

AUDIT PANEL		
Report Title	Internal Audit update report	
Key Decision	No	Item No. 4
Ward	ALL	
Contributors	Executive Director for Resources	
Class	Part 1	Date: 20 September 2011

1. Purpose of the Report

- 1.1. This report presents members of the Audit Panel with a summary of:
- Internal Audit progress update since the last Audit Panel report
 - Performance of the Internal Audit contractor, and
 - Implementation of internal audit recommendations.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the content of this report.

3. Background

- 3.1. The client side of Internal Audit comprises an Interim Head of Audit and Risk and an Internal Audit Contract Manager.
- 3.2. They contract and supervise the Council's internal audit service which has been provided by RSM Tenon since September 2008.
- 3.3. The contractor is responsible for completing all the internal audit reviews for the Council (non-schools and schools) and any consultancy or grant certification work as directed.

4. Internal Audit progress update

2010-11

- 4.1. The audit plan for 2010/11 is completed to final report stage with the exception of one report :
- Procurement and Purchasing of Goods and Services – where, based on the draft report, we have requested further testing to be completed.

2011/12 Audit Plan

- 4.2. The table below summarises the number of audits by Directorate for the audit plan for 2011/12 up to the 31/08/11

Lead Dir.	Original Audit Plan	Audit Work Added	Audits Pulled	Current Audit Plan	Final Reports Issued	Report at Draft Stage	Work in Progress	Work Not Yet Due
RES	24	2	(1)	25		1		24
CUS	12	2	(1)	13	3		2	8
COM	5	2	(1)	6		1	2	3
REG	4	2		6		1	1	4
CYP	6			6	2		1	3
SCH	32			32	3	4	1	24
TOTAL	83	8	(3)	88	8	7	7	66

4.3. This shows :

- 25% of the plan is now in progress
- 17% of the plan has been completed to draft report stage and
- 9% of the plan has been completed to final report stage.

4.4. Since the Audit Panel approved the 2011/12 audit plan, there have been two additional audits requested and two audits that has been pulled from the plan. These are listed below:

Additional

Dir.	Audit Title	Comments
RES	Consultancy Planning Framework	Part of the Contract and Procurement Review
CUS	Greenspace	Part of the Contract and Procurement Review

Pulled

Dir.	Audit Title	Comments
RES	Control of Expenditure	Scope to be covered in main accounting system audit.
COM	Increased Shared Role with NHS over Public Health.	Cancelled as reforms / legislation is not yet complete. To be reviewed again in 2012/13

4.5. Since the last Audit Panel report, there have been seven reports issued.

Dir.	Audits title	Final Issued	Assurance Level
CUS	Trading Standards	27/06/11	Substantial
CUS	Complaints, Compliments & Suggestions	01/07/11	Substantial
CYP	Play Capital Determination Grant	22/06/11	N/A – Grant
CYP	Provision of School Places	22/06/11	Substantial
SCH	Brockley Primary School	27/05/11	Substantial
SCH	Chelswood Nursery	21/07/11	Substantial
SCH	St William of York	01/07/11	Substantial

- 4.6. For a more detailed look at the audits planned for Quarters 1&2, please refer to Appendix 1. All key audits are due to take place in Quarters 3&4.

Limited and No Assurance Reports

- 4.7. Since the last Audit Panel report there has been one Limited report and one No Assurance report issued:
- Use of BACS (Bankers Automated Clearance Service) - Limited
 - Review of financial management of public funds held by Lewisham Park Housing Association (LPHA) – No Assurance.
- 4.8. For further details of these reports please see Appendix 2.

5. Performance of the contractor

- 5.1. One of the ways that the performance of the contractor is measured is by Performance Indicators (PIs). These PIs and their associated targets were agreed with the contractor at the start of the year. They will be reviewed again once the new contract has been awarded (October 2011) to ensure that they are still relevant.
- 5.2. The 2011/12 results for the PIs up to 31/08/11 - are shown below.

