

INTERNAL AUDIT PROGRESS REPORT – QUARTER 2 2011/12

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 July to 30 September 2011. 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.

Recommendation

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. Background

1.1 The Internal Audit Plan for 2011/12 allows for 491 days of audit work.

1.2 This is the second 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 first 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 50% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 25% in the second quarter. Achievement of the 25% is dependent on a full complement of staff from 1 April, fully qualified and trained to complete work with minimum supervision. A full 50% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. 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 second quarter (September 2011).

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 September 2011 557 recommendations had been made of which 412 have been implemented, 74%, the target is 96% by the year end. Due to a low percentage of recommendations having been implemented during the second quarter, the Audit Team will be undertaking a series of follow up reviews with managers to ascertain reasons why recommendations have not been implemented.

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 2010/11 is 86%.

Seven satisfaction surveys were returned during the second quarter, the average for these was 85%.

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 2 is 78%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 30% of the planned audits had been completed by the end of quarter 2.
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 29% of the operational audit plan had also been completed against an expectation of 25%.

2.4 **Audit reviews completed and final reports issued between 1 July and 30 September 2011**

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 July 2011. The attached appendix provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Resources & Support Services		
Bank Account & Reconciliation Arrangements	Well controlled	B
Creditors – Key controls	Well controlled	A
Grants, Concessions & External Funding	Adequately Controlled	B
Operational Services		
Recycling & Waste Services	Adequately Controlled	B
Regeneration and Development		
Section 106	Less than Adequately controlled	B
Kidsgrove Ski Centre	Well Controlled	A
Newcastle and Stoke-on-Trent Employment Land Review	Well Controlled	A
Corporate Reviews		
Gifts Hospitality & Private Works	Adequately controlled	A
Performance Management	Adequately controlled	A
Information Assurance**	No opinion	A

** this was work undertaken in relation to Information Security Briefings that were mandatory sessions presented to staff

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.

2.5 **Consultancy and non audit projects**

During quarter 2 the Audit Team has spent a total of 50 days undertaking a number of 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 Sustainable Community Strategy and 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 2010 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**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Agreement of the Internal Audit Plan for 2011/12 (Audit and Risk Committee 31 January 2011).

13. **List of Appendices**

Internal Audit Plan 2011/12: Progress to the end of Quarter 2 – 2011/12.

14. **Background Papers**

Internal Audit Plan & PI's File (GA004/11).
APACE files 2011/12