

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	28th September 2011
REPORT TITLE	PROGRESS AGAINST THE 2011/12 INTERNAL AUDIT PLAN
Report of	Head of Finance and Audit; and Internal Audit Manager
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2011/12 to the 31st August 2011, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2011/12 annual audit plan, reviewed by this Committee in April 2011.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee considers the progress made against the 2011/12 Internal Audit Plan and comments on the summary of issues arising.

Officer contact:

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1. BACKGROUND

- 1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2011 (Minute reference A.30/10) and cover:

Purpose, Authority and Responsibility;
Independence;

Audit Management;
 Scope of Internal Audit's Work;
 Audit Reporting; and
 Audit Committee.

- 1.2 The Audit Strategy was updated for 2011/12 and was approved by the Audit Committee in April 2011 (Minute reference A.39/10 refers) and covers:

Objectives and Outcomes;
 Opinion on Internal Control;
 Local and National Risk Issues;
 Provision of Internal Audit; and
 Resources and Skills.

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2011/12

Audit Plan 2011/12

- 2.1 The 2011/12 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2011 (A.40/10 refers).

Local and National Risk Based Amendments to the Plan

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 There are no proposed amendments to the 2011/12 plan as at the 31st August 2011.
- 2.4 Overspends on the estimated time for individual audits occur as the time in the audit plan is an estimate based on risk and generally not the amount of time needed to do the work required. All efforts are made to 'cut our cloth according to our means', but in some circumstances where control issues are identified, a risk based assessment is carried out. This constitutes consideration, depending on the significance, of whether additional time should be spent and if so where the work is to be charged, either contingency or by change to the audit plan.
- 2.5 The following table sets out the significant overspends on time budgets (3.5 days or more) on individual audits as totalled in Appendix A, and the reasons for the overrun:

Audit	Planned Days	Days Used	Reason for Overspend
-	-	-	None over 3.5 days
-	-	2	Total of over or under spends of all other finalised audits
Total	8	2	Overspends to date – 2 days

- 2.6 Audit work for 2011/12 must include transactions from 2011/12. As a consequence April and a small part of May and June of each year is used to complete the audit work of the previous year, to ensure that when the 2011/12 audits begin there is sufficient data to be tested for a 2011/12 audit opinion to be given.
- 2.7 The chosen method, which has run for a number of years and seen by two different external audit providers to the Audit Commission without challenge, is for the plan to run from May to May and the variation reported. It is accepted that an alternative approach is for the annual Audit Plan to be set up to reflect this position.

Audit	Planned	Days Used	
Completion of 2010/11 audit – April to June 2011	0	26	Finishing of 2010/11 systems and computer audits (42 equivalent days in previous year).
Total	0	26	

Resources and Skills

- 2.8 Sickness to the end of August 2011 is 4 days (2010/11 equivalent 0 days).
- 2.9 The number of audit days provided by the Auditor at the end of August was 96 days set against the planned 180 days for the year (2010/11 equivalent 90 days).
- 2.10 No audit specific external training has been provided so far this year to the audit team. Other related training has and is being undertaken as follows:

Internal Audit Manager

- Council Contracts & Your Actions (in-house)

Senior Auditor:

- Council Contracts & Your Actions (in-house)

Auditor:

- Council Contracts & Your Actions (in-house)

Progress Against the Plan

- 2.11 The 2011/12 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.

- 2.12 The reporting of individual high priority recommendations is set out at **Exempt Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.
- 2.13 **Exempt Appendix C** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. This too forms part of the report to the S.151 Officer. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.
- 2.14 **Exempt Appendix D** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

Non Compliance with Financial Procedure Rules

- 2.15 There are no significant issues to bring to the attention of the Committee so far this year.

Fraud

- 2.16 No actual, suspected or allegations of fraud have been identified so far this year.

Performance Indicators

- 2.17 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2011/12.
- 2.18 At this stage in the year, the key indicator 'Completion of 2011/12 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2010/11 audit plan.	90	98	As reported to the Audit Committee June 2011.
Audits at the end of August at various stages of completion from 2011/12 audit plan.			
SHDC	-	37%	(38% at August 2010).
WDBC	-	34%	(16% at August 2010).
Combined plan	90	38%	(35% at August 2010). Target 30%

Internal Audit – Shared Services

2.19 The following has been achieved since the last Audit Committee:

West Devon

- Revised Contract Procedure Rules and Anti-Fraud and Corruption Strategy documents updated for both Councils' Audit Committee agendas, to reflect recent manager reviews and shared services; and
- Progress on the 2011/12 audit plan.

