

## Internal Audit 2011/12 Interim Report

### 1 Introduction

1.1 The Internal Audit Plan for 2011/12 was approved by the Audit and Governance Committee on 29 March 2011. At the last Audit and Governance Committee on 29<sup>th</sup> September, an update was given on the first quarter of 2011/12. This update will cover the following:

- Audit Work carried out in Quarters 2 & 3, and comparison of Plan vs. Actuals
- Emerging issues in 2011/12
- Internal Audit performance
- Internal Audit developments
- Priorities for Quarter 4

### 2 Audit Work carried out in Quarters 2 & 3

2.1 During the period 1<sup>st</sup> July to 31<sup>st</sup> December 2011, progress against the high priority areas of the 2011/12 Audit Plan has continued. During the period, Internal Audit completed 2010/11 key systems work and introduced a new Internal Audit Reporting Protocol. The 'improvement and compliance' role of Internal Audit has developed further, leading to more work assisting management in improving the control framework.

2.2 There continued to be a large amount of unplanned and resource intensive investigations work. Management has also requested Internal Audit to undertake work that could not have been reasonably foreseen when compiling the plan. This audit work, for which there is time in the plan (under 'Contingency'), assists management in the discharge of their duties.

2.3 A comparison of the 2011/12 Audit Plan with Actuals to date is shown below (with comments on variances). Further detail of key work carried out in Quarters 2 and 3 is provided in Appendix A.

#### **Summary Comparison of Audit Plan 2011/12 and Cumulative Quarter 3 Actuals**

Area of Plan	Plan Split	Actual Q1-3 Split	Comments on coverage
Supporting Corporate Governance	4%	3%	As planned.

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Area of Plan	Plan Split	Actual Q1-3 Split	Comments on coverage
<i>This includes work on the Local Code of Corporate Governance and the Annual Governance Statement (AGS)</i>			
<b>Fundamental Financial Systems (including Shared Services)</b> <i>Core system 'key control' work on systems such as: Payroll, Debtors, Creditors, Cash Receipting, Treasury Management, Housing Benefits, Council Tax, National Non-Domestic Rates (NNDR).</i>	14%	25%	Higher than planned due to: <ul style="list-style-type: none"> <li>2010/11 key system work overlapping into 2011/12.</li> <li>Additional work on Oracle accesses, which External Audit placed reliance on for 2010/11 accounts.</li> <li>Revenues and Benefits new systems.</li> </ul>
<b>Key Service and Departmental Systems</b> <i>Departmental and service risk audits. Adults, Community, Health &amp; Wellbeing/Children &amp; Families/ Places/Performance &amp; Capacity</i>	35%	41%	Broadly as planned.
<b>Fundamental Corporate Areas</b> <i>Assurance work on Strategic Risks and associated mitigating controls as well as other cross cutting area.</i>	9%	2%	This area was scheduled for Q3 and Q4, so is lower than planned.
<b>Partnerships</b> <i>Assurance work on Strategic Risks involving Partnerships and associated mitigating controls.</i>	6%	1%	This area was scheduled for Q3 and Q4, so is lower than planned.
<b>Counter Fraud and Probity</b> <i>Response to notifications under the anti-fraud and corruption policy informing opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls. Includes administration of National Fraud Initiative (NFI), Staff Vetting, Contract Award etc.</i>	15%	18%	Although close to planned overall, reactive work is currently far higher than planned, at the expense of proactive work.
<b>Consultancy and Advice</b> <i>Where resources and skills exist, may contribute to the opinion that Internal Audit provides on the control environment.</i>	9%	10%	Some additional requests from management.
<b>Contingency</b>	6%	0%	All Contingency days used.
<b>Follow up work</b>	2%	0%	This is a priority for Q4; normal follow up is six months post final

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Area of Plan	Plan Split	Actual Q1-3 Split	Comments on coverage
			report so coverage concentrated towards end of year.
<b>Total</b>	100%	100%	

### 3 Emerging Issues 2011/12

3.1 Work is on-going in the following areas in order to ensure that risks identified in 2011/12 are being adequately managed. These areas will be considered as part of the Annual Governance Statement process and may be included in the Head of Internal Audit's annual report:

- Procurement processes – including the approaches to reduce fraud risk outlined in the National Fraud Authority report on public sector procurement.
- School's Financial Value Standard – develop, in conjunction with Finance colleagues, a means by which the new standard can be used to gain assurance that effective financial management is in place in schools.
- Consider and address the emerging issues detailed in recent national publications relating to fraud in the public sector, such as the Audit Commission's 'Protecting the Public Purse 2011'.
- Internal Audit will continue to support Management in implementing the AGS Action Plan by challenging the declarations made in the self assessment process and by auditing some of the arrangements in detail such as the business planning process and the Council's Financial Management arrangements, particularly in Adult Social Care.
- Consider the implications of the Audit Commission's Annual Audit Letter.

