

## AUDIT & RISK COMMITTEE

26<sup>th</sup> JANUARY 2010

### INTERNAL AUDIT PERFORMANCE REPORT 1<sup>ST</sup> APRIL -31<sup>ST</sup> DECEMBER 2009

#### REPORT OF THE HEAD OF CONSORTIUM

CORPORATE AIM	<b>A well managed organisation</b>
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#### 1) PURPOSE OF THE REPORT

- 1.1 To allow Members to monitor the performance of the Consortium in delivering the Council's internal audit service.

#### 2) RECOMMENDATIONS

- 2.1 **That Members consider whether there are any aspects of the Council's performance that require further explanation.**

#### 3) PROGRESS WITH THE ANNUAL PLAN

- 3.1 By the end of the third quarter of the financial year the Consortium had completed or substantially completed all but three of the audits scheduled for Quarters 1 and 2. The exceptions were:
- **Youth Services (Q1)** – put on hold because of the long-term absence of the key client;
  - **Management of Pooled Budgets (Q2)** – agreement of terms of reference was delayed
  - **Business Continuity (Q3)** – deferred at client request because work is in hand to update corporate arrangements
- 3.2 The original plan of work for Quarter 3 was revised at the request of External Audit so that work on the Council's fundamental financial systems could be brought forward. The non-financial audits scheduled for Quarter 3 were deferred until Quarter 4 and all audits of fundamental financial systems were started. However, as indicated in an earlier report to this Committee (25/2010), issues relating to the implementation of Agresso have made it impractical to complete and report on those audits.
- 3.3 In the period to the end of Quarter 3 the Consortium delivered 68% of the days contracted to the Council rather than the targeted 75%. This reflects in part the impact of rescheduling work.

- 3.4 The combined impact of rescheduling and deferring completion of audits together with the absence of two auditors for extended periods of sick leave make it likely that the planned programme of work will not be completed by the year-end. Priority is now being given to ensuring the completion of audits of financial systems to meet commitments to External Audit.

<b>Table 1: Progress on Planned Work</b>	
<b>Audit</b>	<b>Status</b>
<b>Quarter 1</b>	
Road Safety	Final report issued
Community Safety	Final report issued
Traffic Management & Car Parking	Final report issued
Customer Services	Final report issued
Waste Management & Recycling	Final report issued
<b>Quarter 2</b>	
Improving Private Sector Housing	Final report issued
Fostering	Draft report issued
Managing & Maintaining Public Space	Draft in review
Promoting Value for Money	Draft in review
Managing Pooled Budgets	Work in Progress
<b>Quarter 3</b>	
ICT Audit –Agresso Implementation	Draft report issued
Treasury Management*	Work in Progress
Local Taxes	Work in Progress
Creditors	Work in Progress
Debtors	Work in Progress
Payroll	Work in Progress
<b>Quarter 4</b>	
Cash & Banking	Work in Progress
Main Accounting System	Work in Progress
Budgeting & Budgetary Control	Work in Progress
*The Treasury Management Audit was added to the programme in place of scheduled Minimum Assurance Work on Treasury Management with a view to giving the External Auditor an opportunity to comment on the e-based evidence files supported by Galileo.	

- 3.5 The Annual Plan makes provision for 120 days of contingency activities (including Committee attendance; advice and assistance; and commissioned consultancy work) The Consortium has received commissions to undertake a number of significant consultancy exercises:
- Developing an updated Corporate Counter-Fraud Strategy;
  - Reviewing Cashiering Arrangements ;
  - Auditing elements of the Catmose Campus management and governance arrangements to support work by the External Auditor;
  - Auditing elements of the Stock Transfer process to support work by the External Auditor;
  - Contract Management Arrangements;
  - Reviewing the Members' Allowances Scheme; and
  - Ensuring that the Council and its partner organisations satisfy the accreditation criteria for ContactPoint

The resources committed to these exercises and other ad hoc support for the Council are close to the maximum prudent if the delivery of planned work is not to be compromised..

- 3.6 The assurance ratings issued on the completion of each planned audit feed into the overall assurance rating provided in the Annual Report of Internal Audit. This information also allows the Committee to develop its own view of the adequacy of the Council's overall control framework. Table 2 (below) shows the assurance ratings issued this year to date

<b>Table 2: Assurance Ratings 2009/10</b>	
<b>Audit Entity</b>	<b>Assurance Rating</b>
Improving Private Sector Housing	Good
Members Allowances*	Good
Road Safety	Good
Community Safety	Sound
Traffic Management & Car Parking	Sound
Customer Services	Marginal
Waste Management & Recycling	Marginal
* The audit of Members Allowances was commissioned as an addition to the planned programme of audits.	

