

Subject: Audit & Business Risk Progress Report
Date of Meeting: 15th December 2009
Report of: Director of Finance & Resources
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Wards Affected: All

FOR GENERAL RELEASE

1. Summary and Policy Context

- 1.1 This report summarises the internal audit work of Audit & Business Risk from April to November 2009. The purpose is for the Audit Committee to consider the activities and progress against the Annual Internal Audit Plan for 2009/10.

2. Recommendation

- 2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2009/10.

3. Background Information

- 3.1 The Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006), require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.
- 3.2 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The internal audit work carried out by Audit & Business Risk is a key source of assurance that the internal control environment is operating effectively.
- 3.3 The audits contained in the Internal Audit Plan 2009/10 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

3.4 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports that include agreed actions to audit recommendations made, are issued to the responsible Director.

4. Amendments to Annual Internal Audit Plan 2009/10

4.1 The Annual Internal Audit Plan is subject to constant review throughout the year as the risk profile of the City Council changes. Amendments are discussed and agreed with senior management to ensure that audit reviews undertaken continue to represent a high focus on significant risk areas and the best use of our resources.

4.2 Amendments are made where for example risks change, audit review considered no longer to add value or requested by senior management.

Table 1 – Additions/Deletions to Annual Internal Audit Plan 2009/10

Addition/Deletion	Audit Review	Reason
Deletion	Customer Access Project	Risk reduced
Deletion	Flexible Working/Workstyles	Now part of VFM Phase 2 Programme
Deletion	Use of local spreadsheets and databases	Risk reduced
Deletion	ContactPoint (IT)	Merged with general audit review
Deletion	Libraries Stock Management	Merged with IT audit
Addition	Residents Parking Permits	Risk increased from fraudulent use
Addition	Procurement Cards	New initiative and associated risk
Addition	Mayor's Charity	Requested
Addition	The Lanes and London Road Car Parks Redevelopment	Requested

5. Progress against the Internal Audit Plan 2009/10

5.1 The progress against the amended Internal Audit Plan for 2009/10 for audit reviews is summarised in Table 2 below.

Table 2: Summary of progress against Internal Audit Plan 2009/10

Audit Stage	Explanation	No.	%
Not Started	Planned but not started	41	40
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	30	29
Draft Report	Draft audit report issued and being agreed with client	13	13
Final Report	Final agreed audit issued and audit complete	18	18
		102	100

5.2 There has been an impact on the achievement of the Annual Internal Audit Plan so far this year due to staff vacancies within the team that consists of twelve members of staff. We have recently been successful in recruiting an Audit Manager who is now in post and two Internal Auditors who will be commencing at the beginning of January 2010.

5.3 We have been unable to backfill the vacancies so far by recruiting temporary staff due to the lack of availability of auditors with the necessary skills and experience. We are therefore outsourcing a number of audit reviews to Deloitte and Touche through a framework contract. This will in particular ensure that the high risk audits and those required under 'Managed Audit' arrangements with the Audit Commission will be completed in the necessary timeframes.

5.4 We had a higher than normal level of residual work from 2009/10 at the beginning of the year due partly to vacancies but also delayed fundamental systems work.

5.5 The level of advisory work has been significantly higher than planned and more so than previous years. We are regularly asked by senior management for proactive advice on systems and governance issues and asked to investigate specific concerns. In excess of one hundred days has been spent during the year so far on Equal Pay and Future Pay due to the criticality to the council and our work has been considered to be vital to the project.

5.6 The achievement of the Annual Internal Audit Plan is considered to be low at only 18% but we are currently projecting an achievement of 91% for the year due to filling of vacancies and backfilling through the use of Deloitte and Touche.

6. Final Audit Reports Issued

6.1 Since the progress report to the Audit Committee for the period April to September, we have completed fourteen audit reviews to final report stage. Audit reports are issued as final where their contents have been agreed with client management, in particular management actions with responsibility and timescale. The audit is then effectively closed except for the scheduled implementation review of agreed actions.

6.2 The fourteen final audit reports issued are shown in Table 3 below which includes the assurance levels given and number of agreed actions under assigned priority level.

