

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JUNE 2012

AUDIT & ASSURANCE ANNUAL REPORT 2011/12

REPORT OF THE AUDIT & ASSURANCE MANAGER

1 PURPOSE

- 1.1 To present the 2011/12 Audit & Assurance Annual Report which covers Internal Audit, Risk Management and Information Governance.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the 2011/12 Audit & Assurance Annual Report.

3 SUMMARY

- 3.1 To continue to demonstrate good governance and support the Annual Governance Statement (AGS) the Council produces an Annual Report on the Internal Audit, Risk Management and Information Governance activities of the Council. This report combines this information into the 2011/12 Audit & Assurance Annual Report to support the AGS.
- 3.2 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code), which has been deemed as proper internal control practice under the Accounts and Audit (England) Regulations 2011, states under Standard 10 – Reporting, that “the Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control”. The Internal Audit Annual report sections of this report summarise the key areas of operation for 2011/12 and provides an opinion to support the Council’s 2011/12 Annual Governance Statement.
- 3.3 It is good governance and practice to have annual reporting on information governance and risk management. In respect to risk management it is also a requirement of the Council’s Risk Management Strategy.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 16th June 2009 – Annual report 2008/09
Audit Committee 28th June 2010 – Annual report 2009/10
Audit Committee 27th June 2011 – Annual report 2010/11

5 2011/12 INTERNAL AUDIT ANNUAL REPORT

5.1 Assurance and Opinion on the Systems of Internal Control

- 5.1.1 The Council’s section 151 officer’s statutory obligation under the Accounts and Audit (England) Regulations 2011 to provide assurance on the systems of internal control is provided by the work of internal audit. This assurance forms part of the Council’s assurance framework.

- 5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of the adequacy and effectiveness of the systems of internal control within the Annual Governance Statement.
- 5.1.3 The planned Internal Audit resources for 2011/12 were 1129 days plus 64 days specialist ICT audit provided under contract (from an external provider). The actual resources available were as planned but some resources were diverted from Internal Audit work due to work on Ombudsman complaints (30), transparency (9), cost review work for SMT (30), recruitment – Internal Audit Team Leader (6) and restructure work (6).
- 5.1.4 Based on the work undertaken during the year (main areas attached as **Appendix A**) and the implementation by management of the agreed recommendations Internal Audit can provide reasonable assurance that the systems of internal control within these areas of the Council were operating adequately and effectively when reviewed during the year. There were issues brought to the attention of Audit and identified during the audit review with the implementation and operation of the new financial system (Agresso) but management have provided assurance that these have or are currently being addressed.
- 5.1.5 The previous Internal Audit Annual Report included information in respect to the type and number of recommendations made during the year (as requested by the Committee). This information has continued to be collected for 2011/12 and is shown below with comparisons to 2010/11 and 2009/10 in brackets.

Number of Recommendations made by Type 2011/12 (2010/11) (2009/10)

No. of Audit Reports & Grading	Total number of recommendations	Financial Regulation or DCSF Requirement (schools only)	Legal	Policy and/or Procedure	Best Practice
44 (68) (79)					
11 (12) (15) Green	416	63	29	288	36
30 (41) (52) Yellow	(963)	(361)	(55)	(475)	(71)
3 (15) (10) Amber	(1003)	(243)	(64)	(523)	(173)
0 (0) (2) Red					

Green = good; Yellow = reasonable; Amber = limited; Red = poor

- 5.1.6 44 reports were issued during 2011/12, less than in the previous two years. This is due to the reduction in resources and the additional work required around testing the modules within the new financial system.
- 5.1.7 Out of the 44 reports 25% were green (good), 68% were yellow (reasonable) and 7% were amber (limited). There were no red (poor) reports. Summary amber reports and explanations have been reported to the Committee with detailed reports being circulated to members of the Committee prior to the meeting.
- 5.1.8 22% of the 11/12 recommendations were legal/financial regulation compared to 43% in 10/11. 69% of the 11/12 recommendations were policy and procedure compared to 49% in 10/11. This outlines the impacts of organisational change and the reduced familiarity of staff in new roles.

5.2 Performance against External Review

5.2.1 KPMG has been the Council's External Auditors since 1st April 2007. There is continuous liaison between Internal and External Audit to ensure that Internal Audit is undertaking appropriate work upon which the External Auditor can rely and reduce the external audit fee. Internal Audit has delivered all the work for 2011/12 upon which External Audit places reliance to a good standard.