#### 4) DEVELOPMENT OF AN ICT AUDIT PROGRAMME

- 4.1 Because it is recognised that the skills required to provide full assurance cannot be supported in-house the Consortium entered into a contract with NTA Monitor Ltd to undertake penetration testing and other work to demonstrate the effectiveness of the Council's firewalls and similar technical arrangements for data security. More recently the Consortium has contracted with KPMG for the provision specialist ICT support on a drawdown basis. That support has been used to develop an evidenced ICT audit needs assessment covering all of the Consortium's clients and a plan for ICT audits to be undertaken at each site. As part of the planning process KPMG worked with the Consortium to determine whether audits could best be delivered in-house; by NTA; by KPMG or through partnership working. It was specified in the contract with KPMG that one of the deliverables would be increased in-house capacity to be gained through Consortium auditors supporting/being supported by KPMG's specialists in the delivery of audits.
- 4.2 The programme of specialist ICT work for the Council in 2009/10 addressed three areas; penetration testing; information and data security management; and a post implementation review of Agresso Systems. Table 3 below summarises the progress with that work and the level of assurance obtained.

<b>Audit</b>	<b>Delivery</b>	<b>Status</b>	<b>Rating</b>
External Penetration	NTA	Final Report	Sound
Internal Penetration	NTA	Final Report	Marginal
Agresso Systems – Post Implementation Review	KPMG/in house	Interim Report	Unsatisfactory
Information & Data Security Management	KPMG	Work in Progress	

4.3 The Acting Head of IT has accessed technical assistance from the NHS to address the issues identified in the Internal Penetration report and about 60% of those issues have now been addressed. The interim report on Agresso was issued because of concerns about the impact that the process of system implementation has had on the control framework in the short-term. Steps have been taken to address the control issues identified as previously reported to the Committee (25/2010).

## 5) SUMMARY OF PERFORMANCE

5.1 Table 4 below provides an overview of the Consortium's performance up to the end of Quarter 3 (31<sup>st</sup> December 2009) using selected Key Lines of Enquiry. It is considered that these Key areas provide Members with a basis for effective scrutiny of Internal Audit

<b>Key Lines of Enquiry</b>	<b>Available Evidence</b>	<b>Rating</b>
<b>Performance of the Consortium</b>		
Will the Audit Plan be delivered in full?	The impact of rescheduling and deferring the completion of audits of financial systems, together with some significant periods of staff sickness make it unlikely that the full programme of work will be completed.  The high level of demand for the services of the Consortium as a consultant means that there is little scope to redirect resources. To deliver commitments to External Audit priority is being given to audits of the financial systems and other planned audits that would support the AGS.	<b>x</b>
Are audits being delivered on time and to budget?	There have been delays in moving reports from draft to final stage There have been no significant overruns of time budgets.	<b>=</b>
Is staff productivity satisfactory	Productivity in Quarters 1-3 was 85% compared to a target of 87%. The variance is due to management time spent on developing the client base which will deliver savings in future years, and induction of new staff. Individual productivity by the more experienced auditors is at the expected levels ranging from 83% to 96%.	<b>✓</b>
Is the quality of work of a sufficiently high standard?	The Consortium's operating policies comply fully with the CIPFA Code of Practice. The peer review exercise gave rise to a favourable report on the Consortium's arrangements.	<b>✓</b>

<b>Key Lines of Enquiry</b>	<b>Available Evidence</b>	<b>Rating</b>
<b>Performance of the Consortium (continued)</b>		
Is the Consortium satisfying clients' needs & expectations?	<p>The average rating obtained from Customer Satisfaction Questionnaires is 3.7.(where a rating of 4 would indicate that all respondents rate the Consortium's performance as "very good")</p> <p>Formal and informal feedback from the Welland Board and from individual managers remains positive and the Consortium continues to receive a high volume of requests for advice and assistance.</p>	✓
<b>The Control Environment</b>		
Do the completed audits provide assurance that the Council has made appropriate and effective arrangements to manage its key risks?	<p>Overall the assurance ratings from audits average better than "Sound".</p> <p>Responsible managers have already taken steps to address the issues that gave rise to marginal assurances.</p>	✓
<b>Implementing Recommendations</b>		
Are effective arrangements in place to ensure that managers respond to the agreed audit recommendations for which they are responsible in a timely manner?	<p>The Chief Executive and Strategic Management Board now review outstanding audit recommendations as part of SMB's work programme.</p> <p>There are currently 54 outstanding recommendations (cf 87 at the date of the last performance report in Sept 09) and 26 are now overdue. Responsible officers have – for the most part - provided evidence of progress being made on the recommendations that they own in response to an information request issued at the beginning on January. Outstanding information relating to six recommendations is being pursued and may be available by the date of the Committee's meeting</p>	✓

## 6) RISK MANAGEMENT

<b>RISK</b>	<b>IMPACT</b>	<b>COMMENTS</b>
<b>Time</b>	<b>High</b>	No time critical issues arise from this report
<b>Viability</b>	<b>Low</b>	The report does not raise any specific issues
<b>Finance</b>	<b>Low</b>	No financial issues are considered
<b>Profile</b>	<b>Low</b>	No controversial issues are raised
<b>Equality &amp; Diversity</b>	<b>Low</b>	There is no reference to equalities issues

**Background Papers**  
None

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