

Committee: PERFORMANCE & AUDIT COMMITTEE

Agenda Item

Date: 23 June 2011

13

**Title: Internal Audit Annual Report and Opinion
2010/11**

**Author: Sheila Bronson, Internal Audit Manager
01799 510610**

Item for Information

Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2010/11 and provide an overall opinion on the Council's control environment for 2010/11. The report also shows the state of compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 (The Code).

Recommendations

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

Financial Implications

3. None. There are no costs associated with the recommendations.

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

The Internal Audit Work Plan 2010/11

The Revised Internal Audit Work Plan 2010/11

Internal Audit Reports 2010/11

Internal Audit Progress Reports to the Performance Select Committee 2010/11

Impact

- 5.

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
Health and Safety	none
Human Rights/Legal Implications	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

6. Internal Audit is 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.
7. The Internal Audit coverage for 2010/11 was delivered by the Council's in-house Internal Audit Team, which comprised of the following full-time officers:
 - 1 x Internal Audit Manager
 - 1 x Internal Auditor
 - 1 x Internal Auditor to 31 January 2011
8. Internal Audit work partly informs the Annual Governance Statement which is included in the Council's Statement of Accounts.
9. Throughout 2010/11 the Internal Audit Manager reported to Members of the Performance select Committee details of work undertaken by Internal Audit since the previous meeting and on implemented and outstanding internal audit recommendations.
10. The Internal Audit Work Plan 2010/11 was revised in September 2011 to take into consideration changes in priority; auditor resource; and additional unplanned time requirement. In particular to ensure completion of the Key Financial Audits which form part of our managed audit agreement under the Protocols agreed with the Audit Commission.

11. In the original Internal Work Plan 2010/11 the total number of days allocated to audit work for 2010/11 was 506, this was revised to 483 in September 2011 and allocated as follows:

	original plan days	revised plan days	actual days
total days available	755	755	737
less leave provisions - <i>bank holidays; annual leave; statutory days and sick leave</i>	118	124	118
net total working days available	637	631	619
less Non-Audit Time - <i>study leave and training; CPD; planning & management; administration; appraisals; team meetings etc</i>	131	148	157
total audit days available	506	483	462
allocated as follows:			
planned 2010/11 audit work <i>(279 days actuals includes 18 days used on audits actually completed 2010/11but provisionally deferred to 2011/12 on revised plan)</i>	346	259	286
residual 2009/10 audit work	25	65	65
other productive Non-specific audit work	135	150	111
	506	474	455

Residual 2009/10 Audit Work

12. In the original 2010/11 Internal Audit work plan, 25 days were allocated to residual 2009/10 audit work, however a total of 65 days (+40 days) was needed to complete work on the 13 residual audits from the 2009/10 Internal Audit work plan. The actual time taken is reflected in the revised Internal Audit Plan

2010/11 Planned Audit Work – Revised Internal Audit Plan

13. There were a total of 27 audits on the Revised Internal Audit Plan 2010/11, a reduction of 8 on the previous year and included 2 new or expanded audit areas. Of the 27 audits, 10 were corporate-wide audits and 17 operational audits. 13 of the audits (6 corporate and 7 operational) are the key financial audits which form part of our managed audit agreement with the Audit Commission.

14. 259 days were allocated to 2010/11 audit work.

100 days (39%) of available Audit time was allocated to corporate audit work and 159 days (61%) to operational audit work

149 days (57%) of available Audit time was allocated to Key Financial Audits (70 corporate days and 79 operational days)

15. On the revised plan, 4 audits were deferred to 2011/12 with the proviso that they may be undertaken 2010/11 should resources permit; no days were allocated for these 4 audits on the plan, 2 of which were finally carried forward to the 2011/12 programme.
16. At 31 March 2011, planned audit work accounted for 286 days against the allocated 259 days. The 286 days include 16 days work on 2 audits which had been provisionally deferred but in the end resources allowed us to complete in 2010/11.
17. The performance indicator for Internal Audit is for 90% of planned audits to be completed to draft stage by 31 March 2011. Of the 27 planned audits, 25 (93%) were completed to draft report stage by 31 March 2011.
18. There was 1 audit awaiting final completion at 31 March 2011, this audit was completed on 21 April 2011.

