

Audit Committee

26th May 2011

Internal Audit Progress Report Quarter Ended 31st March 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 January to March 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 planned reviews carried over to 2011/12
 - Advise you of pro-active and reactive value added work carried out
 - Track progress on the response to audit reports and the implementation of agreed audit recommendations
 - 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 The 2010/11 Internal Audit original plan was agreed at CMT and the Audit Committee on the 31st March 2010 and 20th May 2010 respectively.
- 5 Subsequent to the approval of the original plan a number of amendments have been agreed in consultation with Corporate Directors and reported to Committee throughout the year.
- 6 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.

7 We define our assurance opinions as follows:

Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives
Substantial Assurance	Whilst there is a sound system of control, there are some minor weaknesses, which may put some of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some significant / serious weaknesses, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key areas in the system of control, which put the system objectives at high risk.
No Assurance	Control is generally weak as controls in numerous key areas are ineffective leaving the system open to high risk of error or abuse

8 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.

9 The method of audit follow up will vary according to the risk category of the recommendation.

10 We define the priority of our recommendations arising from each audit as follows:

High	Action that is considered imperative to ensure that the control system is not exposed to high risk from weaknesses in critical or key controls
Medium	Action required to ensure that the control system is not exposed to significant risk
Low	Action that is considered desirable to address minor weaknesses in control that should result in enhanced control or better value for money

PROGRESS AGAINST PLANNED WORK

11 Of *original* planned audit reviews:

- 138 Audits have been completed (draft report or final report issued)
- 27 Audits are in progress
- 29 audits are yet to start and have been carried over to 2011/12

- 58 Audits have been cancelled
- 12 Audits cancelled during the year have, wherever possible, been agreed in consultation with service managers. Any audits considered a priority for review in 2011/12 have been incorporated into the interim audit plan covering the period April – June approved by Committee at the last meeting. Other work cancelled, that is considered still relevant, is to be considered as part of the development of the annual audit plan for 2011/12.

SIGNIFICANT ISSUES

OUTSTANDING MANAGEMENT RESPONSES TO DRAFT REPORTS

- 13 Despite reminders having been issued, responses to two draft reports remain overdue. (More than 30 days since issue of draft report).
- 14 Until such time as draft reports are finalised and any recommendations made to address control weaknesses are agreed, target dates for implementation are inevitably delayed increasing the potential risk from the control weaknesses identified.

RESPONSE TO AGREED AUDIT RECOMMENDATIONS

- 15 All high risk recommendations arising from each audit review have been reassessed in terms of their impact on the authority's overall control environment. This reassessment has been determined using the following definitions.

High	Major adverse impact on the achievement of the Authority's objectives if risk not effectively managed
Medium	Significant adverse impact on the achievement of the Authorities objectives if risk not effectively managed
Low	Minimal adverse impact on the achievement of the Council's objectives if risk not adequately managed

- 16 To provide assurance that any actions required to address risks defined through these High and Medium categories have been effectively addressed, details of all such recommendations that have not been implemented within the agreed target date are reported. It is pleasing to note that all recommendations previously reported, although not all yet fully implemented, are progressing and where necessary agreed targets dates for full implementation have been agreed and will continue to be monitored.
- 17 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 directorate representative to assist in services' own internal monitoring processes.

VALUE ADDED WORK

- 18 All planned internal audit reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks thereby improving the organisation's operations. This evaluation and challenge supports the effective and efficient use of resources and VFM.
- 19 Through our advice and consultancy work we are able to add value pro-actively and reactively.
- 20 Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities. This work is normally delivered from the contingency provision within the plan.

PERFORMANCE INDICATORS

- 21 A summary of our actual performance compared to agreed target performance indicators is given in Appendix 2.
- 22 As can be seen the % of planned assurance reviews complete (55% original plan, 70% of revised plan), is well below the original target of 90%. If work in progress is considered the outturn position is 65% and 80% respectively.
- 23 This lower than expected outturn performance is due to:
 - Reduction in audit days available due to retirement, secondment and unusual high levels of long term sickness
 - Inadequate contingency provision to respond to new or emerging risks
 - Changing priorities within services leading to requests to defer work
 - Changing priorities due to new or emerging risks
 - Assurance being provided through other source so no added value
 - Inadequate provision for fraud and irregularity work
 - Inadequate provision for follow up work
 - Volume of other unplanned work
 - Some reviews no longer relevant due to external circumstances
 - Inadequate provision to complete work in progress carried forward from last year
 - Some reviews taking longer than originally expected
 - Over programming element to maintain flexibility over the timing of work

RECOMMENDATIONS

- 24 Members are asked to note the progress made on delivering the internal audit plan for 2010/11 together with that made by service managers in responding to the work of internal audit to gain assurance on the adequacy and effectiveness of the Council's internal control environment.

Contact: Avril Wallage Tel: 0191 383 3537

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