

Audit Committee

29th September 2011

Internal Audit Progress Report Quarter Ended 30th June 2011



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 to June 2011.
- 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 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 where measurable at this stage

BACKGROUND

- 3 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 4 To help improve the audit planning process, a revision to the annual audit planning cycle was approved by Audit Committee in February 2011. The audit planning year now covers the period July to June to allow audit plans to be developed following the approval of service plans and the MTFP.
- 5 As a consequence of this change, an interim audit plan covering the period April to June was approved by Audit Committee in March.

- 6 A 5 year strategic audit plan together with the annual plan for July to June 2012 was approved by Corporate Management Team (CMT) and Audit Committee on the 8th June and the 30th June 2011 respectively.
- 7 Proposed timings for audit work covering the period July to June 2012 have now been agreed with Corporate Directors.
- 8 The interim plan and work programmed for the first 3 quarters of the annual plan will determine the audit programme of work for the financial year 2011/12 for performance monitoring and reporting purposes to inform the annual audit opinion.
- 9 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. Details of how our assurance opinions are derived are given in Appendix 2.
- 10 It is managers responsibility to ensure that effective controls operate within their service areas. However we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner.
- 11 The method of audit follow up will vary according to the priority of recommendation.
- 12 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate. Details of how we define the significance of audit findings are also given in Appendix 2.

PROGRESS AGAINST PLANNED WORK

- 13 A summary of progress made in delivering the 2011/12 plan is given below:
 - 7 out of 11 planned counter fraud reviews are in progress.
 - 23 reviews in progress at the 31st March 2011 have been carried over and added to the 2011/12 plan. 13 are complete, (draft or final report issued) of which 11 relate to planned assurance reviews.
 - 5 out of the 114 planned assurance reviews from the current year are complete with a further 19 in progress.
 - 1 out of 25 planned advice and consultancy type audits are complete and a further 11 are in progress.
 - 28 unplanned reviews have been added to the plan to address new or emerging risks.

SIGNIFICANT ISSUES

RESPONSE TO AGREED AUDIT RECOMMENDATIONS

- 14 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. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to a nominated representative to assist management monitoring processes. Good progress continues to be made by managers in the implementation of recommendations since these revised procedures were introduced.
- 15 It should be noted that the audit process used to determine assurance opinions and the significance of audit findings, as set out in Appendix 2, has recently been revised to improve the risk based approach to internal audit work and improve the consistency of recommendation rankings from a corporate perspective, irrespective of the nature or scope of individual audits. This methodology will be applied to all draft reports issued from July 2011.

VALUE ADDED WORK

- 16 All planned internal audit reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks thereby improving the organisation's operations. This evaluation and challenge supports the effective and efficient use of resources and VFM.
- 17 Through our advice and consultancy work we are able to add value pro-actively and reactively.
- 18 Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities. This work is normally delivered from the contingency provision within the plan. This will enable Internal Audit to respond quickly to managers concerns and work in partnership with the Head of Service to develop innovative solutions and add value to the process. 4 consultancy type reviews were added to the plan this quarter. A further 2 audits were added to the plan to review controls in place following an irregularity investigation.

PERFORMANCE INDICATORS

- 19 A summary of our actual performance compared to agreed target performance indicators is given in Appendix 3.
- 20 As can be seen the % of planned assurance reviews complete is 13% compared with an annual target of 90%. The forecast complete rate for Q1

has been estimated at 15%, reflecting the fact during Q1 a lot of time is spent on planning, preparing and programming audits, year-end reporting and completing work in progress from the previous year. Audit days lost through overheads i.e. bank holidays, annual leave are also disproportionately higher in Q1. In addition, most of our grant certification work takes place in Q1. There have also been a number of unplanned and consultancy type reviews arising in Q1 that have taken priority over planned work. The forecast outturn for the year is still considered to be on target.

- 21 The results from the latest CIPFA benchmarking exercise are currently being analysed and will be reported to the Committee at its next meeting on the 10th November.

RECOMMENDATIONS

- 22 Members are asked to note the progress made on delivering the internal audit plan for 2011/12.

Contact: Avril Wallage Tel: 0191 383 3537

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