

Audit and Corporate Governance Committee Report



Report of Audit Manager

Author: Adrianna Penn

Tel: 01491 823544 (SODC)

Tel: 01235 547615 (VOWHDC)

E-mail: adrianna.penn@southoxon.gov.uk

E-mail: adrianna.penn@whitehorsedc.gov.uk

To: Audit and Corporate Governance Committee

DATE: 26 September 2007

**AGENDA ITEM NO
8**

Internal Audit Management Report Quarter 2

Purpose of Report

1. The purpose of this report is:

- to summarise the progress of internal audit against the 2007/2008 audit plan
- to set out the revised internal audit allocation and remaining audit plan for 2007/2008, and to explain the process used for re-calculating the resources available
- to summarise the priorities and planned audit work for 2007/2008 quarter 3.

2. The Committee is asked to review the report and approved the revised internal audit allocation 2007/2008.

Background

3. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the Head of Internal Audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.

4. The CIPFA Code also states that the Audit Committee should approve the annual Internal Audit Plan and monitor progress against the plan. The 2007/2008 audit plan was agreed by the Audit and Corporate Governance Committee at their meeting on the 27th June 2007.

5. The new Audit Manager has been in post from the 30th July 2007, and the Auditor vacancy has been filled from the 3rd September 2007. Following the successful appointments, the Internal Audit Section is now at full strength.

Progress against the 2007/2008 Audit Plan

6. From the 1st April 2007, internal audit has been delivered through a shared service between South Oxfordshire District Council and the Vale of White Horse District Council.

7. The approved audit plan for 2007/2008 reflected the proposed audit coverage for both Councils. However, the Committee was notified that due to the necessity to harmonise and rationalise the working practices within internal audit and due to the need to estimate start dates for the two vacant posts, it was likely that the audit plan would be subject to change.

8. Progress against the approved audit plan has been calculated for the period from the 1st April 2007 (start of financial year) to the 3rd August 2007 (end of first week new Audit Manager in post), and is shown in Appendix 1 attached.

9. The Work Allocation table indicates that 49% of work completed in the period was chargeable (i.e. the work has an identifiable 'client'). 56% of that chargeable time can be attributed to planned audits, which is the core internal audit service. However, significant resources (21%) were also allocated to undertaking unplanned investigations and providing adhoc audit advice (9.5%).

10. The Planned Audit Work table reports on the status of completed or ongoing planned audits during the period. As at the 3rd August 2007:

- 3 planned audits had been completed
- 4 reviews were pending management responses
- 1 review was pending issue of the draft report
- 3 planned audits were currently in progress.

The Internal Audit Activity Report provides more in depth information on internal audit's findings from planned audit work.

11. During the period, 28% of work completed was non-chargeable and 23% was lost days. Non-chargeable resources have mainly been allocated to the harmonisation of the shared service, but a significant amount of time has been allocated to administration and corporate issues. This is time allocated in addition to general administration for assisting with the elections, and ISO Accreditation involvement and work being undertaken by a member of the team who is a contact for the Bullying at Work initiative at the Vale of White Horse District Council.

12. Overall, the percentage of chargeable work completed to date is below the estimated target of 63%. However, the Internal Audit Section has had to manage a significant amount of disruption and unplanned work, whilst at the same time being under resourced and without the direction of an Audit Manager. Therefore, to achieve a 49% proportion of chargeable work to this point is a good performance.

Revised Audit Allocation and Remaining Audit Plan 2007/2008

13. From the 6th August 2007, the resource allocation available within the Internal Audit Section has been re-calculated to the year end and is attached as Appendix 2. This has been done to reflect the known start dates of the Audit Manager and the fourth Auditor position, and to expand the descriptions available to adequately reflect all the work undertaken by the section.

14. The revised allocation reflects a realistic calculation of the amount of time that must be spent in this financial year on the harmonisation of the shared service and on audit management activities which was not previously included in the original audit allocation. However, it will be noted that the target for the proportion of chargeable days remains at 63%. An analysis of the descriptions has been provided to explain and justify the revised allocation.

