

# Audit and Governance Committee Report



**24 June 2013**

Report of: **Audit Manager**

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To: Audit and Governance Committee

DATE: 24 June 2013

Wards Affected  
All

## Internal audit annual report 2012/2013

### 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 2013, 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 Horse 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 the same as last year. No significant improvements in specific audit areas was identified. Areas of weakness in the control environment have been identified and improvement actions agreed in the following areas: payroll, discretionary grants and Wantage civic hall. 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 2012/2013, 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 for 2012/2013 is attached as **Appendix 2**.

### **Summary of Audit Work**

12. For 2012/2013, internal audit completed 513.5 audit work days. 260.75 days for South Oxfordshire District Council and 252.75 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 53 planned internal audit reviews have been undertaken with a total of 47 planned audits being completed within 2012/2013. A further six reports were in progress at year end, which have now been completed. From those 53, 26 relate to VWHDC. From the 26 completed audits, seven (27%) achieved a full assurance rating. In most cases (16 audits / 61.5%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for three (11.5%) audits and no reviews resulted in nil assurance being given. In total 153 recommendations to improve controls and procedures within the council were made. 12 (8%) were classified as high, 57 (37%) as medium and 84 (55%) as low. Of the completed audits 13 recommendations were not agreed by management.
14. One investigation was commenced during 2012/2013 for the council, and this utilised 1 day. One joint consultancy review and one specific to VWHDC were completed during 2012/2013, and this utilised 3.25 days. No system development work was requested.
15. A total of 36 follow-up reviews were undertaken during 2012/2013, utilising 18 days. From those 36, 20 related to VWHDC. Time has been allocated within the 2013/2014 audit plan for further follow-up work.

### **Issues Relevant to the Annual Governance Statement**

16. Specific audit reviews on corporate governance and the council's anti-fraud and corruption arrangements were not included within the 2012/2013 annual audit plan, but risk management was reviewed and received satisfactory assurance. Five medium risk and four low risk recommendations were made to improve controls and

procedures in this area, and five were agreed. Internal audit has also undertaken proactive anti fraud testing within 2012/2013 which raised one issue to be addressed.

17. No suspicions of fraud and corruption by officers, members or partners/contractors were reported to the audit manager during 2012/2013. The audit manager has reviewed the 11 entries for 2012/2013 within the gifts and hospitality register and has no concerns.

## Internal Audit's Performance

18. The internal audit team was at full complement for 2012/2013 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 2012/2013 is as follows:

	Year Ending 31/03/12	Target 12/13	Year Ending 31/03/13
<b>Chargeable</b>	72%	70%	71%
<b>Non-Chargeable</b>	6%	8%	4.5%
<b>Lost</b>	22%	22%	24.5%

Performance Targets	Year Ending 31/03/13
<b>PT1</b> To issue 90% of audit notifications at least 1 month before start of audit fieldwork	100%
<b>PT2</b> To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	100%
<b>PT3</b> To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations.	100%
<b>PT4</b> To follow up 90% of final reports within 6 months of completion of audit.	95%
<b>PT5</b> To complete the audit fieldwork and issue draft reports on 100% of all priority 1 audits within the audit plan.	100%
<b>PT6</b> To complete the audit fieldwork and issue draft reports on 80% of all priority 2 and 3 audits within the audit plan.	82%

20. This year is the best team performance in six years under the current audit manager, and the auditors should be commended for their excellent achievement. For the first time in six years, all six performance targets set for 2012/2013 were achieved. For the previous six years the team has failed to achieve PT4, with a performance of 32% in 2010/2011 increasing to 69% in 2011/2012. For 2012/2013 the team achieved 95%. The performance targets will not be stretched in 2013/2014 due to the audit manager's forthcoming maternity leave, but an additional target of issuing 90% follow up notifications at least one month before the start of follow up fieldwork has been added.

## **Compliance with CIPFA Code**

21. 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 increased slightly from six being returned in 2011/2012 to seven being returned during the course of 2012/2013. A summary of all the responses received and general comments is attached as **Appendix 3**.
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.

ADRIANNA PARTRIDGE  
AUDIT MANAGER