

SUBJECT:	Internal Audit: Progress Report
MEETING:	Audit Committee
DATE OF MEETING:	23 April 2012
REPORT OF:	Chief Internal Auditor
REPORT DATE:	March 2012

1 Opinion definitions

Opinion	Framework of governance, risk management and management control
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)		1(1)	2(1)*
Creditors	31/03/10	Corporate Services	Substantial	Substantial	5(0)		3(0)	2(0)**
Network Management and Security	12/10/10	Corporate Services	Limited	Substantial	21(0)	1(0)	20(0)	
Expense Management	21/02/11	Corporate Services	Adequate	Substantial	13(0)		10(0)	3(0)*
Payroll	21/02/11	Corporate Services	Substantial	Substantial	2(2)			2(2)*
Debtors	07/03/11	Corporate Services	Substantial	Substantial	5(0)		4(0)	1(0)
Section 106 Agreements	23/05/11	Environment	Limited	Adequate	5(5)	1(1)	4(4)	
Internet and Email	20/07/11	Corporate Services	Adequate	Substantial	4(0)	1(0)	3(0)	
IT Strategy and Service Delivery	20/07/11	Corporate Services	Adequate	Adequate	4(0)	3(0)	1(0)	
School Admissions	19/08/11	Families & Communities	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)	1(0)	6(2)	4(2)
Street Lighting PFI	03/11/11	Environment	Adequate	Adequate	21(0)	2(0)	9(0)	10(0)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Libraries	09/11/11	Economic Development	Adequate	Substantial	13(9)	2(0)	11(9)	
Strategic Services Partnership	08/12/12	Corporate Services	Adequate	Adequate	9(2)	1(1)	5(1)	3(0)
Pupil Support Services	14/12/11	Families and Communities	Adequate	Substantial	10(1)	2(0)	8(1)	
St Monica Infant School	23/02/12	Families and Communities	Limited	Substantial	30(22)	1(0)	28(22)	1(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)	3(0)	3(1)	
Housing Rent Collection and Debt Management	21/03/12	Environment	Substantial	Substantial	6(2)	4(0)	2(2)	
Bitterne Park Junior School	23/03/12	Families and Communities	Limited	Limited	28(19)	28(19)		

* As part of the 'Phase 2 – Restructure' responsibilities for HR and Payroll have recently transferred to the Senior Manager - Legal, HR & Democratic Services who is currently undertaking a fundamental review of the way the service is delivered. The review will take onboard management actions from the audits highlighted above - planned to be completed during April 2012.

** Implementation of management actions are contingent on the delivery of the Procurement to Pay initiative (scheduled 30 April 2012)

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

Audit title: St Monica Infant School (23 Feb 2012)

Original published audit opinion: Limited Assurance

Current audit opinion: Substantial Assurance

Executive summary:

This review was undertaken at the request of the new Headteacher who required an independent view of existing processes within the school.

The audit review highlighted a number of areas in which an insufficient control environment has led to risk exposures in a range of key areas including financial, contracts, efficiency, governance and security

Financial

- Local procedures and policies did not fully reflect recent changes to financial responsibilities of staff.
- Inconsistencies within income reporting practices were identified and there was evidence that receipts were not produced as proof that money had transferred from parents to the schools. Reconciliations were not undertaken on a frequent basis and therefore assurance could not be fully provided that controls were in place to ensure all monies due to the school were received.
- No independent reconciliation of income was undertaken and the Agresso unmatched banking report COS07 was not used. Dinner money forms received from City Catering were not signed off as a true record.
- The Raising Attainment Plan (RAP) clearly set out the school targets for the year. The budget was reactive to meet the schools needs and was reflective of the school recommendations made by Ofsted. Where an additional cost had been identified a resource allocation had been given. The RAP however, only covered a one year period compared to a three year budget allocation. Without future planning it was difficult to assess if the three year budget set was appropriate

Contract Procedures

- Conflicts were evident between the school's local Contract Procedure Rules as agreed by the Governors and the Council's Contract Procedure Rules.

- The school have opted out of the Councils Repairs and Maintenance SLA and now contract a company to manage the school maintenance. The company use subcontractors to undertake the work, however, the school pay the sub-contractors directly which is in breach of the Council's Contract Procedure Rules.

Efficiency

- Records / spreadsheets completed and retained locally at the school in respect of invoices, imprest accounts and purchase cards, have generated a duplication in process. The council systems available prevent the need to introduce local processes and should therefore be reviewed.

