

AUDIT COMMITTEE

26 SEPTEMBER 2011

INTERNAL AUDIT PROGRESS REPORT TO 31 AUGUST 2011

REPORT OF INTERNAL AUDIT MANAGER

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RECENT REFERENCES:

[PS442](#) – Internal Audit Strategy and Audit Plan 2011/12 to 2013/14 – 7 March 2011

[AUD001](#) – Review of the Effectiveness of Internal Audit (including End of Year Report to 31 March 2011) – 29 June 2011

EXECUTIVE SUMMARY:

This report sets out the Internal Audit coverage, findings and performance to 31 August 2011, including completion to final report stage of the 2010/11 audits of Accountancy, Payroll and Housing Rents.

The report also identifies a current shortfall of Internal Audit resources mainly due to the post of Auditor currently being vacant within the Internal Audit team. The shortfall in resources was formally reported to the Corporate Management Team on 13 September 2011 and the recommendation shown below approved.

It is recommended to procure resources from within existing budgets for the audits of Creditors, Debtors and ICT Security so they can be completed in 2011/12 and to postpone the audits of Contracts and the Housing Term Contract to 2012/13. The scope will be reduced for the audits of Commissioning, Car Parks, the Guildhall and Markets. In addition the audit entitled "Appointment of External Auditors" has been removed as no longer required at this time (see AUD009 elsewhere on this agenda). A risk based approach has been used to ensure the revised audit plan is sufficient to provide a robust audit opinion at the year end on the Council's internal control framework whilst managing to deliver a small financial saving on this year's Internal Audit Staffing costs.

The above changes to the plan are recorded in the Audit Plan and Progress Table shown in Appendix A.

Twenty five percent (7 audits, including one of two follow up audits) of the original 27 programmed audits in the audit plan have been completed to final or draft report stage and a further seven percent (2 audits) are work in progress. In addition to this three audits from the 2010/11 plan that were to be finalised as part of the 2011/12 plan have now been completed.

In addition to the above, one piece of work has been undertaken and completed at the request of the S151 Officer (contingency budget) and one special investigation to draft report stage.

The Audit Plan for 2011/12 is shown in tabular form at Appendix A of this report and provides details on the progress of this year's audit plan.

The Executive Summaries for the 2010/11 audits of Accountancy (including VAT, Treasury Management and migration of financial records to the new finance system), Housing Rents and Payroll are detailed in Appendix B.

RECOMMENDATIONS:

1. That the matters raised by Internal Audit and action taken by Management are noted.
2. That the changes to the 2011/12 Internal Audit Plan are approved.

AUDIT COMMITTEE26 SEPTEMBER 2011INTERNAL AUDIT PROGRESS REPORT: TO 31 AUGUST 2011REPORT OF INTERNAL AUDIT MANAGERDETAIL:1 Assurance Opinion

- 1.1 One substantial opinion (Corporate Governance) has been given on the work completed in 2011/12 as at 31 August. There is one area of particular note that requires improvement as considered high risk as identified in paragraph 1.2 below.
- 1.2 The completion of the 2010/11 audit of Accountancy has identified that full systems access is available to a limited number of finance officers (3) which is considered to be a significant weakness in controls, which management are currently in the process of addressing. This is to be achieved by minimising the number with full access and by putting in additional compensating controls.
- 1.3 A large piece of audit work is now at draft report stage on a review of various elements of Housing Services including contracts, management of void properties and programmed and responsive repairs for a range of works.

2 Audit Plan Progress

- 2.1 Appendix A indicates the progress against the 2011/12 audit plan to 31 August 2011.
- 2.2 Twenty five percent (7 audits, including one of two follow up audits) of the 26 programmed audits in the audit plan have been completed to final or draft report stage and a further seven percent (2 audits) are work in progress. In addition to this three audits from the 2010/11 plan that were to be finalised as part of the 2011/12 plan have now been completed.
- 2.3 In addition to the above, one review has been undertaken at the request of the S151 Officer and one special investigation, both utilising the contingency budget.

