

Audit and Governance Committee Report



11 July 2012

Report of: **Audit Manager**

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To: Audit and Governance Committee

DATE: 11 July 2011

Internal audit annual report 2011/2012

Recommendation

That members note the content of 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 2012, and to advise the committee of the audit manager's opinion on the overall adequacy and effectiveness of the internal control environment.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

Strategic Objectives

3. Managing our business effectively.

Background

4. 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.
5. 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

6. The audit manager 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 District Council's (VWHDC) risk management, control and governance processes. The audit manager'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.
7. It is the audit manager'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.
8. Based on the scope of internal audit's reviews, seven areas were given full assurance which is a significant improvement on previous years. Noted improvements in specific audit areas was seen in council tax, housing and council tax benefits and travel and subsistence. Areas of weakness in the control environment have been identified and improvement actions agreed in the following areas: establishment list, HR Pro system and annual leave calculation, payroll and waste management. Where

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

9. Notwithstanding the audit manager'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.
10. Throughout 2011/2012, the audit manager has reported on systemic control weaknesses to the audit and corporate governance committee. These are significant control weaknesses which have been identified across a number of operational areas. Two consistent control weaknesses have remained throughout the year, which are policies and procedures not being comprehensive, up to date and owned by a responsible officer and information/data items not being reconciled appropriately. Internal audit will continue to ensure that systemic control weaknesses are consistently reviewed as part of planned audit work. The systemic control and recommendation log is attached as **Appendix 1** for information.
11. A summary of all internal audit opinions is attached as **Appendix 2**.

Summary of Audit Work

12. For 2011/2012, internal audit completed 560 audit work days. 284.75 days for South Oxfordshire District Council and 275.25 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
13. A total of 64 planned internal audit reviews have been undertaken with a total of 60 planned audits being completed within 2011/2012. A further four reports were in progress at year end, and two are now pending finalisation. From those 62, 31 relate to VWHDC and one out of the two pending finalisation relate to VWHDC. From the 31 completed audits, seven (23%) achieved a full assurance rating. In most cases (17 audits / 54%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for seven (23%) audits and no reviews resulted in nil assurance being given. In total 193 recommendations to improve controls and procedures within the council were made. 15 (8%) were classified as high, 84 (43%) as medium and 94 (49%) as low. Of the completed audits 10 recommendations were not agreed by management.
14. One investigation was completed during 2011/2012 for the council, and this utilised 1.5 days. Two joint and one council specific consultancy reviews were completed during 2011/2012, and this utilised 6.75 days. No system development work was requested.
15. A total of 32 follow-up reviews were undertaken during 2011/2012, utilising 16 days. From those 32, 17 related to VWHDC. Time has been allocated within the 2012/2013 audit plan for further follow-up work.

Issues Relevant to the Annual Governance Statement

16. Specific audit reviews on corporate governance, risk management and the council's anti-fraud and corruption arrangements were not included within the 2011/2012 annual audit plan, but risk management will be reviewed in 2012/2013. However, internal audit has undertaken proactive anti fraud testing within 2011/2012 which

raised three issues to be addressed. Work has been planned for 2012/2013 relating to the provision of anti-fraud and corruption and money laundering training for officers.

17. No suspicions of fraud and corruption by officers, members or partners/contractors were reported to the audit manager during 2011/2012. The audit manager has reviewed the 11 entries for 2011/2012 within the gifts and hospitality register for and has no concerns.

Internal Audit's Performance

18. The internal audit team carried an auditor vacancy for six weeks at the commencement of quarter one 2011/2012. However, for the remainder of the year the team was at full complement of an audit manager (0.8FTE) and 3 auditors shared across both sites.
19. The performance of internal audit is measured against a number of indicators. The out-turn for 2011/2012 is as follows:

| | Year Ending 31/03/11 | Target 11/12 | Year Ending 31/03/12 |
|-----------------------|-------------------------|--------------|-------------------------|
| Chargeable | 59.5% | 72% | 72% |
| Non-Chargeable | 5.5% | 7% | 6% |
| Lost | 35% | 21% | 22% |

| Performance Targets | Year Ending 31/03/12 |
|--|-------------------------|
| PT1 To issue 90% of audit notifications at least 1 month before start of audit fieldwork | 94% |
| PT2 To issue 90% of draft audit reports within 5 working days of completion of the exit meeting. | 97% |
| PT3 To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations. | 100% |
| PT4 To follow up 90% of final reports within 6 months of completion of audit. | 69% |
| PT5 To complete the audit fieldwork and issue draft reports on 100% of all priority 1 audits within the audit plan. | 100% |
| PT6 To complete the audit fieldwork and issue draft reports on 80% of all priority 2 and 3 audits within the audit plan. | 95% |

20. This is the best team performance over the last five years, and it is the audit manager's opinion that the auditors should be commended for their excellent achievement. Only one out of six performance targets set for 2011/2012 were not achieved, and this was due to the team's focus in quarter 1 on prioritising and clearing the backlog created from the lack of management support and staff vacancies during 2010/2011. Notwithstanding, PT4 increased from 32% in 2010/2011 to 69% in 2011/2012. Year to date performance for 2012/2013 is 100%.

Compliance with CIPFA Code

21. The CIPFA self-assessment has been completed for 2012/2013, which has been reviewed by the head of finance, section 151 officer and the Audit Commission. It is the audit manager's opinion that internal audit work has complied with the CIPFA standards, and no improvement actions are required. The self-assessment which includes section 151 officer comments is attached as **Appendix 3**.
22. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are asked to complete an audit feedback questionnaire on internal audit's performance. Response rates have decreased since last year from 10 in 2010/2011 to six being returned during the course of 2011/2012. A summary of all the responses received and general comments is attached as **Appendix 4**.
23. 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

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

Legal Implications

25. None

Risk Implications

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

ADRIANNA PARTRIDGE
AUDIT MANAGER