

Internal Audit

Progress Report 2010-11

Contents: *Introduction and Background*

Overall Progress against the Audit Plan 2010-11

Outcomes of Completed Audits

Implementation of Agreed Management Actions

Other Work

Steve Memmott
Head of Internal Audit

March 2011

INTERNAL AUDIT PROGRESS REPORT

Introduction and Background

1. This progress report presents members of the Committee with the following:
 - An overview of the actual position reached at 28 February 2011, in delivering the originally agreed Audit Plan for 2010-11, and the factors which have brought about the variation
 - A projection of the year-end outturn, and the resultant adjustments we have made to the original Audit Plan
 - Developments with regard to the future provision of the Council's internal audit service
 - 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 previous audit reports
 - Brief details of other work undertaken during the period.

Overall progress against the Audit Plan 2010-11

Productive Audit Days

2. We based 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 to support our audit opinion. Taken to the end of February 2011, our actual performance against the overall plan was as set out in the following table:

	No of Audit Days
Total Audit Plan for 2010-11	2,750
Weighted target productive days to 28 February 2011	2,480
Actual productive days to 28 February 2011	2,370

3. This shows that our actual productive audit days have fallen short of our target by 110 days. This has been caused by several factors ie. a reduction in staff resources arising from the management review, and additional 'non-productive' time needed on the resultant restructuring of the team, together with the recent relocation of those team members previously based at County Hall. As a result it has been necessary to revisit the Audit Plan, as set out below, to account for this impact and a small number of revisions are proposed.

Projection for Year End and Impact on Audit Plan

4. Looking ahead to the end of the year at 31 March, the actual shortfall is expected to increase to around 150 days, following a further reduction in staff resources from the management review.
5. To date, we have completed and reported 29 new audits and 25 follow-up reviews throughout the year. The shortfall in productive days referred to above means that certain work in our original plan will not now be completed in the current year. A review has been undertaken to assess the impact and ability to reduce the Audit Plan. Arising from this it is clear that there are a number of audits in the plan that can be stopped or deferred. For example recent changes in Government policy surrounding Connexions means this can now be removed from the Audit Plan. We may need to revisit such issues as asset transfer re. Connexions but this can be resolved in the 2011-12 plan. Other areas are capable of deferment to 2011-12 due to internal factors such as Finance and HR restructuring. As such the plan can be revised to account for the shortfall in audit days, yet remain robust. The specific reviews proposed to be stopped or deferred are:

Original Planned Review	Revised Plan
Connexions	Reduced priority, removed from Audit Plan
Strategic Property	Reduced priority, removed from Audit Plan
Children's Social Care	Carried forward to 2011-12 Audit Plan
Economy and Enterprise	Carried forward to 2011-12 Audit Plan
Financial Management	Significant restructuring 2010-11, therefore c/fwd to 2011-12 Audit Plan
HR Management	Significant restructuring 2010-11, therefore c/fwd to 2011-12 Audit Plan

Development of the Internal Audit Service

6. The Council must maintain an adequate and effective internal audit service which meets the mandatory professional standards laid down in the national Code of Practice for Internal Audit in Local Government. The reduction in audit resources referred to above, together with the wider issue of cost reductions across the whole Council, mean that we must carefully review and evaluate several options to ensure the adequate and effective delivery of the internal audit service for 2011-12 onwards. This review is needed to ensure we continue to meet the required audit standards in the most efficient and effective manner.
7. A review of the various options for future service delivery is therefore currently in progress, and options under consideration include such proposals as the Council entering into a public partnership agreement. The preferred option and proposal for delivery of internal audit will be determined in the near future, and work will then begin to implement that proposal. This will include engagement of Members as Key Stakeholders and drivers of effective service delivery. Progress will be reported to the next meeting of the Audit Committee in May 2011.

Outcomes of Completed Audits

8. 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.

Audited Activity	Audit Opinion	Main Risks Identified
Depots, Stores and Workshops	Limited Assurance	2 Medium Risks
Provision of Care Homes & Placements	Limited Assurance	5 High Risks 7 Medium Risks
Members' Allowances and Expense Claims	Limited Assurance	1 High Risk 2 Medium Risks
Officers' Expense Claims	Substantial Assurance	6 Medium Risks

Audited Activity	Audit Opinion	Main Risks Identified
Department of Neighbourhood and Planning – Internal Governance	Substantial Assurance	2 Medium Risks
National Non Domestic Rates	Substantial Assurance	5 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

9. A 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:

Audited Activity	No of Main Risks Reported	Position on Management Actions
Housing Waiting List Management	3 (Medium)	2 actions partially implemented (progress up to date) 1 action outstanding (lack of response from other LAs)
CPU – Procurement Policies, Guidance and training	1 (High)	A series of ongoing actions currently underway (progress generally up to date).

Conclusion

10. Our follow-up work carried out during the period leads us to conclude that management has responded constructively, and is taking appropriate action to manage the risks identified. Several actions are of an ongoing nature, and progress is generally in line with expectations. Only in one area has very little progress been made; that of seeking to compare waiting list performance against other councils. Progress here is dependent upon co-operation from outside, which so far has not been forthcoming.

Other Work

Anti Fraud and Corruption

11. The planned audits of Members' and Officers' expenses, reported above, were undertaken as part of a programme of proactive work to review areas of potential fraud risk. Whilst a number of risks have been raised and are being actioned no incidents of fraud or corruption were found, and the tightening of controls will improve the procedures. In addition, further anti-fraud and corruption work is set out in the following paragraphs.

National Fraud Initiative (NFI)

12. The Council's data across a wide range of service areas was submitted to the Audit Commission securely within the required timescale, towards the end of 2010. The output from the NFI has now been received and investigation work is currently underway across a range of data matches. Data held in relation to the following activities are included in this national matching exercise:

- Blue Badges
- Bus Passes
- Care Homes
- Housing Benefits
- Housing Rents
- Payroll
- Insurance claimants
- Market Traders
- Taxi Drivers.

Investigations

13. Our reactive work carried out during this latest period has included investigations into the following matters referred to us:

- A reported suspicion that significant amounts of cash collected for a service provided to the public had not been paid into the Council's bank account. Our report has resulted in ongoing disciplinary and police investigations which are currently at very early stages. Revised procedures have been adopted to strengthen the controls over cash collection and banking.
- A concern about the receipting, processing and recording of certain rental and sales income in a particular service area. Our report identified procedural weaknesses but there was no evidence of wilful wrong-doing. An enhanced control environment has now been established to reduce the risk of fraud.

Schools

14. In December we reported that the Government had discontinued the mandatory requirement for all schools to meet the Financial Management Standard in Schools (FMSiS). However, some schools have still requested an independent assessment of their financial management arrangements, as a measure of good practice.

15. We have therefore continued to carry out these requested assessments during the period, and have confirmed that nine schools are meeting the required standard, eight of these being re-assessments and one initial assessment. Assessments at a further nine are currently in progress, comprising five re-assessments and four initial assessments.

16. Since the introduction of the FMSiS in 2007, only two of Wiltshire's schools have failed to meet the requirements of the standard.
