

Audit Committee – 10 November 2014

Internal Audit Update Report

Summary of report

The purpose of this report is to update the Audit Committee on Internal Audit's progress for the six month period ending 30 September 2014.

Recommendation

1. To note the contents of this report.



James Walsh – Chief Finance Officer

30 October 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 2014/15 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 Update Report

1. Purpose of this report

- 1.1 This report summarises the work that Internal Audit has undertaken for the six month period ending 30 September 2014. It also highlights any key issues with respect to the overall system of internal control.

2. The Internal Audit process

- 2.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. In addition, the other objectives of the function are to:

- support the responsible financial officer to discharge duties as proper officer;
- support the delivery of corporate objectives and the continuous improvement agenda; and
- provide a corporate fraud / investigation service that safeguards the public purse.

- 2.2 Each year the Audit Committee endorses the Internal Audit plan for the financial year. The majority of the work that Internal Audit undertakes is designed to provide assurance to members and management on the operation of the internal control environment as part of the overall governance assurance process. Internal Audit work undertaken includes actions agreed with management that improve the adequacy and effectiveness of the controls already in practice.

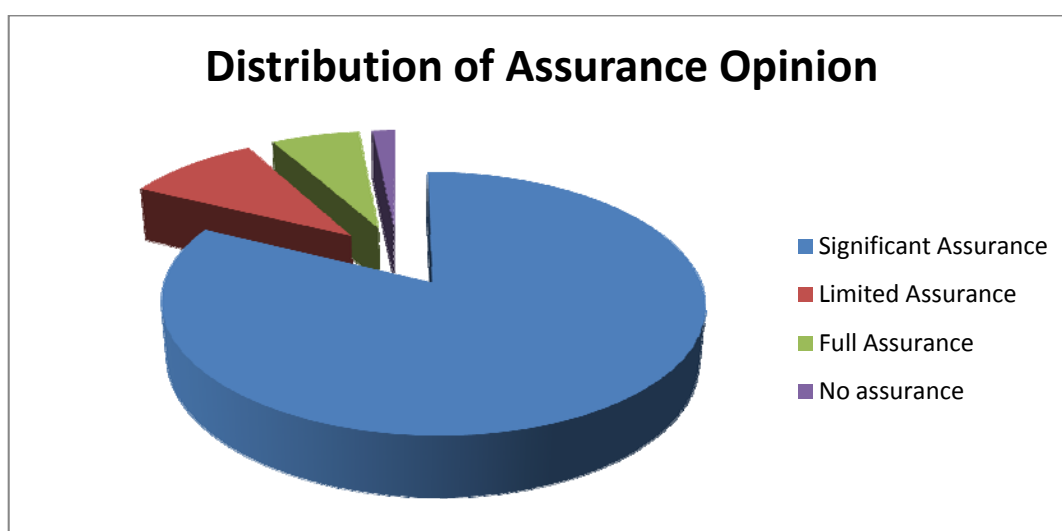
3. Progress for the six months to 30 September 2014

- 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.
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- 3.2 A detailed summary of Internal Audit's unplanned assurance work undertaken for the 6 month period ending 30 September 2014 is detailed in a separate report in private session this evening. A summary of planned work undertaken for the 6 month period ending 30 September 2014 is detailed at **Appendix 1**. This includes the assurance level given (definitions of which are included in **Appendix 2**). During the early part of the year much of the planned audit activity is in finalising work relating to the previous year's plan, this element of time is planned for and this year has been no exception.
- 3.3 Of the 62 audits finalised during the period, 55 (89%) of those received a significant assurance opinion or above, 7 (11%) receiving a limited assurance opinion or below. The table below gives the distribution of assurance opinion.



- 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 (see Appendix 2 for follow up opinion definitions) has been made in addressing control weaknesses previously identified. During the six month period ending 30 September 2014, of the 22 follow up reports finalised, 4 (18%) received a limited progress assurance opinion. These have been reported to Audit Committee and will be subject to a further follow up audit in due course.
- 3.5 Progress to date against the 2014/15 planned programme of work has been below that anticipated. As part of the organisation's budget savings requirements, Internal Audit is currently undergoing consultation on restructuring to make it more effective in meeting changing demands with less resource. There have been staffing implications arising from this resulting in a number of vacant posts which have remained vacant while the structure is

finalised, as well as other pending staffing matters which will also have a knock on effect on resources in the coming months.

- 3.6 Discussions are about to take place with key stakeholders to determine which audits will be prioritised and which audits will be deferred until 2015/16 when restructuring will be complete. A system for audit control self assessment will also be piloted on the lower risk audits. Audit Committee will be notified of the outcomes of this accordingly.