No.	Performance Indicator	Target YTD	Actual YTD to	Variance (+/-)
1	Percentage of all draft reports issued against audit plan	16%	18%	+2%
2	Percentage of draft audit reports issued within 15 working days of the exit meeting	90%	63%	(27)%
3	Percentage of final reports issued within 10 working days of agreed draft report	90%	100%	+10%
4	The average level of client satisfaction to be achieved (out of a score of 5)	4	4.1	+0.1
5	Percentage of High & Medium recommendations made agreed by management.	95%	85%	(10)%

- 5.3. Three of the five PIs targets have been met or exceeded, with two not met.
- **PI 1** – has exceeded the target by 2%. This is based on 16 draft reports issued against a target of 14 to this point in the year.
 - **PI 2** – has not met the target by 27%. This is based on 16 draft reports issued. Out of these, three school and three non school draft reports were issued late. Steps to improve performance against this target are being discussed with the contractor.
 - **PI 3** - has exceeded its target by 10% - all audits have been finalised within the target time frame.
 - **PI 4** – the client survey result is based on two returned surveys for 2011/12 and has exceeded the target by 0.1%
 - **PI5** – has not met the target by 10% - however it should be noted that only seven medium recommendations have been made to date, and the reasons for the one which was not accepted are understood and the control requirements being clarified.

6. Implementation of internal audit recommendations

- 6.1. All High and Medium recommendations are followed up by internal audit as part of the audit process. Follow-up reviews are normally undertaken within six months of the final report being issued by the contractor.
- 6.2. The table below shows a summary the total number of recommendations followed-up by the contractor since the last audit panel report up to 18/08/11. It shows that 94% of recommendations that were followed up were either in progress or implemented with only 6% either not due or not implemented. Details of the individual follow-up reviews issued since the last audit panel meeting can be found at Appendix 3.

	Implemented	In progress	Superseded	Not Implemented	Not Due	Total
TOTAL	41	21	2	3	1	68

- 6.3. We have developed an in-house solution for tracking internal audit recommendations. Going forward, where applicable, management will be able to upload evidence such as procedure notes, minutes of meetings etc.. to the SharePoint intranet site for tracking recommendations. This will be monitored and reminders sent by the internal audit team. Doing it this way will maintain the level of control while minimising the level of committed audit resource and demand on managers time to complete follow-ups.
- 6.4. Where it is not possible to evidence a recommendation this way we will continue to ensure a follow-up of the recommendation is conducted six months after the final report was issued and report on this to the Audit Panel.
- 6.5. The table below shows the status of all recommendations made up to the 18/08/11.

Lead Dir	Previous No. of O/Due Recs.	Current No. of O/due Recs	Current No. of Recs with 2+ changes	No of Recs Re-opened since 20/04/11	Previous No. of Open at 20/04/11	No. of New Recs From 20/04/11 to 18/08/11	Closed Recs from 20/04/11 to 18/08/11	Current Open Recs at 18/08/11
RES	4	11	3	2	60	5	25	40
CUS	6*	-	-	-	28	10	25	13
COM	5	5	2		20	5	7	18
REG	7	6	1	2	17	12	8	21
CYP	6	-	3	3	23	6	17	12
	13	13	2	2	34	5	19	20
Total	41	35	11	9	182	43	101	124

* Five recommendations transferred to Customer from Resources one day prior to distribution of last ICB report.

- 6.6. A summary table in Appendix 4, shows those audits with either overdue recommendations or have two or more changes of implementation date. As at 18 August there were 35 overdue (five High and 30 Medium) recommendations. Out of those that are overdue, four have been overdue since the last audit meeting with no progress update provided as at 18/08/11.
- 6.7. At the Audit Panel's request, we invite officers to attend the meeting to explain the current position of recommendations overdue or with multiple date changes.

7. Update on Key Risks

- 7.1. The annual risk management maturity review undertaken by internal audit for 2010/11 concluded that the Authority continues to be 'Risk Managed'. This is the fourth point on a five point scale and is the level Internal Control Board expects to be maintained.
- 7.2. At the last Audit Panel when reviewing the Risk Management Strategy the Panel requested to be updated on the key corporate risks, changes and actions being taken to mitigate them.
- 7.3. The current red (most significant) risks in the corporate risk register are:

Corporate Risk Register – Extract		
Corporate priority	Risk title	Current risk status (RAG)
Inspiring efficiency effectiveness and equity	Failure of central ICT infrastructure	Red
Inspiring efficiency effectiveness and equity	Litigation risks	Red
Inspiring efficiency effectiveness and equity	Preparations and preparedness for the 2012 Olympics and Paralympics	Red
Inspiring efficiency effectiveness and equity	Non-compliance with H&S regulations	Red
Protection of Children; Caring for Adults and Older People	Avoidable death or serious injury to client or employee	Red
Inspiring efficiency effectiveness and equity	Employee relations	Red

