

Audit Committee

28 November 2013

Internal Audit Progress Report Quarter Ended 30 September 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 July to Sept 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 opinion 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 Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)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	Audit methodology
Appendix 3	Progress on plan
Appendix 4	Final reports issued this quarter
Appendix 5	Progress on the implementation of audit recommendations
Appendix 6	*Overdue actions
Appendix 7	*Limited Assurance Audit Opinions
Appendix 8	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 audit strategy and annual audit plan covering the period July 2013 to June 2014 was approved by Audit Committee at its meeting on 27 June 2013.
- 6 The audit methodology used to determine the risk priority for addressing audit findings and how we arrive at our assurance opinion on each review is given in Appendix 2.

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 3. The status of each audit as at 30 September is indicated.
- 8 The status of each type of planned audit, including work in progress carried forward from the 2012/13 plan and as shown in Appendix 3, is summarised below:

Status	Assurance	Advice & Consultancy	Counter Fraud
Not started	46	10	7
Planning & Preparation	16	2	
TOR agreed	3		3
Fieldwork in progress	13	12	5
Complete (draft or final report stage)	19	2	4
Agreed Defer/Cancelled	0	1	0
Total	97	27	19

- 9 Where work is finalised the resultant assurance opinion, if applicable, is also shown in Appendix 3.
- 10 A summary of final audit reports issued this quarter is given in Appendix 4.

SIGNIFICANT ISSUES ARISING THIS QUARTER

Amendments to the approved 2013/14 Audit Plan

- 11 The following amendment to the approved plan have been agreed with Corporate Directors this quarter:

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
CAS	Gypsies & Travellers Un- authorised Encampments	Service Request - Advice & Consultancy	Cancelled	Agreed with Head of Service that intended work would be progressed within the service as part of development plans in this area.

- 12 37 unplanned reviews have been added to the plan this quarter. Of these 30 relate to potential fraud or irregularity investigations. Details of the progress on all investigations are included in the 6 monthly fraud and irregularity update report to be considered by the Committee as a separate agenda item.
- 13 The 7 non-investigative reviews, which are to be resourced from the contingency provision within the plan, are detailed below:

Service Grouping	Audit	Audit Type	Reason
CAS	Direct Payments	Assurance	Follow up to previous review at the request of the Audit Committee
CAS	Out of Hours Safeguarding arrangements in Secure Services	Assurance	Service request from former Head of Children's Care
NS	Mobile Box Office	Advice & Consultancy	Service request - grant arrangements in respect to the Mobile Box Office at the Gala Theatre
NS	Events Management	Assurance	Service request – Safety Advisory Group Communication.
RES	ICT merger	Advice & Consultancy.	Request from the Head of ICT to consider the arrangements for the potential merger of Durham's and Sunderland's ICT Services
RES	Cost of transactions	Advice & Consultancy	Request from the Head of Financial Services to provide some advice & consultancy work around the cost of income transactions for each method of payment available.
Corporate	Employees paid via Accounts Payable	Counter Fraud	A review to identify employees who are being paid via Creditors rather than payroll.

Draft reports issued yet to be finalised

- 14 Final responses required to enable the following draft reports to be finalised remain overdue at the time of writing.

Service Grouping	Audit	Date Issued	Key Contact	Assurance Opinion
NS	Service and Planned Maintenance Programme	04/09/2013 Response 16/10/2013	Paul Burr – awaiting final sign off	Moderate
NS	Advice & Guidance: Quality Management System and Procedures	04/09/2013 Response 16/10/2013	Paul Burr awaiting final sign off	N/A
NS	Neighbourhood Wardens – Education and Enforcement	27/09/2013 Response	Ian Hoult awaiting final sign off	Moderate

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 5.
- 16 Those actions where either original target dates or revised target dates are overdue are highlighted in bold. Those actions reported as overdue last quarter are highlighted with an *.
- 17 A summary of progress on actions due by the 30 Sept 2013 is given below:

Service	*Actions Due by 30/09/13	Overdue Actions by Original Target Dates		Overdue Actions where revised date agreed		Revised overdue actions	
		No	%	No	%	No	%
ACE	4	0	0	0	0	0	0
CAS	74	5	7	2	60	3	4
NS	454	32	7	12	38	20	5
RED	52	0	0	0	0	0	0
RES	433	19	4	19	100	0	0
TOTAL							
	1017	56	5	34	61	23	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.

- 18 In relation to Appendix 5, your attention is drawn to the 5 shaded recommendations which have been identified for “call in”, by the Chair and Vice Chair, and are to be considered in more detail as a separate agenda item for this meeting.

Limited Assurance Opinion Audits

- 19 There have been 3 audits finalised in this quarter which resulted in an inadequate limited assurance opinion. A brief summary of key findings are provided in Appendix 7.

Other Activities

Troubled Families

- 20 Internal Audit signed off the grant claim submitted by the Service in relation to Troubled Families in accordance with quarterly grant claim submission requirements.

Control Risk Self -Assessment in Schools

- 21 Internal Audit circulated a Control Risk Self-Assessment (CRSA) document, developed in consultation with primary school heads and the Head of Education, as a best practice guide for identifying and managing risks in a

school setting, to all County Schools via the Durham Learning Gateway (DLG).

Declaration of Interests

- 22 As part of the Internal Audit Counter Fraud Plan for 2013/14, the Audit Committee approved the inclusion of a counter fraud review of Declarations of Interest. In addition to a usual focus upon DCC Employees and Members, the review is to cover School Employees and Governors for the first time. It will involve a data matching of electronically held personal data extracted from the Payroll and 'One' systems against Creditor payments data to identify potential undeclared interests that may be an indication of fraud for further investigation and action as appropriate. An item informing School Employees and Governors of this work was included on the DLG.

PERFORMANCE INDICATORS

- 23 A summary of our actual performance at the end of September 2013 compared to agreed target performance indicators is given in Appendix 8.
- 24 Your attention is drawn to our primary PI relating to the % of planned assurance reviews complete. This is an important measure of our ability to provide an annual audit opinion. Actual performance at the end of this first quarter, allowing for work in progress, is estimated to be 23%. Consequently, the target to deliver 90% of planned assurance work in 2013/14 is on track at the end of September.
- 25 As can be seen, our performance target to issue 90% of draft reports within 30 days of the end of fieldwork was not achieved this quarter. Of the 22 draft reports issued, 3 were late. This is an area identified for improvement during the year as the timeliness of the formal reporting of audit findings is a key indicator of our effectiveness.

RECOMMENDATIONS

- 26 Members are asked to note,:
- The amendments made to the 2013/14 Annual Audit Plan
 - Work undertaken by Internal Audit during the quarter ended September 2013 and the assurance on the control environment provided
 - The performance of the service during the period
 - Progress made by service managers in responding to the work of Internal Audit

Contact: Avril Wallage Tel: 03000 269645

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

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