



AUDIT AND PENSIONS COMMITTEE

17 February 2011

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Subject

**Internal Audit Quarterly report for the
period 1 October to 31 December 2010**

**WARDS
All**

RECOMMENDATION:

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

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1. Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 2010 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to reduce the volume of paperwork being sent to Committee members, the appendices routinely included with this report in the past 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

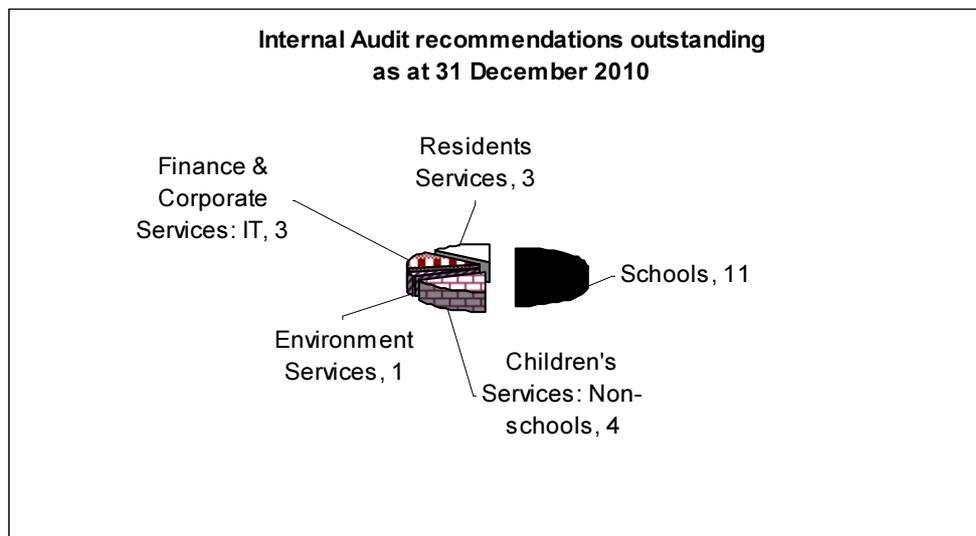
- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities 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 9 audit reports were finalised in the third quarter of 2010/2011 (see **Appendix A**). In addition 8 FMSIS Inspection letters were issued, 8 other management letters – one of which included a follow-up of a recommendation previously raised – and 4 other follow-up audits.
- 2.3 One audit report issued in this period received nil assurance. .Of the 32 recommendations made in the report on *St Mary's Catholic Primary School* which were due to have been implemented on or before 31 December 2010, 22 have been reported as fully implemented whilst 2 have not yet reached their target implementation date. Another report received limited assurance and all 10 recommendations contained in the *Corporate Programme and Project Management* report are due to be implemented by 31 October 2011. None have yet been reported as implemented. Copies of both 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 31 December.

There is 1 report outstanding each for Environment Services and Residents Services. One of these reports will be over 6 months old at the time of the Committee meeting. We are pleased to report that there are no reports outstanding for Schools, Children's Services (non-schools), Community Services, Community Services (Housing) or Finance & Corporate Services.

2.5 There are now 22 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 23 reported as outstanding at the end of the previous quarter and represents a marginal improvement in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

- 2.6 The breakdown between departments is as follows:
- Schools – 11
 - Children's Services (non-schools) – 4
 - Environment Services Dept – 1
 - Finance & Corporate Services Dept – 3
 - Residents Services - 3

