
INTERNAL AUDIT PROGRESS REPORT 2005/06 & PROPOSED AUDIT PLAN FOR 2006/07

1 SUMMARY

- 1.1 Internal Audit is a statutory function under the Local Government Act 1972, Section 151. The following report provides Members the opportunity to monitor the progress of the Internal Audit Plan for 2005/06 and agree the 2006/07 Audit Plan.

2 INTRODUCTION

- 2.1 Progress of the original 2005/06 Audit Plan is shown at 101.96% completed as at the end of the financial year. Some changes were implemented within the Plan to accommodate additional work required.

3 PROGRESS ON THE 2005/06 AUDIT PLAN

- 3.1 The following table shows a comparison of the percentage of the Audit Plan completed for 2005/06 with a target of 95%.

| Quarter | 1 | 2 | 3 | 4 |
|---------|-----|-----|-------|------|
| 2004/05 | 23% | 47% | 71% | 85% |
| 2005/06 | 28% | 56% | 77.5% | 102% |

- 3.2 Progress on the Audit Plan is reported through the quarterly performance reports as well as the results from our surveys, which were all positive. It is pleasing to be able to report a high level of achievement on actual time spent on the planned work. The new Principal Auditor appointed March 2005 has achieved a good level of work whilst still learning about Local Government services.
- 3.3 Additional time was made available as a result of the low level of sickness within the audit team and a closer focus of time from administration duties to audit work. As predicted at the Finance & Procedures Overview & Scrutiny Committee on the 15th December the time taken to complete the new control evaluation sheets for the key financial systems took longer than estimated. Most of the additional time was covered from our training allocation.
- 3.4 Appendix 1 shows the detailed breakdown of actual audit time against planned, identifying an additional 42 audit days which has been funded from savings within non-audit plan time as detailed above.

4 COMPLETED AUDIT AREAS FOR 2005/06

- 4.1 Appendix 2 shows a list of the audit areas undertaken during 2005/06 with a brief description of what was specifically covered including where we can place assurance on the system, and the number of recommendations agreed. The implementation of recommendations is monitored through a separate report to this Committee and through the quarterly performance reports.

The assurances provided on these audit areas can be used as evidence to support the Statement of Internal Control.

5 AUDIT AREAS NOT COMPLETED

- 5.1 There were only two main areas not completed on the plan, Licensing and e-Government compliance. E-Government arrangements are already closely monitored by the Head of Admin & Member Services with regular reports to Committee. Licensing will be picked up through 2006/07 Audit Plan under income arrangements. The Head of Health, Housing & Community Care was happy for this to be deferred.

6 AUDIT PLAN FOR 2006/07

- 6.1 The proposed audit plan is attached for Members' consideration as Appendix 3. The plan has been based on a full establishment. Any variation to the plan will be reported to Members on a six monthly basis and the quarterly performance reports will show how we are achieving the planned audit time against our target of 97%.
- 6.2 The draft plan has been considered by the Heads of Service and any specific requests included. The requirements of External Audit are covered under the core financial areas.

7 RISK IMPLICATIONS

- 7.1 If the Internal Audit section is under resourced there is a risk that assurance cannot be given on the Council's Systems. The Audit Plan must reflect a fair cover of the key financial areas of the Council plus those areas that are high risk.
- 7.2 Due to the limit on resources there is always a risk associated with not covering all systems of internal control within the Council.

8 RECOMMENDATION

- 8.1 It is proposed that the Committee **RESOLVES**

- (1) To note the completion of the 2005/06 Audit Plan.
- (2) To agree the Audit Plan for 2006/07.

P Warren
Chief Executive

Background Papers:

None

For further information please contact Tracey Metcalf on:-

Tel:- 01702 318031

E-Mail:- tracey.metcalf@rochford.gov.uk

APPENDIX 1

Time Expended on Audits 2005/06

| | Original Days | Actual Used | +/- | Report Number |
|------------------------------------|----------------------|--------------------|------------|--------------------------------------|
| <u>CORPORATE SYSTEMS</u> | | | | |
| Anti Fraud & Corruption | 10 | 10 | 0 | 2 (2005/06) |
| Corporate Governance | 10 | 10 | 0 | Reported 15/12/05 |
| Partnerships | 10 | 25 | 15 | Ongoing |
| Performance Indicators | 25 | 31 | 6 | Part of BVPP Work |
| Risk Management | 15 | 8 | -7 | F&P O&S 15/12/05 |
| Statement of Internal Control | 10 | 17 | 7 | Ongoing |
| Section Total. | 80 | 101 | 21 | |
| <u>FINANCIAL SYSTEMS</u> | | | | |
| Cash & Banking | 15 | 21 | 6 | 8 (2005/06) |
| Creditors | 15 | 17 | 2 | 13 (2005/06) |
| Debtors | 15 | 17 | 2 | 9 (2005/06) |
| Main Accounting | 10 | 11 | 1 | 6 (2005/06) |
| Payroll & Expenses | 20 | 19 | -1 | 3 (2005/06) |
| Section Total. | 75 | 85 | 10 | |
| <u>OPERATIONAL SERVICES</u> | | | | |
| Annual Checks | 30 | 29 | -1 | See Appendix 2 |
| Contingency | 40 | 34 | -6 | |
| 2004/05 Audits | 0 | 13 | 13 | 16 (2004/05) 18 (2004/05) |
| Corporate Debt Policy | 15 | 17 | 2 | 10 (2005/06) |
| Council Tax | 12 | 16 | 4 | 16 (2005/06) |
| Decrim. Parking | 12 | 12 | 0 | 4 (2005/06) |
| Follow Up & Advisory | 20 | 24 | 4 | |
| Housing Benefits | 30 | 36 | 6 | 11 (2005/06) |
| Housing Stock Option Review | 0 | 15 | 15 | 7 (2005/06) |
| Housing Rents | 15 | 19 | 4 | 12 (2005/06) |
| Human Resources | 9 | 0 | -9 | 17 (2005/06) Time from Best Value |
| IT | 25 | 11 | -14 | 1 (2005/06) |
| Licensing | 15 | 0 | -15 | N/A |
| NNDR | 10 | 15 | 5 | 14 (2005/06) |
| Procurement | 10 | 13 | 3 | 5 (2005/06) |
| Section Total. | 243 | 254 | 11 | |
| TOTALS | 398 | 440 | +42 | |