3 Outstanding Internal Audit Recommendations

- 3.1 All Directors and Heads of Team are aware of their outstanding Audit Actions and these are now monitored on Covalent. Internal Audit will provide an update to the Audit Committee on implementation of high

risk management actions in December and a full update will be provided in the Internal Audit Annual Report at the end of 2011/12.

4 Partnership Progress

- 4.1 The Audit Manager to date has spent 33.3% of his time on Winchester City Council audit matters and 33.3% at Havant Borough Council and 33.3% at Test Valley Borough Council. The annual target is 33.3% at each site.
- 4.2 Winchester City Council currently owes 19 audit days to Havant Borough Council and 3 days to Test Valley Borough Council. Commitments are scheduled in to ensure no days are owed to HBC and TVBC at the end of March 2012.

5. Other Matters

- 5.1 Internal Audit has an overall productive time (chargeable days) target of 90%. Performance was slightly below target at 88.6%.

OTHER CONSIDERATIONS:

6. SUSTAINABILITY COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 6.1 Internal Audit contributes through the annual audit plan to the corporate governance arrangements of Winchester City Council, which in turn supports the achievement of the objectives of the Sustainable Community Strategy and Change Plans.

7. RESOURCE IMPLICATIONS:

- 7.1 There is a current shortfall in resources of 114.5 audit days mainly due to a vacancy that has arisen within the Internal Audit Team.
- 7.2 The shortfall in resources was formally reported to the Corporate Management Team on 13 September 2011 and the recommendation shown below approved.
- 7.3 It is recommended to procure resources from within existing budgets for the audits of Creditors, Debtors and ICT Security so they can be completed in 2010/11 and to postpone the audits of Contracts and the Housing Term Contract. The scope will be reduced for the audits of Commissioning, Car Parks, the Guildhall and Markets. In addition the audit entitled "Appointment of External Auditors" has been removed as no longer required at this time (see AUD009 elsewhere on this agenda. A risk based approach has been used to ensure the revised Audit Plan is sufficient to provide a robust audit opinion at the year end on the Council's internal control framework whilst managing to deliver a small financial saving on this year's Internal Audit Staffing costs.

8. RISK MANAGEMENT ISSUES

- 8.1 The Internal Audit plan for 2011/12 is linked to the Corporate Risk Registers to ensure, where possible and appropriate, Internal Audit review those areas considered to be of the most significant risk. The annual plan was approved by Principal Scrutiny Committee and continues to be reviewed to ensure they are in line with the risk registers and as a consequence have an audit programme closely linked to the Sustainability Community Strategy and Change Plans. This role now rests with the Audit Committee.

BACKGROUND DOCUMENTS:

Working papers and Audit Reports held within the Governance Group (some exempt).

APPENDICES:

Appendix A: Provides details on the progress of this year's audit plan to 31 August 2011.

Appendix B: Executive Summaries for completed audits.

APPENDIX A**Progress of 2011/12 Audit Plan to 31 August 2011**

<u>Audit Assignment</u>	<u>Planned Days</u>	<u>Actual Days</u>	<u>Stage / Comment</u>
CONTINGENCIES			
S151 Requests	10	1	1. Fraud Survey completed for the Audit Commission.
Special Investigation	40	33	1. Property Services – draft report stage
CORE AUDIT (COMPULSORY)			
Accounting system	33		Qtr 4
Asset Management	18	23	Draft Report Stage
Benefits	28		Qtrs 2 and 3
Car Parks	22.5 12.5		Qtr 4 Scope of audit reduced due to re-alignment of resources
Cash collection	23	15	Draft report Stage
Council tax	12.5	2	In-progress
Creditors	18	1	Qtr 4 – Resources to be procured to undertake this audit.
Debtors	7.5		Qtr 4 – Resources to be procured to undertake this audit.
Housing Rents	13		
NNDR	12.5	5	In-progress
Payroll	22.5		
Follow ups	22.5	2	One review of outstanding high risk actions reported to the Audit Committee (AUD001 – 29 June 2011). Next review Qtr 3.

