

Audit Committee – 16 July 2014

Internal Audit Progress for Year Ending 31 March 2014

Summary of report

The purpose of this report is to update the Audit Committee on internal audit's progress for the year ending 31 March 2014.

Recommendation

1. To note the contents of this report.



James Walsh – Chief Finance Officer

4 July 2014

Resource and legal considerations

The Accounts and Audit Regulations 2011 require councils to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

Governance issues

The Audit Committee's activities include ensuring that an effective internal control environment is maintained and regular and ongoing scrutiny of internal audit work undertaken. This report supports the Audit Committee in exercising that role.

Citizen impact

Internal audit work is intended to ensure that effective systems of internal control are in place. This protects the council and its officers and provides an assurance to stakeholders and citizens regarding the security of the council's operations.

Performance and risk management issues

Part of internal audit's role is to provide assurance on the council's performance and risk management arrangements. Internal audit's programme of work is risk assessed to ensure areas most at risk are examined as a priority.

Equality implications

Internal audit has full regard to equalities both within the internal audit service and in the services / activities under review.

Consultation

The annual work plan 2013/14 was consulted upon before its final endorsement by executive directors, senior managers, the S151 Officer and Audit Committee.

Background papers

Internal audit reports/ monitoring information.

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Internal Audit Annual Progress Report 2013/14

1. Introduction

- 1.1 The purpose of this report is to update the Audit Committee on internal audit's progress for the year ending 31 March 2014.

2. Internal Audit's Performance Measures

- 2.1 For the year ending 31 March 2014, internal audit's performance against performance measures is detailed below. The direction of travel is given from that previously reported at 2012/13 year end, with the exception of 'reports issued within 6 weeks of start date' which is a new measure for 2013/14 and therefore has no annual comparator. For this indicator, the direction of travel is based on the 6 month reported position (33.3%) as at 30 September 2013.

	Measure	Actual	'RAG'	Direction of Travel
Audits completed by auditors within planned time	95%	83%	A	↑
Report issued within 10 working days of exit meeting	80%	100%	G	↔
Reports issued within 6 weeks of start date	80%	46%	R	↑ *
Audit report actions agreed	95%	99%	G	↔
Relationships / Customer Satisfaction	95%	96%	G	↓
Productivity rate	90%	89%	A	↑
Sickness – average working days lost per employee (internal audit) against target	7.0 days	3.81 days	G	↓
VFM savings achieved / irregularity costs identified and recovered.	£650k	£4.2m	G	↑

- 2.2 Internal audit's expenditure was within its approved budget for the period.
- 2.3 In summary, internal audit has made good progress against its measures during the period, with most currently on target or green 'RAG' rated.
- 2.4 The measure 'reports issued within 6 weeks of start date' is currently red 'RAG' rated. This outturn has largely been due to this being a relatively new and

aspirational measure for 2013/14, which became effective as of 1 April 2013. Work is on-going to ensure that the 'reports issued within 6 weeks of start date' position is improved by closer monitoring and liaison with audit clients at the planning stage to ensure that audits can commence on time and with sufficient support / resource from audit clients. The direction of travel from that reported at the 6 monthly position is a positive one.

- 2.5 2 measures are 'RAG' rated amber, namely 'audits completed by auditors within planned time' and 'productivity rate'. While actual performance is just short of target on both measures, this is an improving position on that previously reported at the 31 March 2013 year end position of 82% and 87% respectively.
- 2.6 The service has made good progress against the annual measure, 'VFM savings achieved / irregularity costs identified and recovered' during the period.

3. **Summary of Work Completed**

- 3.1 Internal audit's work comprises of planned and unplanned assurance, which is summarised in the following table.

Planned Assurance	An assurance service which provides an independent and objective opinion to the organisation of the control environment, by evaluating its effectiveness in achieving the organisations objectives. The service objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. This is achieved via internal audit's risk assessed audit plan.
Unplanned Assurance	Prevention, detection and investigation of fraud and corruption; and other irregularity. Advisory and consultancy related services which are carried out to improve services and to add value, including the impact of proposed policy initiatives, programmes and projects as well as emerging risks.

- 3.2 A detailed summary of internal audit's unplanned assurance work is detailed in a separate report in private session this evening. A summary of planned work completed during the period is detailed at **Appendix 1**. This table summarises the directorate, area audited (auditable area) and assurance opinion. The assurance opinion is based on the following criteria:

Full assurance	Full assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
No assurance	No assurance as weaknesses in control, or consistent non compliance with key controls, [could result / have resulted] in failure to achieve the organisation's objectives in the areas reviewed.

