

<b>6 December 2012</b>		<b>ITEM: 8</b>
<b>Standards &amp; Audit Committee</b>		
<b>Internal Audit Progress Report 2012/13</b>		
<b>Report of:</b> Cllr Philip Smith – Portfolio Holder Central Services		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> N/A	
<b>Accountable Head of Service:</b> Chris Harris – Head of Internal Audit		
<b>Accountable Director:</b> Martin Hone – Director of Finance & Corporate Governance		
<b>This report is Public</b>		
<i>If the report, or a part of this, has been classified as being either confidential or exempt by reference to the descriptions in Schedule 12A of the Local Government Act 1972, it is hereby marked as being not for publication. The press and public are likely to be excluded from the meeting during consideration of any confidential or exempt items of business to which the report relates.</i>		
<b>Date of notice given of exempt or confidential report:</b> Not applicable		
<b>Purpose of Report:</b> For the Standards & Audit Committee to satisfy itself that progress against the Internal Audit Plan is sufficient as one of the means of assuring itself of the effective operation of internal controls and to take an overview of progress against Internal Audit recommendations.		

## **EXECUTIVE SUMMARY**

This report sets out progress against the Internal Audit Plan 2012/13, Internal Audit Performance and management actions in response to Internal Audit reports.

### **1. RECOMMENDATIONS:**

#### **1.1 That the Standards & Audit Committee:**

**Consider reports issued by Internal Audit in relation to the 2012/13 audit plan.**

**Note those areas of Internal Audit activity which are not formally reported to the Standards & Audit Committee.**

**Note progress against the Internal Audit Plan for 2012/13.**

## 2. INTRODUCTION AND BACKGROUND:

- 2.1 The Accounts and Audit (England) Regulations 2011 require that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 2.2 The Internal Audit Service carries out the work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Standards & Audit Committee.
- 2.3 The Standards & Audit Committee has a responsibility for reviewing the Council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The audit work carried out by the Internal Audit Service is a key source of assurance to the Standards & Audit Committee about the operation of the internal control environment. The procedures and practices that Internal Audit operates at Thurrock are designed to reflect adherence to these standards.
- 2.3 The audits contained in the Internal Audit Plan 2012/13 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.
- 2.4 This report comments on Internal Audit performance relating to the period commencing 1<sup>st</sup> April 2012. Appendix 1 details reports finalised since the last progress report.

## 3. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

- 3.1 Following widespread consultation with clients across all service sectors, the reports issued by Internal Audit now provide 4 levels of assurance opinion. The 4 opinions use a Red/Amber/Green assurance level and reports are now categorised as: Green; Amber/Green (positive assurance opinions); Amber/Red (some assurance but a number of weaknesses) and Red (negative assurance opinion).
- 3.2 We have summarised below those reports that have been issued as final and received a Green or Amber/Green assurance opinion. Reports and Action Plans for those reports that receive an Amber/Red or Red opinion are attached at Appendix 1. There is one Red assurance opinion on IT Vulnerability Management being reported as part of this progress report. There were 2 Amber/Red reports on Case Management and The Grays School Media Arts College.
- 3.3 The following 9 reports received a **Green** assurance rating for the control frameworks in their area:  
**Beacon Hill School** – Carried out at the request of the client as the school was due to become an academy in 2012. The review identified 1 medium and 2 low recommendations. The medium recommendation related to the need for the governors to formally approve the appointment of the auditor of the school

fund on an annual basis. Overall, the school's financial management was good.

**Council Tax** – The review only identified 1 medium recommendation which related to the need to ensure that signed returns for Single Person Discount (SPD) were always indexed following scanning of the bar code so the documents appeared against the relevant customer record. It was noted that new properties and changes to residential premises were amended promptly and reconciliations were carried out on a weekly basis. In addition, to ensure the property record files were correct, a rolling program was carried out to confirm continued entitlement to single person discount and all payments received through the cash receipting system have been recorded correctly.

