

Head of Audit Annual Assurance Statement

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REASONS FOR REPORT

The Code of Practice for Internal Audit in Local Government requires the Head of Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement. It must

- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
- Disclose any qualifications to that opinion
- Present a summary of the audit work from which the opinion is derived
- Draw attention to issues relevant to the Annual Governance Statement
- Comment on compliance with standards and the results of the internal audit quality assurance programme

OPTIONS OPEN TO THE COMMITTEE

The Committee is requested to review the audit opinion and the evidence on which it is based.

BACKING DOCUMENTS

The code of Practice for Internal Audit in Local Government in the United Kingdom
Previous audit committee reports

INFORMATION

1. Opinion

1.1. Based on the work undertaken during the year Internal Audit can provide **satisfactory** assurance that the systems of internal control within the Council were operating adequately and effectively. No audit received a No Assurance opinion, and eight received a Limited Assurance opinion. This compared favourably with two and 14 respectively in 2010-11.

2. Matters impacting on the opinion

2.1. Agreed action plans are in place for seven of the Limited Assurance reports. However, for Water Management the service has proposed accepting the risk and not implementing the audit recommendations.

2.2. Ongoing investigation work in the area of Housing Development is identifying weaknesses which, it is likely, will require significant action to remedy.

3. Summary of work

3.1. The quarterly progress report paper which is also being presented at this meeting provides in its Appendix 1 a summary of the audit plan status for 2011-12.

3.2. The original plan for 2011-12 included 102 audits where there was an expected opinion or compliance view. During the year audit have been added and deleted and the reasons for such have been notified to the audit committee. As a result of these changes eleven audits have been deleted in year or deferred to 2012-13 and twenty two have been added, giving a total of 113 audits for the year.

4. Comparison of actual and planned work

4.1. Of the 113, the number of planned and completed is 87; with eight drafts issued, eight about to be issued and 10 work in progress.

4.2. A comparison with previous years' performance is included in the tables below. The tables show comparisons with the adjusted plan in all years. There has been a dip in performance this year largely due to vacancies.

Table 1 - Adjusted plan - Fully completed audits

| Adjusted Plan | Percentage of plan | | |
|--|--------------------|---------|---------|
| | 2011-12 | 2010-11 | 2009-10 |
| Planned and complete | 76 | 75 | 84 |
| Planned and Work In Progress at year-end | 24 | 23 | 16 |
| Planned, not started | 0 | 2 | 0 |
| Total | 100 | 100 | 100 |

Table 2 – Adjusted plan - Fully completed or draft issued

| Work Planned | Percentage of plan | | |
|--|--------------------|---------|---------|
| | 2011-12 | 2010-11 | 2009-10 |
| Planned and complete or draft issued | 84 | 90 | 95 |
| Planned and Work In Progress at year-end | 16 | 8 | 5 |
| Planned, not started | 0 | 2 | 0 |
| Total | | 100 | 100 |

4.3. Thirteen investigations into fraud or irregularities have been instigated during the year. Where a conclusion has been reached, these have been reported to the committee in update reports. Largely they have fallen into four categories:

- No issue at the conclusion of the investigation.
- Issues to be addressed by management action
- Disciplinary issues
- Potentially criminal

4.4. Some potentially criminal cases have been referred to the Corporate Fraud team and the outcomes will be reported to the committee as they are known.

4.3. Anti Fraud work again exceeded the budgeted time. Anti-fraud promotion met the allocated budget of 15 days, but all other budgets were exceeded; NFI budget 30 actual 53; Proactive work budget 35, actual 49: and, investigations budget 80 actual 137.

4.4. Other work in support of the assurance statement included:

- Co-ordinating the National Fraud Initiative exercise and reporting savings to the Audit Commission;
- Maintaining the Fraud Hotline and email boxes and organising appropriate advertising;
- Contribution to the Annual Governance Statement (AGS) management group, to review evidence for the AGS.
- Auditing the manager assurance statements and evidence provided to support them for the AGS for 2011-12;
- Providing advice and guidance on a wide range of issues to Directorates
- Delivering Fraud Awareness workshops to managers and liaising with Learning and Development to refine the e-learning fraud awareness module for staff.
- Contributing to the Hillingdon Information Assurance Group to tighten controls and ensure appropriate governance in this crucial area.

5. Issues Relevant to Annual Governance Statement (AGS)

5.1. The following issues require inclusion as control issues in the Annual governance statement.

- An attempted fraud identified inconsistent application of controls. Subsequently procedures were tightened to further reduce the risks in this area.
- Water Utilities – The service has not implemented the strategy it put in place last year. On a cost-benefit analysis, the service has proposed accepting the risk.
- The BID programme has resulted in the amalgamation, division and reorganisation of services throughout the council. Changes to processes and procedures continue to lag behind changes and this will need to be monitored continually in future years.
- There is on-going work in the area of Housing Supply and it is likely that substantial changes in processes and procedures will be needed in the coming year.

6. Performance against targets set

6.1. At the beginning of the year the target was set to deliver 90% of the audit plan to draft completion stage. Only 84% was achieved.

6.2. This was largely due to three resignations and a long term absence during the year. However, recruitment has been successful and the only vacant post is that of the schools' auditor, which we hope to fill by September 2012. Despite the long term sickness internal audit's annual average was below the corporate target.

6.3. Eighty seven audits have been finalised. This represented 76% of planned audits and is comparable to last year's performance. However, incorporating those completed

to draft stage 84% of the plan has been completed, which is lower than last year and the 90% target set. Taking into account adjustments notified to the audit committee, all planned audits were at work-in-progress at the year-end, eight at the draft stage. It is anticipated that the remaining audits will be completed shortly.

6.4. Table 4 summarises the performance on other internal audit targets. The most significant change in performance is the number of audits issued within 15 days of the conclusion of the audit fieldwork. This showed a significant decline over last year at only 70% and was well below the target of 90%. Some of this is due to auditors leaving and work having to be picked up by other team members but it is not the whole story and this area will be a focus for team improvement in 2012-13

The response rate to client questionnaires maintained that of last year and, satisfaction levels have significantly improved. The number of final audit reports issued within five working days of the receipt of the management response declined but was within the target set. A new target of two days for issuing reports was set two years ago performance and the achievement of 84% is close to the 85% set.

Table 4

| Other Targets | Target | 2011-12 | 2010-11 | 2009-10 |
|---|---------------|----------------|----------------|----------------|
| % of draft audits issued within 15 days of audit conclusion. | 90 | 70 | 92 | 90 |
| % of final reports issued within 5 days of receipt of management response | 85 | 93 | 87 | 96 |
| % of final reports issued in 2 days* or 5 for schools | 85 | 84 | 83 | - |
| % of client satisfaction surveys returned | 80 | 42 | 46 | 23 |
| % with good or very good rating | 90 | 100 | 86 | 74 |
| % when non returns assumed to be good | 90 | 100 | 95 | 94 |
| % of recommendations agreed by management | 95 | 99 | 99 | 99 |

*New target in 2010-11

7. Compliance with Standards

7.1. There is an annual requirement to carry out a review of the system of internal audit. For the last three years this has been carried out by

Audit Committee 26 June 2012
PART I – MEMBERS, PUBLIC & PRESS

- A peer review by another Head of Audit.(2008-9)
- A self assessment by the Head of Audit (2009-10)
- A review by the audit committee in a private session (2010-11)

Following discussions with the Chairman and the Audit Committee one member organised a peer review to be undertaken by the Head of Audit at the City of London. This took place during May 2012 and the summary is included in this agenda as a separate paper. Overall internal audit was found to be compliant with the standards.