

AUDIT AND GOVERNANCE COMMITTEE

27 November 2009

INTERNAL AUDIT SERVICES – PROGRESS REPORT FOR 2009/2010

Report of the Director of Financial Resources

1. Purpose of Report

- 1.1 To consider the performance of Internal Audit Services (IAS) up to 9th October 2009, the areas of work undertaken, and the audit opinion regarding the adequacy of the overall system of internal control within the Authority.
- 1.2 The Internal Audit Operational Plan 2009/2010 was approved by the Audit and Governance Committee on 27th March 2009.

2. Description of Decision

- 2.1 The Audit and Governance Committee is asked to note Internal Audit Services' performance and consider the audit opinion of the adequacy of the overall system of internal control within the Authority at this stage in the financial year.

3. Planned and actual resource available

- 3.1 The 2009/2010 Operational Plan was based on having 2,906 productive audit days available for the full year. As at 9th October, it was expected that 1,565 productive audit days would have been utilised. The actual number of productive days utilised was 1,356. The reduced number of days is due to:
 - An Audit Manager being seconded to support a key corporate project.
 - A post of Trainee Auditor/Auditor being vacant.
 - A Senior Auditor being on long term sick leave.
- 3.2 A range of actions are being progressed to ensure the agreed audit plan is delivered including the use of suitably experienced agency workers.

4. Summary of Internal Audit Work Carried Out

- 4.1 Where IAS identify areas for improvement from audits or investigations, recommendations are made to minimise any exposure to risk. These are categorised as high, medium, significant or low risk.

4.2 As a result of the audits carried out in the year to date, a number of recommendations have been made to improve internal control within the areas subject to audit. The numbers of recommendations made to date in relation to the Council are shown below:

Categorisation of Risk	Definition	Number Made
High	A fundamental control weakness or non-compliance, which presents material risk to the audited body and requires immediate attention by senior management.	0
Significant	There is a control issue which could have a significant impact on the achievement of the aims and objectives of the organisation, or which presents a significant risk to the organisation's reputation. Prompt management action is required to remedy the situation.	0
Medium	There is a control weakness or non-compliance within the system, which presents a significant risk to the area or service being audited, and management attention is required to remedy the situation within a reasonable period.	472
Low	There is a minor control weakness or non-compliance within the system and proportional remedial action is required within an appropriate timescale.	155

4.3 In addition, observations are also made where there are opportunities for improvements to be made but there is no weakness in internal control.

4.4 In relation to the audits that have been finalised to date, all recommendations have been agreed by management.

4.5 Whilst a number of recommendations to improve internal control have been made, the work undertaken did not identify any matters material to the overall internal control environment of the Council.

4.6 The following key points are noted in relation to delivery of the agreed plan:

- IAS is on target to complete its work with regard to the effectiveness of internal control within the Council's Key Systems (both financial and non-financial), in accordance with agreed rolling programmes of audit work in these areas.

- The programme of work to conduct audits of schools, including the external assessment of compliance with the Financial Management Standard in Schools, is on target to be completed within the timescale set by the Department for Children, Schools and Families.
- In the Annual Report for 2008/2009, the position regarding business continuity / contingency planning (ICT) was reported as being satisfactory in three of four areas, with the unsatisfactory opinion being in relation to the recovery of key applications. The current position regarding the key applications is shown in the table below and whilst work is ongoing in relation to those areas that remain Amber it is now considered that the opinion for this area is satisfactory.

Planning level		Status March 2009	Status October 2009
Recovery plans in place which have been tested successfully.	Green	6	14
Documented recovery plan in place which has not been tested or has been tested, failed and corrective action has not yet been implemented, or Systems have previously been recovered following unavailability / failure but a formal testing plan has not yet been developed or tested.	Amber	16	10
No formal recovery plan in place and system has not been recovered previously or the arrangements in place do not meet the agreed recovery times.	Red	2	0
Total		24	24

- 4.7 The annual report for 2008/2009 also reported that one of the targets included within the Performance Reward Grant relating to the Local Public Service Agreement (LPSA2) could not be supported, at the time, by appropriate evidence. The value of the claim was therefore reduced by £742,435, pending evidence being submitted for this element of the claim. The data has now been submitted to Internal Audit and is currently being audited with no significant matters being identified thus far. A verbal update will be provided to the Committee.

- 4.8 Investigation reports have been issued in connection with allegations made by whistleblowers regarding the misuse of Council assets and false mileage claims being made by two staff. A further investigation report has been issued regarding allegations made in relation to the approval of planning applications and enforcement procedures. In both cases actions are being taken to address any issues identified.
- 4.9 IAS has also provided support and guidance to all Directorates and associated bodies during the year to date in relation to systems developments, identification of risks, improvements to financial procedures and general day-to-day advice on various issues.
- 4.10 Specific work aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss has been undertaken in the following areas:
- Follow up of the National Fraud Initiative (NFI) data matching exercise, managed by the Audit Commission.
 - Telephony usage.
 - Council Tax refunds.
 - Car mileage claims.

