AUDIT AND GOVERNANCE COMMITTEE   **29 June 2012**

ANNUAL REPORT – INTERNAL AUDIT AND RISK MANAGEMENT

Report of the Head of Corporate Assurance and Procurement

1.   Purpose of Report

1.1   To consider the performance of the Internal Audit and Risk Management teams for 2011/12, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2.   Description of Decision

2.1   The Audit and Governance Committee is asked to consider the report.

3.   Internal Audit Performance

3.1   Performance against the agreed KPIs is shown in Appendix 1.

3.2   All KPI's were met with the following 2 exceptions:

   - Percentage of audits completed by the target date (from scoping meeting to issue of draft report). The actual performance was 74% against a target of 80%. This is mainly due to support work being required by managers across the Council due to the amount of change that is currently underway and the availability of clients. It is not of concern.

   - The percentage of medium risk recommendations implemented as at the end of the year stood at 87% (excluding schools) against a target of 90%. A summary of the performance by directorate for medium risk recommendations is shown in the table below:

Directorate / Body	Implementation Rate - Feb	Implementation Rate - Mar
Children's Services (non schools)	88%	88%
City Services	90%	94%
Office of the Chief Executive	82%	85%
Commercial and Corporate Services	97%	93%
Health, Housing & Adult Services	56%	74%

Implementation Rate (exc. schools)	80%	87%
Schools	85%	86%
Total Implementation Rate	82%	86%

It can be seen that Health, Housing and Adult Services have improved their rate significantly since the last report. As has previously been mentioned, the Directorate has put new monitoring arrangements in place in relation to the implementation of recommendations, the results of which are now starting to materialise. The implementation rate is calculated based on the last 10 follow ups undertaken. From these 10, nine follow ups now have a 100% implementation rate. The remaining one relates to Personalisation and work is ongoing with the client to address this.

4.   Summary of Internal Audit Work

4.1   The audit opinion for the audits completed within the year is shown in Appendix 2 along with the overall opinion based on the current and 2 previous years audit work. Of the 100 planned audits, 93 audits were completed. Three have been cancelled as they were no longer required, they are ICT Procurement, Stroke Care Grant and Information Governance at Beamish Museum, therefore 96% of the audit plan has been completed. The remaining four audits have been deferred and will be completed in 2012/13. In addition, five unplanned audits have been completed.

4.2   Internal Audit previously carried out proactive advice and guidance work in many areas across the Council where procedures and arrangements were being developed or changed. This work is important in helping the Council build appropriate controls into new systems or procedures and helps to provide assurance that risks are being considered and managed, where appropriate. Guidance has been provided in relation to the following key areas:

- Advice was provided in relation to the new procedures implemented in relation to the new cashiers service which opened in the new customer Service Centre on 4th July 2011.

- A review of the implementation of the action plans in response to the Safeguarding Serious Case Review in Children Services has been completed. The Executive Director of Children's Services wrote to pass on his thanks for the "robust" and "helpful" work.

- Advice was provided during the development of procedures to manage employees who were or would be working in the SWITCH team.

- Support is continuing with the implementation of the Local Authority Controlled Company, Care and Support Sunderland Limited.

- Internal Audit are advising the project board which is assessing options for the future delivery of care and support services to adults.

- Support for the future arrangements for managing Events within the City is being provided.

- Proposed changes to the way personal budgets are administered in relation to social care are being reviewed.

- Support has been provided for the project to facilitate savings through staff taking early retirement. This work will continue to ensure that robust arrangements are in place.

- The Council has purchased a replacement customer relationship management system for which support is being provided regarding its implementation.

- The Council is currently implementing a new Corporate Computing Model (CCM) involving the planning, design, and implementation of an end to end solution for server and end-user computing delivery. Internal Audit staff are working in conjunction with ICT, Risk Management and 3rd party partner organisation staff in supporting the implementation of this major project.

