

**INTERNAL AUDIT SERVICE  
INTERIM REPORT 2005/06**

**(Report by the Audit Manager)**

**1. INTRODUCTION**

- 1.1 Internal Audit is required by its terms of reference to report twice a year to the Panel. This interim report covers the period April to October 2005 and deals with progress towards the achievement of the 2005/06 annual audit plan and associated performance and management issues.

**2. DELIVERY OF THE 2005/06 AUDIT PLAN**

- 2.1 As at the 31 October, 24 of the 44 audits planned for 2005/06 had been completed or issued in draft. A further 9 were substantially underway. The level of assurance given for each of the reports completed or issued in draft is shown in the table at Appendix A.
- 2.2 11 audits from the 2004/05 audit plan were still underway at 31 March 2005. All have been formally closed. The Panel considered the level of assurance for these audits in July 2005.
- 2.3 The Panel should note the assurance definitions given. Full assurance is not always desirable because it may indicate excessive control where the area is relatively low risk. It should be recognised that in all systems there is a trade-off between efficiency and risk.
- 2.4 Electronic copies of all completed reports are available to Members on the Internal Audit intranet home page, via the 'Search for Audit Reports (Secure)' link.
- 2.5 Based on the work completed to date it is expected that the 2005/06 audit plan will be completed.

**3. IMPLEMENTATION OF AGREED ACTIONS**

- 3.1 The agreed actions arising from an audit report are entered onto a database that is published on the intranet. This allows managers to search for outstanding or partially completed actions and then update the database once an action has been completed and allows monitoring reports to be circulated to Directors every two months. It is important that these agreed actions are promptly carried out as they result from identified weaknesses in the Council's controls.
- 3.2 The database is used to select a sample, from those items which are reported as completed, so that Internal Audit staff can check if this is the case. In respect of those actions introduced up to 30 September 2005, these checks have shown that the actions taken were appropriate and addressed the risks identified in the audit report.

3.3 The percentage of agreed actions (calculated on a rolling 12 monthly basis) implemented, and even more so, those implemented on time, gives cause for concern. It is accepted that there will be occasions where service issues arise, after dates have been agreed, that properly take priority over the completion of these agreed actions but, as at 31 October, just 47% of the agreed actions had been introduced and only 26% had been introduced on time.

3.4 The position for each Directorate is shown below.

	TOTAL	Directorate		
		Central Services	Commerce & Technology	Operational Services
<b>No. of Actions</b>	<b>219</b>	<b>73</b>	<b>123</b>	<b>23</b>
Introduced	102	27	71	4
<b>% age introduced</b>	<b>47%</b>	<b>37%</b>	<b>58%</b>	<b>17%</b>
Introduced on time	58	9	46	3
<b>%age introduced on time</b>	<b>26%</b>	<b>12%</b>	<b>37%</b>	<b>13%</b>

Of the 219 actions, 32 are 'red'. 13 of the actions have been introduced.

#### 4. OPINION ON THE INTERNAL CONTROL ENVIRONMENT

4.1 The opinion provided as at 30 June 2005, was that the internal control environment and systems of internal control could provide limited assurance over the effective exercise of the Council's functions.

4.2 The opinion given was primarily due to the lack of compliance with the Code of Procurement and the lack of progress in dealing with the agreed actions arising from the document retention and records management audit. Whilst I am aware that action is being taken to address the issues identified, firm evidence of improvements will be required before a higher assurance opinion can be given.

4.3 Based on the audit work completed to the 31 October 2005 and the action taken by managers to address the risks identified, it is my opinion that the level of assurance remains limited. A more formal and detailed opinion will be provided prior to the adoption of the Corporate Governance Statement for 2006/07.

## **5. INTERNAL AUDIT'S PERFORMANCE**

- 5.1 Information in respect of the performance of the internal audit service is attached at Appendix B.

## **6. RECOMMENDATION**

It is recommended that:

- the interim report be noted
- Directors and Heads of Service are reminded of the importance of introducing actions within the agreed timescale.