5.2.2 In order to place reliance on the work of Internal Audit the External Auditor assesses the performance of Internal Audit each year against the CIPFA Code (see 3.2). KPMG have undertaken the 2011/12 review and a summary of the findings will be presented to the Committee as part of their interim review feedback. There has been no indication from KPMG of any adverse findings but any actions required will be incorporated into the Internal Audit 12/13 key tasks list. This external review has also been used to meet the requirement of the Accounts and Audit (England) Regulations 2011 for an annual review of internal audit.

5.3 Local Performance

5.3.1 Internal Audit has retained 2 local performance indicators. The results with explanations are shown below.

PI Ref	Definition	Outturn 08/09	Outturn 09/10	Outturn 10/11	Target 11/12	Outturn 11/12	Comments/Explanation
LAUD1	% of completed work for the external auditor	100.00	100.00	100.00	100.00	100.00	Achieved
LAUD2	% Planned work completed	90.00	90.00	92.00	92.5	90.00	Not achieved by 2.5% due to the additional work outlined in paragraph 6.1.3

5.3.2 During the year to improve the team's efficiency, effectiveness and productivity we have held team development and training sessions. At these sessions and continually during the year we investigate and implement new/alternative ways of service delivery (practices, use of technology, procedures and standard documentation) based on customer feedback (see 5.4), sharing best practice with other local authorities and service providers.

5.3.3 The team has also during 11/12 completed the achievement of 23.3% staff savings (target 20%) and 20% non-staff savings.

5.3.4 Internal Audit is a member of the CIPFA benchmarking club (membership of 147 local authorities). A report was presented to the Audit Committee in November 2011 providing the results which showed that Internal Audit compares positively against other unitary authorities. Using this and qualitative data from the benchmarking club additional areas for improvement have been identified and are included in the 2012/13 key tasks list.

5.3.5 The Audit & Assurance Manager is the Unitary and District representative on the CIPFA Audit Panel. This helps the team to be at the forefront of public sector audit giving them advanced notice of developments in Internal Audit and governance enabling them to contribute to and influence relevant guidance.

5.4 Customer Feedback

5.4.1 Internal Audit receives customer feedback in several ways:-

- a) Informal feedback from auditees during the audit
- b) Seeking feedback from auditees at draft report discussion meetings
- c) Completion of a post audit questionnaire

5.4.2 The analysis of post audit questionnaire feedback is shown in the table below compared to the last 3 years.

POST AUDIT QUESTIONNAIRE FEEDBACK 2011/12 compared to last 3 years

Question	2008/09 from top score 5	2009/10 from top score 5	2010/11 from top score 5	2011/12 from top score 5	Difference 10/11 to 11/12
Pre- Audit Arrangements	4.6	4.6	4.8	4.8	No change
Audit Visit	4.8	4.8	4.8	4.6	-0.2
Communication	4.6	4.3	4.5	4.8	+0.3
Report	4.6	4.7	4.7	4.7	No change
Is audit a positive support – Yes	94%	100%	100%	100%	No change

5.4.3 The team continues to perform well with all average scores over 4.5 out of 5. The audit visit score has reduced slightly and communication improved. The team has reviewed these scores and where additional information has been provided in the feedback changes have been made, where appropriate.

6. 2011/12 RISK MANAGEMENT ANNUAL REPORT

- 6.1 Risk Management is a key component of good governance and was unchanged following the restructure within Governance. The service has continued during 2011/12 to support senior managers and service delivery managers with the management of their risks and good management practices (including service planning).
- 6.2 The Senior Management Team has managed the key risks during the year as part of their management agenda's and specifically the risks associated with reduced resources (financial and people) and the Council wide reorganisations (restructures and service reviews).
- 6.3 During the year Risk Management has also supported the Council's major projects including the Co-operative Council project.
- 6.4 Risk Management participates and contributes to external benchmarking exercises and the results of these have informed the service and confirmed similar performance to other local authorities.

7. 2011/12 INFORMATION GOVERNANCE ANNUAL REPORT

7.1 Information Rights

7.1.1 Information rights is the collective name for 3 main pieces of legislation in respect to public sector information, these are:

- **Data Protection Act 1998** – looks at personal information relating to individuals
- **Freedom of Information Act 2000** – encompasses all information held by the Council
- **Environmental Information Regulations 2004** – information with an environmental impact

7.1.2 The Information Governance (IG) Team plays a key role in providing assurance that the Council complies with information rights legislation. From April to the end of September 2011 IG advised on the application of relevant exemptions in respect to requests received under information rights legislation. From 1st October 2011 it took over responsibility for the administration of all information rights requests on behalf of the Council, including subject access requests.

