

Committee(s):	Date(s):	Item no.
Audit & Risk Management Committee	5 th March 2013	
Subject: Internal Audit Update Report		Public
Report of: Chamberlain		For Information
<p>Summary</p> <p>This report provides an update on internal audit activity since the last Audit & Risk Management Committee on the 12th December 2012.</p> <p>The outcomes from the six main audit reviews finalised since the last audit update report are reported and significant risk issues highlighted from the following audit reviews which had an Amber assurance assessment:</p> <p>- DCCS – Childcare Provision</p> <p>The review of DCCS individual budgets identified four amber priority recommendations. Three of these actions due for completion by April 2013 were to reduce the number of 'council controlled budgets' to only those with the most complex care needs, establish and agree the financial reassessment process, and introduce a financial monitoring process. The final amber priority action to improve the audit trail and the quality of supporting documentation held for each service user will be implemented by July 2013 subject to the implementation of new software.</p> <p>- DCCS Childcare Provision</p> <p>The review of DCCS Childcare provision identified three amber priority actions which were all completed prior to the finalisation of the audit report. They related to the use and reconciliation of child care vouchers, ensuring both the childcare petty cash and holiday play scheme petty cash are operated in accordance with financial regulations.</p> <p>Satisfactory progress has been made in delivering the 2012/13 audit work programme, with 49% completed as at 1st February 2013. This is 11% less than the originally projected 60% position for this time of the year. It is anticipated that this gap will be narrowed further before the end of March 2013, through close performance monitoring of the delivery of audit reviews. The reason for this is that the level of audit</p>		

resources required to complete the 2011/12 audit plan at the beginning of 2012/13 was significantly more than anticipated when the 2012/13 audit plan was developed and approved in February 2012. Work is currently focused on completing and reporting the remainder of the 2012/13 audit programme. Sufficient internal audit work will be completed for 2012/13 upon which to base the Head of Audit Annual audit opinion in May 2013.

Following feedback from Members at the December 2012 Committee, implementation of audit recommendations KPIs have been included within KPI analysis for the internal audit function. KPI targets have been set to give greater emphasis on the implementation on Red and Amber priority recommendations. Further analysis of performance in this area is provided in the separate audit recommendations follow-up report.

Since the last update report, the IS Senior Auditor position has been filled from the 18th February and a temporary Fraud investigator is now in place from the end of January. A senior auditor has recently resigned for which a recruitment process is currently underway and an oral update can be given at the meeting.

Recommendation

It is recommended that the update is noted.

Main Report

Key audit findings

1. Since the last update to the December meeting of the Audit & Risk Management Committee, six main audit reviews have been finalised. Two of these reviews resulted in an Amber assurance rating for which the headline issues and consideration of impact is analysed in **Table 1**. Further details of three of these reports are provided in **Appendix 1**.

Table 1 – Key Audit Report Headlines (details of recommendations. in brackets)	Assurance Level	Impact (H/M/L)
<p>Community & Children’s Services – Individual Budgets (4 amber, 11 green)</p> <p>Materiality: This review focused on the change of approach in delivering social care from where the City was seen as the main source of care to being an enabler to care services through personal needs assessment and provision of individual budgets to individuals. The cost of individual budgets for 2012/13 was circa £2m.</p> <p><i>The majority of the City's individual budgets are administered via a 'council controlled budget' which mirrors the historic role of the City as the 'provider' of care rather than the 'enabler'. The audit recommended that consideration should be given to reducing the number of 'council controlled budgets' to only those with the most complex care needs.</i></p> <p><i>Procedures and supporting documentation developed to support the assessment, monitoring and review processes operate effectively although it was established that the financial reassessment process has not yet been agreed between the Social Care Team and the Finance Team within the Chamberlains department.</i></p> <p>Management Response:</p> <p>All recommendations were agreed and are due to be implemented by July 2013 subject to the successful implementation of the new social care records system.</p>	Amber	Medium

<p>Community & Children’s Services – Childcare Provision (3 amber, 7 green)</p> <p>Materiality: The City of London operates three OfSTED registered childcare provisions; the Sir John Cass Play Centre, the Cass Child & Family Centre and an afterschool facility at the City of London Community Education Centre (COLCEC). The COLCEC provision was outsourced during 2010/11. Income budgets for 2011/12 were £90k (combine total) for the remaining centres.</p> <p><i>Scope exists for to align the operations of the two centres more closely and improve the level of monitoring of the Cass Child & Family Centre. Following completion of the audit review agreement was obtained from the Governing Body of the Sir John Cass Foundation School to transfer management responsibility of the Playcentre to the school. It is expected the new arrangement will address the issues identified.</i></p> <p>Management Response: All recommendations were accepted; with nine being implemented prior to issue of the final audit report. The one remaining green recommendation will be fully implemented as of 01/04/13.</p>	Amber	Low
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2. In addition to highlighting these key issues arising from recent internal audit work, the five internal audit reviews identified in **Table 2** have been finalised and reported over the last three months with a Green Assurance rating. Audit report summaries from these reviews have recently been circulated separately to the Audit & Risk Management Committee and the Chairman and Deputy Chairman of the relevant Service Committee. The detailed full internal audit report can be provided to members of this Committee on request.