- 3.3 Of the 115 planned audits finalised during the period, 92 (80%) received significant assurance. The assurance health measures following internal audit's work for the year ending 31 March 2014 are detailed in the following table.

<u>Assurance Health Measures</u>	2011/12	2012/13	2013/14	Trend
Percentage of full assurance reports issued of all issued audit reports	0.9%	1.1%	0%	↓
Percentage of significant assurance reports issued of all issued audit reports	82.6%	95.7%	80%	↓
Percentage of limited assurance reports issued of all issued audit reports	16.5%	3.2%	20%	↑
Percentage of no assurance reports issued of all issued audit reports	0%	0%	0%	↔
Proportion of planned / unplanned assurance audit time	65/35	60/40	60/40	↔

- 3.4 Audit Committee routinely receive summaries of all limited and no assurance opinion audit reports issued; and call in accountable executive directors where on audit follow up of these reports, limited or no progress has been made in addressing control weaknesses previously identified. Of the 9 follow up audits finalised during the period, 5 (55%) received limited progress assurance. This is an area for improvement for the organisation going forward.

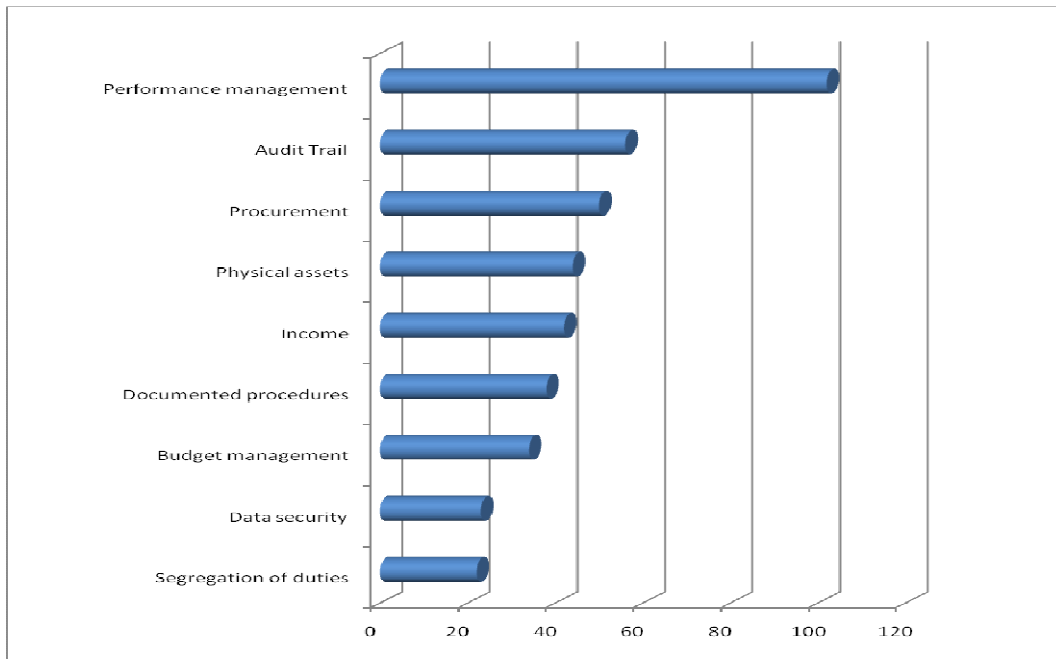
4. **Key Themes Arising**

- 4.1 The following key themes have been identified from the planned work finalised during the period.

Theme	Description
Audit Trail	Ensuring that a complete audit trail (e.g. 'the paperwork') is in place and secure, to support the internal controls operating within the system under review. In the absence of audit trail, there is an inability to defend the system followed / decisions taken in the event of query / challenge.

