



# AUDIT AND PENSIONS COMMITTEE

22 September 2011

**CONTRIBUTORS**

Chief Internal Auditor  
Internal Audit Manager  
Deloitte & Touche LLP

**Subject**

**Internal Audit Quarterly report for the  
period 1 April to 30 June 2011**

**WARDS  
All**

This report summarises internal audit activity in respect of audit reports issued during the period to 30 June 2011, as well as reporting on the performance of the Internal Audit service.

**RECOMMENDATION:**

- a) To note the contents of this report
- b) To approve the amendments to the audit plan as outlined in Appendix C



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## 1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2011 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to minimise the volume of paperwork being sent to Committee members, the appendices detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

## 2 Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner.
- 2.2 A total of 19 audit reports were finalised in the first quarter of 2011/12 (see **Appendix A**). In addition 12 other management letters were issued.
- 2.3 Two audit reports issued in this period received limited assurance. None of the 4 recommendations made in the report on *Spydus Application* or the 1 in the report on the *Single Equality Scheme* have been reported as fully implemented. It should be noted that 2 of the *Spydus* recommendations are Priority 3 and therefore constitute good practice advice, whilst the *Single Equality Scheme* recommendation is due to be partially implemented by 30 September 2011 but not fully until 30 September 2012. Follow-up audits will be carried out once all priority 1 and 2 recommendations have been reported as implemented. Full copies of these reports have been made available to members.
- 2.4 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 2.5 Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently 2 reports still outstanding that were due to be signed off on or before 30 June and these are listed in **Appendix B** for information.

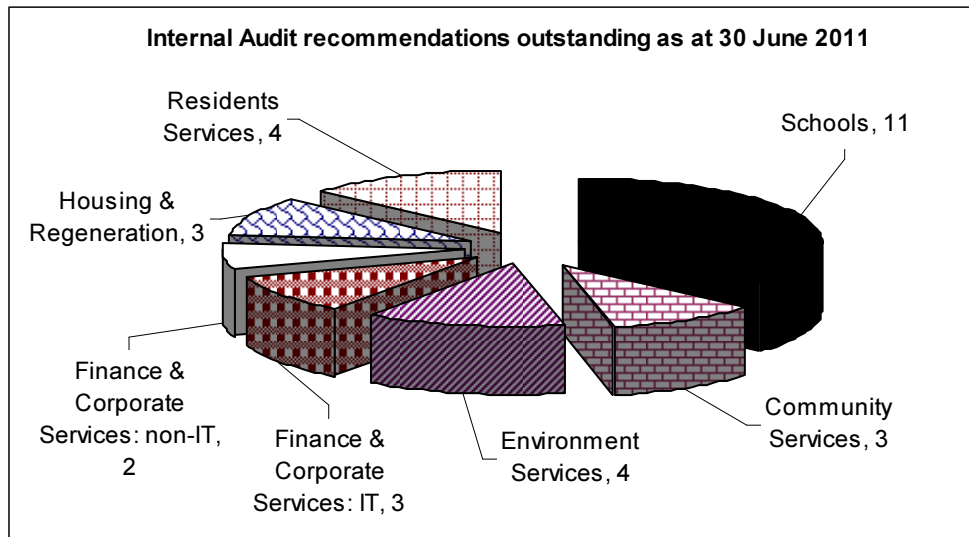
Both these outstanding reports relate to Residents Services and neither will be over 6 months old at the time of the Committee meeting. We are very pleased to report that there are no reports outstanding for any other department.

