

REPORT TO: Business Efficiency Board
DATE: 23 May 2012
REPORTING OFFICER: Operational Director – Finance
SUBJECT: Internal Audit Annual Report – 2011/12
PORTFOLIO: Resources
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 The CIPFA Code of Practice for Internal Audit in Local Government requires the Head of Internal Audit to provide a written report to the Council's Audit Committee timed to inform the Council's Annual Governance Statement. As such, the purpose of this report is to provide an opinion of the adequacy and effectiveness of the Council's control environment. The 'control environment' is the collective term used to describe the Council's:

- risk management;
- control; and
- governance processes.

1.2 The Accounts and Audit Regulations 2011 provide a requirement for local authorities to conduct a review of the effectiveness of its internal audit at least once each year. This review is intended to provide members with a basis for determining the extent to which reliance can be placed on the internal audit opinion.

1.3 The purpose of this report is therefore to present the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's control environment and the findings of the review of the effectiveness of the Council's internal audit.

2.0 RECOMMENDATIONS: That the Board notes:

- (1) Internal Audit's opinion on the Council's control environment; and**
- (2) The findings of the review of the effectiveness of internal audit.**

3.0 SUPPORTING INFORMATION

Annual opinion on the Council's control environment

- 3.1 Internal audit work completed during the 2011/12 financial year was carried out in accordance with the Internal Audit plan, which was approved by the Business Efficiency Board on 9 March 2011. The plan was constructed in such a way to allow Internal Audit to form an overall opinion on the Council's risk management, control and governance processes.
- 3.2 In providing an overall opinion on the Council's system of internal control, it should be noted that assurance can never be absolute. Internal Audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion, consideration is given to:
- The findings from the audit work undertaken during the year;
 - The amount of audit work undertaken in the year compared with work planned;
 - The results of follow up action in respect of previous audit work;
 - Whether or not any significant recommendations have not been accepted by management and the consequent risks;
 - The extent to which resource constraints prevent Internal Audit from providing assurance over all key risks faced by the Council.

Internal Audit's Opinion on the Council's Control Environment

Internal Audit is required to form an opinion on the adequacy and effectiveness of the Council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified. Although a number of high priority issues have been reported by Internal Audit during the course of the 2011/12 financial year, the actions that management has agreed to take in response to those findings will, if implemented satisfactorily, resolve them in an appropriate manner. Internal Audit is therefore of the opinion that the Council continues to maintain an effective control environment.

There are no outstanding significant control issues identified through the work of Internal Audit that require disclosure in the Council's 2011/12 Annual Governance Statement.

Basis for the opinion

- 3.3 The 2011/12 Internal Audit Plan was approved by the Business Efficiency Board on 9 March 2011. The plan comprises 1,260 audit days based on an establishment of 6.52 FTE auditors.

- 3.4 By year end, Internal Audit had delivered 1,150 audit days (91.3% of the total planned days for the year). The shortfall in the number of audit days delivered was a result of a staffing vacancy arising during the year.
- 3.5 The reduction in available resources was managed by prioritising audit coverage and some planned work being deferred until the 2012/13 financial year.
- 3.6 This level of audit coverage is considered sufficient to ensure that a confident, evidence-based opinion can be provided.
- 3.7 A summary of the audit reviews completed during the year is included in Appendix 1. Each audit area is graded according to the level of assurance that can be provided that objectives for the area reviewed are likely to be achieved. Three categories of assurance level are used: substantial, adequate and limited. Of the 51 audit reports finalised during the year:
- 19 areas received substantial assurance;
 - 31 areas received adequate assurance;
 - One area received limited assurance.
- 3.8 A summary of the 20 'follow up' audits completed in the year is included at Appendix 2. These reviews are undertaken to provide assurance that previously agreed audit recommendations are implemented. We found that:
- 10 areas had made substantial progress in implementing the recommendations agreed;
 - 10 area had made good progress in implementing the recommendations agreed;
 - There were no areas where progress in implementing the recommendations agreed had been unsatisfactory.

Review of the effectiveness of internal audit

- 3.9 The Accounts and Audit Regulations 2011 provide a requirement for local authorities to conduct a review of the effectiveness of its internal audit at least once each year and to report the findings of the review alongside the annual opinion on the system of internal control.
- 3.10 The Operational Director – Finance has reviewed the Council's internal audit arrangements and considers it to be effective and fit for purpose. The following evidence supports this conclusion:
- The Council has designated the Business Efficiency Board as its Audit Committee. The Audit Plan is approved by the Board and regular reviews of progress towards delivering the plan are presented to the Board during the year. The Board provides robust challenge on issues identified through the work of internal

audit and also seeks explanations from officers, when considered necessary, on risk and control issues.

- The Council's Internal Audit team has established quality assurance arrangements to ensure continued compliance with the CIPFA Code of Practice for Internal Audit in Local Government and the Council's audit methodology.
- The Council's internal audit arrangements comply with the CIPFA Statement on the role of the Head of Internal Audit in public service organisations.
- All employees within the Internal Audit Division hold a recognised accountancy and / or internal audit qualification.
- The Council's external auditors continue to place reliance on internal audit in regards to work undertaken on the systems that compile the material disclosures for the statement of accounts.
- Internal Audit seeks feedback on the service it provides by issuing an 'Internal Audit Satisfaction Survey' at the end of each audit. The results of the 30 surveys returned in 2011/12 demonstrate that:
 - 80.0% of respondents were 'very satisfied' with the quality of service provided.
 - 20.0% of respondents stated that they were 'satisfied' with the quality of service provided.

