

SUBJECT:	<b>Internal Audit: Progress Report</b>
MEETING:	<b>Governance Committee</b>
DATE OF MEETING:	<b>25<sup>th</sup> September 2012</b>
REPORT OF:	<b>Chief Internal Auditor</b>
REPORT DATE:	<b>August 2012</b>

<b>1 Opinion definitions</b>
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<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>
Substantial assurance	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance	Basically a sound framework in place but with recurring evidence of inconsistent application.
Limited assurance	Critical weakness(es) identified within the framework and / or significant evidence of inconsistent application.
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.

**2 Status of 'live' reports:**

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Payroll	23/03/10	Corporate Services	Substantial	Substantial	3(2)	-	2(1)	1(1)
Creditors	31/03/10	Corporate Services	Substantial	Substantial	5(0)	-	3(0)	2(0)*
Internet and Email	20/07/11	Corporate Services	Adequate	Substantial	4(0)	-	3(0)	1(0)
School Admissions	19/08/11	Children's Services & Learning	Adequate	Substantial	3(1)	-	2(1)	1(0)
Joint Commissioning Standards	09/09/11	Health and Adult Social Care	Limited	Adequate	26(12)	1(0)	24(11)	1(1)
Repairs and Maintenance	07/10/11	Corporate Services	Adequate	Adequate	3(1)	-	2(0)	1(1)
Grants to Voluntary Organisations	18/10/11	Economic Development	Adequate	Adequate	11(4)	-	6(2)	5(2)
Street Lighting PFI	03/11/11	Environment	Adequate	Substantial	21(0)	1(0)	13(0)	7(0)
Day Care Thematic review	19/03/12	Health and Adult Social Care	Limited	Adequate	28(12)	13(2)	13(10)	2(0)
Licensing	19/03/12	Corporate Services	Substantial	Substantial	6(1)	-	5(1)	1(0)
Bitterne Park Junior School	23/03/12	Children's Services & Learning	Limited	Substantial	28(19)	4(0)	21(19)	3(0)
Locality Teams	20/04/12	Health and Adult Social Care	Adequate	Adequate	4(4)	-	-	4(4)
Payroll	21/05/12	Corporate Services	Adequate	Adequate	22(18)	3(1)	9(9)	10(8)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Teachers Pension	24/05/12	Corporate Services	No	Limited	16(16)	-	7(7)	9(9)
Weston Park Junior School	11/06/12	Children's Services & Learning	Limited	Limited	23(19)	4(2)	15(13)	4(4)
Repairs and Maintenance - Housing	12/06/12	Environment	Limited	Limited	13(5)	7(3)	6(2)	-
IT Solutions Development and Support	28/06/12	Corporate Services	Adequate	Adequate	3(0)	3(0)	-	-
Provider Services	24/07/12	Health and Adult Social Care	Adequate	Adequate	6(1)	2(0)	3(0)	1(1)
Highways	01/08/12	Environment	Substantial	Substantial	2(0)	2(0)	-	-

\* Implementation of management actions are contingent on the delivery of the Procurement to Pay initiative (scheduled October 2012)

### 3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

**Audit title: Weston Park Junior School (11 Jun 2012)**

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Adequate Assurance

#### **Executive summary:**

During the financial year the school experienced significant change. The previous Headteacher retired in August 2011 and eight staff members left. The school have an Executive Headteacher and Deputy Headteacher and new staff have been employed. Adverse Ofsted reports resulted in extra training for staff.

#### **Key finding from the audit review highlighted**

Financial Procedure Rules were not routinely complied with.

- Changes in staff numbers over the last two years had led to a lack of segregation of duties for key functions leaving staff vulnerable and increasing the risk of fraud.
  - I. The Business Manager was the only member of the school staff undertaking payroll procedures. There were no written payroll procedures for the school which further increased the school's reliance on the Business Manager.
  - II. The Administration Officer was responsible for the collection, recording and banking of income with no reconciliation or monitoring performed by an independent member of staff
  - III. The business manager retained responsibility for raising orders, checking goods received and payment
- Orders were not raised for all purchases as required in the Financial Procedure Rules. Such omission will have greater impact on the school when Purchase to Pay is introduced.
- Inconsistencies were noted between delegated financial responsibilities agreed by Governors and those documented in the schools financial procedures

- Buying into the Insurance Service Level Agreement with the Council provides the school with liability cover as well as covering their assets, however there was no register of key holders for the premises and no inventory of school assets which could jeopardise insurance claims.
- Redundant computer equipment was not being disposed of but was stored in the decommissioned swimming pool area.