APPENDIX 2

AUDIT SUMMARY

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|------------------------------------|--------------------------------|---|---|
| 1 (8/9/05) | IT Contract HAMS | <ul style="list-style-type: none"> • Contract Payments • Correct authorisation of IT invoices • Authorisation of variation orders • Ordering & payment for consumables | <ul style="list-style-type: none"> • Evidence of control in areas tested during the audit. • There were no recommendations made |
| 2 (15/12/05) | Anti-Fraud & Corruption CMB | <ul style="list-style-type: none"> • Anti fraud & corruption policy • Code of Conduct • Hospitality to Members and officers • Register of Interest • Finance Regulations • Risk based Recruitment • IT security policy • Allegations of fraud | <ul style="list-style-type: none"> • Evidence of control in areas tested during the audit. • Recommendations were raised in the areas of <ul style="list-style-type: none"> ➤ Provision of ongoing fraud awareness training ➤ Reading of Code of Conduct to be formally acknowledged by employees ➤ Named officers in Whistle Blowing policy to receive relevant training for dealing with concerns expressed by members of staff ➤ Corporate Business Continuity Plan to be implemented |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|--|---|--|
| 3 (8/9/05) | Payroll HFS | <ul style="list-style-type: none"> • Procedure Notes • Accuracy of system standing data and parameters • Control over salary levels • Correct authorisation of payments and allowances • Control over voluntary deductions • Control over making salary and other payments • Reconciliation process between Payroll and General Ledger • Roll-out of new Payroll software • System access controls | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Evidence of control in areas tested during the audit. • There were no recommendations raised |
| 4 (8/9/05) | Decriminalised Parking Enforcement HRHM (05/06) | <ul style="list-style-type: none"> • Fixed Penalty Notices • Parking Attendant Performance • Coverage of Parking Areas • Collection Rate Targets • Financial aspects • Daily duties | <ul style="list-style-type: none"> • Evidence of control in areas tested during the audit. • Recommendations were raised in the areas of <ul style="list-style-type: none"> ➤ Periodical check of parking attendant duties ➤ Periodic review of tickets issued per hour in selected areas ➤ Amendment to Cancelled Tickets report ➤ Determine and rectify difference between Tickets Overpaid report and Ticket Status Overview report. ➤ Review of apparent un-patrolled areas ➤ Review of filing system |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|--|--|--|
| 5 (15/12/05) | Procurement CMB | <ul style="list-style-type: none"> • Use of Marketplace system • Authorisation controls • Tendering process • Procurement Action Strategy Plan | <ul style="list-style-type: none"> • Evidence of control in areas tested during the audit. • Recommendations raised in the areas of <ul style="list-style-type: none"> ➢ Retention of unopened tenders in a locked cabinet ➢ Evaluation of local performance indicators suggested by IDeA |
| 6 (15/12/05) | Main Accounting HFS | <ul style="list-style-type: none"> • Procedure Notes • Transactions are correctly authorised • Feeder details from operational systems to General Ledger are accurate and correctly controlled • Control over account codes • Provision of budgetary information to operational areas • Control over system suspense accounts • System access controls | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Evidence of control over areas tested • Recommendations raised in the areas of <ul style="list-style-type: none"> ➢ Checking that new finance codes are included on subsequent management information provided to operational areas and ➢ Ensuring that such information has been receipted to identify issues |
| 7 (15/12/05) | Housing Stock Option Appraisal HRHM | <p>3.3 Non-Audit Plan Item</p> <p>The Head of Revenues & Housing Management initiated review after Financial Services highlighted a range of transactions as out- of- the- ordinary relating to HSOA. Testing was carried out in the following areas</p> <ul style="list-style-type: none"> • <i>Examination of adherence to Financial Regulations in the ordering of goods or services</i> • <i>Examination of adherence to Financial Regulations in the payment for goods or services, including re-imburement by petty</i> | <ul style="list-style-type: none"> • Review identified that all expenditure was correctly linked to the successful completion of the first phase of the HSOA. • Financial regulation were not adhered to in the areas under review and this was reported back to HRHM • Outcome was reported to OMT to ensure that all Heads of Service were aware of the importance of adherence to financial Regulations • Revised procedures for the use of petty cash and corporate credit card have been produced |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|--|---|---|
| | | <p><i>cash</i></p> <ul style="list-style-type: none"> • <i>Controls over the use of a corporate credit card</i> • <i>Controls over stock (gift vouchers in this case)</i> • <i>Budgetary controls</i> | <ul style="list-style-type: none"> • Budgetary control for subsequent phases of HSOA will be monitored by Officer Project Team • Follow-up reviews in hand to be reported to HRHM |
| <p>8 (20/4/06)</p> | <p>Cash & Banking HFS HRHM (05/06)</p> | <ul style="list-style-type: none"> • Procedure Notes • Security of staff and workplace • Processing of income • Banking procedures • Reconciliation of income to bank statements • Reconciliation of bank statements to General Ledger • Management of suspense accounts • Petty cash controls • Relevant systems' access controls | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Overall control is effective but recommendations raised in the following areas (<i>Low priority to enhance control apart from those with * where Medium risk has been assessed</i>) <ul style="list-style-type: none"> ➢ Evidential controls to be introduced for main reconciliation, receipt of banking credits and petty cash checks ➢ *Security issues recommended re safe combinations, receipt of cash in the post, access to area that houses the safe and control of keys for one of the ATMs. ➢ Procedural updates required for on-line payment logs, recording errors in processing ATM envelopes* and feedback to service areas if delays are seen in processing income. ➢ Long-standing income suspense to be cleared to general income (Control effective on day-to-day basis) |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|------------------------------|--|---|
| 9 (20/4/06) | Debtors HFS | <ul style="list-style-type: none"> • Procedure Notes • System access controls • Control of outstanding debtors • Write off procedures • Credit Notes • Debtor reconciliation • Periodic Income Invoicing • Non periodic Income Invoicing | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Recommendations raised in the areas of <ul style="list-style-type: none"> ➢ Annual check of periodic payments with department making request ➢ Appropriate level of authority requesting credit notes ➢ Periodic review of credit balances ➢ Timely submission of write off requests ➢ Procedure notes in place where departments are raising invoices |
| 10 | Corporate Debt Policy CMB | <ul style="list-style-type: none"> • Central list of corporate debtors • Customer advice • Customer agreements • Monitoring of repayments • Non collections, write offs and debt matching • The policy | Awaiting Approval of Final Report before Presenting To Members |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|-------------------------|---|--|
| 11 | Housing Benefit HRHM | <ul style="list-style-type: none"> • Procedure Notes • Assessment Procedures, controls & checks • System parameters and updates • Payment controls, BACS & Cheque • Reconciliation of Rent Rebates, Rent Allowance and Council Tax Benefits • Management of benefit overpayments including write-offs • Anti-fraud prevention and detection controls and procedures • System access controls • Performance management and Housing Benefits Performance Standards | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Audit Completed • Awaiting Final Approval prior to presenting to Members |
| 12 | Housing Rents HRHM | <ul style="list-style-type: none"> • Procedure Notes • Reconciliation of Housing Stock • Reconciliation of Rent Charges • System Parameters • Management of Void properties • Management of tenant arrears • Management of former tenant debt including write-offs • Reconciliation of Housing Rents to General Ledger • System access controls | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Audit Completed • Awaiting Final Approval prior to presenting to Members |
| 13 (20/4/06) | Creditors HFS | <ul style="list-style-type: none"> • Procedure Notes • System access control • Timeliness of Payments | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Evidence of control in areas tested during the audit. |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|-------------------------------|---|--|
| | | <ul style="list-style-type: none"> • Invoice Procedures • Reconciliation to general ledger • BACS details and procedures • Urgent cheques | <ul style="list-style-type: none"> • There were no recommendations raised |
| 14 | NNDR HRHM | <ul style="list-style-type: none"> • System access control • Billing parameters • Relief and allowances • Annual billing and amendments • Credit control and arrears recovery • Refunds and overpayments • Write offs • Reconciliation with General Ledger • Reconciliation with VO listing • Segregation of Duties | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Audit Completed • Awaiting Final Approval prior to presenting to Members |
| 15 (20/4/06) | Treasury Management HFS | <p>3.4 Non-Audit Plan Item</p> <ul style="list-style-type: none"> • System access control • Best value to Authority for investments • Investments approved by authorised officers • Effective monitoring and reconciliation of investments | Function Effectively Controlled |
| 16 | Council Tax HRHM | <ul style="list-style-type: none"> • System access control • Suspense Account • Discounts and Exemptions • Agreement of VOA schedules • System Parameters • Write offs | <ul style="list-style-type: none"> • Core Audit Area under External Auditor Review • Audit Completed • Awaiting Final Approval prior to presenting to Members |