15. It is envisaged that once the internal audit service provision has been streamlined and the learning curve has been completed, an improved service with greater efficiencies will be achieved. This will mean that the proportion of chargeable days for the 2008/2009 Audit Plan can be expected to significantly increase.

16. On the basis of the revised audit allocation, the total available days for planned audit work as at the 6th August 2007 was 363.5 days. However, the Remaining Audit Work table attached as Appendix 3, shows that the total audit days required based on the approved Internal Audit plan and current work outstanding is 476 days. This leaves a

potential deficit at the year end of 112.5 days, based on the presumption that the time allocation for other aspects of audit work is fully utilised and/or no further days are allocated to unplanned work. This potential level of slippage can be explained by the time that has and continues to be needed to harmonise the shared service, but also by areas of work which internal audit undertakes not being reflected in the original allocation.

17. Progress against the audit allocation figures and the audit plan will continue to be monitored closely by the Audit Manager and reported to the Committee. The time management templates being used by the section have been reviewed, updated and harmonised across the two sites to reflect the descriptions outlined within the audit allocation table. These templates will allow the Audit Manager to closely monitor progress against the revised audit allocation figures and plan.

18. If the potential slippage becomes a significant likelihood, the Audit Manager will take action at an early stage to consider the possible options that can be taken to ensure that sufficient assurance on the Council's control environment can be given to the Committee. A possible option could be to buy-in additional external resources with the savings that have been made through the staff vacancies, to assist in the completion of the audit plan. Alternatively, lower priority audits identified through the risk-based audit needs assessment could be rolled-over into next year's audit plan, which would not adversely impact on the level of assurance required. This has already been taken into consideration, in planning the work for the remainder of the financial year.

Priorities for 2007/2008 Quarter 3 (Oct 2007 – Dec 2007)

19. The main priority for the remainder of Quarter 2 and Quarter 3 is to complete the harmonisation of the shared service, which will include:

- the revision and adoption of shared audit working templates
- a revision of all of the audit procedures and the introduction of a shared audit manual
- the rationalisation and merging of the electronic and paper filing systems.

20. This work is necessary to ensure that the Internal Audit Section has the necessary structure in place to deliver its service. Aiming to complete the harmonisation process as soon as possible will reduce the current disruption within the section, limit the possibility of any further impact on the audit plan and ensure that service provision is consistent across the two sites.

21. A further priority for the section is to focus on the planned audit work and commence the scheduled joint audits. Individual quarter plans have been established for each member of the team, outlining and mapping the planned audits to the end of the year. It is anticipated that these quarter plans will assist internal audit in time management and maximise the level of chargeable work that can be completed during this period of adaptation.

22. Planned audit work which is currently ongoing in quarter 2 and has been scheduled for quarter 3 is as follows:

Quarter 2

| Joint Audits | SODC Audits | VWHDC Audits |
|---------------------|---------------------|---------------------------------|
| Council Tax | Bank Reconciliation | Environmental Protection |
| ICT | Building Control | Homelessness & Temporary Accom. |
| | Planning Control | Rent Accounting |

Quarter 3

| Joint Audits | SODC Audits | VWHDC Audits |
|-----------------------|------------------------------|--------------------------|
| Creditor Payments | Budgetary Control | Benefit Counter Fraud |
| Housing Development | Business Continuity Planning | Discretionary Grants |
| Payroll | Dog Control | ISO Audit |
| Pro-Active Anti-Fraud | Electoral Registration | Main Accounting |
| Sundry Debtors | Waste Management | Oxford Waste Partnership |
| Treasury Management | | |

23. Time has been built into the individual quarter plans to allow for slippage and other audit work to be undertaken. The planned resources from the external contractors (Sandwith) have been confirmed, and it is agreed that they will commence assisting with planned audit work in quarter 3 through to quarter 4.