**Dilkes Primary School** – Carried out at the request of the client as the school was due to become an academy in 2012. The review identified 1 medium and 1 low recommendation. The medium recommendation related to the misfiling of one member of staff's personal information in the wrong personnel file. It was acknowledged that this was human error and was unlikely to occur again. Overall, the financial management arrangements of the school were good.

**Holy Cross Catholic Primary School** – This review was scheduled within this year's audit plan due to the number of issues raised during the previous audit in January 2011. The overall conclusion from the last audit was that the standard of financial management at the school needed improvement. This report highlights that the school have worked hard to improve the control environment and all the ten recommendations made last time have been actioned in a relatively short period of time. The review only identified 1 medium recommendation relating to the need for the school to produce a three year development plan which shows the costs for the current year and summary of expected developments and costs for the next two years. This will help the school to identify and plan for on-going and one-off costs in the longer term.

**Stifford Clays Infant School** – This review was carried out at the request of the client due to the amalgamation of the infant and junior schools into a primary school in September 2012. The review only identified 2 low level recommendations. Overall, the financial management arrangements of the school were good.

**Stifford Clays Junior School** – This review was carried out at the request of the client due to the amalgamation of the infant and junior schools into a primary school in September 2012. Whilst the review identified 5 low level recommendations, the risks associated with the findings were minimal. Overall, the financial management arrangements of the school were good.

**St Joseph's Catholic Primary School** – The review identified 1 medium and 1 low recommendation. The medium recommendation was around the need for the school to ensure they get three written quotes for contracts that exceed £5,000. This ensures value for money is being obtained and ensures compliance with the school's own financial regulations. Overall, the financial management arrangements at the school were good.

**Thameside Infant School** – This review was carried out due to the proposed amalgamation of the infant and junior schools into a primary school during

2012 when the school will also become an academy. The review identified 1 medium and 2 low recommendations. The medium recommendation related to the development of an inventory of the equipment held at the school, particularly the IT equipment which tends to be more portable and desirable. Overall, the financial management arrangements at the school were good.

**Thameside Junior School** - This review was carried out due to the proposed amalgamation of the infant and junior schools into a primary school during 2012 when the school will also become an academy. The review only identified 3 low recommendations. Overall, the financial management arrangements at the school were good.

- 3.4 The following 2 reports received an **Amber/Green** assurance rating for the control frameworks in their area:

**Kenningtons Primary School** - Carried out at the request of the client as the school was due to become an academy from September 2012. The review identified 2 medium and 4 low recommendations. The medium recommendations related to:

- The requirement to keep a more comprehensive equipment list, add new equipment in a timely manner and carry out annual stock checks.
- The need to ensure a copy of the original contract with the payroll provider is retained so the school has a record in case of potential disputes or breaches of contract.

Overall, the financial management arrangements at the school were adequate.

**West Thurrock Primary School** – This review was carried out at the request of the client as the school is to become an Academy from 1<sup>st</sup> November 2012. The review identified 3 medium and 5 low recommendations. The medium recommendations related to:

- The School Fund account needs to be audited annually and the audited accounts presented to the governors.
- The need for the school to ensure they get three written quotes for contracts that exceed £5,000 to demonstrate value for money is being obtained.
- The need to address issues of non-attendance by Finance Committee governors which has resulted in non-quate meetings having to be cancelled.

Overall, the financial management arrangements at the school were adequate.

- 3.5 The following 2 reports received an **Amber/Red** assurance rating for the control frameworks in their area:

**The Grays School Media Arts College** – This review identified 3 medium and 7 low recommendations. The medium recommendations related to:

- The requirement for official orders to be raised prior to the receipt of the invoice to ensure the correct authorisations have been obtained and a commitment is recorded against the relevant budget.

