

Committee:	Performance Select Committee	Agenda Item
Date:	22 June 2010	6
Title:	Internal Audit Annual Report and Opinion 2009-10	
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Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2009-10 and provide an overall opinion on the Council's control environment for 2009-10. The report also shows the state of compliance with the CIPFA Code of Practice for Internal Audit in Local Government (The Code).

Recommendations

2. That internal audit coverage, the internal audit opinion and compliance with The Code are noted.

Background Papers

3. Internal Audit Work Plan 2009-10
Internal Audit Reports 2009-10
Internal Audit Progress Reports to this committee 2009-10

Impact

Communication/Consultation	The Internal Audit Reports referred to in this report have been circulated to Members This report has been circulated to the Strategic Management Board
Community Safety	none
Equalities	none
Finance	none
Health & Safety	none
Legal implications/ Human Rights	This report partly informs the Annual Governance Statement. The Statement forms part of the Council's accounts. This

	is a requirement set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

Situation

4. Internal Audit is a statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.
5. The internal audit coverage for 2009-10 was delivered by the Council's in-house Internal Audit Team, which comprises of three full-time officers:
 - 1 Audit Manager and
 - 2 Internal Auditors
6. Internal Audit work partly informs the Annual Governance Statement which is included in the Council's Statement of Accounts.
7. During 2009-10 a new system of regular reporting to this committee was introduced. At each meeting Members are provided with details of work undertaken by Internal Audit since the previous meeting and with an update on implemented and outstanding internal audit recommendations.
8. The total number of working days available to the Internal Audit team for 2009-10 was 780 days less 126 days in respect of bank holidays; annual leave; statutory days and provision for sick leave; giving a net total of 654 working days available of which:
 - 15 were allocated to residual 2008-09 Audit Work
 - 424 were allocated to planned 2009-10 Audit Work
 - 99 were allocated to Productive Non-Specific Audit Work (Consultancy & General Advice; Follow-up work; Irregularity Provision; Performance Select Committee and Member related work; Risk Management and Risk Management Steering Group related work; Contribution to Corporate Management; Audit Commission liaison etc).

- 116 were allocated to Non-Audit Time (study leave and training; CPD; planning & management; administration, appraisals and team meetings etc).

Residual 2008-09 Audit Work

9. In the 2009-10 Internal Audit work plan, 15 days were allocated to residual 2008-09 audit work, however a total of 42 days (+27 days) were needed to complete work on the 9 residual audits from the 2008-09 Internal Audit work plan. All 2008-09 audit work was completed by 30 June 2009.

2009-10 Planned Audit Work

10. There were a total of 35 audits on the 2009-10 Internal Audit, an increase of 5 on the previous year and included 8 new or expanded audit areas. Of the 35 audits, 12 were corporate-wide audits and 23 operational audits. 14 of the audits (6 corporate and 8 operational) are the key financial audits which form part of our managed audit agreement with the Audit Commission.

11. 424 days were allocated to 2009-10 audit work, 145 days (34%) of available Audit time was initially allocated to corporate audit work (75 days for corporate key financial audits) and 279 days (69%) to operational audit work (111 days for operational key financial audits).

12. At 31 March 2010, planned audit work accounted for 350 days against the allocated 424 days (-74).

13. The Internal Audit work plan is subject to review throughout the year to take account of changes in priority; auditor resource; auditee resource availability; additional unplanned time requirement etc. As a result of the review in January / February 2010 and with the agreement of this committee and Strategic Management, 4 of the audits initially planned for 2009-10 were removed from the 2009-10 work plan and carried forward to the 2010-11 work plan:

ICT	to quarter 1 2010-11
Environmental Health	to quarter 1 2010-11
Building Control Service & Fees	to quarter 1 2010-11
Housing Contract Services	to quarter 4 2010-11 as part of the Housing Responsive Maintenance audit

14. The performance indicator for Internal Audit is for 90% of planned audits to be completed to draft stage by 31 March 2010. Of the remaining 31 planned audits, 26 (84%) were completed to draft report stage by 31 March 2010.

15. Inability to meet the 2009-10 target was due primarily to a combination of the underestimation of actual audit days required in new audit areas; additional

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audits and work undertaken at the request of Strategic Management and Members; additional audit field work required on several audits; unexpected staff absence and additional auditor time required providing consultancy, advice and assistance to other officers and in participation in Corporate working groups.