Work Allocation for Internal Audit Section from 1st April 2007 – 3rd August 2007 **APPENDIX 1**

| Description | Days | Audit Manager | Senior |
|--|--------------|----------------------|---------------|
| Total Days Available for Internal Audit Team | 365 | | |
| 17x5x4 (Senior Auditor + Auditor x3) | | | |
| 1x5x5 (Audit Manager + Senior Auditor + Auditor x3) | | | |
| | | | |
| Lost Days | | | |
| Annual Leave | | 0 | 12 |
| Bank Holiday | | 0 | 4 |
| Other Leave | | 0 | 0 |
| Sick Leave | | 0 | 1 |
| Total Lost Days for Internal Audit Team | 84.5 | 0 | 17 |
| | | | |
| Non-Chargeable Days | | | |
| Training and Development | | 0 | 1 |
| Induction and Development of New Staff Member | | 2 | 0 |
| Admin/Corporate Issues | | 2 | 11.75 |
| Committee Meetings - Preparation and Attendance | | 0 | 2.75 |
| Team Meetings | | 0 | 0 |
| Harmonisation of Shared Service | | 0 | 25.5 |
| Total Non-Chargeable Days for Internal Audit Team | 101.5 | 4 | 41 |
| | | | |
| Chargeable Days | | | |
| Audit Management | | 1 | 2.5 |
| Adhoc Audit Advice | | 0 | 2.25 |
| Tenders | | 0 | 0.25 |
| Consultancy/System Development | | 0 | 1 |
| Contingency Investigations | | 0 | 26 |
| Follow Up Work 2006/2007 | | 0 | 0 |
| Audit Plan 2007/2008 | | 0 | 0 |
| Follow Up Work 2007/2008 | | 0 | 0 |
| Total Chargeable days for Internal Audit Team | 179 | 1 | 32 |
| | | | |
| Total Per Team Member | | 5 | 90 |
| Total Lost + Non-Chargeable + Chargeable Days | 365 | | |

Planned Audit Work 2007/2008: Completed/Ongoing from 1st April 2007 – 3rd August 2007

| Joint Audits | SODC Audits | | | VWH |
|--|--|---------------------------------|----------------|--|
| None completed in period. | System Name | Progress | Days Remaining | System |
| | Officers Travelling & Subsistence Expenses | Draft ready Not yet sent out | 1 | Cash |
| | Land Charges | Completed | 0 | Recyc |
| | Didcot Wave & Didcot Leisure Centre Contract | In progress | 6 | Refus |
| | | | | Abing Health Insura SOLL Exces |
| Total Days Remaining from 6th August 2007 for Audits in Progress | | | 7 | |

Revised Audit Allocation 2007/2008 APPENDIX 2

From the 6th August 2007 (Q2, Week 6) to the year end

| DESCRIPTION (Analysis of Description Overleaf) | ALLOCATION FOR 6 th Aug 2007 TO 31 st Mar 2007 | INITIAL ALLOCATION FOR WHOLE YEAR * |
|--|---|--|
| Total Days Available for Internal Audit Team | 1000 | 1300 |
| (34x5x5 – Audit Manager, Senior Auditor and Auditor x3) | 850 | |
| (30x5x1 – Filled Auditor post from 3 rd September 2007) | 150 | |
| Lost Days | | |
| Annual Leave | 119.5 | 165 |
| Bank Holiday/Christmas Closure at SODC | 27 | 45 |
| Other Leave (Study/Elections) | 12 | 15 |
| Sick Leave (3x6) | 18 | 25 |

| | | |
|--|--------------|-------------|
| Total Lost Days for Internal Audit Team | 176.5 | 250 |
| | | |
| Non-Chargeable Days | | |
| Training and Development (5x6) | 30 | 65 |
| Induction and Development of New Staff Member (5x2) | 10 | - |
| Admin/Corporate Issues (10x6) | 60 | 135 |
| Committee Meetings - Preparation and Attendance | 18 | - |
| Team Meetings (0.5x8x6) | 24 | - |
| Harmonisation of Shared Service (AM/SM 10 + Team 46) | 56 | 25 |
| Total Non-Chargeable Days for Internal Audit Team | 198 | 225 |
| | | |
| Chargeable Days | | |
| Audit Management (AM 80 + SA 10) | 90 | - |
| Adhoc Audit Advice (10x6) | 60 | 125 |
| Tenders (2x5) | 10 | 25 |
| Consultancy/System Development (20x2) | 40 | - |
| Contingency (Investigations) (20x6) | 120 | 175 |
| Follow Up Work 2006/2007 | 4 | - |
| Audit Plan 2007/2008 | 293.5 | 500 |
| Follow Up Work 2007/2008 | 8 | - |
| Total Chargeable Days for Internal Audit Team | 625.5 | 825 |
| | | |
| Total Lost + Non-Chargeable and Chargeable Days | 1000 | 1300 |
| | | |
| Proportion of Chargeable Days | 63% | 63% |