2.6 There are now 29 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to the 20 reported as outstanding at the end of the previous quarter and represents a deterioration in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

2.7 The breakdown between departments is as follows:

- ◆ Schools – 11
- ◆ Community Services - 3
- ◆ Environment Services Dept – 4
- ◆ Finance & Corporate Services Dept – 4
- ◆ Housing & Regeneration - 3
- ◆ Residents Services – 4

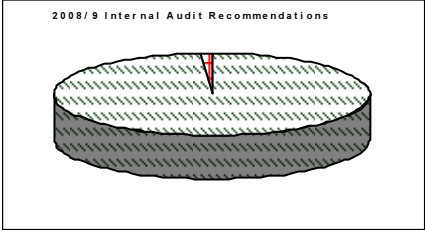
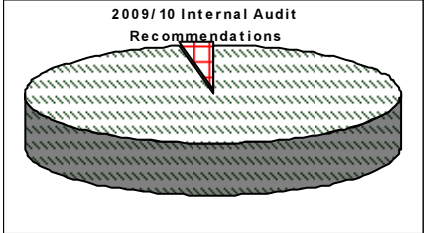
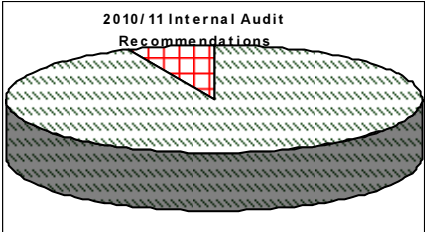
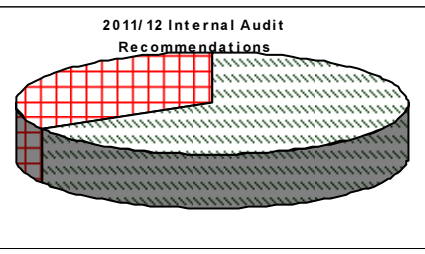
4 of these outstanding recommendations relate to HFBP.



2.8 4 of the 29 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the specific managers and Assistant Directors responsible for all recommendations overdue by more than 3 months as and when this occurs.

The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below.

*100% of recommendations made prior to 2008/09 have been implemented*

<p>Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.</p>	<p>98.92%</p>	<p>456 recommendations implemented out of a total of 461</p> <p><b>5 recommendation outstanding</b></p>	
<p>Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.</p>	<p>97.26%</p>	<p>390 recommendations implemented out of a total of 401</p> <p><b>11 recommendations outstanding</b></p>	
<p>Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.</p>	<p>93.25%</p>	<p>152 recommendations implemented out of a total of 163</p> <p><b>11 recommendations outstanding</b></p>	
<p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p>	<p>66.67%</p>	<p>6 recommendations implemented out of a total of 9</p> <p><b>3 recommendations outstanding</b></p>	

2.9 In the current financial climate we anticipate a number of recommendations being reported to us as no longer realistic to implement given available resources. Our standard practice in such cases will be to refer the recommendations in question to the relevant director who will be deemed to have accepted the identified risk. We will then report any such recommendations to the next appropriate meeting of the Audit and Pensions Committee.

### 3 Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd carries out individual audits and also periodically provides management information to support the reporting requirements of the in-house team
- 3.2 Part of the CIA's function is to monitor the quality of Deloitte work. Formal monthly meetings are held with the Deloitte Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the period from 1 April to 30 June 2011 are shown below.

#### Performance Indicators 2010/2011 & 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of March	Variance	Comments
<b>2010/11</b>						
1	% of deliverables completed (2010/11)	95%	95%	99%	+2%	111 reports delivered out of a total plan of 115
2	% of planned audit days delivered (2010/11)	95%	95%	95%	0%	986 days delivered out of a total plan of 991 days
<b>2011/12</b>						
3	% of deliverables completed (2011/12)	95%	25%	24%	-1%	25 reports delivered out of a total plan of 105
4	% of planned audit days delivered (2011/12)	95%	25%	22%	-3%	205 days delivered out of a total plan of 949 days
5	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	89%	-6%	8 out of 9 briefs issued more than ten working days before the start of the audit.
6	% of Draft reports issued within 10 working days of exit meeting	95%	95%	100%	+5%	16 out of 16 draft reports issued within 10 working days of exit meeting.

