

# Audit and Governance Committee



## 13 January 2010

Report of **Audit Manager**

Report No. 93/09

Author: **Adrianna Partridge**

Telephone: **01235 547615**

Wards Affected  
All

E-mail: **adrianna.partridge@southandvale.gov.uk**

Executive Portfolio Holder: **Councillor Jerry Patterson**

Telephone: **01235 850275**

E-mail: **jerry.patterson@whitehorsedc.gov.uk**

## Internal Audit Management Report Quarter 3 2009/2010

### *Recommendations*

*That members note the content of the report*

### **1. Purpose of Report**

1.1 The purpose of this report is:

- to report on management issues
- to summarise the progress of internal audit against the 2009/2010 audit plan up to the 22 December 2009.
- to summarise the priorities and planned audit work for quarter 4 2009/2010.

1.2 The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

### **2. Relationship with Corporate Plan**

2.1 This report supports the council's vision to build and safeguard a fair, open and compassionate community.

### 3. Background

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the Head of Internal Audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.
- 3.2 The CIPFA Code also states that the Audit Committee should approve the annual internal audit plan and monitor progress against the plan. This Committee approved the annual internal audit plan on the 25 March 2009.

### 4. Management Issues

- 4.1 The auditor vacancy at VWHDC has now been carried for five and a half months, and during November the senior auditor post was made redundant as a cost saving measure and the officer left the employment of the council. Due to the staff issues, the audit manager's operational responsibility for payroll and the forthcoming maternity leave of the audit manager (February), there are now significant resource and management issues for the remainder of 2009/2010 and for 2010/2011. A separate paper has been written by the audit manager identifying the issues and the planned approach, and this is attached as **Appendix 1**.
- 4.2. The auditor vacancy has been recruited to, and it is expected that the new auditor will commence employment on 11 January 2010. This will allow a three week induction period with the audit manager before maternity leave commences.

### 5. Progress against the 2009/2010 Audit Plan

- 5.1 Progress against the approved audit plan has been calculated for the quarter up to the 22 December 2009 and year to date and is summarised in **Appendix 2** attached.
- 5.2. Performance figures are as follows:

	Target	YTD	Q1 09/10	Q2 09/10	Q3 09/10	Q4 09/10
<b>Chargeable</b> (identifiable client and/or specific IA deliverable)	71%	63.5%	68.5%	41%	71%	-
<b>Non-Chargeable</b> (corporate, not IA deliverable)	9.5%	10%	10.5%	14%	7.5%	-
<b>Lost</b> (i.e leave, study, sickness)	19.5%	26.5%	21%	45%	21.5%	-

- 5.3 Due to the management issues identified above, performance has been affected. However, the team continue to diligently work to the planned audit programme and it is the audit manager's opinion that any variance against target will be attributable to resource and management pressures rather than underperformance of the team.

5.4 As at 22 December 2009, the status of audit work is as follows:

Planned

Strategic, operational and financial assurance work known and approved by the Audit and Governance Committee.

2009/2010	Planned	Complete	Draft	In progress	To commence
<b>PLANNED</b>	<b>31</b>	<b>16 (51%)</b>	<b>1 (3%)</b>	<b>7 (23%)</b>	<b>7 (23%)</b>
Joint	23	8	1	7	7
SODC	4	4	0	0	0
VWHDC	4	4	0	0	0

Adhoc

Unplanned project work based on agreed terms of reference with the Audit Manager (i.e. implementation of new systems) and responsive work issued and agreed by the S151 Officer, Members or Senior Management Team (i.e. investigations).

2009/2010	Requested	Complete	Draft	In progress	To commence
<b>ADHOC</b>	<b>6</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>1</b>
Joint	1	0	1	0	0
SODC	2	1	0	0	1
VWHDC	3	3	0	0	0

Follow Up

Work undertaken to ensure that agreed recommendations have been implemented. The number of follow-up audits is a rolling number, all internal audit reports are followed up after 6 months.

2009/2010	Requested	Complete	Draft	In progress	To commence
<b>FOLLOW - UP</b>	<b>43</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>31</b>
Joint	14	0	0	0	14
SODC	13	5	0	0	8
VWHDC	16	7	0	0	9

## 6. Priorities for 2009/2010 Quarter 4 (January 2010 – March 2010)

6.1 The priority for quarter 4 is:

- To prioritise and schedule the remaining 2009/2010 planned audit work, and ensure all priority 1 audits are completed
- To prepare the Audit Allocation and Audit Plan for 2010/2011
- To ensure a smooth handover from the audit manager to the head of finance and internal audit team.

