

Audit Committee – 11 November 2013

Internal Audit Progress Report for the Six Month Period Ending 30 September 2013

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 2013.

Recommendation

1. To note the contents of this report.



Rebecca Neill – Head of Internal Audit
22 October 2013

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 Progress Report for the Six Month Period Ending 30 September 2013

1. Introduction

- 1.1 The purpose of this report is to update the Audit Committee on internal audit's progress for the six month period ending 30 September 2013.

2. Internal Audit's Performance Measures

- 2.1 For the six month period ending 30 September 2013, internal audit's performance against performance measures is as follows:

	Measure	Actual	'RAG'
Audits completed by auditors within planned time	95%	93.6%	A
Report issued within 10 working days of exit meeting (2012/13 audits)	80%	100%	G
Reports issued within 6 weeks of start date (2013/14 audits)	80%	33.3%	R
Audit report actions agreed	95%	99.7%	G
Relationships / Customer Satisfaction	95%	100%	G
Productivity rate	90%	90%	G
Sickness – average working days lost per employee (internal audit) against target	7.0 days	1.47 days	G
VFM savings achieved / irregularity costs identified and recovered.	£650,000	Annual	Annual

- 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. Of the measure 'RAG' rated amber, namely 'audits completed by auditors within planned time', while actual performance is just short of target, this is an improving position on that previously reported at the 31 March 2013 year end position of 82% (an 11.6% improvement).
- 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 new and aspirational measure for 2013/14, which became effective as of 1 April 2013, replacing the

previous measure 'reports issued within 10 working days of exit meeting'. Performance against both measures has been detailed in the table above. Work is on-going to ensure that the 'reports issued within 6 weeks of start date' position is improved for the year end 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.

- 2.5 The service has made progress against the measure, 'VFM savings achieved / irregularity costs identified and recovered' during the period. This is an annual measure which will be reported at the year end.

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 area audited (auditable area), directorate 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.
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- 3.3 Of the 84 planned audits finalised during the period, 74 (88.1%) received significant or full assurance. The organisational health measures following internal audit's work for the year ending 30 September 2013 are detailed in the following table.

<u>Organisational 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%	88.1%	↓
Percentage of limited assurance reports issued of all issued audit reports	16.5%	3.2%	11.9%	↑
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	59/41	↓

- 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.

4. Key Themes Arising

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

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.
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

Theme	Description
	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.
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.
Performance	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.
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.
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.
Segregation of duties	Ensuring that decisions / transactions involve more than one officer, to mitigate against the risks of fraud and corruption.
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.

Summary of Planned Work Finalised as at 30 September 2013

Auditable Area	Directorate	Date of Report	Level of Assurance
Finance Support Team	Childrens Services	10.06.13	Significant
Children with Disabilities	Childrens Services	24.06.13	Limited
Foster Care & Adoption Services	Childrens Services	14.08.13	Limited
Initial Response Service	Childrens Services	17.06.13	Limited
Childrens Transport Provision	Childrens Services	19.04.13	Significant
Early Years	Childrens Services	11.06.13	Significant
School Planning & Admissions	Childrens Services	08.07.13	Significant
Virtual School for Looked After Children	Childrens Services	25.06.13	Significant
Abbey JMI	Childrens Services	26.04.13	Significant
Blakenall Heath Junior	Childrens Services	24.05.13	Significant
Blue Coat Infants	Childrens Services	03.05.13	Significant
Blue Coat Junior	Childrens Services	03.05.13	Significant
Brownhills West JMI	Childrens Services	24.05.13	Significant
Christ Church JMI	Childrens Services	26.04.13	Significant
County Bridge JMI	Childrens Services	26.04.13	Significant
Delves Infants	Childrens Services	11.06.13	Significant
Fibbersley JMI	Childrens Services	02.04.13	Significant
Little Bloxwich JMI	Childrens Services	04.04.13	Significant
Pool Hayes JMI	Childrens Services	11.07.13	Limited
Short Heath Federation	Childrens Services	19.07.13	Significant
St Annes JMI	Childrens Services	11.06.13	Significant
St Bernadettes	Childrens Services	08.07.13	Significant
St Francis JMI	Childrens Services	19.07.13	Significant
St Joseph JMI	Childrens Services	29.05.13	Significant
St Marys of the Angels JMI	Childrens Services	17.07.13	Significant

