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Report

Subject : Internal Audit – Nine Month Update
Report to : Audit Committee
Date : Wednesday 4 February 2009
Author : Audit Manager

1. Introduction

- 1.1. The Internal Audit Plan for 2008/09 was approved by the Audit Committee in April. The plan reflected judgements on the need for assurance to support the Governance Statement process, the identification and assessment of key risks, as well as sufficient coverage of key controls to enable the Audit Commission to place reliance on the work of Internal Audit and to avoid duplication.
- 1.2. The decision taken in July 2007 on the unitary authority has meant that the council is now just two months away from vesting day, and therefore it has been appropriate to continuously review the plan to ensure it retains its relevance to the council's risks and objectives, as well as those arising from transitional work.
- 1.3. The original and updated plans are built around giving assurance on four key areas:
 - Governance, internal control and risk management arrangements.
 - Council operations and projects that align with the council's strategic objectives.
 - Operational risk.
 - Corporate and local government review programme and project work.
- 1.4 Details of the original allocated audit days and the revised audit days are shown in **Appendix A**. Any changes have been highlighted in yellow, with the exception of revisions relating to:
 - Assurance work on transitional and unitary project management risks, which have been highlighted in green.
 - Transition to Unitary IT audit work, which have been highlighted in blue.



Awarded in:
Housing Services
Waste and Recycling Services



2. Key Factors for Revision of the Plan

2.1 Throughout quarter three of this financial year, the Audit Manager has continued to be involved on many transitional issues in support of the development of the new WC Internal Audit team. This has included:

- Continued membership of the WCC Internal Audit Management Group
- Further joint working on the establishment of Internal Audit working methodologies and audit working paper formats
- Generating a risk register for Internal Audit within the new Unitary
- Providing advice and comment on the establishment of an Audit Committee for the new Wiltshire Council.
- Supporting work on team development and job evaluation outcomes for audit staff at Wiltshire County Council.

Both members of the audit team have also been meeting with WCC audit staff every 4 to 6 weeks to discuss audit working practices and reporting.

Therefore, an additional 16 days has been allocated to support joining up work with the WCC Internal Audit team and audit teams from the other District Councils.

2.2 Provisions in the plan to support corporate efficiency, best value and feasibility has been scaled back by 16 days in order to accommodate this additional transitional work involved in supporting the creation of an effective internal audit team for the Unitary council.

2.3 Transitional work included an allocation of 10 days for training and participation in schools inspection work under the Financial Management Standard in Schools (FMSiS) scheme. All members of the Internal Audit team have attended training as well as participated in a school's inspection. Due to changes in the number of actual school visits planned for quarter 4, this resource has been scaled back from 10 days to 4 days.

2.4 The 6 days resource released from FMSiS, have been allocated to a new area of transition work within the plan. This work is predominantly training in Wiltshire County IT systems in relation to SAP, which will cover an introduction to SAP plus self service applications and enquiries on human resources and payroll.

SAP, or Systems, Applications and Products, is the software package purchased by Wiltshire County Council which will encompass finance and control, purchasing and procurement, project systems and investment management, and payroll and human resources in the new Wiltshire County.

2.5 A resource of 25 days was approved in the audit plan in April 2008 for assurance work on project management for the new Unitary council. This resource has been split and reallocated across key financial processes at the council, which are either going to remain unchanged following 1st April or which hold sensitive personal data. These audits are Payroll, National Non-Domestic Rates, Housing and Council Tax Benefits and Housing Rents. Each of these audits incorporated a two-part approach – to provide assurance on the current system, as well as to provide assurance and to consider the risks which may arise from transition. It is this latter element to which the 25 days unitary assurance resource was allocated.

2.6 Following liaison on the use of remaining IT audit resources with Kennet and North Wilts District Councils, the Principal IT Auditor at Wiltshire County Council and with the Audit Manager for Deloitte, it was concluded that any work on SAP interfaces would be best undertaken by WCC internal audit, as the risks over interfaces lies with them. In addition, it was felt that data transfer arrangements would be best served by undertaking specific application audits on the council's two key housing and benefit systems.

