

**INTERNAL AUDIT SERVICE
INTERIM PROGRESS REPORT
(Report by the Audit & Risk Manager)**

1. Purpose

- 1.1 To receive an interim report covering the period August 2009 to January 2010, on the progress made to deliver the annual audit plan for the period ending July 2010 and associated performance issues.

2. Delivery of 2009/10 Audit Plan

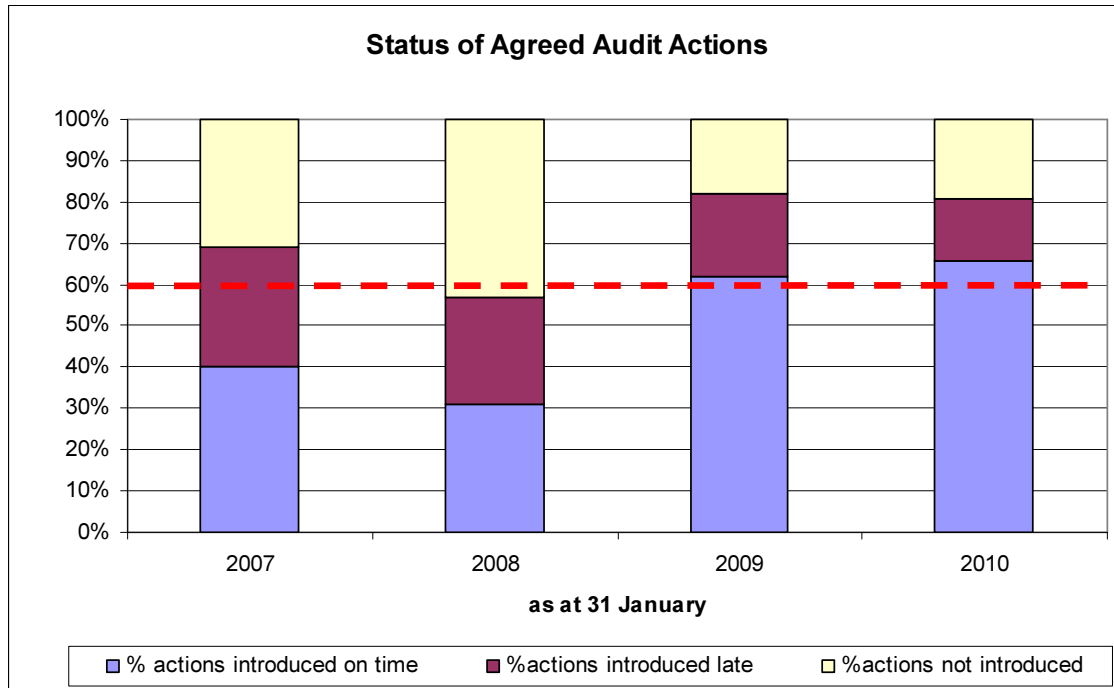
- 2.1 Members will recall that the audit year now runs from August to July to fit more closely with the governance reporting year and the Panel receives the proposed audit plan at its June meeting.
- 2.2 The June 2009 report noted that significant staffing changes were likely during the year. These have occurred as expected, but it is forecast that the agreed audit plan will still be achieved due to the increased use of our audit partner, Deloitte's.
- 2.3 In addition to the audit plan, significant work has been undertaken in the period on reviewing information received from the national fraud data matching initiative. Guidance and advice has also been provided on an ad-hoc basis on a wide variety of issues.
- 2.4 Details of all the audits that have been issued in the reporting period are shown in Annex A. All completed audit reports are available via the internal audit intranet pages.

3. Internal Audit Strategy

- 3.1 The retirement of one member of staff and the expected return of another member of staff on a part-time basis, following a period of maternity leave, has led to a comprehensive review of internal audit requirements. This has delayed the review of the Strategy and Terms of Reference and these will now be presented to the Panel in June.

4. Implementation of Agreed Actions

- 4.1 The performance indicator included in the internal audit service plan, that 60% of agreed actions should be implemented on time has been achieved. Performance is reported to COMT each quarter.
- 4.2 The graph below illustrates comparative performance from January 2007 to January 2010.



4.3 The table at Annex B shows the split between red and amber actions and by Directorate. (The figures as at 31 January show 66% of actions introduced on time and 15% introduced late).

4.4 Of the actions not yet implemented the two detailed in Annex C are red actions that must be implemented to solve major control weaknesses.

5. Internal Audit's Performance

5.1 Information in respect of the performance of the internal audit service is attached at Annex D.

6. Recommendation

6.1 It is recommended that the Panel note the report.

ACCESS TO INFORMATION ACT 1985

Internal Audit Reports

Internal Audit Performance Management Information

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**Summary of Internal Audit Reports issued during the period
1 August 2009 to 31 January 2010**

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
Key Financial Systems							
Main Accounting System	✓✓				0	2	
Loans & Investments		✓			0	5	
Other systems reviews							
Housing Benefit Fraud & NFI	✓✓				---	---	
Local Transport Issues	✓✓				0	3	
Printing		✓			1	5	
Equality		✓			0	8	
Freedom of Information & Data Protection		✓			0	7	
Feedback Procedures ²		✓			0	6	
Staff Training & Development		✓			0	5	
Staff Allowances		✓			0	5	
Staff Work/Life Balance			x		1	6	
Cashable Efficiency Savings NI 179 ²			x		0	4	
Quotation Selection Procedures				xx	4	0	
Computer Audit							
Telecoms/VOiP contract		✓			0	7	
Network Infrastructure			x		3	13	

¹ There are occasions when a risk identified during an audit is acknowledged and accepted by a Manager and they decide that no further action is required. The right hand column of this table records any such instances.

