

Audit and Corporate Governance Committee

Report of Audit Manager

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To: Audit and Corporate Governance Committee

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AGENDA ITEM 7

Internal audit annual report 2010/2011

Recommendation(s)

- (a) 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 2011, 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.

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 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 South Oxfordshire District Council's (SODC) 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.
6. 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.
7. Based on the scope of internal audit's reviews, the one area that was given full assurance was the HR grievance procedure. Noted improvements in this financial year were seen in creditor payments and pro-active anti-fraud. Areas of weakness in the control environment have been identified and improvement actions agreed in the following areas: health and safety, housing and council

tax benefits overpayments and recovery, leisure, payroll and travelling and subsistence expenses. Where internal audit identified weaknesses which require remedial action, recommendations have been made and discussed with officers.

8. 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.
9. A summary of all internal audit opinions is attached as **Appendix 1**.

Summary of Audit Work

10. For 2010/2011, internal audit completed 523.5 audit work days. 252 days for South Oxfordshire District Council and 271.5 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 50 planned internal audit reviews have been undertaken with a total of 48 planned audits being completed within 2010/2011. A further two reports were pending finalisation, both audits are still in progress. From those 48, 23 relate to SODC and one out of the two pending finalisation relate to SODC. From the 23 completed audits, one (5%) achieved a full assurance rating. In most cases (15 audits / 65%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for seven (30%) audits and no reviews resulted in nil assurance being given. In total 148 recommendations to improve controls and procedures within the council were made. 11 (8%) were classified as high, 58 (39%) as medium and 79 (53%) as low. Of the completed audits 13 recommendations were not agreed by management.
12. No investigation was completed during 2010/2011 for the council. However, internal audit was asked to provide consultancy advice in one area, and this work amounted to 5.5 days.
13. A total of 27 follow-up reviews were undertaken during 2010/2011, utilising 12.5 days. From those 27, 13 related to SODC. Time has been allocated within the 2011/2012 audit plan for further follow-up work.

Issues Relevant to the Annual Governance Statement

14. Specific audit reviews on corporate governance, risk management and the council's anti-fraud and corruption arrangements were not included within the 2010/2011 annual audit plan. However, internal audit has undertaken proactive anti fraud testing within 2010/2011 which raised a minor issue to be addressed by Capita. Work has been planned for 2011/2012 relating to the provision of anti-fraud and corruption and money laundering training for officers.

Internal Audit's Performance

15. At the beginning of 2010/2011 the staffing establishment of internal audit was five full time equivalents (ftes) (audit manager and four auditors) with an additional 60 days support from Mazars. However the audit manager was on

maternity leave until January 2011 and this post was not back-filled due to budget saving measures. An auditor vacancy arose in April 2010 which was filled on 5 July 2010, and this post became vacant again on 14 February 2011 due to the postholder not completing a successful probationary period. The post was vacant to the year end. A further auditor post became vacant in January 2011, due to the postholder moving to a new position within the council. This post, in addition to the contract with Mazars, was taken as part of budget saving measures. As at 31 March 2011, internal audit was four ftes (audit manager and three auditors).

16. The performance of internal audit is measured against a number of indicators. The out-turn for 2010/2012 is as follows:

| | Year Ending 31/03/10 | Target 10/11 | Year Ending 31/03/11 |
|-----------------------|---------------------------------|---------------------|---------------------------------|
| Chargeable | 68.2% | 61.5% | 59.5% |
| Non-Chargeable | 8.0% | 8.5% | 5.5% |
| Lost | 23.8% | 30% | 35% |

| Performance Targets | Year Ending 31/03/11 |
|--|---------------------------------|
| PT1 To issue 90% of audit notifications at least 1 month before start of audit fieldwork | 80% |
| PT2 To issue 90% of draft audit reports within 5 working days of completion of the exit meeting. | 70% |
| PT3 To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations. | 93.5% |
| PT4 To follow up 90% of final reports within 6 months of completion of audit. | 32% |
| 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. | 61% |

17. The lack of management support and significant staff resource issues during the year impacted on the team's performance, and only two out of six performance targets set for 2010/2011 were achieved. It is the audit manager's opinion that it was a good performance given the circumstances and all priority one audits were completed before year end. However, internal audit acknowledges that it needs to improve performance in issuing draft reports five days after the exit meeting and in undertaking follow-up work on previous internal audit work within six months of completion of the audit.

Compliance with CIPFA Code

18. It is the audit manager's opinion that internal audit work has complied with the CIPFA standards. Some minor improvements have been identified, which will be implemented within 2011/2012.
19. 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 improved since last year from four in 2009/2010 to 10 being returned during the course of 2010/2011. A summary of all the responses received and general comments is attached as **Appendix 2**.
20. 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

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

Legal Implications

22. None

Risk Implications

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

ADRIANNA PARTRIDGE
AUDIT MANAGER