

## AUDIT COMMITTEE

24 MARCH 2011

### REPORT OF HEAD OF INTERNAL AUDIT

#### A.2 REPORT ON INTERNAL AUDIT – NOVEMBER 2010 – MID FEBRUARY 2011

(Report prepared by Steve Blake)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period November 2010 to mid February 2011.

##### EXECUTIVE SUMMARY

The report provides a review of the activity of the Internal Audit function over the period November 2010 to 11<sup>th</sup> February 2011.

Progress on planned work has fallen behind target in the period under review, primarily due to the function operating with less staff than planned.

There were no audit reports issued during the period where the findings identified required specific reporting to the committee.

##### RECOMMENDATION(S)

- (a) That the contents of the report be noted
- (b) That Members determine which, if any, of the audit reports completed in the period they wish to receive for detailed consideration at the next Audit Committee meeting

#### PART 2 – IMPLICATIONS OF THE DECISION

##### DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

##### FINANCE, OTHER RESOURCES AND RISK

###### Finance and other resources

The Internal Audit function is operating within the budget set.

###### Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

## LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

## OTHER IMPLICATIONS

**Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.**

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

## PART 3 – SUPPORTING INFORMATION

### BACKGROUND

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) (the code) requires the Head of Internal Audit to make arrangements for reporting to the organisation during the course of the year. The code identifies the types of issue that the Head of Internal Audit should bring to the attention of the Audit Committee.

### CURRENT POSITION

#### **CIPFA Code of Practice 2006**

The code was published in December 2006. The code's requirements are mandatory for all local authorities subject to the Accounts and Audit Regulations.

The Internal Audit function is currently considered to be fully compliant with the requirements of the Code of Practice.

#### **Internal Audit Objectives**

The code requires the Head of Internal Audit to submit to the Audit Committee documents that describe how the Internal Audit function will fulfil its objectives. The documents are: -

**Internal Audit Terms of Reference and Internal Audit Strategy** – These were last approved by this committee on 16<sup>th</sup> December 2010, and are subject to an annual review.

**Internal Audit Plan** – The 2010/11 plan was approved by this committee on 1<sup>st</sup> April 2010. Progress regarding the plan is covered elsewhere in this report.

The 2011/12 plan forms a separate report to this meeting.

#### **Progress Against Objectives**

The code requires the Head of Internal Audit to report to the Audit Committee on progress made against objectives set. The progress made in the period under review is as set out below: -

**Internal Audit Plan 2010/11 Progress** – The Internal Audit Plan approved by the Audit Committee in April 2010 continues to be kept under review.

Appendix A provides detail of the status of each audit at 11th February 2011.

Performance over the period under review has been below target level, and at the 31<sup>st</sup> January 71% of the plan had been achieved. The Internal Audit function has been operated with reduced staffing over the period under review due to maternity leave, which is expected to continue into 2011/12. In accordance with the vacancy freeze no request was made to fill this post on a temporary basis, but to prioritise audits within the resources available. It is not proposed to adjust the plan at this time, but to carry forward any audits it proves impossible to undertake with the resources available into the 2011/12 audit plan.

Computer audit work has been delayed as a result of the contractor being unable to attend in December due to adverse weather conditions. This work has been rescheduled for March 2011. This delay has also impacted on the percentage of the plan completed to date.

Priority has been given during the period to the undertaking of key financial systems in the audit plan. Anti fraud audits previously identified as delayed have now been prepared and consulted on and are being undertaken following completion of the key financial systems work.

**Quality Assurance** – The Internal Audit function uses four indicators as a measure of its performance. Detail of performance in the period under review, and for the year to date is as follows: -

<b>Performance Indicator</b>	<b>2010/11 Target</b>	<b>Profile April 2010 – January 2011</b>	<b>Actual April 2010 – January 2011</b>	<b>Profile November 2010 – January 2011</b>	<b>Actual November 2010 – January 2011</b>
Percentage of planned audit work completed	90%	75%	71%	22.5%	18%
Percentage of draft and final reports issued within target deadlines	90%	90%	90%	90%	89%
Percentage of satisfactory responses to satisfaction surveys issued with audit reports	90%	90%	98%	90%	100%
Overall satisfaction level following periodic satisfaction survey	3 (on scale 1 – 5)	N/A	N/A	N/A	N/A

**Adequacy of Management Response to Internal Audit Reports** – At 14<sup>th</sup> February there was two audit reports where a response was overdue, and in both instances reminders have been issued, but neither had yet reached the stage that requires action by the Committee.

#### **Outcomes of Internal Audit Work**

The code requires the Head of Internal Audit to report to the Audit Committee on the

outcomes of internal audit work undertaken. In the period under review 17 Internal Audit reports were issued. Appendix B includes brief details from each audit report issued of findings scored as medium risk or higher.

All audits completed during the period received either a Satisfactory opinion, or were at the Minor Exceptions level.

The Internal Audit function has been involved, during the period under review, in a joint investigation with Human Resources and Technical and Procurement Services regarding cash shortages and unaccounted paperwork relating to Pay and Display machines. Whilst there was insufficient evidence available to be able to identify precisely where or when in the process the cash and paperwork went missing, agreement was reached to improve controls to limit the opportunity for any future repetition.

## **BACKGROUND PAPERS FOR THE DECISION**

Audit Reports

## **APPENDICES**

A.2 Appendix A – Internal Audit Plan 2010/11 Progress Report

A.2 Appendix B - Internal Audit Reports Issued