

AUDIT COMMITTEE

22 September 2011

Subject Heading:	Internal Audit Progress Report
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the approved audit plan in quarter one of 2011/12.
Financial summary:	N/a

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	X
Excellence in education and learning	X
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1st April 2011 to 30th June 2011.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity presented in five sections.

Section 1 Audit Work 1st April to 30th June 2011

A summary of the work undertaken in quarter one is included in this section of the report.

Section 2 Resource Information

The current resource position and information about the team's restructure are included for information.

Section 3 Key Performance Indicators

The actual performance against target for key indicators is included.

Section 4 Changes to the Approved Audit Plan

The changes made to the audit plan since the start of the financial year are detailed and explained in this section of the report.

Section 5 Outstanding Recommendations Summary Tables

The details regarding status, as at the end of June, of all outstanding recommendations are included within tables for information.

Appendix 1 Review of Money Laundering Arrangements

The action plan resulting from our review is included within this appended document.

Appendix 2 Outstanding Recommendations Full Table

The full list of outstanding recommendations is included within this appended document.

IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. With regards Money Laundering criminal charges may result should employees not fulfil their personal responsibilities. Sanctions could also be imposed on the Council if it is considered not to be complying with legislation. There are no financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None.

Section 1 Audit Work 1st April 2011 to 30th June 2011.

At the end of June 17% of the audit plan had been delivered. This was against a target for the period of 13%.

At the end of June 13 assignments were in progress but none had reached the final report stage. A number of final report relating to 2010/11 assignments were issued in this period the outcome of this work was reported to Committee in May.

Work in progress includes:

- School Audit – Brady Primary & Nelmes Primary.
- Probity Audit – St Klida’s Children’s Centre.
- Computer Audits – Network Infrastructure, Enterprise Project and BACs IP.
- Risk Based Systems Audits – Complaints, Supply Chain Resilience, Disabled Facilities Grants, Commercial Property, Non Domestic Rates and Public Protection.
- Substantive Testing – Internal Shared Services.

The team reviewed the grant files for two grants: Rainham Bus Interchange and Play Capital and, as required by the funding body, provided assurance that the Council had complied with the requirements set out in the grant conditions.

The annual review of the Council’s Money Laundering Arrangements has also taken place. The Council has in place arrangements, outlined in a strategy and policy statement, to reduce the risk of its services being exposed to Money Laundering, be party to terrorist financing or recipients of the proceeds of organised crime generally.

The Council is not considered, in legislation, to be an organisation at high risk of exposure to this activity, however its obligations to the community are clear and in the current economic climate the risks the organisation faces from increased criminal or illegal money lender activity are increased.

The Internal Audit Team has received no money laundering reports in the period April 2010 to March 2011.

As part of this years review the team have:

- Reviewed policy and strategy documentation;
- considered all activity;
- risk assessed the activity;
- spoken to relevant officers within teams;
- considered the appropriate mechanism to raise awareness i.e. informal discussions with staff, formal notification to team briefer or formal workshop or training; and
- planned the resulting list of actions.

The review has concluded there are gaps in awareness and training for officers which may increase the risk of appropriate action not being taken by Council. The full action plan resulting from this review is attached as Appendix 1 of this report.

Section 2 Resource Information

On 27th July 2011 a proposed restructure of the Internal Audit Team was launched and is currently in a 90 day consultation period. There are further plans to create a Corporate Fraud Team in the next 18 months.

The restructure of the Internal Audit team aims to:

- Ensure the available resources are appropriately utilised to the maximum benefit of the organisation ensuring value for money is achieved and necessary savings are met;
- Respond to changing demands on the services and the increasingly complex work required to fulfil the respective service's objectives;
- Enable the team to effectively deliver the schools audit programme, which was brought back in house from October 2010, and to be a viable provider to Academy schools;
- To implement the right foundations for to enable a Corporate Fraud Team to be established before March 2013;
- Enable the audit team to effectively deliver an internal audit service to Homes in Havering a service which commenced in June 2011;
- To enable the team to seek other opportunities to provide services which will further generate income to the budget;
- To facilitate effective succession planning to secure the future of the service; and
- To ensure that the services continue to develop team members so that it can meet future needs of the organisation.

Currently the Principal Auditor Fraud is acting up into the vacant Principal Auditor Systems and Risk Management post and his substantive post is being covered by an agency worker. The Senior Audit Systems and Contracts returns from maternity leave in October 2011. Additional agency resources will join the team in September 2011 on a part time basis to increase resources available to deliver the internal audit plan.

