

INTERNAL AUDIT ANNUAL REPORT ON INTERNAL CONTROL 2012/13

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SUMMARY: This report provides Members with Internal Audit's opinion on the Council's systems of internal control in 2012/13

Recommendation:	That Members note the report which provides evidence for the Annual Governance Statement.
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1. INTRODUCTION

1.1 The Annual Reporting Process

Management is responsible for the system of internal control and should put in place policies and procedures to help ensure that the system is functioning properly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. This report is based on the work undertaken by internal audit in 2012/13 and seeks to:

- Provide an opinion on the adequacy of the control environment
- Comment on the nature and extent of significant risk
- Report the incidence of significant control failings or weaknesses

1.2 Requirement for Internal Audit

There is a requirement under the Accounts and Audit Regulations (England) 2011, to maintain an adequate and effective system of internal audit of the Council's accounting records and of its system of internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 (Standard 10) requires that the Head of Internal Audit provides a formal annual report to the organization, to support the Annual Governance Statement.

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2. REVIEW OF INTERNAL CONTROL

2.1 How Internal Control is reviewed

Internal Audit adopts a risk-based approach to audit. A risk assessment is carried out at least annually and is updated throughout the year, as audits are carried out or as circumstances change. The risk assessment is used to prioritise work in the audit plan. Factors used in the risk assessment include financial materiality, potential for fraud or theft, findings at the last audit, changes to the system or staffing and the time elapsed since the last audit.

The range of audits undertaken during the course of the year supports the overall opinion on the control environment. Details of audits undertaken were reported quarterly to the Audit and Governance Committee. A summary of the opinion on individual audits completed in 2012/13 is given at Appendix A.

2.2 Opinion 2012/13

Based on the work undertaken during the year, Internal Audit has reached the opinion that key systems are operating satisfactorily and there is no fundamental breakdown of controls resulting in potential material error or discrepancies. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Council's financial affairs.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance. This statement is intended to provide reasonable assurance.

3. SIGNIFICANT ISSUES

PROGRESS ON SIGNIFICANT ISSUES REPORTED IN 2011/12

3.1 Partnerships

Management has confirmed that progress has been made against the P1 recommendation relating to the need to develop a documented and robust approach to partnership working (to include clear governance arrangements, risk management and evaluation of cost/benefit of partnerships). The Council's AGS recognises that further work is required in this area. Completion of the P1 recommendation was anticipated by 31 March 2013 so the proposed audit of this area could not be carried out in 2012/13, but is included in 2013/14 audit plan.

3.2 Risk Management

Management has confirmed that arrangements for risk management (assessed as weak in 2011/12) have been strengthened and that all P1 recommendations have been implemented. Internal Audit's review of risk management confirmed that

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the risk strategy had been reviewed and additional training provided, also that monitoring and reporting arrangements to senior management and Members had improved in 2012/13.

3.3 Payroll

Payroll arrangements were assessed by Internal Audit as weak in 11/12 and in the Internal Audit review in 2012/13. The main concern was the lack of independent checks on payroll and the original P1 recommendation was re-iterated. Following this, steps have been taken to introduce standard monthly checks for payroll which are undertaken by an independent person. Internal Audit followed up the implementation of the independent checks and confirmed that this control is now in place. As a result the assurance level for payroll is now assessed as good.

3.4 Council Tax/NNDR

During the annual audits of council tax and NNDR in 2011/12 it was found that a key reconciliation control, to ensure that cash receipts were posted to the correct place, had not been operating. The control was re-introduced following the audit and has been in operation throughout 2012/13.

SIGNIFICANT ISSUES ARISING IN 2012/13

3.5 Bereavement Services

During 2012/13 management identified significant control weaknesses in Bereavement Services. An investigation and subsequent review by Internal Audit found that controls were weak and an action plan for improvement was agreed. A follow up review by Internal Audit concluded that control improvements had been achieved and an overall satisfactory rating was given.

4. AUDIT PERFORMANCE

4.1 Compliance with the CIPFA Code of Practice for Internal Audit

The Shared Internal Audit Service has complied with the CIPFA Code of Practice for Internal audit in Local Government. Details are included in the report on the Effectiveness of the System of Internal Audit.

4.2 Customer Satisfaction

Satisfaction surveys are issued at the conclusion of each audit to assist in developing and improving the audit approach. A summary of the completed surveys is shown below:

<i>Aspect of audit</i>	<i>%age rated good or very good</i>
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Audit planning - scope	100%
Audit planning - initial discussions	100%
Clarity of report	90%
Fair presentation of findings	80%
Usefulness of recommendations	80%
Timeliness of audit report	90%
Consultation on findings/recommendations	90%
General helpfulness of audit staff	100%
Overall usefulness of audit	100%

Although only based on 10 completed surveys, the general feedback has been positive.

4.3 Performance against the approved Audit Plan 2012/13

Quarterly performance data has been reported to the Audit and Governance Committee throughout the year. Planned audits were completed except for those which have been deferred to 2013/14 as agreed and reported during the year. An action plan has not yet been finalised for the audit of Information Security – final draft issued April 2012. Content of report agreed by Head of Policy & Transformation but action plan not completed.

List of Appendices:

Appendix A – Opinion on controls of individual systems 2012/13

List of Background Documents: None

Consultees: Corporate Leadership Team

