

Subject: Internal Audit Progress Report and Internal Audit Plan 2011/12 Update

Date of Meeting: 27th September 2011

Report of: Director of Finance

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Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT

- 1.1 The Annual Internal Audit Plan 2011/12 was approved by the Audit Committee in April. This report summarises progress made against the plan for 2011/12, provides the results from reviews completed for the year, implementation of agreed actions to internal audit recommendations and reports the achievement against Internal Audit Key Performance Indicators.
- 1.2 The Audit Committee has a role in monitoring activity and outcomes of internal audit work against the plan, receiving regular progress reports. Also to monitor the implementation of agreed actions to internal audit recommendations for improvement to controls and operations.

2. RECOMMENDATIONS

- 2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2011/12.
- 2.2 Agree changes to the Annual Internal Audit Plan for 2011/12, as set out in paragraph 9.3 and Table 3.

3. BACKGROUND INFORMATION

- 3.1 The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.

- 3.2 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The internal audit work carried out by Audit & Business Risk is a key source of assurance that the internal control environment is operating effectively.
- 3.3 The audits contained in the Internal Audit Plan 2011/12 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.
- 3.4 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports that include agreed actions to audit recommendations made, are issued to the responsible Head of Service or Strategic Director.

4. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2011/12

- 4.1 The progress against the Internal Audit Plan 2011/12 for audit reviews is summarised in Table 2 below.

Table 1: Summary of progress against Internal Audit Plan 2011/12 (Audit Reviews)

Audit Stage	Explanation	No.
Not Started	Planned but not started	51
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	23
Draft Report	Draft audit report issued and being agreed with client	18
Final Report	Final agreed audit issued and audit complete	7
		99

- 4.2 In addition to the above, there has been a significant level of unplanned audit work since April responding to emerging control and risk issues.
- 4.3 There are currently two staff vacancies within the team of Principal Auditor (ICT) and Auditor. Attempts were previously made to recruit but at the time there were market shortages of internal auditors. We are currently at an early stage of a service review of the staff structure to assist with recruitment and retention.
- 4.4 We are confident in completing the Annual Internal Audit Plan for 2011/12 through re-profiling and outsourcing a number of audit reviews to Deloitte under contract arrangements.
- 4.5 We are also liaising with other local authorities to consider sharing staff resources in the future to provide a cost effective solution, in particular to back fill vacancies, meet peak demands and "specialist" audit staff such as computer and contracts audit.

5. FINAL AUDIT REPORTS ISSUED

- 5.1 Audit reports are issued as final where their contents have been agreed with client management, in particular management actions with responsibility and timescale. The audit is then effectively closed except for the scheduled implementation review of agreed actions.
- 5.2 During the period, seven audit reviews from the current year's Annual Audit Plan have been completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level. This is comparatively low and primarily due to the explanations given in 4.2 and 4.3 above, regarding staff being redirected and compares to eleven issued at the same stage in 2010/11.

Table 2: Final Reports Issued

Audit	Assurance Level	Agreed Actions and Priority		
		High	Medium	Low
iGrasp Recruitment System Post Implementation Review	Limited	2	4	2
OHMS Housing Application	Limited	3	8	3
School Meals Contract	Substantial	0	2	0
Transport Fuel	Limited	2	6	0
Supporting People	Substantial	0	1	0
Electronic Call Monitoring System	Reasonable	0	5	0
Annual Governance Statement	-	-	-	-

- 5.3 Member's attention is drawn to three final audit reports giving limited assurance. Management actions have been agreed to audit recommendations made and further audit follow-up work will be carried out to ensure implemented and effective.
- 5.4 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks for each audit is a professional practice requirement. Members should note that the assurance levels assigned and agreed are subjective and based on materiality and significance. They often therefore have no direct relationship with the number of agreed actions to audit recommendations made.
- 5.5 There are currently five levels of audit assurance used and these are summarised as follows:

FULL	There is a sound system of internal control designed to achieve system and service objectives. All major risks have been identified and managed effectively.
SUBSTANTIAL	Whilst there is basically a sound system of internal control, there are weaknesses that put system objectives at risk.
REASONABLE	Controls are in place but there are gaps in the process. There is therefore a need to introduce additional controls.
LIMITED	Weaknesses in the system of control and /or level of compliance are such to put the system objectives at risk.
NO	Control is significantly weak or non existent leaving the system open to high level of risk from abuse, fraud and error.

6. ADVICE AND SUPPORT CORPORATE AND DIRECTORATES

- 6.1 We have continued to be pragmatic in providing professional advice and support. This element of our work is seen as invaluable both corporately and service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 6.2 It is good to report an increasing level of demand for advice and support across the council.

