

5 April 2011		ITEM 5
Audit Committee		
4TH PROGRESS REPORT – AUDIT PLAN 2010/11		
Portfolio Holder: Cllr Oliver Gerrish, Portfolio Member Central Services		
Wards and communities affected:	Key Decision:	
All	Not Applicable	
Accountable Head of Service: Chris Harris, Head of Internal Audit		
Accountable Director: Martin Hone, Corporate Director of Finance and Corporate Governance		
This report is Public		
Purpose of Report: For the Audit Committee to satisfy itself that progress against the Internal Audit Plan is sufficient as one of the means of assuring itself of the effective operation of internal controls and to take an overview of progress against Internal Audit recommendations.		

Comment [sj]: PLEASE CLICK THIS BOX ONCE and enter the date of the meeting (in font 16, not capitals)

Comment [sj]: Please leave this for completion by Democratic Services

Comment [sj]: PLEASE CLICK THIS BOX ONCE and enter the name of the Committee you are reporting to (in font 16, not capitals)

Comment [sj]: PLEASE CLICK THIS BOX ONCE and enter the title of your report (in font 16)

Comment [sj]: Please state the name of the Cabinet Member and the Portfolio to which the

Comment [sj]: Please enter details of any Wards and Communities affected by the

Comment [sj]: Yes/No/Not Applicable – a ‘Key Decision’ is generally one affecting more

Comment [sj]: Please state the Head of Service’s name and job title

Comment [sj]: Please state Director’s name and job title

Comment [sj]: State whether your report is Public or Exempt. If Exempt (i.e. not to be given to

Comment [sj]: Briefly set out the purpose of your report

Comment [sj]: Please provide a summary of the key points in your report

Comment [sj]: The recommendations should be set out in bold in the form of the

Comment [sj]: You should briefly explain why the report is on the agenda - See para. 5.3 and 5.4

EXECUTIVE SUMMARY

This report sets out progress against the Internal Audit Plan 2010/11, Internal Audit Performance and management actions in response to Internal Audit reports.

As previously discussed at the Audit Committee of 4th November 2010, the majority of work was planned into quarters 3 and 4 when there would be additional resources and specialist staff on site.

1. RECOMMENDATIONS:

That the Audit Committee:

- 1.1 Consider reports issued by Internal Audit in relation to the 2010/11 audit plan.**
- 1.2 Note progress against the Internal Audit Plan for 2010/11.**

2. INTRODUCTION AND BACKGROUND:

- 2.1 The Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006), require every local authority to maintain an adequate and effective system of internal audit. The Internal Audit Service carries out the work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.**

2.2 The Audit Committee has a responsibility for reviewing the Council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The audit work carried out by the Internal Audit Service is a key source of assurance to the Audit Committee about the operation of the internal control environment. The procedures and practices that Internal Audit operates at Thurrock are designed to reflect adherence to these standards.

2.3 The audits contained in the Internal Audit Plan 2010/11 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

2.4 This report comments on Internal Audit performance relating to the period ending 31st March 2011 and is the 4th progress report issued for 2010/11. Appendix 1 shows progress on an audit by audit basis. Appendix 2 details reports finalised since the last progress report.

3. **ISSUES AND/OR OPTIONS:**

3.1 In a change to the way in which we report, which was agreed at the Audit Committee meeting on the 4th August 2010, we have highlighted areas of substantial assurance as part of this management summary. Areas receiving adequate and limited assurance will still be continue to be reported in the attached appendices showing action plans and management responses.

3.2 The following reports received a substantial assurance rating for the control frameworks in their area:

- **Cash Receipting** – The Cash Receipting review identified 1 significant recommendation relating to:

- The lack of a signature for controlled stationery when it is issued.

The following examples of good controls were found:

- Access to the Paris System was controlled.
- An effective audit trail exists to ensure individual transactions can be properly identified.
- All income received is properly accounted for and in a timely manner.
- Unders and overs are recorded and investigated.
- A reconciliation of cash received, banked and exported to the appropriate funds is carried out on a daily basis. A monthly reconciliation does also take place.
- The Cash Office is a secure area with access restricted.
- Insurance arrangements are in place for storing cash overnight in our premises. The overnight rating of the three safes appears to be sufficient to cover the full amount of the sums involved.

- **Payroll** – The Payroll review made 2 significant recommendations relating to:

- Proof of qualifications is not always obtained for all new employees.
- Overtime claims are not always accurate.

