

Item 9

AUDIT COMMITTEE

24th SEPTEMBER 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

**Subject: INTERNAL AUDIT SERVICE -
INTERIM AUDIT REPORT FOR FIVE MONTHS ENDING 31st AUGUST
2008**

1. SUMMARY

- 1.1 The Internal Audit Plan for 2008-09 year was considered and approved by the Audit Committee on 15th April 2008. This report provides interim performance information for first five months of the year, with details of specific areas of work undertaken to the end of August 2008.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 *Audit Committee notes the contents of the Internal Audit Interim Report 2008-09.*
- 2.2 *Recognition be given that increased flexibility will be required in the Audit Plan 2008-09 to deal with general uncertainty, risks and emerging issues as a result of reorganisation of local government in County Durham and LSVT of the housing stock, and that audit resources be directed accordingly for the remaining part of the year.*
- 2.3 *A further report be considered at a future meeting of this committee.*

3. AUDIT ACTIVITY APRIL 2008 TO AUGUST 2008

3.1 Background

- 3.1.1 The production of a comprehensive Audit Plan is an essential requirement for the delivery of an effective Internal Audit service. Senior managers within each department are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control.

3.1.2 The Audit Committee is responsible for obtaining assurance in respect of the control environment, part of which comes from the work and opinion of Internal Audit.

3.2 Annual Audit Plan

3.2.1 The approved Audit Plan for 2008-09 scheduled a total of **808** days for the full year, with an estimated **337** days for the first five months of the year. Actual audit work carried out to the period ending 31st August 2008 totalled **257** days, resulting in a shortfall of **80** days less than planned.

3.2.2 The reason for the shortfall in audit days is that the Internal Audit Section has been operating with staffing vacancies during the year. For planning purposes the equivalent of 4 persons were assumed to deliver the work contained in the Audit Plan, but 3 persons were actually available to carry out audit work. This is explained further in section 3.3. The Audit team has also been actively helping with the development of audit arrangements for the new unitary authority.

3.2.3 There were **8** formal audit reports issued during the period with **2** confirming that there were satisfactory arrangements in place, with no recommendations.

3.2.4 Within the **6** reports issued where recommendations had been made there were a total of **9** classified as being of '**high**' importance, and **6** of '**medium**' importance.

3.2.5 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers.

3.2.6 The Audit Plan for 2008-09 consists of **64** planned audit assignments, **8** of these have been completed, **5** are at the draft report stage, and **9** are currently in progress.

3.2.7 With regard to audit reports outstanding from the 2007-08 financial year, **6** were issued with **3** confirming satisfactory arrangements. Within the **3** reports containing recommendations, **6** were classified as of being '**high**' importance, and **3** of '**medium**' importance.

3.2.8 **Appendix A** provides a brief summary of actual audit work carried out and of matters identified as part of the work undertaken by the Internal Audit Section. These items are intended to give a flavour of the wide range of activities covered by the Audit team and the matters that may arise from the work performed.

3.3 Staffing

3.3.1 The approved staffing establishment consists of an audit team of 5 staff to carry out actual audit work reporting to the Audit and Resources Manager and at the time the audit plan was approved the section was operating with 2 trainee auditor vacancies. The Audit plan for 2008-09 allowed for 4 persons to deliver the work contained in the plan, and it was envisaged that 1 of the 2 vacancies would be filled. Recruitment protocols now agreed by the Council's within County Durham

meant that this post remains, maintaining the existing audit team of 3 to carry out the work contained in the audit plan (and keeping 2 posts vacant).

- 3.3.2 As a consequence, audit work has been reprioritised accordingly during the year with greater emphasis given to areas of higher risk and therefore some audit assignments considered relatively lower risk will not be carried out. Importantly, emphasis will be given to ensure that all core financial systems are audited and any emerging areas of risk as a consequence of LSVT and local government reorganisation are given appropriate consideration.
- 3.3.3 Audit work on core financial systems has now commenced and will be given priority over the coming months. Some audits, such as those within housing services, will not be undertaken given the expected transfer of these operations to a new housing company before the end of this financial year, although audit work on housing rents, which is a core system, will be completed.
- 3.3.4 As previously reported to Audit Committee at its meeting on 15th April 2008, it was recognised that there would need to be some flexibility in the Audit Plan for 2008-09 to reflect changing priorities, risks and general uncertainty for the year ahead. Efforts will be made to ensure that audit resources and activity continue to be appropriately focused and directed to adequately deal with new issues and matters should they materialise.
- 3.3.5 The staffing arrangements and resource requirements are constantly being monitored to ensure that the Internal Audit function continues to maintain the standard of service. Budgetary provision exists to recruit temporary audit resources to support the audit team if required.