Governance

- Although Committee meetings were quorate it was not always clear from the minutes that action was taken to address the needs of the school as identified within the RAP and the Ofsted inspection. The roles and responsibilities of the committees and its members have been reviewed but there remain inconsistencies between the objectives within the terms of references and the issues discussed at the meetings.

Security

- The Council provide IT support for Agresso, Tucasi and SIMS, they do not however support any other software purchased and used by the school. A contract was in place with Techs4Education to provide support for "other" software. The terms of the contract state that the data available to them is to be encrypted and not accessible by any unauthorised personnel or used for any other business. Evidence was not available however to ensure that all software within the school is safeguarded against viruses or cyber crime especially as the school has opted out of some of the Council IT SLA's.
- The school use a company to recycle old IT equipment that is surplus to requirements. Although the company invoice the school there is no destruction certificate received from them to confirm that all data stored on the equipment had been removed and that they accept liability.
- No register of IT licences was maintained by the school.

Management actions and update:

Policies and procedures reviewed to reflect Council Financial Procedure Rules;

Declaration of Interests completed for all budget holders;

RAP target and budget aligned over a 3 year period;

Tucasi implemented to address issues with income collection and reconciliation;

Contract procedure rules reviewed and aligned to the Council;

Ongoing agreement with the schools maintenance contractors reviewed in liaison with the Senior Manager Procurement;

Committee (Chair's and Vice) ensure compliance with agreed terms of reference;

Licensing inventory completed; and

Signed to SCC anti virus / cyber crime protection

High priority actions overdue:

No high priority actions are overdue

Audit title: Day Services Thematic Review (19 Mar 2012)

Original published audit opinion: Limited Assurance

Current audit opinion: Limited Assurance

Executive summary:

Four day care centres were included within the thematic review: St Denys; Freemantle; Prospect House; and City Limits.

The audit review highlighted a number of areas of commonality in which an insufficient control environment has led to risk exposures in a range of key areas including; financial, procurement / contract management, policy /procedures, assurance and security.

Financial / Safeguarding assets

- Adequate controls were in place with regard to the operation of the imprest account, however, in all but one of the centres there was no independent reconciliation undertaken (on a regular basis) by a person other than the account administrator.
- Asset registers in the centres visited were incomplete. No evidence was available to substantiate regular checks were undertaken to confirm the accuracy of the asset register nor was there a record of disposal as required within the Council's financial regulations.

Procurement / Contract Procedures

- None of the centres visited maintained a contracts register as required by the Council's contract procedure rules.
- The Council's IT policy and data protection policies for purchasing IT equipment outside of the contract with Capita were not adhered to.

Procedures Manual

- A generic operations manual was in place at the centres, however it was not comprehensive and did not include or direct users to key policies such as the medication process, IT policy or the complaints policy.

Assurance

- Periodic inspections of Councils' adult social care functions by the Quality Care Commission have ceased. Councils are now expected to produce annual reports on the quality of adult social care in their areas for local scrutiny. No formal internal programme of inspection by the Council is currently in place to ensure that centres are providing adequate care, value for money and that findings are addressed.

Security

- All of the centres visited had a key log, however the logs were not complete and did not fully record the date the keys were issued or returned.
- CRB checks for all of the centres are coordinated by the volunteer coordinator based at City Limits. For staff employed by the Council, renewal is prompted by HR, however there is no process in place to ensure volunteers are asked to renew their CRB checks every three years in line with Council policy.
- The centres are responsible for ensuring that any non Council staff employed to run activity sessions are in possession of a valid CRB disclosure. No record was maintained in the centres that CRB checks had been obtained and were valid. In some instances, CRB checks were not requested if the instructor was accompanied during an activity session by a member of staff.
- Many of the IT devices bought outside of the IT contract with Capita were not password protected or encrypted, therefore assurance could not be given that personal data stored on PC's, laptops, memory cards etc was secure

Management actions and update:

Operational policies and procedures updates;
A process for updating volunteers CRB's implemented;
Council IT policy adopted and communicated to all units;
All IT devices now encrypted and unique log-on used;
Safe keys securely retained; and
Regular independent reconciliation and sign off of imprest account

High priority actions overdue:

No high priority actions are overdue.