2.7 Consequently, the resources allocated to SAP interfaces and data transfer have been re-allocated so as to be more effectively utilised. The Audit Manager concluded that effective utilisation would be through undertaking a 5 day application audit of Capita Software services (Academy revenue and benefits application), a 5 day application audit of Simdell (housing

rents, repairs and service charges) and a 6 day third party system audit of Clubrunner (leisure facilities) and Databox (City Hall).

- 2.8 The contingency of 22 days in the original plan, reduced to 7 days in quarter 3, has been eliminated with the release of 7 days for delays and excess time spent on the completion of the NNDR audit.
- 2.9 Resources allocated to the follow up of actions taken by managers in response to previous audit work has been scaled back by 4 days to accommodate an over run in the Security of Assets and Information audit which was finalised at the end of quarter 2, and which received a limited assurance

3. Internal Audit Assignment Performance

- 3.1 Audit assignments from the 2008/09 plan which have been completed together with the level of assurance are shown in the following table. The assurance level awarded relates to the efficacy of the systems of control examined during the audit.

Audit Area	Level of Assurance	Audit opinion on proposed management actions at the point the report was issued
Data Security	Limited	The improvement in internal control should lead to a higher level of assurance.
National Non Domestic Rates	Full	The improvement in internal control should ensure that a full assurance is maintained.
Security of Assets	Limited	The improvement in internal control should lead to a higher level of assurance.
Cash Collection and Banking	Substantive	The improvement in internal control should lead to a higher level of assurance.
Housing and Council Tax Benefits	Full (current risks) and Limited (transitional risks)	The improvement in internal control should lead to a higher level of assurance for current risks, but should reduce risk but not sufficiently to change the level of assurance for transitional risks.
Payroll	Limited (current risks) and Substantive (transitional risks)	The improvement in internal control should lead to a higher level of assurance for both current and transitional risks.
Service Charges on Council Properties Follow Up	Limited (sheltered schemes) and Substantive (leasehold properties)	Report currently in draft.

- 3.2 The key areas of concern reported in audit assignments which resulted in risk ratings in excess of the council's risk appetite, were:

- Security of Assets
This risk posed an organisational, reputational and capability risk with "minor" impact but "almost certainty" in likelihood. The risk identified was because the council's land terrier has not been maintained or updated since 2004, the digitalised version may be incorrect and out of date.

- Payroll
This risk posed an organisational and impact on people risk with “critical” impact and “possible” likelihood. The risk identified was because in the event of SAP implementation problems, the lack of any local contingency plan to guarantee paying staff correctly and accounting properly, using Teamspirit after April 2009, could result in system failure, reputational damage and financial hardship for staff.

It should be noted that the capability to make payments locally post March 2009 will now be kept as a contingency until SAP payroll is implemented.

3.3 Audit assignments which have been commenced and are currently nearing completion include:

- Assurance work on project management for Salisbury City Council
- Housing Rents

3.4 Audit assignments planned for quarter 4 are:

- Main accounting system
- Bank reconciliation
- Creditors
- Debtors
- Income Management

4 Other Audit Work To Date

4.1 In addition to the usual planned audit assignment work and transitional work, as well as the new area of work as detailed in section 2 above (SAP usage and processes training), Internal Audit has undertaken numerous additional activities. In quarter 3, these have included:

- Continued monitoring of the 1C4W project and the work of the Implementation Executive in developing strategies for the new Wiltshire Council.
- Corporate benchmarking survey return for CIPFA
- Liaising with staff from Customer Services and Forward Planning and Transportation to ensure that cash income is adequately managed.
- Investigating the suspicions of management within Development Services of fraudulent mileage claims, and misuse of council time whilst undertaking work for another employer, prior to referral to an officially appointed investigating officer.
- Dealing with queries from members of the public and internal employees on the National Fraud Initiative and ensuring the smooth transfer of data by named data download contacts.
- Continuing professional development of staff through attendance at selected training events, including Job Evaluation, Change Management and Lean Systems Thinking.
- Finalisation of arrangements with the Head of Internal Audit at WCC to provide similar training and audit work opportunities for county Internal Audit staff on purely district council functions. This has involved a member of the WCC internal audit team joining SDC for two days per week from 6th November through to the end of March 2009. Work currently being undertaken is an audit of Housing Rents, with an audit of Debtors planned for completion in quarter 4.

