

Subject: Internal Audit Progress Report 2012/13
Date of Meeting: 20th November 2012
Report of: Acting Director of Finance
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Business Risk
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Wards Affected: All

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT**

- 1.1 The purpose of this report is to inform Members of the progress made against the Internal Audit Plan 2012/13, including outcomes of specific audit reviews completed, agreed management actions and Internal Audit Key Performance Indicators.
- 1.2 The Audit & Standards Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports. Also to monitor the implementation of agreed actions to internal audit recommendations for improvement to controls and operations.
- 1.3 Good progress continues to be made in the delivery of the Internal Audit Plan 2012/13, due by the end of March 2013.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2012/13, outcomes achieved and current arrangements going forward to 31st March 2013.

3. BACKGROUND INFORMATION

- 3.1 The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit & Standards Committee.
- 3.2 The Audit & Standards 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 Internal Audit Plan 2012/13 detailing the programme of audit reviews was approved by the previous Audit Committee at its meeting in April 2012.
- 3.4 The programme of audit reviews contained in the Internal Audit Plan 2012/13 is 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 Head of Service, Lead Commissioner or Strategic Director.

4. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2012/13

- 4.1 Table 1 below provides a summary of the progress made with delivering the Internal Audit Plan 2012/13. During the period 1st April to 5th November 2012, the Internal Audit Team has commenced or completed 59 audit reviews

Table 1: Internal Audit Plan 2012/13 Progress (Audit Reviews)

Audit Status	Explanation	No.
Not Started	Planned but not started	42
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	33
Draft Report	Draft audit report issued and being agreed with client	14
Final Report	Audits completed and final report issued	22
		111

- 4.2 We are confident in completing the Annual Internal Audit Plan for 2012/13 through re-profiling and if required outsourcing a number of audit reviews to Deloitte under existing contract arrangements.

5. CHANGES TO THE ANNUAL INTERNAL AUDIT PLAN

- 5.1 Since the Internal Audit Plan 2012/13 was approved, there have been no significant changes made.

6. AUDIT REVIEWS COMPLETED

- 6.1 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 to of agreed actions.
- 6.2 Since the last progress report at the end of September, a further nine audit reviews have been completed and final reports issued. These are shown in table 2 below which includes the overall level of assurance, number and classification of agreed management actions to audit recommendations made.

Table 2: Summary of Completed Audit Reviews (Final Reports)

Audit	Assurance Level	Agreed Actions and Priority		
		High	Medium	Low
Leaving Care	Reasonable	0	8	2
Building Control	Reasonable	0	3	4
Staff Expenses	Reasonable	0	11	1
Council Tax Support - Financial Modelling	Substantial	0	1	0
Council Tax support - Project Assurance	Substantial	0	0	1
Licensing (Income Control)	Substantial	0	2	0
Council Tax & Business Rates Write Offs	Substantial	0	1	1
Pupil Premium Funding	Substantial	0	0	1
Pension Administration	Reasonable	0	7	0

- 6.3 Management actions have been agreed to the recommendations made and we will continue working with management to introduce agreed control and general service improvements, in particular where audit reviews give limited assurance.
- 6.4 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks for each audit is a professional practice requirement. Members should 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 audit recommendations made.
- 6.5 There are currently five levels of audit assurance used by the Internal Audit Team 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 CORPORATE AND SERVICE UNITS

- 7.1 Demand from managers continues to be high for us to provide professional proactive advice and support. This element of our work is seen as

invaluable both corporately and service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.

- 7.2 Recent areas of advice provided includes health & safety, sustainability, schools governance, procurement, human resource management, public health, major projects and welfare reform.

8. COUNTER FRAUD WORK

- 8.1 Since April 2012, 83 new cases of suspected irregularities have been identified or referred to Audit & Business Risk. Of these new cases, 58 related to potential housing fraud, principally illegal subletting.
- 8.2 Audit & Business Risk have continued to investigate data matches from the latest National Fraud Initiative (NFI) which has so far identified overpayments/savings from fraud and error of £503k. As part of NFI, arrangements are made to ensure compliance with the Data Protection Act in the sharing of data and ensuring data subjects are notified.

9. IMPLEMENTATION OF AGREED AUDIT ACTIONS

- 9.1 When unacceptable risks are identified in audit reviews, recommendations are made and agreed actions to mitigate these through improvement of system controls.
- 9.2 Implementation reviews for agreed actions to audit recommendation made, are usually carried out within six months of the issue of the final report.
- 9.3 Since April 10 implementation reviews have been carried out on agreed management actions (38) from previous completed audit reviews. The number of implementation reviews is lower than expected, due to other work commitments. Priority will be given in quarter 3 to ensuring all planned implementation reviews are carried out.
- 9.4 The level of implementation of agreed management actions is 74% fully, 22% partial/in progress and 4% not implemented yet. Of these 96% of high priority actions have been implemented, the remaining 4% partial/in progress.

10. PERFORMANCE OF INTERNAL AUDIT

- 10.1 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 part of our business planning process and monitored regularly. Table 3 provides an overview of the performance of the Internal Audit Team against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	97%	95%
% implementation of agreed management actions	85%	74%
Efficiency		
% of productive time	71%	69%
% of draft reports issued within 10 days of fieldwork completion	90%	91%
% 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%	96%

11. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 11.1 It is expected that the Internal Audit Plan for 2012/13 will be delivered within existing budgetary resources. In considering resources allocated to internal audit work this needs to be balanced against the need for financial probity, financial risks and achieving value for money.

Finance Officer consulted: Anne Silley

7th November 2012

Legal Implications:

- 11.2 Regulation 6 of The Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective 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 & Standards Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon

7th November 2012

Equalities Implications:

- 11.3 There are no direct equalities implications arising directly from this report

Sustainability Implications:

- 11.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

- 11.6 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.

Corporate / Citywide Implications:

- 11.7 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. Internal Audit Plan 2012/13
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2011