6.2. Planned audit work which is currently ongoing and has been scheduled for quarter 4 is as follows:

Joint Audits	SODC Audits	VWHDC Audits
Brown Bin Scheme	-	-
Capital Accounting		
Council Tax		
Creditor Payments		
Financial Systems		
Reconciliation		
General Ledger		
Information Governance		
NNDR		
Payroll (Client)		
Payroll (Contractor)		
Pro-Active Anti-Fraud Review		
S106 Commuted Sums		
Sundry Debtors		
Treasury Management		
Verification of PI Calculation		

6.3 Follow-up work which is scheduled for quarter 4 is as follows:

<b>Joint Audits</b>	<b>SODC Audits</b>	<b>VWHDC Audits</b>
Anti-Fraud and Corruption Contract Monitoring Corporate Governance Council Charges Disaster Recovery Emergency Planning GIS Internal Recharges Partnership Performance Mon. Petty Cash Procedures Receipt of Income Arrangements Records Management Stock Control VFM CCTV Contract	Car Park Income Cornerstone – Couture Focus Group Cash Payments Human Resources Licensing Post Room Temporary Accommodation Tourism	Business Continuity Complaints Process Consultation DSO Accounting Freedom of Information Lone Working / Officer Security Oxfordshire Waste Rent Accounting SOLL Leisure

ADRIANNA PARTRIDGE  
 AUDIT MANAGER

## Resource and Management Issues 2009/2010 and 2010/2011

### PURPOSE

1. The purpose of this briefing note is to identify resource and management issues within internal audit for the remainder of 2009/2010 and 2010/2011, and to document potential implications of the reduction in resources within internal audit.

### RESOURCE ISSUES

2. During 2009/2010 the audit manager has had operational responsibility for payroll across both sites. This work is utilising approximately 40% of the audit manager's time.
3. The team has carried an auditor vacancy since 20 July 2009 due to the corporate policy to leave vacancies for a period of at least three months. However, this post will be filled from 11 January 2010.
4. On 6 November 2009, the senior auditor was formally informed that his post was at risk of redundancy as a cost saving measure. The officer left the employment of the council on 20 November 2009.
5. The audit manager is due to commence maternity leave in February 2010, for at least a period of nine months. A decision has been made not to back-fill this position due to budget pressures.

### WORK AND MANAGEMENT IMPLICATIONS

#### Planned Audit Work 2009/2010

6. Remaining planned audit work has been prioritised and scheduled with the auditors. On the assumption that no further contingency or consultancy work is undertaken before the end of the financial year, all priority one audits will be completed.
7. Planned audits that will not be met in 2009/2010 due to resource issues are:
  - Priority 2 – Car Loans (VWHDC 7)
  - Priority 2 – Cornerstone – EP, DR and BCP (SODC 8)
  - Priority 2 – Project Management (Joint 30)
  - Priority 3 – HR Grievance (Joint 20)
  - Priority 3 – FTF Implementation Review (SODC 10)
  - Priority 3 – Pest Control (SODC 8)
  - Priority 3 – Stray Dogs Contract (VWHDC 10)

These audits will be rolled forward to the 2010/2011 internal audit plan.

8. If any contingency/consultancy work arises between now and the end of the financial year, then this will either need to be met from the corporate contingency fund (Mazars to undertake the work) or key financial system audits will not be

undertaken (this could impact on the Audit Commission, use of resources and assurance given in the Internal Audit Annual Report).

### Planned Audit Work 2010/2011

9. In comparison to 2009/2010, there will be a reduction of two full-time staff in 2010/2011 and no dedicated manager to lead the team. As such, only carry-forward and essential planned audit work will be undertaken, limited management responsibilities will be fulfilled, there could be a decline in the quality of audit work and internal audit may be unable to respond to any contingency/consultancy/corporate requests. The Audit and Corporate Governance Committee can expect a significant reduction in the number of chargeable auditor days and number of planned audits to be presented to them in the Annual Plan 2010/2011 report at the March meeting.