This represents a significant improvement in this area where the last 2 reports issued have been limited assurance.

Comment [s]: Other headings may be appropriate. The report should outline the reasoning that leads to its recommendations and **must** include:

1. a brief summary of options considered;
2. consultation outcomes
3. a risk assessment.
4. Whether the responsible cabinet members have been consulted/contributed to the report (NB professional and political advice must be clearly distinguished)

- See para.5.5 of the report writing guidelines.

- **Housing Rents** – The Housing Rents review identified 1 significant recommendation relating to:

- Further joint working with the Debt Manager is required to reduce former tenant arrears is required.

The following examples of good controls were found:

- There are written procedures in place.
- Performance is correctly monitored.
- Council properties are identified and accurately recorded on the Rent Accounting System.
- Reconciliations between Cash Receipting System and Saffron are carried out on a weekly basis.
- Prompt action is taken to deal with current tenants' arrears.
- Write offs are processed in accordance with Council's policy.
- Refunds are correctly processed.

- **Corringham Primary School** – The key issue identified in the review of this school was:

- The need to ensure purchase order authorisation is carried out in line with the school's financial regulations.

The following examples of good controls were found:

- There is evidence that procurement of large building & maintenance projects is correctly monitored by the school and its governors.
- The school holds sufficient evidence that the necessary pre-employment checks are carried out for new staff.
- Access rights were reviewed and updated.

- **Herringham Primary School** – The key issue identified in the review of this school was:

- Petty Cash account had not been reconciled on a regular basis resulting in a deficit of £56.

The following examples of good controls were found:

- In general, there has been a good improvement in all areas of control since the last review was carried out. There were previously 3 significant recommendations and all had been actioned.

- **Thameside Infant School** – There were no significant issues identified in the review of this school.

The following examples of good controls were found:

- There were good controls around the management of the school fund, petty cash and income collection.

- **Stanford-le-Hope Primary School** – There were no significant issues identified in the review of this school.

The following examples of good controls were found:

- Strong controls were in place at the school and were applied consistently and effectively. Risks were managed and assets safeguarded.

- **Warren Primary School** – There were no significant issues identified in the review of this school.

The following examples of good controls were found:

- In general, there has been a good improvement in all areas of control since the last review was carried out. There were previously 3 significant recommendations and all had been actioned.

3.3 The following reports received an adequate assurance rating for the control frameworks in their area:

- **West Thurrock Primary School** – The key issue identified in the review of this school were:
 - Purchase orders not authorised in line with the schools' Financial Regulations.
 - References are not always chased up when employing new staff.
 - Debt recovery action around school dinner money not recorded.

- **Tilbury Manor Junior School** – The key issue identified in the review of this school were:
 - School Fund monthly reconciliations has not been signed by the Head Teacher.
 - 65% of purchase orders are raised after the date of the invoice.
 - Inventory does not include serial numbers, purchase price, date and order number on all equipment.
 - Personnel references are not always kept on file.
 - Quotes for orders over £5000 are not kept on file
 - The School Improvement plan does not cover the next 3 years.
 - Passwords are not changed periodically.

3.4 The following report received a limited assurance rating for the control frameworks in their area:

- **Criminal Records Bureau (CRB) Checks** – The CRB review identified 6 significant recommendations relating to:
 - Organisational charts are not up to date, although it is acknowledged that they are currently being developed.
 - The evaluation documentation was not always very clear. It did not always clearly indicate whether the post required a CRB check, or not.
 - A significant number of evaluations were not signed by the manager or the HR Advisor with no evident audit trail.
 - The Authority has a written policy on the secure handling of disclosure information and this complies with the Code of Practice published by the CRB.
 - Risk Assessments for posts where a CRB was returned with a positive trace, were not always evidenced.
 - An employee who started in their post in June 2010, was not on the Safer Recruitment Register.
 - CRB checks have not been identified as a corporate risk on the corporate risk register.
 - Organisational charts are not up to date, although it is acknowledged that they are currently being developed.

It should be noted that good progress has been made in addressing the issues raised in the report and this work is continuing.

- **Europa Highways Review** – The Europa Highways review identified 3 fundamental and 3 significant recommendations relating to:
 - Budget reporting is not fully developed and a formalised process for revenue and capital monitoring at a service level is not in place.
 - No efficiencies have been sought up until now from either service improvements, or, better procurement processes.

