

AUDIT AND GOVERNANCE COMMITTEE

26 November 2010

INTERNAL AUDIT SERVICES – PROGRESS REPORT FOR 2010/2011

Report of the Head of Audit, Risk and Procurement

1. Purpose of Report

- 1.1 To consider the performance of Internal Audit up to 8th October 2010, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.
- 1.2 The Internal Audit Strategy and Operational Plan for 2010/2011 was approved by the Audit and Governance Committee on 26th March 2010. This set out the audit work planned for the year and the performance targets to be achieved.

2. Description of Decision

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

3. Key Performance Indicators

- 3.1 The Internal Audit service measures its performance in terms of Efficiency, Quality, Client Satisfaction and Continuous Improvement. Performance to date during the year is shown in Appendix 1.
- 3.2 All KPI's are on target with the following exceptions:
 - The audit cost per £m gross turnover of the Council currently stands at £998 against a target of being lower than the average of the CIPFA comparator group, of £941. Whilst costs have been reduced since last year (the measure being £1,071) it would seem that the comparator authorities have reduced their overall costs to a greater extent. A review of the cost of the overall service is being undertaken which will reduce costs further for 2011/2012.
 - The agreed audit plan for the year includes 102 audits. A total of 41 draft reports have been issued in the year to date (40.2% against an expected position of 48.4%). A further 2 unplanned audits have been undertaken, specifically in relation to providing grant certificates. The shortfall against

the expected position is mainly due to the scheduling of schools audits, as nearly two thirds are now planned for the last two quarters of the year. The schedule of audits planned for the remainder of the year indicates that one audit will not now be undertaken, i.e. Corporate Performance Management. The main purpose of this audit was to review the implementation of the new performance monitoring system which had been planned to be rolled out across all directorates during the current financial year. This is now to be undertaken as part of the implementation of the Business Transformation Programme, and therefore this audit will be deferred to align with the programme.

- The percentage of medium risk recommendations implemented currently stands at 85% (excluding schools) against a target of 90%. Reporting arrangements have been developed to now include a quarterly report to each Executive Director to provide them with an update in relation to Internal Audit work. This includes reporting the latest implementation rate for their directorate and an analysis of the results of each follow up undertaken. When the results of each follow up are reported to the Head of Service and Executive Director this now includes information about the effect that particular follow up has had on the overall implementation rate for the directorate. A summary of the performance by directorate for medium risk recommendations is shown in the table below:

Directorate / Body	Implementation Rate	Implementation Rate
	June 2010	Oct 2010
Children's Services (non schools)	73%	77%
City Services	95%	83%
Office of the Chief Executive	92%	94%
Health, Housing & Adult Services	81%	71%
Total Council Implementation Rate Excluding Schools	86%	85%
Children's Services – Schools	83%	83%
Total Council Implementation Rate	84%	84%

5. Summary of Internal Audit Work

- 5.1 The Internal Audit Strategy and Operational Plan that was presented to the Committee in March this year explained that the audit risk assessment process had been changed and that assurance was to be provided to members based on 18 key risk areas. The audits which were to contribute to the audit opinion on each of the key risk areas were identified. Appendix 2 shows the planned audits that have been completed to date and the key risk area which they relate to. The overall opinions given are based on the results

of audit work in the current and previous financial years. It can be seen from the appendix that the overall opinion for all key risk areas, where an opinion can be given, is either good or satisfactory.

5.2 As a result of the audits carried out in the year to date, a number of recommendations have been made to improve internal control. 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.	248
Low	There is a minor control weakness or non-compliance within the system and proportional remedial action is required within an appropriate timescale.	56

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

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

5.5 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.

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

- Audit work has been ongoing in relation to the Council's Business Transformation Programme, including planned audits in relation to the management of the programme and its projects and providing advice in

relation to changes that are being made to key systems and processes, for example the review of the Blue Badge Scheme.

