APPENDIX 1

2013/14 INTERNAL AUDIT MID-YEAR REPORT

Progress against the 2013/14 plan

1. Overall, the Internal Audit team have started work on 36 projects (72%) of the annual audit plan for 2013/14 as at the mid-year point of 30/09/12. 100% of the planned key control reviews relied upon by the council's External Auditors have been completed along with the work on the 2012/13 Management Assurance and the annual review of governance and the Annual Governance Statement. Of the 36 projects started, 13 (36%) have been completed/finalised and 12 (33%) are currently in progress. A further 11 (31%) are contributions to projects/groups or advice that will run throughout the year e.g. working groups.

2. In addition to this 113 days have been spent on projects carried forward from 2012/13 (representing 21% of the teams total productive time for the first half of the year), 7 days have been spent on investigating suspected financial irregularities (10% of the annual allocation), 36 days have been spent on providing professional advice on internal control and risk mitigation (55% of the annual allocation) and 16 days have been spent on standard follow-ups of audit recommendations (40% of the annual allocation).

3. During the first half of 2013/14 a total of 38 recommendations have been followed up of which 32 have been implemented, 4 were partially implemented/in the process of being implemented, 1 was planned for implementation, and 1, although originally agreed by management was not implemented. This represents an 84% implementation rate with a further 13% in progress or planned at the time of follow-up thus it is expected that in due course 97% will be implemented. There were 4 high risk recommendations still only partially implemented or in progress and 1 high risk recommendation that had not been implemented, see appendix 5,.which also shows 2 high risk recommendations that were not agreed in the first instance.

Emerging Risks

4. Emerging risks are areas of risk arising during the year that were not apparent at the time of the annual planning process but that are considered significant enough by management/internal audit to warrant audit input. Emerging risk areas identified so far this year include:

   - Payroll Error – a review of a payroll error that occurred in April 2013 to identify 'lessons to be learnt' from what happened. The error was caused by a 'bug' in a change made to the SAP system by SAP. Recommendations were made to improve processes to identify such bugs in the future before they adversely impact on the payroll run.

   - Trade Waste - the audit objective was to review the sequence of events around the loss of the recent trade waste contracts with schools and the involvement of procurement, finance and the waste service and to review the system in place for the management of bins to enable assurance to be provided on concerns raised. An audit briefing note was issued to management but no recommendations were made to enable management to determine the most appropriate way forward.

- Grants to Move Scheme – audit input to the development of the new scheme.
- Staff Canteen Services – a review of the income, cash handling and banking arrangements is still in progress.

- Financial Procedure Rules School Guidance – a project to produce guidance for the schools to ensure that the new rules and how they apply to schools is clear.

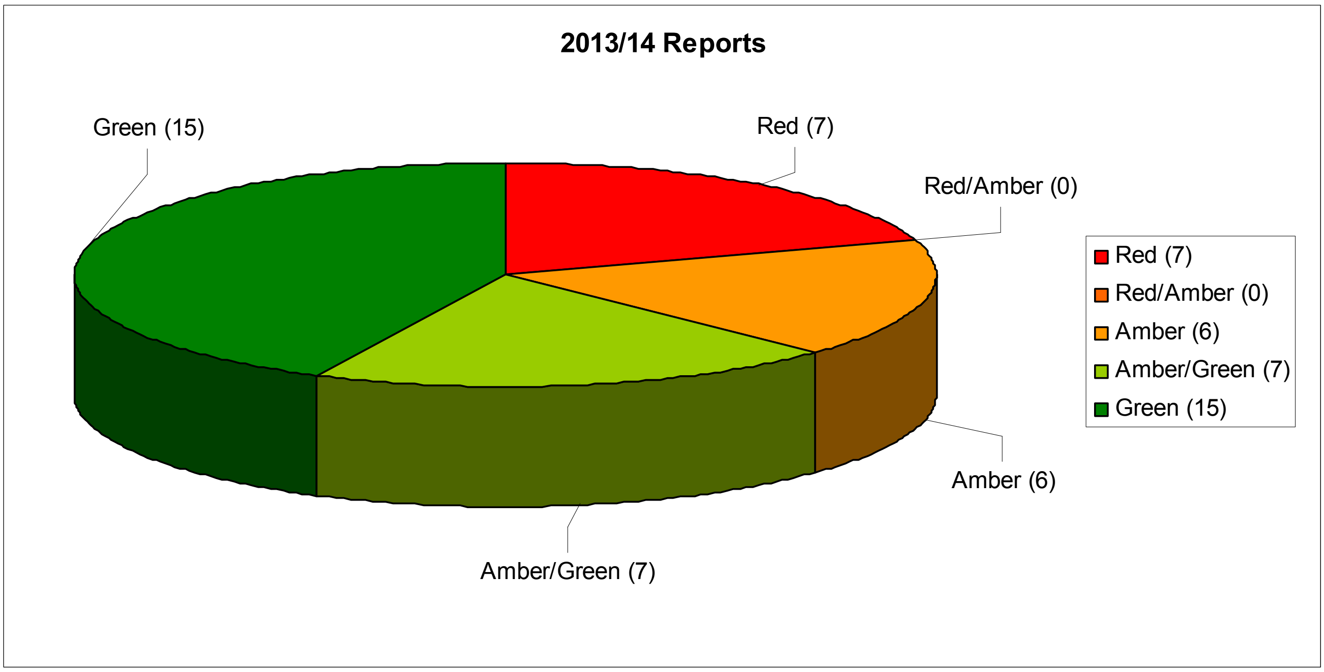
5. In total 28 days have been spent on emerging risk areas in the first half of the year equating to 5% of the team's total productive time.

