

REPORT TO: Business Efficiency Board
DATE: 22 May 2013
REPORTING OFFICER: Operational Director – Finance
PORTFOLIO: Resources
SUBJECT: Internal Audit Annual Report – 2012/13
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 This report is therefore the culmination of the internal audit work completed during the course of the year and it provides an opinion on the adequacy of the Council's control environment. It also details the findings of the review of the effectiveness of the Council's internal audit function.

2.0 RECOMMENDATIONS: That the Board notes:

- (1) The Head of 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 2012/13 financial year was carried out in accordance with the Internal Audit plan, which was approved by the Business Efficiency Board on 29 February 2012. The plan was designed 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.

Opinion on the Council's Control Environment

The Head of 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 2012/13 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. I am therefore of the opinion that the Council has a well-established control environment that continues to operate well in practice.

There are no outstanding significant control issues identified through the work of Internal Audit that require disclosure in the Council's 2012/13 Annual Governance Statement.

Basis for the opinion

- 3.3 The 2012/13 Internal Audit Plan comprised 1,239 audit days based on an establishment of 6.52 FTE auditors. By year end, Internal Audit had delivered 944 audit days (76.2% of the total planned days for the year). The shortfall in the number of audit days delivered was a result of

staffing vacancies arising during the year and a member of staff being absent on maternity leave.

- 3.4 The reduction in available resources was managed by prioritising audit coverage and some planned work being deferred until the 2013/14 financial year.
- 3.5 The level of audit coverage achieved during the year is considered sufficient to ensure that a confident, evidence-based opinion can be provided.
- 3.6 A summary of the audit reviews finalised 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 49 audit reports finalised during the year:
- 23 areas received substantial assurance;
 - 26 areas received adequate assurance;
 - No audits received limited assurance.
- 3.7 A number of other audits from the 2012/13 Audit Plan are nearing completion and will be reported in the next progress report to the Board.
- 3.8 Due to the reduction in staffing resources, a risk-based approach has been adopted to following up audits to ensure that internal audit recommendations are implemented.
- 3.9 A total of 11 'follow up' audits were completed in the year and these are detailed in Appendix 2. In summary:
- 8 areas had made substantial progress in implementing the recommendations agreed;
 - 3 areas 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

- 3.10 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.
- 3.11 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.
- Grant Thornton has recently reviewed Internal Audit against the CIPFA Code of Practice. Their overall conclusion was that *'internal audit continue to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council'*.
- 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 (Grant Thornton) place reliance where possible 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 satisfaction levels from the 38 surveys returned in 2012/13 are summarised below:
 - 100% satisfaction – Work on financial systems
 - 95% satisfaction – Work on operational systems and services
 - 100% satisfaction – Work on information systems management
 - 100% satisfaction – Work on procurement
 - 86% satisfaction – Work on schools

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 Head of Internal Audit's opinion on the Council's control environment is one of the key sources of assurance that supports the Council's Annual Governance Statement.

4.3 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'. 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 2012/13 Internal Audit reports	1 st Floor, Kingsway House, Kingsway, Widnes	Merv Murphy

Internal Audit reports issued in 2012/13

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
	Council wide			
1.	Risk Management	✓		
2.	Mersey Gateway – Use of Consultants		✓	
	Children & Enterprise Directorate			
3.	Schools – Transfer Process to Academy Status		✓	
4.	Strategic Asset Management		✓	
5.	Building Cleaning		✓	
6.	Building Schools for the Future	✓		
7.	16-19 Bursary Fund	✓		
8.	Woodside Primary		✓	
9.	Beechwood Primary		✓	
10.	Farnworth Primary		✓	
11.	Moorfield Road Primary		✓	
12.	Moore Primary	✓		
13.	Murdishaw West Primary		✓	
14.	St Basil's Catholic Primary	✓		
15.	Chesnut Lodge		✓	
16.	Warrington Road Nursery		✓	
17.	Halebank CEVC Primary		✓	
18.	St Berteline's CE Primary		✓	
19.	Pewithall Primary		✓	
20.	Fairfield Junior School	✓		
21.	St Augustine's RC Primary		✓	

Appendix 1

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
22.	Brookvale Primary		✓	
23.	Hale CE Primary	✓		
24.	Daresbury Primary	✓		
25.	Ashley School		✓	
26.	The Bankfield		✓	
27.	Saints Peter and Paul Catholic College	✓		
	Communities Directorate			
28.	Bulky Waste Collection & Bin Deliveries		✓	
29.	Disabled Facilities Grants	✓		
30.	Personalisation		✓	
31.	Grants to Voluntary Organisations	✓		
32.	Homelessness	✓		
33.	Community Centres		✓	
34.	Castlefields Community Centre Cafe		✓	
35.	Oakmeadow Resource Centre		✓	
36.	School Meals Income – Cash Cafeterias	✓		
37.	Halton Stadium – Counterfeit Notes		✓	
	Policy & Resources Directorate			
38.	Income Control		✓	
39.	Fixed Assets	✓		
40.	Management of Third Party ICT Services	✓		
41.	Due North E-Tendering System	✓		
42.	Highways Maintenance Contract – Interim Report	✓		
43.	Highways Maintenance Contract – Final Report	✓		

Appendix 1

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
44.	Loans & Investments	✓		
45.	Housing Benefit & Council Tax Benefit	✓		
46.	Sundry Debtors	✓		
47.	Main Accounting System – Journals	✓		
48.	Construction Industry Tax Deduction Scheme		✓	
49.	Central Electronic Storage	✓		
	Total	23	26	0

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 - 2012/13

	Audit Area	Level of Assurance		
		Substantial	Adequate	Limited
	Children & Enterprise Directorate			
1.	Property Maintenance	✓		
2.	Young People's Team	✓		
3.	Industrial Units	✓		
4.	Brookvale Children's Centre	✓		
	Communities Directorate			
5.	Trading Standards	✓		
6.	Crematorium and Cemeteries		✓	
7.	Pest Control		✓	
	Policy & Resources Directorate			
8.	Payment Card Industry – Data Security Standard	✓		
9.	Mayor's Fund	✓		
10.	Management of Imprest Accounts	✓		
11.	Planning Applications		✓	
	Total	8	3	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.