2010/11 Productive Non-Specific Audit Work– Revised Internal Audit Plan

19. At 31 March 2011, Productive Non-Specific Audit Work accounted for 111 days against the allocated 150 days (-39).

Productive Non-Specific Audit Work	Allocated days	Actual days	difference
Follow-up work	20	7	-13
Irregularity Provision	25	13	-12
Consultancy & General Advice – includes requested additional time spend on planned audits	25	21	-4
Committee & Member Related work	20	18	-2
Contribution to Corporate Management – includes participation in Corporate Working Groups and NFI Key Contact & other fraud related work	40	34	-6
Other – includes Audit Commission liaison and Corporate Meetings	20	18	-2
total	150	111	-39

2010/11 Non-Audit Time

20. At 31 March 2011, Non-Audit Time accounted for 157 days against the allocated 148 days (+9).

Annual Audit Opinion

21. Our audit opinions are formed on the basis of the number and level of risk associated with the recommendations made.
22. The table reproduced at appendix 1 shows the audit work undertaken; the planned audit days from the 2010/11 Revised Internal Audit plan; audit days taken; the number of recommendations made as a result of our audit work and the audit opinions formed for the 25 completed Corporate Audits and Operational Audits 2010/11.
23. For the 25 completed audits in the 2010/11 audit plan; 39 recommendations have been made to improve the Council's control environment. This is in comparison with the 89 recommendations made in the 31 audits completed in the 2009/10 audit plan and the 114 recommendations made in the 28 audits completed in the 2008/09 audit plan.
24. 20 out of the 39 recommendations (51%) arising from our 2010/11 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.
25. The audit opinions for 24 out of the 25 audits (96%) 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 12 out of the 13 key financial audits (92%) were either 'adequate' or 'substantial', the exception being Asset Management (para 28)
26. **Therefore, our audit opinion on the control environment for 2010/11 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are adequately managed and controlled.**
27. 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 opinion for 1 out of the 25 audits was that there was 'limited' assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled.
28. Corporate Audit with assurance opinion 'limited' -

Asset Management - all 3 recommendations were agreed with management and are being implemented in accordance with agreed timetable

Implementation of Internal Audit Recommendations

29. 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 all management action and timetable for implementation is agreed prior to the issue of the final report.

30. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.
31. 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.
32. 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.
33. Members of the Performance Select Committee also review copies of all audit reports and new level 3 and 4 recommendations were reported in detail at each meeting of the Committee.
34. Of the 89 recommendations made in Audits from the 2009/10 audit plan:
 - 79 have been implemented
 - 8 cancelled following follow-up reviews and/or 2010/11 audit work
 - 2 remain in progress and will continue to be monitored through Covalent with progress reported to this committee during 2011/12
35. Of the 39 recommendations made in Audits from the 2010/11 audit plan:
 - 24 have been implemented
 - 2 cancelled following follow-up reviews
 - 13 remain in progress and will continue to be monitored through Covalent with progress reported to this committee during 2011/12

Audit Commission

36. 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 2006

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	<i>Scope of internal audit – the terms of reference, scope of work and responsibilities are set out in an approved Service Plan.</i>	The Internal Audit Charter and Terms of Reference 2010/11 were agreed by SMB in May 2010 and by the Performance Select Committee at its September 2010 meeting.
2	<i>Independence – organisational status enables Internal Audit to function effectively.</i>	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	<i>Audit committees or equivalent – there are specific mechanisms for reporting to members at overview level.</i>	For 2010/11, The Performance Select Committee fulfils the Audit Committee functions for the Council.
4	<i>Relationship with management, other auditors and other review bodies – the Council seeks to co-ordinate Internal Audit work with that of other review agencies.</i>	External audit relies on the work of Internal Audit for assurance purposes. Regular Liaison meetings are held with external audit.
5	<i>Staff training and development – Internal Audit is fully staffed in terms of numbers.</i>	Staff have or are working towards appropriate qualifications and experience, having regard to its objectives and to The Code.
6	<i>Audit strategy – a strategy is maintained for delivering the Internal Audit service as per the terms of reference</i>	An Internal Audit Strategy 2010/11 was drawn up and agreed with SMB in May 2010 and by the Performance Select Committee at its September 2010.
7	<i>Management of audit assignments – assignments are prepared, discussed and agreed with line managers.</i>	A risk-based, systematic approach is undertaken. Assignments are recorded and there are standards for documentation and working papers.
8	<i>Due professional care – is appropriate to the objectives, complexity, nature and materiality of the audit being carried out.</i>	Care is ultimately achieved by adherence to The Code and quality assurance.
9	<i>Reporting – audit assignments and their results are reported to those charged with governance and any third parties.</i>	The performance of the Internal Audit function against plan is reported to the Performance Select Committee.

10	<i>Quality assurance – the work of Internal Audit is controlled at each level of operation.</i>	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

37.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 = Little or no likelihood Internal Audit work plan for 2010/11	3 = Significant impact – action required 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	The Audit Commission review the outcome of Internal Audit work. The performance of the 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.