- A number of grant claims have been reviewed to verify the expenditure claimed and the validity of reported outputs. No major issues were identified.
- *Schools*

The requirement to achieve the Financial Management Standard in Schools is mandatory for secondary, primary and special schools. Schools must receive an independent, external assessment to determine if the Standard has been met, and all schools in Sunderland chose Internal Audit Services to be their external assessors. Results of assessments and the current status of all schools is summarised in the table below:

Total Schools	Secondary	Primary	Special	Nursery *
	14	82	7	9
Number meeting the Standard	12	79	5	9
Number not meeting the Standard and require reassessment **	2	3	2	0

* There is no statutory requirement for Nursery Schools to meet the Standard. However, it is expected by Children's Services that Nurseries should also demonstrate compliance and they therefore receive the same assessment as other schools.

** Schools found not to be meeting the requirements of the Standard are given up to 12 months from the date of assessment to ensure that all of the required arrangements are fully in place. Internal audit will re-visit these schools within the 12 months.

- 5.7 A small number of investigations have been undertaken and action is being taken to address any issues identified. None of these investigations have an impact on the opinion on the overall system of internal control.
- 5.8 Internal Audit has also provided support and guidance to all Directorates and associated bodies during the year in relation to systems developments, identification of risks, improvements to financial procedures and general day-to-day advice on various issues.
- 5.9 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) 2008 data matching exercise, covering transactions relating to a wide variety of systems over a

three year period, managed by the Audit Commission. Overall, the NFI data matching exercise has resulted in the identification £96,711.18 of overpayments due to either fraud or error. Where overpayments have been made these are in the process of being, or have been, repaid. To date £80,764.78 has been recovered, the balance continues to be pursued.

- At the request of a head teacher the financial systems at one school were specifically reviewed, with no issues being identified.
- Monthly review and comparison of total expenditure incurred within the payroll and creditor systems to identify and review any significant variations.

No major issues were identified during this work.

Work is currently ongoing in relation to the following areas:

- Cash and bank imprests to ensure that they are managed appropriately, properly reconciled, subject to adequate security arrangements and are used for legitimate Council spending.
- Foreign payments.
- BACS transactions.
- Business rates and council tax refunds.
- Security of stocks of cheques.
- Gifts and hospitality.
- Write-offs.

The results of this work will be reported in the Annual Report at the end of the financial year.

6. Conclusions

- 6.1 This report provides information regarding progress against the planned audit work for the year and performance targets. Although it will not be possible to complete one of the planned audits within the year sufficient audit work will be completed to provide an opinion on the overall system of internal control.
- 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 2010/11, it is considered that overall throughout the Council there continues to be a sound system of internal control.

Background Papers

Internal Audit Strategy and Annual Operational Plan 2010/2011 - Audit and Governance Committee, 26th March 2010.

Appendix 1

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2010/2011

Cost & Efficiency			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provides Value for Money	1) Charge per Audit Day	1) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	1) Achieved – Sunderland Cost per man day £282 and average for comparator group £317 (based on draft report)
	2) Audit Cost per £m Gross Turnover of the Council	2) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	2) Not achieved – Sunderland audit cost per £m gross turnover £998 and average for comparator group £941
	3) Percentage of planned audits completed (including agreed variations)	3) 100% (profile to period 7 is 48.4%)	3) 40.2% (below target of 48.4%)
	4) Average number of days between end of fieldwork to issue of draft report	4) 10 working days or less	4) On target – 8.7 working days
	5) Percentage of draft reports issued within 15 days of the end of fieldwork	5) 85%	5) On target – 90.9%
	6) 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	6) 75%	6) On target – 82.2%

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2010/2011

Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) ISO9001:2000 Certification	1) Retain certification	1) Certification was retained in July 2010 although it has since been decided to withdraw from the scheme due to value gained.
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of high, significant and medium risk recommendations made which are agreed	2) 100%	2) On target - 100%
	3) Percentage of agreed high, significant and medium risk recommendations which are implemented	3) 100% for high and significant risk. 90% for medium risk.	3) Achieved - 100% for significant risks Below target – 85% for medium risks
	4) Opinion of External Auditor	4) Satisfactory opinion	4) Satisfactory
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	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) Achieved - Overall average score of 1.2 from 49 returns
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Achieved - IPF survey of clients showed overall rating of 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 11 compliments received

