

meeting **AUDIT COMMITTEE**

date **17 MAY 2011**

agenda item number **6**

## **REPORT OF THE SERVICE DIRECTOR (FINANCE)**

### **ANNUAL INTERNAL AUDIT REPORT 2010/11**

#### **Purpose of the Report**

1. To inform Members of the work carried out by Internal Audit in 2010/11, and based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

#### **Information and advice**

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to ensure that the Authority's systems and procedures achieve their objectives. In order to identify the key areas to be audited, Internal Audit carries out a risk assessment of the Council's financial and other systems which, following consultation, forms the basis of the annual Audit Plan. Audits are carried out in accordance with the CIPFA Code of Practice for Internal Audit, which defines the standards that should be followed to achieve best professional practice.

#### **Summary of Internal Audit Work for 2010/11**

4. The audits completed during 2010/11 covered a broad range of aspects of the Authority, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. The total time delivered on Audit work (2,571 days) is above the original plan (2,411 days). This is due to there being no vacancies during the year and a below average level of sick leave. There were 222 audit jobs completed during the year (188 on County systems and procedures and 34 on external clients' systems and procedures).

5. Of the 188 County audit jobs, 38 were on areas where the usual audit opinion is not provided, for example on irregularities, grant claims, provision of detailed advice on changes in procedures and work requested by departments. The remainder (150 reports) were issued on the Authority's operations and contained an internal audit opinion on the financial controls and procedures in place, categorised as follows:-

Sound – there are no weaknesses or only minor weaknesses

Satisfactory – most of the arrangements for financial management are effective, but some weaknesses have been identified

Unsatisfactory – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.

6. Table 1 below analyses the opinions given on the individual reports.

**Table 1: Analysis of Audit Opinions during 2010/11**

Department	Opinion			Total
	Sound	Satisfactory	Unsatisfactory	
Children and Young People	-	8	3	11
Schools	35	52	-	87
Adult Social Care and Health	-	10	-	10
Communities	1	15	5	21
Corporate Services	3	13	1	17
Chief Executive	1	2	1	4
TOTALS	40	100	10	150
Percentage	27%	67%	7%	101*

\*Does not sum to 100 due to rounding

Over 1,300 individual recommendations for change were made during the year. The managers of the service are required to formally respond to each recommendation and the vast majority of recommendations (98%) are agreed for implementation.

7. From the table, it can be seen 140 of the 150 areas reviewed during 2010/11 were found to be sound or satisfactory. This equates to 93% of the areas reviewed. Of particular note is the absence of any unsatisfactory opinions on schools' audits. The development of the Financial Management Standard in Schools (FMSiS) has placed a clear focus on governance and financial issues in schools, which

schools have responded well to. There were 7% of areas audited which were categorised as unsatisfactory. These audits revealed weaknesses requiring urgent action to strengthen the systems and procedures in place. The weaknesses identified covered a diverse range of issues including the need for:

- Training and compliance with Financial Regulations
- Failure to monitor and control central systems
- Failure to adhere to agreed procedures

8. The trend in audit opinions over the last 5 years is shown in Table 2 below.

Table 2: Summary of Audit Opinions over last 5 years

<b>Year</b>	<b>Number of reports</b>	<b>Opinion Sound</b>	<b>Satisfactory</b>	<b>Unsatisfactory</b>
2006/07	168	21 (13%)	133 (79%)	14 (8%)
2007/08	175	28 (16%)	129 (74%)	18 (10%)
2008/09	120	31 (26%)	79 (66%)	10 (8%)
2009/10	155	21 (13%)	116 (75%)	18 (12%)
2010/11	150	40 (27%)	100 (67%)	10 (7%)

As can be seen from the table above, the number of unsatisfactory audit opinions during 2010/11 has declined compared to the previous year. This is due to the improved financial control in schools.

9. Of the 10 unsatisfactory audit opinions, the following three are brought to the Audit Committee's attention:-

a) COR 1115 Marketplace

There was a long delay in the delivery and implementation of software to allow the electronic transfer of payments from Marketplace to the Core Financial System. Issues were also identified in operating effective budgetary control processes and the generation of a significant number of duplicated supplier records.

b) COM 1114 Trading Standards

A total of 22 Action Points were identified in relation to the review of Trading Standards. Of particular concern was the recording and control of items held in stores. A robust Action Plan has been drawn together to address all of the issues identified.

c) CYP 1106 Skills for Employment

A full audit was carried out at the centre following a serious irregularity. Financial control was weak across a range of functions including poor awareness of Financial Regulations. Recommendations were made

and agreed in relation to payroll, purchasing, petty cash, income and assets.