3.4 Quality Assurance Programme and Performance Management

- 3.4.1 Audit work is governed by standards set out in the Code of Practice for Internal Audit and the Audit Section's own Audit Manual. All audits are subject to ongoing supervisory input throughout all stages of audit fieldwork and are subject to a two stage review; firstly, by Principal Auditors and secondly, by the Audit and Resources Manager. This quality review process ensures that work is carried out to an acceptable standard and in line with the CIPFA Code of Practice. Some of the key features of the quality review and assurance process are as follows:
- An up to date internal audit manual provides direction to all auditors in carrying out day to day audit work
 - Work is carried out by auditors with appropriate experience and skills
 - All audit work is supervised, monitored and quality assessed
 - Key performance indicators have been devised for monitoring performance
 - User feedback is requested after each planned audit assignment

3.4.2 A range of performance measures is maintained covering the work of the audit team. The outturn performance for a range of selected indicators is as follows:

No.	Performance Measure	2008-09 Target	2008-09 YTD
1.	Percentage of overall audit plan completed in year	90%	76%
2.	Percentage of audit recommendations accepted by client	100%	100%
3.	Percentage of planned audit assignments on 'core financial systems' completed in year	100%	0%
4.	Average customer satisfaction rating received [1]	4 = Good	4 = Good
5.	Average sickness absence per employee [2]	5	0
6.	Maintain service costs within budget	Yes.	Yes (savings of £15,951 to end August 2008)

Notes:

[1] Overall 100% rated the service as 'good' or 'very good'

[2] No sickness absence in the Audit Section in the first 5 months ending August 2008

3.5 Risk Management

3.5.1 Risks are identified in each individual audit report produced. However, no system of review can give full assurance that all risks have been minimised and all controls have been operating effectively throughout the year. Activity is directed toward providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.

3.5.2 Internal Audit continued its close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes have continued and both Strategic and Operational Risk Management Groups continue to develop a wide range of issues. Risk is also a key feature of individual audits undertaken by the Audit team which involves reviewing 'generic risk profiles' as part of audit fieldwork.

4 RESOURCE IMPLICATIONS

4.1 There are no direct implications for resources arising from the content of this report.

5. CONSULTATION

5.1 The Audit Plan for 2008-09 had been prepared and delivered following consultation across the Council and with the Audit Commission.

6. OTHER MATERIAL CONSIDERATIONS:

6.1 Links to Corporate Objectives / Values

6.1.1 The Internal Audit activity effectively supports all services in the delivery of the Council's priorities, together with the re-enforcement of the need for accountability for public finances.

6.2 Risk Management

6.2.1 This has been considered in Section 3.5 of this report. The full co-operation of management across the Council is essential to the maintenance of good quality governance, including risk management.

6.3 Equality and Diversity

6.3.1 No material considerations have been identified.

6.4 Legal and Constitutional

6.4.1 The Audit Plan activity recognizes the statutory framework associated with services, the corporate governance framework, as well as the Council's constitutional arrangements.

6.5 Other Material Considerations

6.5.1 Issues associated with procurement and efficiency are addressed within a wide range of audit activities.

7. LIST OF APPENDICES

7.1 Appendix A - Internal Audit Plan Summary of Work – April 2008 to August 2008

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Wards:	Not ward specific
Key decision validation:	Not applicable

Background Papers:

1. Audit Committee, Internal Audit Plan for 2008/09, 15th April 2008

Examination by Statutory Officers

- | | Yes | Not Applicable |
|--|-------------------------------------|--------------------------|
| 1. The report has been examined by the Council's Head of the Paid Service or his representative. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 2. The content has been examined by the Council's S.151 Officer or his representative. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 3. The content has been examined by the Council's Monitoring Officer or his representative. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4. The report has been approved by Management Team. | <input type="checkbox"/> | <input type="checkbox"/> |