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| <b>REPORT TO:</b>         | Authority   |
| <b>DATE:</b>              | January 2012  |
| <b>REPORTING OFFICER:</b> | Melanie Dexter (Interim Head of Audit)                  |
| <b>SUBJECT:</b>           | Internal Audit Progress Report - April to December 2011 |

**1. PURPOSE OF THIS REPORT:**

- 1.1 To provide the Authority with an update on Internal Audit work from April to December 2011. The report includes summary findings from individual audits as well as progress against the 2011/12 Audit Plan.

**2. EXECUTIVE SUMMARY**

- 2.1 As the audit work completed to date is limited it would be inappropriate to provide an overall opinion on the level of assurance on the systems in place within the Authority at this stage. However, no areas of concern have been identified that would suggest the overall control environment is other than adequate, with appropriate risks being mitigated.

**3. AUDIT WORK**

- 3.1 The main audits started and / or completed by the end of December 2011 were as follows:

**Fundamental Systems**

**Procurement**

- 3.2 The main objective of this review was to provide assurance on the effectiveness of contract management procedures within the Authority. A sample of contracts was selected from the contracts register. The contract management arrangements in place for each contract were reviewed, including identification of risks associated with the contract, monitoring of contractor performance, liaison with contractors, reports to management and payments for services provided. We have only recently completed the fieldwork for this review so it would be inappropriate to include an overall opinion at this stage.

**Corporate Governance**

- 3.3 This audit set out to review the governance arrangements in place relating to both Members and Officers gifts and hospitality and Members allowances. The Gifts and Hospitality Registers were reviewed along with other relevant policies and procedures. This work has also included sample testing of both officers & members' written acknowledgement of the procedures and sample testing of allowances. As above it would be inappropriate to include an overall opinion at this stage as the work is still in progress.

## **Strategic reviews/Client directed/Ad hoc reviews**

### **Income Generation**

- 3.4 The objective of this review was to assess the work that the Authority has undertaken in relation to income generation, in response to the significant public sector budget cuts. The Authority carried out a review of their main controllable income lines to identify any areas where income could be potentially increased. Our work to date has provided assurance that the review systematically considered all significant controllable income and provided useful analysis to identify areas where additional income could be generated.

### **Performance Management**

- 3.5 This review is focused upon the reporting of performance data to identify whether key stakeholders are supplied with the appropriate information regarding performance management in relation to key areas, and to establish whether appropriate action is being taken to address any performance issues. The fieldwork is still in progress.

### **I T Information Security**

- 3.6 The aim of this audit was to establish whether the Authority's information security policy was in line with best practice, and appropriate to the needs of the organisation. The Authority has put in place a robust set of procedures to protect the information it both holds and produces. These practices are largely supported by a comprehensive set of policies and guidance documents although there were instances where although an appropriate action was taking place, it was not specifically detailed in a policy or procedure note as a requirement. We can provide assurance that the control environment is operating effectively to ensure that the majority of relevant risks are managed. (detailed report is attached as Appendix D1)

### **Responsive Work**

- 3.7 A review was undertaken following concerns that a small grant payment payable to MFRS was erroneously paid into the personal bank account of an MFRS employee. The review examined the arrangements within MFRS for claiming grants and the reasons why the payment was made in this way. The review confirmed that there is a clear procedure for claiming grants from outside organisations but in this instance the correct procedures were not followed. However, there was no evidence to suggest fraudulent intentions. Appropriate action has been taken to ensure relevant procedures are clearly communicated and refresher training has been provided.

### Audit reviews not yet started

3.8 The majority of the fundamental systems reviews will be performed in quarter four, to enable us to provide assurance over the majority of the financial year, tying in with external audit reliance requirements. Much of this audit work will involve the use of Computer Assisted Audit Techniques (CAATs) so as to provide an enhanced level of assurance over each system.

3.9 The workforce planning audit will review the adequacy and effectiveness of the Authority's workforce planning arrangements. The audit was scheduled to be carried out in Q2 however, due to the challenges and changes facing the Authority, including role re-engineering and the implications for employee development, the audit, at the request of the client, has been postponed until late Q4. Preparation work has been undertaken. The scope of the PFI work has been agreed and will be performed in January 2012. The control centre work may be deferred to 2012-13; dependent upon client requirements.