Work undertaken 01/04/13 – 30/09/13

6. In the first quarter of every financial year the work of the Internal Audit team concentrates on the authority's core financial systems. The systems are reviewed on a 3 year risk based cycle. Three of the 9 systems were reviewed in the first quarter of 2013/14 and control self-assessments were completed for other 6. In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation and Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems. Out of a total of 30 controls reviewed, 21 (70%) were fully operating, 5 (16%) was substantially operating and 4 (14%) were partially operating. See detailed report Appendix 2.

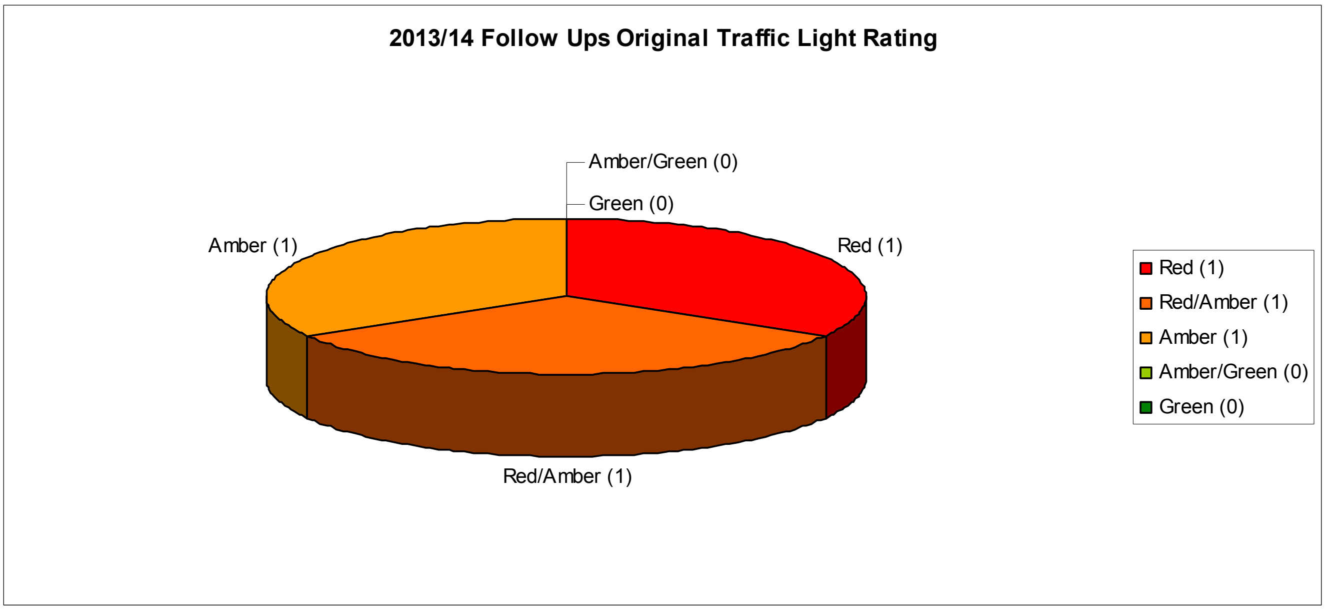
7. Other work undertaken annually in the first quarter includes the completion of reviews from the previous years plan, the completion of the annual management assurance exercise and the annual governance review feeding into the authority's Annual Governance Statement (AGS). Both of these were successfully completed with the results already reported to the GARM committee.

