Accounts Receivable – Shared Services	25
Capital Programme	50
Contract Monitoring	98
Transformation Programme - Procurement	5
Transformation Programme – Reablement	40
Heathland Finance & Governance Review	11
Vaughan Primary Finance & Governance Review	1
Kingsley High Finance & Governance Review	2

- 46. The year end result of auditee response times to follow ups within 4 weeks (increased from 2 weeks in 2011/12 again in an attempt to improve response times) has not met the target and has actually deteriorated from 72% in 2011/12 to 39% in 2012/13. As a consequence the target response time will revert to 2 weeks for 2013/14 and consideration will be given to introducing a follow-up meeting to obtain the information required. The table below shows the excess time taken for responses to be received:

<b>Follow Ups – Client Responses</b>	<b>No of Working Days Response Received after 4 week deadline</b>
Grants to Voluntary Organisations	37
Customer Service Standards – Housing	109
Customer Service Standards – Revenues & Benefits	6
Customer Service Standards – PDP	111
Customer Service Standards – Access Harrow	7
Customer Service Standards – Building Control	7
Customer Service Standards – Childrens & Early Years	14
Customer Service Standards – Registrars	5
Contract Management	29
Aylward CCTV	1
Krishna Avanti Financial Controls	6
Roxbourne Junior CCTV	1
Application of Contract Procedure Rules – Corporate Finance	59
Application of Contract Procedure Rules – HRD	59
Norbury Data Security	17
Stanburn Petty Cash	1
Moriah IT Data Security	187

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