

SUBJECT:	<b>Internal Audit: Status of Work</b>
MEETING:	<b>Audit Committee</b>
DATE OF MEETING:	<b>22 September 2011</b>
REPORT OF:	<b>Chief Internal Auditor</b>
REPORT DATE:	<b>August 2011</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	Cleared	Overdue	Pending
Payroll	23/03/10	Corporate Services	Substantial	Substantial	3(2)	1(1)	2(1)	
Creditors	31/03/10	Corporate Services	Substantial	Substantial	5(0)	3(0)	2(0)	
Hollybrook Junior School	13/09/10	Families & Communities	Substantial	Substantial	4(1)	3(1)	1(0)	
Application and Software Management	12/10/10	Corporate Services	Limited	Substantial	8(0)	4(0)	4(0)	
Network Management and Security	12/10/10	Corporate Services	Limited	Adequate	21(0)	13(0)	8(0)	
Vermont School	19/11/10	Families & Communities	Adequate	Adequate	8(1)	1(0)	7(1)	
St Johns Primary and Nursery School	22/11/10	Families & Communities	Limited	Limited	5(3)		5(3)	
Pathways Financial Payments	08/02/11	Families & Communities	No	Substantial	15(11)	15(11)*		
Creditors	15/02/11	Corporate Services	Substantial	Substantial	3(0)	3(0)	1(0)	1(0)
Expense Management	21/02/11	Corporate Services	Adequate	Substantial	13(0)	9(0)	2(0)	2(0)
Payroll	21/02/11	Corporate Services	Substantial	Substantial	2(2)		2(2)	
Debtors	07/03/11	Corporate Services	Substantial	Substantial	5(0)	3(0)	2(0)	
VAT Accounting	20/04/11	Corporate Services	Adequate	Adequate	3(0)		3(0)	

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Overdue	Pending
Provider Services (Kentish Road)	23/05/11	Families & Communities	Limited	Substantial	8(4)	6(4)	2(0)	
Section 106 Agreements	23/05/11	Environment	Limited	Limited	5(5)	1(1)	1(1)	3(3)
Mount Pleasant Junior School	15/07/11	Families & Communities	Adequate	Adequate	2(1)			2(1)
Internet and Email	20/07/11	Corporate Services	Adequate	Adequate	4(0)	1(0)	1(0)	2(0)
IT Security Management	20/07/11	Corporate Services	Limited	Adequate	10(3)	8(3)		2(0)
IT Strategy and Service Delivery	20/07/11	Corporate Services	Adequate	Adequate	4(0)	1(0)		3(0)
Customer Services	21/07/11	Corporate Services	Substantial	Substantial	3(0)	1(0)		2(0)
Highways Futures	28/07/11	Environment	Adequate	Adequate	12(4)	1(1)		11(3)
Across School Thematic Review (General report)	29/07/11	Families & Communities	Adequate	Adequate	9(0)	1(0)		8(0)
School Admissions	19/08/11	Families & Communities	Adequate	Adequate	3(1)			3(1)

\* Financial training and guidance has been disseminated to all safeguarding staff, however work remains ongoing to further disseminate across the whole of CSL

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

**Audit title: Provider Services (Kentish Road Respite Home) 23/05/11**

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Substantial Assurance

**Executive summary:**

Kentish road is a respite home for adults with learning disabilities, in which clients reside on a short stay basis.

During visits clients routinely bring spending money with them for outings and purchases during their stay. Most of the clients opt for their money to be stored in the safe for reimbursement when requested.

The audit review found that whilst there was no indications that monies had gone missing, controls over access to the safe, recording and issuing of client monies, and return of monies at the end of their stay were inadequate and left staff at risk of exposure.

Review of imprest account procedures highlighted a lack of segregation of duties with regard to removal of money from the safe, purchasing and recording of goods purchased and a lack of independent verification. All permanent staff at the home had access to the safe key which was stored in a digitally locked key cabinet.

The home did not maintain an asset register as required by the Council's financial procedure rules.

A caution list is distributed to residential homes of agency staff considered by the residential home managers and agency managers not suitable for employment in the homes. The Manager at Kentish road was not in receipt of the 'caution list' and was therefore unable to utilise it to check the suitability of agency staff prior to employing them.

The home did not maintain monitoring records of agency staff and records of induction as required in the framework agreement nor was there evidence of a CRB check requested from agency workers prior to the start of an assignment.

The home has its own procedures manual which is comprehensive and regularly reviewed and updated by the Manager, however some of the procedures contained within it were not consistent with those of other residential homes, with particular regard to contingency plans and the medication audit.

**Management actions and update:**

Handling of clients' money now includes segregation of duties

Procedures have been updated to accord with other residential homes (including imprest procedures and medication audits)

Safe keys are restricted to authorised personnel

A Business Continuity Plan has been completed

Appropriate checks now undertaken and records maintained for agency staff

Manager now included within the circulation list for all cautions around the suitability of agency workers.

Appraisals are being undertaken for all staff

An asset register is now in place.

