

**Meeting: AUDIT COMMITTEE**

Agenda Item:

**Date: 16 January 2008**

**4**

## **INTERNAL AUDIT UPDATE AS AT 30TH NOVEMBER 2007**

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### **1. PURPOSE**

1.1 The purpose of this quarterly report is for the Audit Committee to receive and consider:

- Progress of Internal Audit against the Annual Audit Plan for 2007/08 including details of internal audit work undertaken during the period 3 September to 30 November 2007;
- Proposed amendments to the 2007/08 plan; and
- Update in the provision of audit partnership services with North Hertfordshire District Council (NHDC).

### **2. RECOMMENDATIONS**

- The Internal Audit quarterly report as at 30 November 2007 be noted;
- That the proposed amended plan to cover the period 3 December 2007 to 31 March 2008 be agreed; and
- The update in the provision of audit partnership services with NHDC be noted.

### **3. BACKGROUND**

3.1 The Audit Committee receive an Annual Internal Audit Report from the Audit Manager and the Audit Commission's Audit Opinion as part of the Council's annual governance report. This is supplemented by quarterly updates, the most recent of which was brought to this Committee on 27 September 2007.

3.2 The work of internal audit needs to be reported to a Member body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that the quarterly update report also includes proposed amendments to the agreed annual plan.

## 4. CONSIDERATIONS

### **Progress against the 2007/08 Annual Audit Plan**

- 4.1 Attached as Appendix A are details of audit work undertaken by Internal Audit staff between 3 September and 30 November 2007. Although several planned audits for the Council are progressing only an Allocations audit for SHL was completed during the 3 month period. However, important consultancy and investigative work was completed for both SBC and SHL.

### **Proposed amendments to the 2007/08 Annual Audit Plan**

- 4.2 Attached as Appendix B is the Annual Audit Plan 2007/08 which was approved by 6 March 2007 Audit Committee. It is this plan that has formed the basis of Internal Audit's work for the current year to date. Details of the position of Internal Audit against the plan as at 30 November are shown in Appendix C of this report.
- 4.3 Since this plan was put together, the established audit partnership with Uttlesford DC has been terminated for financial reasons at the latter's request. The Section has experienced resourcing changes and unanticipated demands on time which are detailed in the paragraphs below.

#### *Staffing Considerations*

- 4.4 The 2007/08 Annual Audit plan was developed based on an assumption that the Uttlesford DC partnership would continue and that all posts would be filled for the financial year. However, because of the cessation of the partnership and the Audit Partnership Manager getting another job within Uttlesford, the Section was without a Manager for the period April to June 2007 inclusive. During this period, the former Audit Manager was available one day per week and the day-to-day management responsibilities of the Audit Manager were fulfilled by the Deputy Audit Manager.
- 4.5 A pilot six month replacement partnership arrangement with NHDC commenced at the beginning of July 2007 with the North Herts Audit Manager working two days at each site (part-time employee – 4 days per week). This represents a one day per week reduction in Audit Manager time compared to the previous partnership arrangement. For transitional reasons, it has subsequently been agreed that the pilot will be extended for a further 3 months to 31 March 2008. A decision will then be taken as to whether or not the current pilot arrangement should be formalised.
- 4.6 The knock-on effect of a reduction in Audit Manager days has been to reduce the Deputy Audit Manager's productive time. The impact on productive days that the above changes at Audit Manager level have had are included in the summary paragraph 4.11.
- 4.7 A trainee auditor commenced in April 2007. However, the annual plan for 2007/08 was compiled based on the individual appointed to the vacant auditor post having some audit experience. As this was not the case there has been a reduction in productive days which is shown in paragraph 4.11.
- 4.8 The following adjustments have also been made:

- To reflect two Easter public holidays during 2007/08
- Changes to productivity levels to reflect recognised professional standards.

*Impact of carry forward work*

- 4.9 Staffing difficulties encountered in the latter part of 2006/07 resulted in eight key financial systems audits being completed in the first quarter of 2007/08. These were not reflected in the 2007/08 Audit Plan.

*Special Investigations*

- 4.10 As in previous years, the Annual Audit Plan for 2007/08 has no provision for special investigations. However, as at 30 November 2007 a total of 71 productive days have been spent on special investigations of which 40 relate to SBC. This has, therefore, further reduced the number of audits that could have been undertaken in 2007/08.

**Summary**

- 4.11 The combined impact of changed staffing circumstances, carry forward audits and special investigations has been to reduce total annual productive days for planned audits in 2007/08 by 245 days from 753 days to 508 days. The breakdown of this figure is shown in the table below:

	<b>Productive days lost</b>
Total Audit Manager productive days lost	19.5
Total Deputy Audit Manager productive days lost	28.5
Total Internal Auditor productive days lost	29
Adjustment for bank holidays	12
Review of productivity levels	21
Carry forward audits from 2006/07 to 2007/08	95
Special Investigations	40
<b>Total Productive Days Not Available For Planned Audit Work</b>	<b>245</b>

**Proposed amendments to the Annual Audit Plan 2007/08**

- 4.12 Based on the above information, an analysis of the 2007/08 annual audit plan has been undertaken to determine where available resources should be focussed (see Appendix B).
- 4.13 The analysis undertaken focussed on ensuring that the requirements of the Council's external auditors with regard to the audit of key financial systems in accordance with the managed audit agreement are met and at least 90% of the Agreed Audit Plan for Stevenage Homes Ltd is completed / in progress at the end of the financial year.
- 4.14 Once the critical audits had been identified, the time allocation given to each audit was examined to confirm that it remained appropriate given current circumstances. As a result of this analysis, it is believed that amendments to time budgets are

required. Proposed new time budgets and the reasons for the proposed changes together with the original days are shown in the table below:

<b>Title of Audit</b>	<b>Original days</b>	<b>Proposed days</b>	<b>Notes</b>
<b>Key Financial Systems</b>			
Cash and Payments	15	20	Budget increased by 5 days to reflect requirements of SHL
Creditor Payments	20	20	No change required
Payroll	13	20	Budget increased to 15 days as per Hertfordshire average plus 5 additional days to reflect the requirements of SHL
Sundry Debtors	20	20	No change required
Benefits	13	20	Budget increased to reflect Hertfordshire average
Business Rates	20	15	Budget reduced to reflect Hertfordshire average
Council Tax	20	15	Budget reduced to reflect Hertfordshire average
Main Accounting	13	20	Budget increased to 15 days as per Hertfordshire average plus 5 additional days to reflect the requirements of SHL
Treasury Management	15	10	Budget reduced to reflect Hertfordshire average
<b>SHL/SBC Audits</b>			
Building and Premises Maintenance	25	25	No change required
Current Contracts	15	15	Remaining budget
Information Management	2	2	No change required
Information Technology	30	16	Budget reduced to reflect time required to undertake IT auditing as part of key financial systems audits
Insurance	15	15	No change required
Personnel	20	15	Budget reduced to 10 days to reflect Hertfordshire average plus 5 additional days to reflect the requirements of SHL
<b>SHL Audits</b>			
Housing Management	9	9	Remaining budget
Stores	5	5	Remaining budget
Decent Homes	0	0	No change required
Housing Rents	13	15	Budget increased to reflect Hertfordshire average
Right to Buy now Business Continuity	15	15	No change required
<b>Total Days</b>	<b>298</b>	<b>292</b>	

<b>Required</b>			
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- 4.15 When calculating total days required, the following time commitments also need to be taken into consideration as these audits had commenced during the three month period September - November 2007.

<b>Title of Audit</b>	<b>Days required</b>
Risk Management	9
Environmental Health	10
<b>Days required</b>	<b>19</b>

- 4.16 The above tables indicate a need for 311 days (292 plus 19) in order to complete key financial systems audits, SHL audits and audits in progress as at the start of December. Actual available days for the period are 219 giving a requirement in excess of available days of 92 days.

- 4.17 In order to manage this shortfall, the following actions have been taken:

- Treasury Management has been completed by an NHDC Auditor; and
- Building and Premises Maintenance and Business Continuity Planning – which replaces Right to Buy – are to be undertaken by one of the Principal Auditors at NHDC.

The above actions reduce the internal requirement for resources by 50 days leaving a shortfall of 42 days.

- 4.18 Given that the above time calculations do not include any time allocation for consultancy or special investigations work, which is likely to occur in the final four months of the financial year 2007/08, it is felt that Internal Audit, even supported with assistance from NHDC's Audit and Consultancy Services, will be unable to undertake three key financial systems audits for 2007/08 within the financial year. Discussions with external audit are currently underway to determine whether a resource should be brought in to complete the work in 2007/08 or whether the audits can be undertaken in the first quarter of 2008/09. The Committee will be orally updated at the meeting on the discussions relating to this matter.
- 4.19 Detailed in Appendix D are the audits which were included in the Annual Audit Plan for 2007/08 and for which resources are not available to undertake in 2007/08. The total number of days of work that cannot be undertaken in 2007/08 amounts to 238 days. This equates approximately to the number of days not available for planned audit work (245 days) as summarised in paragraph 4.11 of this report.

### **Partnership Working**

- 4.20 Since the September meeting of the Audit Committee, it has been agreed that the shared manager pilot with NHDC will be extended for a further three months and will be reassessed for effectiveness by 31 March 2008. It has been necessary to extend the pilot arrangements in order to carry out a review which has been made difficult due to the transitional circumstances outlined earlier in the report. At this early stage it does not appear to be as effective as the previous Uttlesford Partnership,

however action is being taken to develop and evaluate a sustainable arrangement.

- 4.21 In order to assist with the resources issue, the current pilot with NHDC has to date provided opportunities for auditors within Audit and Consultancy Services at NHDC to undertake discrete pieces of audit work at Stevenage Borough Council. If the partnership continues, it is hoped that over time it will be possible to offer auditors working in Internal Audit at Stevenage the opportunity to undertake projects at NHDC.

### **Funding**

- 4.22 A revenue forward plan bid of £30,000 for additional audit resource was approved by Executive on 19 December 2007. This should provide sufficient resources from 2008/09 onwards to allow the audit plan to be completed in future years and also to evaluate alternative audit arrangements if it is considered necessary in order to maximise effectiveness.

## **5. IMPLICATIONS**

### **5.1 Financial Implications**

- 5.1.1 This report is financial in nature and consequently financial implications are included in the body of the report.

### **5.2 Other Implications**

None.

## **BACKGROUND DOCUMENTS**

- Internal audit documentation.

## **APPENDICES**

- Appendix A – Internal Audit work undertaken between September and November 2007
- Appendix B - Annual Audit Plan 2007/08 as agreed at March 2007 Audit Committee
- Appendix C - Position against the Annual Audit Plan 2007/08 as at 30 November 2007
- Appendix D - Audits to be postponed from the 2007/08 Annual Audit Plan