

AUDIT COMMITTEE	AGENDA ITEM No. 8
9 FEBRUARY 2009	PUBLIC REPORT

Committee Member(s) responsible:	Councillor Hiller, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

INTERNAL AUDIT PROGRESS REPORT: TO 31 DECEMBER 2008

RECOMMENDATIONS	
FROM : John Harrison, Director of Strategic Resources	Deadline date : N/A
Audit Committee are asked that :	
<p>1. The Internal Audit Update Report to 31 December 2008 be received and the Committee note in particular:</p> <p>(a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 9 months to 31 December 2008, internal control systems and governance arrangements remain generally sound.</p> <p>(b) Progress made against the plan and the overall performance of the section.</p> <p>(c) The revision to audit plan activities for Quarter 4.</p> <p>(d) The proposals recommended for development of the audit plans for 2009 / 2010.</p>	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee as a routine planned report within the work programme of the committee. It sets out Internal Audit performance and progress with regards to the 2008 / 2009 Audit Plan (Audit Committee approval: 31 March 2008).

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2008 / 2009 as at 31 December 2008.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. OVERVIEW

This report outlines the work undertaken by Internal Audit up to 31 December 2008, progress against our plan and other issues of interest.

5. ASSURANCE OPINION

- 5.1 One of four levels of assurance is allocated to each audit review. These assurance levels are: **FULL**; **SIGNIFICANT**; **LIMITED**; and **NO ASSURANCE**. Where concerns have been identified resulting in limited or no assurance, the Executive Summaries for these reviews will be included in an appendix to this report, once the audit review has been agreed and finalised. **Four** reports fall into this category for the quarter, details of which are included in **Appendix D**.
- 5.2 Based on the work carried out and finalised during the 2008 / 2009 (to 31 December 2008), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 100% of high / critical recommendations made to date have been accepted by management and programmed for implementation (against a target of 96%).

6. AUDIT PLAN 2008 / 2009

6.1 Progress against Plan

- 6.1.1 **Appendix A** shows all audits underway or completed in the first 9 months, with the exception of FMSiS follow up work and indicates the status of each activity. This includes reviews brought forward from the previous year that have been finalised during 2008/09. The *actual days* column shows the number days taken to complete an audit (from preparation to quality review and finalising the report) and includes time spent in 2007 / 2008. The *planned days* column shows how many days were budgeted for the audit (in either the 2007 / 2008 or the 2008 / 2009 Annual Audit Plan) and the figure in brackets shows where that figure has been revised. A revision can occur due to a change in the scope or extent of the audit. Audits that were not planned at the time of the Annual Audit Plan are also included within the appendix, and identified as "unplanned work".
- 6.1.2 Progress against the 2008 / 2009 plan is 63.7% (compared with 57.9% to the 9 month period April - December 2008). While the progress against the plan has improved compared to the previous year, the planned contingency time for unplanned reviews has now been utilised. This is due to the amount of requests for work, such as special investigations that have been made by management on the team, an example being where one review has taken in excess of 65 days. In view of this and that the needs of the organisation is continually changing the Audit Plan for the final quarter has been revised to best meet the demands of the business. **Appendix E** details the audit areas that have either been removed from the plan or will be rolled forward into 2009/10.
- 6.1.3 To date, 35 audit projects for 2007 / 2008 have been finalised together with a further 56 for 2008 / 2009. Six other pieces of work have been completed where either no audit report was necessary, or a committee report was produced.
- 6.1.4 There are 53 audit projects in various stages of progress. Of these, 24 relate to the ongoing Financial Management of Schools reviews, which is an ongoing activity and are timetabled to be completed at the end of the year.
- ### 6.2 Responses to Audit Reports
- 6.2.1 **Appendix B** details the timeliness of responses for all audit projects that were finalised, or should have been finalised, during Quarter 3.
- 6.2.2 Reminders continue to be produced as required to finalise reports in a timely manner.

6.3 Status of Recommendations

- 6.3.1 The table at **Appendix C** shows the status of those recommendations that have been made in all reports finalised to date in 2008 / 2009.
- 6.3.2 Our current policy, as defined in our Audit Charter approved at Audit Committee on 6 November 2006, is to follow up the implementation of recommendations 6 months after the reports have been finalised. To date 62.2% of high/critical recommendations have been followed up against an annual target of 65%. Where services receive an annual review, e.g. very high risk areas or key financial systems such as benefits and national non-domestic rates, recommendations are reassessed during this review. Refer to Appendix C for further information.