Section 3 – Key Performance Indicators

The tables below detail the profiled targets for the year and the performance to date at the end of June and the targets for the rest of the financial year.

Audit Plan Delivered (%)										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	17									
Cumulative Target	13	20	27	35	45	55	63	74	85	95

It is anticipated that at the end of March 2011 there will be approximately 5% of the plan (73 days) to be delivered. This relates to finalisation of 2011/12 audit work. At the end of June 2011 the team is ahead of target with 17% of the audit plan having been delivered.

KPI 01 - Briefs issued										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	12									
Cumulative Target	12	17	22	29	36	43	48	55	60	60

It is estimated the team will undertake 60 audit assignments. Outputs from Fraud cases are not counted in the 60. At the end of June the team were on target with regards issuing of audit briefs.

KPI 02 – Draft Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	4										
Cumulative Target	5	8	10	14	19	26	35	40	48	55	60

At the end of June the team were one draft report behind target.

KPI 03 – Final Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	0										
Cumulative Target	3	5	7	10	16	23	30	37	45	50	60

No final reports had been issued at the end of June.

Section 4 – Changes to the Approved 2011/12 Audit Plan

In March 2011 the Audit Committee approved an Annual Audit Plan for the 2010/11 financial year totalling 1466 days.

The table below provides a summary of the audits removed from, and added to, the 2011/12 approved audit plan and the reason for the change.

The impact on the total days in the plan has been managed by adjusting the contingency budget for the year.

Audit Title	Days	Revised Days	Directorate	Reason
Transitions (Children to Adults)	10	0	SC&L	Control weaknesses were identified in 2010/11. Sufficient improvements are yet to be implemented to require further audit work and Transitions has been identified as a transformation work stream, where savings can be achieved.
Complaints	0	17	SC&L	Added to 2011/12 plan.
Non Domestic Rates	0	25	C&C	Added to 2011/12 plan.
Climate Change	10	5	C&C	Reduced budget as external audit of area reduce scope of work.
Pupil Services – educational computer centre	15	12		Scope will focus on one specific area; budget was reduced at planning stage of audit.
Enterprise Project	0	12	F&C	Added to 2011/12 plan.
Contingency	50	14		Contingency budget reduced to accommodate overall increase in planned work.
Total Effect	85	85		Audit plan totals 1466.

Section 5 – Outstanding Recommendations Summary Tables

Categorisation of recommendations

High: Fundamental control requirement needing implementation as soon as possible

Medium: Important Control that should be implemented

Low: Pertaining to Best Practice

Appendix 2 includes a full list of all recommendations summarised in the tables in this section.

Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end June 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
E Payments	Business Systems		1		1		
Commissioning of Works	Asset Management	1			1		
IT Security & Data Management	Business Systems	2			2		
Telecommunications	Business Systems	1			1		
	Total	4	1		5		

Outstanding Internal Audit Recommendations – 2009/10

Review in 2009/10	HoS Responsible	Outstanding			Position as at end June 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Integrated Youth Services	Children's and Young people		1	1	2		
Climate Change	Culture & Community		1		1		
Government Connect GCSx	Business Systems	2	2		4		
Commensura	Shared Service		1		1		
Contract Completions	Asset Management			2	2		
Integrated Children's Systems	Children's and Young People		2		2		
Total		2	7	3	12		

Outstanding Internal Audit Recommendations – 2010/11

Review in 2010/11	HoS Responsible	Outstanding			Position as at end June 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Tranman	Asset Management	3	1		4		
Service Desk	Business Systems		2	1	3		
Corporate Support Team	Asset Management		1	1	2		
Section 106	Development & Building Control		1				
Total		3	5	2	9	1	0

Appendix 1 – Money Laundering Action Plan

Action Ref	Action	Responsible Officer	Target Date
1	Undertake proactive work to ensure failure to report suspicious activity occurred in 2010/11.	MLRO	November 2011
2	Update intranet information.	MLRO	November 2011
3	Include reference to Proceeds of Crime within the 'E' fraud awareness package.	MLRO	March 2012
4	Complete planned programme of front-line staff awareness raising actions	MLRO	March 2012
5	Liaise with management to ensure appropriate procedural information is available for officers in key transactional areas.	MLRO	March 2012
6	Complete surveys to gain assurance regarding Service Area awareness – to feed into next review.	MLRO	May 2012

MLRO = Money Laundering Reporting Officer