### Management Cover 2009/2010 and 2010/2011

10. The audit manager and head of finance have assessed the management cover that can be provided during the maternity absence, within the resource restrictions. It has been agreed that a number of tasks cannot be undertaken until the audit manager returns to work. These include, but may not be limited to:

- Drafting and approval of an internal audit strategy;
- Drafting and approval of a money laundering policy;
- Consultancy work to support the council's equalities and diversity corporate agenda;
- Support to legal and democratic services on whistleblowing/fraud and corruption;
- Staff training on anti-fraud and corruption and money laundering;
- Assistance with the Audit and Corporate Governance Committee development programme;
- Revision and implementation of internal audit policies and procedures (including some actions identified in the CIPFA self-assessment);
- Ensuring an internal audit presence on the intranet and internet;
- Working with legal and democratic services on code of conduct investigations.
- Leading on the finance risk register;
- Finance representation on the middle management development programme.
- Staff appraisals.

11. It has been agreed that priority management responsibilities will be shared between the internal audit team (led by an appointed Auditor) and the Head of Finance. Responsibilities have been allocated as follows:

<b>Team Responsibilities</b>	<b>Appointed Auditor</b>	<b>Head of Finance</b>
<ul style="list-style-type: none"> <li>• Accountable for complete planned audit process.</li> <li>• Follow up work.</li> <li>• Scheduling of audit work.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of team progress against the audit plan and individual plans.</li> <li>• Ensuring time management and</li> </ul>	<ul style="list-style-type: none"> <li>• Sign off of draft reports and issue of final reports.</li> <li>• Staff management issues.</li> <li>• ACGC requirements –</li> </ul>

<ul style="list-style-type: none"> <li>• Keeping time management and performance templates up to date.</li> <li>• Peer review of TOR, file reviews and draft reports (site specific).</li> <li>• Co-ordination of absence and cover of offices.</li> <li>• Attendance at committee for limited assurance reports.</li> </ul>	<p>performance templates are up to date.</p> <ul style="list-style-type: none"> <li>• First point of contact for any issues, and communication gateway to head of finance.</li> <li>• Co-ordinating/approving with head of finance responses to adhoc/contingency requests.</li> <li>• Collation of performance statistics and committee IA Activity Report to head of finance.</li> <li>• Management/audit plan updates to the team.</li> <li>• Monthly 1-2-1s with head of finance.</li> <li>• Attendance at all committee meetings.</li> </ul>	<p>Audit Plan 2010/2011, IA Annual Report 2009/2010, every quarter IA Management Report and IA Activity Report.</p> <ul style="list-style-type: none"> <li>• RSSP reports.</li> <li>• Lead officer for any contingency work.</li> <li>• Budget holder.</li> <li>• Management of Mazars.</li> <li>• Any corporate requirements – service plan, FFTF, health and safety etc.</li> </ul>
--	---	---

12. This arrangement will be subject to ongoing review by the head of finance. Any management and resource pressures which will impact on the ability of an annual opinion to be given by internal audit, will be reported to the Audit and Corporate Governance Committees.

## **WIDER IMPLICATION OF A REDUCTION IN INTERNAL AUDIT RESOURCES**

### Control Environment

13. Both Councils are currently under significant budget pressure, are striving for greater efficiency and have implemented a shared management structure. This has led to the service structure reviews and the Fit for the Future initiative. The result of these two initiatives are/will be:

- A reduction in management positions and therefore less management oversight and a loss of knowledge of current procedures;
- A reduction in operational staff to operate key controls;
- Adverse impact on staff morale, and therefore an increased risk in inefficient practice, inappropriate/unauthorised behaviour and potential fraud and corruption;
- Harmonisation of policies/procedures and processes. Such disruption can result in a weakened control environment.

14. All of the above mean that previously strong and stable control environments may be seriously undermined during the next 18 months, and open to abuse and/or inefficient practices. This is a critical time for internal audit to address

high risk areas and provide assurance to members/officers on continuing control, act as a deterrent to potential fraud and corruption and for internal audit to contribute to the re-designing of harmonised policies/procedures and processes. A reduction in internal audit resources means that input and coverage will be limited, and therefore there is a greater risk that strong and stable control environments will not be sustained. This could expose the councils to unacceptable risk and avoidable cost, and impact negatively on both councils' use of resources score for internal control.