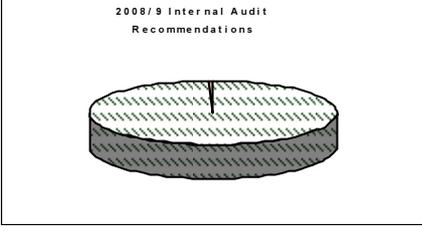
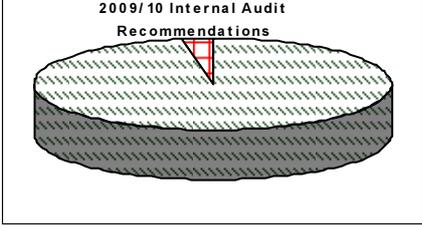
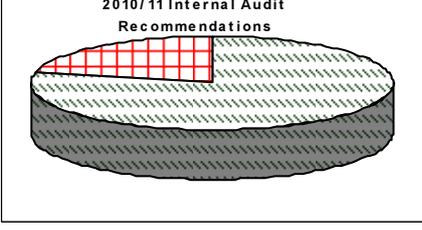
Three of these outstanding recommendations relate to HFBP. We are pleased to report that there are no recommendations outstanding in respect of Community Services or Community Services (Housing)



2.7 Two of the 29 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. None of these are older than a year. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will continue to meet with the specific managers responsible for all these recommendations and those

overdue by more than 5 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 in 2004/5, 2005/6 and 2006/7 have been implemented

<p>Percentage of 2007/8 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.75%</p>	<p>396 recommendations implemented out of a total of 397</p> <p>1 recommendation outstanding</p>	
<p>Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.49%</p>	<p>389 recommendations implemented out of a total of 391</p> <p>2 recommendations outstanding</p>	
<p>Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.</p>	<p>97.09%</p>	<p>300 recommendations implemented out of a total of 309</p> <p>9 recommendations outstanding</p>	
<p>Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.</p>	<p>78.43%</p>	<p>40 recommendation implemented out of a total of 51</p> <p>11 recommendations outstanding</p>	

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 supply the resources for carrying out individual audits and also periodically provide management information to support the reporting requirements of the in-house team

3.2 The current contract with Deloitte expires on 31 March 2011. A proposal was approved by the Cabinet on 16 December 2010 to join the framework contract already in place between Deloitte and the London Borough of Croydon. This arrangement will take effect on 1 April 2011.

3.3 As part of the CIA's function he is required 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 October to 31 December 2010 are shown below.

Performance Indicators 2010/11

Ref	Performance Indicator	Target	Pro rata target	At end of Nov	Variance	Comments
1	% of deliverables completed (2010/11)	95%	71%	55%	-16%	66 reports delivered out of a total plan of 119
2	% of planned audit days delivered (2010/11)	95%	71%	57%	-14%	621 days delivered out of a total plan of 1096 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	94%	-1%	45 audit briefs out of 48 issued within PI requirement
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	100%	+5%	25 draft reports out of 25 issued within PI requirement

3.4 Delivery of the 2010/11 audit plan is behind target due to difficulties with agreeing start dates and long lead times when planning audits. Audits have been brought forward from Quarter 4 wherever possible in order to help increase delivery. A record of all audits that must be completed in Quarter 4 has been passed to Finance Strategy Board for circulation to management. Approval to delay or defer an audit now requires authorisation of the relevant Director of Finance and Resources and the Chief Internal Auditor.

4. Audit Planning

4.1 Amendments that have been made to the 2010/11 Internal Audit Plan have been shown in Appendix B which the Committee is invited to approve.

4.2 The 2011/12 plan will be presented to this meeting of the Committee as a separate paper for approval. Any amendments to this plan will be brought to the Committee for further approval as and when required.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
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 October to 31 December 2010

We have finalised a total of 9 audit reports for the period to 31 December 2010. In addition, we have issued a further 8 FMSIS reports, 8 management letters – one of which included a follow-up of a recommendation previously raised – and 4 other follow-up audits.

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	09/10	Leaving Care	Andrew Christie	Substantial
2	09/10	Citrix and VMware	Jane West	Substantial
3	09/10	Corporate Programme and Project Management	Jane West	Limited
4	10/11	EC Harris Contract Management	Nigel Pallace	Substantial
5	10/11	HFBP Billing	Jane West	Substantial
6	10/11	School Management Support Service	Andrew Christie	Substantial
7	10/11	Schools Centralised Banking and Financial Management	Andrew Christie	Substantial
8	10/11	Anti Social Behaviour Unit	Lyn Carpenter	Substantial
9	10/11	St Mary's Primary School	Andrew Christie	No Assurance

Audit Reports

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	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.
Limited Assurance	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.
No Assurance	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.