5 Recommendation:

5.1 The Committee is asked to approve the revisions to the audit plan for 2008/09 as shown in **Appendix A** and note the audit work for the third quarter of 2008/09.

Internal Audit Plan 2008

APPENDIX A

			Date of Last Audit	Audit Days Original 2008/9	Audit Days Month 6 Update 2008/9	Audit Days Month 9 Update 2008/9	Change in Days Mths 6 to 9 2008/9	
Governance & Risk Management Arrangements								
Corporate Governance Annual Review & Governance Statement	Framework and provision of assurance based on Internal Audit work.		Annual	6	5	5		
Audit Committee support	Internal Audit reports to Audit Committee	Annual report, Audit plan, Quarterly update reports plus others as required.	Annual	20	20	20		
Follow up of audit work	Follow up of actions taken by managers in response to previous audit work	Follow up certificates	Annual	12	8	4	-4	
Objectives of the council								
	Key areas for assurance	Audit Areas						
Deliver efficient and customer focused services that give local people value for money.		Use of resources improvement work	2007/8	4	4	4		
		Service Charges - sheltered schemes follow up	2007/8	10	10	10		
		Ensuring that the council's key financial processes, including those which are material for the statement of accounts have robust controls in place. The Audit Commission will seek to place reliance on the work of internal audit in these areas.	Main accounting system	2007/8	10	10	10	
			Bank Reconciliation	2006/7	6	6	6	
			Creditors	2007/8	12	12	12	
			Debtors	2007/8	12	12	12	
			Payroll	2007/8	20	20	26	+6
			Cash collection & banking	2007/8	10	10	10	
			NDR	2006/7	12	12	25	+6
			Housing & council tax benefits	2007/8	15	15	21	+6
	Housing rents	2007/8	16	16	23	+7		
		Completion of 2007/8 audit work		0	10	10		

Corporate Efficiency, Best Value Review and Feasibility Study	Benchmarking exercises Effectiveness of arrangements Programme Office Project Plans (Corporate Plan - May 2008)		30	30	14	-16
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Operational Risk

IT Services	Data sharing and data security	Deloittes	7	7	7	
Community Initiatives	3rd party systems	Deloittes	0	0	6	+6
Revenue and Benefits	Academy application	Deloittes	0	0	5	+5
Housing Management	Simdell application	Deloittes	0	0	5	+5
	Capital Contract Final Accounts		0	10	10	
Ensuring that the council's arrangements for the prevention and detection of crime are robust. Undertaking investigation work where required.	Counter fraud work - responsive work to local issues, unitary counter fraud policy liaison		15	15	15	
Contributing to national data matching activities.	National Fraud Initiatives	2006/7	10	10	10	
	Help & advice		30	30	30	

Transition to Unitary

Joint audit work with Districts, County and Audit Commission	Assurance work on project management for unitary	Undertaken as key control objectives in Audit Areas	25	25	0	-25
	Joining up work with other Wiltshire IA teams - WAG, IAMs, Urchfont etc		15	20	36	+16
Corporate	Security of assets and information		18	18	22	+4

IT Interfaces with SAP	Joint working with North Wilts and Kennet DCs and WCC	Deloitte	10	10	0	-10
Data Transfer Arrangements (SDC to SAP)	Payroll, HR and debtors (all live data) and creditors and CIT standing data (all under contract or continuing under Unitary)	Deloitte	6	6	0	-6
Salisbury City Council	Assurance work on project management for new council		20	15	15	
Income Management	Income collection, BACs and security (rents, council tax, NNDR, Five Rivers, etc.)		10	10	10	
Wiltshire Schools Inspection	Financial Management Standard in Schools (FMSiS)		0	10	4	-6
Wiltshire County IT Systems Training	SAP usage and processes, HR and payroll enquiries, manager and employee self service		0	0	6	+6
Contingency						
Contingency			22	7	0	-7
TOTAL			383	393	393	