

AUDIT COMMITTEE	AGENDA ITEM No. 6
1 NOVEMBER 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Director of Strategic Resources	☎ 452 398
	Steve Crabtree, Chief Internal Auditor	☎ 384 557

INTERNAL AUDIT: QUARTERLY REPORT 2010/2011 (TO 30 SEPTEMBER 2010)

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 30 September 2010 be received and the Committee note in particular:</p> <p style="padding-left: 40px;">(a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 3 months to 30 September 2010, internal control systems and governance arrangements remain generally sound;</p> <p style="padding-left: 40px;">(b) Progress made against the plan and the overall performance of the section; and</p> <p style="padding-left: 40px;">(c) The revision of the 2010/2011 Audit Plan.</p>	

1. ORIGIN OF REPORT

1.1 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 2010 / 2011 Audit Plan (Audit Committee approval: 29 March 2010).

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2010 / 2011 as at 30 September 2010.

2.2 The report is for the Committee to consider under its Terms of Reference No. 2.2.4 – *To consider reports dealing with the management and performance of the providers of internal audit services.*

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

4.1 This report outlines the work undertaken by Internal Audit up to 30 September 2010, 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. **THREE** reports fall into this category for the quarter, details of which are included in **Appendix B**.

5.2 Based on the work carried out and finalised during the 2010 / 2011 (to 30 September 2010), 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 97%).

6. AUDIT PLAN 2010 / 2011

6.1 Progress against Plan

6.1.1 **Appendix A** shows the Operational Plan that was agreed by the Audit Committee on 29 March 2010. It shows the audits that are due to be performed during 2010/2011 and the status of those audits. It includes audits brought forward from the previous year that have been finalised during 2010 / 2011. It also includes audits that were not planned when the Annual Audit Plan was approved. It does not, however, separately list audit work of more limited scope, such control advice.

6.1.2 To date, 15 audit projects for 2009 / 2010 have been finalised together with a further 18 for 2010 / 2011. There are also 56 audit assignments that are in various stages of review.

6.1.3 Progress against the 2010 / 2011 plan is 40.9% (compared with 39% to the 6 month period September 2009). Long term sickness and an unfilled vacancy have resulted in the loss of 171 productive days to date, which equates to nearly 13% of the plan.

6.1.4 Some contingency time for unplanned work, consultancy and control advice is incorporated into the plan when it is produced. We have used 55% of this time in the period to 30 September 2010.

6.1.5 In addition to the reviews detailed in the Appendix, other work in the form of consultancy advice has been provided by Internal Audit which may not have resulted in the production of a formal report, and is therefore not separately listed.

6.2 Other Performance Matters

6.2.1 An average of 5.6 days sickness per person was lost during the 6 months to 30 September 2010, compared to a target of 2.5 days. Whilst higher than our target, this is a major reduction on last year's figure of 20 days per person at the same point in the year.

6.2.2 Removing the long term sickness figures from the equation gives an average of 2.1 days lost to sickness per person for this period, which is within target.

6.2.3 The long term sickness of two members of the team has had a major impact on this performance indicator. Sickness has been actively managed in accordance with the Council's Attendance Policy and through Occupational Health where appropriate. Both employees have now returned to work, although one has opted for a reduction in hours.

7. REVISION OF THE 2010 / 2011 AUDIT PLAN

- 7.1 Whilst the plan approved by the Audit Committee in March 2010 included an element of flexibility to respond to changing needs, during Quarter 1 significant changes have occurred as a result of decisions made by the new Government to stop various programmes and initiatives. As a result, the following areas of planned audit work have been cancelled:
- An assurance review to ensure the Council complies with the Contact Point accreditation conditions;
 - Use of Resources; and
 - Comprehensive Area Assessment work.
- 7.2 Change in priorities are common in year, but these developments coupled with the financial pressures predicted for the Council as reported to Cabinet on 29 September 2010 (Medium Term Financial Strategy 2011 / 2012 to 2015 / 2016) does raise questions around whether the original plan agreed is still reflective of the Council's key risks. The plan will be re-prioritised for the remainder of the year to focus more on finance.
- 7.3 The financial pressures also impact directly on the Internal Audit Team. The vacancy is unlikely to be filled and along with other departments, we are looking utilise our skills and expertise to generate income for the authority. The sickness absence reported in section 6.2 has an additional impact on the ability of the Internal Audit team to deliver the current plan.
- 7.4 As a result the audit plan has been reviewed to ensure that our reduced resources are focused on the key risks. Commentary on the amendments to the plan is included in **Appendix A**.

8. EXTERNAL WORK

- 8.1 The Internal Audit Strategy for 2010/11 which was approved by the Audit Committee on 29 March 2010, detailed that '**Internal Audit has been charged with selling Audit Services to other areas of the Public Sector in the region, as part of the Manor Drive initiative.**' Internal Audit has been in discussion with a number of authorities in relation to this initiative and we now have some progress to report upon.
- 8.2 We have secured two small pieces of external work, one with a Leicestershire school and one with a local authority. Contracts are due to be signed shortly and work will commence in quarter four.
- 8.3 We will notify the Audit Committee of the progress of any external work undertaken, but will not state outcomes or provide copies of reports, as this work is commercially sensitive.
- 8.4 Our Annual Audit Plan includes time for external work. However, any growth in this area will need to be carefully balanced with the need to provide an appropriate level of assurance to the Audit Committee, S151 Officer and senior management.

9. CONSULTATION

- 9.1 This report and the accompanying appendices have been issued to the deputy s.151 Officer for consideration.

10. ANTICIPATED OUTCOMES

- 10.1 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.

11. REASONS FOR RECOMMENDATIONS

- 11.1 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 Governance Statement to be published with the Council's financial accounts. This report and associated papers demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

12. ALTERNATIVE OPTIONS CONSIDERED

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

13. IMPLICATIONS

13.1 Corporate Resource Implications

During the year, Internal Audit makes a number of recommendations. While implementing these may have resource implications for the various areas under review, Internal Audit discuss and agree recommendations with the Auditee prior to the issue of the final audit report. Therefore, it is assumed that their implementation can and will be undertaken either with existing resources or with additional resources that they can readily call upon.

13.2 Legal Implications

The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations (Amendments) 2006.

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.

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 2010 / 2011
Internal Audit Annual Plan 2010 / 2011

APPENDICES:

Appendix A	Progress of Audit Plan 2010 / 2011 (To 30 September 2010)
Appendix B	Audit Reports Issued in Quarter 2: Limited / No Assurance