

Audit Committee

28 February 2014

Internal Audit Progress Report Quarter Ended 31 December 2013



Report of the Chief Internal Auditor and Corporate Fraud Manager

PURPOSE OF THE REPORT

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period October to December 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 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 Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)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	High and medium priority actions raised and implemented
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 the 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 the 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 31 December is indicated.
- 8 The status of each type of 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	Proactive Fraud
Not Started	29	3	4
Planning & Preparation	10	2	
Terms Of Reference Agreed	8	2	3
Fieldwork In Progress	19	11	2
Complete (Draft or Final Report)	35	6	10
Agreed Defer/Cancelled	3	3	0
Total	104	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.

AUDIT ACTIVITY 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
Children and Adult Services (CAS)	Health and Well Being Board (Partnership Governance Framework Review)	Service Request - Advice & Consultancy	Cancelled	Agreed with Management Team as Health and Wellbeing Board is no longer subject to previous Governance Arrangements. Now reports as a Committee of the Council.
Neighbourhood Services	Markets	Assurance Review	Deferred to 2014 / 2015	The Head of Service requested that the intended review be deferred until the service has completed its review of market management arrangements in line with the Market Strategy.
Regeneration and Economic Development (RED)	Mystery Shopping	Service Request – Advice & Consultancy	Cancelled	Originally a service request but it is considered that it is no longer required
Regeneration and Economic Development (RED)	Planning System	Advice & Consultancy	Deferred to 2014 / 2015	Delays in the new system implementation. Considered more appropriate to defer the review to November 2014.

- 12 19 unplanned reviews have been added to the plan this quarter. Of these 15 relate to potential fraud or irregularity investigations. Details of the progress on all investigations will be included in the next fraud and irregularity update report which will be considered by the Committee at its meeting in July.
- 13 The 4 non-investigative reviews, which are to be resourced from the contingency provision within the plan, are detailed below:

Service Grouping	Audit	Audit Type	Reason
Neighbourhood Services (NS)	Gala Theatre	Assurance	Request from the Corporate Procurement Manager and Strategic Manager – Culture and Heritage
Regeneration and Economic Development (RED)	Empty Homes Loan Fund	Assurance	Assurance review of the arrangements in place for managing and monitoring the Empty Homes Loan Fund.
Resources	Bank Automated Clearance System (BACS)	Advice & Consultancy	Advice and Consultancy following an error in processing a creditor payment file.
Resources	Electoral Services – Verification of Expenses	Advice & Consultancy	Due to timing it has been necessary to verify the expenses as a piece of advice and consultancy work.

Outstanding Management Responses to Draft Reports

- 14 There are no responses to draft reports remain overdue at the time of writing.

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 A summary of progress on actions due by the 31 December 2013 is given below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Implemented	Actions Overdue by Original Target Date	Actions with Agreed Revised Target Date	Actions Overdue by Revised Target Date
Assistant Chief Executive (ACE)	16	9	7	7	0
Children and Adult Services (CAS)	33	31	2	2	0
Neighbourhood Services (NS)	149	130	19	19	0
Regeneration and Economic Development (RED)	27	24	3	3	0
Resources	328	305	23	23	0
TOTAL	553	499	54	54	0

* 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.

It is encouraging to note of the 553 actions due to be implemented that 499 (90%) have been implemented. The Chartered Institute of Public Finance and Accountancy (CIPFA), benchmarking exercise indicates that average performance in this area is 70 to 80%. At present the Council is delivering in excess of this target.

Limited Assurance Opinion Audits

- 17 There have been four audits finalised in this quarter which resulted in a 'limited assurance' opinion. A brief summary of the key findings are provided in Appendix 7.

Performance Indicators

- 18 A summary of our actual performance at the end of December 2013 compared to agreed target performance indicators is given in Appendix 8.
- 19 Your attention is drawn to our primary PI, which is an important measure of the ability to provide an annual audit opinion and is the % of planned assurance reviews complete. Actual performance stands at 41% at present against the full year target of 90%. Due to the timing of audit reviews and the Christmas period this has fallen below where we would expect to be at the half year stage, however plans are place to address this and at present there are no concerns about achieving the overall 90% target.

RECOMMENDATIONS

- 20 Members are asked to note,:
- The amendments made to the 2013/14 Annual Audit Plan
 - Work undertaken by Internal Audit during the quarter ended 31 December 2013 and the assurance on the control environments provided
 - The performance of the service during the period
 - 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

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