

CANNOCK CHASE DISTRICT COUNCIL

INTERNAL AUDIT REPORT

ON QUARTER 2 OF 2007-08

FOR THE

AUDIT & GOVERNANCE COMMITTEE

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1. Introduction

- 1.1 This report is the second progress report to the Audit and Governance Committee on the work carried out in 2007-08 by the Internal Audit Section. It covers the period 1st April 2007 to 30th September 2007.
- 1.2 The report contains details of:-
- the performance of the section against the Internal Audit Plan for 2007-08 for the year to date;
 - the changes to the classification of audit opinions;
 - a summary of the level of assurance issued for each of the reports that have been issued in the quarter;
 - the results of the follow-ups undertaken in the quarter, showing the original and the revised assurance after the follow-up has been completed; and
 - the proposed revisions that need to be made to the Audit Plan for 2007-08.

2 Audit Performance

- 2.1 The 2007-08 Audit Plan has not allocated specific audits to quarters, however based on last year's profile a target number of audits has been set. The following targets will be used for the cumulative completion of the full year's plan (including IT Audits).

	Quarter %	Cumulative %	Number of Audits	Cumulative Total
Quarter 1	13	13	4	4
Quarter 2	26	39	7	11
Quarter 3	26	65	8	19
Quarter 4	35	100	9	28

- 2.2 The profiling for the first quarter is lower than others due to the finalisation of work from the previous year and likewise the profiling for the fourth quarter is higher as much of the audit work is finalised at the year end.
- 2.3 The following table contains the performance against the Audit Plan for the first half of 2007-07 (April to September 2007):-

	Planned Audits		Actual Audits		Audits in Progress
	Number	% of Total	Number	% Complete	
Cumulative Total at end of Quarter 2	11	39%	4	14%	4

- 2.4 Performance in the second quarter of 2007-08 has improved, a total of 4 audits have been completed and a further 4 are in progress but had not been fully completed before the end of the quarter. However the performance for the year to date is still below target due to the low completion rate in quarter 1 which was reported on in the first quarter report.
- 2.5 The delay in appointing to the Trainee Auditor post have contributed to below target performance. The post has now been filled with the person commencing employment on the 1st October, however it had been anticipated that the section would be fully staffed from May and this has therefore had a knock-on effect on the performance of the section.

3 Revision of Audit Opinion Classifications

- 3.1 The Audit Section has reviewed the levels of assurance in light of reviews that have been undertaken. A number of recent audits have led to control weakness being identified which were only in a specific area of the system and which whilst a significant weakness to that specific task or activity were not necessarily major problems to the operation of the whole system and did not fundamentally affect the delivery of the objectives of the service.
- 3.2 In the past these audits have either been given adequate assurance or limited assurance, neither of which totally suited the control weaknesses identified. As adequate assurance often led to the view that the weaknesses were less significant than they were in reality and a "limited" assurance suggested that there were serious weaknesses for the whole system which was often too harsh a judgement. In light of this a new classification of "qualified" assurance has been added between adequate and limited. This new classification is similar to that used by other Councils in Staffordshire.
- 3.3 The definition for a qualified assurance opinion is:
- "The service may be delivering its intended output but the controls in place for some elements of the system are not always appropriate or effective to ensure that this will continue to occur. Controls are not being consistently applied across all elements of the system. This could include breaches of Council policy and the risk of medium financial impact on the Council."
- 3.4 A qualified opinion will only be given if the areas where the controls are missing or not operational do not represent a significant risk to the system where this is the case then a limited assurance opinion will still be given. Where a qualified opinion is given the executive summary for the report will identify the area or areas to which the qualified opinion relates.
- 3.5 Appendix 1 contains the full definitions for the levels of classification that the Internal Audit Section now use in its reports.

4 Audits Completed

4.1 During the quarter the following audits have been completed.

Audit	Service Area	Risk	Assurance
Homelessness	Regeneration & Planning	Medium	Qualified
Benefit Fraud Investigation Team	Commercial Operations	Medium	Adequate
Performance Management	Chief Executive	Medium	Adequate
Treasury Management	Financial Management	Medium	Adequate

Audits in Progress

4.2 During the quarter work has commenced, but not yet been completed, on the following audits:-

- Capital Accounting
- Streetscene
- Stores
- Refuse Collection & Recycling

5 Follow-ups Completed

5.1 Internal Audit has carried out follow-ups in relation to a number of reviews undertaken in the previous six months to examine the progress in implementing the recommendations made.

