

TITLE	Internal Audit 2011-12 Recommendations Follow-up Report
FOR CONSIDERATION BY	Audit Committee on 6 February 2013
WARD	None Specific
STRATEGIC DIRECTOR	Muir Laurie, Director of Business Assurance & Democratic Services

OUTCOME / BENEFITS TO THE COMMUNITY

The Audit Committee provides assurance to the council on the governance, risk management and internal control arrangements of the organisation. This Internal Audit (IA) Follow-up Report enables the Audit Committee to determine the progress made by the council in implementing recommendations raised by IA in 2011/12 to strengthen the council's control environment and highlights any residual risks.

RECOMMENDATION

The Audit Committee is asked to note the outcome of Business Assurance activity in following-up the 2011/12 IA recommendations and the residual risks that the council is exposed to.

SUMMARY OF REPORT

This report summarises the work completed by Business Assurance in determining the status of IA recommendations raised in 2011/12. This report enables the Audit Committee to discharge its oversight function in relation to the governance, risk management and internal control arrangements of the council.

Background

Business Assurance follow-up activity enables the Audit Committee (and Corporate Leadership Team) to take a view on the implementation of IA recommendations. The assurance provided by Business Assurance is robust as all evidence provided by management is verified to ensure that IA recommendations have been implemented.

Analysis of Issues

The Audit Committee needs assurance over the key governance, risk management and internal controls operating in the council. The key issue for the Audit Committee is does this report provide sufficient assurance for it to come to a view on the strength of the information provided.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

Other financial information relevant to the Recommendation/Decision

- Implementation of Internal Audit recommendations costs the council significant management time.
- Non-implementation of Internal Audit recommendations can leave the council exposed to the risk of significant financial loss.

Cross-Council Implications

Good governance helps the council achieve its Vision and Strategic Priorities.

Reasons for considering the report in Part 2

Not applicable.

List of Background Papers

Business Assurance Progress Report – January 2013

Contact: Muir Laurie	Service: Business Assurance
Telephone No: 0118 974 6508	Email: muir.laurie@wokingham.gov.uk
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INTERNAL AUDIT 2011/12 RECOMMENDATIONS FOLLOW-UP REPORT

1. INTRODUCTION

1.1 In the 2011/12 audit year, Internal Audit raised **221 recommendations** which have now been subject to our follow-up. Management originally agreed all these recommendations and they proposed positive management actions to address the control weaknesses identified. Internal Audit has requested an update on the status of all these recommendations from action owners. Where Management have indicated that all recommendations have been implemented, we have verified evidence to confirm that the action has been undertaken and the risk has been mitigated. Due to our risk based approach, Internal Audit has not completed a detailed follow-up of the 54 low priority recommendations.

2. RESULTS

2.1 These results do not include recommendations made in audits that form part of the council's Key Material Financial Systems. These audits are subject to annual review and are therefore followed up during the course of the audit in the following year.

2.2 The overall position is that **82%** of recommendations have been verified as fully implemented.

RECOMMENDATIONS STATUS AS AT 11 JANUARY 2013	QUANTITY
Recommendations that have been verified as implemented	182
Recommendations that have not been fully implemented but management have requested more time	22
Recommendations where management have stated that the recommendation has been implemented, but they have not supplied sufficient information to enable Internal Audit to verify implementation	11
Recommendations that have been verified as not implemented	6
Total	221

3. KEY MESSAGES

3.1 Optalis Key Financial Systems – Strategic Director of Resources

3.1.1 During the initial follow up of the Optalis Key Financial Systems audit in November 2012, management indicated that the recommendations had not yet been fully implemented. They requested that we review these recommendations again in January 2013, which we escalated to the Strategic Director of Resources and he is actively progressing. Internal Audit can only provide limited assurance at this stage.

3.2 Action owners requesting more time

3.2.1 In addition to the 12 Optalis recommendations, a number of other action owners have requested more time to implement their recommendations. These are:

- Health & Safety (5) - Strategic Director of Resources;
- Internet and Email Usage (3) - Strategic Director of Resources;
- Mobile Devices (2) - Strategic Director of Resources; and

- Capital Accounting (1) - **Strategic Director of Resources**.

