

## AUDIT AND GOVERNANCE COMMITTEE

25 November 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 4<sup>th</sup> November 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 2 exceptions:
- The percentage of medium risk recommendations implemented currently stands at 79% (excluding schools) against a target of 90%. A summary of the performance by directorate for medium risk recommendations is shown in the table below. Members will be aware that action is being taken by Health, Housing and Adult Services to improve their implementation rate, although this will take time to filter through to the overall rate.

Directorate / Body	Implementation Rate - Sept	Implementation Rate - Nov
Children's Services (non schools)	83%	83%
City Services	92%	91%
Office of the Chief Executive	88%	83%
Commercial and Corporate Services	93%	94%
Health, Housing & Adult Services	59%	54% *
<b>Implementation Rate (exc. schools)</b>	<b>81%</b>	<b>79%</b>
Schools	87%	87%

<b>Total Implementation Rate</b>	<b>82%</b>	<b>82%</b>
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\* the results of the last two follow ups in the directorate have been 100%

- Percentage of audits completed by the target date (from scoping meeting to issue of draft report). The actual performance is 75% against a target of 80%. This is mainly due to either the availability of clients as staff around the Council are busy implementing many ongoing changes, and urgent work that was required over the summer period to respond to specific issues.

#### **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, 58 have been completed to date (5 of which relate to associated bodies). Two of these have been cancelled as they are no longer required, they are Stroke Care Grant and Information Governance at Beamish Museum. The following planned audits are currently ongoing:

- Payroll Processing and Accounts Payable (ongoing throughout the year)
- Administration / Business Support
- Council Tax – Recovery
- Budget Management
- Health, Housing and Adult Services – Charging for Services
- Health, Housing and Adult Services – Reablement at Home
- ICT – Remote Access / Mobile Threats

4.2 Four unplanned audits have been completed, as follows:

- SWITCH Modelling
- Corporate Data Protection Arrangements
- SIB and Community Chest Grants
- Internal audit certificate for the Small Bodies Return for Beamish Museum

A further 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 the position regarding Vulnerable Adults Protection Arrangements is as follows:

It has been confirmed that the Safeguarding Module did go live in October as planned and the Head of Strategic Commissioning has stated that it is in use in the areas where it is appropriate to do so at this time. The relevant staff have received training in the revised procedures. As has previously been

reported, the current review will fundamentally change the safeguarding model and new procedures will result from this. Once the new model is finalised the new procedures will be developed and implemented and staff trained accordingly.

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:

- A significant amount of time has been spent supporting the set up and implementation of a Local Authority Trading Company, Care and Support Sunderland Limited which was established to take over the care of vulnerable people previously in the care of Choices Care which went into Administration. Support regarding the ongoing governance arrangements of the Company will continue as the arrangements develop.
- Proposed changes to the way direct payments are administered in relation to social care.

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 3 fraud prosecutions resulting to date with an overpayment value of £19,644. Recovery of these monies is to be undertaken. Further matches are to be examined and additional prosecutions are anticipated.

Review of creditor payment information has highlighted 8 duplicate payments to date with a value of £8,608.45. Recovery of these monies is underway. Six further matches are being investigated.

- Overtime / honoraria payments to ensure they are legitimate, accurate and appropriately authorised.
- Grant awards to ensure grant monies awarded are used appropriately.
- Gifts and hospitality – review of expenditure classified as hospitality. Also review of Code of Conduct forms for declarations of gifts and hospitality received.

- Cash and bank balances to ensure that balances are accounted for and held responsibly.
- 4.6 During the summer a procurement exercise has been carried out to appoint a specialist firm who will carry out an exercise to review the Council's creditor payments using advanced software technology to identify any further duplicate payments. The work will also help to establish the effectiveness of the NFI exercise. Work will be carried out on a commission only basis. The process is nearing completion with the work anticipated to be carried out during the winter period.

## **5. Future Arrangements for Providing Assurance**

- 5.1 Given the level of change that is planned to take place within the Council over the medium term to improve outcomes and deliver significant savings delivery of services is likely to fundamentally change with new models of delivery being explored where appropriate. It is important that in implementing these changes the risks are managed, support is provided and assurance is gained.
- 5.2 At present, both the internal audit and the corporate risk management teams provide support in these areas. It is however recognised that it is likely that the demand for this support will increase and some of the developments will be particularly complex and use innovative and new delivery models. In order to ensure that the right support can be provided proposals are being developed to introduce a more flexible model of internal audit and risk provision to enable us to respond to these demands. This will include the development of a corporate integrated assurance framework, whereby all of the sources of assurance, in relation to managing risk within the Council, are better co-ordinated. Although there has been an annual review of corporate governance in the past it is considered that these arrangements can be developed to consider assurance not currently included and ensure that the assurance obtained is in relation to the areas that are important to the Council. This will lead to the provision of a single, comprehensive opinion to the Committee on the adequacy of the arrangements in place to manage risk.
- 5.3 Given the importance of these emerging proposals it is proposed to hold a separate meeting of the Committee in January 2012 to discuss the detailed proposals and consult with the Committee on the potential areas of work for 2012/2013.

## **6. Conclusions**

- 6.1 This report provides information regarding progress against the planned audit work for the year and performance targets.
- 6.2 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.

## **7. Recommendations**

- 7.1 Members are asked to consider the report and to agree an additional meeting for January as set out in paragraph 5.3



## Appendix 1

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 - 92% to date
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%	3) Behind target - 75% to date
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155 / annum	4) Ahead of target – 112 to date
	5) Value of overpayments identified during housing benefit investigations	5) £600k / annum	5) Ahead of target - £532,592 to date

**Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012**

<b>Quality</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
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 79% (excluding schools)
<b>Client Satisfaction</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
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) 14 compliments 1 complaint (not upheld but improvements identified)



## Appendix 2

### 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 Charging for Services - HHA Stroke Care Grant Future Jobs Fund Grant Deprived Areas Fund Grant Unplanned Audit – SIB and Community Chest Grants Unplanned Audit – SWITCH Modelling	Unsatisfactory      Good  Good Good Good   Satisfactory   Cancelled Satisfactory Satisfactory Good 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
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	Good
Procurement and Contract Management	Procurement of ICT Equipment Purchasing Card Arrangements Capital Procurement Revenue Procurement	Satisfactory Good	Satisfactory
Human Resource Management	Corporate Training and Development Arrangements Personnel Administration Arrangements Management of Employees in SWITCH	Satisfactory Unsatisfactory	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 Unplanned Audit – SIB and Community Chest Grants	Unsatisfactory  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	Satisfactory  Good Satisfactory  Satisfactory 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	Satisfactory
Payroll	Payroll Processing and Payment		Good
Housing Benefits	Housing Benefit Administration	Satisfactory	Satisfactory
Schools	38 schools 27 schools audits completed – 24 good, 3 satisfactory	Good	Good

