

Audit Committee

30 September 2013

Internal Audit Progress Report Quarter Ended 30 June 2013



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 2013 to June 2013.
- 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 Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)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 Assurance Audit Opinions
Appendix 9	Performance Indicators

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 risk 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 opinion 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 30 June is indicated.
- 8 The status of each type of planned audit, as shown in Appendix 4, is summarised below:

Status	Assurance	Advice & Consultancy	Counter Fraud
Not Yet Started (carried over to 2013/14)	2	0	2
Planning & Preparation	14	0	3
TOR agreed	10	0	0
Fieldwork in progress	13	4	5
Complete (draft or final report stage)	61	25	7
Agreed Defer/Cancelled	15	2	0
Total	115	31	17

- 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:

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
ACE	Development of Internet	Assurance	Deletion	This review was originally deferred to 2013/14, but on reassessing priorities, the service requested that this be cancelled. However, Internal Audit support on this project continues to be provided through advice and guidance.

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
CAS	Adult Learning and Skills Service	Assurance	Deferment	Internal Audit was requested to investigate a number of specific aspects of ALSS operation following concerns raised by the new service manager. The Corporate Director agreed that this planned review be deferred until 2013/14 when the outcome of the investigation is known.
RESOURCES	Scheme of Delegation – Governance review	Assurance	Cancelled	RMT to give further consideration to the development of a more detailed scheme.
	Strategic Risk Management – Governance review	Assurance	Cancelled	Some assurance on the management of individual risks has been provided by other audit/assurance sources. Periodic review of Corporate Risk Management arrangements to be undertaken by third party to maintain independence.
	Section 151 review – Assurance review	Assurance	Cancelled	Assurance provided through AGS preparation process and other audits.

- 12 Six unplanned reviews have been added to the plan this quarter. Of these 5 relate to potential fraud or irregularity investigations. Details of progress on all investigations will be provided in the 6 monthly fraud and irregularity update that will be reported to the next meeting of the Committee 28 November 2013.
- 13 The one unplanned review which has been added to plan from the contingency provision within the plan is detailed below:

Service Grouping	Audit	Audit Type
NS	Catering	An Advice and Consultancy review undertaken following a request made by the Building & Facilities Manager to compare the Catering arrangements currently in place to identify best practice.

Outstanding Management Responses to Draft Reports

- 14 A response to the following draft report remains overdue at the time of writing.

Service Grouping	Audit	Date Issued	Key Contact	Assurance Opinion
ACE	Records Management	March 2013	Head of Planning and Performance	Limited

Response to audit findings and recommendations

- 15 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 30 June 2013 is given below:

Service	*Actions Due by 30/06/13	Overdue Actions by Original Target Dates		Overdue Actions where revised date agreed		Revised overdue actions	
		No	%	No	%	No	%
ACE	9	1	11	1	100	0	0
CAS	67	5	10	3	60	2	3
NS	430	32	9	16	50	16	4
RED	115	3	3	3	100	0	0
RES	384	14	4	14	100	0	0
TOTAL	1005	55	6	37	82	18	2

* For some service groupings these figures include actions raised in previous financial years. Once all actions for a year have been cleared they are no longer reported.

- 16 Your attention is drawn to the 18 actions, which are overdue by either their original date or their revised date, where this has been set. These are highlighted in bold in Appendix 7.
- 17 Those actions reported last quarter as overdue, where revised target implementation dates have still not been agreed and are therefore still overdue, are highlighted with an *.

Limited Assurance Opinion Audits

- 18 There have been 4 audits finalised in this quarter which resulted in an inadequate limited assurance opinion. A brief summary of key findings are provided in Appendix 8.

PERFORMANCE INDICATORS

- 19 A summary of our actual performance at the end of June 2013 compared to agreed target performance indicators is given in Appendix 8.

- 20 This is the final quarter of the 2012/13 audit plan (July 2012 - June 2013). Of 115 planned assurance reviews, 14 audits were deferred or cancelled at the request of the service or were amalgamated with other planned reviews. Of the remaining 101 reviews, 75 were complete and another 24 were in progress estimated to be 63% complete on average. 2 were not started and have been carried forward in to the 2013/14 plan. This equates to an outturn performance of 89% which is marginally below the target set of 90%. This is primarily due to a reduction in audit days available during the year due to temporary secondments and sickness absence.