4.3 Specific work aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss has been completed in the following areas, with no areas of concern being identified:

- Follow up of the National Fraud Initiative (NFI) 2010, resulting in:
  - ♦ 22 housing benefit overpayments of £149,163.26, which is now in the process of being recovered. Six further cases are also ongoing.
  - ♦ Nine duplicate creditor payments were found totalling £20,683.78, and the resulting overpayments have all been recovered.
  - ♦ No other concerns were highlighted in the other areas reviewed.
- Payment of honoraria and acting up allowances
- Foster care payments
- Gifts and hospitality
- Income arrangements at the Aquatic Centre
- Processes to obtain low value goods / services
- Use of grant monies awarded
- Arrangements for accounting for cash and bank balances
- The Council's arrangements to respond to the Bribery Act 2010
- Use of agency workers
- Security and use of fuel / vehicles
- Legal agreements for ICT hosting arrangements

5.   **Summary of Risk Management Work**

5.1   The Committee agreed the first formal Risk Management Annual Plan for 2011/2012 in March 2011. This Plan set out how the Corporate Risk Management team would seek to fulfil its role within 2011/2012 and meet the 3 new agreed objectives (as set out below), whilst recognising the need to remain flexible given the level of expected changes within 2011/2012 and onwards. Outlined below are the actions that have been taken to achieve the 3 objectives.

Objective 1

Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on strategic and corporate risks and opportunities.

5.2   The Council's Corporate Risk Profile provides an overall picture of the strategic and corporate risks facing the whole organisation. It conveys the nature and level of risks the organisation faces, the impact and likelihood of risk incidents on the Council and its stakeholders and the actions to be taken to manage those risks.

5.3   Progress in relation to implementing the actions within the Profile is shown below.

	Number	**%**
Actions as at 1 April 2011	75	
Actions Added since 1 April 2011	7	
Less: Actions not due by 31 March 2011	(9)	
Actions due to be completed within the year	**73**	
Number of Actions Completed	64	88
Number of Actions Delayed	9	12
	73	100

5.4   The Corporate Risk Profile (the Profile) was reviewed by EMT within the year and a new Profile created, including seven strategic risk areas, as shown below.

Strategic Risk Area	Risk Rating
Economy	High
Reduced Resources	High
Community Needs	Medium
Social breakdown	Medium
Reputational and Influencing	Medium
Partnerships	Medium
Planning and Responsiveness to national agenda	Medium

5.5   The revised Profile was endorsed by the Committee in March 2012. Progress against the detailed actions will be reported to the Committee through the quarterly updates of the Corporate Assurance Map during 2012/13.

Objective 2

Facilitate the Council to successfully identify, assess, manage, review and report on risks and opportunities at a service / operational, programme, project and partnership level.

5.6   The risk management support work undertaken in respect of this objective is shown below, and was broadly in line with that planned.

- Support was provided to Executive Directors and Heads of Service during the year in relation to their service planning and delivery, including the completion and review of risk registers.

- Risk management was embedded into the business planning process and advice and guidance was provided within the planning framework. Specific support has been provided to Heads of Service as part of this process.

- The plan included a total of 15 programmes / projects, all of which were supported with the exception of the ICT SWIFT enhancements, which had been delayed. The resource was allocated to the implementation of the Corporate Computing Model project.

- Support was provided across the service reviews including Sport and Leisure, Events Management and Care and Support.

- Risk management registers for 60 schools were delivered during the year.

- There has been a major reduction in the number of formal Partnerships and only 5 of the original 10 identified for support remained. Work has been ongoing to review the Partnership code of practice and supporting emerging Partnerships, including the Health and Wellbeing Board.

<u>Objective 3</u>

Embed the effective management of risk into the culture, ethos, policies and practices of the Council.

5.7   Specific activity undertaken in relation to objective 3 included:

- Reviewing and providing guidance on the Corporate Risk Management Framework and detailed guidance.

- Contribution to the review of the Partnership Code of Practice.

- Advice regarding the Risk Management approach to Programmes and Projects.

- Development of an awareness and training programme.

- Provision of information and support to the Annual Governance Review.

5.8   The Corporate Risk Management Framework was aligned to reflect the closer working between risk management and Internal Audit, including the creation of the Corporate Risk and Governance Group. The Risk Management Manual has been reviewed and the intranet site updated. An e-learning training package has been developed to be issued during 2012/13.

6.   Conclusions

6.1   This report provides information regarding progress against the planned Internal Audit work for the year and performance targets, and against the Risk Management Plan for the year. Progress and performance has been very strong and positive throughout the year.

6.2   It is pleasing to report a positive audit opinion that throughout the year the Council maintained an adequate system of internal control.

