

Audit Committee – 12 November 2012

Internal Audit Progress Report for the Six Months Ending 30 September 2012

Summary of report

The purpose of this report is to update the Audit Committee on internal audit's progress for the six months ending 30 September 2012.

Recommendation

1. To note the contents of this report.



James Walsh – Chief Finance Officer

24 October 2012

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 2012/13 was consulted upon before its final endorsement by executive directors; senior managers; the council's S151 officer and Audit Committee.

Background papers

Internal audit reports/ monitoring information.

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Internal Audit Progress Report as at 30 September 2012

1. Introduction

1.1 The purpose of this report is to update the Audit Committee on internal audit's progress against for the six months ending 30 September 2012.

2. Internal Audit's Performance Measures

2.1 For the year ending 30 September 2012, internal audit's performance against performance measures is as follows:

	% Measure	% Actual
Audits completed by auditor within planned time	95	90
Report issued within 10 working days of exit meeting	80	100
Audit report actions agreed	95	99
Relationships / Customer Satisfaction	95	100
Productivity rate	90	82
Sickness – average working days lost per employee (internal audit) against target	7.0	6.7
VFM savings achieved / irregularity costs identified / recovered	£650,000	Annual

2.2 Internal audit's expenditure was within its approved budget for the period.

2.3 There has been some slippage against certain measures, namely, audits completed within planned time, productivity rate and sickness targets. Productivity and sickness outturn has been largely due to an auditor's unforeseen long term sickness absence. Without this, the productivity rate would be at 88% and average working days lost per employee (sickness) would be 0.96. For audits completed within planned time, this outturn has largely been due to new auditors' familiarisation in joining a new organisation, additional audit issues identified during the course of routine audits and time taken to agree draft reports with accountable managers. Audit managers are working closely with auditors to ensure that performance against these measures will be improved in the subsequent 6 month period.

2.4 The service has made some progress against its new measure, 'VFM savings achieved / irregularity costs identified / recovered'. This is an annual measure which will be reported on 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, assurance opinion and the number of findings by rating per report. 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.

Audit report findings are ranked according to the following priority status:

High	Significant financial / asset loss or wastage; clear fraudulent opportunity; key control not applied or extensive / persistent non application of a secondary control; failure to meet primary service / corporate aims; public disclosure implication / high reputational damage; legal mandatory; or a significant breach of financial and contract rules.
Medium	Some financial / asset loss or wastage; occasional but regular non application of a secondary control; failure to meet secondary service /

	corporate aims; public disclosure implication: limited reputational damage; non mandatory regulation and not high risk; a minor instance of non compliance with financial and contract rules; or staff otherwise insufficiently safeguarded while undertaking their duties.
Low	Minor control improvement; no financial / asset loss or wastage; no direct link to achieving service / corporate aims; and public disclosure implication: no reputational damage.

3.3 Of the 69 planned audits finalised during the period, 67 (97%) received significant or full assurance. The organisational health measures following internal audit's work for the six month period ending 30 September 2012 are detailed below:

<u>Organisational Health Measures</u>	Measure
Percentage of full assurance reports issued of all issued audit reports	1%
Percentage of significant assurance reports issued of all issued audit reports	96%
Percentage of limited assurance reports issued of all issued audit reports	3%
Percentage of no assurance reports issued of all issued audit reports	0%
Proportion of planned / unplanned assurance audit time	64/36

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 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

Theme	Description
	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 Management	Ensuring compliance with corporate performance management systems e.g. attendance management, performance measurement, benchmarking, joint working and employee performance assessment. Also ensuring that service aims and objectives are being delivered via robust service planning. In the absence of compliance with corporate performance management systems, officers / services may be unable to demonstrate that a robust approach has been taken. Without overall performance arrangements in place, services are unable to determine that they are effectively delivering against objectives at the appropriate standard. Further, poor performance may go unnoticed and therefore unaddressed.
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.