## **BACKGROUND INFORMATION**

Internal audit reports issued during 2005/06

Audit database of actions

Audit plan 2005/06

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## Audit Reports issued April – October 2005

Audit Area	Level of Assurance				Agreed Action Status		
	Substantial	Adequate	Limited	Little	Red	Amber	Action not agreed & the risk identified accepted
<b>Key Financial Systems</b>							
Council Tax		✓			1	4	
NNDR		✓				1	
<b>Other systems reviews</b>							
Housing Benefit Fraud	✓				---	---	
Asset Management Plan	✓				---	---	
Car Leasing	✓					2	
Leisure Centres		✓			1	12	
Grants to Outside Bodies		✓			1	5	
Disciplinary Procedures		✓				7	
Delivery of MTP Developments		✓				6	
Printing		✓				6	
Purchasing Cards <i>* currently draft, not final</i>		✓				6	
Staff Travel & Subsistence		✓				5	1
Computer Training		✓				5	
Staff Appraisal		✓				5	
CCTV <i>* currently draft, not final</i>		✓				5	
Appointment of Consultants		✓				3	
Contract Variations		✓				3	
Charging for Council Services		✓				1	
Balanced Scorecard & Performance Management <i>* currently draft, not final</i>			✓			8	
Internet Monitoring <i>* currently draft, not final</i>			✓		1	5	
Quotation Process			✓			3	
<b>Computer Audit</b>							
Revenue & Benefit Application Review <i>* currently draft, not final</i>	✓					5	2
Software Licences <i>* currently draft, not final</i>		✓				8	
BACSTEL Review <i>* currently draft, not final</i>		✓				7	

In addition to the audits listed above, audit reviews have also been completed in the areas of corporate governance, the procurement of fitness equipment and eye-test reimbursement.

The level of assurance is based upon the number of suggested actions proposed and the categories into which those actions fall.

**Substantial Assurance**

*There are no weaknesses in the level of internal control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.*

**Adequate Assurance**

*There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.*

*Limited Assurance* There are weaknesses in the level of internal control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.

*Little Assurance* There are major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

Action status

- |       |  |
|-------|--|
| Red   | Actions that must be implemented as the current exposure to risk is unacceptably high, indicating a major control weakness   |
| Amber | Actions that managers should consider introducing as the current risk exposure is high. Control weaknesses have been identified that have the potential to compromise internal control, operational effectiveness or service delivery. |

## Internal Audit Performance

### 1. Introduction

1.1 Internal audit have prepared a set of performance measures that link into the Council's corporate performance management system. The measures which relate to the service's performance are listed below:

- External audit view of internal audit
- % of customers rating service quality as good or better.
- % of agreed actions implemented on time
- % of service delivery targets achieved.

### 2. External audit view of internal audit

Target: Adequate or better

Achieved: Good (2003/04) – 2004/05 awaited

2.1 The District Audit Service have not yet prepared their annual audit and inspection letter for 2004/05. Informal discussions with them suggest that their comments will be similar to previous years. If the letter is received prior to the meeting the comments received will be reported.

2.2 As the Panel are already aware RSM Robson Rhodes were appointed external auditor with effect from April 2005. They intend to undertake a review of internal audit when they commence reviewing the internal control environment. This review will consider the work performed on key financial systems, compliance with the minimum standards set out in the CIPFA Code of Audit Practice and a review of a sample of working paper files and audit reports. The results of this review will be reported to the Panel in due course.

### 3. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.

Achieved: 12 months to October 2005 - 83%

3.1 At the conclusion of all audits, managers are requested to complete an end of audit survey form and give an opinion on the value of the audit (its conduct, method of delivery, reporting process and validity of actions). The options available are – excellent, very good, good, fair and poor. Target information is calculated on a rolling twelve month basis rather than by financial year.




3.2 During the 12 month period ending 31 October, end of audit questionnaires had been received in respect of 36 audits. 83% of managers considered the overall value of the audit to be good or better. This is a high figure and reflects well on the performance of individual auditors. Where the opinion was less than good the reasons for the view expressed have been discussed with the manager and issues of concern addressed.

### 4. Introduction of agreed actions

4.1 Covered in section 3 of the main report.

## 5. Service delivery targets

- 5.1 There are four elements to this target which all relate to the progress of individual audits and the reporting process:
- Complete audit fieldwork by the date stated on the audit brief
  - Issue draft audit reports within 15 working days of completing fieldwork
  - Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report
  - Issue final audit report within 5 working days of receiving full response
- 5.2 Performance indicators are prepared monthly in respect of each target and circulated to internal audit staff. Achievement of the targets requires internal audit staff to develop and maintain good working partnerships and the customer's co-operation throughout the period of the audit.
- 5.3 The table below shows the targets and the change in performance since April. As more and more of the 12 month rolling average relates to the current years performance it is expected that the actual performance figures will increase further.

	Target	Performance as at:	
		April 2005	October 2005
Complete audit fieldwork by the date stated on the audit brief	75%	38%	57% 
Issue draft audit reports within 15 working days of completing fieldwork	90%	87%	90% 
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	52%	73% 
Issue final audit report within 5 working days of receiving full response	90%	92%	87% 