3.2.2 Insufficient resources, a change in supplier and changed/ competing priorities have been cited by management as reasons for the non-implementation of their actions from the originally agreed timetable. Internal Audit notes that in some cases there seems to be a tendency for management to agree the recommendation and timescale at the time of the audit and then lose sight of the implementation of the recommendation.

3.2.3 During the course of our work we have identified that the Finance team have created a spreadsheet to track Internal Audit recommendations, with progress on these discussed at Finance team meetings. This is best practice that we will highlight to other managers to facilitate the tracking of agreed Internal Audit recommendations.

3.3 Project Management – Director of Transformation

3.3.1 Four recommendations that have not been fully implemented relate to project management. There have been significant changes impacting on this area following the end of the Transformation Programme. One of the changes refers to high profile projects which receive additional scrutiny on a regular basis by Corporate Leadership Team (CLT).

3.3.2 However the risks that these recommendations are intended to mitigate remain. Areas where recommendations have been made include quality assurance over mandatory elements of project management, and the robust management of risk within projects (including the training of project managers in risk management). At present the council is exposed to the risk that projects are not run in accordance with an agreed project methodology and that risk within projects is not being adequately managed.

3.4 Home to School Transport (SEN) – Interim Strategic Director of Children's Services

3.4.1 Despite repeated requests from Internal Audit, sufficient information has not been received to verify the implementation of all 11 recommendations from the Home to School Transport (SEN) audit. The audit received a reasonable level of assurance. The key risk that the council is exposed to if these recommendations have not been implemented relates to the inefficient use of resources.

3.5 Emergency Duty Team Out of Hours Service – Strategic Director of Health & Wellbeing

3.5.1 The one recommendation that has been verified as not implemented relates to the audit of the Out of Hours Service. This service is provided as part of a Berkshire wide contract by the EDT. Internal Audit identified that service review meeting were not taking place. Management agreed that these meetings would occur every six weeks (in line with the contract). In the first six months of operation of the new contract no service review meetings had occurred. Management identified that this was a result of technology challenges that required staff time and resolving these issues was a higher priority.

3.5.2 Although there are compensating controls in operation, there is a residual risk that without regular service review meetings, formal performance management is ineffective leading to poor performance going unchallenged and misunderstandings developing between the council and the provider.

4. CONCLUSIONS

4.1 The overall picture is that the majority of recommendations have been implemented by management. Evidence has been sought and independently verified by Internal Audit to confirm this.

4.2 The majority of the recommendations which have not been implemented relate to recommendations where management have requested more time to implement their agreed actions.

4.3 A detailed breakdown of the status of recommendations including the priority level assigned to the recommendation at the time of the audit is included at Appendix A.

5. AUDIT COMMITTEE OPTIONS

5.1 There are a number of options available to the Audit Committee on how to proceed:

- Accept the residual risks identified by Internal Audit resulting from the non-implementation of some or all of the recommendations;
- Request that management confirm the implementation of recommendations directly to the Audit Committee as soon as they have been implemented; or
- Request that Internal Audit instigate full audits of the areas where significant numbers of recommendations have not been evidenced as implemented.

**Muir Laurie ACCA CMIIA MAAT
Director of Business Assurance and Democratic Services
(and Head of Internal Audit)**

25 January 2013

DETAIL OF RECOMMENDATIONS BY PRIORITY

22 Recommendations that have not been fully implemented, but management have requested more time

4 High Priority and 18 Medium Priority recommendations:

- Optalis Key Financial Systems - 4 High Priority and 8 Medium Priority recommendations;
- Health & Safety - 5 Medium Priority recommendations;
- Internet and Email Usage - 2 Medium Priority recommendations;
- Mobile Devices - 2 Medium Priority recommendations; and
- Capital Accounting - 1 Medium Priority recommendation.

11 Recommendations where management have stated that the recommendation has been implemented but has not supplied sufficient information to enable internal audit to verify implementation

4 High Priority and 7 Medium Priority recommendations:

- Home to School Transport (SEN) – 4 High Priority and 7 Medium Priority recommendations.

6 Recommendations that have not been implemented

4 High Priority and 2 Medium Priority recommendations:

- Transformation; Programme and Project Risk and Issues Management – 3 High Priority recommendations;
- Consultancy Transformation Programme – 1 High Priority recommendation;
- Transformation Savings – 1 Medium Priority recommendation; and
- EDT Out of Hours Service – 1 Medium Priority recommendation.