

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT**INTERNAL AUDIT SIX MONTH PROGRESS REPORT – 1ST APRIL 2013 TO
30TH SEPTEMBER 2013****Purpose of the Report**

1. To inform Members of the work carried out in the first half of the 2013/14 financial year and to comment on the progress made against the Internal Audit Plan.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
 - a) determine and monitor the achievement of the Authority's objectives
 - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
 - c) facilitate policy and decision making
 - d) ensure the economical, effective and efficient use of resources
 - e) ensure compliance with established policies, procedures, laws and regulations
 - f) safeguard the Authority's assets and interests

4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards. It is good practice to provide an interim report on Internal Audit work to the Board and this report satisfies this expectation.

Summary of Internal Audit Work 01/04/13 to 30/09/13

5. The audits completed to 30 September 2013 cover a broad range of the Authority's operations, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. Overall, the number of days spent carrying out audits is below the planned level. The main reason for this is that the Section is currently carrying a number of vacancies. The vacant posts have not been filled at this stage as the Internal Audit structure is under review, with a view to strengthening the number of staff at the Senior Auditor level, as the demands on the service have changed in recent years.
6. In the first six months of the year, a total of 61 County Council audits have been completed against a planned coverage of 137 audits for the year. For 41 of the completed audits, a formal report has been issued which includes an audit opinion on the level of internal control. A detailed analysis of the reports issued is shown in Appendix 2, setting out the area covered, the Audit Opinion, and the number of recommendations made and accepted. The other 20 audits covered a range of areas including auditing grant claims, provision of detailed written advice and responding to irregularities.
7. During the period there were 5 internal audit reports issued with an "Unsatisfactory" audit opinion. The details of these reports are set out below.

E&R 1314 – Street Lighting – June 2013. The key concerns raised related to the maintenance of the inventory of street lighting and failure to check that charges for electricity use were up-to-date and accurate. Recommendations have been made and agreed to rectify the situation.

E&R 1318 – Cleaning Service follow up – July 2013. This was a follow up audit to an initial review carried out following a Whistleblowing allegation. The original allegation was that the Cleaning Service's assets and resources were being mis-used. Whilst the allegation was not substantiated, a number of weaknesses in records and processes were identified. This follow up identified that insufficient progress had been made in implementing the agreed recommendations and the area is the subject of a separate report to the Audit Committee.

E&R 1319 – Corporate Procurement – August 2013. The Authority does not currently have an agreed procurement strategy. The old strategy, which covered the period from 2010 to 2012, has not yet been replaced. A number of aspects from the old strategy had not been implemented, for example establishing a Procurement Board and setting up a Contracts Register. However, it is unclear what will be required under any new strategy. Nineteen recommendations were made to improve procurement and thirteen of these have been agreed. The recommendations that have not been agreed have resulted from the view that the recommendations will be inappropriate when the new strategy is in place.

E&R 1404 – Imprest Accounts – August 2013. This review was carried out following the investigation of cash shortfalls in two Imprest accounts, which were subsequently referred to the Police for investigation. The review identified that there was a failure to take effective action in cases where accounts are overdrawn, out of balance or not being used. Seven recommendations have been made, and agreed, to improve the level of control.

CC 1302 – Business Continuity – May 2013. Although a strong framework for managing business continuity was in place, the majority of departmental business continuity plans were incomplete at the time of audit. Seven recommendations have been made and agreed to improve business continuity.

8. There were ten Internal Audit Reports with “Unsatisfactory” audit opinions that have been revisited during the period between 1st April 2013 and 30th September 2013 to ensure that the recommendations that were agreed for implementation have been acted upon. Four of these related to primary schools and these are now all confirmed as being satisfactory. The details of the other follow ups are set out in Table 1.

Table 1: Follow up audits completed during period 1st April to 30th September 2013

Original report number	Area audited	Current Audit Opinion
ASC 1403	Direct Payments monitoring	Satisfactory
E&R 1406	Framework <i>i</i>	Satisfactory
ASC 1306	Meals at Home Income - 2 nd follow up	Satisfactory
ASC 1307	The i-work team	Satisfactory
E&R 1318	Cleaning Service – follow up	Unsatisfactory – full details set out in separate report to this committee
E&R 1408	Car Loans	Satisfactory

Internal Audit Performance Indicators

9. Progress against the Section's performance indicators, as at 30 September 2013, is detailed in the table below:-

Internal Audit Performance Indicators 2013/14

Performance Measure/Criteria	Target	Outcome as at 30/09/13
Comply with Public Sector Internal Audit Standards	Compliance achieved	Report to be presented to March 2014 Audit Committee
Completion of Audit Plan - Days	90%	83%
- Jobs	90%	88%
Positive customer feedback	Feedback good or excellent	Achieved (average score is 1.6 where 1 is excellent and 2 is good)
Recommendations accepted	95%	97%
Productive time	70%	65%
External Audit Reliance on Internal Audit	Positive	Positive

10. Progress to date on completing the Audit Plan has been significantly below the planned time. The Internal Audit Section is currently undergoing consultation on restructuring to make it more effective in meeting changed demands. It is anticipated that there will continue to be three vacant posts (out of 13 full time equivalent posts) pending the restructure and it is anticipated that the full number of Audit Days **will not be provided** by the end of the financial year. It is expected that approximately 80% of the Plan will be completed. Discussions have taken place with key stakeholders to determine which audits will be prioritised and which audits can be deferred to 2014/15.
11. The responses to our audit reports continue to be positive. A total of 210 recommendations were made during the six month period to the end of September 2013 and 204 (97%) have been agreed for implementation. Customer feedback from the Quality Control Questionnaires is also positive with an average score of 1.6. Productive time is below the planned level – actual of 65% compared to a target of 70%. The main reason for this is a move to new Ways of Working which involved an office relocation and staff training on new systems. This has now been successfully completed.

Conclusion

12. Internal Audit work completed to 30 September 2013 is below target and this is likely to continue through to the end of the financial year. However, audit work is being prioritised, in consultation with key stakeholders, to ensure that the maximum benefits are achieved from

the available resources. The work completed shows that the Authority's overall system of internal control continues to be satisfactory at this stage of the year.

Other Options Considered

13. This report is for information and noting. No alternative options have been considered.

Reason/s for Recommendation/s

14. This report is for noting.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

16. Members are asked to note the Internal Audit Progress Report and comment accordingly.

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Title of Report Author: Head of Internal Audit

For any enquiries about this report please contact: John Bailey (telephone 0115 977 2226)

Constitutional Comments

17. The report is for noting only.

Financial Comments (JMB 29/10/13)

18. The net budgeted cost for Internal Audit for 2013/14 is £360k. As a result of vacant posts, it is expected that there will be an underspend during the year of approximately £60k.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

The reports set out in Appendix 2 are available as background papers.

Electoral Division(s) and Member(s) Affected

All