

Audit and Governance Committee

28 June 2011

Report of the Head of Internal Audit

Annual Report of the Head of Internal Audit

Summary

- 1 This report summarises the outcome of audit and fraud work undertaken in 2010/11 and provides an opinion on the overall adequacy and effectiveness of the council's internal control arrangements.

Background

- 2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government (2006). In accordance with the code of practice, the Head of Internal Audit is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the council's control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 3 Since 1 April 2009, the council's internal audit, counter fraud and information governance services have been provided by Veritau Limited, a company jointly owned by the City of York Council and North Yorkshire County Council.
- 4 Audit work was undertaken across the council's services and activities in accordance with an internal audit plan, which was approved by this Committee in April 2010.

2010/11 Internal Audit, Counter Fraud & Information Governance Work

- 5 The results of completed audit work have been reported to service managers and relevant chief officers during the course of the year. In addition, summaries of all finalised audit reports have been presented to this committee as part of regular monitoring reports. Details of audits finalised since the last report to this committee in April 2011 are included at Annex 2.
- 6 Overall, internal audit delivered 95.3% of the 2010/11 internal audit plan by 30 April 2011 (against a target of 93%). The service also achieved a positive customer satisfaction rating of 100% (against a target of 95%),

and agreed actions to address 100% of high priority issues identified through audit work (against a target of 90%).

- 7 All of the actions agreed with services as a result of internal audit work are followed up to ensure that the underlying control weaknesses are addressed. The results of follow up work are summarised twice yearly for this committee (the last report was in April). While overall progress in implementing agreed actions remains good, one specific area does require further attention to ensure agreed actions are undertaken within realistic timescales..
- 8 Counter fraud work was undertaken in accordance with the approved plan. A summary of the work completed during the year was presented to this committee as part of the last audit and fraud monitoring report on 19 April 2011. Service developments in relation to counter fraud work included the following.
 - The successful completion of a pilot project to investigate housing related fraud. A total of 93 cases were referred to the team for review. Investigation work resulted in five properties being recovered from tenants. Work is now ongoing to establish longer term arrangements for the investigation of housing fraud.
 - The introduction of new fraud risk assessment arrangements to improve the targeting of counter fraud resources. This has resulted in a number of new counter fraud initiatives and other specific work, for example social care charging.
- 9 In March 2010, the Executive approved a strategy for improving Information Governance arrangements based on developing the council's information governance policy framework and applying a quality assurance scheme devised by central government, known as the "Maturity Model". In accordance with the Strategy, the Corporate Information Governance group (CIGG) has begun work, chaired by the council's Senior Information Risk Owner (SIRO) – the director of Customer and Business Support Services, Ian Floyd. CIGG is attended by an information governance champion from each directorate as well as representatives from Veritau's Information Governance team (IGT).
- 10 The IGT has continued to help develop the council's information governance framework to incorporate the core measures identified in the Government's Data Handling review and the HMG Security Framework. It is intended that, within this framework, all of the council's policies, strategies, protocols and guidance notes relating to information governance can be developed in a way that is both comprehensive and complementary to each other.
- 11 CIGG addresses new and emerging issues as well as coordinating the development of the IG Framework. Staff from Veritau support the development and implementation of this Framework by:
 - preparing and/or advising on corporate IG policies prior to their submission to CIGG

- supporting and coordinating the roll out of the policy framework across the council
 - raising awareness and promoting compliance via training, guidance and advice.
- 12 In addition, Veritau's auditors have commenced a programme of work designed to test understanding and compliance with the new policy framework. The audit work will aim to identify potential IG risks so as to support the effective roll out of the policy framework. Where risks are identified these will inform the future development of IG policies and help to target other corrective actions.
- 13 Veritau has now been operating as a private company, wholly owned by the council and North Yorkshire County Council for over two years. In that time, the Company has made considerable improvements to its audit planning and reporting procedures including an improved opinion methodology, a revised audit report format and improved planning arrangements to maximise the benefit to individual council's by sharing audit expertise across the sites. The successful and innovative partnership working between the councils, which led to the formation of Veritau, was recognised last year when both councils were jointly awarded the Cliff Nicholson Award for Innovation and Excellence in Public Service Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 14 During 2010/11, Veritau decided to seek Investors in People (IIP) accreditation. As Veritau's main asset is its people, it is important that the company continues to train and develop its staff so that it can provide the services required by its customers, both now and in the future. It was considered that achieving the IIP accreditation would act as a challenge by forcing the company to critically examine its processes. This exercise has resulted in Veritau introducing a number of new and/or different procedures to make the best use of its training and development resources and to help the company recognise the talents of its people. The formal assessment against the IIP Standard commenced in March 2011 and concluded in May. Based on the evidence viewed and the interviews held with a sample of Veritau staff, the assessors are recommending that Veritau be awarded the IIP accreditation subject to ratification by an independent panel. This latest success for the Company demonstrates the considerable progress that Veritau has made in just over two years.

