

Audit Committee

20 May 2014

Internal Audit Progress Report Quarter Ended 31 March 2014



Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

- 1 To inform Members of work carried out by Internal Audit during the period January to March 2014.
- 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 and 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 Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)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 March 2014 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	11	1	3
Planning & Preparation	9	2	0
Terms Of Reference Agreed	5	1	0
Fieldwork In Progress	15	17	4
Complete (Draft or Final Report)	57	14	12
Agreed to Defer/Cancelled	7	5	1
Total	104	40	20

- 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)	Adult Learning and Skills Service	Assurance Review	Deferred to 2014 / 2015	A piece of consultancy and advice work has been completed on Learner Validation and highlighted areas for improvement. The intention is to allow these to be embedded before proceeding with the assurance review work.
Regeneration and Economic Development (RED)	ALMOs – Housing Rents	Assurance Review	Cancelled	Due to forthcoming stock transfer this will not add value. Assurance on the stock transfer is to be undertaken over the next 12 months.
Resources	Creditor Payments – Quarter 4	Proactive Fraud	Cancelled	The process for identifying potential duplicate payments has now been built into the service process. To be tested as part of main creditors audit assurance review.
Resources	Quotations	Assurance Review	Cancelled	The scope of this audit has now been included in the tendering system assurance review.
Resources	Strategic Procurement Network (SPN)	Advice and Consultancy	Cancelled	This group has been disbanded as it was deemed to be no longer required.
Resources	Merger of Durham and Sunderland ICT Services	Advice and Consultancy	Cancelled	The decision has now been made not to merge the ICT services of Durham and Sunderland.
Resources	Attendance Management Framework	Assurance Review	Deferred to 2014 / 2015	New processes have just been put into place and agreed to allow these to become embedded before the assurance review work is completed.

- 12 27 unplanned reviews have been added to the plan this quarter. Of these 18 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 9 non-investigative reviews, which are to be resourced from the contingency provision within the plan, are detailed below:

Service Grouping	Audit	Audit Type	Reason
Children and Adult Services (CAS)	Adult Learning and Skills Service (Learner Validation)	Advice & Consultancy	To enable the Service to better gauge the accuracy of Adult Learner records for the 2012/13 academic year following the identification of errors in a recent SFA visit.
Neighbourhood Services (NS)	Gymnastic Club Inventory	Advice & Consultancy	Request from Head of Sport and Leisure to assess equipment in place prior to works at Spennymoor Leisure Facility.
Neighbourhood Services (NS)	Arrangements for the disposal of equipment and fixings.	Advice & Consultancy	Request from Head of Direct Services to verify the correct disposal procedures were to be followed regarding specific items of equipment and fixings.
Regeneration and Economic Development (RED)	Community Infrastructure Levy (CIL)	Advice & Consultancy	Representation at group to address the implications of the introduction of the CIL.
Resources	Banking Contract	Advice & Consultancy	Representation on the Project Group which has been established to put arrangements in place for a new bank contract.
Resources	Teachers' Pension	Advice & Consultancy	Assistance provided in developing an action plan to address the issues raised in the qualified Annual Auditor Certification.
Resources	Invoice Payment Improvement Group	Advice & Consultancy	Representation on the group which has been established to review and improve the creditor payment process.
Resources	Debtors Working Group	Advice & Consultancy	Representation on the group which is looking to improve invoice handling, collection and performance of sundry debt by strengthening procedures.
Resources	Payment Card Industry (PCI) Compliance Group	Advice & Consultancy	Representation on the group that has been established to ensure compliance with PCI Standards.

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 March 2014 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)	17	17	0	0	0
Children and Adult Services (CAS)	49	48	1	1	0
Neighbourhood Services (NS)	164	138	19	19	1
Regeneration and Economic Development (RED)	40	35	5	5	0
Resources	262	248	14	14	0
TOTAL	532	489	39	39	1

* 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 532 actions due to be implemented that 489 (91%) 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 two 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 March 2014 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 68% at present against the full year target of 90%. Performance is therefore projected to achieve the target of 90% for the audit year.

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 March 2014 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 / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Issues

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