

Head of Internal Audit Annual Assurance Statement

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REASON FOR ITEM

The CIPFA¹ 2006 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.

This Code has been replaced for the years 2013/14 onwards by the Public Sector Internal Audit Standards. This assurance statement is therefore the last one based on the Code.

OPTIONS AVAILABLE TO THE COMMITTEE

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

INFORMATION

1. Opinion

1.1. Based on the work undertaken or reports finalised during the year Internal Audit can provide **satisfactory** assurance that the systems of internal control within the Council were operating adequately and effectively. Overall the majority of audits received Satisfactory Assurance audit opinions. There were no audits with No Assurance opinion and seven with Limited Assurance opinion (including two schools). It should, however, be noted that ten Limited Assurance opinion reports were issued in 2012/13 that related to 2011/12 planned work.

2. Summary of Work

2.1. Appendix 1 of the quarterly progress report, also presented to this meeting, summarises the current status of audits in the 2012/13 annual plan. As the year

¹ The Chartered Institute of Public Finance and Accountancy

progressed, audits were added, deleted or occasionally combined as circumstances changed (including many structural changes). A total of six audits were added and eighteen deleted or postponed during the year. Reasons for changes have been reported to previous meetings. Four audits have been removed post March 2013, due to changes in service processes or time constraints. Progress reports include details of audits finalised since the previous meeting of this Committee.

3. Comparison of actual and planned work

3.1. Of the 96 audits in the year, those completed (finalised) were 74, with a further twelve draft reports issued, seven awaiting issue and three audits in progress (fieldwork).

3.2. A comparison with previous years' performance is included in the tables below. The tables show comparisons with the adjusted plan in the last two years. Performance has been maintained despite the need to address factors such as clearing the backlog from the previous year's work, vacancies and developing trainees, extra investigation time and chasing management responses. Effort will be maintained in 2013/14 to ensure targets are met by aiming to complete more planned audit fieldwork by 31st March and issue all draft reports by 30th April.

Table 1 - Adjusted plan - Fully completed audits

Adjusted Plan	Percentage of plan		
	2012/13	2011/12	2010/11
Complete (finalised) at year-end	77	76	75
Work in progress and draft issued at year-end	23	24	23
Planned, not started	0	0	2
Total	100	100	100

Table 2 – Adjusted plan - Fully completed or draft issued

Work Planned	Percentage of plan		
	2012/13	2011/12	2010/11
Complete (finalised) or draft issued at year-end	90	84	90
Work in progress at year-end	10	16	8
Planned, not started	0	0	2
Total	100	100	100

3.3. Thirteen investigations into fraud or irregularities have been completed during the year. Where a conclusion has been reached, these have been reported to the Committee in update reports. Largely they have fallen into two categories: no issue at the conclusion of the investigation or issues to be addressed by management action.

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

- Co-ordinating the National Fraud Initiative exercise
- Maintaining the Fraud Hotline (until handing over to the Corporate Fraud Investigation Team) and email addresses
- Contributing to the Annual Governance Statement (AGS) working group, reviewing evidence for the AGS 2012/13 and auditing the manager control assurance statements (including completeness of supporting evidence)
- Providing advice and guidance on a wide range of issues to directorates, in particular on controls when new financial systems are being developed
- Delivering bite-size sessions on fraud awareness to managers and monitoring results from the e-learning fraud awareness module for staff.

4. Issues Relevant to the Annual Governance Statement (AGS)

4.1. The following are summaries of control issues that impact on this opinion and also on the council's Annual Governance Statement.

- Although policies and procedures were generally found to be updated regularly, in many cases reviewed they were insufficiently detailed or had not been finalised and embedded.
- The BID programme has resulted in the amalgamation, division and reorganisation of services throughout the council. Changes to strategies and procedures have not always matched this pace. Sometimes management checks have not been introduced or are not evidenced.
- Audits of contracts have highlighted the need for more effective contract management - in particular clarity in project planning and monitoring, maintaining performance data, documenting contract changes and maintaining key records during and at completion of contracts.
- In November 2011 the Council brought back in-house the management of three Council owned golf courses. An audit was commissioned to review the application of corporate processes, procedures and controls. A number of high and medium risks were identified and recommended actions were progressed during 2012/13 to manage them to ensure greater financial control.
- An amount of cash generated from anti-social fixed penalty notices could not be unaccounted for. An investigation was completed and all recommendations have been implemented. This has included a new process for handling cash payments.

Management has responded by agreeing and then progressing the implementation of audit recommendations in the areas reviewed.

5. Performance against targets set

5.1. Seventy four audits have been finalised, representing 77% of planned audits, after adjusting for audits postponed, added or deleted. The target of achieving 90% of audits to draft stage was met. This was achieved despite the extra time that was needed to complete audits brought forward from 2011/12, investigations and follow-up reviews. There were also lesser effects such as planning, fieldwork and report writing overruns, vacancy days, time spent finalising reports with managers and training requirements. Two factors may be influential here. One is the need for auditors to have greater preparation time and to gain wider knowledge as the breadth and complexity of audit work expands, and the other is that some audits are more complex as they take in the effects of significant structural change that the council is currently experiencing. This included preparation time spent for audits unable to be progressed due to BID reviews.

5.2. It was not possible to carry out audit satisfaction surveys during the year as accumulated survey data was lost when moving to internet based operations. A new survey system is now in place. Other performance against targets is as follows:

Table 3 – Other targets

Description	Target	2012/13	2011/12	2010/11
% of draft audits issued within 15 working days of audit conclusion	90	85	70	92
% of final reports issued in two working days (five for schools)	85	92	84	83
% of recommendations agreed by management	95	99	99	99

6. Compliance with Standards

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

- self assessment by the Head of Audit (2009/10)
- review by this Audit Committee in private session (2010/11)
- peer assessment by the Head of Internal Audit and Risk Management at the City of London Corporation (2011/12).

6.2. Following discussions with the Chairman of this Audit Committee it was felt that a review by the interim Head of Internal Audit would be useful this year because he has had the benefit of having detailed internal knowledge yet also wide experience of internal audit management elsewhere, including providing similar assessments in other London boroughs. The service was found to meet the requirements of the CIPFA Code for 2012/13, including quality assurance. The results of this review are reported separately to this meeting.

BACKGROUND PAPERS

Previous Audit Committee reports