16. There were 10 audits awaiting final completion at 31 March 2010, all of which will be completed by 30 June 2010.

2009-10 Productive Non-Specific Audit Work

17. At 31 March 2010, Productive Non-Specific Audit Work accounted for 139 days against the allocated 99 days (+40).

Productive Non-Specific Audit Work	Allocated days	Actual days	difference
Follow-up work	10	13	3
Irregularity Provision - includes Audit of Management and Control of Legionella	15	16	1
Consultancy & General Advice – includes requested additional time spend on planned audits	20	30	10
Performance Select Committee & Member Related work – includes drafting of new Internal Audit Progress reports and input of 2008-09 recommendations into Covalent	17	24	7
Risk Management & Risk Management Steering Group work – includes Corporate and Operational Risk Register work	12	20	8
Contribution to Corporate Management – includes participation in Corporate Working Groups and NFI Key Contact work	20	25	5
Other – includes Audit Commission liaison and Corporate Meetings	5	11	6
total	99	139	+40

2009-10 Non-Audit Time

18. At 31 March 2010, Non-Audit Time accounted for 123 days against the allocated 116 days (+7).

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19. Our audit opinions are formed on the basis of the number and level of risk associated with the recommendations made.

The table reproduced at appendix 1 shows the audit work undertaken; the planned audit days from the 2009-10 Internal Audit plan; audit days taken; audit opinions formed and the number of recommendations made as a result of our audit work for the 31 completed Corporate Audits and Operational Audits 2009-10.

20. For the 31 audits in the 2009-10 audit plan, 89 recommendations have been made to improve the Council's control environment. This is in comparison with the 114 recommendations made in the 28 audits completed in the 2008-09 audit plan; 102 recommendations made in the 21 audits completed from the 2007-08 audit plan and the 75 made in the 22 audit completed from the 2006-07 audit plan.

21. 38 out of the 89 recommendations (43%) arising from our 2009-10 audit work were assessed as being at level 2 (some impact) or level 1 (little or no impact). This means that key controls mostly exist but there may be some inconsistency in application.

23. The audit opinions for 23 out of the 31 audits (74%) were that there was either 'adequate' or 'substantial' assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled. The audit opinions for the 11 out of the 14 key financial audits (79%) were either 'adequate' or 'substantial'.

24. **Therefore, our audit opinion on the control environment for 2009-10 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are adequately managed and controlled.**

25. We were however concerned that the risk of error or loss was not always as well controlled in some areas that we reviewed. The audit opinions for 8 out of the 31 audits were that there was 'limited' assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled. There were no audits with 'little' assurance in 2009-10.

26. Corporate Audits with assurance opinion 'limited' –

Performance Management – all 7 recommendations were agreed with management and are being implemented in accordance with agreed timetable

Corporate Income incl Cash Income - all 3 recommendations were agreed with management and are being implemented in accordance with agreed timetable

Asset Management - all 4 recommendations were agreed with management and are being implemented in accordance with agreed timetable

Two reports are currently at draft stage awaiting final agreement with management;

Contracts & Procurement – All 5 recommendations made are re-iterations of recommendations made and not yet implemented from the 2008-09 audit

Information Management – 2 recommendations made are re-iterations of recommendations made and not yet implemented from the 2008-09 audit

27. Operational Audits with assurance opinion 'limited' –

Enforcement - all 7 recommendations were agreed with management and 4 have been implemented in accordance with agreed timetable. Following staff changes within the service 1 recommendation has been cancelled and 2 have had due date revised

Emergency Planning - all 6 recommendations were agreed with management and are being implemented in accordance with agreed timetable

Utility Payments & Energy Efficiency – all 4 recommendations were agreed with management and are being implemented in accordance with agreed timetable

Implementation of Internal Audit Recommendations

28. To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To encourage the timely implantation of agreed recommendations we revised our reporting protocols in 2009-10 to ensure that all management action and timetable for implementation is agreed prior to the issue of the final report.

29. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.

30. Internal Audit manages the follow-up of implementation of recommendations through a combination of updates from responsible officers following automatic trigger notifications sent out by Covalent; regular reporting to meetings of this Committee and a rolling follow up programme at six months after the latest implantation date of the agreed management action or as part of the next audit of an area.