4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS

4.1 Under Regulation 6 of the Accounts & Audit Regulations 2011 the Council 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. This responsibility is delegated to the Operational Director – Finance.

4.2 The internal audit work carried out during the year provides assurance that the Council's main financial systems are operating effectively.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 CIPFA defines Internal Audit as being 'an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives'.

5.2 Internal Audit therefore supports the Council in achieving all the aims and objectives set out in the Sustainable Community Strategy and the Corporate Plan.

6.0 RISK ANALYSIS

6.1 The work of Internal Audit is part of the overall framework that provides assurance that significant risks to the achievement of the Council's objectives are being managed effectively.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 None arising directly from this report.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact
Internal Audit Plan 2011/12 Internal Audit reports	1 st Floor, Kingsway House, Kingsway, Widnes	Merv Murphy

Internal Audit reports issued in 2011/12

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
	Council wide			
1.	Performance Reporting		✓	
	Children & Enterprise Directorate			
2.	Castlefields Village Square Contract	✓		
3.	Industrial Units		✓	
4.	Youth Offending Team		✓	
5.	Key Stage 4 – Pupil Referral Unit			✓
6.	Kerbside Waste Collection	✓		
7.	Upton All Saints CE Primary – New Build Contract		✓	
8.	Brookvale Children's Centre		✓	
9.	Edinburgh Road Residential Home		✓	
10.	Children with Disabilities		✓	
11.	Property Maintenance		✓	
12.	The Grange School	✓		
13.	Adoption Service	✓		
14.	Hallwood Park Primary School		✓	
15.	Halton Lodge Primary School		✓	
16.	Runcorn All Saints Primary School	✓		
17.	Spinney Avenue Primary School		✓	
18.	Weston Primary School		✓	
19.	Local Bank Account Schools	✓		
	Communities Directorate			
20.	School Meals Service		✓	

Appendix 1

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
21.	Trading Standards		✓	
22.	High Cost Care Packages		✓	
23.	Civic Catering		✓	
24.	Community Safety Team	✓		
25.	Cemeteries & Crematorium		✓	
26.	Carers' Strategy		✓	
27.	Reablement		✓	
28.	Supporting People	✓		
	Policy & Resources Directorate			
29.	Main Accounting System – Journals (2010/11)	✓		
30.	Payment Card Industry Data Security Standard		✓	
31.	Imprest Accounts		✓	
32.	Purchase to Pay		✓	
33.	Payroll (2010/11)		✓	
34.	Capital Programme		✓	
35.	IT Business Continuity		✓	
36.	Corporate Credit Cards	✓		
37.	Agile working		✓	
38.	Teachers' Pay	✓		
39.	Social Care Financial Assessments		✓	
40.	Loans & Investments	✓		
41.	Mayor's Fund		✓	
42.	Corporate Complaints		✓	
43.	Housing Benefit & Council Tax Benefit	✓		
44.	Lync Telephony Project		✓	

Appendix 1

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
45.	ICT Incident Management	✓		
46.	Sundry Debtors	✓		
47.	Main Accounting System – Journals (2011/12)	✓		
48.	Council Tax	✓		
49.	NNDR	✓		
50.	Payroll (2011/12)	✓		
51.	Accounts Payable		✓	
	Total	19	31	1

Key

Assurance Rating	Explanation
● Limited	The control environment is in need of improvement. Weaknesses in the control systems may put the service or system's business objectives at risk.
● Adequate	There is basically a sound system of controls. However, opportunities exist to enhance the control environment further.
● Substantial	There is a sound system of control designed to ensure the achievement of the service or system's business objectives.

Internal Audit 'follow up' reviews - 2011/12

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
	Council wide			
1.	Equality Impact Assessments		✓	
2.	Corporate Plan - Performance Monitoring		✓	
	Children & Enterprise Directorate			
3.	Adult Placement Service	✓		
4.	Westfield Primary School		✓	
5.	Attendance at Schools	✓		
6.	Victoria Road Primary School	✓		
7.	Westfield Primary School		✓	
8.	St Gerard's Primary School	✓		
9.	Youth Offending Team		✓	
	Communities Directorate			
10.	Community Warden Service		✓	
11.	School Meals		✓	
12.	Halton Stadium	✓		
13.	Client Finances - Halton Supported Housing Network		✓	
14.	Food, Health & Safety		✓	
15.	Supporting People	✓		
	Policy & Resources Directorate			
16.	Internet Site Security	✓		
17.	Acceptable Use Policy	✓		
18.	IT Procurement	✓		

Appendix 2

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
19.	Sundry Debtors		✓	
20.	Purchase to Pay (Creditors)	✓		
	Total	10	10	0

Key

Assurance Rating	Explanation
● Limited	Little progress made in implementing the agreed recommendations.
● Adequate	Good progress made in implementing the agreed recommendations.
● Substantial	Substantial progress made in implementing the agreed recommendations.