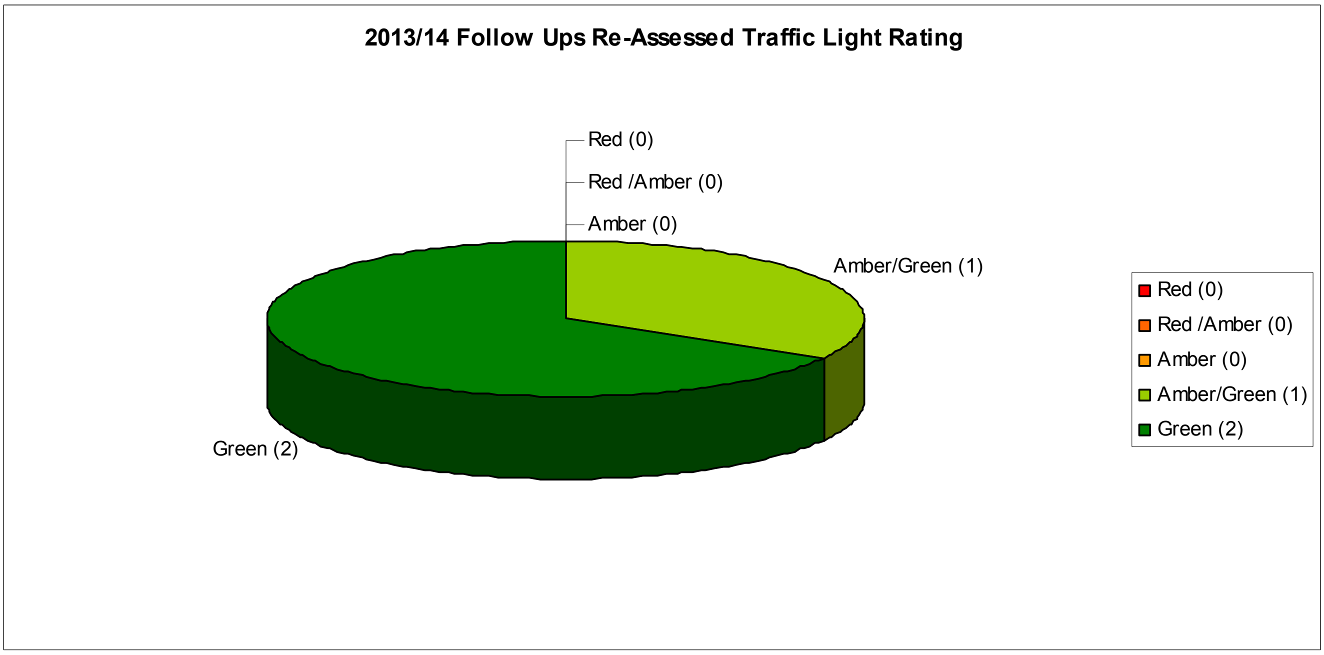
8. A total of 37 final and draft reports were issued in the first half of the year and the following graph provides an overview of the assurance ratings of these reviews:



9. Appendix 3 details all the final reports, draft reports and follow ups issued in Q1 &2 for 2013/14.

10. Three follow-ups were completed in the first half of the year and the graphs below illustrate the original and re-assessed assurance ratings:





11. Internal Audit have been involved in the following ongoing projects/groups:

- Corporate Governance Group – chaired by the Monitoring Officer and responsible for the annual review of governance feeding into the Annual Governance Statement. There were 3 meetings of the Corporate Governance Group in the first half of the year. Considerable work has been undertaken outside of the meetings by Internal Audit to collect and assess evidence to support the annual review of governance and to prepare a draft Annual Governance Statement for the Corporate Governance Group consideration. 18.65 days have been spent on this work, 62% of the annual allocation, this is almost half the amount of time spent last year and reflects the streamlined processed introduced for 2013/14.