FMSIS Inspection Reports

No.	Audit Plan	Audit Title	Director	Result
10	2010/11	All Saints Primary School	Andrew Christie	Conditional Pass
11	2010/11	Kenmont Primary School	Andrew Christie	Conditional Pass
12	2010/11	Sir John Lille Primary School	Andrew Christie	Conditional Pass
13	2010/11	St Paul's Primary School	Andrew Christie	Conditional Pass
14	2010/11	Lena Gardens Primary School	Andrew Christie	Substantial
15	2010/11	Larmenier and Sacred Heart School	Andrew Christie	Substantial
16	2010/11	Woodlane High School	Andrew Christie	Substantial
17	2010/11	Phoenix High School	Andrew Christie	Substantial

Financial Management Standard in Schools (FMSIS) inspections are categorised as Pass, Fail or Conditional Pass in line with the guidance issued by the DCSF. Please note that on 15 November 2010 the Financial Management Standard in Schools was abolished. From this point an assurance opinion was provided rather than a pass/fail.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
18	2010/11	Internal Recharges	Jane West
19	2010/11	Business Planning Cycle	Jane West
20	2010/11	Frameworki – Key Financial Controls and Follow Up	Andrew Christie
21	2010/11	Risk and Control Advice – BACS and Direct Debits in Schools	Andrew Christie
22	2010/11	SSPP Grant Claim	Andrew Christie
23	2010/11	Housing Options Project Management	Nick Johnson
24	2010/11	Directors' Assurance Statements	Jane West
25	2010/11	Budget Variances	Jane West

Follow ups

No.	Audit Plan	Audit Title	Director	Findings on recommendations				Total
				Fully Implemented	No longer Applicable	Partly Implemented	Not Implemented	
26	2010/11	Frameworki	Andrew Christie	0	0	1	0	1
27	2010/11	Brackenbury Primary School	Andrew Christie	13	0	5	3	21
28	2010/11	Fulham Primary School	Andrew Christie	3	0	8	5	16
29	2010/11	Business Continuity	Lyn Carpenter	6	0	3	0	9
30	2010/11	Leisure Centre Contract Management	Lyn Carpenter	3	0	2	1	6

Amendments to 2010/11 Audit Plan

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
1	School	Fulham Primary School Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations
2	School	Brackenbury School Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations
3	Children's Services	SSPP Grant Claim	Added	Added to plan on request of department
4	Children's Services	YPLA	Added	Added to plan on request of department
5	Children's Services	Third parties (schools) taking over Council Services	Added	Additional audit to use contingency budget added following discussion with department
6	Children's Services	Family Support Programme	Added	Additional audit to use contingency budget added following discussion with department
7	Children's Services	School Funding Criteria	Added	Additional audit to use contingency budget added following discussion with department
8	Children's Services	Early years – Compliance with statutory duties	Added	Additional audit to use contingency budget added following discussion with department
9	Community Services (Housing)	Ending of Tenancies	Added	Additional audit to use contingency budget added following discussion with department
10	Environment Services	BTS – Management of trading accounts	Added	Additional audit to use contingency budget added following discussion with department
11	Finance & Corporate Services	Budget Variances	Added	Added to plan following discussion with Director of Finance
12	Finance & Corporate Services	LAA Certification	Removed	Removed from plan on request of department
13	Finance & Corporate Services	Staff Benefits	Removed	Removed from plan on request of department
14	Finance & Corporate Services	Business Continuity Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
15	Residents Services	Leisure Centre Contract management Follow-Up	Added	Added to plan on notification of the implementation of all recommendations
16	Residents Services	Trade Waste – Power Suite Application Audit	Added	Additional audit to use contingency budget added following discussion with department