7.1.3 The ICO has set a benchmark of 80% for responding to FOI requests within the 20 day statutory deadline for responding to requests. The Council answered 909 FOI requests during the year, an average of 76 per month. 85% of these requests were answered within the 20 day working day statutory deadline with the average time to respond to each request being 12 days.

7.1.4 There were 41 Environmental Information requests, 51% of which were responded to within 20 working days. There were 95 subject access requests (under the Data Protection Act), 68% of which were answered within 40 days.

7.2 Data Security Incidents

7.2.1 IG investigates all instances of alleged data breaches that are identified and referred to them. Following training and awareness raising the Council has developed a culture of reporting possible breaches to Management and IG. Prompt reporting where personal/sensitive data breaches have occurred can significantly reduce the impacts upon individuals.

7.2.2 A data breach can cover a number of different incidents from a member/employee reporting a lost Blackberry to confidential/sensitive information being communicated to an unauthorised and/or incorrect recipient. Suspected data breaches are reported to the Audit & Assurance Manager, SIRO (Assistant Director Finance, Audit & IG) and the relevant Assistant Director/SDM. Information Commissioner (ICO) guidance is followed in respect of the reporting of breaches. The ICO can impose sanctions on authorities for non-compliance including monetary penalties in appropriate cases.

7.2.3 During the year there were 77 reported instances of possible data breaches. IG investigated all of these and has confirmed that 40 data breaches had occurred. These are shown below categorised by type of breach.

Category/Type	Number of cases (%)	Number of Formal ¹ Complaints received from Data Subjects
Information accidentally sent/made available to the incorrect recipient	31 (77%)	6
Accidental release of personal information verbally	3 (8%)	0
Documents containing sensitive information left in an insecure location	1 (2%)	0
Documents/information containing sensitive information disposed of inappropriately	2 (5%)	0
Information lost or stolen	3 (8%)	0
Total	40	6

7.2.4 For each of these breaches IG agreed actions with the relevant management team to minimise the impact of the breach on individuals. The Council has also changed procedures and provided additional training to reduce the possibility of similar data breaches occurring in the future. Disciplinary action has been taken in 4 cases, 2 members of staff have resigned during these processes and 1 has been dismissed.

7.2.5 The circumstances for two (5%) of the confirmed data breaches met the ICO's notification rationale and were referred to the Information Commissioners Office (ICO). We are still waiting for the ICO's final response to these incidents including any action he requires the Council to take. The Council also informed the ICO of another case due to the extensive local press coverage it received.

7.2.6 Any lessons that should be learnt from data security incidents are shared locally with appropriate employees. IG also plans to produce a summary of key lessons learnt from data breaches investigated and disseminate these across the Council.

7.3 Information Governance Work Programme

7.3.1 The IG team in addition to the administration of information rights legislation and the investigation of data security breaches has set down a work programme to further improve the information governance framework of the Council. Progress achieved during the year is shown below:

Action	Progress achieved 2011/12
Production of a fit for purpose publication scheme	Scheme implemented in March 2012.
Development of a FOI disclosure log	Complete. Disclosure log now posted on Councils website and updated monthly
Review of Corporate Information Security Policy (CISP)	On-line acceptance of the CISP now in place and is complemented by the introduction of online information security training.
Follow up of the implementation of the actions from the 2010/11 Safeguarding review	Follow up work completed in December 2011. Progress had been made by Safeguarding in respect to the implementation of suggested actions however a number of actions are still outstanding. A further follow up is due in April 2012.

¹ Formal complaint = a formal complaint made, logged and processed through the Council's Complaints procedure

Developing training and awareness	<p>A number of actions have taken place on this including:</p> <ul style="list-style-type: none"> • Production and distribution of posters on information security for Council buildings • Online information security training and acceptance of CISP now in place. • Production of a data protection / information security self assessment for managers • Dissemination of data breaches lessons learnt via corporate communications • Plans to produce a corporate summary lessons learnt statement on all 11/12 data breaches to be disseminated via Corporate Communications. • The IG & Risk Team Leader attended a number of Service Unit management meetings to raise awareness. • Targeted training undertaken in higher risk areas such as Safeguarding. • Members session in November 2011 • Presentation to all Finance officers in December 2011.
Online agreement to abide by requirements of the CISP	Fully implemented.
Guidance on undertaking Privacy Impact Assessments	Guidance now complete and communicated to Project Officers in ICT.