- 7.4. The ICT infrastructure risk reflects the cost and service disruption risks. Work to complete the archiving of storage combined with change support for moves to SharePoint 2010 to alleviate demands on server resources continues. The Council also continues to monitor the resolution of issues with regard to the resilience of the telephony system.
- 7.5. The Litigation risk reflects the cost and reputation risk arising from historical events and the risk of legal challenge to savings proposals. The position is constantly monitored.
- 7.6. Preparations for the 2012 Games are well underway and now impacting on plans Lewisham have to have in place for the Council and it's residents to manage during this period, both in terms of business as usual and contingency planning. Governance arrangements have been put in place to address this and detailed planning is now underway.
- 7.7. Following recent incidents involving partners and our continued responsibilities for staff and the public, especially pupils in our schools, non-compliance with H&S remains an area of risk for the Council and is being vigilantly monitored. We have refocused internal arrangements and are working closely with out partners delivering services on behalf of the Council.
- 7.8. The risk of avoidable death or serious injury to a client or employee will continually be rated red due to the potential severity should an event occur. Regular and ongoing management action and review continues in respect of safeguarding.
- 7.9. The employee relations risk has been escalated from Amber to Red due to the staffing implications of the savings proposals. The situation is subject to regular and ongoing review, staff consultation processes and engagement with the unions.
- 7.10. In respect of the Audit Service the current risk being managed is the smooth transition, without loss of momentum in delivery of the audit plan, to the new contract to start in September. This will follow the decision of Mayor & Cabinet (Contracts) on the 14 September. Given the timing for distribution of this report a verbal update will be provided at the meeting.

8. Legal Implications

8.1. There are no legal implications arising directly from this report.

9. Financial Implications

9.1. There are no financial implications arising directly from this report.

10. Equalities Implications

10.1. There are no equality implications arising directly from this report.

11. Crime and Disorder Implications

11.1. There are no crime and disorder implications arising directly from this report.

12. Environmental Implications

12.1. There are no legal implications arising directly from this report.

13. Background Papers

13.1. There are no background papers.

If there are any queries on this report, please contact David Austin, Interim Head of Audit and Risk, on 020 8314 9114 or email him at david.austin@lewisham.gov.uk

Appendix 1 – Progress of the Audit Plan for 2011/12

Resources Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
RES	Public Sector Transparency Board	Q1	08/04/11	31/08/11			
RES	Consultants Planning Framework Monitoring	Q2					
RES	Implementation of Fixed Asset System	Q2					Post external audit
RES	Implementation of Payroll system (ResourceLink)	Q2					
RES	Implementation of HR System - PHRIS	Q2					Pending follow-up
RES	HR - Thematic Review	Q2					Scoping initiated
RES	Project Management Monitoring Capacity	Q2					
RES	Performance Indicators for LA's	Q2					
RES	Cyber Threats	Q2					
RES	Mutual Organisations	Q2					

Customer Services Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold)

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
CUS	Pest Control	Q1	24/04/11	14/04/11	06/05/11	Substantial	
CUS	Trading Standards	Q1	24/03/11	21/06/11	27/06/11	Substantial	
CUS	Complaints, Compliments and Suggestions.	Q1	13/04/11	21/06/11	27/06/11	Substantial	
CUS	Street cleaning	Q1	05/04/11				
CUS	Brockley PFI (Major Suppliers)	Q1	11/07/11				
CUS	Greenspace Contract Monitoring	Q2					

Appendix 1 – Progress of the Audit Plan for 2011/12

Community Services Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
COM	Lewisham Park Housing Association (Day Care Provider)	Q1	18/05/11	06/07/11			(Additional Audit Requested)
COM	Personal Budgets	Q1	05/04/11				
COM	Learning Disabilities Contract	Q1	07/07/11				
COM	Supporting People Service Plan	Q2					

Regeneration Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
REG	Security of Town Hall / Laurence House	Q1	23/03/11	29/07/11			
REG	Building Security	Q1	02/08/11				
REG	Highways Contract	Q2					

