REPORT TO:	Business Efficiency Board
DATE:	29 June 2011
REPORTING OFFICER:	Operational Director – Finance
SUBJECT:	Internal Audit Annual Report – 2010/11
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 2010/11 financial year was carried out in accordance with the Internal Audit plan, which was approved by the Business Efficiency Board on 10 March 2010. 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 significant findings have been reported by Internal Audit during the course of the 2010/11 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 2010/11 Annual Governance Statement.

Basis for the opinion

3.3   The overall opinion provided in this report is based upon the work completed during the year. The 2010/11 Internal Audit Plan comprised 1,447 audit days based on an establishment of 7.52 FTE auditors. A full-time vacancy was carried by the team for the entire year. As such, 1,283 audit days were completed in total (88.7% of planned days).

This level of audit coverage is considered sufficient to ensure that a confident, evidence-based opinion can be provided.

3.4 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 57 audit reports finalised during the year:

- 13 areas received substantial assurance;
- 40 areas received adequate assurance;
- 4 areas received limited assurance.

3.5 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:

- 18 areas had made substantial progress in implementing the recommendations agreed;
- One area had made good progress in implementing the recommendations agreed;
- One area had made unsatisfactory progress in implementing the recommendations agreed.

Review of the effectiveness of internal audit

3.6 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.

3.7 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 Board has continued to provide robust challenge across a range of internal audit reports and has sought explanations from officers, when considered necessary, on risk and control issues.

- The Council's Internal Audit Division 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.

- External audit 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 surveys returned in 2010/11 are:

  - 66.7% of respondents were 'very satisfied' with the quality of service provided.
  - 33.3% 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 2010/11 Internal Audit reports	1st Floor, Kingsway House, Kingsway, Widnes	Merv Murphy

2010/11 – Internal Audit reports

	Area Reviewed	Level of Assurance		
		Substantial	Adequate	Limited
	Council wide			
1.	Carbon Management		✔	
2.	Acceptable Use Policy		✔	
3.	Widnes Waterfront Scheme	✔		
4.	Governance of Partnerships		✔	
5.	Building Schools for the Future	✔		
	Adults & Community			
6.	Halton Stadium		✔	
7.	Adult Placement Service		✔	
8.	Halton Community Warden Service		✔	
9.	Halton Supported Housing Network			✔
10.	Community Meals Service		✔	
11.	Private Sector Housing Grants		✔	
12.	Supporting People		✔	
	Children & Young People			
13.	ContactPoint	✔		
14.	Information Governance in Schools		✔	
15.	Attendance at School	✔		
16.	Subsidised Safety Equipment Scheme		✔	
17.	Young People's Team – Care Leavers		✔	
18	Support to Schools Causing Concern	✔		
19.	Community Cafes		✔	
20.	Inter Authority Recoupment	✔		
21.	Local Authority Day Care Provision			✔
	Schools			
22.	Lunts Heath Primary School		✔	
23.	Our Lady Mother of the Saviour Primary		✔	
24.	Palace Fields Primary School			✔
25.	St. Bede's RC Infants School	✔		
26.	St. Clements Primary School	✔		
27.	St. Edwards Primary School		✔	
28.	Victoria Road Primary School		✔	
29.	Windmill Hill Primary School		✔	
30.	Oakfield Primary School	✔		
31.	St. Bede's RC Juniors School		✔	
32.	Westfield Primary School			✔
33.	St. Gerard's RC Primary School		✔	
34.	Fairfield Infants Primary School	✔		
35.	Hill View Primary School	✔		
36.	St Martin's Catholic Primary School		✔	

	Area Reviewed	Level of Assurance		
		Substantial	Adequate	Limited
37.	Hale CEVC Primary School		✔	
38.	Weston Primary School		✔	
39.	St. Michael's RC Primary School		✔	
40.	West Bank Primary School		✔	
41.	St. Bede's RC Infants Primary School	✔		
	Environment			
42.	Bridge Maintenance		✔	
43.	Markets		✔	
44.	Food Safety & Standards		✔	
45.	Municipal Building Contract		✔	
46.	Planning Applications		✔	
47.	Kingsway Health Centre Refurbishment Contract		✔	
48.	Pest Control		✔	
	Resources			
49.	HR Learning & Development		✔	
50.	Internet Site Security		✔	
51.	Local Land Charges		✔	
52.	Cash collection		✔	
53.	Code of Connection	✔		
54.	ICT Procurement		✔	
55.	Server Virtualisation		✔	
56.	Secure Data Transmissions to External Organisations		✔	
57.	Marketing & Communications		✔	
	Total	**13**	**40**	**4**

Key - Internal Audit report assurance ratings

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

2010/11 – Internal Audit 'follow up' reviews

	Area Reviewed	Level of Assurance		
		Substantial	Adequate	Limited
	Children & Young People			
1.	Children's Centres			✔
2.	Home to School Travel	✔		
3.	Halton Helps	✔		
	Schools			
4.	Saints Peter & Paul RC High School	✔		
5.	Brookfields School	✔		
6.	Our Lady of Perpetual Succour RC Primary School	✔		
7.	All Saints Upton CEVC Primary School	✔		
8.	St. Mary's Halton Primary School	✔		
9.	The Brow Primary School	✔		
10.	Astmoor Primary School	✔		
11.	Weston Point Primary School	✔		
12.	OLMS RC Primary School		✔	
13.	Halton Lodge Primary School	✔		
	Environment			
14.	Property Services- Rental Income	✔		
15.	Business Improvement Districts (BIDS)	✔		
16.	Markets	✔		
17	Municipal Building Contract	✔		
18.	Kingsway Health Centre Refurbishment Contract	✔		
	Resources			
19.	Disposal of ICT equipment	✔		
20.	Laptop Security	✔		
	Total	**18**	**1**	**1**

Key - 'follow up' report assurance ratings

Assurance Rating	Opinion Type	Explanation
Substantial	Positive	Good progress
Adequate		Satisfactory progress
Limited	Negative	Little progress