² Draft or final report issued as at 31 January 2010.

In addition to the reviews listed above, a sample of building and civil engineering accounts are reviewed each year. This year's review has been completed and identified some £14k in overpayments.

Issued identified from the September 2009 report

The September 2009, annual audit report, made reference to two specific areas of concern. The present position is as follows.

Code of Procurement

The Panel received a report from the Directors of Central Service and Commerce & Technology in December that outlined the action taken or planned to promote compliance with the Council's Code of Procurement. Whilst no reviews have been completed in this area during the current audit year, work is planned to be completed prior to September, so that it can be taken account of in the annual opinion statement.

Data Encryption

Encryption of laptops and portable IT devices was expected to be completed by the end of February. Encryption reduces the risk that personal data may be compromised if a laptop or data stick was lost or stolen.

Encryption has not yet been introduced due to technical issues, which have still to be resolved. Notwithstanding these issues, the Corporate Systems & Information Manager expects all laptops to be encrypted by April 2010. USB devices are expected to be encrypted by July 2010.

From 6 April 2010, the Information Commission will be able to order organisations to pay up to £500,000 as a penalty for serious breaches of the Data Protection Act.

A further update will be provided to the Panel in September.

LEVELS OF ASSURANCE - DEFINITIONS

<i>Substantial Assurance</i>	✓✓	<i>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.</i>
<i>Adequate Assurance</i>	✓	<i>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.</i>
<i>Limited Assurance</i>	✗	<i>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.</i>
<i>Little Assurance</i>	✗✗	<i>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.</i>

**Implementation of Agreed Actions
Summary of the Actions Database as at 31 January 2010**

	Status of Action						TOTAL
	Introduced on time		Introduced Late		Not introduced		
Red Action	20		2		5		27
Amber Action	98		26		29		153
Total	118		28		34		180
% age	66%		15%		19%		
	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Central Services	4	24	1	14	2	7	52
Commerce & Technology	16	61	0	7	3	17	104
Operational Services	0	13	1	5	0	5	24
Total	20	98	2	26	5	29	180

A sample of actions that have been reported as being completed are checked annually to see that the action introduced sufficiently addresses the risk that has been identified.

If during the review of actions introduced it is found that the action taken does not fully deal with the risk then the action that has been taken to address the risk identified is discussed with the appropriate manager and if necessary, changes to the database are made to reflect the actual position.

The next follow up review of agreed audit actions is planned to be undertaken in the quarter ending July 2010. The findings from this review will be taken into account when the annual assurance opinion is formulated.

'Red' Actions Outstanding

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position ¹
Monitoring of Recruitment to High Risk Posts 2008	Head of People, Performance & Partnerships	A standard framework / approach for risk assessing Council employees will be established. (This will involve the relevant line manager and the Safeguarding Champion, and require the results of the risk assessment to be documented in each case). The results of the risk assessment will inform the programme of CRB checks carried out for staff.	30/04/2009	This is outstanding and has potentially been overtaken/delayed by the introduction of the new vetting and barring scheme.
Monitoring of Recruitment to High Risk Posts 2008	Head of People, Performance & Partnerships	<p>An in-depth risk assessment will be undertaken to identify the depth of CRB checking required for Countryside Centres volunteers, with a view to carrying out checks to the necessary level, where appropriate. Reminders will be issued to all relevant departments and centres highlighting the CRB and Safeguarding policies and their importance etc.</p> <p>A list of all volunteers will be maintained, which includes an assessment of their involvement of working with children and confirmation that CRB clearance has been obtained.</p>	30/06/2009	This is outstanding and has potentially been overtaken/delayed by the introduction of the new vetting and barring scheme.

¹ This is the position as at 15 March 2010.

Internal Audit Performance

1. External audit view of internal audit

Target: Adequate or better
 Achieved: Satisfied

- 1.1 The external auditor continues to be satisfied with the work of the internal audit service.
- 1.2 The internal audit service also contributes to a number of themes within the Use of Resources, Key Lines of Enquiry. Its main contribution is judged through KLOE 2.4, which deals with Internal Control, which was judged to be at level 3 – performing well – in the 2008/09 assessment.

2. Customer Satisfaction

Target: 85% or more of auditees rating service quality as good or better.
 Achieved: 12 months to January 2010 - 100%

- 2.1 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. 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.
- 2.2 The Head of Financial Services annual customer satisfaction survey also continues to show a high level of management customer satisfaction with the service as the graph below shows.



3. Introduction of Agreed Actions

- 3.1 See paragraph 4 of the main report.

4. Service delivery targets

Target: 80% or more of service delivery targets achieved.

Achieved: 12 months to January 2009 – 76%

4.1 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

4.2 Performance indicators are prepared monthly. The targets are also reflected in staff's key performance development targets within the annual appraisal process. 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.

4.3 Performance at 31 January 2010 for each of the target areas is shown below.

	<u>Target</u>	<u>Overall</u>	<i>Change from August 2009</i>
Complete audit fieldwork by the date stated on the audit brief.	75%	70%	↓
Issue draft audit reports within 15 working days of completing fieldwork.	90%	75%	↑
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	70%	↑
Issue final audit report within 5 working days of receiving full response.	90%	90%	↑
Overall	80%	76%	↑

4.4 The overall service delivery targets include all audit reviews undertaken by both internal audit staff and the external computer auditors. Whilst there has been an increase in performance since August 2009, the targets have not been achieved. This area will continue to be closely monitored with the aim of improving performance.