HEADING	**INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2013/14**
Submitted by:	Audit Manager
Portfolio	Finance and Resources
Ward(s) affected	All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 October to 31 December 2013. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.

Reasons

The role of Internal Audit is key to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

1.0 Background

1.1 The Internal Audit Plan for 2013/14 allows for 530 days of audit work.

1.2 This is the third progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;
- Actual against planned performance for the third quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits are completed in each quarter. Past experience has shown this is more likely to be around 40% by the end of the third quarter. Achievement of this 40% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 75% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations/projects. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2   Issues

2.1 **Performance Indicators**

The indicators reported below relate to the end of the third quarter (December 2013).

2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of December 2013, 318 recommendations had been made of which 277 have been implemented, 87%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 87% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

2.3 **Percentage of clients who are satisfied or very satisfied with the service provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2013/14 is 85%.

Out of 6 surveys issued during quarter three, 4 satisfaction surveys were returned; the average for this was 90%.   There has been a slight improvement in the return of satisfaction surveys since the last quarter and following the recommendation from this committee the following wording is now included in the email when the surveys are sent out;

'Please find attached a copy of our Satisfaction Survey which I would be grateful if you could complete and return to me within 10 working days. Your views are important to us and we use these surveys to review Internal Audit and ensure that we continue to provide an efficient and effective service. They also help us to make any improvements where necessary. The Audit & Risk Committee have recently expressed concerns over the lack of surveys that are completed and returned to us therefore I would appreciate if you could spare just 5 minutes to complete and return this too us.'

Progress made against the plan.

This is measured using three indicators;

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non productive time covers aspects such as administration, training and leave. The target for productive time is 74%

  Productivity at the end of quarter 3 is 78%.

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- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 48% of the planned audits had been completed by the end of quarter 3.

- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 55 % of the operational audit plan had also been completed against an expectation of 40%.

2.4 **Audit reviews completed and final reports issued between 1 October and 31 December 2013**

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Well Controlled	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm)
Adequately controlled	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Less than adequately controlled	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Poorly controlled	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1 October 2013. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Resources and Support Services		
Creditors Key Controls	Well Controlled	A
Bank Account Reconciliation	Well Controlled	B
Medium Term Financial Strategy	Well Controlled	B
Operational Services		
Fleet Management	Less than Adequately Controlled	B
Depot Health & Safety	Adequately controlled	B
Regeneration & Development		
Building Control	Adequately Controlled	B
Housing Grants	Well Controlled	B
Corporate Reviews		
Gifts & Hospitality & Register of Outside Interests	Well Controlled	A
Partnerships	Poorly Controlled	A

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Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.6 Consultancy and non audit projects

During quarter 3 the Audit Manager and members of the audit team have spent 37 days undertaking reviews and special projects at the request of other Directorates.

3 Options Considered

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4 Proposal

4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

5 Reasons for Preferred Solution

5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

6 Outcomes Linked to Corporate Priorities

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7 Legal and Statutory Implications

7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8   Equality Impact Assessment

8.1 There are no differential equality impact issues identified from this proposal.

9   Financial and Resource Implications

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

10 Major Risks

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

11 Key Decision Information

11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

12.1 Agreement of the Internal Audit Plan for 2013/14 (Audit and Risk Committee 18 February 2013).

13 Recommendations

13.1 That Members consider any issues that they may wish to raise with Cabinet and, or Chief Officers.

14 List of Appendices

14.1 Internal Audit Plan 2013/14: Progress to the end of Quarter 3 – 2013/14.

15 Background Papers

15.1 Internal Audit Plan & PI's Folder
15.2 APACE files 2013/14

Appendix A

Internal Audit Plan 2013/14

Progress to the end of Quarter 3 – 2013/14

Resources and Support Services Directorate

Areas completed in Quarter 3 of the 2013/14 Audit Plan

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Creditors Key Controls	A	Well Controlled	0	0	0	0
Bank Account Reconciliation	B	Well Controlled	0	0	0	0
Medium Term Financial Strategy	B	Well Controlled	0	0	0	0

The main issues arising from the above audits can be summarised as follows;

Creditors – Key Controls, the main objectives for this review are to ensure that;
16 all orders for goods and services are in accordance with Standing Orders and Financial Regulations;
17 the receipt of goods and services is in accordance with Standing Orders and Financial Regulations;
18 all payments for goods and services are in accordance with Standing Orders and Financial Regulations;
19 there is documentation to support all payments made via the Creditors system.

Overall for the sample selected no problems were identified and all controls were found to be in operation and therefore no recommendations were made.

Bank Account Reconciliation, the main objectives for this review are to ensure that;
• controls in respect of the bank account reconciliation were in place and operating correctly

This review looked at the bank reconciliation process in terms of Agresso before the transfer over to the new Civica system the review examined three month's reconciliations and no issues were identified. A further review will be completed before the end of the financial year to examine the reconciliation processes within Civica.

Medium Term Financial Strategy, the main objectives for this review are to ensure that;
• the Council has an up-to-date Medium Term Financial Strategy
• budgets are set and managed in accordance with the Medium Term Financial Strategy
• there are regular reporting lines to members concerning the Council's current financial position.
• there all relevant staff & members receive the appropriate financial training.

Overall this area was found to be functioning well and no issues were identified.