- The need to ensure signed and dated copies of contracts are retained on file. This ensures the school has a legally binding document in the case of potential disputes or breaches of contract.
- The need to raise invoices on a monthly basis for lettings at the school. This reduces the likelihood of loss of revenue to the school through non-payment.

**Care Proceedings** – This review identified 1 high, 2 medium and 2 low recommendations. The report was reported and discussed at the September Standards and Audit Committee and as agreed, the follow-up of this review will be reported to at the January meeting.

3.5 The following report received a **Red** assurance rating for the control frameworks in their area:

**IT Vulnerability Management** – This review identified 3 high, 3 medium and 1 low recommendations. The main findings were:

- There was no clearly defined governance framework to facilitate management of the IT services to the Council under the contract.
- The Council's IT strategy did not provide for infrastructure upgrades identified by the vulnerability assessments.
- Routine assurance was not provided to IT Management that patching (software introduced to fix bugs/problems) of workstations and servers was effective.
- Anti-virus protection had not been implemented on all servers.
- There was no documented and approved process for commissioning network vulnerability scans and for the remediation of issues identified by the scans.
- An ICT Risk Management process had not been agreed and implemented to ensure that relevant ICT risks were identified, assessed, and mitigated and linked to the Corporate Risk Register.

3.6 During the period being reported, there are currently 8 reviews which are at draft stage and are with the client, 8 where the fieldwork has been completed and the draft report is being prepared and 4 reviews which are work in progress.

3.7 In addition, at the request of the client, we are carrying out additional work around housing repairs recharges, have been acting as the main contact for the national fraud initiative data matching exercise and completed 2 freedom of information enquiries.

#### 4. **CONSULTATION (including Overview and Scrutiny, if applicable)**

4.1 The audit risk assessment and the plan are periodically discussed with the Chief Executive, Directors and Heads of Service before being reported to Directors Board and the Audit Committee.

4.2 All terms of reference and draft reports are discussed and agreed with the relevant Corporate Directors and/or Heads of Service before being finalised.

4.3 The Internal Audit Service also consults with the Council's External Auditors to ensure that respective audit plans provide full coverage whilst avoiding duplication.

## **5. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

5.1 The Council's corporate priorities were used to inform the annual audit plan 2012-13. Recommendations made are designed to further the implementation of these corporate priorities.

## **6. IMPLICATIONS**

### **6.1 Financial**

Implications verified by: **F. Gardiner**  
 Telephone and email: **01375 652147**  
**fgardiner@thurrock.gov.uk**

Whilst there are no direct financial implications arising from this report, it is important that the authority maintains adequate internal controls to safeguard the authority's assets. This is not to say that audit recommendations do not have financial implications but these are for management to identify and contain within existing budgets.

### **6.2 Legal**

Implications verified by: **D. Lawson**  
 Telephone and email: **01375 652087**  
**david.lawson@bdtlegal.org.uk**

The Council has a legal obligation under the Accounts and Audit (England) Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Council has delegated responsibility for ensuring this is taking place to the Standards & Audit Committee. There are no adverse legal implications relating to the reporting progress.

### **6.3 Diversity and Equality**

Implications verified by: **S. DeAlyn**  
 Telephone and email: **01375 652472**  
**sdealyn@thurrock.gov.uk**

There are no direct diversity implications arising from this report as it is for information purposes only.

6.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

In terms of risk and opportunity management, the Internal Audit Plan and its outcomes are a key part of the Council's risk management and assurance framework. The Internal Audit Plan is based on risk assessments that include a review of the Council's risk and opportunity register.

**BACKGROUND PAPERS USED IN PREPARING THIS REPORT:**

- Strategy for Internal Audit 2012/13 to 14/15 and Internal Audit Plan 2012/13
- Internal Audit Reports issued in 2012/13.

**APPENDICES TO THIS REPORT:**

- Appendix 1 - Progress Report - Internal Audit Reports Issued since 1<sup>st</sup> April 2012

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