

**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 2010 to January 2011, on the progress made to deliver the annual audit plan for the period ending July 2011 and associated performance issues.

2. Delivery of 2010/11 Audit Plan

- 2.1 Members will recall that the audit year 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 2010/11 audit plan contained 35 audit reviews. It is anticipated that two audits will need to be removed from the current years plan (car mileage payments and corporate governance arrangements). This is due to one audit from the 2009/10 plan having to be completed in the current audit year and auditors involvement in following up a particular issue raised as a result of a "whistle blowing".
- 2.3 A further two audits have been omitted as changing circumstances within the service areas no longer require the reviews to be completed – these are the implementation of the Citrix remote network access solution and the review of development control decisions. Whilst substitute audits from the strategic audit plan are available to replace these reviews, they have not yet been assigned.
- 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. Resourcing the Audit Plan

- 3.1 The report to the June 2010 meeting outlined a number of options that were available to deliver the strategic and annual audit plans with a reduced staffing structure.
- 3.2 One of the options - focusing the audit on the most significant aspects and omit consideration of items that were of marginal risk - has been taken forward under the overall heading of 'lean auditing'.

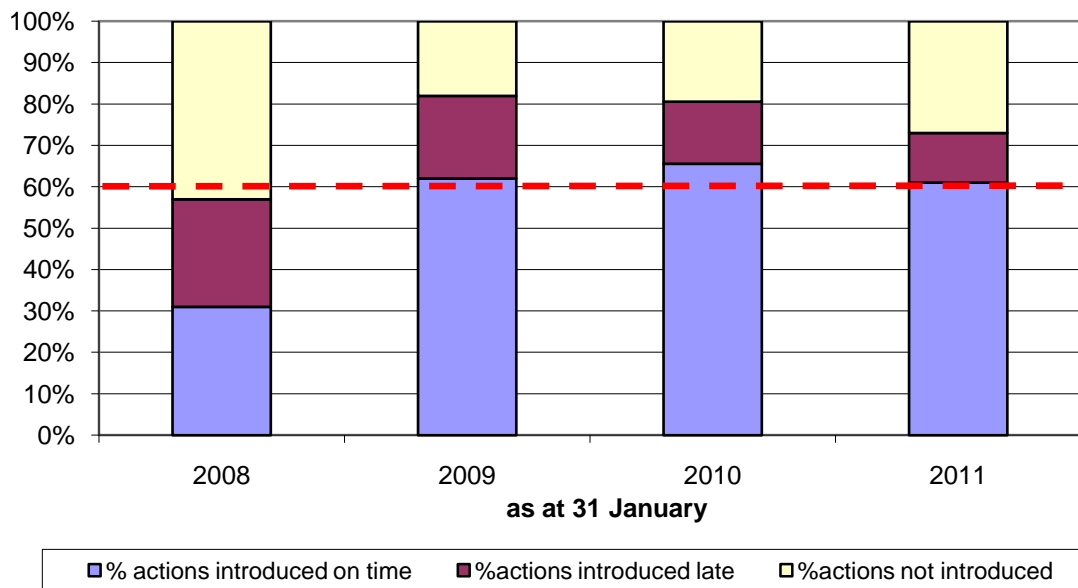
'Lean auditing' concepts have been discussed with members of the internal audit team and it is anticipated that changes to internal audits own working practices together with tighter focused reviews will bring about the time savings anticipated.

- 3.3 Another of the options, 'light touch' self assessment reviews, has not yet been evaluated.
- 3.4 It was also explained that reducing the staffing levels of the service would leave a shortfall of approximately 55 days in each of the four years of the strategic audit plan. It was intended to cover this shortfall by using Deloitte's, our computer audit partner. A member of the audit team who works part-time has however increased their working hours to cover this shortfall. This has produced a small financial saving.

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. The graph below illustrates comparative performance from January 2008 to January 2011.

Status of Agreed Audit Actions



- 4.2 Performance has been as high as 72%, but it has been gradually decreasing over the past six months and currently stands at 61%.
- 4.3 The table at Annex B shows the split between red and amber actions and by Directorate.
- 4.4 Whilst there are two red actions outstanding at 31 January, work has already commenced on introducing the agreed improvement to controls. For that reason they have not been reported separately.

5. Internal Audit's Performance

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

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 2010 to 31 January 2011**

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							
No reviews in this period							
Other systems reviews							
Budgetary Control	✓✓				0	0	
Economic Development	✓✓				0	3	
Edwards & Blake catering contract		✓			0	0	
Job Evaluation Scheme		✓			0	1	
Electoral Registration		✓			0	2	
Planning Services Income		✓			0	4	
Gifts & Hospitality register and interests		✓			0	4	
Staff Travel and Subsistence ²		✓			0	4	
Supermarket car park cost recovery			✗		4	1	
Homelessness			✗		3	9	
National & Local Performance Indicators ²			✗		2	0	
Computer Audit							
Application reviews :							
@Marketplace		✓			0	4	
Main financial system		✓			0	3	
Service Developed ICT systems			✗		1	3	

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 2011.

In addition to the reviews listed above, internal audit also spent a substantial amount of time involved in a fraud related review. The review has been completed and resulted in improved procedures in respect of time recording and management review.

The output from the 2010 NFI exercise has also been received in the period and work has started on reviewing the data matches to identify potential cases of fraud or overpayment. A full report detailing the outcome of the review will be presented to a future meeting.