Data Security – The ITC Technician backed up the school IT system each evening to external hard drives one of which was left on the school premises and the other taken home. There are significant risks to the security of data taken offsite and leaves the school susceptible to breach of the Data Protection Act

**Management actions and update:**

Implementation of contracts register  
 Review of office layout and security  
 Review of banking procedures  
 Review of segregation of duties  
 Introduction of key register  
 Revised IT backup and security arrangements

**High priority actions overdue:**

Review of financial procedures\*  
 Register of staff interests\*\*  
 Staff training (FOI, DPA)\*\*  
 Review of school inventory & disposal policy\*\*  
 \* review complete, awaiting Governor sign off at September meeting  
 \*\* Policies and procedures have been produced over the summer break and will be implemented during September when staff return for the autumn term

**Audit title: Housing – Repairs & Maintenance (12 Jun 2012)**

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Limited Assurance

**Executive summary:**

The housing repairs service is currently undertaking a significant piece of work to establish how the service can become more efficient and improve quality for its customers. The lean process review is establishing if the current processes followed are appropriate and if the quality of service delivered meets expectations.

This Internal Audit review has been undertaken independently of the lean process review and has focussed on specific areas as identified by the Senior Manager for Housing Operations to avoid duplication.

**Job Management** - Inconsistencies were identified with the recording of jobs on the run sheets and it was difficult to ascertain if the actual time recorded to the job was productive, within budget and met priority timeframes. A Repair Quality Control System is in place to record the quality of the work undertaken on the jobs, however, of the jobs selected for the audit review, none could be found within the system.

A schedule of planned maintenance was not maintained as all works were automatically scheduled within the IWorld system. Exception reports were available within IWorld to ascertain properties which had not been inspected but they were not used.

**Stock** - No evidence was provided to demonstrate reconciliation of stock used on jobs, held on vans and stored within the depot stores. An annual stock take was not routinely undertaken to ensure the financial values held were correct and there was uncertainty if the current stock list was up to date. Without an overall review of how all trades manage their work and stock, there is a risk of inconsistent practices resulting in inefficiencies and the potential for losses going unnoticed.

**Procurement** On review of supplier payments a number of suppliers were identified with significant spend, however, they did not appear on the contractor list supplied by Business Support. No formal contract register was in place and therefore limited assurance can be given that the correct procurement processes have been adhered to.

**Safeguarding of assets** - There were inconsistencies with the overnight storage of vehicles. Some are held off site and some were retained on site. The fleet register records the trade the van has been allocated to but does not report if it has been given to a specific tradesman or if the van is retained on site when not in use or taken home. Van stock was not routinely checked on the vehicles and without clear allocations and security arrangements the Council would be liable for costs incurred in the event of theft or damage to a vehicle.

**Mobile Phones** - Although there was a local policy in place not all officers who have a Council mobile had signed an agreement to state that they will pay for private calls. Only mobile phone statements with costs in excess of £70 were monitored and therefore any abuse of the mobile phone policy would not be identified for those under this threshold. There was no monitoring schedule in place to record deductions from salaries or alternative payments for the use of mobile phones for personal calls. For the year 2011/12 total cost of calls reimbursed was £255.47 against an accumulated mobile phone bill of approximately £40,000.

**Management actions and update:**

Run sheets have been reviewed to ensure consistency  
Review of suppliers completed & communicated to staff  
Update & review of fleet register completed  
Stock accounts set up for all van stocks  
Confirmation of divisional arrangements for maintaining declarations of interest disseminated to all staff

**High priority actions overdue:**

None

## 4 Internal Audit Performance

### **% of plan completion**

Analysis of audit activity to date confirms that 21% of the 2012/13 audit plan (including 2011/12 c/f) is complete or work in progress.

### **Consultation on revised standards**

Organisations in the UK public sector are currently covered by different internal audit standards, with the local government sector using the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code)

As organisations work more closely together in formal partnership and informal arrangements, and internal auditors work across the public sector, the following weaknesses in the current situation have become apparent:

- A lack of consistency across the UK public sector and inconsistent update processes for the standards in use;
- Different guidance for different, but related, sectors; and
- No structure to articulate public sector needs and influence best practice development.

A collaboration announced by CIPFA and the IIA in May 2011 has led to an agreement between relevant internal audit standard setters to develop a set of internal audit standards applicable to all areas of the UK public sector.