Table 2 – Green Assurance Audit Reviews	Amber recs.	Green recs.	Total
Department of the Built Environment			
Enterprise Services - Contract Arrangements	-	3	3
Coach Park Special Investigation	-	-	-
Mansion House			
Supplies & Services Expenditure	-	2	2

Table 2 – Green Assurance Audit Reviews	Amber recs.	Green recs.	Total
Barbican Centre			
Theatre Thefts	1	2	3

Audit Work Delivery

3. Work in delivery of the 2012/13 plan as at 1st February 2013 is set out in **Table 3** below.

Table 3 – Audit Plan Progress	Current Plan	Not Started	Planning	Fieldwork	Draft Report	Final/ Complete	% completion
Full Reviews	77	8	12	23	10	24	44%
Spot Check/Mini-reviews	60	15	10	8	3	24	45%
Irregularity investigations	7	0	0	0	2	5	100%
A&I/support reviews	25	0	1	9	n/a	15	60%
Total	169	23	23	40	15	68	49%

4. Further commentary on this 49% completion of the audit plan against the assumed profile of completion is provided later in paragraph 9. Since the 2012/13 audit plan was agreed at the 22nd February 2012 Audit & Risk Management Committee, there have been a number of changes which have been agreed with management. The reasons for changes are detailed in **Appendix 2**. Changes occur as a result of audit planning meetings with senior management and re-assessment of audit priorities, resources and suitable timing of audit work.

5. The following main reviews are at draft reporting stage and will be reported to the Committee shortly:-

Department	Review
DCCS	Housing – Responsive Repairs
Corporate Wide	Projects Board–Project priority classification
Chamberlains	Investments
GSMD	Income (including Fees System)
City of London Freemans School	Premises Expenditure
City Surveyor	Crematorium Refurbishment
Culture, Heritage & Libraries	Procurement of Reprographic equipment
Barbican Centre	Contract Audit – Cost Monitoring
Built Environment	Off Street Parking – Income Systems

6. Details of main audit reviews planned for the first quarter of the 2013/14 plan year (April 2013 to June 2013) are provided at **Appendix 3**.
7. Analysis of audit days delivered for the 2012/13 planning period is provided in **Appendix 4**.

Internal Audit Section Performance

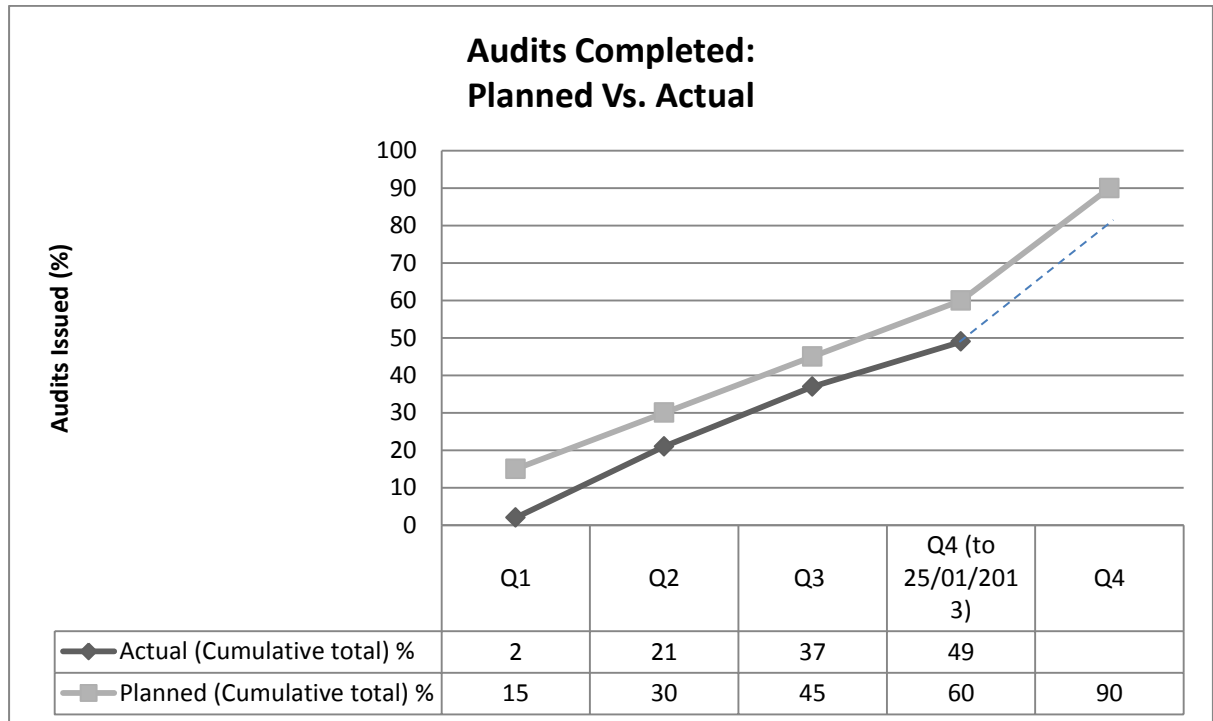
8. The following Key Performance Indicators are used for monitoring the Internal Audit section. Performance against these indicators is set out in the table below. Where targets have not been achieved, further comments on corrective action are provided after the table.