4. Compliance with professional standards

- 4.1 From 1 April 2013 new professional standards were introduced for the public sector, the Public Sector Internal Audit Standards (PSIAS), following collaboration between CIPFA and the International Institute of Internal Auditors (IIA).
- 4.2 Progress against the standard has been regularly reported to the Audit Committee. The latest update was given on 1 September 2014 where Audit Committee endorsed the proposal for 'peer review' with WM Assurance Services, an NHS internal audit consortium. It was anticipated that the peer review would commence in October 2014. There has been some mutual slippage on this target. WM Assurance Services peer assessment is now planned for December 2014 and Walsall's will take place shortly thereafter.

5. Performance

- 5.1 Internal Audit's performance against measures for the six month period ending 30 September 2014 is detailed below. The direction of travel is given from that previously reported at 2013/14 year end.

	Measure	Actual	'RAG'	Direction of Travel
Audit time budgeted v actual	850 days	806 days	G	New Measure
Report issued within 6 weeks of audit start date	80%	28%	R	↓
Audit report actions agreed	95%	99%	G	↔
Relationships / Customer Satisfaction	95%	100%	G	↑
Productivity rate (Chargeable hours)	90%	90%	G	↑
Sickness – average working days lost per employee (internal audit) against target	7.0 days	0.71 days	G	↑
VFM savings achieved / irregularity costs identified and recovered.	£650k	Annual	Annual	Annual

- 5.2 Internal Audit's expenditure was within its approved budget for the period.
- 5.3 In summary, Internal Audit has made good progress against its measures during the period, with most currently on target or green 'RAG' rated with an improving performance on that reported at 2013/14 year end.
- 5.4 The measure 'reports issued within 6 weeks of start date' is, however, currently red 'RAG' rated. This is a relatively new measure, which became effective as of 1 April 2013. The direction of travel on that reported (28%) is a negative one compared to the 46% reported at the 2013/14 year end. The reason for this is largely due to audit staff turnover. This coupled with the usual operational challenges that this measure poses, has contributed to the downturn. Work is on-going to ensure that the 'reports issued within 6 weeks of start date' position is improved by greater monitoring of this target, including closer liaison with audit clients at the planning stage to ensure that audits can commence on time and with sufficient support / resource from audit clients.
- 5.5 A new measure has been introduced for 2014/15, audit time budgeted against actual days spent. This measures the actual time the audit team spent on completing audits finalised during the period against the time allocated in the audit plan and is a measure of the efficiency of the team. In six month period ending 30 September 2014, of reports finalised, the team should have completed the audits within 850 days but actually completed them within 806 days.
- 5.6 Productivity and customer satisfaction remain high at 90% and 100% respectively.
- 5.7 The average working days lost per full time employee is 0.71 days against an annual target of 7 days.
- 5.8 The 'VFM savings achieved / irregularity costs identified and recovered' measure is an annual measure which will be reported at the 2014/15 year end.

6. Conclusion

- 6.1 Audit Committee can be assured that no issues have been identified in the 2014/15 work completed to date which impacts materially on the overall system of internal control.
- 6.2 Progress to date against the planned programme of work and certain performance measure have been below that anticipated. This is likely to be an on-going challenge for the remainder of this financial year, while restructuring arising from budget savings is completed and staffing matters are resolved. Planned audit work is being prioritised, in consultation with key stakeholders, to ensure that the maximum benefits are achieved from available resources.

Audit Committee will be notified of the outcomes of this work accordingly.
Performance against measures will continue to be monitored.