Appendix 1

Summary of Planned Work Completed as at 30 September 2012

Auditable Area	Directorate	Date of Report	Level of Assurance	Findings		
				High	Medium	Low
Accounts Payable	All	28.08.12	Significant *	32	33	8
Accounts Receivable	All	06.08.12	Significant	4	9	3
Budget Management	All	28.08.12	Significant	6	4	1
Capital Programme / Project Management	All	31.08.12	Significant *	9	18	2
Grants	All	12.07.12	Significant	19	19	2
Inventories & Stocks – Dis-infestation	All	17.08.12	Significant *	3	8	0
Inventories & Stocks – Street Pride	All	07.09.12	Significant *	5	11	0
Payroll	All	12.07.12	Significant *	27	10	4
Recruitment & Selection	All	13.07.12	Significant	7	8	1
Smarter Workplaces	All	11.09.12	Significant	1	15	0
Strategic Fundraising	All	03.07.12	Significant	3	3	0
Think Walsall	All	16.08.12	Significant	2	5	0
Travel & Subsistence	All	07.09.12	Significant	7	5	0
Workforce Management	All	12.07.12	Significant	7	2	1
Acquisition & Disposal of IT Assets	All	02.07.12	Full	0	0	0
SX3 (Benefits)	All	02.07.12	Significant	0	3	0
IT Strategy & Governance	All	13.06.12	Significant	0	4	0
Mayrise	All	02.07.12	Significant	0	5	0
Oracle Financials	All	02.07.12	Significant	2	0	1
Physical & Environmental Security	All	02.07.12	Significant	3	2	0
Virtualisation	All	02.07.12	Significant	3	4	1
Alumwell / Pleck Children's Centre	Children's	10.08.12	Significant *	18	5	0
Children & Young People's Plan	Children's	18.07.12	Significant	1	1	2
Children's Partnership	Children's	24.05.12	Significant	2	6	0
Eldon	Children's	05.07.12	Significant	12	12	0
Out of Borough Placements	Children's	03.08.12	Significant *	6	6	0

Auditable Area	Directorate	Date of Report	Level of Assurance	Findings		
				High	Medium	Low
Barcroft JMI	Children's	31.07.12	Significant	6	11	2
Beacon JMI	Children's	01.06.12	Significant	2	10	0
Elmore Green JMI	Children's	07.06.12	Significant	9	12	0
Greenfield JMI	Children's	31.07.12	Significant	7	15	3
Holy Trinity Infants	Children's	31.05.12	Significant	11	10	2
Leamore JMI	Children's	12.07.12	Significant	4	6	2
Manor JMI	Children's	28.05.12	Significant	1	5	1
Millfield JMI	Children's	17.08.12	Limited	21	17	2
New Invention Infants	Children's	12.07.12	Significant	5	7	1
St Giles JMI	Children's	13.09.12	Significant *	11	10	2
St James JMI	Children's	31.05.12	Significant	7	6	2
St Patricks JMI	Children's	16.05.12	Significant	9	6	4
Area Partnerships	Neighbourhood	21.08.12	Significant	4	6	0
Bereavement Services	Neighbourhood	15.08.12	Significant	4	9	1
Catering Establishment	Neighbourhood	26.04.12	Significant	22	19	0
Environmental Health	Neighbourhood	27.09.12	Significant	10	23	1
Leisure Centres	Neighbourhood	16.05.12	Significant	13	9	1
Licensing Enforcement	Neighbourhood	24.09.12	Significant	5	3	0
Recycling	Neighbourhood	19.07.12	Significant	4	6	0
Resilience	Neighbourhood	31.08.12	Significant	3	4	0
Safer Communities	Neighbourhood	31.08.12	Significant	9	5	3
Sports & Leisure Development	Neighbourhood	13.07.12	Significant	13	15	4
Waste Management – Landfill & Disposal Sites	Neighbourhood	02.08.12	Significant	1	1	0
Asset Management	Regeneration	20.08.12	Significant	4	12	1
Carbon Reduction Commitment Energy Efficiency Scheme	Regeneration	14.08.12	Significant	7	5	0
Regeneration – Delivery & Development	Regeneration	16.08.12	Significant	3	12	2
Strategic Regeneration	Regeneration	16.08.12	Significant	4	2	1

Auditable Area	Directorate	Date of Report	Level of Assurance	Findings		
				High	Medium	Low
Transport Strategy	Regeneration	02.08.12	Significant	3	2	0
Bank Account Reconciliations	Resources	12.07.12	Significant	0	2	0
Housing & Council Tax Benefits	Resources	19.07.12	Significant	8	7	2
Capital Accounting	Resources	16.08.12	Significant	1	4	0
Cash & Bank (Banking Hall & Income Management System)	Resources	19.04.12	Significant	1	9	1
Council Tax / NNDR	Resources	16.08.12	Significant	4	15	0
Equalities	Resources	18.07.12	Significant	4	8	0
Insurance	Resources	16.08.12	Significant	0	4	0
Marketing / Communications	Resources	14.06.12	Significant	5	4	1
Nominal Ledger & Central Accounting	Resources	13.06.12	Significant	4	7	2
Pay & Grading	Resources	31.08.12	Limited	38	13	1
Treasury Management	Resources	12.06.12	Significant	1	2	2
Access, Assessment & Care Management	Social Care & Inclusion	22.05.12	Significant	13	14	5
Fallings Heath	Social Care & Inclusion	31.07.12	Significant *	17	9	3
Goscote Centre	Social Care & Inclusion	17.08.12	Significant	10	8	1
Hollybank House	Social Care & Inclusion	17.08.12	Significant	10	11	2

* 'borderline significant'