Auditable Area	Directorate	Date of Report	Level of Assurance
St Peters JMI	Childrens Services	11.07.13	Significant *
St Thomas of Canterbury JMI	Childrens Services	12.07.13	Significant
Sunshine Infants	Childrens Services	04.04.13	Significant
Watling Street JMI	Childrens Services	08.07.13	Significant
Whetstone Field JMI	Childrens Services	06.06.13	Significant
Whitehall Infants	Childrens Services	11.06.13	Significant
Fullbrook Nursery	Childrens Services	04.04.13	Significant
Milfields Nursery	Childrens Services	08.07.13	Significant
Ogley Hay Nursery	Childrens Services	04.04.13	Significant
Rowley View Nursery	Childrens Services	24.05.13	Significant
Sandbank Nursery	Childrens Services	08.07.13	Significant
Valley Nursery	Childrens Services	19.07.13	Significant
Brownhills Community Technology College	Childrens Services	20.06.13	Significant
Pool Hayes Arts & Community School	Childrens Services	03.05.13	Significant
St Francis of Assisi	Childrens Services	25.06.13	Significant
Blackwood JMI	Childrens Services	26.07.13	Significant
Delves Junior	Childrens Services	26.09.13	Significant
Mary Elliot	Childrens Services	31.07.13	Significant
Green Spaces	Neighbourhood Services	04.07.13	Significant
Urban Forestry Unit	Neighbourhood Services	08.08.13	Significant
Building Control	Regeneration	10.05.13	Significant
Building Services	Regeneration	21.05.13	Limited
Gypsy & Travellers	Regeneration	04.07.13	Significant
Markets	Regeneration	08.07.13	Significant
Development Management	Regeneration	04.07.13	Significant
Carbon Reduction Commitment Energy Efficiency Scheme	Regeneration	12.08.13	Significant
Bank Account Reconciliations	Resources	05.06.13	Significant
Banking Hall / Income Management Process	Resources	23.05.13	Significant

Auditable Area	Directorate	Date of Report	Level of Assurance
Freedom of Information Act & Data Protection Act	Resources	17.07.13	Significant
Nominal Ledger & Central Accounting	Resources	11.06.13	Significant
Treasury Management	Resources	11.06.13	Significant *
Capital Accounting	Resources	05.09.13	Significant
Mobile Working	Social Care & Inclusion	24.07.13	Significant
Housing 21 Contract Monitoring	Social Care & Inclusion	13.05.13	Significant
Independent Sector – Residential & Nursing	Social Care & Inclusion	01.08.13	Limited
Social Care Operating Model	Social Care & Inclusion	23.09.13	Limited
Accounts Payable	All	07.08.13	Limited
Accounts Receivable	All	01.05.13	Significant
Attendance Management	All	03.07.13	Limited
Capital Programme	All	21.05.13	Significant
Constitution & Review of Delegations	All	23.04.13	Significant
Black Country Partnership NHS (Contract)	All	02.07.13	Significant
English Landscapes Ltd (Contract)	All	02.07.13	Significant
ISG Construction Ltd (Contract)	All	02.07.13	Significant
N Power Ltd (Street Lighting) (Contract)	All	17.09.13	Significant
Prospect Services Ltd (Contract)	All	04.07.13	Significant
Voyage Ltd (Contract)	All	17.09.13	Significant
Willmott Dixon Construction Ltd (Contract)	All	12.07.13	Significant
Declaration of Interests, Gifts & Hospitality and Overseas Travel	All	19.07.13	Limited
Grants	All	12.06.13	Significant
Payroll	All	09.07.13	Significant *
Public Health Transition	All	08.07.13	Significant
Bring Your Own Devices	Computer	09.08.13	Significant
Change Management	Computer	17.07.13	Significant
Computer Network Services & Infrastructure	Computer	26.06.13	Significant
Data Centre Operations & Security	Computer	17.07.13	Significant

Auditable Area	Directorate	Date of Report	Level of Assurance
Information Governance	Computer	13.08.13	Significant *
Paris, Fiscom & Nurrcis	Computer	08.07.13	Significant
Payroll (Trent)	Computer	12.07.13	Significant

* 'borderline significant'