- One central contracts register is not maintained on a regular basis to accurately reflect corporate procurement activity and associated document retention.
- Contracts have not been signed or dated before works commence
- Council procurement/contract procedures and EU regulations have not been followed or complied with when tendering for schemes
- Invoices are not checked to ensure the Council are benefitting from value for money

It is evident from the results of this review and the action plan responses that a Business Solution has not yet been agreed. It will be necessary for the Authority, Vertex and Europa to review the Governance arrangements, in order to determine an effective business relationship model. This process will also need to detail roles and responsibilities as well as performance. It should provide a clear understanding of these requirements, in association with the Constitution and the Local Governance Framework.

- 3.5 During the period being reported, there are currently 3 reviews which are at draft stage and are with the client, 6 where the fieldwork has been completed and the draft report is being prepared and 9 reviews which are work in progress, deferred or on-going.
- 3.6 Some work has had to be deferred due to the long term absence of a member of staff who is seconded from the Council. The impact of this is being discussed with the Corporate Director of Finance & Corporate Governance.
- 3.7 In respect of follow-up work, the process is changing within 2010/11 to reflect the higher priority given to this area by Corporate Directors and Heads of Service. Training has now been carried out and all reports issued after 1st April will be put on to a database and followed up in real-time.

4. CONSULTATION (including Overview and Scrutiny, if applicable)

- 4.1 The audit risk assessment and the plan are periodically discussed with the Chief Executive, Corporate Directors, Heads of Service before being reported to Directors Board and the Audit Committee.
- 4.2 All terms of reference and draft reports are discussed and agreed with the relevant Corporate Directors and/or Heads of Service before being finalised.
- 4.3 The Internal Audit Service also consults with the Council's External Auditors (the Audit Commission) to ensure that respective audit plans provide full coverage whilst avoiding duplication.

5. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT

- 5.1 The Council's corporate priorities were used to inform the annual audit plan 2010-11. Recommendations made are designed to further the implementation of these corporate priorities.

Comment [j]: This should include any consultation with Ward Members and Shadow Portfolio Holders, as well as any public or statutory consultation

Comment [a]: Please refer to Section 5.7 of the Report Writing Guidelines

6. IMPLICATIONS

6.1 Financial

Implications verified by: **Sean Clark**
 Telephone and email: **01375 652010**
sclark@thurrock.gov.uk

Whilst there are no direct financial implications arising from this report, it is important that the authority maintains adequate internal controls to safeguard the authority's assets. This is not to say that audit recommendations do not have financial implications but these are for management to identify and contain within existing budgets.

6.2 Legal

Implications verified by: **Jamie Hollis**
 Telephone and email: **01375 652 925**
jhollis@thurrock.gov.uk

The Council has a legal obligation under the Accounts and Audit (Amendment)(England) Regulations 2006 to maintain an adequate and effective system of internal audit, and the Council has delegated this responsibility to the Audit Committee. There are no adverse legal implications relating to the reporting progress.

6.3 Diversity and Equality

Implications verified by: **Samson DeAlyn**
 Telephone and email: **01375 652472**
SDeAlyn@thurrock.gov.uk

There are no direct diversity implications arising from this report as it is for information purposes only.

6.4 Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental

In terms of risk and opportunity management, the Internal Audit Plan and its outcomes are a key part of the Council's risk management and assurance framework. The Internal Audit Plan is based on risk assessments that include a review of the Council's risk and opportunity register.

BACKGROUND PAPERS USED IN PREPARING THIS REPORT:

- Internal Audit Reports issued in 2010/11.

Comment [sj]: This section should always be completed – if they are dealt with fully in another part of the report, they also need a brief cross reference here. The names and job titles of the officers providing the implications should be provided in full – see Guideline 6.1 and please note Democratic Services Deadlines and ensure that officers providing implications are given 5 clear working days to work on the report. Authors can write implications but they must be signed off by the appropriate officers

Comment [sj]: See Guideline 6.2

Comment [sj]: See Guideline 6.3

Comment [sj]: See Guideline 6.4

Comment [sj]: See Guideline 8. If any Papers are to be placed in the Members room that relate to this report, you should also list them here

APPENDICES TO THIS REPORT:

- Appendix 1: Progress grid on an audit by audit basis.
- Appendix 2: Final reports issued with an adequate or limited assurance opinion since the last progress report to Audit Committee.

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Comment [sj]: List the Appendices referred to in the Report

Comment [sj]: Insert the full contact details of the author of the report