

INTERNAL AUDIT SERVICES – PROGRESS REPORT FOR 2008/2009

Report of the City Treasurer

1. Purpose of Report

- 1.1 To consider the performance of Internal Audit Services (IAS) up to 5th September 2008, the areas of work undertaken, and information on current developments in IAS.
- 1.2 The Internal Audit Strategy and Operational Plan 2008/2009 was approved by the Audit and Governance Committee on 20th March 2008.

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 effectiveness of the system of internal control within the Authority.

3. Planned and actual resource available

- 3.1 The 2008/2009 Operational Plan was based upon the planned staffing resources available to IAS at the time, equating to 17.6 full time equivalent members of staff, with qualifications as follows:

Qualified Accountants:	5
Institute of Internal Auditors - Professional Level:	6
Institute of Internal Auditors - Practitioner Level:	1
Association of Accounting Technicians:	5
Qualification in Computer Audit:	2

Please note that some staff hold more than one of the above qualifications.

- 3.2 The planned and actual use of the resource is summarised below:

Table 1: Productive Days Available

	Planned Days 2008/ 2009	%	Actual Days up to 5.9.08	%	Difference
Gross Days	4,576.0	100%	1875.5	100%	
Less Uncontrollable Overheads (e.g. annual leave, bank holidays)	705.0	15.4%	312.7	16.7%	+1.3%
Productive Days Available	3,871.0	84.6%	1,562.8	83.3%	-1.3%

It can be seen from the above that the level of uncontrollable overheads is slightly ahead of the straight-line profile. This is due to the peak holiday period falling within the period covered by the report.

Table 2: Utilisation of Productive Days Available

	Days 2008/ 2009	%	Actual Days up to 5.9.08	%	Difference
Productive Days Available	3,871.0	100%	1,562.8	100%	
Less Controllable Overheads (e.g. risk assessments, planning, management, service development and training)	865.0	22.3%	354.8	22.7%	+0.4%
Chargeable Days	3006.0	77.7%	1,208.0	77.3%	-0.4%

It can be seen from the above that the level of controllable overheads is broadly in line with the straight-line profile.

4 Key Performance Indicators

- 4.1 Internal Audit Services measures its performance in terms of Efficiency, Quality, Client Satisfaction and Continuous Improvement. Performance against these key performance indicators is shown in the table below.

Objectives, Key Performance Indicators (KPIs) and Targets for 2008/2009

Cost & Efficiency

Objectives	KPI's	Targets	Progress To Date
To ensure the service provides Value for Money	1) Charge per Man Day	Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitaries)	Achieved – Sunderland cost per man day £274 and average for comparator group £299
	2) Audit cost per £m Gross Turnover of the Council	Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitaries)	Achieved - Sunderland cost per £m gross turnover £1,090 and average for comparator group £1,111.
	3) Percentage of planned audits completed	100% (Target to date 30%)	32.5% (7 unplanned audits also completed)
	4) Average number of days between end of fieldwork to issue of draft report	15 working days	9.9 working days

Quality

Objectives	KPI's	Targets	Progress To Date
To maintain an effective system of Quality Assurance	ISO9001:2000 Certification	Retain certification	Retained – valid until 2009 – last inspection undertaken on 11 th September 2008
To ensure recommendations made by the service are agreed and implemented	Percentage of significant recommendations (high and medium risk) made which are agreed	100%	100% (total number made to date = 136)
	Percentage of agreed significant recommendations (high and medium) which are implemented	100% (for high risk) 90% (for medium risk)	No high risk recommendations made 83%
	Opinion of External Auditor	Satisfactory opinion	Achieved - DA review of IAS effectiveness concluded: <i>“IAS is meeting its professional and statutory duties. Processes in place are driven by an effective, and ISO accredited, Quality System”.</i>

Objectives, Key Performance Indicators (KPIs) and Targets for 2008/2009

Client Satisfaction

Objectives	KPI's	Targets	Progress To Date
To ensure that clients are satisfied with the service and consider it to be good quality.	Opinion of External Auditor	Satisfactory opinion	Achieved (see above)
	Results of Post Audit Questionnaires	Average score of above satisfactory (Score of 2)	Average score 1.2 based on 12 month rolling average (1 = good and 4 = poor)
	Results of other Questionnaires	Satisfactory results	None issued
	Number of Complaints / Compliments	No target – actual numbers will be reported	0 complaints 6 compliments received