Audit title: Bitterne Park Junior School (23 March 2012)

Original published audit opinion: Limited Assurance

Current audit opinion: Limited Assurance

Executive summary:

This review was undertaken at the request of the new Heateacher who required an independent view of existing processes within the school. Prior to the new Headteachers tenure, the governing body at Bitterne Park Junior School were removed under special measures (approval from the Secretary of State) and an 'interim executive board' appointed.

The audit review highlighted a significant number of areas in which an insufficient control environment has led to risk exposures in a range of key areas including financial, safeguarding of assets, contract procedures, governance and security.

Financial

- Inconsistencies were found between the delegations allocated to the Headteacher within the schools 'Local Financial Procedures' to those detailed in the Committee's terms of references
- The budget was not reviewed on a regular basis and monitoring reports were not periodically produced to ensure that the forecast provided was on target and any significant variances discussed. Although a three year budget had been provided by CSL Finance, no 'Raising Attainment Plan' has been completed by the school to report its developments and needs. Without future planning it is difficult to assess if the current three year budget plan is appropriate and reflective.
- There was no segregation of duties or independent check on income received, recorded and banked. No management of income due and owed to the school was evident and no overall reconciliation of income was performed.
- Variances were identified between the recording of dinner money income received at the school and that recorded within the systems.
- No budget review was undertaken to ensure adequacy of funds before purchases were made. Although it is clear that purchases have been made for the purpose of the school, no control was in place to attach the invoice and 'Goods Received Note' (GRN) to the original order to maintain a clear audit trail and to substantiate legitimacy of spend.
- The previous Headteacher remained a named signatory to the imprest account and needs to be removed with immediate effect. Unofficial floats issued to staff for school trips were not signed out. There was no regular reconciliation of unofficial funds undertaken. On review of the paying in book there were cheques relating to the period October 2011 to current which required banking, totalling £326.50.

Safeguarding of assets

- The IT inventory maintained did not include a value or a date of purchase. The inventory was not signed or dated to show that it had been checked. Included within the inventory were items marked as missing but no explanation had been obtained as to whether they had been found or disposed of.
- Any property that is taken off site did not have to be signed out of the school, however, it was recorded if a laptop has been assigned to a member of staff or to a pupil to assist with their learning needs. No record was held to show if an asset was being used for home working. No local procedure was evident or guidance available to make staff aware of the Council's procedure relating to home working policies, adequate insurance arrangements and the use of laptops for non business related purposes.

Contract Procedures

- Inconsistencies were identified between the contract procedure rules reported in the 'Local Financial Procedures' retained by the school and the Council's 'Contract Procedure Rules'. No contract register was available and on review of the contracts held at the school all (with the exception of one) were out of date.
- The school had employed a management company, GHD, to manage the repairs and maintenance for the school. A quarterly management fee is paid to GHD but no evidence could be found within any Governors Committee minutes approving the contractual arrangements.
- A project for works to the school's playground incurred spend in excess of £100k with no signed contract in place. The only documentation available at the school was a copy of a "letter of acceptance" with GHD to undertake the works. The school's copy of the letter was signed by GHD but not by the school. The contract(s) to undertake work on the playground project were between the supplier(s) and GHD.
- GHD provided a list of contractor(s) who have won tenders to work on the school playground project but no evidence could be found to demonstrate if the tendered work was awarded in an open competitive dialogue, declaration of interests made and that the governors were aware / in agreement with costs.
- The work has been disaggregated and although contracts were purported to exist between the supplier and GHD (not the school), the school were paying the supplier(s) directly. This is in breach of the Council's Contract Procedure Rules.

Governance

- Whilst a Governors induction pack was available from the school a number of the documents included were out of date or no longer relevant.

Security

- Staff had individual password access to systems however, teaching assistants share user IDs and passwords to gain access. If inappropriate use of IT was identified it would be difficult to ascertain individual responsibility.
- The school had bought into the gold SLA for free school meals and all information is managed by the Council's data team. The school do not get involved with eligibility checks. The free school meal list was put together by the Office Manager recording the child's name, DOB, National Insurance number, and surname of the claimant. This was then passed to SCC for eligibility checks. The list was held in the office and visible by all visitors and users.

Management actions and update:

An appropriate action plan has been developed to mitigate identified control weaknesses.

High priority actions overdue:

No high priority actions are overdue.

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 98% of the 2011/12 revised audit plan is complete or work in progress.

5 Planning and Resourcing

February witnessed the launch of a new Shared Internal Audit Service with Hampshire Council. Key drivers for the Shared Service Partnership are the organisational benefits that can be realised in terms of delivering an innovative and collaborative modern Internal Audit Service, including strengthened business resilience, improved provision of audit specialism's, developing best practice and enabling staff development and progression opportunities.