Breaches of Financial Regulations

- 15 Where breaches of council regulations, legislation, or other external regulations are identified through internal audit work these are reported to the committee in accordance with best practice. In most cases, actions agreed with managers as a result of the audit work will address the breaches identified. There have been a number of breaches of the council's financial regulations identified during the course of internal

audit work in 2010/11. A summary of breaches identified since the last report to this committee in April 2010 is included in annex 3.

- 16 The main issue of note is the potential breaches relating to information security. While we have not attempted to confirm numbers of actual breaches, the findings from the information security checks audit underlines the need to improve controls around data security. Particularly in light of the recent self reported data security breach in ACE and subsequent Information Commissioner's Office (ICO) undertaking.

Opinion of the Head of Internal Audit

- 17 In accordance with the council's terms of reference for internal audit, the Head of Internal Audit is required to provide an annual written report to the Audit and Governance Committee. The report sets out the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the council's control environment and contributes to the overall review of the effectiveness of its systems of internal control and to the preparation of the Annual Governance Statement.
- 18 The opinion of the Head of Internal Audit is given in Annex 1. The opinion is based on audit and counter fraud work completed during the year including that detailed in annex 2 to this report, and other monitoring reports to this committee during the year. Internal audit work has been conducted in accordance with the CIPFA Code of Practice for Internal Audit.
- 19 In giving this opinion attention is drawn to the following significant control issues which are considered relevant to the preparation of the 2010/11 Annual Governance Statement:
 - a) Bank Reconciliation – Good progress has been made to address weaknesses in bank reconciliation arrangements since this was identified as an issue in 2009/10. However, there is still a need to ensure that regular and complete bank reconciliations are undertaken during the course of the financial year.
 - b) Use of Purchase Orders – significant improvements to the purchase ordering process have been made through the implementation of the 'Procure to Pay' (P2P) module of the Council's Financial management information System. There is still however further progress to be made in reducing the amount of council expenditure which is not processed through the use of purchase orders. This represents a risk because authorisation controls within the creditor payments system are built around the use of purchase orders, and although there are appropriate controls in place for expenditure incurred without a purchase order, these are not as robust, and procedures are less efficient.
 - c) Information Security – There are weaknesses in the council's arrangements for managing information securely, in accordance with the law. A recent internal audit report highlighted weaknesses in the physical storage of sensitive information across a range of

different departments. In January 2011, a significant breach of the data protection act occurred within ACE. This was reported to the Information Commissioner (ICO) who required that the council formally commit to an undertaking to improve control.

- 20 In forming an opinion on the control environment, consideration has also been given to the current economic climate and the significant amount of change affecting council services. While no significant weaknesses have been specifically highlighted, there is an increase in inherent risk in the following areas.
- a) Business continuity – As responsibilities for service areas and systems change there is an increased risk that gaps in the overall framework may occur. It is therefore essential that responsibility for business continuity planning is clearly allocated through the course of change programmes.
 - b) Partnerships – there are major changes to responsibilities within the council for overseeing and managing partnership arrangements. The council needs to ensure that it has considered the potential impact of this on overall capacity for service provision in the wider community.

Consultation

- 21 Not relevant for the purpose of the report.

Options

- 22 Not relevant for the purpose of the report.

Analysis

- 23 Not relevant for the purpose of the report.

Corporate Priorities

- 24 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to making the council an effective organisation.

Implications

- 25 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**

- **Information Technology (IT)**
- **Property**

Risk Management Assessment

26 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported and the annual statement and opinion of the Head of Internal Audit is not considered by those charged with governance.

Recommendations

27 Members are asked to;

- note the results of the audit and fraud work undertaken in 2010/11.

Reason

To enable members to consider the implications of audit and counter fraud findings.

- accept the opinion of the Head of Internal Audit on the adequacy and effectiveness of the council's internal control environment.

Reason

To enable Members to consider the opinion of the Head of Internal Audit.

- note the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement.

Reason

To enable the Annual Governance Statement to be prepared.

Contact Details

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Report Approved



Date 15/6/11

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Internal Audit Risk Assessment and Audit Strategy
2010/11 Audit, Counter Fraud, and Information Governance Plan

Annexes

Annex 1 - Opinion of the Head of Internal Audit
Annex 2 - Audits Completed and Reports Issued
Annex 3 - Breaches of Financial Regulations