AUDIT AND GOVERNANCE COMMITTEE 30 September 2011

INTERNAL AUDIT PROGRESS REPORT

Report of the Head of Audit, Risk and Procurement

1. Purpose of Report

1.1 To consider the performance of Internal Audit up to 9th September 2011, areas of work undertaken, 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. Key Performance Indicators

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

3.2 All KPI's are on target with the following exception:

- The percentage of medium risk recommendations implemented currently stands at 81% (excluding schools) against a target of 90%. A summary of the performance by directorate for medium risk recommendations is shown in the table below. The reduction in the implementation rate for Health, Housing and Adults Services is due to a follow up regarding Personal Budgets and Assessments for Personal Care. From 24 recommendations made, 20 of them were past their implementation date, however only five of those were implemented. Revised implementation dates have been agreed for the outstanding actions.

Directorate / Body	Implementation Rate June 2011	Implementation Rate September 2011
Children's Services (non schools)	90%	83%
City Services	97%	92%
Office of the Chief Executive	88%	88%
Commercial and Corporate Services	89%	93%
Health, Housing & Adult Services	64%	59%
Total Council Implementation Rate	**83%**	**81%**

Excluding Schools		
Children's Services – Schools	88%	87%
Total Council Implementation Rate	**85%**	**82%**

4. Summary of Internal Audit Work

4.1 The audit opinion for the audits carried out so far during the year is shown in Appendix 2 along with the current overall opinion based on the current and 2 previous years audit work. Of the 100 planned audits, 37 have been completed to date (4 of which relate to associated bodies). The following planned audits are currently ongoing:

- Payroll Processing and Accounts Payable (ongoing throughout the year)
- ICT Asset Management
- Periodic Income – Recovery and Enforcement
- Accounts Receivable – Collection
- Benefits Administration
- Business Rates – Recovery and Enforcement
- Budget Management
- Corporate Training and Development Arrangements
- Document Management
- PFI Contract Monitoring at the Tyne and Wear Fire and Rescue Service
- Children's Services Smarter Working

4.2 Three unplanned audits have been completed (SWITCH Modelling, Corporate Data Protection Arrangements, and the internal audit certificate for the Small Bodies Return for Beamish Museum) and a further another three unplanned audits are also ongoing.

4.3 The Internal Audit Annual Report, presented to the Committee in May highlighted a small number of areas of concern where either significant recommendations had been made or the opinion had been reported as unsatisfactory. An update on these issues is as follows:

- Vulnerable Adults Protection Arrangements

  The Head of Strategic Commissioning within Health, Housing and Adult Services, who will attend the Committee, has provided the following.

  'As explained previously, the Safeguarding Adult's Board have commissioned a full review of our approach to safeguarding. This had resulted in the original delay in implementing the revised business processes. It is unlikely that the full review will be concluded until the Spring of 2012, however it is considered that implementation of the new business processes cannot be delayed until the full review is complete. Therefore, a project implementation schedule has been developed with the ICT unit with a planned go live date for

the Safeguarding Module of 12th October 2011, with staff training taking place in early October.'

The project implementation schedule has been provided to Internal Audit and audit work will continue with the Directorate to confirm that the stated implementation date is met.

- HR Management / Financial Management System Consolidation

The Assistant Head of ICT provided the following update:

"The updating and producing of standard documentation for all SAP systems has now been completed. However, progress against the original project plan has fallen slightly behind. A further review of the project plan is also underway in light of the areas for improvement identified following a recent failure in the SAP system. The response to the incident with the SAP system did take place quickly even in the absence of a rehearsed recovery plan. It is intended that a short term reactive disaster recovery plan will be put in place by the end of September to detail SAP systems recovery processes in the event of a system failure. The Council also have a 24 hour SAP support contract in place to further support existing arrangements.

A longer term plan will also be formulated which will include system failover arrangements which will ensure that in the event of a failure the system will automatically be covered by back up arrangements. This will be produced as part of the continuing review of the disaster recovery procedure. It was previously reported that all SAP modules will be tested separately by 19th January 2012, however there is some major patching work required to the SAP system which must be completed to make sure the system can operate effectively. The dates for testing of the modules may therefore be delayed by up to 4 weeks. However, the short term recovery plan will enable any problems which occur in the meantime to be resolved quickly as evidenced by the recent system failure."