31. All Corporate audit reports are copied to Strategic Management, all Operational audit reports are addressed to the Director responsible for the audited area and copied to the Chief Executive, Section 151 Officer and Assistant Chief Executive. Members of this committee also review copies of all audit reports, new level 3 and 4 recommendations are reported in detail at each meeting of this Committee.

32. Of the 112 recommendations made in Audits from the 2008-09 audit plan monitored through Covalent,
- 101 have been implemented
 - 8 cancelled following follow-up reviews and 2009-10 audit work implemented
 - 3 remain in progress and will continue to be monitored through Covalent with progress reported to this committee during 2010-11
33. Of the 70 recommendations made in Audits from the 2009-10 audit plan currently being monitored through Covalent,
- 51 have been implemented
 - 1 cancelled following follow-up reviews
 - 18 remain in progress and will continue to be monitored through Covalent with progress reported to this committee during 2010-11

Audit Commission

34. Quarterly liaison meetings and informal ad hoc meetings are held between the Audit Managers of Internal Audit and the Audit Commission to discuss current work being undertaken and future work plans.

Compliance with the CIPFA Code of Practice for Internal Audit in Local Government

35. The Code of Practice sets out organisational and operational standards for internal audit in Local Government. A general position statement on compliance with each of these is set out below:

- 1 Scope of internal audit – the terms of reference, scope of work and responsibilities are set out in an approved Service Plan.*

The Internal Audit Charter introduced during 2007 was reviewed and an updated version which incorporates its Terms of Reference was agreed in February 2009. An Internal Audit Strategy 2009-10 was drawn up and agreed in February 2009.
- 2 Independence – organisational status enables Internal Audit to function effectively.*

The Audit Manager has the structural status that complies with The Code of Practice and effective discussion of audit issues is facilitated. The independence of individual auditors is characterised by not having any operational responsibility.
- 3 Audit committees or equivalent – there are specific mechanisms for reporting to members at overview level.*

The Performance Select Committee introduced during 2005-06 fulfils the Audit Committee functions for the Council.

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- 4 *Relationship with management, other auditors and other review bodies – the Council seeks to co-ordinate Internal Audit work with that of other review agencies.*
External audit relies on the work of Internal Audit for assurance purposes. Regular Liaison meetings are held with external audit.
- 5 *Staff training and development – Internal Audit is fully staffed in terms of numbers. Staff have or are working towards appropriate qualifications and experience, having regard to its objectives and to The Code.*
- 6 *Audit strategy – a strategy is maintained for delivering the Internal Audit service as per the terms of reference.*
An Internal Audit Strategy 2009-10 was drawn up and agreed in February 2009.
- 7 *Management of audit assignments – assignments are prepared, discussed and agreed with line managers.*
A risk-based, systematic approach is undertaken. Assignments are recorded and there are standards for documentation and working papers.
- 8 *Due professional care – is appropriate to the objectives, complexity, nature and materiality of the audit being carried out.*
Care is ultimately achieved by adherence to The Code and quality assurance.
- 9 *Reporting – audit assignments and their results are reported to those charged with governance and any third parties.*
The performance of the Internal Audit function against plan is reported to the Performance Select Committee.
- 10 *Quality assurance – the work of Internal Audit is controlled at each level of operation.*
The management of Internal Audit is effectively controlled through a Charter & Terms of Reference; strategy; service plan; audit manual; staff appraisals; performance measures and indicators. Internal Audit is subject to regular quality review by External Audit.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 = Little or no likelihood Internal Audit work	3 = Significant impact – action required	The Audit Commission review the outcome of Internal Audit work. The performance of the

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	plan for 2009-10	Failure to provide internal audit assurance could lead to inability to meet corporate and operational objectives and Adverse audit Commission report and damage to the Authority's reputation	Internal Audit Section is monitored by senior management and Members.
Those charged with governance do not respond to Internal Audit recommendations.	2 = Some likelihood Reports can contain re-iterations of recommendations made during previous audit that have not been implemented.	3 = Significant impact – action required There would be varying levels of impact from any non-implementation of the recommendations given the high significance of the majority of control risks identified.	There is an escalation procedure. Internal audit reports are followed up to ensure compliance. The outcome of Internal Audit work is reviewed by the Audit Commission and by the Performance Select Committee.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.