<u>Audit Assignment</u>	<u>Planned Days</u>	<u>Actual Days</u>	<u>Stage / Comment</u>
CORPORATE/CROSS SERVICE AUDITS			
Appointment of External Auditors	10		Not now considered relevant. Removed from the Audit Plan.
Commissioning	18 13		Qtr 3 - Scope of audit reduced due to re-alignment of resources
Contracts	28		Removed from Plan due to re-alignment of resources
Corporate Governance	18	21	Completed in Qtr 1
Flexible Working	18	21	Draft Report Stage
Fraud Prevention	23	15	Draft Report Stage
ICT Security Policy	13		Qtr 4 – Resources to be procured to undertake this audit.
ICT Shared Service	13		Qtr 3
Performance and Risk Management	23	18	Draft Report Stage
ONGOING ACTIVITIES			
Advice and Assurance to Customers as required.	20	7	Ongoing
Anti Fraud and Corruption Policy and Awareness Training	5	.5	Qtr 3
Audit Planning and Reporting	25	9	Ongoing
Customer Excellence Project	10	11	Qtrs 1, 2 and 3
External Audit Liaison	6	.5	Ongoing
NFI Fraud Prevention	10	2	Ongoing
Role on Governance Group	3	1	
Role in Major Projects	8	9	1. SELIMA Upgrade 2. ASPIRE
SERVICE AUDIT			
Environmental Services Contract	17		
Guildhall	12 7	1	Qtr 4 - Scope of audit reduced due to re-alignment of resources

<u>Audit Assignment</u>	<u>Planned Days</u>	<u>Actual Days</u>	<u>Stage / Comment</u>
Housing Term Contract (responsive maintenance and void repairs)	17	1	Removed from Plan due to re-alignment of resources
Markets	12 7		Qtr 4 - Scope of audit reduced due to re-alignment of resources
COMPLETION OF 2010/11 AUDITS TO FINAL REPORT STAGE	15	27	1. Accountancy completed – please see Appendix B, Item 1. 2. Housing Rents completed – please see Appendix B, Item 2. 3. Payroll completed – please see Appendix B, Item 3.
Total	607 527	226	

APPENDIX B**Item B.1****Executive Summary – Accountancy, Treasury Management and VAT 2010/11 (incorporating Data Migration for e-Financials)**

1. Overview of the objectives of the audit
 - 1.1. The objectives of the audit were to establish the level and effectiveness of control for the various financial activities operating at Winchester City Council.
2. Key messages from the audit
 - 2.1. The controls in place relating to the budget setting, budget monitoring and reporting processes were found to be operating effectively. Since the previous audit improvements have been made relating to the retention of documentary evidence to support manual adjustments to the financial management system, such as journals and virements. There were still however a minimal number of instances where documentation to provide evidence of appropriate approval could not be found.
 - 2.2. Financial Services have, during the last three years, developed processes for recording regular duties that provide assurance on the timeliness, completeness and accuracy of financial information e.g. control account and monthly bank reconciliations. Internal audit can provide reasonable assurance that these duties have taken place during the year; however the records would indicate that these duties have not been completed with the frequency as originally planned.
 - 2.3. The VAT Returns for 2010-11 (April to October) were confirmed as being submitted on time, in line with the deadlines set by HM Revenue and Customs (HMRC).
 - 2.4. The Treasury Management Informal Scrutiny Group, in their report dated 15 September 2010 considered the procedures to be generally acceptable and recommended actions for further development. The majority of these actions have been implemented, however system constraints have not allowed for procedures to be fully implemented for the separation of duties for the dealing, transmission of funds and the recording and administering of treasury management decisions, which would further improve the overall strength in the process.
 - 2.5. The Council's financial management system Financials went live in October 2010 so this year's audit incorporated reviewing the testing completed as part of the implementation project of the new system. Internal audit can only place limited assurance on whether specific testing was completed at the time of the implementation. However,

re-performance of such testing at the time of the audit confirmed that data had been captured accurately from the old system, providing reasonable assurance on the standing data held.

2.6. The main area of concern with Financials relates to the set up of privacy and access group which were not tested adequately before the system went live. An additional issue with the access groups is that full access has been given to a limited number of officers meaning that the in-built system access controls could be overridden.