A senior officer from ICT will be attending the meeting to provide a further update.

- Information Governance

The opinion given for 2010/2011 for this key risk area was unsatisfactory, resulting from a number of audits in this area. A significant amount of work has been undertaken to review the progress made towards implementing recommendations made during eight audits where the scope included information governance issues. It is pleasing to report that good progress has been made and the opinion in relation to six of these audits, including all of the corporate arrangements, is now satisfactory. For the remaining two audits the target dates for implementation of recommendations have not been reached in all cases and some are awaiting appointments to revised staffing structures.

In addition to the above work, a Council wide survey was undertaken to ascertain employees' understanding of their responsibilities in relation information governance, and the level of compliance with the relevant policies and procedures. There were 744 respondents, of whom 216 are located within the Civic Centre and 528 are located elsewhere. There was a relatively even level of responses from all directorates. The survey covered issues relating to Awareness and Understanding, Physical Security and Smarter Working. The results of the employee survey indicate that, in general, there is a good level of awareness and compliance with information governance policies and procedures, although there is still scope for further development and improvement.

From the results of the work described above the opinion for this key risk area has therefore been revised to satisfactory.

4.4 Internal Audit carry out proactive advice and guidance work in many areas across the Council where procedures and arrangements are 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 or is ongoing in the following areas:

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

- Internal Audit have been involved in the review of the Council's Financial Procedure Rules which has taken place recently.

4.5 Specific work aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss is currently ongoing in the following areas:

- From the National Fraud Initiative (NFI) 2010, work has been completed in relation to blue badge permits, residential care payments, pensions to deceased pensioners, payroll to UK visas, and insurance claims, which did not identify any issues of concern. In relation to Housing Benefit matches which were received in March 2011, from a total of 3,848 matches, 618 were recommended for further review, these are currently being reviewed with 38 already being investigated.

- The Council's arrangements to respond to the Bribery Act 2010 which came into force in July 2011. A separate report is being presented to members in relation to this.

- Management of temporary arrangements through the personnel and payroll systems such as maternity cover, acting up or honoraria.

5.   Conclusions

5.1   This report provides information regarding progress against the planned audit work for the year and performance targets.

5.2   Results of the work undertaken so far during the year have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.

6.   Recommendations

6.1   Members are asked to consider the report.

Background Papers

Internal Audit Operational Plan 2011/2012 - 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
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) On target - 95% to date
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%	3) On target - 80% to date
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155 / annum	4) Ahead of target – 77 to date
	5) Value of overpayments identified during housing benefit investigations	5) £600k / annum	5) Ahead of target - £345,653 to date

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% Below target - Medium 81% (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 as yet
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 8 compliments 1 complaint (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		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 Management of employees in SWITCH Charging for Services - HHA Stroke Care Grant Future Jobs Fund Grant Deprived Areas Fund Grant Unplanned Audit – SWITCH Modelling	Unsatisfactory Good Good Cancelled Satisfactory Satisfactory Satisfactory	Satisfactory

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Risk Management	Port Governance Arrangements 1 Leisure Centre Insurance Policies	Good Satisfactory	Satisfactory
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		Good
Procurement and Contract Management	Procurement of ICT Equipment Purchasing Card Arrangements Capital Procurement Revenue Procurement	Good	Satisfactory
Human Resource Management	Corporate Training and Development Arrangements Personnel Administration Arrangements Management of Employees in SWITCH		Satisfactory
Asset Management	Asset Management (including Property Asset Database) Asset Register/Capital Accounting	Good	Satisfactory
ICT Strategy and Delivery	Implementation of the ICT Strategy ICT Remote Access Threats Information Technology Infrastructure Library		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	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	Satisfactory Good Satisfactory (except re Subject Access Requests and Caldicott Guardian)	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 Facilities Management Port Governance Arrangements Customer Services Network Reablement at Home - Adults Social Care Resource Agency Follow up – Sunderland Compact	 Satisfactory	Satisfactory
Payroll	Payroll Processing and Payment		Good
Housing Benefits	Housing Benefit Administration		Satisfactory
Schools	38 schools 18 schools audits completed – 17 good, 1 satisfactory	Good	Good