### Audit Commission

15. In the 2008/2009 Annual Governance Report for both councils it states that 'the internal control environment is strong with internal audit being respected and valued. Members and officers take their findings seriously and clear improvements are being delivered to the control environment as a result'. (SODC: paragraph 22/VWHDC: paragraph 15) The comment against SODC KLOE 2.4 states that 'Internal audit is well respected within the council. They have carried out an assessment of themselves against CIPFA standards (reviewed by S151 Officer) and comply with 94% of recognised standards. No significant areas were not addressed'. The comment against VWHDC KLOE 2.4 states that 'Internal audit is strong and contributes significantly to the internal control environment'.
16. This is in stark contrast to 2007/2008 when the Audit Commission stated that additional fees had been incurred by the councils as the Audit Commission had not been able to rely on internal audit's work. Internal audit has now developed a strong co-operative relationship with the Audit Commission, who rely significantly on internal audit's work within key financial systems and governance areas to reduce the amount of testing they have to undertake (thereby reducing their audit fee). In addition, internal audit made a significant contribution to both councils improved use of resources score for 2008/2009.
17. With a reduction in internal audit resources, there is a risk that sufficient work will not be undertaken next year to support the Audit Commission's opinion. This could impact on their annual audit fee. In addition, with limited management in internal audit and a reduction in audit coverage, the Audit Commission could take the view that there is a weakening internal control environment and reduce the Use of Resources internal control score.

### Audit Commission Report – Protecting the Public Purse September 2009

18. The Audit Commission has recently published this report, in recognition that fighting fraud is currently high on the agenda of government and in most private and public sector organisations. In March 2009, a newly formed National Fraud Authority published its National Fraud Strategy for the UK and the Audit Commission has asked all local authorities to align their fraud strategies to this. In addition, both councils have been asked to submit significant fraud data which stretches across service areas, and the audit manager co-ordinated the collation of this data. It is expected that this national survey will be an annual requirement.
19. Key messages from this report are that:

- Fraud is bad for the economy, councils and taxpayers, and adversely affects the provision of public services;
- Councils need to develop a zero-tolerance approach, improve anti-fraud arrangements and train and support specialist staff to prevent and detect fraud;
- High risk areas for local authorities are housing tenancy fraud, false claims for single person discount on council tax, recruitment fraud and procurement fraud;
- Fraud is likely to increase due to the recession and increasing pressure on councils to reduce their costs. This could impact on previously well controlled areas within councils due to reducing staff numbers and reduced supervision.

20. The overall conclusion of the report is that councils should undertake a self-assessment against a checklist provided within the report (documented at the end of this briefing note), to provide assurance as to whether the anti-fraud arrangements are strong enough. In addition, in improving efficiency and making difficult choices about spending priorities councils must not lose focus on fraud prevention and detection and weakening controls. It was hoped that a completed self-assessment could be presented to the Audit and Corporate Governance Committees, but resource constraints have prevented this piece of work being undertaken. An initial review of the self-assessment by the audit manager indicates that both councils are not attaining 13 of the 23 checklist requirements.

21. Internal audit is a vital resource for addressing the concerns raised in this report, providing the required data to the Audit Commission for the annual survey and maintaining evidence and implementing improvements against the self-assessment checklist so that the councils' Use of Resources score is not adversely impacted. Again, a reduction of resources in internal audit limits the contribution and expertise internal audit can provide in this important area.

## AUDIT COMMISSION - PROTECTING THE PUBLIC PURSE CHECKLIST

	Yes	No	Action
<b>General</b>			
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			
5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter-fraud resources against good practice?			
7. Do we raise awareness of fraud risks with <ul style="list-style-type: none"> <li>• New staff (including agency staff)?</li> <li>• Existing staff?</li> <li>• Members?</li> </ul>			
8. Do we join in appropriately with national,			

regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?			
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?			
<b>Fighting fraud in the recession</b>			
12. Have we reassessed our fraud risks because of the recession?			
13. Have we amended our counter-fraud action plan as a result?			
14. Have we reallocated staffing as a result?			
<b>Some current risks and issues</b>			
15. Do we take effective action to ensure that social housing is allocated only to those in need?			
16. Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?			
17. Are we satisfied that payment controls are working as intended?			
18. Have we reviewed out contract letting procedures against good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?			
19. Are we satisfied that our recruitment procedures are: <ul style="list-style-type: none"> <li>• Preventing employment of people working under false identities?</li> <li>• Validating employment references effectively?</li> <li>• Ensuring applicants are eligible to work in the UK?</li> </ul>			
20. Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with recommended practice?			
21. Are we effectively controlling the discounts and allowances we give to council taxpayers?			
22. Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?			
23. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?			