

REPORT TO:	MFRA
DATE:	January 2011
REPORTING OFFICER:	Melanie Dexter
SUBJECT:	Internal Audit Progress Report - April to December 2010

PURPOSE OF THIS REPORT:

To provide the Authority with an update on Internal Audit work from April to December 2010. The report includes summary findings from individual audits as well as progress against the 2010/11 Audit Plan and results of Internal Audit's follow-up of recommendations.

1. EXECUTIVE SUMMARY

Based on the audit work completed to date our opinion on the level of assurance that can be given on the systems in place within the Authority is that the control environment is very good, with operational controls effectively being applied to ensure that risks are mitigated.

2. AUDIT WORK

The main audits started and / or completed by the end of December 2010 were as follows:

Fundamental Systems

Payroll (WIP)

The objective of this audit is to review the key controls within the payroll system to form an opinion as to whether they are operating effectively. The audit involves the use of Computer Assisted Audit Techniques (CAATs) to perform a series of tests to validate specific data. By using CAATs we are able to consider the whole of the data population testing for certain criteria and enhance the assurance we are able to provide over the effective operation of the system. Work is progressing in this area and the findings of this audit will be reported on in the next progress report.

Budgetary Control (WIP)

Preparation work has been undertaken in respect of budgetary control. This audit will consider the arrangements in place to control and monitor the financial budgets of the Authority. This audit will be reported on in the next progress report.

Creditors / General Ledger / Medium Term Financial Plan (MTFP) / Treasury Management (Not yet started)

Both the creditors and general ledger fundamental systems reviews are yet to commence but both will involve the use of CAATs so as to provide an enhanced level of assurance over each system. The MTFP & Treasury Management reviews will be performed once the Authority's budget has been set in February 2011.

Supporting Financial Systems

Income and Debtors / Insurance / Internal Financial Reporting Standards

These three audits have already been reported to the Audit & VFM Scrutiny Panel earlier this financial year. They identified systems that were being operated effectively to ensure that the majority of relevant risks were managed. A couple of minor areas for improvement were noted.

Stores and Inventories

A review is scheduled to commence in January 2011 on the controls in place throughout the Authority in respect of stores and inventories. The review will focus on the new workshop arrangements in order to assess the effectiveness of the changes in delivering efficiency.

Grants & Partnerships

A piece of work is planned on grants and partnerships. The objectives of the audit will be to ensure that the Authority has an effective framework in place for the administration and management of grants, and that the Authority has an appropriate partnership framework, which follows best practice in the overall governance of its partnerships. This audit is scheduled to commence in February 2011, and the findings of the audit will be reported on in the next quarterly progress report.

Non Financial Systems

Business Continuity Management

This audit was reported to the Audit & VFM Scrutiny Panel on 29 November 2010. The findings of the review found that the Authority's business continuity arrangements are effective and very well managed.

Fraud Risk Management

The objectives of the audit were to conclude on whether there were effective policies and procedures in place relating to fraud risk management, and to confirm the level of staff awareness and understanding of the policies. The main areas that were reviewed included: ensuring that the Authority's policies and procedures had been

compiled in accordance with recommended frameworks and best practice, and that they were regularly reviewed; and ensuring that all aspects of fraud risk management was communicated to staff. Audit testing found that the fraud risk management arrangements within the Authority are sound and communication is good, with staff being kept up to date of relevant changes.

PFI

This audit will build on the work carried out to date. Determination of the scope of this audit will be confirmed with the PFI Project Manager and work will commence in February 2011.

3. PROGRESS AGAINST AUDIT PLAN AND AUDIT OPINIONS ON COMPLETED WORK

For each audit completed we give an opinion on the overall level of assurance that can be given on the internal control environment / systems. It will be one of four levels:

Substantial - There is a sound system of control and governance in place to achieve the system objectives, controls are being consistently applied and the relevant risks to the service are well managed.

Adequate - The control environment / systems are operating effectively to ensure that the majority of relevant risks are managed. Slight improvements need to be made in order to provide substantial assurance that all of the objectives of the system are met.

Limited - Weaknesses and / or non-compliance with procedures are placing system objectives at risk. Heads of Service should consider whether they should refer to this assessment in their annual assurance statement on internal controls together with any actions agreed and / or taken to improve the system.

Little/None - There are control weaknesses and / or non-compliance with basic controls that are so significant the relevant risks are not being managed at all. The system is open to significant error or abuse. In light of this assessment, Heads of Service should review their risk register and refer to this assessment in their annual assurance statement on internal controls together with any actions agreed and / or taken to improve the system.

These opinions are shown against each of the completed pieces of work in the year-to-date table overleaf.

<u>AUDIT PLAN</u> <u>10/11</u>	<u>Finished</u> <u>(inc audit</u> <u>opinion)</u>	<u>Draft</u> <u>Report</u> <u>stage</u>	<u>Work In</u> <u>Progress</u>	<u>Not yet</u> <u>started (inc</u> <u>estimated</u> <u>start date)</u>
Fundamentals				
Payroll				
Creditors (CAATs)				Q4
Budgetary Control				Q4
General Ledger				Q4
Treasury Management				Q4
MTFP				Q4
Supporting Financial Systems				
Income & Debtors	Substantial			
Stores & Inventory				Q4
Grants				Q4
Insurance	Substantial			
IFRS	Substantial			
Non Financial Systems				
Partnerships				Q4
PFI				Q4
Business Continuity	Substantial			
Fraud Risk Management				
Regional Control Centre				n/a
Contingency				
Investigations/responsive				
Advice and Assistance				
Follow Up				
Computer Audit				

4. FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS

At the end of most audits and investigations, recommendations are made and agreed with the service managers to improve their control environment and / or efficiency levels. An officer is nominated to action each point and implementation dates are agreed by all parties. Recommendations are graded from 1 to 3 stars with 3 stars being the most critical and defined as “essential / strategic”, eg an absence or failure of a fundamental control where there is no compensating control.

Managers are sent lists of audit recommendations that their departments are due to implement, and all 2 and 3 star recommendations are followed up by Internal Audit within 3 months of the agreed implementation date.

As at 31 December 2010, we have followed up on recommendations covering the areas listed below and found that all recommendations have been implemented:

	☆ 3	☆ 2
Partnerships		6
TOTAL		6

We will do further follow-up on all other 2 and 3 star recommendations, reporting any exceptions in the next audit progress report.