CYP Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
CYP	Provision of School Places	Q1	18/03/11	30/06/11	28/07/11	Substantial	
CYP	Play Capital Determination Grant	Q1	20/06/11	N/A	27/06/11	Grant	
CYP	CONTROC system - joint review	Q2	25/07/11				
CYP	Children Social Care	Q2					

Appendix 1 – Progress of the Audit Plan for 2011/12

School Audits – Sorted by final reports issued, draft reports issued and work started

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
SCH	Brockley Primary	Q1	16/05/11	06/06/11	27/06/11	Substantial	
SCH	St William of York Primary	Q1	23/05/11	06/06/11	01/07/11	Substantial	
SCH	Chelwood Nursery	Q1	08/06/11	20/07/11	21/07/11	Substantial	
SCH	Elfrida Primary	Q1	23/06/11	01/08/11			
SCH	Perrymount Primary	Q1	28/06/11	26/07/11			
SCH	Gordonbrock Primary	Q2	04/07/11	02/08/11			
SCH	Holy Trinity Primary	Q2	11/07/11	02/08/11			
SCH	St Bartholomews Primary	Q2	18/07/11				
SCH	Baring Primary	Q2					Start in Sept (after hols)
SCH	Childeric Primary	Q2					Start in Sept (after hols)
SCH	Dowderry Primary	Q2					Start in Sept (after hols)
SCH	St John Baptist Primary	Q2					Start in Sept (after hols)

Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Use of the BACS service	High	0	<p>The areas that were covered in this review :</p> <ul style="list-style-type: none"> • Security over BACS direct debit (collection) and BACS direct credit (payment) files from creation to submission. • Automated Direct Debit Instruction Service (AUDDIS) files used to set up and maintain Direct Debit mandates. • Controls over file processing and transmission. • Monitoring of processes and activity through output reports. • Logical security controls for the ALBACSip system. • Segregation of duties over input, processing and monitoring of payments. • Arrangements to allow BACS instructions to be processed in the event of a disaster or other business interruption.
	Medium	4	
			<p>Key Findings</p> <p>The key findings in the report were:</p> <ul style="list-style-type: none"> • no comprehensive procedures for managing the ALBACSip system • currently all BACS users have the same profile with full system rights and Authoriser and signer privileges. • no formal service continuity arrangements have been established. There is no proven alternative method for sending BACS files apart from the two PCS in the Civic Centre and • no formal change management procedure is defined for the BACS PCs including system settings, standing data, the hardware and database.
Managers Comments			

Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
<p>Review of financial management of public funds held by Lewisham Park Housing Association (LPHA).</p> <p>LPHA provides day care services and sheltered housing support for minority ethnic elders including African, Caribbean, Asian, Turkish and Tamil elders. The day care services, which were the focus of this review, are provided across two centres – Calabash and St Mauritius House day centres. The total number of active users assessed for services by Social Services is 55. Other users may also use these services.</p> <p>The total contract amount for the day care service in 2010/11 was £536,175.</p>	High	10	<p>The areas that were covered in this review :</p>
	Medium	1	<p>The objective of the review was to assess the controls in place to ensure the finances relating to public funds are fully accounted for and accurately recorded. Key financial information should be submitted in accordance with the terms of the contract. Information is subject to stringent review and monitoring by the Council.</p>
			<p>Key Findings</p> <p>The key findings in the report were:</p> <ul style="list-style-type: none"> • The current monitoring framework used by the Contracts and Brokerage team for the Voluntary Sector monitoring review process does not have indicators to help identify poor financial controls in an organisation • No evidence of quarterly financial information being followed up by the Contracts and Brokerage team when it is not submitted by the service provider • The Services Manager of Joint Commissioning, Contract and Brokerage in December 2007 requested the Council’s previous Internal Audit Service to review the service provider’s financial statements for 2006/07, which identified serious financial concerns. These concerns do not appear to have been addressed, and • There was no assurance over the cost effectiveness of the day care service being provided by the service provider. <p>Through review of the financial management processes and procedures in place to account for public funds it was not possible to demonstrate proper stewardship of the Council’s funding to provide day care services in accordance with the terms of the contract.</p>
<p>Managers Comments</p>			