| Report & Committee Date | Report Title - Owner | Key Controls Tested | Outcome |
|-------------------------|-----------------------------------|--|--|
| | | <ul style="list-style-type: none"> • Council Tax reconciliation • Reconciliation of Refunds • Refund Procedure • Recovery procedure • Written undertaking of staff • Cross checking of bills produced • Quality checks • Workflow management | |
| 17 | HR/PDR HR Manager | <ul style="list-style-type: none"> • PDR coverage / completion rates • PDR cascade process / sign off • Comparison of PDRs and Job Descriptions • Identification of training needs • Cascade of Corporate / Team objectives • Linkage with Workforce Development Plan | <ul style="list-style-type: none"> • Audit Completed • Awaiting Final Approval prior to presenting to Members |
| | Annual Checks Various | <p>This area reviews a range of controls including,</p> <ul style="list-style-type: none"> ➤ Authorised signatories ➤ Management of controlled stationery ➤ Miscellaneous fee income ➤ Accuracy of Flexi-work forms ➤ Health & Safety at Work procedures ➤ Inventories ➤ Petty cash payments ➤ Post Room procedures ➤ Use of telephones | <ul style="list-style-type: none"> • No significant issues identified • Minor procedural issues fed back to relevant business area |
| | Performance Indicators Various | <ul style="list-style-type: none"> • Detailed Review of accuracy of all BVPI and key Local PI reported in Performance Plan | <ul style="list-style-type: none"> • Assurance obtained from External Auditors on quality of work |