It is proposed that the Public Sector Internal Auditing Standards (PSIAS) will come into force from the 1 April 2013.

During July the Internal Audit Standards Advisory Board (IASAB) invited a period of consultation on the new PSIAS. The Chief Internal Auditor is in the process of compiling a response to the consultation for which submissions are required by 14 September 2012.



## **5 Planning and Resourcing**

The internal audit plan for 2012-13 was approved by the Management Board of Directors and the Audit Committee in April 2012. The audit plan will remain fluid to ensure internal availability to react to the changing needs of the Council. Progress against the plan is detailed within section 7

## **6 Fraud and Irregularities**

Within the year we have assessed and where appropriate, advised, investigated or supported the investigation of seven allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act (Whistleblowing) Policy. Of these:

- 1 was investigated, but with no further action required;
- 1 was investigated to assist police with their enquiries
- 2 resulted in disciplinary action; and
- 3 remain ongoing

**7 Rolling work programme**

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<b>2011/12 Audit Plan</b>					
Housing and Council tax Benefits	✓	✓	✓	✓	16 Apr 2012
Locality Teams	✓	✓	✓	✓	20 Apr 2012
Payroll	✓	✓	✓	✓	21 May 2012
Teachers Pension	✓	✓	✓	✓	24 May 2012
General School Review – Weston Park Junior School	✓	✓	✓	✓	11 Jun 2012
Repairs and Maintenance - Housing	✓	✓	✓	✓	12 Jun 2012
General School Review – Harefield Primary School	✓	✓	✓	✓	12 Jun 2012
Computer Installations and Operations	✓	✓	✓	✓	13 Jun 2012
Main Accounting System	✓	✓	✓	✓	27 Jun 2012
IT Solutions Development and Support	✓	✓	✓	✓	28 Jun 2012
Provider Services	✓	✓	✓	✓	24 Jul 2012
Highways Futures	✓	✓	✓	✓	01 Aug 2012

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Financial Management	✓	✓	✓	✓	24 Aug 2012
Across School Thematic review	✓	✓	✓	✓	
General School Review – Redbridge Community School	✓	✓	✓	✓	
Procurement	✓	✓	✓	✓	
Debtors	✓	✓	✓	✓	
Mobile Phone Policy	✓	✓	✓	✓	
Sports and Recreation Partnership	✓	✓	✓	✓	
Human Resources	✓	✓	✓	✓	
<b>2012/13 Audit Plan</b>					
Annual Governance Statement	✓	✓	✓	✓	29 May 2012
Teachers Pensions	✓	✓	✓	✓	
Street Cleansing and Parks & Open Spaces	✓	✓	✓	✓	
PUSH	✓	✓	✓	✓	N/A
Solent Sea Rescue Organisation	✓	✓	✓	✓	N/A
Reactive Fraud	N/A	N/A	N/A	N/A	N/A

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Precautions against fraud	N/A	✓			
National Fraud Initiative	N/A	✓			
Capital Programme Management	✓	✓			
General school reviews	✓	✓			
Schools Grant Funding	✓	✓			
Heating Charges	✓	✓			
European Funding	N/A	✓			
Procurement	✓	✓			
Public Health	✓	✓			
Cash Collection and Banking	✓				
MARP - Multi Agency Resource Panel	✓				
Fraud Thematic Review(s)	✓				
Change Programme					
Corporate Communications and Marketing					
Health and Safety					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Information Governance					
Human Resources					
Contract Management					
Project management					
Strategic Service Partnership					
Electoral Registration					
Code of Conduct (Members and Officers)					
Effectiveness of the Role of Internal Audit	N/A	✓	✓	✓	
Housing rent collection and Debt Management					
Housing and Council Tax Benefits Administration					
Accounts Payable					
Accounts Receivable					
Financial Management					
Council Tax					
NNDR					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Main Accounting System					
Payroll					
IT Applications & Operating Systems					
Network Management and Security					
Internet/e-mail					
Inventory Management					
Development Management					
Southampton New Arts Centre (SNAC)					
Across Schools - Thematic Review					
Locality Teams - Statutory Schools Work / Providers					
School support services					
Highways					
Street Lighting PFI					
Waste and Recycling Services					
Itchen Bridge					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued ( <i>proposed</i> )
Housing Operation Transformation					
Sustainability (Use of Natural Resources / Carbon Reduction)					
Estate Regeneration					
Think Local, Act Personal - (Personalisation)					
Joint Commissioning					
Safeguarding					
Financial Assessment Process					
PARIS					