

Audit and Governance Committee report



30 June 2010

Report of **Audit Manager**

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To: Audit and Governance Committee

DATE: 30 June 2010

Report no. 14/10

Wards Affected
All

Internal audit annual report 2009/2010

Recommendation

The Committee is asked to note the report.

Purpose of Report

1. The purpose of this report is to report on the work of internal audit in the year ended 31 March 2010, and to advise the committee of the head of finance's opinion on the overall adequacy and effectiveness of the internal control environment.

Strategic Objectives

2. To assist the Council to manage its business effectively by providing an assurance framework to monitor the overall adequacy and effectiveness of the internal control environment.

Background

3. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (CIPFA Code) states that the head of internal audit (audit manager) must produce an annual report that:

- includes his or her opinion on the overall adequacy and effectiveness of the organisation's control environment;
 - discloses any qualifications to that opinion, together with the reason(s) for the qualification;
 - presents a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
 - draws attention to any issues the head of internal audit judges particularly relevant to the preparation of the Statement of Internal Control (now Annual Governance Statement);
 - compares the work actually undertaken to the work that was planned and summarises the performance of the internal audit function against its performance measures and targets; and
 - comments on compliance with the CIPFA standards and communicates the result of the internal audit quality assurance programme.
4. The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
- establishing and monitoring the achievement of the organisation's objectives;
 - ensuring compliance with established policies, procedures, laws and regulations;
 - ensuring risk management is embedded in the activity of the organisation, that leadership is given to the risk management process, and staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the organisation and the reporting of financial management; and
 - the performance management of the organisation and the reporting of performance management.

Overall Opinion

5. The head of finance is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of Vale of White Horse District Council's risk management, control and governance processes. The head of finance's opinion is based on the risk-based audits carried out during the year and other unplanned work on control systems. No reliance has been placed on the work of other assurance bodies.
6. It is the head of finance's **unqualified** opinion that satisfactory assurance can be placed on the Council's risk management, control and governance processes. There is basically a sound system of internal control but there are some weaknesses which may put some system objectives at risk.
7. Based on the scope of our reviews, the one area that was given full assurance was Facilities Management. Noted improvements in this financial year were seen in some areas of the Housing and Council Tax Benefits service. Areas of weakness in the control environment have been identified and improvement actions agreed in the following areas: Brown Bins, Creditor Payments, Payroll, Proactive Anti-Fraud Review, Records Management, Housing and Council Tax Benefit Overpayments, S106 Commuted Sums and VFM in Procurement. Where Internal Audit identified

weaknesses which require remedial action, recommendations have been made and discussed with officers.

8. Notwithstanding the head of finance's overall opinion, internal audit identified a number of opportunities for improving controls and procedures across the Council which officers have generally responded to positively.
9. A summary of all internal audit opinions is attached as **Appendix 1**.

Summary of Audit Work

10. For 2009/2010, Internal Audit completed 645 audit work days. 304.25 days for South Oxfordshire District Council and 340.75 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
11. A total of 51 internal audit reviews have been undertaken with a total of 38 planned audits being completed within 2009/2010. A further 12 reports are pending finalisation 6 of which are at draft report stage and 6 audits are still in progress. From those, 26 relate to Vale of White Horse District Council and 6 out of the 12 in progress relate to VWHDC. From the 23 completed/ draft audits, 1 (4%) achieved a full assurance rating. In most cases (13.5 audits / 59%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for 8.5 (37%) audits and no reviews resulted in nil assurance being given. In total 224 recommendations to improve controls and procedures within the Council were made. 22 (10%) were classified as high, 114 (51%) as medium and 88 (39%) as low. Of the completed audits 12 recommendations were not agreed by management.
12. The table shown at Appendix 1 includes a number of audits which are issued in draft and were outstanding for a significant period of time; these include responses from management for Section 106 Commuted Sums and the Proactive Anti Fraud Review. In addition there are three priority one audits outstanding which have not been issued in draft.
13. Two investigations were completed during 2009/2010 for the Council. In addition, Internal Audit was asked to provide consultancy advice in one area, and this work amounted to 16.5 days.
14. A total of 42 follow-up reviews were undertaken in 2009/2010, utilising 21 days. From those, 20 relate to Vale of White Horse District Council, of which 6 follow-up reviews have been undertaken on 2009/2010 audit work, utilising 3.0 days. Time has been allocated within the 2010/2011 audit plan for further follow-up work.

Issues Relevant to the Annual Governance Statement

15. Specific audit reviews on corporate governance and the Council's anti-fraud and corruption arrangements were included within the 2009/2010 annual audit plan. It is Internal Audit's opinion that the Council has strong control processes in place in relation to corporate governance. However, weaknesses were found in the Council's anti-fraud and corruption arrangements. Recommendations have been made, and it has been agreed that the Head of Legal and Democratic Services will lead on the

implementation of the recommendations with the support of the Audit Manager. Internal Audit has undertaken further proactive anti fraud testing within 2009/2010 which has raised number of issues to be addressed in consultation with Capita.

Internal Audit's Performance

16. At the beginning of 2009/2010 the staffing establishment of internal audit was six ftes (audit manager, senior auditor and 4x auditors). An auditor vacancy arose in July 2009 which was filled on 11 January 2010. In November 2009 the establishment was reduced to five ftes and the senior auditor was made redundant. On 1 February 2010, the audit manager went on maternity leave and it was decided by management team not to bring in a resource to cover the vacancy. Instead Marcia Slater has been acting in a supervisory capacity, so from 1 February 2010 to 3 January 2011, the establishment is four ftes.
17. The performance of Internal Audit is measured against a number of indicators. The out-turn for 2009/2010 is as follows:

	Year Ending 31/03/09	Target 09/10	Year Ending 31/03/10
Chargeable	70.5%	71.0%	68.2%
Non-Chargeable	12.5%	9.5%	8.0%
Lost	17%	19.5%	23.8%

Performance Targets	Year Ending 31/03/10
PT1 To issue 90% of audit notifications at least 1 month before start of audit fieldwork	92.5%
PT2 To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	75.0%
PT3 To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations.	92.7%
PT4 To follow up 90% of final reports within 6 months of completion of audit.	63.5%
PT5 To complete the audit fieldwork and issue draft reports on 100% of all priority 1 audits within the audit plan.	63.9%
PT6 To complete the audit fieldwork and issue draft reports on 80% of all priority 2 and 3 audits within the audit plan.	100%

18. 3 out of 6 performance targets set for 2009/2010 were achieved, 2 of which were significantly exceeded. However, Internal Audit acknowledges that it needs to improve performance in issuing draft reports 5 days after the exit meeting of all priority 1 audits within the audit plan and undertake follow-up work on previous internal audit work.

19. Overall, it is the Head of Finance's opinion that the team has performed well this year, given the change imposed on staff resources on the service.

Compliance with CIPFA Code

20. It is the Head of Finance's opinion that internal audit work has complied with the CIPFA standards. Some minor improvements have been identified, which will be implemented within 2010/2011.
21. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are requested to complete an Audit Feedback Questionnaire on Internal Audit's performance. Response rates have worsen since last year from 18 in 2008/2009 to only 3 feedback surveys being returned during the course of 2009/2010. A summary of all the responses received and general comments is attached as **Appendix 2**.
22. All feedback received by the Audit Manager is discussed with the relevant Auditor. Where appropriate, the Audit Manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.

Financial Implications

23. There are no financial implications attached to this report.

Legal Implications

24. None

Risk Implications

25. Identification of risk is an integral part of all audits.