

AUDIT COMMITTEE

Internal Audit Annual Report and Assurance Statement 2011/12 19 September 2012

Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2011/12 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 2.10 to 2.20) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement.

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 Report

- 2.1 Internal Audit is established as a section of Financial Services, reporting operationally 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 functionally 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 2011/12

- 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 2011/12 Internal Audit Plan was approved by the Audit Committee at its meeting on 29th June 2011. Adjustments to the plan were approved by the Committee at its meetings on 21st September 2011 and 15th February 2012. The annual outturn position was reported to the Committee on 18th April 2012 the summary of which is replicated in the following table.

Area of work	Resources (days)			
	Original Plan	Revised Plan (15/02/12)	Actuals	Variance
Assurance Audit				
Core Financial Systems	50	108	119	11
Revenues & Benefits Shared Services	85	107	113	6
Core Management Arrangements	110	30	28	-2
Risk Based Assurance Audits	105	192	203	11
Follow-Up Reviews	70	60	56	-4
Sub-Total, Assurance Work	420	497	519	22
Advice & Support Work	125	95	90	-5
Efficiency & VFM	30	0	0	0
Investigations	30	9	9	0
Audit Management	55	61	69	8
Other Duties (Non-Audit)	15	15	20	5
General Contingency	40	18	0	-18
Total Chargeable Days	685	695	707	12
Non-Chargeable Activities (note1)	101	101	105	4
Total Available Days	786	796	812	16

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

Explanation of Major Variances

- 2.3 The summary shows that overall, a total of 707 days were delivered compared with the approved plan of 695 days and the original plan of 685 days. This was largely possible through a continuing good sickness record within the section and ongoing attention to procedures to ensure that "non-chargeable" time is minimised.
- 2.4 Within the main programme of assurance work, the audits of core financial systems and the Revenues and Benefits Shared Service exceeded the original plan by a total of 97 days. This reflects additional work required in developing and refining a new approach to these audits, covering all significant systems in this year and in establishing arrangements with Preston City Council to enable audit work to proceed.
- 2.5 There was also a significant re-focusing of resources (98 days) in to the Risk Based Assurance audit section of the plan, this arising mainly from the audits of the RMS Partnering Contact and the specific piece of work concerning the

Hala Flats Pebbledashing job and also from the audit into Consultancy Commissioning and Procurement. These demands were managed in part through a reduction in resources (82 days) devoted to the Core Management Arrangements of the assurance work section of the plan.





- 2.6 Overall, 99 days more than originally planned were spent on assurance audit work. This shift in resources was mostly managed during the year through reduced time spent on: Efficiency & VfM (30 days); Investigations Contingency (21 days) and by use of the General Contingency (40 days).

Review of the Effectiveness of Internal Audit

- 2.7 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 is included within the report on the annual review of governance elsewhere on the agenda.

Results of Assurance Work





- 2.8 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.

- 2.9 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2011, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.10 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.
- 2.11 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 A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's figures for comparison.

Assurance Level (at most recent review)	No of Audits	
	2011/12	2010/11
Maximum 	7	4
Substantial 	13	13
Limited 	4	12
Minimal 	0	0
Totals	24	29

- 2.12 A “maximum” assurance opinion has been given in seven instances, the majority of these being from in-depth audits of the transactions processed by the following financial systems:
- Income Tax and National Insurance
 - Income Management
 - Council Tax
 - Housing and Council Tax Benefits
- 2.13 “Maximum” assurance has also been given in respect of the Council’s Treasury Management arrangements, the approach to the National Fraud Initiative (NFI) and Car Parking management.
- 2.14 One audit during the year, into the operation and management of corporate purchasing cards, originally resulted, in June 2011 in a “minimal” assurance opinion. This reflected the findings that, whilst purchasing cards were being used appropriately, arrangements for the retention of appropriate documentation and for reclaiming VAT needed strengthening. At the follow-up review in May 2012, these issues had been addressed and the progress made with the action plan resulted in the assurance opinion being raised to “substantial”.
- 2.15 Through established procedures, 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 4 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 are once again consistently high. Taking into account the progress made in respect of purchasing cards (mentioned above), all systems audits have resulted in a “maximum” or “substantial” assurance opinion.
- 2.18 Given this position, and the improvements made regarding procurement card arrangements, it can be taken that effective internal controls exist to ensure the accuracy and integrity of the information the key financial systems provide and no significant ongoing control weaknesses have been identified.

Governance Arrangements

- 2.19 Resources devoted to auditing core management arrangements were reduced during the year. A specific audit of Business Continuity arrangements resulted in a “substantial” assurance opinion. A substantial action plan resulting from an audit of Information Management during 2010/11 (assurance level “limited”) continues to be worked on and the Committee will receive further updates on this issue. The main messages arising from this audit will be incorporated in the governance review and in drafting the Annual Governance Statement.

Other Audits

- 2.20 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 2011/12 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 2011/12

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