APPENDIX 3

PROPOSED ANNUAL AUDIT PLAN FOR 2006/07

DAYS

| <u>CORPORATE SYSTEMS</u> | |
|---|-----------|
| <p>Statement of Internal Control (SIC)</p> <p>The Accounts & Audit Regulations 2003 require a statement of internal control to be published and for the Council to review annually the internal control environment.</p> | 20 |
| <p>Anti Fraud & Corruption & Whistle Blowing Policy</p> <p>As part of the requirements of the External Auditors these policies need to be looked at annually. They also feed into the SIC.</p> | 10 |
| <p>Corporate Governance Arrangements</p> <p>This review will follow-up on from the areas identified in the 2005/06 audit review that require improvement to increase our score. Committee Report F&P O&S 15th December 2005 item 9.</p> | 5 |
| <p>Partnerships</p> <p>Following the agreed definition of a partnership, Internal Audit will update its list of associations drawing out the partnerships. A register of partnerships will be identified with the information required by PKF included.</p> | 20 |
| <p>Performance Indicators</p> <p>The Performance Indicators are audited annually to meet the requirements of PKF.</p> | 30 |
| <p>Risk Management Arrangements</p> <p>As part of the risk management policy an annual review of the procedures is undertaken by Internal Audit to determine how it is working within the Council. The review will also extend to looking at the service area risk registers to determine what action is being taken to reduce the identified risks.</p> | 20 |
| <u>FINANCIAL SYSTEMS</u> | |
| <p>Payroll & Expenses</p> <p>Audited annually as part of the Managed Audit requirements for PKF, the Authority's External Auditor.</p> | 15 |

| | |
|---|-----------|
| Creditors | 15 |
| Audited annually as part of the Managed Audit requirements for PKF | |
| Debtors | 17 |
| Audited annually as part of the Managed Audit requirements for PKF. This will include a follow-up on the Corporate Debt Policy. | |
| Cash & Banking | 15 |
| Audited annually as part of the Managed Audit requirements for PKF | |
| Main Accounting System | 12 |
| Audited annually as part of the Managed Audit requirements for PKF. | |
| Income Collection | 20 |
| A review of the arrangements in place for collecting ad-hoc income needs to be undertaken including Woodlands, Planning Services, Building Control, Car Parks, Sheltered Schemes, Licensing, Land Charges & copy documents. | |
| <u>OPERATIONAL SERVICES</u> | |
| Housing Benefits | 30 |
| This will include the PKF Control Evaluation Sheet (CES), Fraud Investigation & Overpayments. Review of how we are complying with the Housing Benefit Performance Standards. | |
| Council Tax | 15 |
| Audited annually as part of the Managed Audit requirements for PKF | |
| National Non-Domestic Rates | 15 |
| Audited annually as part of the Managed Audit requirements for PKF | |
| Housing Rents | 15 |
| Audited annually as part of the Managed Audit requirements for PKF. Including a review of the Housing Rents Reconciliation. | |
| Document Imaging (Comino) | 5 |
| Follow through the implementation of the Comino system ensuring data retention is effective. | |
| Human Resources | 10 |
| Review procedures in place and picking up actions from the Workforce Development Plan. | |
| Election | 5 |
| Review the allocation of ballot papers. | |

| | |
|--|------------|
| IT Services | |
| Review the compliance with the IT Policy and review general security arrangements. Including a review of the procurement of specialist equipment. | 20 |
| Central Services | |
| Telephone systems and security around them. An area raised as a concern on the Statement of Internal Control. | 5 |
| Contracts | |
| Review of a sample of contracts across the budget levels. Ensure the contract standing orders are being followed. Sample check the catalogue prices on the IdeA marketplace procurement. | 15 |
| Proactive Checks | |
| Inventories, Honesty Boxes, Post Opening, Petty Cash & Year-end balances, Flexi-Forms, Health & Safety, and Controlled Stationery, Authorised Signatures | 30 |
| Follow-up and Advisory | |
| Reports from 2005/06 may require some follow-up work to ensure recommendations have been implemented and systems are still operating effectively. | 25 |
| Contingency | |
| At this stage it is prudent to allow a number of days as contingency to ensure audit time will be available for new initiatives | 40 |
| TOTAL DAYS ALLOCATED | 429 |