7. COUNTER FRAUD WORK

- 7.1 Since April 2011 78 new cases of suspected irregularities have been referred to Audit & Business Risk and investigated. This is a significant increase on the same period for the previous year. Of these 32 related to housing fraud and the illegal subletting. The increase is however in line with the national increase in fraud to local authorities.
- 7.2 We have continued to investigate data matches from the National Fraud Initiatives (NFI) 2010 which has so far identified savings from error and fraud of £256k.
- 7.3 We are currently undertaking a major pro-active exercise on housing tenancy fraud. This will include involvement of the National Anti Fraud Network (NAFN) and Experian for providing intelligence information for the detection of fraudulent tenancies. It is also one of seven national pathfinders of the National Fraud Authority (NFA). However the exercise has been delayed due to resource constraints but agreement has been made to a dedicated investigator for a year.

7.4 The Counter Fraud Programme has been revised in accordance with assessed fraud risk.

8. IMPLEMENTATION OF AGREED AUDIT ACTIONS

8.1 When unacceptable risks are identified in audit reviews, recommendations are made and agreed actions to mitigate these through improvement of system controls.

8.2 Implementation reviews for agreed actions to audit recommendation made, are usually carried out within six months of the issue of the final report.

8.3 Since April eight implementation reviews have been carried out on agreed actions (forty seven) from previous audit reviews. The level of implementation of agreed actions is 72% fully, 22% partial/in progress and 6% not implemented yet. Of these all 95% of high priority actions have been implemented, the remaining 5% partial/in progress.

9. AMENDMENTS TO THE ANNUAL INTERNAL AUDIT PLAN FOR 2011/12

9.1 The Annual Audit Plan was agreed by the Audit Committee in April 2011. However due to the pace of change, emerging risks and issues facing the council, it is subjected to ongoing review throughout the year. This is to ensure it remains focussed on the needs of the council and optimising audit resources for maximum value.

9.2 Table 3 below shows the amendments to the Annual Internal Audit Plan. Amendments includes new audits and increased days in response to emerging risks of fraud, financial loss and actions for improvement to payroll processes identified both by Audit & Business Risk and the Audit Commission (Annual Governance Report). For the latter we will work closely with senior HR management providing more of a consultancy role.

Table 3 – Amendments to the Annual Internal Audit Plan 2011/12

Action	Review Area	Planned Audit	Reason/Comments
Reduction in days from 25 to 10	Governance Arrangements	Performance Compacts and Business Planning	Reduction in assessed risk
Reduction in days from 25 to 5	Governance Arrangements	VFM Benefits Realisation	Reduction in assessed risk and scope changed to follow-up to 2010/11 audit review.
Reduction in days from 25 to 10	Governance Arrangements	Data Quality	Reduction in assessed risk
New audit review 20 days	Cross Council	Income Systems	Increase in assessed risk
New audit	Cross Council	Petty Cash	Increase in assessed risk

Action	Review Area	Planned Audit	Reason/Comments
Review 6 days		Handling	
Increase in days from 10 to 20	Cross Council	Payroll	Focus on the actions for improvement to processes and control document management.
Reduction in days from 12 to 7	Procurement & Contract Management	Post Implementation Review of Category Management	Delay in full implementation of category management.
Deletion of audit review	Counter Fraud	Money Laundering	New regulations delayed and not expected until 2012/13.
Increased in days from 120 to 140	Counter Fraud	Investigations into Fraud & Corruption (Reactive)	Significant increase in referrals and workload.
New audit review 5 days.	Counter Fraud	Local Government Fraud Strategy	B&HCC response to the strategy, expected in December 2011

10. PERFORMANCE OF INTERNAL AUDIT

10.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also included in our Service Business Plan and monitored regularly. Table 3 provides an overview of the performance of Audit & Business Risk against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	98%	97%
% implementation of agreed management actions	85%	72%
Efficiency		
% of planned direct days delivered for year	100%	94%
% of productive time	71%	64%
% of draft reports issued within 10 days of fieldwork completion	90%	92%
% response by client to draft reports within 15 days	90%	84%
% of issue of final reports within 10 days of agreement	95%	96%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	91%

11. FINANCIAL & OTHER IMPLICATIONS:

11.1 Financial Implications:

It is expected that the Internal Audit Plan for 2011/12 will be delivered within existing budgetary resources. In considering resources allocated to internal audit work this needs to be balanced against the need for financial probity, financial risks and achieving value for money.

Finance Officer consulted: Anne Silley

15 September 2011

11.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon

15 September 2011

11.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

11.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

11.5 Crime & Disorder Implications:

There are no direct implications for the prevention of crime and disorder arising from this report.

11.6 Risk and Opportunity Management Implications:

The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.

11.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Documents in Members Room

1. None

Background Documents

1. Internal Audit Plan 2011/12
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2011