- Information Governance Board – Internal audit attends and contributes to the Information Governance Board. There have been 2 meetings of this group.

- IT Working Group – Internal Audit attends monthly meetings to provide control and risk advice on new and on-going IT projects.

- My Community ePurse – Internal audit attend regular working group meetings to provide ongoing control and risk advice for this project.

Productivity

12. The days available to implement the internal audit annual plan are based on an estimation of the team's productive time. To enable this estimation to be made, and to feed into performance indictor 3 (see section below), each auditor is required to record a breakdown of their time spent each day. Each element of productive time (i.e. every project/element of the annual plan plus any additions e.g. emerging risks) and each element of non-productive time (e.g. annual leave, training, audit management) is allocated a unique code and time is recorded against each code.

13. The 2013/14 annual plan was estimated to require 1064 productive days from the internal audit team to complete plus 100 days for WLWA, i.e. 1164 days in total. This is based on an expectation of between 76* – 195 productive days per auditor and 170 productive days for the Service Manager. *This lower figure applies to an auditor who joined in mid-way through the year and is not full-time.

14. The mid-year position shows that overall the team have achieved 535 productive days which exceeds the target of 508 by 27 days.

Performance Indicators

15. Table 1 below outlines the seven Internal Audit indicators agreed for the year, including the key indicator covering achievement of the IA annual plan and table 2 the three corporate audit indicators and the results achieved. These indicators cover performance on projects from the 2012/13 plan and the 2013/14 plan issued in the first half of the year (i.e. up to 30/09/13).

Table 1 – Internal Audit Performance Indicator Results

	Indicator	Target	Mid Year Results
1.	Recommendations agreed for implementation	95%	95%
2.	Final reports issued on/ahead of time	85%	88%
3.	Projects completed within budgeted time allowance	85%	88%
4.	Target met for issue of draft report after end of fieldwork	85%	88%
5.	Follow-up undertaken	100%	100%
6.	Plan achieved for Key Control reviews	100%	100%
7.	Plan achieved overall (Key indicator)	45%	45%

Analysis of Results

16. Three (43%) of the performance targets have been exceeded and 4 (57%) have been fully met i.e. overall 100% of the performance targets have been met or exceeded.

17. Performance Indicator 7 reflects the work undertaken against the plan in the first half of the year including some individual projects that have been started but not completed and work on particular areas e.g. suspected financial irregularities and follow-up, where more than half of the annual allocation has been used i.e. more work than expected has been undertaken. However this indicator does not fully reflect all the work undertaken by the Internal Audit Team which also includes work on projects carried forward from 2012/13 and work on emerging risks.

Table 2 – Corporate Audit Indicators Results

	Indicator	Target	Mid Year Results
1	Implementation of recommendations	90%	84% (expected to be 97%)
2	Auditee response times to draft reports within 3 weeks	80%	64%
3	Auditee response times to follow ups within 4 weeks	80%	33%

Analysis of Results

18. As detailed in paragraph 3 of those recommendations where follow-up has been completed a total of 32 have been implemented, 4 were partially implemented/in the process of being implemented, 1 was planned for implementation, and 1, although originally agreed by management was not implemented. This represents an 84% implementation with a further 13% in progress or planned at the time of follow-up thus it is expected that in due course 97% will be implemented.

19. The result reported in the 2012/13 year end report for auditee response times to draft reports was 45%; therefore the mid year result for 2013/14 (whilst not meeting the target) has already shown an improvement of 19%. From April 2013 an Action Planning Meeting

was introduced as part of the lean process and as a result an improvement has been made in receiving more timely response, which will continue to be worked on for the remainder of the year.

20. For the auditee response time to follow ups indicator, the result reported in the 2012/13 year end report was 39%; therefore the mid year result for 2013/14 has shown a slight decrease by 6%. As a result from October 2013 a Follow up Meeting will be undertaken (where necessary) to obtain response within the 4 weeks timescale which should help to improve the indicator for the end of year result.

Susan Dixson
Service Manager, Internal Auditor
November 2013