### 4 Audit Planning

- 4.1 Amendments that have been made to the 2011/12 Internal Audit Plan have been shown in **Appendix C** which the Committee is invited to approve.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/ Copy</b>	<b>Department/ Location</b>
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU



## APPENDIX A

### Audit reports Issued 1 April to 30 June 2011

We have finalised a total of 19 audit reports for the period to 30 June 2011. In addition, we have issued a further 12 management letters.

#### Audit Reports

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	08/09	Section 106 Agreements	Nigel Pallace	Substantial
2	10/11	Pensions Administration	Jane West	Substantial
3	10/11	Market Testing – Legal Services	Jane West	Substantial
4	10/11	Market Testing – BTS	Nigel Pallace	Substantial
5	10/11	School Meals	Andrew Christie	Substantial
6	10/11	Spydus Application Audit	Lyn Carpenter	Limited
7	10/11	Personal Budgets	Heather Schroeder	Substantial
8	10/11	Family Support Programme	Andrew Christie	Substantial
9	10/11	IT Performance	Jane West	Substantial
10	10/11	Sacred Heart High School	Andrew Christie	Substantial
11	10/11	All Saints School	Andrew Christie	Substantial
12	10/11	Single Equality Scheme	Jane West	Limited
13	10/11	Partnership and Corporate Governance	Jane West	Substantial
14	10/11	GCSX	Jane West	N/A
15	10/11	Housing Benefits	Jane West	Substantial
16	11/12	James Lee Nursery	Andrew Christie	Substantial
17	11/12	Addison Primary School	Andrew Christie	Substantial
18	11/12	Queens Manor Primary School	Andrew Christie	Substantial
19	11/12	Flora Garden Primary School	Andrew Christie	Substantial

#### Audit Reports

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

## Other Reports

### Management Letters

No.	Audit Plan	Audit Title	Director
20	2010/11	Vertical Contract Audit – Normand Park	Nigel Pallace
21	2010/11	Early Years – Compliance With Statutory Duties	Andrew Christie
22	2010/11	Schools Finance Manual Benchmarking	Andrew Christie
23	2010/11	Risk Management – Controls Testing	Jane West
24	2010/11	Data Quality	Jane West
25	2010/11	Preventions	Heather Schroeder
26	2011/12	Year End Report – Head of Audit	Jane West
27	2011/12	Year End Report –Finance	Jane West
28	2011/12	Year End Report –Schools	Andrew Christie
29	2011/12	Year End Report –Project Management	Jane West
30	2011/12	Year End Report -IT	Jane West
31	2011/12	Safeguarding Project Management (part 2)	Andrew Christie

### Follow ups

No follow up reports were issued in quarter 1 of the 2011/12 financial year.

**APPENDIX B****Internal Audit reports in issue more than two weeks as at 30 June 2011**

	<b>Audit Year</b>	<b>Department</b>	<b>Responsible Director</b>	<b>Audit Title</b>	<b>Assurance</b>	<b>Draft report issued on</b>	<b>Responsible Officer</b>	<b>Target date for responses</b>	<b>Awaiting Response From</b>
1	2010/11	Residents Services (HFBP)	Lyn Carpenter	Powersuite Application Audit	Limited	31/03/2011	Application Support Analyst	14/04/2011	Auditee and Director
2	2010/11	Residents Services	Lyn Carpenter	Financial Management in Libraries	Substantial	01/04/2011	Deputy Head of Libraries	15/04/2011	Auditee and Director

## Amendments to 2011/12 Audit Plan

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
1	Children's Services	Social Enterprise	Added	Added following emergence of plans to create a social enterprise
2	Finance & Corporate Services (HFBP)	Source Code	Added	Added following discussion with department
3	Finance & Corporate Services	Insurance	Removed	Removed following lack of response from requesting department
4	Children's Services	Family Intervention Project	Removed	Removed following discussion with department
5	Housing & Regeneration	HAFFTRA	Added	Added following discussion with department
6	Housing & Regeneration	Northgate Kendrick Ash (NKA)	Added	Added following discussion with department
7	Children's Services	CPYU Transport	Added	Added following discussion with department