8 CONCLUSIONS FOR 2011/12

- 8.1 Despite reduced resources arising from the restructure in October 2010 and the change in responsibilities in respect to information rights requests and Ombudsman's complaints the Audit & Assurance Team has achieved good results and contributed to ensuring good governance arrangements throughout the Council.
- 8.2 The statutory responsibilities of the Council's Chief Financial Officer (section 151 officer) to provide an adequate internal audit service have been met and Internal Audit has provided reasonable assurance to the Council on the internal control systems for the areas reviewed in 2011/12.
- 8.3 The Information Governance team have exceeded the ICO's target of responding to 80% FOI requests within the statutory deadlines, achieving 86%.
- 8.4 However, there are numerous major changes occurring both within and outside the Council during 2012/13 which could affect the team's activities, for example :-
- a) The Council's budget strategy requiring further savings has resulted in a further review of the structure of the team that was launched on 25th April 2012 and is currently in the 3 month consultation period;
 - b) Further service reviews and re-organisations, revised governance arrangements and reduced supervisory levels;
 - c) The continued development of relationships with revised service delivery areas to ensure the team continues to support the authority in achieving its objectives.
 - d) Changes to the Government's expectations of local government and policies;
 - e) Consideration of the future changes to the external audit and inspection regime;

- f) Additional requirements from the Government in respect to information governance i.e. information security, data quality and sharing standards;
- g) The Council's key projects - becoming a Co-operative Council, the Accommodation moves, Building Schools for the Future and Waste.

9 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit & Assurance have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of Audit & Assurance are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	The Accounts and Audit (England) Regulations 2011 state that the Council 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. There is also a requirement to comply with CIPFA's Code of Practice for Internal Audit in Local Government. Undertaking the audits as set out in the report and providing updates and an Annual Report to this Committee contributes towards meeting these requirements. Further reference to legal requirements and the implementation of those legal requirements in accordance with CIPFA guidance are contained within the main body of the report at paragraphs 3.2, 5.1.1 and 5.2.2 respectively. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council's Legal Services Team for further advice and assistance.
Links with Corporate Priorities	All aspects of the Audit & Assurance teams work supports good governance which underpins the achievement of the Council's objectives and quality service delivery.
Risks and Opportunities	All aspects of the Audit & Assurance teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	There are no financial implications arising from this report. Audit & Assurance operated within budget for 2011/12 with a small underspend at the end of the year. Where recommendations are made by team members following reviews, if possible, cost implications are identified. MLB 27.04.12
Ward Implications	The work of the Audit & Assurance team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

10 BACKGROUND PAPERS

Annual Audit Plan 2011/12 and strategy
 Internal Audit Action Plan 2011/12
 CIPFA Benchmarking Information 2011
 Risk Management Strategy 2011
 Corporate Information Security Policy

Report by Jenny Marriott, Audit & Assurance Manager. Telephone: 383101

MAIN AREAS OF INTERNAL AUDIT WORK UNDERTAKEN 2011/12

Areas	Days
Abacus system review	12
Advice/Consultancy + organisational change	66
Agresso Interfaces with other systems & systems development	29
AGS assurance & certification	18
Building Control Fees	5
Building Schools for the Future	2
Captain Webb	7
Cash Collection - general	22
Catering - Systems Development	3
Catering spot checks	2
Cinema Press release review	5
Community Centres	12
Council Tax / NNDR	51
Council Tax Ward data checks	11
Direct Payments Review	8
Discharge process - Acute Hospitals & Mental Health Units	7
Donnington Wood Junior School	6
External Audit Liaison & changes to external audit arrangements	11
Follow ups	21
Fraud & Compliance Checks	9
Fraudulent Credit Cards	4
Grange Park School	8
Haughton School	6
ICT infrastructure project and contract review	12
ICT Procurement	28
Integrated Benefits System	47
Lightmoor	7
Main Accounting	46
Markets & Cash collection	9
Meals on Wheels	8
National Fraud Initiative	15
Newdale Primary	7
Newport Junior School	8
Newport Pool	9
Newport Pool Review	13
P2.net	8
Payroll	30
Performance Indicators	15
Planning Applications	15
Purchase Ledger	41
Putting People First	4
Redundancy Payments process	2
Risk management	16

Safeguarding Recommendations Follow Up	4
Sales Ledger	49
School Funds	6
Single Status	1
Social Care Service Improvement	17
Speak Up Policy Update	3
St Matthews School	7
St Peters School Bratton	7
Supplier Query	16
Taxi review	2
Temporary Accommodation	3
The Place	21
Travel Link	8
Treasury Management	12
Visible Minorities Development Council - Fraud Complaint	2
Wellington Library / First point	2
Wombridge School	7
Woodlands School	8
Work for SMT on costs, fees and charges	30
Youth Service	3