### 4 Internal Audit Performance

4.1 During the period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised of a mix of risk based auditing, regularity, ICT audit, investigations and the provision of advice to officers.

4.2 A number of vacancies are held in the Section, including the Internal Audit Manager, which is subject to the Authority's current recruitment freeze. The Internal Audit establishment was reduced to reflect the significant savings required as part of the 2011/12 budget settlement.

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4.3 Internal Audit has a number of Performance Indicators that are measured and reported on:

Performance Indicator	2011/12 Cumulative				Comments
	Target	Actual Q1	Actual Q2	Actual Q3	
Percentage of Audits completed to user's satisfaction	100%	95%	90%	85%	Currently below target. This indicator is based on certain scores from the Client Questionnaire that Managers receive on completion of an audit project. Questionnaire scores are generally high. Further client feedback will be sought from Managers at the end of 2011/12.
Percentage of significant (high and medium) recommendations agreed	100%	100%	100%	100%	Currently on target. The new report format (see Section 5) will prompt Managers to agree (or not) each recommendation.
Productive Time (of Chargeable Days)	80%	86%	86%	86%	Currently ahead of target.
Average number of working days between end of fieldwork to issue of draft report	15 days	22 days	19 days	18 days	Currently below target, although improving. There are a large number of factors affecting this indicator including how 'end of fieldwork' is defined, auditors working on a number of jobs at a any one time, number of part time audit staff etc. The Client Questionnaire also captures feedback from management on the promptness of the draft report (current average score of 8, out of 10). This will be reviewed in Q4 – see 4.4.

4.4 In addition to the above Performance Indicators, it is intended to measure the following:

- Percentage of significant (high and medium) recommendations implemented.

Measurement of this PI has been delayed due to audit software issues, as the current system does not easily produce the data for this indicator. However, work on this will be a priority in Quarter 4, in addition to a general review of all current PI's.

4.5 The annual self assessment of Internal Audit will take place during Quarter 4 and will feed into the 2011/12 AGS process.

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- 5.1 As reported to the last Audit and Governance Committee, a report has now been circulated (November 2011) to all senior managers, covering two new developments:
- Introduction of an 'Audit Opinion' and other changes to the Audit Report, and
  - Audit Reporting Protocol.
- 5.2 The introduction of a formal opinion for each audit review will be extremely useful both in interim reporting during the year and also in building up to the overall annual audit opinion, as it will enable a clear summary of the results of audit reviews during and at the end of the year. The reporting software has now been updated and the first reports with formal opinions will be issued in February 2012.
- 5.3 The Audit Reporting Protocol sets out the expected end-to-end audit reporting process for an audit review, including Management responses, the reminder/escalation process and follow up of recommendations.

**6 Priorities for Quarter 4**

- 6.1 The following areas are considered high priority for the final quarter of 2011/12 and resources will be allocated accordingly:
- Introduction of new report format.
  - Development, with key stakeholders, and production of the 2012/13 Audit Plan.
  - Focus on Recommendations Implemented PI and review of existing PI's.
  - Key Shared Services Systems work, in partnership with Cheshire West and Chester Internal Audit team.
  - Procurement audit.
  - Work supporting 2011/12 Annual Governance Statement
  - Development of Partnerships Protocol, to include review of Strategic Partnerships.
  - Internal Audit Self Assessment for 2011/12.
  - Work supporting management in improving/developing controls within systems e.g. lean reviews.

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- Proactive anti fraud work taking into account lessons learned from recent investigations and emerging risks detailed in 'Protecting the Public Purse 2011'.
- Continue to provide advice and support to managers in Adult Services with regards to the ongoing review of Client Finance.
- Develop and pilot, in conjunction with Finance colleagues, an assurance framework for the new School's Financial Value Standard.