

Audit Committee

30 September 2014

Internal Audit Progress Report Quarter Ended 30 June 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 April to June 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 Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)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 30 June 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	0	0	0
Planning & Preparation	2	1	0
Terms Of Reference Agreed	1	0	0
Fieldwork In Progress	31	11	7
Complete (Draft or Final Report)	121	23	12
Agreed to Defer/Cancelled	14	7	1
Total	168	42	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
Assistant Chief Executive (ACE)	Data Protection Review of Data Access, Records Storage and Scanned images	Assurance Review	Cancelled	The service requested that Internal Audit focusses on the data protection review of procurement in the final quarter of 2013/2014. A schedule of data protection reviews for 2014/2015 is to be developed.
Children & Adults Services (CAS)	Troubled Families Programme	Assurance Review	Deferred to 2014 / 2015	Service confirmed that actions are currently being undertaken in this area and requested review be deferred until October.
Children & Adults Services (CAS)	First Contact Service	Assurance Review	Deferred to 2014 / 2015	Review not scheduled to begin until July 2014.
Children & Adults Services (CAS)	School Financial Performance Management	Assurance Review	Deferred to 2014 / 2015	Review not scheduled to begin until July 2014.
Children & Adults Services (CAS)	Schools Organisations and Capital Programme	Assurance Review	Deferred to 2014 / 2015	Review not scheduled to begin until July 2014.
Neighbourhood Services	Stanley Bowls	Assurance Review	Deferred to 2014/15	Review not scheduled to begin until July 2014.
Regeneration and Economic Development (RED)	Sustainable Transport	Assurance Review	Deferred to 2014/15	As an advice and consultancy review had only recently completed during 2013/2014, it was agreed to defer this assurance review until 2014/2015.
Resources	Personal Budgets	Counter Fraud	Cancelled	This planned counter fraud review was cancelled as new working arrangements are being developed between the Direct Payments Team in CAS, the Corporate Fraud Team and Internal Audit. An assurance review of Personal Budgets is now included in the 2014/2015 audit plan.
Resources	Ethics	Assurance Review	Cancelled	This review was cancelled, and will be carried out as part of specific audits included within the 2014/2015 audit plan.
Resources	Electoral Services	Assurance Review	Deferred to 2014/15	This audit was deferred to 2014/2015 at the request of the service.

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
Resources	Information Security Policies – Business Continuity Policy	Assurance Review	Cancelled	It was agreed to cancel this review, as management is already aware of several outstanding issues in relation to the policy. It was agreed, with the service, that the scope of this compliance review would be built into the audit of ICT Business Continuity Planning, which is included in the 2014/2015 audit plan.
Resources	School Financial Performance Management (Part 2)	Assurance Review	Deferred to 2014/15	This review has been deferred to 2014/2015, as the Part 1 review is still in progress, and the outcome of the Part 1 review is needed to inform Part 2.

- 12 10 unplanned reviews have been added to the plan this quarter. Of these 3 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 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
Neighbourhood Services (NS)	Freemans Quay Cash Collection	Assurance	Planned for 2014/15 however there was the opportunity to start work early.
Neighbourhood Services (NS)	Durham Town Hall – Income and Bookings	Assurance	Planned for 2014/15 however there was the opportunity to start work early.
Neighbourhood Services (NS)	Bishop Auckland Town Hall – Income and Bookings	Assurance	Planned for 2014/15 however there was the opportunity to start work early.
Neighbourhood Services (NS)	Grounds Maintenance Arrangements - Schools	Assurance	Planned for 2014/15 however there was the opportunity to start work early.
Regeneration and Economic Development (RED)	Housing Stock Transfer	Advice & Consultancy	It was agreed with the service to attend project meetings so that Internal Audit could be kept up to date on the status of the project.
Regeneration and Economic Development (RED)	Evidence of Council Asset	Advice & Consultancy	Complaint in relation to evidence held for a Council asset.
Resources	Pensions Project Group	Advice & Consultancy	Internal Audit involvement in the Project Board which has been established for the implementation of the replacement Pensions System.

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 30 June 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)	20	19	1	1	0
Children and Adult Services (CAS)	59	56	3	3	0
Neighbourhood Services (NS)	179	161	18	18	0
Regeneration and Economic Development (RED)	44	41	3	3	0
Resources	275	259	16	16	0
TOTAL	577	536	41	41	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 577 actions due to be implemented that 536 (93%) 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 no audits finalised in this quarter which resulted in a 'limited assurance' opinion.

Performance Indicators

- 18 A summary of our actual performance at the end of June 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 93% at present against the full year target of 90%.

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 June 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

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	M	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.
Best Practice	The issue merits attention and its implementation will enhance the control environment or promote 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:

Substantial Assurance	Whilst there is a sound system of control, there are either no weaknesses or some weaknesses, which may put some of the system objectives at minor risk.
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.
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.