Table 3: Final Reports Issued

Audit	Report Status	Assurance Level	Agreed Actions and Priority		
			High	Medium	Low
Concessionary Fares Scheme	Final	Substantial	0	2	1
Customer Satisfaction	Final	Reasonable	0	4	0
Cash Handling	Final	Limited	1	7	0
Delayed Discharges	Final	Reasonable	0	2	0
Golf Courses	Final	Substantial	0	4	0
Gas Servicing	Final	Reasonable	0	12	1
Client Billing	Final	Reasonable	0	6	2
Building Control	Final	Limited	0	7	0
King Alfred Leisure Centre	Final	Reasonable	0	7	1
Culture & Enterprise Income	Final	Reasonable	0	14	2
E-Procurement	Final	Substantial	0	6	0
Royal Pavilion	Final	Reasonable	0	11	0
Seafront Services	Final	Limited	6	4	0
Home Care	Final	Reasonable	0	1	0

6.3 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks, for each audit is a best practice requirement. Members should also note that the assurance levels assigned and agreed are subjective and based on materiality and significance. They often therefore have no direct relationship with the number of agreed actions to recommendations made.

6.4 There are currently five levels of audit assurance used and these are summarised as follows:

FULL	There is a sound system of internal control designed to achieve system and service objectives. All major risks have been identified and managed effectively.
SUBSTANTIAL	Whilst there is basically a sound system of internal control, there are weaknesses that put system objectives at risk.
REASONABLE	Controls are in place but there are gaps in the process. There is therefore a need to introduce additional controls.
LIMITED	Weaknesses in the system of control and /or level of compliance are such to put the system objectives at risk.
NO	Control is significantly weak or non existent leaving the system open to high level of risk from abuse, fraud and error.

7. Advice and Support to Directorates

7.1 We have continued to be pragmatic in providing professional proactive advice and this element of our work is seen as invaluable by directorates, particularly in areas of change management. By taking this proactive approach, often problems and risks can be avoided. As discussed in paragraph 5.5 the most significant advice work has been spent on Equal Pay and Future Pay. Other areas include recruitment/identity, contract management, financial management, information security, intranet, codes of conduct etc.

8. Counter Fraud Work

8.1 We will be issuing an Annual Fraud & Corruption Report for 2009/10 to the next Audit Committee meeting that will provide a summary of both reactive (e.g. investigations) and proactive activities.

8.2 We have commissioned a Fraud Risk and Measurement Review with Deloitte and this is approaching completion and the outcome will be reported to the next Audit Committee meeting also.

8.3 We are actively taking part in the National Fraud Initiative (NFI); a data matching exercise that matches data from a number of public sector organisations to identify inaccuracies in data or potential fraud. We have lead the exercise with various investigatory sections across the council (e.g. Housing Benefits, Parking etc). We have so far indentified significant levels of additional income and overpayments for recovery and are currently

undertaking further investigations of potential fraud cases. A full report will be made to the Audit Committee at the end of the exercise in May 2010.

- 8.4 The City Council was also recently selected as a “best practice” authority by the Audit Commission to participate in review of the National Fraud Initiative. Certain Directors, Assistant Directors and the Chair of the Audit Committee were interviewed and feedback from the Audit Commission has been good. A National Report will be published by the Audit Commission in 2010.

9. Performance of Audit & Business Risk

- 9.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also included in our Service Business Plan and monitored regularly. Table 4 provides an overview of the performance of Audit & Business Risk against the key targets set.

Table 4: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of agreed recommendations	98%	97%
% implementation of agreed management actions	85%	88%
CPA/CAA Use of Resources Score for Internal Control	Level 4	Level 3
Efficiency		
% of planned days delivered	100%	53%
% of productive time	71%	75%
Achievement of Annual Internal Audit Plan	95%	18%
% of draft reports issued within 10 days of fieldwork completion	90%	94%
% response by client to draft reports within 15 days	90%	87%
% of issue of final reports within 10 days of agreement	95%	94%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	95%

10. FINANCIAL & OTHER IMPLICATIONS:

10.1 Financial Implications:

The Internal Audit Plan for 2009/10 will be delivered within existing budgetary resources. Any reduction in internal audit work would have a negative impact on for example financial probity and value for money. This in turn would have a negative impact on the council’s finances through increased financial risk.

Patrick Rice
Head of Financial Services – Corporate & Environment

2nd December 2009

10.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2003 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Oliver Dixon
Lawyer

4th December 2009

10.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

10.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

10.5 Crime & Disorder Implications:

There no direct implications for the prevention of crime and disorder arising from this report.

10.6 Risk and Opportunity Management Implications:

The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.

10.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Background Documents

1. Annual Internal Audit Plan 2009/10
2. Code of Practice for Internal Audit in Local Government (CIPFA) 2006
3. Accounts & Audit Regulations 2003 (Amended 2006)