* Based on 5 staff members as 1x Vacant Auditor

DAYS AVAILABLE FOR AUDIT PLAN FROM 6th August 2007

Audit Team 293.5

Contract 70

TOTAL 363.5

Analysis of Description

Training and Development

- In-house corporate training (IT, new systems, HR training programme)
- External role related training (management, fraud, audit)

Administration and Corporate Issues

- Appraisals
- Progress and 1-2-1 meetings
- Filing
- Timekeeping (timesheets, work allocation, individual work plans)
- Staff briefings
- Corporate roles (Contact for Bullying at Work/ISO Accreditation)
- Elections
- E-mails/Correspondence

Harmonisation of Shared Service

- Revision of audit working templates
- Rationalisation and merging of electronic and paper filing systems
- Adjustment and mentoring of new audit approach

Audit Management

- Revision of Audit Procedures
- Development of Audit Manual
- Quality assurance
- Liaising with External Audit
- Raising the profile of Internal Audit
- Attendance at corporate internal and external networking meetings
- Internal Audit presence on the website and intranet at both sites
- Preparation and Monitoring of Audit Plan
- Budgetary control

Adhoc Audit Advice

- Informal responsive advice to queries from staff members

Consultancy/System Development

- Formal project work based on agreed Terms of Reference (i.e. Project member for implementation of new systems, delivery of training to members and staff).

Contingency/Investigations

- Responsive work issued and agreed by the S151 Officer, Audit and Governance Committees, Members or Senior Management Team.

Remaining Audit Work 2007/2008: From 6th August 2007 APPENDIX 3

| Joint Audits | | | | | SODC Audits | | |
|--------------------------------|-----------------|--------------|------------------|--------------|--|-----------------|--------------|
| System Name | SODC Risk Score | 2007/08 Days | VWHDC Risk Score | 2007/08 Days | System Name | SODC Risk Score | 2007/08 Days |
| Proactive Anti-Fraud | - | 10 | 115 | 10 | Bank Reconciliation | 98 | 10 |
| Housing & Council Tax Benefits | 105 | 10 | 101 | 10 | Budgetary Control | 83 | 10 |
| Sundry Debtors | 99 | 10 | 99 | 10 | Planning Control | 75 | 10 |
| Council Tax | 102 | 10 | 98 | 10 | Housing Development | 71 | 10 |
| NNDR | 99 | 10 | 96 | 10 | Building Control (inclu. Dangerous Structures) | 66 | 10 |
| Treasury Management | 110 | 10 | 92 | 10 | Waste Management | 60 | 10 |
| Creditors Payments | 90 | 10 | 91 | 10 | Electoral Registration | 58 | 10 |
| Capital Accounting | 69 | 10 | 87 | 10 | Elections | 58 | 10 |
| Payroll (inclu. PIR) | 98 | 10 | 87 | 10 | Bank Contract and Arrangements | 57 | 6 |
| ICT | 74 | 8 | 86 | 8 | Business Continuity Planning | 54 | 10 |
| Data Protection | 62 | 6 | 83 | 6 | Cleansing Service | 52 | 10 |
| Housing Allocations | 72 | 6 | 80 | 6 | Dog Control | 49 | 6 |

| | | | | | | | |
|-----------------------------|-----|------------|-----|------------|--|--|------------|
| Concessionary Fares | 65 | 6 | 60 | 6 | | | |
| Finance PIR | 107 | 6 | 104 | 6 | | | |
| Revenues - PIR | - | 6 | 104 | 6 | | | |
| | | | | | | | |
| Total Days Remaining | | 128 | | 128 | | | 112 |

NB – Audit days have been rounded up or down to reflect whole days

Total Audit Days Required 476

Total Available Days Based on Revised Allocation 363.5

Potential Deficit (112.5 Days)