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2010/2011

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 2009/2010.	1) Achieved Performance 2008/2009 – 10.9 Performance 2009/2010 – 10.5 2010/2011 to date – 8.7 2) Achieved Performance 2008/2009 – 82% Performance 2009/2010 – 87.5% 2010/2011 to date 90.9% 3) Achieved Performance 2008/2009 – 84% Performance 2009/2010 – 84% 2010/2011 to date 85%

Audit Coverage – 2010/2011

Key Risk Area	Planned Audits	Conclusion (individual audit undertaken in 2010/2011)	Overall Opinion (current and previous 3 years work)
Corporate Governance	Annual Corporate Governance Review	Good	Good
Commissioning	Funding for 14-19 Year Olds External Placement of Children Responsive Local Services Community Development Service - Sunderland Compact Supporting People Service	Unsatisfactory	Insufficient coverage to date
Service / Business Planning	Responsive Local Services		Insufficient coverage to date
Partnerships	Children's Services - Partnership Arrangements Office of the Chief Executive - Partnership Arrangements Corporate Partnership Arrangements	Satisfactory	Satisfactory
Financial Management	Supporting People Grant Dedicated Schools Grant - Allocation of Funding Funding for 14-19 Year Olds External Placement of Children 39 Schools (Nursery, Primary and Special) City Services Job Costing 2 Leisure Centres Assessments for Personal Care Personal Budgets / Resource Allocation System Port Governance Arrangements Council Tax - Liability Business Rates - Liability Periodic Income - Billing BACS Arrangements Back on the Map Financial Management	Satisfactory Good Satisfactory Good Satisfactory	Satisfactory

Key Risk Area	Planned Audits	Conclusion (individual audit undertaken in 2010/2011)	Overall Opinion (current and previous 3 years work)
Risk Management	Corporate Risk Management Framework Vulnerable Adults Protection Arrangements Port Governance Arrangements Office of the Chief Executive - Risk Management Arrangements 39 Schools (Nursery, Primary and Special)	Good	Satisfactory
Programme and Project Management	Improvement Programme - Programme Management Project Management - Strategic and Shared Services Project Management - Commissioning and Service Review Project Management - Customer Services Project Management - ICT Project Management - Procurement and Third Party Spend Project Management - Organisational Development Improvement Programme - Benefits Realisation Project Management - Smarter Working Accounts Payable - Processing and Payment	Good Good Good Good Good Satisfactory	Good
Local Taxation	Council Tax - Liability Business Rates - Liability	Good Satisfactory	Good
Procurement and Contract Management	BSF Contract Management - ICT Contract Corporate Procurement Strategy Supplier Relationship Management System - User Access Buy Sunderland First	Satisfactory	Satisfactory
Human Resource Management	39 Schools (Nursery, Primary and Special)	Satisfactory	Satisfactory
Asset Management	Property Asset Database		Satisfactory
ICT Strategy and Delivery	ICT Strategy HR Management / Financial Management System Consolidation		Insufficient coverage to date

Key Risk Area	Planned Audits	Conclusion (individual audit undertaken in 2010/2011)	Overall Opinion (current and previous 3 years work)
Fraud and Corruption	Counter Fraud Testing Building and Development Control 39 Schools (Nursery, Primary and Special) 2 Leisure Centres	Satisfactory Good	Satisfactory
Information Governance	Performance Regarding Under 18 Conception Rates Contact Point 39 Schools (Nursery, Primary and Special) Customer Contact Centre Assessments for Personal Care Information Sharing / NHS Partnership Vulnerable Adults Protection Arrangements Compliance with the Data Handling Guidelines	Satisfactory Good	Satisfactory
Business Continuity and Emergency Planning	Corporate Business Continuity Management Winter Maintenance	Unsatisfactory	Satisfactory
Performance Management	Performance Regarding Under 18 Conception Rates Community Development Service - Sunderland Compact Port Governance Arrangements Sustainability / Carbon Management	Unsatisfactory	Satisfactory
Payroll	Payroll Processing and Payment 39 Schools (Nursery, Primary and Special)	Good	Satisfactory
Housing Benefits	No audits planned	N/A	Satisfactory

