

Committee: PERFORMANCE & AUDIT COMMITTEE

Agenda Item

Date: 17 May 2012

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Title: Internal Audit Annual Report and Opinion
2011/12

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Item for Information

Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2011/12 and provide an overall opinion on the Council's control environment for 2011/12. 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 2011/12
Internal Audit Reports 2011/12
Internal Audit Progress Reports to the Performance & Audit Committee
2011/12

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 Corporate Management Team
Community Safety	none

Equalities	none
Health and Safety	none
Human Rights/Legal Implications	This report partly informs the Annual Governance Statement. The Statement is published to complement the Council's Statement of 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 2011/12 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 (part-time 0.7 FTE) from 18/05/11 to 17/02/12
8. Internal Audit work partly informs the Annual Governance Statement which is published to complement the Council's Statement of Accounts.
9. Throughout 2011/12 the Internal Audit Manager reported to Members of the Performance & Audit 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 Programme was reviewed in September 2011 to take into consideration changes in priority, auditor resource and additional unplanned time requirement, with priority given to ensuring 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 initial Internal Work Programme for 2011/12 was drawn up in January 2011 on the basis of a resource of 3 full-time auditors with the total of 486 days allocated to planned audit work. This was revised in September 2011 to 406 audit days allocated to planned audit work to reflect the actual available resource of 2 full-time auditors and 1 part-time (0.7 FTE) auditor on a temporary 9 month contract.

12. The allocation of audit days are calculated as follows:

	original plan days - 3xFTE	revised plan days 2xFTE +0.7FTE 9 mths	actual days	diff between revised & actual
total days available	780	657	657	
less leave provisions - <i>bank holidays; annual leave; statutory days and sick leave</i>	128	108	125	17
net total working days available	652	549	532	
less Non-Audit Time - <i>study leave and training; CPD; planning & management; administration; appraisals; team meetings etc</i>	149	126	150	24
total audit days available	503	423	382	
allocated as follows:				
planned 2011/12 audit work	350	270	255	
plus				
residual 2010/11 audit work	5	5	5	
other productive Non-specific audit work:				
<i>Follow-up work</i>	15	15	3	-12
<i>Irregularity Provision</i>	25	25	16	-9
<i>Consultancy & General Advice & requested additional time on planned audits</i>	16	16	39	
<i>Committee & Member Related work</i>	20	20	13	23
<i>Contribution to Corporate Management – e.g. Working Groups</i>	24	24	26	-7
<i>NFI Key Contact & other fraud related work</i>	15	15	7	2
<i>Other- e.g Audit Commission liaison</i>	16	16	18	-8
				2
total	131	131	122	-9
total audit days allocated	486	406	382	-24

2011/12 Non-Audit Time

13. At 31 March 2012, Non-Audit Time accounted for a total of 150 days against the revised allocated 126 days (+24).

Residual 2010/11 Audit Work

14. In the original 2011/12 Internal Audit work programme, 5 days were allocated to residual 2010/11 audit work and 5 days were used in completing this work.

2011/12 Productive Non-Specific Audit Work

15. There was a total of 131 days allocated to Productive Non-Specific Audit Work in the initial 2011/12 Audit Programme. This was reviewed in September 2011 and no revision considered necessary.
16. At 31 March 2012, Productive Non-Specific Audit Work accounted for 122 days against the allocated 131 days (-9).

2011/12 Planned Audit Work – Revised Internal Audit Programme

17. There were a total of 30 audits on the initial Internal Audit Plan 2011/12. Following the review and revision in September 2011, 5 of these audits were deferred to the 2012/13 programme reducing the total number of audits to 25, with the proviso that a further 2 would be deferred to 2012/13 if there was insufficient resource available in quarter 4 to undertake them, which proved to be the case.
18. Of the initial 30 audits, 14 were corporate-wide audits and 16 operational audits.
19. Of the revised 25 audits, 11 were corporate-wide audits and 14 operational audits. None of the 13 key financial audits (5 corporate and 8 operational) which form part of our managed audit agreement with the Audit Commission were deferred, however the number of days initially allocated to these audits was reduced for those audits which were not being reviewed by the Audit Commission for 2011/12.
20. The revised 270 days was allocated to audits as:
 - 108 days (40%) of available Audit time was allocated to corporate audit work and 162 days (60%) to operational audit work
 - 139 days (52%) of available Audit time was allocated to Key Financial Audits (58 corporate days; 81 operational days)
21. At 31 March 2011, planned audit work accounted for 255 days against the allocated 270 days (-27).
22. The Internal Audit target was for 90% of planned audits to be completed to draft stage by 31 March 2012. Of the revised 25 planned audits, 21 (84%) were completed to draft report stage by 31 March 2011.
23. There were 4 audits awaiting final completion at 31 March 2011, final reports have now been issued for 2 of these. The remaining two are awaiting auditee agreement on the draft Reports and management actions and final reports are expected to be issued by 31 May 2012.

