

## Audit Committee

21<sup>st</sup> February 2013

### Internal Audit Progress Report Quarter Ended 31<sup>st</sup> December 2012



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## Report of Manager of Internal Audit & Risk

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### PURPOSE OF THE REPORT

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period July to December 2012.
- 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 amendments to planned work
  - 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
- 3 Appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)

|            |  |
|------------|--|
| Appendix 1 | Report Implications  |
| Appendix 2 | Background to preparation and approval of the 2012/13 plan |
| Appendix 3 | Audit methodology  |
| Appendix 4 | Progress on plan   |
| Appendix 5 | Final reports issued this quarter                          |
| Appendix 6 | High and medium priority actions raised and implemented    |
| Appendix 7 | *Overdue actions   |
| Appendix 8 | * Limited or no assurance opinion audits                   |

**BACKGROUND**

- 4 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 5 The background to the preparation and approval of the 2012/13 annual audit plan and the approved risks based audit strategy to be applied to deliver it is attached at Appendix 2.
- 6 The audit methodology used to determine the risk priority for addressing audit findings and how we arrive at our assurance opinions is given in Appendix 3.

**PROGRESS AGAINST PLANNED WORK**

- 7 A summary of the approved annual plan for each service grouping, updated to reflect work in progress and/or brought forward from last year's plan, is attached at Appendix 4. The status of each audit as at 31<sup>st</sup> December 2012 is indicated.
- 8 The status of each type of planned audit, as shown in Appendix 4, is summarised below:

| <b>Status</b>                          | <b>Assurance</b> | <b>Advice &amp; Consultancy</b> | <b>Counter Fraud</b> |
|--|------------------|---------------------------------|----------------------|
| Not Yet Started                        | 15               | 2                               | 8                    |
| Planning & Preparation                 | 22               | 3                               | 1                    |
| TOR agreed                             | 14               | 1                               | 2                    |
| Fieldwork in progress                  | 25               | 17                              | 4                    |
| Complete (draft or final report stage) | 39               | 7                               | 2                    |
| Defer to 2013/14                       | 1                | 0                               | 0                    |
| Cancel                                 | 1                | 2                               | 0                    |
| <b>Total</b>                           | <b>117</b>       | <b>32</b>                       | <b>17</b>            |

- 9 Where work is finalised the resultant assurance opinion, if applicable, is also shown in Appendix 4.
- 10 A summary of final audit reports issued this quarter is given in Appendix 5.

**SIGNIFICANT ISSUES ARISING THIS QUARTER**

**Amendments to the approved 2012/13 Audit Plan**

- 11 The following amendments to planned work have been agreed with Corporate Directors this quarter:

| <b>Service Grouping</b> | <b>Audit</b> | <b>Audit Type</b> | <b>Type of Amendment</b> | <b>Reason</b>   |
|-------------------------|--------------|-------------------|--------------------------|---|
| ACE                     | Internet     | Assurance         | Defer to 2013/14         | As the development of the new internet site has been delayed, the proposed assurance work will no longer be required during 2012/13. A request has been made to |

| Service Grouping | Audit  | Audit Type           | Type of Amendment | Reason  |
|------------------|--|----------------------|-------------------|---|
|                  |  |                      |                   | defer this to 2013/14.  |
| CAS              | POPPIE System Review   | Assurance            | Cancellation      | This planned assurance audit, carried forward from last year's plan, has been cancelled as the responsibility for the system is to transfer to DCC as part of the public health transfer, It was agreed that assurance on the management of identified risks would be considered as part of the wider Public Health Transition due diligence work being undertaken. |
| NS               | Cash receipting and reconciliation arrangements – Indoor Facilities. | Advice & Consultancy | Cancellation      | Initially a service request, it was agreed with the Strategic Manager - Indoor Sport & Leisure that the audit would be cancelled as identified risks to service objectives had been considered as part of the Gym Management review and there was no perceived added value of doing any further testing at this time.   |
| RED              | Small Projects   | Advice & Consultancy | Cancellation      | Initially a service request, it was agreed that there was no longer a need to carry out this work as the issue of concern had already been addressed internally.  |

- 12 29 new unplanned reviews have been added to the plan this quarter. Of these 19 relate to investigations. Details of investigations will be provided in the 6 monthly fraud and irregularity update report.
- 13 The 10 new unplanned reviews added to address new or emerging risks from the contingency provision within the plan are:

| Service Grouping | Audit   | Audit Type             |
|------------------|---|------------------------|
| ACE              | CIC Grant Application                                     | Advice & Consultancy   |
| CAS              | Durham Federation – School Request                        | Assurance              |
| CAS              | Control Risk Self Assessment in Schools                   | Advice & Consultancy   |
| NS               | Quality Management System – 2 <sup>nd</sup> Visit         | Advice & Consultancy   |
| NS               | Cash collection at outside events                         | Advice & Consultancy   |
| NS               | Competition Line Contract Review - Invoice Reconciliation | Advice & Consultancy   |
| RES              | PCC election  | Advice & Consultancy   |
| RES              | County Council elections                                  | Advice & Consultancy   |
| RES              | RIPA  | Assurance              |
| RES              | ICON Cash Management V11 Project                          | Advice and Consultancy |