Theme	Description
Budget Management	Ensuring that finances are properly managed through strong budget management and financial planning. In the absence of this, there is the risk that budget under / over spends may occur, unaddressed.
Data security	Ensuring that information assets are secure against loss, unauthorised access or other data breaches.
Documented Procedures	Ensuring that systems have been procedurally documented or that procedures in place are not out dated, but subject to regular review / refresh and approval. In the absence of up to date procedural documentation, there is a risk that in the unexpected absence of key / experienced officers, other officers may not be aware of duties and responsibilities in relation to specific tasks, which may ultimately not be undertaken / or undertaken to the appropriate standard.
Income	Ensuring that income is fully and promptly received and accounted for. In the absence of this, the risk of fraud and error is increased.
Performance Management	Ensuring compliance with corporate systems e.g. attendance management, performance measurement, benchmarking, joint working and employee performance assessment. Also ensuring systems are in place to give assurance that service aims and objectives are being delivered.
Physical assets	Ensuring that assets, including building, equipment and stocks / stores are secure. In the absence of this, the risk of asset theft / loss is increased.
Procurement	Ensuring that controls regarding contracts and payments demonstrate value for money and sufficient transparency and probity. Some improvement is required in purchasing processes including officer compliance with contract rules and the day to day administration of procurement activities, such as the raising of orders prior to receipt of goods/works/services; ensuring appropriate segregation of duties between ordering and receipt of goods/works/services and payment; and the prompt payment of invoices. In the absence of robust controls in these areas, the organisation can be at risk in the event of query / challenge.
Segregation of duties	Ensuring that decisions / transactions involve more than one officer, to mitigate against the risks of fraud and corruption.

4.2 The following table gives the distribution of occurrence of these themes in planned work undertaken during the period.



- 4.3 The table shows that most attention is required in strengthening the arrangements for performance. Audit trail and procurement systems also require work. Action plans are in place to address these themes within the individual audit reports and this summary will be issued to all executive directors for them to disseminate to their managers.