6.4 Other Performance Matters

- 6.4.1 Our productive time (chargeable days) target is 80%. Performance up to December 2008 is 84%. This is above the anticipated target as a result of the additional resources provided by agency staff during Quarter 1 but has reduced since Quarter 2 due to the increase in sickness days detailed later in this report.
- 6.4.2 Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score to date is 4.0 against a target of 3.75 (the highest score being 5), reflecting the high opinion our audit clients have of auditor conduct and the quality and usefulness of reports.
- 6.4.3 An average of 8 days sickness per person was lost during the 9 months to 31 December 2008, compared to a target of 3.75 days. This is a slight improvement on last year where sickness was 8.9 days per person as at 31 December 2007. However, sickness trends increased significantly during Quarter 3 due to the certificated absence of three members of staff for extended periods. This has had a major impact on the delivery of the Audit Plan and will so for the remainder of the year, where it is known that sickness is to continue into Quarter 4 for one member of staff. Where appropriate, sickness is being actively managed in accordance with the Council's Attendance Policy and through Occupational Health if appropriate.
- 6.4.4 An average of 5.53 days training has been provided to each auditor so far this year, compared to an annual target of not less than 5 days per auditor. This includes 'on the job' training, internal corporate training, training for professional qualifications and audit technical update seminars. Corporate initiatives introduced during the year in relation to the Learning Academy (Cohort 2010) and the Situation Leadership Programme, which Internal Audit are actively engaged in, will result in training exceeding the stated 5 days by the year end.
- 6.4.5 The length of time from completion of field work to issue of a draft report is 15 days on average and is currently on line with a target of 15 days.

7. DEVELOPMENT OF FUTURE AUDIT PLANS

- 7.1 Each year, the Chief Internal Auditor produces an annual audit plan, as required by The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code). The plan is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council by providing the Chief Executive, Section 151 Officer and Audit Committee with an overall opinion each year on the Council's control environment to support the Annual Governance Statement requirements.
- 7.2 Traditionally, Internal Audit plans have been developed along departmental lines. While there is still merit in this, with assurance being required across more cross-cutting areas and key risks and themes, this conventional approach does not sit well. For example, it is not always apparent how each audit activity will provide assurance to AGS. As a rule while there is an intrinsic need to link the audits to key strategic risks, the majority of audits either originate from

departmental risks or from a need to provide assurance elsewhere, for example to the Section 151 officer. Departmental reviews will still remain, but these should be developed along risk lines linked in with the corporate / departmental contracts being developed. It must be reiterated that the onus on the identification and continuous assessment of risk rests with service / line managers and not Internal Audit who will test the adequacy of the risks.

- 7.3 The Audit Plan was developed last year to closely link in with the Strategic Risk Register, ensuring that finite audit resources can be targeted in the key areas. This will continue in line with regular risk register refreshes by the Corporate Management Team.
- 7.4 External Audit identified in their review of the effectiveness of internal audit (reported to Audit Committee 5 November 2007) that they considered that Internal Audit resources concentrated too much on central / fundamental systems - predominantly within Strategic Finance - and recommended a review of the time / effort spent in this area. The Audit Plan for 2008 / 2009 showed a marked reduction in the time allocated, achieved by a greater emphasis on the risks rather than the controls within the system. This approach will continue to enable audit time to be utilised and allocated efficiently to the benefit of the organisation.
- 7.5 As a result of the proposed changes, it is expected that future audit plans will be set out in line with **Appendix F**.
- 7.6 The increased realignment to strategic risks and the associated increase in strategic based audits could have a number of implications. Firstly, there is a potential for a richer skills mix within the team due to the higher, more strategic issues being reviewed. Second, with an emphasis on risks rather than the controls, there is also a potential to reduce the overall number of days to be delivered to obtain the necessary assurance.

8. CONSULTATION

This report and the accompanying appendices have been issued to the Section 151 Officer for consideration.

9. ANTICIPATED OUTCOMES

That the Audit Committee is informed of Internal Audit's progress against the Annual Audit Plan and its business plan performance. In addition, that the Audit Committee is made aware of any key control issues highlighted by our work since the last progress report.

10. REASONS FOR RECOMMENDATIONS

The Council is subject to the Accounts and Audit (amendment) Regulations 2006 and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice. It must also produce an Annual Statement of Internal Control to be published with the Council's financial accounts. This report along with the attached appendices demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

11. ALTERNATIVE OPTIONS CONSIDERED

The alternative of not providing an Internal Audit service is not an option.

12. IMPLICATIONS

12.1 Corporate Strategy (relevance to):

Internal Audit, through its central monitoring role, has an essential part to play in the application of sound financial management and corporate governance principles throughout the organisation. In addition it endeavours to promote quality systems and to ensure that there is an effective, efficient and economical use of all resources available to the Council.

Internal Audit reviews the risk management process that is integral in the setting of priorities within the Council and ultimately the Corporate Strategy. A corporate risk management process is now in place and work continues to be undertaken to embed further a risk management culture throughout the Council. Corporate risk registers were first introduced in October 2003 and these are continuing to evolve as is the nature of effective risk management. These registers should reflect the risks associated with the key priorities identified in the Corporate Strategy. The Internal Audit plan for 2008 / 2009 has been produced with reference to the Corporate Risk Register to ensure, where possible and appropriate, Internal Audit review those areas considered to be of the most significant risk. The annual audit plan will continue to be reviewed to ensure it is in line with the risk registers, and as a consequence that the audit programme is closely linked to the Corporate Strategy.

There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

13. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006
 Accounts and Audit (amendment) (England) Regulations 2006
 Internal Audit Business Plan 2008 / 2009
 Internal Audit Annual Plan 2008 / 2009

APPENDICES:

Appendix A	Progress of Audit Plan 2008 / 2009: To 31 December 2008
Appendix B	Responses to Audit Reports
Appendix C	Status of Recommendations
Appendix D	Audit Reports Issued in Quarter 3 with Limited / No Assurance
Appendix E	Audit Plan 2008/09 Revisions
Appendix F	Development of Future Audit Plans

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