Operational Services

Areas completed in Quarter 3 of the 2013/14 Audit Plan

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Fleet Management	B	Less than Adequately controlled	1	9	3	13
Depot Health & Safety	B	Adequately Controlled	1	2	0	3

The main issues arising from the above audits can be summarised as follows;

Fleet Management- the main objectives for both these reviews were to ensure that;
- To ensure that a Vehicle Management Policy is in place and that procedures are clearly defined with regard to management processes.
- To verify that the authority is receiving the quantities of fuel charged for and that the rates imposed correspond to the agreement at the date of delivery.
- To check that fuel issued to outside bodies and internal Services is recharged in full. That fuel reports are adequately monitored and acted upon where discrepancies are evident.
- To ensure that controls are in force to safeguard the Authority's assets.
- To ensure that vehicles are maintained in accordance with safety and service requirements.
- To ensure that vehicles are maintained in line with their individual warranty or lease conditions.
- To ensure that defect sheets are completed for all vehicles on a daily basis and relevant action taken where applicable. That vehicles are checked for road worthiness before being returned to operations.
- To ensure that a job ticket is completed by the mechanic completing the repair. To ensure that all job tickets are checked and approved by a relevant Officer.
- To ensure that accidents and damage are reported and claimed via insurers where necessary.
- To review the risk register relevant to the service area and ensure that all significant risks have been identified and documented and are subject to regular review.

As a result of the review a number of recommendations were made which included;
- A review of the vehicle management policy,
- Updating procedure notes to reflect key processes,
- Reviewing the fleet database to ensure that it is up to date,
- Looking at ways in which fuel usage can be monitored more effectively,
- Ensuring that vehicle defects are reported promptly and recorded correctly,
- Review the training requirements for all staff driving council vehicles,
- Ensure risk assessments are updated and that all,
- Accidents are logged and recorded on Target 100, the Councils Health & Safety system.

Depot Health & Safety - the main objectives for this review are to ensure that;

- roles and responsibilities with regards to the security/management of the Depot have been clearly defined;
- appropriate agreements are in place with tenants/outside bodies using the Depot;
- adequate security measures are in place at the Depot;
- health and safety/maintenance issues are reviewed on a regular basis and any issues identified are acted upon;
- all necessary issues have been communicated to the relevant personnel.

Following this review a number of recommendations were made which included;
- An agreement should be put in place with Security Services Ltd. in respect of services provided at the Depot. This was recommended during the last audit and is still outstanding,
- All outstanding risk reviews with regards to the Depot should take place as soon as possible, and
- All overdue risk assessments should be completed and reviewed on an annual basis.

Regeneration & Development Services

Areas completed in Quarter 3 of the 2013/14 Audit Plan

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	**Medium**	**Low**	
Building Control	B	Adequately controlled	0	1	2	3
Housing Grants	B	Well Controlled	0	0	2	2

The main issues arising from the above audits can be summarised as follows;

Building Control- the main objectives for this review was to ensure that;

- To ensure that a formal partnership agreement is in place clearly detailing roles and responsibilities, objectives and quality standards, and is regularly updated.
- To ensure that formal monitoring arrangements are in place for the partnership.
- To ensure that risks associated with the partnership have been identified and are managed accordingly.
- To ensure that the service is adequately promoted and meets the needs of stakeholders

As a result of this review the following recommendations were made;

- A new partnership agreement should be entered into in accordance with the scheduled timetable for completion by June 2014,
- The Business plan for the partnership should be reviewed annually as per the partnership agreement and
- The Building Control Partnership operational risk profile in GRACE should be reviewed as per the scheduled review dates.

Housing Grants- the main objectives for this review was to ensure that;

- The organisation has clearly defined policies available to all applicants, agents and contractors, as appropriate ;
- All grant claims are supported by a signed claim form and appropriate documentation;
- All approved grant claims are certified by an authorised Manager;
- The extent of works required is clearly documented and subject to inspection throughout;
- Adequate records in respect of grant allocations should be maintained.

From the audit review the following recommendations were made;

- The Emergency Repair Grant application form should be updated to include a clause in the declaration warning of penalties or prosecution in the event of an applicant knowingly supplying false information, and
- The HIA should be asked to stamp all supporting documentation, certifying that they have seen the original documentation.

Corporate Reviews

These are audit reviews that cut across all Service Areas, as such Audit Briefs go out to all Executive Directors, Corporate and Service Managers and reporting is done on an individual service level in order to retain confidentiality of the issues identified.

Areas completed in Quarter 3 of the 2013/14 Audit Plan

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Gifts & Hospitality & Register of Outside Interests	A	Well Controlled	0	0	0	0
Partnerships	A	Poorly Controlled	1	4	0	5

The main issues arising from the above audits can be summarised as follows;

Gifts & Hospitality and Register of Outside Interests - This review is completed annually and looks to ensure that staff are reminded of their obligations in respect of the receipt of

gifts and hospitality and registering of any outside interests as set out in the Employee Code of Conduct. No issues or concerns were identified with this review.

Partnerships - the main objectives of this review was to ensure that;

- there is a clearly defined corporate framework for partnership working;
- a register of all partnerships entered into has been maintained in accordance with Financial Regulations;
- risk assessments and pre-partnership questionnaires have been completed to enable all controls to be evaluated;
- each partnership has a nominated officer in accordance with the Scheme of Delegation;
- a legal agreement has been entered into for each partnership and has been evaluated by the Head of Legal Services;
- all partnership agreements and arrangements do not impact adversely upon the services provided for by the Council;

As a result of the audit a number of recommendations were made which included;

- All staff should be reminded of the need, as per Financial Regulations, that all partnerships should be recorded in the Council's Partnerships Register,
- The Partnerships Register should be held and monitored centrally by the Business Improvement and Partnerships team,
- The Partnership Code of Practice should be replaced by a concise document detailing the key requirements of a partnership.

Note on recommendations

Recommendations fall into one of three categories;

High (H):	*action that is considered imperative to ensure that the authority is not exposed to high risks;*
Medium (M):	*action that is considered necessary to avoid exposure to significant risks;*
Low (L):	*action that is considered desirable and which should result in enhanced control or better value for money.*