Summary of Planned Work Finalised as at 30 September 2014

Directorate	Auditable Area	Date of Report	Level of Assurance
Childrens Services	Busill Jones Primary School	11.07.14	Significant
	Castle Business & Enterprise College	04.07.14	Significant
	Child Poverty Reduction	21.07.14	Significant
	Cooper & Jordan Primary School	23.09.14	Significant
	Jane Lane School	16.09.14	Significant *
	Leighswood Primary School	04.09.14	Significant *
	Lindens Primary School	12.09.14	Limited
	Lower Farm Primary School	23.09.14	Significant
	Mary Elliot Special School	31.07.14	Significant
	New Invention Junior School	23.09.14	Significant
	New Leaf Centre	09.05.14	Limited
	Oakwood School	23.09.14	Significant
	Old Church JMI	04.09.14	Significant *
	Old Hall School	04.09.14	Significant
	Palfrey Junior School	04.09.14	Significant
	Pelsall Village Junior School	23.09.14	Significant
	Pheasey Park Farm Primary School	18.07.14	Significant
	St Johns Primary School	14.04.14	Significant
	St Michaels Primary School	04.09.14	Significant
	Transition and Leaving	14.07.14	Significant *
Neighbourhood Services	Community Development Grant Funding	15.07.14	Significant
	Forest Arts Centre	11.07.14	Full
	Healthwatch Transition	15.07.14	Significant
	New Art Gallery	14.07.14	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
Regeneration	Climate Change Management	14.05.14	Significant
	Construction Industry Tax	06.08.14	Significant
Resources	Accommodation Services & Homelessness	22.07.14	Limited
	Bank Account Reconciliations	06.05.14	Significant
	Capital Accounting	18.09.14	Significant
	Council Tax / National Non Domestic Rates (NNDR)	02.09.14	Significant *
	Electoral Registration	25.04.14	Significant
	Group Funding to Prevent Homelessness	21.05.14	Limited
	Nominal Ledger & Central Accounting	01.04.14	Significant
Social Care & Inclusion	Independent Living Centre	30.07.14	Significant
	Telecare	30.07.14	Limited
All	Accounts Payable	19.05.14	Significant
	Accounts Receivable	12.05.14	Significant
	Budgetary Management	02.06.14	Significant
	Capital Programme	03.09.14	Significant
	Capital Receipts	05.06.14	Significant
	Climate Change Threats (Strategic Risk Register)	14.08.14	Significant
	Corporate Governance	30.05.14	Significant *
	Data Control (Strategic Risk Register)	20.06.14	Full
	Demographic Change(Strategic Risk Register)	22.08.14	Significant
	Emergency and Crisis Response Threats (Strategic Risk Register)	12.08.14	Significant
	Failure to Manage Organisation Change (Strategic Risk Register)	19.09.14	Significant
	Governance Failure (Strategic Risk Register)	11.09.14	Significant
	Grants	24.06.14	Significant
	Impact of Fraud and Compensation Culture (Strategic Risk Register)	18.07.14	Significant
	Inspection Outcomes (Strategic Risk Register)	21.08.14	Full
	Inventories / Stocks – Community Alarms	17.04.14	No assurance

Directorate	Auditable Area	Date of Report	Level of Assurance
	Inventories / Stocks – ICT Data Centre	15.04.14	Limited
	Loss of Community Cohesion (Strategic Risk Register)	23.09.14	Significant
	Loss of Funding and Financial Instability (Strategic Risk Register)	20.06.14	Full
	Payroll	12.09.14	Significant
	Public Health	07.08.14	Significant
	Short Term Decisions with Long Term Implications (Strategic Risk Register)	02.09.14	Significant
Computer	End User Computing	10.07.14	Significant *
	ICT Service Management	01.07.14	Significant *
	IT Skill and Training	30.05.14	Significant
	Remote Working	24.04.14	Significant
	Virtualisation (Server and Desktop)	07.07.14	Significant

Summary of Planned Follow Up Work Finalised as at 30 September 2014

Directorate	Auditable Area	Date of Report	Level of Progress
Children's Services	Children with Disabilities	24.07.14	Significant
	Greenfields Children's Centre	11.06.14	Limited
	Looked After Children	06.05.14	Limited
	Pelsall Children's Centre	12.06.14	Limited
	Pheasey Children's Centre	16.09.14	Significant
	Safeguarding – Family Support	14.08.14	Significant
	Shepwell Green Centre	07.08.14	Significant

Directorate	Auditable Area	Date of Report	Level of Progress
Social Care & Inclusion	Charging Policies & Application	11.09.14	Full
	Commissioning	13.08.14	Full
	Community Mental Health Integrated Team	29.05.14	Significant
	Independent Sector – Residential & Nursing	29.05.14	Limited
	Mental Health S117	13.05.14	Significant *
All	Attendance Management	28.07.14	Significant
	Black Country Partnership (Contract)	11.09.14	Significant
	Declarations	25.07.14	Significant
	English Landscapes (Contract)	02.09.14	Significant
	ISG Construction (Contract)	26.09.14	Significant
	Npower – Building Electricity (Contract)	13.08.14	Full
	N Power – Street Lighting Electricity (Contract)	13.08.14	Full
	Prospects Services (Contract)	13.08.14	Full
	Starting Point Recruitment	13.08.14	Full
	Willmott Dixon (Contract)	26.09.14	Significant

* Borderline significant

Audit Opinion Classification

Overall Audit Opinion	
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. All reports receiving this opinion are routinely reported to Audit Committee.
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. All reports receiving this opinion are routinely reported to Audit Committee.

Audit Follow Up Opinion Classification

Follow Up Audit Opinion	
Full Progress	All high priority findings within the audit report have been closed / addressed.
Significant Progress	Significant progress has been made in closing / addressing high priority findings within the audit report.
Limited Progress	Limited progress has been made in closing / addressing high priority findings within the audit report.
No Progress	None of the high priority findings within the audit report have been closed / addressed.