

Audit Committee

10th November 2011

Internal Audit Progress Report Quarter Ended 30th September 2011



Report of Manager of Internal Audit & Risk

PURPOSE OF THE REPORT

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period April to September 2011.
- 2 The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit
 - Advise you of significant issues where controls need to improve to effectively manage risks
 - Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance on the control environment may not be applicable
 - Advise you of unplanned work carried out or to be carried out
 - Track progress on the response to audit reports and the implementation of agreed audit recommendations
 - Advise you of any changes to the audit process
 - Provide an update on our performance indicators comparing actual performance against planned where measurable at this stage

BACKGROUND

- 3 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 4 To help improve the audit planning process, a revision to the annual audit planning cycle was approved by Audit Committee in February 2011. The audit planning year now covers the period July to June to allow audit plans to be developed following the approval of service plans and the MTFP.
- 5 As a consequence of this change, an interim audit plan covering the period April to June 2011 was approved by Audit Committee in March 2011.

- 6 A 5 year strategic audit plan together with the annual plan for July to June 2012 was approved by Corporate Management Team (CMT) and Audit Committee on the 8th June and the 30th June 2011 respectively.
- 7 The interim plan and work programmed for the first 3 quarters of the annual plan determine the audit programme of work for the financial year 2011/12 for performance monitoring and reporting purposes to inform the annual audit opinion.
- 8 In accordance with our Internal Audit Charter, we will give an assurance opinion on the effectiveness of internal controls each time we complete an assurance review. Details of how our assurance opinions are derived are given in Appendix 2.
- 9 It is managers' responsibility to ensure that effective controls operate within their service areas. However we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner.
- 10 The method of audit follow up will vary according to the priority of recommendation.
- 11 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate. Details of how we define the significance of audit findings are also given in Appendix 2.

PROGRESS AGAINST PLANNED WORK

- 12 A summary of progress made in delivering the 2011/12 plan is given below:
 - 1 of the 11 counter fraud reviews is complete and a further 7 are in progress.
 - 25 out of 44 planned assurance reviews due to be completed by Q2, including those carried over from last year, are complete (draft or final report issued). A further 24 are in progress, including some scheduled for Q3.
 - 4 of the 32 of planned advice and consultancy type audits are complete and a further 17 are in progress.
 - 35 unplanned reviews have been added to the plan to address new or emerging risks, of which 22 relate to investigations. One review has been added in substitution for planned work at the request of the service. In all other cases, time required for unplanned work has been met from the contingency provision for new and emerging risks.
 - All planned grant certification work is complete

RESPONSE TO AGREED AUDIT RECOMMENDATIONS

- 13 To provide independent assurance that adequate progress is made in the implementation of agreed recommendations at the appropriate service operational level, all high and medium recommendations contained within actions plans within individual audit reports are followed up by internal audit. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to a nominated representative to assist management monitoring processes. Good progress continues to be made by managers in the implementation of recommendations since these revised procedures were introduced.

PERFORMANCE INDICATORS

- 14 A summary of our actual performance compared to agreed target performance indicators is given in Appendix 3.
- 15 As can be seen the % of planned assurance reviews complete is 23%, (25 out of 107) compared with an annual target of 90%. However, 24 audits were in progress at the end of the quarter. These are at various stages of completion. Assuming an average completion rate of 50%, actual performance is increased to 35% compared with a Q2 target completion rate of 41%.
- 16 The provision for new and emerging risks made (contingency provision) included in agreed plans for this financial year was 560 days. At the end of quarter 2 this had been reduced to 230 days. 330 days have been transferred to cover:
- additions to the plan (unplanned work summarised in Appendix 2)
 - additional time required to complete some planned work
 - an element of over programming built into the interim plan
 - work originally scheduled for Q5 (April-June 2012) that has been brought forward.
- 17 Assumptions made over the number of audit days available for the year when the plan was prepared have been revised as at the 30th September due to:
- Promotion of Senior Auditor to a position within ACE (Permanent Vacancy)
 - Extension of 2 Senior Auditors beyond planned original agreed dates (temporary vacancy)
 - Flexible working agreement for Principal Auditor (Temporary)
- These vacancies equate to 229 productive audit days.
- 18 Given the current draw down on contingency for unplanned work, if this shortfall is not addressed over the next 6 months, the target completion of planned assurance work is estimated to be 70%. Arrangements are therefore being made to address the shortfall through the engagement of agency staff and / or through the Internal Audit Partnership agreement with PwC. The cost of this backfill will be met from the under spend arising from vacancies.

RECOMMENDATIONS

- 19 Members are asked to note the progress made on delivering the internal audit plan for 2011/12.

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Appendix 1: Implications

Finance

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

Staffing

None

Risk

This report requires no decision and so a risk assessment has not been carried out

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None