## 4. PROGRESS AGAINST AUDIT PLAN AND AUDIT OPINIONS ON COMPLETED WORK

4.1 Opinions are formed in respect of each individual audit and are graded both as to the level of assurance over the area audited and also the corporate impact, which is a measure of the significance of the findings to the organisation as a whole. An explanation of the level of assurance and corporate impact ratings are detailed at the end of this Appendix. These opinions are shown against the completed pieces of work in the table below.

| <b><u>AUDIT PLAN 11/12</u></b>                          | <b><u>Finished<br/>(inc audit<br/>opinion)</u></b> | <b><u>Draft<br/>Report<br/>stage</u></b> | <b><u>Work In<br/>Progress</u></b> | <b><u>Not yet started<br/>(inc estimated<br/>start date)</u></b> |
|---|--|--|------------------------------------|--|
| <b>Fundamentals</b>                                     |  |  |                                    |  |
| Payroll (CAATs)   |  |  |                                    | Q4   |
| Budgetary Control                                       |  |  |                                    | Q4   |
| General Ledger (CAATs)                                  |  |  |                                    | Q4   |
| Non pay<br>Expenditure/Procurement                      |  |  |                                    |  |
| Corporate Governance                                    |  |  |                                    |  |
| Treasury Management                                     |  |  |                                    | Q4   |
| Debt Management   |  |  |                                    | Q4   |
| <b>Strategic reviews/Client directed/Ad hoc reviews</b> |  |  |                                    |  |
| Workforce Planning                                      |  |  |                                    | Q4   |
| Income Generation                                       |  |  |                                    |  |
| Control Centre Efficiency                               |  |  |                                    | Q4   |
| Performance   |  |  |                                    |  |
| IT – Information Security<br>Policy                     | Significant<br>Low                                 |  |                                    |  |
| <b>Contingency</b>                                      |  |  |                                    |  |
| Investigations/responsive                               | n/a  |  |                                    |  |
| Advice and Assistance                                   |  |  |                                    |  |
| <b>Follow Up</b>  |  |  |                                    |  |

**5. FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS**

- 5.1 At the end of most audits and investigations, recommendations are made and agreed with managers to improve their control environment and / or efficiency levels. An officer is nominated to action each point and implementation dates are agreed by all parties. Recommendations are graded from 1 to 3 stars with 3 stars being the most critical and defined as “essential / strategic”, eg an absence or failure of a fundamental control where there is no compensating control.
- 5.2 As at 31 December 2011, we have followed up on recommendations for the following audit below and found that both recommendations have been implemented: We will do further follow-up on all other 2 and 3 star recommendations, reporting any exceptions in the Annual Audit report.

| <b>Audit Activity</b> | ☆ <b>3</b> | ☆ <b>2</b> |
|-----------------------|------------|------------|
| Asset Management      | 1          | 1          |

## Guidance on assurance levels

| Level of Assurance    | Definition   |
|-----------------------|--|
| High Assurance        | There is a sound system of control and governance in place to achieve the system objectives, controls are being consistently applied and the relevant risks to the business unit are well managed.   |
| Significant Assurance | The control environment / systems are operating effectively to ensure that the majority of relevant risks are managed. Slight improvements need to be made in order to provide substantial assurance that all of the objectives of the system are met. |
| Moderate Assurance    | Weaknesses and / or non-compliance with procedures are placing system objectives at risk.  |
| Limited Assurance     | There are control weakness and /or non-compliance with basic controls that are so significant that relevant risks are not being managed at all. The system is open to significant error or abuse.  |

## Guidance on corporate risk impact levels

| Corporate Risk Impact Grading | Description of Risk  |
|-------------------------------|--|
| High                          | <ul style="list-style-type: none"> <li>• Total service loss for a significant period</li> <li>• Fatality of employee/service user/other person</li> <li>• Adverse national media coverage</li> <li>• Severe stakeholder concerns</li> <li>• Mass complaints</li> <li>• Financial loss in excess of £1 million</li> </ul> |
| Medium                        | <ul style="list-style-type: none"> <li>• Significant service disruption</li> <li>• Major disabling injury</li> <li>• National media coverage</li> <li>• Significant service user complaints</li> <li>• Financial loss in excess of £100,000</li> </ul>   |
| Low                           | <ul style="list-style-type: none"> <li>• Limited service disruption</li> <li>• Adverse local media coverage</li> <li>• Some service user complaints</li> <li>• Stakeholder concerns</li> <li>• Financial loss in excess of £10,000</li> </ul>  |
| Negligible                    | <ul style="list-style-type: none"> <li>• Short term inconvenience</li> <li>• Negligible injury</li> <li>• Local media coverage</li> <li>• Isolated service user complaints</li> <li>• Financial loss less than £10,000</li> </ul>  |