RECOMMENDATIONS

- 21 Members are asked to note,:
- The amendments made to the 2012/13 Annual Audit Plan
 - Work undertaken by Internal Audit during the quarter ended June 2013 and the overall performance in delivering the 2012/13 audit plan.
 - Note the progress made by service managers in responding to the work of Internal Audit

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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

Background to the preparation of the 2012/13 Annual Audit Plan

- 1 The 2012/13 annual audit plan was developed in consultation with each service grouping's senior management team and was endorsed by CMT and the Audit Committee on the 6th June 2012 and the 28th June 2012 respectively.
- 2 The planned assurance work included in the plan reflects the agreed audit strategy to review each key service activity and each key system over a five year rolling programme. In applying a risk based approach we aim to support managers embed operational/inherent risk management through the development of Control Risk Assessments (CRAs).
- 3 Through the development of CRAs in consultation with nominated key contacts, as part of the planning and preparation stage of each planned assurance review, we will add value by helping service managers to:
 - Identify and assess risks
 - Document service objectives, risks and existing controls
 - Assess the adequacy of the existing control framework (control design) and identify additional controls to improve operational risk management and /or highlight controls that are unnecessary
 - Identify and assess the reliability of assurance provided from other sources to avoid any unnecessary duplication and highlight any assurance gaps
- 4 Through independent testing of expected controls we add value by providing reliable and objective assurance that controls established by managers are operating in practice and that they are effective in reducing the likelihood and / or impact of agreed risks occurring.
- 5 Through the identification and assessment of operational risks we are also able to add value to the strategic risk management process. This is done by providing assurance that controls identified to manage strategic risks are both adequate and effective. Potential new or emerging strategic risks may also be identified.
- 6 Applying a risk based audit approach ensures that audit resources are focused on the right things. The planning and preparation stage of each audit review with the right key contact(s) is essential. It is not until this planning and preparation stage is complete that we can determine the scope and timing of each audit.
- 7 Following initial planning and preparation discussions, draft terms of reference specifying the proposed scope of each audit will be issued for the agreement of the key contact. The planned start date (fieldwork) and planned completion date (issue of draft report) will also be shown. It should be noted

that wherever possible any timing preferences expressed by service managers at the audit planning and preparation stage will be considered when determining planned start dates but these cannot be guaranteed.

- 8 Confirmation of actual start dates and expected completion dates will be given to key contacts prior to fieldwork commencing. It should be noted that these timescales are subject to the following assumptions:
 - All relevant documentation, including source data, reports and procedures will be made available promptly on request
 - Staff and management will make reasonable time available for interviews and will promptly follow-up questions or requests for documentation and
 - Assistance will be available in scheduling meetings and interviews where required
- 9 Should audit staff not be able to commence the fieldwork as planned, the key contact will be advised accordingly. Wherever possible advance notice will be given but there may be circumstances when this cannot be done e.g unplanned leave of absence. Likewise, we request that should a key contact become aware of something that may prevent the fieldwork starting as planned that they immediately let us know so that if necessary audit resources can be reallocated.
- 10 Should any problems be encountered in progressing an audit these will be reported to the relevant head of service and /or the Corporate Director, and if necessary the Audit Committee.
- 11 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.
- 12 The % of planned assurance reviews completed is monitored through the Council's quarterly performance reporting framework and is challenged by the Audit Committee. Failure to deliver the agreed plan may prevent an annual audit opinion being given and the Council failing to meet its statutory requirements. It will also delay the embedding of operational risk management exposing the Council to potential greater risk.
- 13 It is managers' responsibility to ensure that effective controls operate within their service areas. 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. The method of audit follow up will vary according to the priority of the recommendation. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to nominated representatives to assist managements own internal monitoring processes.
- 14 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate.

Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

Impact Rating	Assessment Rationale
Critical	A finding that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
Major	A finding that could have a:
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	Major impact on the reputation of the service within the Council and/or complaints from service users
Minor	A finding that could have a:
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)

Likelihood	Assessment criteria
Probable	Highly likely that the event will occur (>50% chance of occurring)
Possible	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
Unlikely	The event is not expected to occur (<10% chance of occurring)

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	L
	Minor	Major	Critical
	IMPACT		

Priority of our recommendations

We define the priority of our recommendations arising from each overall finding as follows;

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to significant risk from weaknesses in critical or key controls
Medium	Action required to ensure that the service/system/process objectives are not exposed to major risk from weaknesses in controls
Low	Action required to ensure that the service/system/process objectives is not exposed to minor risk from weaknesses in controls
Advisory	Action that is considered desirable to address minor weaknesses in control that if implemented may not reduce the impact or likelihood or a risk occurring but should result in enhanced control or better value for money.

Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

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