Issued identified from previous reports

Previous reports to the Panel have identified a number of issues of concern. A review of these has been undertaken and current progress is detailed below.

Data Encryption

Panel will recall that 15 laptops were stolen from Pathfinder House in 2009 following a burglary. Internal audit made a number of recommendations to improve both data and building security. Whilst the majority of the recommendations have been introduced, one of the most important, regarding the introduction of data encryption is still outstanding.

Since the burglary occurred, one further laptop has been lost and a Blackberry stolen, but subsequently recovered.

It was originally envisaged that all laptops and portable IT devices would be encrypted by February 2010. This did not happen due to problems with the encryption software. These issues have now been resolved.

138 laptops have been encrypted and the remaining laptops will be encrypted with the next few weeks. Encryption of USB sticks and portable storage devices is due to start in March and will be undertaken on a departmental basis (starting with those departments that hold sensitive personal data). It is expected to be completed by the end of July.

Establishment Control

Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. HR agreed that by September 2010 establishment information will be sent to managers at regular intervals for review purposes.

A report has been prepared and the format and content discussed with internal audit. HR expect the report to be issued by the end of the month, if not before.

Internet Monitoring

An audit completed in January 2008 contained only one red action. This was almost identical to an action that was agreed in November 2005, but not introduced. "There should be a formal [internet usage] review system in place along with prescribed actions to be taken when cases of internet abuse are discovered. Regular reports of 'Top 20 Users' should be sent to relevant managers on a monthly basis. These managers should then provide assurance to the Head of HR that the usage is appropriate".

The current software used to monitor internet usage is not capable of retrieving the level of detail required so as to allow the action to be implemented. A replacement product is due to be installed. It is expected this will allow detailed reports to be prepared and monitoring undertaken.

LEVELS OF ASSURANCE - DEFINITIONS

Substantial Assurance	✓✓	<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>
Adequate Assurance	✓	<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>
Limited Assurance	✗	<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>
Little Assurance	✗✗	<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 2011**

	Status of Action						TOTAL
	Introduced on time		Introduced Late		Not Introduced		
Red Action	10		1		2 ^a		13
Amber Action	75		16		35		126
Total	85		17		37		139
% age	61%		12%		27%		
	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Central Services	6	22	1	6	1	15	51
Commerce & Technology	1	49	0	9	1	14	74
Operational Services	3	4	0	1	0	6	14
Total	10	75	1	16	2	35	139

^a The two red actions have been partially introduced.

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 2011. The findings from this review will be taken into account when the annual assurance opinion is formulated.

Internal Audit Performance

1. External audit view of internal audit

Target: Adequate or better
Achieved: Satisfied

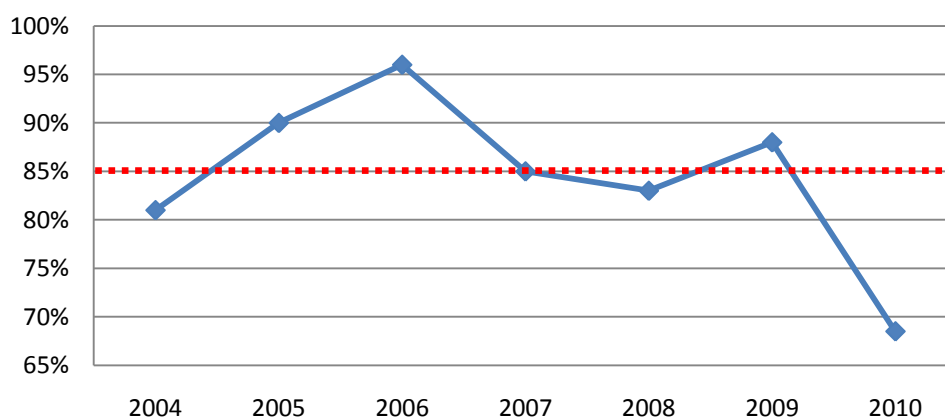
- 1.1 The external auditor reported in the 2009/10 Annual Audit Letter that the 'scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts'.

2. Customer Satisfaction

Target: 85% or more of auditees rating service quality as good or better.
Achieved: 12 months to January 2011 - 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 has shown a drop in the level of management customer satisfaction with the service. Only 68% of returns judged the service as being good or better.

Manager Satisfaction



- 2.3 The reasons for the fall appear to be linked to the survey scoring mechanism changing. The category below Good changed from average to acceptable. Whilst this in itself may seem of little consequence a further question asked managers to say how much, if at all, the service had changed in the last year. This resulted in 94% of replies saying the service was at the same level as the previous year. The 2011 survey is currently being undertaken. The results will be reviewed and discussed with managers to identify any on-going issues.

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 2011 – 70%

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.

4.3 It is disappointing that the 80% target has not been achieved. It is evident from a review of the data that supports the target that the move towards part-time working has affected the ability of staff to meet deadlines, particularly around the area of completion of the fieldwork. This area will continue to be closely monitored with the aim of improving performance.

5. Service Developments

5.1 The following developments are planned for the next six months

- The introduction of a new 'agreed actions' management system;
- A review of the internal audit service against the Cipfa Code of Practice;
- Assisting the Panel undertake a review of its effectiveness, as agreed by the Panel in September 2008;
- Continuous auditing of systems susceptible to fraud is to be investigated; and
- Completion of the e-learning fraud material.