A draft Internal Audit Plan for 2012-13 has been compiled for approval by the Management Board of Directors and Audit Committee during April. The Audit Plan will remain fluid to ensure internal audit availability to react to the changing needs of the Council

The structure for the Shared Internal Audit Service will retain a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach will be supported through continuity at Audit Manager level across departments.

6 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<u>2010/11 Audit Plan</u>					
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
Joint Commissioning Standards	✓	✓	✓	✓	09/09/11
Cash collection and banking	✓	✓	✓	✓	17/10/11
Sholing Technology College	✓	✓	✓	✓	28/10/11
Strategic service partnership	✓	✓	✓	✓	08/12/11
2011/12 Audit Plan					
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
Asset management	✓	✓	✓	✓	27/08/11
Repairs and Maintenance	✓	✓	✓	✓	07/10/11
General School Review – Sinclair Primary School	✓	✓	✓	✓	17/10/11
Itchen Bridge (Industrial Action)	✓	✓	✓	✓	17/10/11
Grants to Voluntary Organisations	✓	✓	✓	✓	18/10/11
Street Lighting PFI	✓	✓	✓	✓	03/11/11
Libraries	✓	✓	✓	✓	11/11/11
Parking Services and City Patrol	✓	✓	✓	✓	07/12/11
Council Tax and NNDR	✓	✓	✓	✓	08/12/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Sustainability (Carbon Reduction)	-	✓	✓	<i>Reliance placed on external assurance</i>	<i>Reliance placed on external assurance</i>
Environmental Health	-	✓	✓	<i>Reliance placed on external assurance</i>	<i>Reliance placed on external assurance</i>
Pupil Support Services (PRU)	✓	✓	✓	✓	14/12/11
Treasury and Cash Flow Management	✓	✓	✓	✓	20/01/12
Play scheme grant	-	✓	✓	✓	03/02/12
General School Review – St Monica Infant School	✓	✓	✓	✓	23/02/12
Creditors	✓	✓	✓	✓	06/03/12
Licensing	✓	✓	✓	✓	19/03/12

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Day Services Thematic Review	✓	✓	✓	✓	19/03/12
Housing Rent Collection and Debt Collection	✓	✓	✓	✓	19/03/12
General School Review – Bitterne Park Junior School	✓	✓	✓	✓	23/03/12
Precautions against fraud – Bribery Act	-	-	-	-	-
European Funded Projects	-	✓	✓	✓	Annual and bi-monthly reviews
Direct Payments	✓	✓	✓	✓	27/03/12
National Fraud Initiative	-	-	-	-	-
Debtors	✓	✓	✓	✓	
FOSTARA (Tenants Federation)	n/a	✓	✓	✓	
Teachers Pension	✓	✓	✓	✓	

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Locality Teams	✓	✓	✓	✓	
Housing and Council tax Benefits	✓	✓	✓	✓	
Payroll	✓	✓	✓	✓	
Repairs and Maintenance - Housing	✓	✓	✓	✓	
General School Review – Weston Park Junior School	✓	✓	✓	✓	
Provider Services	✓	✓	✓	✓	
Across School Thematic review	✓	✓	✓		
General School Review – Redbridge Community School	✓	✓	✓		
General School Review – Harefield Primary School	✓	✓	✓		
Safeguarding - Adoption and Fostering	✓	✓	✓		
Main Accounting System	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Financial Management	✓	✓			
Procurement	✓	✓			
Computer Installations and Operations	✓	✓			
IS Strategy, planning and Standards	✓	✓			
IT Solutions Development and Support	✓	✓			
Joint Commissioning	✓	✓			
Mobile Phone Policy	✓	✓			
Sports and Recreation Partnership	✓	✓			
Human Resources	✓	✓			
Highways Futures	✓				
Consultancy					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Heating Charges	-	✓	✓	-	-
Sea City Museum	✓	✓	✓	✓	19/03/12
Southampton New Arts Centre	✓	✓	✓	✓	19/03/12
Partnership and Shared Services	✓	✓	✓	✓	
Plus You Limited Succession Strategy	✓	✓	✓	✓	
Information Governance	✓	✓	✓	-	
Town Depot Relocation	✓	✓	✓		
Putting People First – reviewed during Direct Payments audit	✓	✓	✓	-	