

## **Annual Report of the Head of Internal Audit**

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### **Summary**

- 1 This report summarises the outcome of audit and fraud work undertaken in 2011/12 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 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 2011.

### **2011/12 Internal Audit, Counter Fraud & Information Governance Work**

- 4 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 2012 are included at Annex 2.
- 5 Overall, internal audit delivered 95.9% of the 2011/12 internal audit plan by 30 April 2012 (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 95%).

- 6 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). Overall, good progress in implementing actions continues to be made. Although, as noted in the September and April reports, there was a notable increase in the proportion of actions with revised implementation dates in 2011/12 compared to previous years. This is likely to be due to the significant level of organisational change and project work which are ongoing at the council. This impacts upon implementation because actions tend to be tied into project timescales rather than being dealt with as isolated issues. Outstanding actions continue to be monitored and in most cases progress is acceptable. One outstanding action is currently escalated to the relevant assistant director in accordance with the escalation policy.
- 7 Counter fraud work was undertaken in accordance with the approved plan. A detailed summary of the work completed up to the end of February was presented to this committee as part of the last monitoring report on 2 April 2011. Final numbers of referrals, and cases investigated are included in the updated figures in Annex 3. Overall this has been an excellent year for the team. In addition to 21 prosecutions and 36 other sanctions for benefit fraud, the team has been involved in 18 successful housing fraud cases. Working in partnership with housing services, 11 properties have been recovered from existing tenants and eight housing applications containing false information blocked. The team has also made progress in building on existing relationships with other departments to promote wider awareness of the potential for fraud and mechanisms for referring and investigating cases.
- 8 In March 2010, the Executive approved a strategy for implementing the Information Governance Maturity Model developed by the Cabinet Office. In addition, the council has given a number of undertakings to the Information Commissioner following an information security breach in

January 2011. The Corporate Information Governance group (CIGG) has continued to oversee the implementation of the strategy and the undertakings made to the Information Commissioner. This group is chaired by the council's Senior Information Risk Owner (SIRO) – the Director of Customer and Business Support Services. CIGG is attended by an information governance champion from each directorate as well as representatives from Veritau's Information Governance team (IGT). During the year, CIGG identified three new linked Information Governance priorities.

- The move to the new HQ.
- Management of records in preparation for the move, and afterwards (including the implementation of the Documentum EDRMS).
- Data security during the move, and in the new working environment.

- 9 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 all of the council's policies, strategies, protocols and guidance notes relating to information governance can be developed in such a way that they complement each other and form a comprehensive framework. Following the serious security breach in January 2011 and subsequent undertaking to the Information Commissioner, a security improvement plan has been prepared by the IGT. This includes a reporting and investigation procedure, and periodic unannounced visits to offices to assess physical security.

### **Breaches of Financial Regulations**

- 10 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 2011/12. A summary of breaches identified since the last report to this committee in April 2012 is included in annex 4.

- 11 Most of the breaches listed in Annex 4, and in previous monitoring reports in 2011/12, do not represent a significant risk to the council. The main area of note is the continuing high level of expenditure without purchase orders. There has, however, been a significant improvement on previous years and work is ongoing to address this issue.
- 12 In addition to the areas already reported there are further breaches identified through information security checks undertaken by internal audit which are relevant to forming an overall opinion. The audit report has not yet been finalised, but the work identified a number of areas where confidential information was not stored securely.

### **Opinion of the Head of Internal Audit**

- 13 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.
- 14 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.
- 15 In giving this opinion attention is drawn to the following significant control issues which are considered relevant to the preparation of the 2011/12 Annual Governance Statement:
  - a) Information Security – There continue to be weaknesses in the council's arrangements for managing information securely. Internal audit work during the year identified weaknesses in the physical storage of sensitive information across a number of departments. While there has been some improvement since the previous year, controls are not still not sufficient to prevent a significant breach occurring.

- b) Partnerships – internal audit work identified that there is a lack of overarching controls to monitor and manage the council’s involvement in partnerships. This issue has been reported through the Officer Governance Group and will be referred to CMT.
- c) Health and Safety – There is a lack of clarity about responsibilities and management of some health and safety risks. A draft audit report has been issued and is in the process of being finalised with the relevant senior managers.

### **Consultation**

- 16 Not relevant for the purpose of the report.

### **Options**

- 17 Not relevant for the purpose of the report.

### **Analysis**

- 18 Not relevant for the purpose of the report.

### **Council Plan**

- 19 The work of internal audit, counter fraud, and information governance helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

### **Implications**

- 20 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**

- 21 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**

- 22 Members are asked to:

- (a) note the results of audit and fraud work undertaken in 2011/12.

### Reason

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

- (b) 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.

- (c) 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** 12/6/12

## Specialist Implications Officers

Not applicable

**Wards Affected:** Not applicable

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**For further information please contact the author of the report**

## Background Papers

2011/12 Audit, Counter Fraud, and Information Governance Plan  
Internal Audit, Counter Fraud, and Information Governance  
Monitoring Reports to Audit and Governance Committee in  
2011/12 (September, December, April)  
Reports on Follow up of Internal Audit Agreed Actions to Audit and  
Governance Committee in 2011/12 (September, April)

## Annexes

Annex 1 - Opinion of the Head of Internal Audit  
Annex 2 - Audits Completed and Reports Issued  
Annex 3 - Counter Fraud Work  
Annex 4 - Breaches of Financial Regulations