

AUDIT COMMITTEE

Internal Audit Annual Report and Assurance Statement 2010/11

29 June 2011

Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2010/11 financial year and to present an annual Statement of Assurance regarding the Council's Internal Control Framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.12 to 2.23) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement which will be presented to the September meeting of the Committee.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). The Code of Practice for Internal Audit¹ specifies that the Head of Internal Audit must "... provide a written report to those charged with governance timed to support the Statement on Internal Control". The report and assurance statement thus makes a significant contribution to the Council's statutory duty to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

2.0 Proposal Details

- 2.1 Internal Audit is established as a section of Financial Services, reporting functionally to the Head of Financial Services. Professionally, it operates to standards set out in the CIPFA Code of Practice for Internal Audit and operates and reports in accordance with an approved Audit Charter.

¹ *Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)*

Annual Audit Plan 2010/11

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The Internal Audit Plan for 2010/11 approved by the Committee in June 2010 was based on the provision of 845 days of Internal Audit work divided evenly between assurance work (445 days) and other audit activity (400 days). At its January 2011 meeting the Committee approved variations to this plan, taking account of staffing reductions in internal audit, resulting in a revised plan to provide 690 days.
- 2.3 The detailed outturn position at 31st March 2011 is attached as Appendix A with a summary of the final position for the year being set out in the following table. Please note that in the printed agenda, the appendices will be in black and white, but may be viewed in colour on computer screens.

Area of work	Resources (audit days)			
	Original Plan	Revised Plan	Actual	Variance
Core Financial Systems	90	90	123	+33
Core Management Arrangements	150	85	98	+13
Risk Based Assurance Audits	135	200	165	-35
Follow-Up Reviews	70	70	71	+1
Sub-Total, Assurance Work	445	445	457	+12
Advice & Support Work	165	123	126	+3
Efficiency & VfM	50	12	2	-10
Investigations	60	30	27	-3
Audit Management	70	65	55	-10
Non Audit Duties	15	15	16	+1
General Contingency	40	0	0	0
Total Chargeable Days	845	690	683	-7
Non-Chargeable Activities (note 1)	125	140	147	+7
Total Available Days	970	830	830	0

Note 1 Non-chargeable activities include team meetings, section and service management, general administration, EDPA, regional audit group meetings, etc.

Explanation of Major Variances

- 2.4 As can be seen from the table, the total number of available days (830) in the revised plan was met exactly.
- 2.5 The number of chargeable days delivered was 7 less than planned, this reflecting additional time devoted to reviewing working practices and team building following the staffing changes made during 2010.
- 2.6 In chargeable works areas, changes in demand for Internal Audit work have been managed so as to ensure that an acceptable level of assurance work is delivered. Overall, 12 additional days of assurance work were delivered; a greater proportion of this work was devoted to core financial systems and management arrangements with fewer days work done in the "risk based assurance" category.
- 2.7 In other areas, a planned value for money study into the Council's use of mobile phones and other technology is currently on hold and will be picked up again during 2011/12. There was a reduction in time devoted to audit management, this mainly reflecting the cancellation of Audit Committee meetings in April and November 2010 and April 2011.





- 2.8 Following the completion of a major investigation started during 2009, the level of resources required on investigative work remained manageable.

Review of the Effectiveness of Internal Audit

- 2.9 The Accounts & Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review will be included within the report on the annual review of governance to be considered at the next meeting of the Committee.

Results of Assurance Work

- 2.10 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.11 The Table in Appendix B sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2010, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.12 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist.
- 2.13 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix B. The following table summarises the assurance opinions covered in the appendix, based on the most recent review.

Assurance Level (at most recent review)	No of Audits
Maximum	4
Substantial	13
Limited	12
Minimal	0

- 2.14 A maximum assurance opinion has been given as a result of both the NNDR and Council Tax audits, these systems being well-established and managed. Maximum assurance has also been given in two separate audits of Treasury Management arrangements, the most recent of these (report issued in June 2011) taking account of the Council's implementation of the new CIPFA code of practice.

- 2.15 There have been no audits resulting in a minimal assurance opinion during the year. Through the established system, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At the present time this consists of the 12 audits whose assurance ratings stand as “limited”. These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.
- 2.16 In the Internal Audit Manager’s view, the internal audit work undertaken has not identified any issues of sufficient significance to warrant specific mention in the annual governance statement.

Financial Systems

- 2.17 Assurance levels on the Council’s key financial systems remain consistently high, with both Council Tax and NNDR resulting in a maximum assurance opinion. The “maximum” assurance opinion in audits of Treasury Management arrangements reflect a positive and concerted response to the revised code of practice issued by CIPFA in the aftermath of the Icelandic Banking crisis.
- 2.18 All other financial system audits included in Appendix B resulted in a “substantial” assurance level, with the exception of “Income Management – Housing Rents Direct Debit Payments”, and “Payroll”.
- 2.19 Issues relating to Housing Rents Direct Debits are concerned with the inability of the current Rents system to transfer information to the General Ledger, and the consequent need to operate an inefficient and error-prone manual system. This is a long-standing issue which is under ongoing review and will continue to be reported to the Audit Committee.
- 2.20 As regards Payroll, outstanding issues are tied in with an ongoing corporate review of the provision of HR and Payroll services. Progress and developments are being reported to and monitored by the Audit Committee.
- 2.21 With these exceptions, it can be taken that effective internal controls exist to ensure the accuracy and integrity of the information that the key financial systems provide and no significant control weaknesses have been identified.

Governance Arrangements

- 2.22 An audit of Risk Management resulted in a “substantial” assurance opinion and an audit of Corporate Learning & Development resulted in a “limited” assurance opinion. A follow-up review of this audit is due in the summer. The main messages arising from these audits will be incorporated in the governance review and Annual Governance Statement.

Other Audits

- 2.23 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council’s Annual Governance Statement. Where any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

3.0 Details of Consultation

- 3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee accepts Internal Audit's assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2010/11 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2010/11
Internal Audit Files

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