

6 March 2013		ITEM: 9
Standards & Audit Committee		
Progress Report and Follow-up of High and Medium Recommendations		
Report of: Cllr Philip Smith – Portfolio Holder Central Services		
Wards and communities affected: All	Key Decision: None	
Accountable Head of Service: Chris Harris – Head of Internal Audit		
Accountable Director: Martin Hone – Director of Finance & Corporate Governance		
This report is Public		
<p>Purpose of Report: For the Standards & 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.</p> <p>For the Standards & Audit Committee to satisfy itself that progress against the implementation of recommendations is satisfactory.</p>		

EXECUTIVE SUMMARY

This report sets out progress against the Internal Audit Plan 2012/13, Internal Audit Performance and management actions in response to Internal Audit reports issued since the last update in February 2013. It also sets out the implementation of high and medium recommendations made in audit reports which have been finalised and issued to the client since the last update in December 2012.

1. RECOMMENDATION:

1.1 That the Standards & Audit Committee:

- **Consider reports issued by Internal Audit in relation to the 2012/13 audit plan.**
- **Note progress against the Internal Audit Plan for 2012/13.**
- **That the Standards & Audit Committee note progress made by management in implementing high and medium recommendations reported in the reviews identified at 3.6 below.**

2. INTRODUCTION AND BACKGROUND:

- 2.1 The Accounts and Audit (England) Regulations 2011 require that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

- 2.2 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 Standards & Audit Committee.
- 2.3 The Standards & 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 Standards & 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.
- 2.4 The audits contained in the Internal Audit Plan 2012/13 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.
- 2.5 This report comments on Internal Audit performance relating to the period since the last progress report was presented to the Standards & Audit Committee on 6th February 2012.
- 2.6 As part of the process for ensuring management act on the recommendations made in internal audit reports, the annual plan includes an allocation of days for follow-up work. The Standards & Audit Committee has a responsibility for reviewing the results of the follow-up work to satisfy itself that management are acting on the recommendations made in a timely manner. The follow-up work carried out by the Internal Audit Service is a key source of assurance to the Standards & Audit Committee about the operation of the internal control environment.

3. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

- 3.1 We have summarised below those reports that have been issued as final since the last progress report on 6th February 2013 and received a Green or Amber/Green assurance opinion. There was one report issued that received an Amber/Red opinion. There was one report issued with a Red assurance opinion relating to Manor School and this is being reported as a separate item on the agenda of this meeting.
- 3.2 The following two reports received a **Green** assurance rating for the control frameworks in their area:

Bulphan Primary School – Whilst the review identified five low level recommendations, the risks associated with these findings were minimal. Overall, the financial management arrangements of the school were good.

Payroll (including HR) – At the request of the Standards & Audit Committee, this review was a repeat of the work carried out in 2011/12. The 2011/12 report received a red assurance opinion. This review identified two low recommendations and these are being reported separately at this meeting.

3.3 No reports were issued during this period that received an **Amber/Green** assurance rating for the control framework in their area.

3.4 The following report received an **Amber/Red** assurance rating for the control framework in its area (Appendix 1):

Woodside Primary School - This review was carried out at the request of the client as the school became an academy from the 1st December 2012. The review concentrated on its systems and processes prior to its transfer. The review identified one high, six medium and five low recommendations. The high and medium recommendations related to:

- The high number of purchase orders that were raised after the invoice was received (16 out of 20 sampled), three of which should have been countersigned by the Chair of the Finance Committee in accordance with the school's financial regulations.
- The school's financial regulations needed to be updated to reflect the school's current financial arrangements.
- Poor controls around the use and reconciliation of petty cash.
- Where a quote was accepted which was not the cheapest, there was no evidence in the minutes that the decision had been discussed with governors.
- No independent check of the reconciliation of school dinner monies collected.
- Income was not being banked regularly.
- Stronger controls were required around school meals arrears.

3.5 The following report received a **Red** assurance rating for the control frameworks in their area:

Manor School – This review identified three high and two medium recommendations which are being reported separately at this meeting.

3.6 The audits considered as part of the follow up review were:

- Somers Heath Primary School
- Stifford Primary School
- Abbots Hall Primary School
- Shaw Primary School
- Graham James Primary School
- Herringham Primary School
- Woodside Primary School
- Bulphan Primary School
- Payroll (including HR)

The follow-up process concentrates on the recommendations classified as high or medium. It requires management to provide evidence to support their responses that recommendations made have been adequately implemented. For recommendations categorised as low, Internal Audit accept management's assurance regarding their implementation.

- 3.7 A total of 40 recommendations were considered in this review. These comprised of five high, six medium and 29 low recommendations. All had reached their implementation date (Appendix 2).
- 3.8 In conclusion, progress on implementation of recommendations is reasonable. The overall figure of 77% of recommendations that had reached their target date being fully actioned is in line with the previous report. Implementation of the five high and four of the medium recommendations represents 82% which is slightly below the last reported figure. Implementation of the low risk recommendations was 76%.

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

- 4.1 The audit risk assessment and the plan are periodically discussed with the Chief Executive, Directors and 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 to ensure that respective audit plans provide full coverage whilst avoiding duplication.
- 4.4 The follow-up review is discussed with the Corporate Director Finance & Corporate Governance and any concerns are raised with relevant Directors and Heads of Service.
- 4.5 All responses are discussed with management for their comments on progress and evidence obtained for high and medium recommendations.

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. Recommendations made are designed to further the implementation of these corporate priorities and the follow-up review assists in this process.

6. IMPLICATIONS

6.1 Financial

Implications verified by: **M Jones**
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mjones@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: **Eldred Taylor-Camara, Legal Group Manager**
 Telephone and email: **020 8227 3344**
eldred.taylor-camara@bdtlegal.org.uk

The Council has a legal obligation under the Accounts and Audit (England) Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Council has delegated responsibility for ensuring this is taking place to the Standards & Audit Committee. There are no adverse legal implications relating to the reporting progress.

6.3 Diversity and Equality

Implications verified by: **S DeAlyn**
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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

As this report is for information, there are no other implications arising from this report.

BACKGROUND PAPERS USED IN PREPARING THIS REPORT):

- Strategy for Internal Audit 2012/13 to 14/15 and Internal Audit Plan 2012/13
- Internal Audit Reports issued in 2012/13
- Final Internal Audit Reports issued

APPENDICES TO THIS REPORT:

- Appendix 1: Woodside Primary School
- Appendix 2 Follow Up of Previous Internal Audit Recommendations

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