**High priority actions overdue:**

None

**Audit title: IT Security Management 20/07/11**

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Adequate Assurance

**Executive summary:**

The Southampton Strategic Services Partnership agreement requires compliance with the Payment Card Industry (PCI) level 3 for Data Security. Penetration tests were undertaken in August 2010 and November 2010 and the resultant reports stated that 'Southampton City Council is NON-COMPLIANT with the PCI scan validation requirement.' The action plan currently in place by Capita to ensure that all of the issues causing non compliance with the PCI requirement are addressed is out of date and requires revision. In addition, a monthly performance report prepared by Capita shows 100% compliance for perimeter testing even though the penetration tests undertaken in August 2010 and November 2010 concluded that the Council was non PCI compliant.

The host for the Citrix Access Gateway undergoes quarterly penetration testing. Vulnerabilities were identified, a number of which were rated as of medium criticality and should be resolved as part of the on-going security maintenance of the system. Capita's action plan to address the issues raised by penetration testing is out of date and requires revision.

The Southampton Strategic Services Partnership agreement states that Capita should work towards delivering services in line with the principles defined in BS7799, however, the current standard ISO/IEC 27001 superseded BS7799. Capita have performed an ISO/IEC 27001 gap analysis. However, at the time of this review action plans had not been developed for the gaps identified.

The Council's Information Security Policy refers to NHSnet, a wide area network used by the NHS and its partners. NHSnet was superseded by the N3 network in 2006. The Policy is therefore in need of revision.

An Information Security Incident Management Policy has been developed, the purpose of which is to ensure that Southampton City Council reacts appropriately to any actual or suspected security incidents relating to information systems and data. However, at the time of this review, the Policy was in draft and had yet to be published.

**Management actions and update:**

All policy documents are now version controlled and published in a PDF format on the intranet

Capita contacted to identify measurement of KPI's and PI's and such information is being shared and reported.

A change control notice has been added to the Capita contract which now refers to ISO0IEC27001.

NHS Net will be replaced with N3 on all security policies.

**High priority actions overdue:**

None

#### **4 Internal Audit Performance**

Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit.

Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) as proper practice in relation to internal audit in local authorities. A full self assessment against the Code has been completed and assurance gathered to confirm full compliance

Analysis of audit activity to date confirms that 46% of the 2011/12 audit plan is complete or work in progress.

#### **5 Planning and Resourcing**

With effect from 1 November 2010 Hampshire County Council and Southampton City Council have been working in collaboration to deliver a shared approach for the provision of Internal Audit Services. The agreement introduced a shared Chief Internal Auditor role across both authorities. The intention was to then embed this as a true partnership model.

Following an expression of interest from West Sussex County Council it was agreed that a business case should be produced to evaluate options for the delivery of an Internal Audit Shared Service across the three authorities.

A full range of options were identified and assessed including a fully outsourced service. The preferred option, however, was a shared service partnership as a joint discharge of functions under Section 101(5) of the Local Government Act 1972, with Hampshire County Council operating as the host authority.

The three Chief Financial Officers met as joint Project Executives to consider the draft business case in July 2011 and agreed to move to seek authority to proceed from Cabinet within each authority (Sept / Oct 2011)



**6 Rolling work programme**

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<b><u>2010/11 Audit Plan</u></b>					
VAT Accounting	✓	✓	✓	✓	20/04/11
Section 106 agreements	✓	✓	✓	✓	23/05/11
Intermediate Care	✓	✓	✓	✓	23/05/11
Provider Services	✓	✓	✓	✓	23/05/11
Customer services	✓	✓	✓	✓	20/07/11
IS security management	✓	✓	✓	✓	20/07/11
IS strategy and service delivery	✓	✓	✓	✓	20/07/11
Internet/e-mail	✓	✓	✓	✓	20/07/11
Highways futures	✓	✓	✓	✓	28/07/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Across School Thematic	✓	✓	✓	✓	29/07/11
School admissions	✓	✓	✓	✓	19/08/11
Project management	✓	✓	✓	✓	26/08/11
Strategic service partnership	✓	✓	✓	✓	30/09/11
Cash collection and banking	✓	✓	✓	✓	30/09/11
Joint Commissioning Standards	✓	✓	✓	✓	30/09/11
Housing Management	✓	✓	✓	✓	30/09/11
<b>2011/12 Audit Plan</b>					
Annual Governance Statement	✓	✓	✓	✓	26/05/11
Compliance with Health and Safety Legislation	✓	✓	✓	✓	01/07/11
Hampshire Camera Partnership	-	✓	✓	✓	29 /07/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Solent Sea Rescue	-	✓	✓	✓	29/07/11
General School Review – Sinclair Primary School	✓	✓	✓	✓	16/09/11
Itchen Bridge (Industrial Action)	✓	✓	✓	✓	16/09/11
Repairs and Maintenance	✓	✓	✓	✓	30/09/11
Asset management	✓	✓	✓	✓	30/09/11
Grants to Voluntary Organisations	✓	✓	✓	✓	30/09/11
Street Lighting PFI	✓	✓			
Parking Services and City Patrol	✓	✓			
European Funded Projects	-	✓			
Libraries	✓	✓			
Licensing	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Locality Teams	✓	✓			
Teachers Pension	✓	✓			
Housing and Council tax Benefits	✓				
Creditors	✓				
Debtors	✓				
Council Tax and NNDR	✓				
Treasury and Cash Flow Management	✓				
Sustainability (Carbon Reduction)	✓				