24. The completion of our revised 2011/12 programme has been delayed because unplanned addition non-audit time needed for staff management during the year and to staff sickness in quarter 4.

Annual Audit Opinion

25. Our audit opinions are formed on the basis of the number and level of risk associated with the recommendations made.
26. The table reproduced at appendix 1 shows the audit work undertaken; the planned audit days from the 2011/12 Revised Internal Audit programme; the actual audit days taken; the number of recommendations made as a result of our audit work and the audit opinions formed for the 21 completed Audits and for the 2 Audits completed to draft report stage.
27. For the 23 completed audits in the 2011/12 audit programme; 40 recommendations have been made to improve the Council's control environment. This is in comparison with the 39 recommendations made in the 25 audits completed in the 2010/11 audit programme and the 89 recommendations made in the 31 audits completed in the 2009/10 audit plan.
28. 28 out of the 40 recommendations (70%) arising from our 2011/12 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.
29. There is no opinion given for the Corporate Governance Audit 2011/12 as all audit work was specifically working on the Council's Annual Governance Statement.
30. For the remaining 22 audits, the audit opinions for 11 were 'adequate assurance' and for the other 11 'substantial assurance' that risks material to the achievement of the objectives for the audited areas were managed and controlled.
31. For the 13 Key Financial Audit, the audit opinions for 5 were 'adequate assurance' and 8 were 'substantial assurance' that risks material to the achievement of the objectives for the audited areas were managed and controlled.
32. Therefore, **our audit opinion** on the control environment for 2011/12 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are, on balance, **substantially managed and controlled**.

Implementation of Internal Audit Recommendations

33. 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.

34. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.
35. 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.
36. 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 the Monitoring Officer.
37. Members of the Performance & Audit Committee receive copies of all audit reports and Terms of Reference. All new level 3 and 4 recommendations were reported in detail at each meeting of the Committee.
38. Of the 39 recommendations made in Audits from the 2010/11 audit programme:
 - 38 have been implemented
 - 1 remains in progress and will continue to be monitored through Covalent with progress reported to this committee during 2012/13
39. Of the 40 recommendations made in Audits from the 2011/12 audit programme to date:
 - 25 have been implemented
 - 15 remain in progress (including 4 draft recommendations) and will continue to be monitored through Covalent with progress reported to this committee during 2012/13

Audit Commission

40. 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</i>	The Internal Audit Charter and Terms of Reference 2011/12 were agreed by
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	<i>and responsibilities are set out in an approved Service Plan.</i>	SMB in May 2011 and by the Performance & Audit Committee at its June 2011 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>Ethics for Internal Auditors – awareness of ethical responsibilities, integrity; objectivity; confidentiality and competence of the audit team</i>	As part of their membership of the Chartered Institute of Internal Auditors, the audit team re-confirm annually their compliance with the Institutes International Standards for the Professional Practice of Internal Auditing and the Code of Professional Conduct of which ethical responsibilities; integrity; objectivity; confidentiality and competence and core elements.
4	<i>Audit committees or equivalent – there are specific mechanisms for reporting to members at overview level.</i>	The Audit Manager reports to the council Performance & Audit Committee.
5	<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.
6	<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.
7	<i>Audit strategy – a strategy is maintained for delivering the Internal Audit service as per the terms of reference</i>	An Internal Audit Strategy 2011/12 was drawn up and agreed with SMB in May 2011 and by the Performance & Audit Committee at its June 2011 meeting.
8	<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.
9	<i>Due professional care – is appropriate to the objectives, complexity, nature and materiality</i>	Care is ultimately achieved by adherence to The Code and quality assurance.

	<i>of the audit being carried out.</i>	
10	<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 programme is reported to the Performance & Audit Committee.
11	<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

41.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 Internal Audit work programme for 2011/12	3 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 Reports can contain re-iterations of recommendations made during previous audit that have not been implemented.	3 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 & Audit 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.