5.2 The Section has introduced a revised process for following-up audit reports. In the first instance the Service Manager is asked to provide information on the actions that have been taken to address the recommendations made in the audit report via a self assessment process. For all audits given Limited assurance and a sample of other areas the Auditors will verify by testing the information provided by the manager.

5.3 The table below indicates the original assurance offered along with the assurance given at the completion of the follow-up for each area reviewed.

Audit	Service Area	Original Assurance	Revised Opinion
Golf Course	Commercial Operations	Limited	Adequate
Prince of Wales	Commercial Operations	Adequate	Adequate
Home Security Grants	Environmental Health	Adequate	Adequate
Concessionary Fares	Financial Management/ Facilities Management	Adequate	Adequate
Food & Safety	Environmental Health	Adequate	Adequate
Flare	Environmental Health	Substantial	Substantial

- 5.4 Follow-ups were also started on the following areas which were all originally given limited assurance. However, due to the initial findings and the fact that each area was in the Audit Plan for 2007-08 it was decided that the follow-up would be included in the main audit work. This would allow more detailed testing to be carried out in relation to the recommendations that managers had reported as being completed to ensure that the action taken was appropriate and effective in improving the level of assurance that could be placed on the system.

Audit	Service Area	Original Assurance
Stores	Housing	Limited
Refuse Collection & Recycling	Environmental Services	Limited
Streetscene	Environmental Services	Limited
Partnerships	Chief Executive	Limited

6 Revision of the Audit Plan

- 6.1 During the first half of 2007-08 it has become apparent that the Internal Audit Section will not be in a position to review all of the areas that were contained in the original Audit Plan. This is due to a number of factors including the vacancy carried by the section, and the level of non-audit and unplanned work carried out in the first half of the year.
- 6.2 As the committee is already aware the section has been carrying a vacancy since January 2007 and the post was not filled until the 1st October 2007. This was due to the promotion of an in-house candidate to the vacant Senior Auditor post and the subsequent recruitment of a Trainee Auditor. At the time the Audit Plan was compiled it was anticipated that the section would be fully staffed from May. Delays in returning to a fully staffed section has meant that there is a shortfall of around 50 days on the resources available to deliver audits against the amount of days that the section planned to deliver.
- 6.3 In addition the section has also been involved in a higher than anticipated number of financial appraisals and a number of special investigations in the first half of 2007-08 than had been allowed for when the Plan was originally compiled.
- 6.4 It has also recently been decided that the Internal Audit Section is to offer some resources to support the corporate Value for Money reviews that the Council is planning on carrying out in the current year. This will amount to approximately 20 days work that need to be diverted from the planned work of the section.
- 6.5 A review of the 2007-08 Audit Plan has been carried out and a number of audit areas have been identified to be removed from the original plan to offset the factors highlighted above. These areas are:-
- Grants Procedures
 - Managing Absence
 - Land Charges
 - Priority Based Budget Process (Delivering Change)
 - Civil Contingencies (Emergency Planning, Business Continuity)

Appendix 1Levels of Assurance for Audit Reports

Assurance Level	Definition
Substantial	There is a robust control framework in place for the system. All necessary controls are in place and are operating effectively. Any recommendations made are generally low risk and relate to enhancements of existing controls.
Adequate	There is an acceptable control framework in place. There may be some control weaknesses but the key controls are in place and are operating effectively. However some changes to the controls and how they operate would be beneficial An adequate opinion can be given where a small number of controls are not always operating effectively provided there are no high risk recommendations.
Qualified	The service may be delivering its intended output but the controls in place for some elements of the system are not always appropriate or effective to ensure that this will continue to occur. Controls are not being consistently applied across all elements of the system. This could include breaches of Council policy and the risk of medium financial impact on the Council. A qualified opinion will only be given if the areas where the controls are missing or not operational do not represent a significant risk to the system as a whole.
Limited	There is an inadequate control framework to ensure that the system can deliver its intended objectives. Controls are absent or not operating across the majority of the system. This will include significant breaches of legislation or the potential for significant impact on the Council such as large financial losses. The operation of the system is currently providing an unacceptable risk to the Council.