10. The 38 special projects during the year covered a range of issues including:-

- Advice on creditor payment control procedures, duplicate payment checking, interfacing the Library system to the Core Financial system.
- Provision of advice on cheque scams
- Follow up of information arising from the National Fraud Initiative
- Carrying out a number of grant audits
- Work on a number of suspected irregularities

#### Annual Governance Statement

11. The Accounts and Audit Regulations 2011 require the Authority to publish an Annual Governance Statement with its Accounts. The Statement focuses on the Authority's system of governance and internal control which facilitates the effective exercise of its functions and the achievement of its objectives. Internal Audit's work contributes to the assurance process detailed in the Annual Governance Statement. The individual audit opinions set out in paragraph 6 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As 93% of the audits undertaken identified that appropriate controls were found to be in place, Internal Audit's overall opinion is that the Authority's system of internal control is adequate. However, the fact that 7% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed. Follow up audits will be carried out to ensure that the recommendations made have been implemented.

#### Internal Audit Performance Indicators

12 A number of performance measures and indicators are monitored to assist in the delivery of the Section's objectives. Performance against these key indicators was as set out in Table 3 below.

Table 3: Analysis of Performance Indicators 2010/11

<b>Indicator</b>	<b>Target</b>	<b>Outcome</b>
Comply with Audit Code of Practice	Substantial compliance	Achieved
Completion of Audit Plan:- Number of days	90%	108%
Audits completed	90%	120%
Customer Satisfaction score	Under 2	Average 1.6
Recommendations accepted	95% acceptance	98% accepted
Productive time	Over 70%	75% achieved
Net audit cost per £1m turnover	£650	£453
External audit review	Positive	Positive

Overall, performance during the year has been above target. The number of audit days provided exceeded the planned days, as did the number of jobs completed. There are two main reasons for the good performance. Firstly, the Audit Section has maintained a full complement of staff throughout the year, with no vacant posts. Secondly, there has been a low incidence of sickness absence.

During the year, the section has continued to use a Customer Satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (98%).

The actual net audit cost per £1m turnover reduced in 2009/10 to £453, compared to a county council average of £557. The net cost will continue to fall in 2011/12 due to a reduction in the number of staff and the move to charge schools for their audits.

### Quality Assurance Programme

13. The CIPFA Code of Practice requires Internal Audit Sections to carry out a Quality Assurance Programme to ensure that appropriate quality standards are being applied. The review for 2010/11 was positive for the majority of files reviewed. A small number of issues were identified, including the need to improve the documentation of tests carried out, and sign and date working papers. These will be addressed.

### Conclusion

14. The work undertaken by Internal Audit during 2010/11 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily.

### **Statutory and Policy Implications**

15. The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the responsibility to maintain an internal audit function for the Authority to the Service Director (Finance).

### **Financial Implications**

16. There are no direct financial implications arising from this report. The net cost of the Internal Audit Section for 2010/11 was approximately £469,000.

### **Equal Opportunities Implications**

17. There are no equal opportunities implications within this report.

**Crime and Disorder Implications**

18. None

**RECOMMENDATION**

19. That Members note the Annual Internal Audit Report for 2010/11 and comment accordingly.

**ALAN SUMBY**

**SERVICE DIRECTOR (FINANCE)**

**INTERNAL AUDIT ANNUAL PLAN REPORT 2010/11****PERFORMANCE AGAINST PLAN**

	<b>Annual Plan Days</b>	<b>Actual Days</b>	<b>Variance Days</b>
Children and Young People	737	862	+125
Adult Social Care and Health	270	273	+3
Communities	331	484	+153
Corporate Services	603	678	+75
Chief Executive	93	77	-16
Contingency	162	0	-162
County Council Total	2196	2374	+178
External Contracts	215	197	-18
OVERALL TOTAL	2411	2571	+160