

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 2 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 July to 30 September 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 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 25% of the audits are completed in each quarter. Past experience has shown this is more likely to be around 25% by the end of the second quarter. Achievement of this 25% is dependent on a full complement of staff from 1st 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/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.

- **Issues**

2.1 Performance Indicators

The indicators reported below relate to the end of the second quarter (September 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 September 2013, 273 recommendations had been made of which 248 have been implemented, 91%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 91% 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 ten surveys issued during quarter two, just two satisfaction surveys were returned; the average for this was 93%. The issue with regards to the return of satisfaction surveys has been under review and various options are being reviewed and considered to help improve this process.

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 84%.

- **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%. 33 % 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 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 July 2013. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Print Room	Adequately Controlled	B
Resources and Support Services		
Human Resources – Attendance Management	Less than Adequately Controlled	A
National Fraud Initiative	Adequately Controlled	A
Operational Services		
Jubilee 2	Adequately Controlled	B
Kidsgrove Sports Centre	Adequately Controlled	B
Allotments	Well Controlled	B
Waste Management Services	Adequately Controlled	B
Park Attendants	Adequately Controlled	A
Corporate Reviews		
Performance Management	Well Controlled	A
Mileage Travel & Subsistence	Adequately Controlled	B

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 2 the Audit Manager and members of the audit team have spent 17 days undertaking reviews and special projects at the request of other Directorates.

- **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.

- **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.

- **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.

- **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.

- **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'.

- **Equality Impact Assessment**

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

- **Financial and Resource Implications**

Classification: NULBC UNCLASSIFIED

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.

- **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.

- **Key Decision Information**

11.1 Not applicable

- **Earlier Cabinet/Committee Resolutions**

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

- **Recommendations**

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

- **List of Appendices**

14.1 Internal Audit Plan 2013/14: Progress to the end of Quarter 2 – 2013/14.

- **Background Papers**

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2013/14