2.7. As a result of this audit nine actions have been agreed with management of which two are classified as high risk. One recommendation raised in the previous audit has been noted to still require attention.

3. Management Comments

3.1. There were significant changes to the Financial system and associated procedures during 2010/11, and also to the financial accounting requirements with the introduction of International Financial Reporting Standards. Working within limited resources has required prioritisation and risk management, and there has been a high dependency on number of key individuals who have worked very long hours to achieve the current position. The changes in procedures have had the effect of some of the previous "manual" controls becoming "system based" and there is an urgent need to ensure that compensating controls over systems administration are in place. This is being addressed.

Item B.2

Executive Summary – Housing Rents 2010/11

4. Overview of the objectives of the audit

4.1. The objectives of the audit were to examine the controls in place for the overall management and control of housing rental income by Winchester City Council. This covered all relevant business processes undertaken; budgetary / financial and contractual arrangements with the tenant, including the use of Orchard and the Council's Electronic Record Management system in these processes.

5. Key messages from the audit

5.1. Rent charges for 2010-2011 have been properly calculated and applied in line with the relevant guidance issued by the Department for Communities and Local Government. Properties are properly accounted for on Orchard and an annual reconciliation process

confirms that the details are correct. Individuals' rent accounts and the Council's main accounting system are updated in a timely manner with reconciliations between the cash income and benefits systems providing assurances that the details are accurately captured.

- 5.2. Internal Audit can confirm that regular reviews of the arrears position take place and actions are taken to try and address the ongoing issue. A robust process of approvals, including the law-courts, is in place where re-possession action is indicated as the last resort. Write offs are fully documented for justification and authorised in line with regulations.
- 5.3. Although void properties are correctly recorded on Orchard, there are lengthy delays in assessing the value of re-chargeable works attributable to former tenants with consequent delays in billing.
- 5.4. Computer access controls to Orchard provide for appropriate separation of duties between the housing management and finance functions. However, improvements to the physical security over files and property packs (including keys to void properties) are recommended to limit the risk of properties being compromised through unauthorised access.
- 5.5. As a result of this audit six actions have been agreed with management none of which are classified as high risk. Four actions raised in previous audits are noted to still require attention; two of these are high level actions.

6. Management Comments

- 6.1. With over £22 million of income generated each year through Housing rents, it is reassuring to note the comment above regarding the accuracy achieved through existing systems and controls.
- 6.2. The recommendations are noted. All are supported and will be implemented as agreed.

Item B.3

Executive Summary – Payroll Audit 2010/11

7. Overview of the objectives of the audit

- 7.1. The objectives of the audit were to ensure that the systems of control in place over the operation of the payroll function were adequate for the 2010 / 2011 financial year.

8. Key messages from the audit

- 8.1. The high level controls over reconciling payments to the ledger, payments via the BACS system and remittances to third parties from payroll deductions were all observed to operate well.
- 8.2. It was noted that since the previous audit improvements had been made in the completeness of documentation for permanent staff personnel files held on Retriever. There were still however a minimal number of instances where documentation, providing evidence of the checks taking place, could not be traced for a sample of starter and leavers.
- 8.3. The audit identified a lapse in the regularity in the circulation of establishment and absence reports to management and the reporting against payroll performance indicators. It is acknowledged by internal audit that there has been a requirement to change the structure of Selima aligning it to organisational changes implemented as part of the Council's Corporate Change Programme and during this exercise it was not possible to produce and distribute reports.
- 8.4. Annual leave, overtime and expenses claims are being appropriately authorised by the Departmental management.
- 8.5. As a result of this audit nine actions have been agreed with management of which none are classified as high risk. It should be noted that four actions have already been fully implemented.

9. Management Comments

- 9.1 It is helpful to undertake a Payroll Audit to continue to check upon the robustness of the controls in place and make further improvements where necessary. A significant amount of work has been done by the Payroll and Human Resources functions to make changes to the control processes since the last Audit. Managers also have a role in ensuring Payroll controls are maintained and they will be reminded of their responsibilities to ensure full compliance with the necessary processes.