The results of the NFI work have recently identified three duplicate payments amounting to just over £25,500. Action has / is being taken in relation to these matters with £5,000 remaining outstanding. Officers have been reminded of the proper procedures to follow.

Further counter fraud work is ongoing, the results of which will be reported in the Annual Report at the end of the financial year.

- 4.11 IAS are also currently involved in the following:
- A small number of investigations are ongoing.
 - The arrangements for implementing the project ContactPoint which is the integrated database of information concerning children which will be accessed by staff from the Council and other accredited partners.
 - Providing advice on the procedures being developed for the Council to provide mortgages.

5 Key Performance Indicators (KPI's)

- 5.1 Internal Audit Services measures its performance in terms of Efficiency, Quality, Client Satisfaction and Continuous Improvement. Performance against these agreed key performance indicators is shown at Appendix 1.

5.2 All KPI's are on target with the following exceptions:

- The charge per man day currently stands at £279/day against a target of being lower than the average of the CIPFA comparator group, of £279/day. A review of the costs of the overall service is being undertaken to identify efficiency savings.
- The agreed audit plan for the year includes 122 named audits. A total of 44 draft reports have been issued in the year to date (36.1% against a plan profile of 48.4%). A further 2 unplanned audits have been undertaken in response to specific requests / circumstances. As mentioned above action is being taken to address this shortfall.
- The percentage of medium risk recommendations implemented currently stands at 79% (excluding schools) against a target of 90%. This is also lower than the performance reported at the end of 2008/2009 which was an implementation rate of 84% for medium risk recommendations. A summary of the performance by directorate for medium risk recommendations is shown in the table below:

Directorate / Department	<i>Implementation Rate March 2009</i>	<i>Implementation Rate October 2009</i>
Children's Services (non schools)	71%	68%
Development and Regeneration	84%	76%
Community and Cultural Services	93%	70%
Office of the Chief Executive*	92%	89%
Health, Housing & Adult Services	77%	87%
Total Council Implementation Rate Excluding Schools	84%	79%
Children's Services – Schools	89%	82%
Total Council Implementation Rate	86%	80%

* now includes Financial Resources and Chief Solicitors

The current position has been reported to the Executive Directors and the issue raised with the Chief Executive. It is therefore anticipated that improvements will be made before the end of the financial year.

5.3 During 2008/2009 the Audit Commission carried out a review of the effectiveness of IAS which concluded that *'We found that there continues to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code.'* One recommendation was made which has already been put in place.

6. Conclusions

- 6.1 This report provides assurance that the planned audit work is expected to be completed within the year.
- 6.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken to date within 2009/2010, it is considered that overall throughout the Council there continues to be a sound internal control environment.

Background Papers

Internal Audit Annual Operational Plan 2009/2010 - Audit and Governance Committee, 27th March 2009.

Appendix 1

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010

Cost & Efficiency			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provides Value for Money	1) Charge per Man Day 2) Percentage of planned audits completed (including agreed variations) 3) Average number of days between end of fieldwork to issue of draft report 4) Percentage of draft reports issued within 15 days of the end of fieldwork 5) Percentage of audits where the number of days between the start of the audit and the end of fieldwork is within a target of twice the budgeted number of days	1) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities) 2) 100% (profile to period 7 is 48.4%) 3) 10 working days or less 4) 85% 5) 75%	1) Cost equates to the average within the CIPFA Benchmarking club. 2) Below target - At period 7 – 36.1% 3) Exceeds target - 8.2 working days 4) Exceeds target - 97.8% 5) Exceeds target - 78.3%

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010

Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented	1) ISO9001:2000 Certification 2) Percentage of high, significant and medium risk recommendations made which are agreed 3) Percentage of agreed high, significant and medium risk recommendations which are implemented 4) Opinion of External Auditor	1) Retain certification 2) 100% 3) 100% for high and significant. 90% for medium risk 4) Satisfactory opinion	1) Achieved - Certification retained June 2009 2) On target - 100% 3) On target - 100% for significant risks Below target - 79% for medium risks 4) Achieved - Satisfactory Opinion
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) Exceeds target - Overall average score of 1.1 from 62 returns 2) Meets target - IPF survey of clients showed overall rating of 'Good' 3) 13 compliments received No complaints

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010

Continuous Improvement

Objectives	KPI's	Targets	Actual Performance
1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing	Improvement in actual performance in relation to previous years in the following areas: 1) Average number of days between end of fieldwork to issue of draft report 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of agreed high, significant and medium risk recommendations which are implemented	Improvement in actual performance from 2008/2009.	1) Exceeds target Performance 2008/2009 – 10.9 Performance in year – 8.2 2) Exceeds target Performance 2008/2009 – 82% Performance in year – 97.8% 3) Below target Performance 2008/2009 medium risk – 84% Performance to date 2009/2010 – 79%

