

# **Internal Audit**

## **Progress Report 2010-11**

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## **INTERNAL AUDIT PROGRESS REPORT**

### **Introduction and Background**

1. This progress report presents members of the Committee with the following:
  - A brief overview of the actual position reached at 31 October 2010, in delivering the agreed Audit Plan for 2010-11
  - A summary of the outcomes of audits completed during the period
  - The results and outcomes of follow-up reviews carried out during the period, to assess the extent and adequacy of management action taken in response to audit reports from the previous year
  - Brief details of other work undertaken during the year to date.
2. With regard to the issue of follow-up, the Audit Committee has within its terms of reference the responsibility to monitor the implementation of agreed management actions arising from Internal Audit's work, and for 2010-11 the Committee has asked for detailed assurances to be brought to each of its meetings with regard to specific management actions taken. This will therefore be included in our regular progress reports to the Committee.

### **Overall progress against the Audit Plan 2010-11**

#### **Productive Audit Days**

3. We base our Audit Plan for the year on being able to achieve an estimated number of productive audit days throughout the year, and thereby deliver a range of planned audit work. Taken to the end of October 2010, our actual performance against the overall plan was as set out in the following table:

	<b>No of Audit Days</b>
Total Audit Plan for 2010-11	2,750
Weighted target productive days to 31 October 2010	1,512
Actual productive days to 31 October 2010	1,508

4. This shows that our actual productive days have continued to match our target over the year to date.
5. Looking forward over the rest of the year to 31 March, there is an increased risk that proposals to reduce staff resources will result in a shortfall in productive days against target for the year as a whole. The impact of this will be assessed following the outcome of consultation in mid December, and a revised Audit Plan reported to the next Audit Committee.

### **Outcomes of Completed Audits**

6. A full schedule of the audits completed during the period, incorporating specific main risks and management actions proposed, is attached as Appendix 1 to this report. A summary of the overall position on the outcomes of these completed audits is set out in the table below. An explanation of the range of audit opinions and risk ratings follows the table.

<b>Audited Activity</b>	<b>Audit Opinion</b>	<b>Main Risks Identified</b>
Youth Development – IT Controls	Substantial Assurance	1 High Risk 4 Medium Risks
Vulnerable Adults – IT Controls	Substantial Assurance	2 High Risks 3 Medium Risks
DCE Capital Projects	Substantial Assurance	3 High Risks 2 Medium Risks
Direct Payments & Individual Budgets	Substantial Assurance	2 High Risks 6 Medium Risks
Financial Assessments & Benefits Team (FAB)	Limited Assurance	5 High Risks 9 Medium Risks
Accounts Payable	Substantial Assurance	5 Medium Risks
Remote Offices – Cash & Bank Accounts	Limited Assurance	3 High Risks 3 Medium Risks
Land Charges	Limited Assurance	4 High Risks 7 Medium Risks

<b>Audited Activity</b>	<b>Audit Opinion</b>	<b>Main Risks Identified</b>
Waiting List Management	Substantial Assurance	3 Medium Risks
CPU – Procurement Policies, Guidance & Training	Limited Assurance	1 High Risk 5 Medium Risks
Pewsey Sports Centre	Limited Assurance	1 High Risk 4 Medium Risks
Footways and Pavements	Full Assurance	No High or medium Risks

### Explanation of Audit Opinions and Risk Ratings

#### Audit Opinion

**Full Assurance** – There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.

**Substantial Assurance** – Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

**Limited Assurance** – Weaknesses in the system of control are such as to put service objectives at risk.

**No Assurance** – Control is generally weak leaving the system open to significant error or abuse.

#### Risk Rating

**High Risks** – These are significant risks to the effective delivery of the service. Risk management strategies should be put in place to appropriately manage the identified risks within a short timescale. Frequent monitoring of the management of identified risks is essential.

**Medium Risks** – These are risks which must be managed to ensure the effective delivery of the service. Monitoring of the risk should be regularly undertaken.

**Low Risks** – These are risks which are not considered significant to the effective delivery of the service, but which should nevertheless be managed and monitored using existing management processes.