Continuous Improvement

Objectives	KPI's	Targets	Progress To Date
To ensure that the service develops in line with modern thinking and practice on Internal Auditing	Opinion of External Auditor	Satisfactory opinion	Achieved (see above)

4.2 The following specific matters relating to the above targets are worthy of comment:

- The agreed audit plan for the year includes 120 named audits. A total of 39 draft reports have been issued in the year to date (32.5% against a plan profile of 30%).
- A further 7 audits have been undertaken in response to specific requests / circumstances.
- In order to track the Council's performance in relation to the implementation of audit recommendations, the results of follow up work relating to a pre-determined number of follow ups in each Directorate is tracked. Work has been ongoing with Directorates in order to improve in this area. The percentage implementation rate currently stands at 85% for the Council and 75% for Schools against a target of 90%.

5. Summary of Internal Audit Work Carried Out

5.1 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 or low risk.

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 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
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.	136
Low	There is a minor control weakness or non-compliance within the system and proportional remedial action is required within an appropriate timescale.	255

- 5.3 In addition, observations are also made where there are opportunities for improvements to be made but there is no weakness in control.
- 5.4 In relation to the 28 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:
- IAS are 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 new Financial Management Standard in Schools, is well underway.
 - Following the unsatisfactory opinion being reported to the Audit and Governance Committee in May 2008 in respect of ICT Disaster Recovery arrangements, Internal Audit Services are working closely with the Corporate Head of ICT to ensure improvements are initiated within the current financial year in order to ensure adequate coverage is afforded in this area in future. Some progress has already been made in relation to the drafting of agreed protocols and practices.
- 5.7 IAS has also provided significant 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, including the following:
- Controls being put in place to implement the Empowering Young People Pilot project.
 - Financial Regulations for the newly established Beamish Museum Ltd.
 - Anti-Fraud and Corruption Policy for the Tyne and Wear Development Company.
 - The new Housing Financial Assistance Policy and Procedures.

5.8 IAS are also currently involved in the following:

- IAS carry out investigation work in response to concerns raised by internal audit, by management or by third parties. A small number of investigations are ongoing with no investigation reports being issued in the year to date;
- Arrangements for the South Tyne and Wear Waste Management Partnership;
- Implementation of the Supplier Relationship Management system;
- A review of the arrangements in place to monitor the construction phase of the Building Schools for the Future programme;
- The new arrangements in place for the Connexions Sub Regional Hub and the Sunderland Service delivery team.

6. Developments within Internal Audit Services

6.1 IAS has continued to make good progress in implementing its new audit automation software.

6.2 During 2007/2008 District Audit carried out a review of the effectiveness of IAS which concluded that *"IAS is meeting its professional and statutory duties. Processes in place are driven by an effective, ISO accredited Quality System"*. Recommendations for further development were received and agreed in August 2008 in relation to four areas, and these are detailed below together with an update on progress made in each case.

Recommendation	Progress
The Assistant City Treasurer (Audit and Procurement) should evidence his review of the audit plan to justify that resources allocated to various audits are appropriate.	This will be implemented for the production of the 2009/2010 Plan.
The Assistant City Treasurer (Audit and Procurement) should clarify the standards of system documentation and record this in the Quality Procedures Manual.	This will be included within the next update of the Quality Procedures Manual planned for December 2008.
The Assistant City Treasurer (Audit and Procurement) should ensure that observations and recommendations are consistently reported.	A workshop with all staff has been arranged for 6th November 2008. The guidance within the Quality Procedures Manual is also planned to be updated for December 2008.
The Assistant City Treasurer (Audit and Procurement) should ensure plans in place to improve audit budget management are implemented.	This includes a range of measures that have already been introduced and will be bedding in within 2008/2009.

7. Conclusions

- 7.1 This report provides details of the performance of IAS to the Committee and seeks to give reassurance that the service is being delivered in line with the agreed plan, meets statutory responsibilities and is continually seeking to improve the standards of its service.
- 7.2 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 2008/2009, it is considered that overall throughout the Council there continues to be a sound internal control environment.

Background Papers

Internal Audit Strategy and Operational Plan 2008/2009 - Audit and Governance Committee, 20th March 2008.