7.   Recommendations

7.1   Members are asked to consider the report.

Background Papers

Audit and Counter Fraud Plan 2011/12 – Audit and Governance Committee 25th March 2011

Risk Management Plan 2011/12 – Audit and Governance Committee 25th March 2011

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council	1) All key risk areas covered over a 3 year period	1) Achieved – 96% of planned audits completed
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Achieved - 93%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%	3) Behind target - 74%
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155 / annum	4) Achieved – 163
	5) Value of overpayments identified during housing benefit investigations	5) £600k / annum	5) Achieved - £746,598

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012			
Quality			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant. 90% for medium risk	2) On target – significant 100% Behind target - Medium 87% (excluding schools)
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) On target - 1.1 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Non undertaken
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 28 compliments 2 complaints relating to benefit fraud investigations (one not upheld but improvements identified)

Audit Coverage

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Corporate Governance	Annual Corporate Governance Review	Good	Good
Service / Business Planning	Responsive Local Services Facilities Management Reablement at Home - Adults Business Support	Good Satisfactory Satisfactory Satisfactory	Satisfactory
Partnerships	Non Planned	N/A	Satisfactory
Financial Management	Corporate Budget Setting and Management Adoption Allowances Social Care Resource Agency Personal Budgets - Adults Port Governance Arrangements Treasury Management 1 Leisure Centre Accounts Payable Accounts Receivable - Collection Periodic Income - Recovery and Enforcement Cash Receipting - Central System Council Tax - Setting Council Tax - Billing Council Tax - Valuation Council Tax - Recovery Business Rates – Recovery & Enforcement BACS Arrangements Charging for Services - HHA Stroke Care Grant Future Jobs Fund Grant Deprived Areas Fund Grant Unplanned Audit – SIB and Community Chest Grants Unplanned Audit – Future Jobs Fund – final audit certificate Unplanned Audit – SWITCH Modelling	Good Unsatisfactory Good Unsatisfactory Good Good Good Good Good Good Good Satisfactory Satisfactory Good Good Satisfactory Satisfactory Satisfactory Cancelled Satisfactory Satisfactory Good Satisfactory Satisfactory	Good

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Risk Management	Port Governance Arrangements 1 Leisure Centre Insurance Policies	Good Good Good	Good
Programme and Project Management	Project Management Information Governance (Project Server)	Good	Good
Local Taxation	Council Tax - Setting Council Tax - Billing Council Tax Valuation Council Tax - Recovery Business Rates - Recovery and Enforcement	Satisfactory Satisfactory Good Good Satisfactory	Good
Procurement and Contract Management	Procurement of ICT Equipment Purchasing Card Arrangements Capital Procurement Revenue Procurement	Cancelled Satisfactory Good Satisfactory	Satisfactory
Human Resource Management	Corporate Training and Development Arrangements Personnel Administration Arrangements Management of Employees in SWITCH	Satisfactory Satisfactory Satisfactory	Satisfactory
Asset Management	Asset Management (including Property Asset Database) Asset Register/Capital Accounting Unplanned Audit - Technoforge	Deferred Good Unsatisfactory	Satisfactory
ICT Strategy and Delivery	Implementation of the ICT Strategy ICT Remote Access Threats Information Technology Infrastructure Library	Deferred Satisfactory Good	Satisfactory
Fraud and Corruption	Counter Fraud Testing (including in schools) Access to IT systems - with movement of employees Social Care Resource Agency 1 Leisure Centre Asset Management - ICT Equipment Unplanned Audit – SIB and Community Chest Grants	Good Unsatisfactory Good Good Unsatisfactory Good	Satisfactory

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Information Governance	Corporate Information Governance (including procedures for remote working) Email Security Smarter Working - Employees Working Remotely within Children's Services Document Management Unplanned Audit – Corporate Data Protection Arrangements Follow Up – Customer Services Network Info Gov (2010/11)	Satisfactory Good Satisfactory Satisfactory Satisfactory Satisfactory	Satisfactory
Business Continuity and Emergency Planning	Major Incident Planning Business Continuity Planning - Children's Services	Good Satisfactory	Satisfactory
Performance Management	Responsive Local Services Corporate Performance Management Port Governance Arrangements Customer Services Network Reablement at Home - Adults Social Care Resource Agency Follow up – Sunderland Compact	Unsatisfactory Deferred Good Satisfactory Satisfactory Good Satisfactory	Satisfactory
Payroll	Payroll Processing and Payment	Satisfactory	Good
Housing Benefits	Housing Benefit Administration	Satisfactory	Satisfactory
Schools	38 schools audits completed – 35 good, 3 satisfactory	Good	Good