Teignbridge

- Exchange of audit programmes, advice and best practice;
- Liaison over Contract Procedure Rules; Anti-Fraud and Corruption Strategy, Anti Money Laundering Policy

3. LEGAL IMPLICATIONS

3.1 Statutory Powers: **Accounts and Audit Regulations 2003, 2006, 2011**

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications are:

Opportunities	Benefits
A risk based audit plan directs scarce audit resources away towards areas of high risk to the Council.	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor places reliance upon the work of internal audit, resulting in no additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.

Issues/Obstacles/Threats	Control measures/mitigation
The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Internal Audit Manager on the System of Internal Control..	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.
The external auditor placing no reliance upon the work of internal audit, resulting in additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the	Regular liaison with the external auditor. Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the

Annual Governance Statement.	year. Regular monitoring of progress by the S.151 Officer and the Audit Committee.
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Issues/Obstacles/Threats	Control measures/mitigation
The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	Regular monitoring of performance by the S.151 Officer and the Audit Committee. Audit approach adheres to the appropriate professional standards. Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year.

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2003, 2006, 2011
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
Appendices attached:	Appendix A: Audit Plan 2011/12 – Progress to 31 August 2011 Exempt Appendix B: Planned Audit 2011/12 – Final Reports: Detailed Items Exempt Appendix C: Planned Audit 2011/12 – Summary of Results Exempt Appendix D: Unplanned Audit 2011/12 – Summary of Results

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Reprt	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	11									
Creditor Payments	9									
Payroll	10									
Council Tax	12									
Business Rates (NDR)	10									
Benefits	20									
Debtors	9									
Treasury Management	7									
Capital Expenditure	8									
Fundamental Systems	96									
Email Monitoring	4	■								75% completed.
Internet Monitoring	4	■								75% completed.
Computer Audit	26									
Car and Boat Parking	9									
Dartmouth Lower Ferry	9									
Private Sector Housing Renewal	8	■								11% completed.
National & Performance Indicators incl. Data Quality	5	■								88% completed.
Salcombe Harbour	10									
Grants - RDPE Rural Community LAGs	60	46 days used								149 Claims audited (2 quarters); plus 48 Management & Admin invoices

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						Excellent	Good	Fair	Poor	
Follow Up of Previous Year's Audits	10	3 days used				-	-	-	-	
Contingency (Unplanned)	50	20 days used	-	-	-	-	-	-	-	See table at Appendix D.
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	4	0.8 day used	-	-	-	-	-	-	-	5 Exemption applications received April to August 2011 and processed. 4 accepted and reported to Executive.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Recommended to the Council for approval following report to the Audit Committee - July 2011
Risk Management / Business Continuity	5									
West Devon Borough Council	85	34 days used	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee
Dartmouth Town Council	5	■	■	■	■	-	-	-	-	Summary to Audit Committee - September 2011
Other Essential	307									
Elections	8	■								90% complete
CST/Cash Collection	8	■	■							Draft report issued 18 th July 2011
Public Conveniences	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Recycling	9	■	■							Draft report issued 19 th July 2011
Leisure Client and Tourism	8	■	■							Draft report issued 19 th August 2011
Travel and Subsistence	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Building Regulations incl Other Building Control Work	10									
Employment Estates	8	■	■							Draft report issued 4 th August 2011
Stores	5									

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Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Reprt	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Advice to Information Compliance/Other Groups	3	0 days used				-	-	-	-	
Asset Management	7									
Shared Services	8	■				-	-	-	-	37% completed. See Miscellaneous below.
Other	90									
Audit Administration	20	14 days used	-	-	-	-	-	-	-	
Audit Management, including Audit Planning	15	7 days used	-	-	-	-	-	-	-	
Audit Monitoring Reports to Management and Audit Committee	20	5 days used	-	-	-	-	-	-	-	
Training	10	0.6 day used	-	-	-	-	-	-	-	
Miscellaneous e.g. Financial Regulations etc.	5	1.3 day used	-	-	-	-	-	-	-	Revised Contract Procedure Rules; Anti fraud and Corruption Strategy, to September 2011 Audit Committee
Other	70									
Overall Total	601									
Included above:										
Installation & Healthcheck	7									
Computer and Network Management & Security	9									
Change Control	7									
Other Reviews	3									
Computer Audit	26									