## Outstanding Management Responses to Draft Reports

- 14 Responses to the following draft reports were overdue as at 31 December 2012.

| Service Grouping | Audit  | Date Issued | Key Contact       | Assurance Opinion | Comment  |
|------------------|--|-------------|-------------------|-------------------|--|
| CAS              | Procurement in Schools                       | 30 Oct 2012 | Head of Education | Moderate          | IA progressing matters with Corporate Procurement and School Funding Managers. |
| CAS              | St. Mary Magdalene R.C. Aided Primary School | 27 Nov 2012 | Head Teacher      | Substantial       | Final report issued 25 January 2013.   |

## Reports Awaiting Sign Off from Heads of Service

- 15 The following draft reports have been reviewed by the key contact but are awaiting sign off from the relevant Head of Service.

| Service Grouping | Audit   | Date Issued | Date Response provided by key contact | Issued to Head of Service | Assurance Opinion | Comment   |
|------------------|---|-------------|---------------------------------------|---------------------------|-------------------|---|
| NS               | Gala Theatre                                      | 13 Nov 2012 | 13 Dec 2012                           | 11 Jan 2013               | Moderate          | IA progressing matters with responsible Head of Service.                        |
| NS               | Onsite procedures for disposal of waste materials | 24 Oct 2012 | 16 Nov 2012                           | 03 Dec 2012               | Limited           | IA met with responsible Heads of Service / Managers on 08 Feb 2013 to progress. |

## Response to audit findings and recommendations

- 16 Details of the numbers of High and Medium priority ranking recommendations raised and overdue, by Service Grouping and Audit Year, are given in Appendix 6. A summary of progress on actions due by the 31 December 2012 is given below:

| Service      | Actions Due by 31/12/12 | Overdue Actions by Original Target Dates |          | Overdue Actions where revised date agreed |           | Revised overdue actions |          |
|--------------|-------------------------|--|----------|---|-----------|-------------------------|----------|
|              |                         | No                                       | %        | No  | %         | No                      | %        |
| ACE          | 9                       | 2  | 22       | 2   | 100       | 0                       | 0        |
| CAS          | 113                     | 11                                       | 10       | 10  | 91        | 1                       | 1        |
| NS           | 377                     | 19                                       | 5        | 10  | 53        | 12                      | 3        |
| RED          | 296                     | 10                                       | 3        | 9   | 90        | 1                       | 0        |
| RES          | 340                     | 39                                       | 11       | 39  | 100       | 7                       | 2        |
| <b>TOTAL</b> | <b>1135</b>             | <b>81</b>                                | <b>7</b> | <b>70</b>                                 | <b>86</b> | <b>21</b>               | <b>2</b> |

- 17 Details of all 81 actions overdue against original target dates are provided in Appendix 7. Your attention is drawn to the 21 actions, which are overdue by either the original target date or revised target date where agreed. These are highlighted in bold in Appendix 7.
- 18 Those recommendations reported last quarter as overdue that are still overdue are highlighted in bold italics.

### **Limited / No Assurance Opinion Audits**

- 19 7 audits were finalised in this quarter which resulted in an inadequate assurance opinion (limited or no assurance opinion). Action plans have been agreed and either have been or are being implemented to address all of the control weaknesses identified.
- 20 A summary of the key findings from each of these reviews is provided in Appendix 8.

### **PERFORMANCE INDICATORS**

- 21 A summary of our actual performance at the end of December compared to agreed target performance indicators is given in Appendix 9.
- 22 This is the second quarter of the 2012/13 audit plan (July 2012 - June 2013). 39 out of 117 planned assurance reviews are complete. Work has commenced on another 61 which on average is estimated to be 36% complete. Consequently after the 6 months performance, the target to deliver 90% of planned assurance reviews is on track. However some slippage on delivery is expected in the next six months due to a reduction in the forecast of audit days available for the rest of the year. This is primarily due to:
- Temporary secondment (promotion) of principal auditor
  - Unsuccessful attempt to recruit an additional IT Auditor
  - Higher than forecast sickness absence
  - More resources required for counter fraud and irregularity work, especially in relation to the National Fraud Initiative exercise and responsive investigations
  - Some planned reviews in new areas requiring more resource than originally estimated.

- 23 The gap between the revised forecast of audit days required to deliver the plan and the revised forecast of audit days available will be managed through a combination of agency staff and / or work being allocated to our Internal Audit partner, PriceWaterhouseCoopers.
- 24 In the longer term it is intended to fill the shortfall in IT audit skills through a combination of creating a trainee IT auditor post, to work alongside the existing in house IT auditor, and buying in specialist technical expertise through a call off consultancy agreement following a targeted procurement exercise.

### **RECOMMENDATIONS**

- 25 Members are asked to note,:
- The amendments made to the 2012/13 Annual Audit Plan
  - Work undertaken by Internal Audit during the quarter ended December 2012 and
  - Note the progress made by service managers in responding to the work of Internal Audit

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## **Appendix 1: Implications**

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### **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