Summary of Planned Work Finalised as at 31 March 2014

Directorate	Auditable Area	Date of Report	Level of Assurance
Childrens Services	Abbey JMI	26.04.13	Significant
	Alumwell Junior	20.12.13	Significant
	Blackwood JMI	26.07.13	Significant
	Blakenall Heath Junior	24.05.13	Significant
	Bloxwich Children's Centre	19.12.13	Significant
	Blue Coat Infants	03.05.13	Significant
	Blue Coat Junior	03.05.13	Significant
	Brownhills Community Technology College	20.06.13	Significant
	Brownhills West JMI	24.05.13	Significant
	Children with Disabilities	24.06.13	Limited
	Childrens Transport Provision	19.04.13	Significant
	Christ Church JMI	26.04.13	Significant
	Chuckery JMI	16.10.13	Significant
	County Bridge JMI	26.04.13	Significant
	Delves Infants	11.06.13	Significant
	Delves Junior	26.09.13	Significant
	Early Years	11.06.13	Significant
	Education Business Partnership	19.02.14	Significant *
	Fibbersley JMI	02.04.13	Significant
	Fibbersley Park JMI	26.11.13	Significant
	Finance Support Team	10.06.13	Significant
	Foster Care & Adoption Services	14.08.13	Limited
	Fullbrook Nursery	04.04.13	Significant
	Greenfield Children's Centre	14.11.13	Limited
	Hillary Street JMI	08.11.13	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
	Initial Response Service	17.06.13	Limited
	Little Bloxwich JMI	04.04.13	Significant
	Looked After Children	01.10.13	Limited
	Mary Elliot	31.07.13	Significant
	Millfields Nursery	08.07.13	Significant
	Ogley Hay Nursery	04.04.13	Significant
	Palfrey Infants	14.11.13	Significant
	Pelsall Children's Centre	31.10.13	Limited
	Pheasey Children's Centre	13.01.14	Limited
	Pinfold Street JMI	17.01.14	Limited
	Pool Hayes Arts & Community School	03.05.13	Significant
	Pool Hayes JMI	11.07.13	Limited
	Rowley View Nursery	24.05.13	Significant
	Rushall JMI	03.12.13	Significant
	Safeguarding – Family Support	31.10.13	Limited
	Sandbank Nursery	08.07.13	Significant
	School Planning & Admissions	08.07.13	Significant
	Shepwell Centre	14.02.14	Limited
	Short Heath Federation	19.07.13	Significant
	St Anne's JMI	11.06.13	Significant
	St Bernadettes	08.07.13	Significant
	St Francis JMI	19.07.13	Significant
	St Francis of Assisi	25.06.13	Significant
	St Joseph JMI	29.05.13	Significant
	St Marys of the Angels JMI	17.07.13	Significant
	St Peters JMI	11.07.13	Significant *
	St Thomas of Canterbury JMI	12.07.13	Significant
	Sunshine Infants	04.04.13	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
	Valley Nursery	19.07.13	Significant
	Virtual School for Looked After Children	25.06.13	Significant
	Watling Street JMI	08.07.13	Significant
	Whetstone Field JMI	06.06.13	Significant
	Whitehall Infants	11.06.13	Significant
Neighbourhood Services	Blue Badges	28.11.13	Significant
	Green Spaces	04.07.13	Significant
	Pollution Control	09.12.13	Significant
	Urban Forestry Unit	08.08.13	Significant
Regeneration	Building Control	10.05.13	Significant
	Building Services	21.05.13	Limited
	Carbon Reduction Commitment Energy Efficiency Scheme	12.08.13	Significant
	Development Management	04.07.13	Significant
	Markets	08.07.13	Significant
Resources	Bank Account Reconciliations	05.06.13	Significant
	Banking Hall / Income Management Process	23.05.13	Significant
	Banking Hall / Income Management Process	20.02.14	Significant
	Capital Accounting	05.09.13	Significant
	Freedom of Information Act & Data Protection Act	17.07.13	Significant
	Gypsy & Travellers	04.07.13	Significant
	Housing & Council Tax Benefits	23.01.14	Limited
	New Homes Bonus	30.01.14	Significant
	Nominal Ledger & Central Accounting	11.06.13	Significant
	Procurement	04.10.13	Limited
	Treasury Management	11.06.13	Significant *
	Treasury Management	17.02.14	Significant
Social Care & Inclusion	Benefits Based Charging	11.10.13	Limited
	Housing 21 Contract Monitoring	13.05.13	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
	Independent Sector – Residential & Nursing	01.08.13	Limited
	Mental Health S117 (Aftercare)	14.10.13	Limited
	Mobile Working	24.07.13	Significant
	Re-ablement	20.12.13	Significant *
	Social Care Operating Model	23.09.13	Limited
All	Accounts Payable	07.08.13	Limited
	Accounts Receivable	01.05.13	Significant
	Attendance Management	03.07.13	Limited
	Black Country Partnership NHS (Contract)	02.07.13	Significant
	Capital Programme	21.05.13	Significant
	Constitution & Review of Delegations	23.04.13	Significant
	Declaration of Interests, Gifts & Hospitality and Overseas Travel	19.07.13	Limited
	English Landscapes Ltd (Contract)	02.07.13	Significant
	Grants	12.06.13	Significant
	ISG Construction Ltd (Contract)	02.07.13	Significant
	Kier Construction Central (Contract)	23.10.13	Limited
	N Power Ltd (Building Electricity) (Contract)	01.10.13	Significant
	N Power Ltd (Street Lighting) (Contract)	17.09.13	Significant
	Payroll	09.07.13	Significant *
	Project Management	06.11.13	Limited
	Prospect Services Ltd (Contract)	04.07.13	Significant
	Public Health Transition	08.07.13	Significant
	Starting Point Recruitment Ltd	18.10.13	Significant
	Voyage Ltd (Contract)	17.09.13	Significant
	Willmott Dixon Construction Ltd (Contract)	12.07.13	Significant
Computer	Bring Your Own Devices	09.08.13	Significant
	Change Management	17.07.13	Significant
	Computer Network Services & Infrastructure	26.06.13	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
	Council Tax (Northgate)	15.01.14	Significant
	Data Centre Operations & Security	17.07.13	Significant
	Housing Benefit EDMS	15.01.14	Significant
	Information Governance	13.08.13	Significant *
	Paris, Fiscom & Nurrcis	08.07.13	Significant
	Payroll (Trent)	12.07.13	Significant

* 'borderline significant'

Summary of Planned Follow Up Work Finalised as at 31 March 2014

Directorate	Auditable Area	Date of Report	Level of Assurance
Childrens Services	Foster Care & Adoption Services	18.02.14	Limited Progress
	Initial Response Service	13.01.14	Limited Progress
	Millfield Primary School	19.06.13	Limited Progress
	Millfield Primary School	24.07.13	Significant Progress
	Pool Hayes Primary School	23.10.13	Significant Progress
Regeneration	Building Services	18.02.14	Limited Progress
Social Care & Inclusion	Charging Policies & Application	21.06.13	Limited Progress
	Social Care Operating Model	05.03.14	Significant Progress
All	Kier Construction Central (Contract)	07.02.14	Full Progress