Appendix 3 - Follow Up Reviews Conducted Since the Last Audit Panel

Dir.	Audit Name	Audit Opinion	Final Report date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
RES	Corporate Procurement Contracts	Satisfactory	13/10/10	H						3
				M	2	1				
RES	Information management Framework	Limited	27/10/10	H						5
				M	2	2		1		
RES	Agency Employees	Satisfactory	04/11/10	H						3
				M	2	1				
RES	Risk Management – Operational Risk Registers	Satisfactory	04/11/10	H						5
				M		4			1	
COM	Client Financial Affairs – Council Public & Private Funerals	Satisfactory	09/11/10	H						1
				M	1					
COM	Client Contributions – Res & Dom Care	Satisfactory	16/10/10	H						4
				M	3	1				
REG	Highways	Substantial	26/11/10	H						2
				M		2				
REG	Transport Programme-TFL Funding	Satisfactory	26/11/10	H						5
				M	5					
REG	Parking Client	Substantial	23/12/10	H						2
				M	1	1				
CYP	Children's Centre SLA / Contracts	Satisfactory	05/10/10	H						3
				M	2		1			
CYP	Integrated Children's System Application Security Control	Limited	16/07/11	H		1				3
				M		2				
CYP	CYP Finance	Substantial	07/12/10	H						2
				M	1	1				

Appendix 3 - Follow Up Reviews Conducted Since the Last Audit Panel

Dir.	Audit Name	Audit Opinion	Final Report date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
CYP	Youth Service	Satisfactory	16/10/10	H						3
				M	2		1			
SCH	Forest Hill Secondary Sch	FMSiS Met	25/10/10	H						1
				M	1					
SCH	Lewisham Bridge School	Substantial	06/10/10	H						2
				M	1			1		
SCH	Good Shepherd Roman Catholic School	Substantial	23/09/10	H						1
				M	1					
SCH	St Mary's Primary School	Satisfactory	29/11/10	H						3
				M	3					
SCH	Torridon Infants School	Substantial	01/12/10	H						1
				M	1					
SCH	Lucas Vale Primary	Substantial	01/12/10	H						2
				M	1	1				
SCH	Fairlawn Junior School	Substantial	02/12/10	H						2
				M	2					
SCH	St Augustine's Primary School	Limited	03/12/10	H						7
				M	4	2		1		
SCH	Rushey Green Primary School	Satisfactory	08/12/10	H						3
				M	1	2				
SCH	Rathern Primary School	Satisfactory	09/12/10	H						3
				M	3					
SCH	Marvels Lane Primary School	Substantial	09/12/10	H						2
				M	2					
Total No.					41	21	2	3	1	68
Percentage					60%	31%	3%	5%	1%	

Appendix 4 – Overdue Recommendations and Recommendations Two or More Changes of Date

Dir	Name of Audit	Final Report Date	High O/Due	Medium O/Due	No. Recs 2+ Changes	Comment
RES	Benefits Realisation for the Early Change Project	16/02/11		1		Overdue since the last Audit Panel
RES	Health & Safety	01/11/10		3		
RES	Information Security Management 10/11	24/03/11		6		
RES	Operational Risk Registers	01/11/10		1		
RES	DPA / FOIA	09/10/09			1	Date changed 4 times
RES	SharePoint	25/01/10			2	Date changed 2 times
COM	Community Mental Health (SLAM)	Pre 2009		1	1	Date changed 5 times
COM	Client Contributions for Res & Dom Care (pre 2009)	29/05/10		1	1	Date changed 3 times
COM	Direct Payments 10/11	29/03/11		1	1*	Overdue since last Audit Panel * This rec is not overdue
COM	Events	11/01/11		2		
CYP	Family Support and Intervention	04/12/09			2	Date changed 4 times
CYP	ICS Application Security Controls	16/07/10			1	Date changed 2 times
REG	Capital Programme – Lessons Learnt	18/05/11	4	1		
REG	Property Services – Mail Room	15/04/11	1			
REG	Highway Maintenance	03/05/08			1	Date changed 9 times
SCH	Horniman Primary School	24/06/10		1		Overdue since last Audit Panel
SCH	Lee Manor School	22/02/11		3		
SCH	Myatt Garden School	25/06/10		3		
SCH	Rangefield School	21/03/11		1		
SCH	Torridon Junior School	08/07/10		1		Overdue since last Audit Panel
SCH	Chelswood Nursery	21/07/11		2		
SCH	Turnham Infant School	08/02/11		2		
SCH	Rushey Green School	08/12/10			2	Date changed 2 times
			5	30	12	