## **Implementation of Agreed Management Actions**

7. A full schedule of the audits we have followed-up during the period, incorporating specific risks and management actions implemented, is attached as Appendix 2 to this report. A summary of the overall position on management actions is set out in the following table:

<b>Audited Activity</b>	<b>No of Main Risks Reported</b>	<b>Position on Management Actions</b>
Highways Maintenance IT System (Exor)	3 (High)	1 action fully implemented 2 actions not yet completed (awaiting input from Exor)
Special Educational Needs Recoupment	4 (High)	Actions fully implemented
CRB Records for Schools and Childrens Centres	5 (High)	4 actions fully implemented 1 action partially implemented
Financial Reporting	4 (Medium)	2 actions fully implemented 2 actions ongoing, progress according to plan
Accounts Receivable – Debt management	5 (Medium)	2 actions fully implemented 3 actions ongoing, progress according to plan
Service Charges on Council Properties	4 (Medium)	3 actions ongoing, progress according to plan 1 action not progressed as planned
Council Tax	3 (Medium)	3 actions ongoing, progress according to plan
Gas Servicing	3 (Medium)	3 actions ongoing, progress according to plan

## Conclusion

8. Our follow-up work carried out during the last quarter leads us to the overall conclusion that management continues to respond properly to audit reports in the main, and is taking appropriate action to manage the risks identified. Many agreed actions are of an ongoing nature, and by and large progress is being made in accordance with expectations. Only in the area of service charges has there been a delay, in respect of finalising the policy and procedures, owing to work of a higher priority in addressing the Housing Improvement Plan
9. We will continue to report further follow-up work and the position on agreed management actions as part of each quarterly progress report to the Audit Committee.

## Other Work

10. In addition to specific planned audits and follow-up work, we have undertaken additional work in a number of important areas as set out in the following paragraphs.

### Anti Fraud and Corruption

#### ***National Fraud Initiative (NFI)***

11. The NFI exercise is run every two years. This year is the first time the new Council has been required to take part as a unitary authority, and also the first time we have had to extract relevant data from the SAP system. Following considerable work to overcome a number of technical difficulties, we have now managed the data extractions from a range of information systems and submitted them to the Audit Commission securely within the required timescale. The output from the NFI is now expected early in the New Year, after which investigation of the range of data matches will then get underway.

#### ***Investigations***

12. During the period, referrals of suspected frauds or irregularities have included:
  - An investigation into suspicions about certain financial activity at a school. Our conclusions were that there was no evidence of fraud but that a number of significant control issues needed to be addressed at various levels.
  - A fraudulent attempt to obtain very significant payments from the Council through fictitious contract arrangements. The issue was promptly identified by controls in the Corporate IT Unit, and because the case is based on bold legal claims, the Council's legal team were

informed and discovered relevant investigations were already underway, since the fraud had also been attempted at a number of other authorities.

## **Schools**

13. We undertook a further review at a school which had previously not achieved the national Financial Management Standard in Schools (FMSiS). The main areas of concern had been around the Scheme of Delegation, approval of financial monitoring reports by governors, the School Development Plan, and financial procedures for payroll, ordering, bank reconciliations and recording of income.
14. We were pleased to conclude that the school had responded positively to the numerous areas previously identified for improvement (14 had been actioned, 4 were in progress and 3 more minor items were being scheduled for completion) and we were able to confirm that the school had now achieved the Standard.
15. We have also distributed a training pack for school administrative officers, containing guidance and advice on audit and financial control matters, and issued our annual Internal Audit Schools Bulletin to all schools. The latter focused on common issues arising from our FMSiS assessments and included best practice advice on governance arrangements, financial planning, financial processes, and budgetary control methods.
16. The Coalition Government has very recently announced that the FMSiS has been discontinued with immediate effect. A new financial standard for schools is planned to replace it next year, but no further details are yet available.

## **Other Matters**

### ***Seminar for Audit Committee Members***

17. As an addition to the formal meetings of the Audit Committee, in order to provide members with further background and supporting information on various aspects of the Council's overall risk management and audit processes, a seminar was held on 18<sup>th</sup> November 2010. This covered the following topics:
  - Current corporate risks, and how they are being managed
  - Internal Audit's approach to identifying, assessing and reporting risks.
18. The seminar was generally found to be very successful in achieving its aims, and further similar sessions are being planned for the coming months.

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