Performance Measure	Target	2012/13 Performance	Feb 13	Nov 12
completion of audit plan	90% of planned audits completed to draft report issued stage by end of plan review period (31st March 2013) –	49% completion to the end of January 2013- see comments below	☹	☹

Performance Measure	Target	2012/13 Performance	Feb 13	Nov 12
<i>New</i> % recommendations confirmed fully implemented at time of formal follow-up	Overall – 75% Red – 100% Amber – 80% Green – 70%	Overall 65% Red – 100% Amber 67% Green 64%	☹	n/a
% recommendations accepted	target 95%	98% - target exceeded	😊	😊
timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork	77% - just below target	☹	😊
timely agreement and issue of final report	80% of final reports (including agreed management action plan) issued within 5 weeks of issue of draft report	92% - target exceeded	😊	☹
customer satisfaction	through key question on post audit surveys – target 90%	90%	😊	😊
% of audit section staff with relevant professional qualification	– target 75%	75%	😊	☹

9. **Completion of audit plan** – A graph is provided below to show delivery of the internal audit plan against the assumed profile of completion anticipated at the start of the year. Performance in completion of the 2012/13 audit plan was at 49% (at 1st February 2013) which is 11% less than the projected 60% position for this time of the year. The main reason for this is that the level of audit resources required to complete the 2011/12 audit plan at the beginning of 2012/13 was significantly more than anticipated when the 2012/13 audit plan was developed for approval in February 2012. An

additional 260 days of audit work was required to complete the audit reviews from the 2011/12 plan which delayed work in starting the 2012/13 plan. In addition, there has been a small reduction in the audit resource availability to the section due to turnover of staff.



10. It is anticipated that this gap will be narrowed further before the end of March 2013, through close performance monitoring of the delivery of audit reviews. Sufficient internal audit work will be completed for 2012/13 upon which to base the Head of Audit Annual audit opinion in May 2013.
11. **Implementation of Recommendations** – Overall implementation of audit recommendations as measured by formal follow-up reviews undertaken over the last year is currently at 65%. Following feedback from Members at the December 2012 Committee, this performance indicator has been included within KPI analysis for the internal audit function. KPI targets have been set to give greater emphasis on the implementation on Red and Amber priority recommendations. Further analysis of performance in this area is provided in the separate audit recommendations follow-up report.
12. **Timely production of draft report** - performance in issuing draft reports within 4 weeks of end of fieldwork is just below target at 77%. This area of performance is being kept under close review as there has been a small drop in performance since the last quarter (81%).
13. **Timely agreement and issue of final report** - performance in finalising Internal Audit work now exceeds target at 92%. An increased emphasis on

agreeing draft audit recommendations at audit exit meetings has been adopted to assist with the timely completion of audits. Detail of the utilisation of internal audit time resource is provided in **Appendix 4**.

Development of the Internal Audit Section

14. The new audit automation software (MK) is now being used to track the implementation of all red and amber priority recommendations.
15. Auditor skills and personal development is a key focus for the section. Particular attention is being given to the sharing of skills and expertise more widely within the team, particularly in specialist audit areas where succession planning is a key consideration. Good progress is being made being made by auditors in their professional studies with three auditors passing papers in December 2012 exams (ACCA and IIA)
16. The Senior IS auditor resigned with effect from the 2nd November. A recruitment process for this role has been successful with the new post holder commencing on the 18th February 2013. A senior auditor has recently resigned and the post became vacant on the 18th February. A recruitment exercise is underway to fill this position and an oral update can be given to the Committee.

Conclusion

17. Internal Audit work continues to identify improvement areas for management. Internal audit's overall opinion on the City's internal control environment is that it remains adequate and effective.

Head of Audit & Risk Management

Background Papers:

2012/13 Internal Audit Plan

- **Appendix 1 - Audit Report Summaries**
- **Appendix 2 – 2012/13 Audit Plan Changes**
- **Appendix 3 – Next Quarter internal audit planned reviews**
- **Appendix 4 – Audit Resource Analysis**

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