

<b>Meeting:</b>	<b>GLT</b>	<b>Date:</b>	<b>12<sup>th</sup> June 2012</b>
	<b>Audit &amp; Governance Committee</b>		<b>25<sup>th</sup> June 2012</b>
<b>Subject:</b>	<b>Group Manager Audit &amp; Assurance Annual Report 2011-12</b>		
<b>Report Of:</b>	<b>Group Manager Audit &amp; Assurance</b>		
<b>Wards Affected:</b>	<b>N/A</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Terry Rodway, Group Manager Audit &amp; Assurance</b>		
	<b>Email: Terry.Rodway@gloucester.gov.uk</b>	<b>Tel:</b>	<b>396430</b>
<b>Appendices:</b>	<b>1. Appendix A – List of Audits that resulted in a ‘Limited’ or ‘Unsatisfactory’ Level of Assurance</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To provide Members with a brief overview of Internal Audit work, compliance with Financial Regulations, Contract Standing Orders, and general probity issues for the financial year ending 31st March 2012, and, to provide an opinion on the overall adequacy and effectiveness of the organisation’s control environment.

### 2.0 Recommendations

- 2.1 Audit Committee is asked to **RECOMMEND** that

- (1) Members endorse the assurance from the Group Manager Audit & Assurance that, in the systems audited, an adequate level of internal control exists.

### 3.0 Background and Key Issues

- 3.1 Internal Audit work is carried out to the standards outlined in the CIPFA ‘Code of Practice for Internal Audit in Local Government in the United Kingdom 2006’ (the Code).
- 3.2 The Code requires the Head of Internal Audit to ‘provide a written report to those charged with governance timed to support the Annual Governance Statement’. A separate report containing the Annual Governance Statement is included on the agenda for the Audit Committee on 25<sup>th</sup> June 2012.
- 3.3 The Code defines internal audit as “an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on

the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources”.

- 3.4 To achieve full effectiveness the scope of the internal audit function should provide an unrestricted range of coverage of the organisation’s operations and the internal auditor should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter, which has been approved by Members and is referred to in the Council’s Constitution.

#### **4.0 Opinion**

- 4.1 The Council’s Group Manager Audit & Assurance is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council’s internal control environment.
- 4.2 My overall opinion is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council’s objectives, and that controls are generally being applied consistently.
- 4.3 My opinion is based upon, and limited to, the work completed as part of the agreed 2011-12 Internal Audit plan, the results of which have been reported to the Audit Committee during the year. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council, but is based upon the range of individual opinions arising from the audit assignments completed.
- 4.4 These individual opinions are summarised below:-

Opinion	No	%
Good	16	44
Satisfactory	11	31
Limited	8	22
Unsatisfactory	1	3
TOTAL	36	100

**NB** On a number of audits a ‘split’ opinion has been provided. This approach helps to identify to management the specific areas of control that are/are not operating as intended, rather than provide an overall conclusion on all the areas covered by the audit. Where a ‘split’ opinion has been provided on an audit, both opinions have been included in the above table. Details of the audits that received a ‘Limited’ or ‘Unsatisfactory’ level of assurance are provided in Appendix A.

#### **5.0 Summary of 2011-12 Work**

##### **5.1 Annual Plan**

- 5.1.1 The Internal Audit plan for 2011-12 was agreed by the Audit Committee at its meeting on 17<sup>th</sup> March 2011. As a result of a higher than planned level of sickness and the effect this had on the completion of the originally agreed Annual Plan, a revised Plan was devised which was approved by the Audit Committee at its meeting on 8<sup>th</sup> December 2011.

5.1.2 Audit visits have been made to the following service areas throughout the year:

Financial Services, Revenues & Benefits (Civica), Property Management, Markets, Streetcare, Guildhall, Parking, ICT, Development Control, Building Control and Homelessness.

The internal audit section also provided internal audit services, under a Service Level Agreement, to Gloucester City Homes and Aspire Leisure Trust.

## **5.2 Internal Control Assurance**

5.2.1 Internal financial controls are continually reviewed across all service areas by carrying out a mixture of system-based audits and probity audits.

5.2.2 System based auditing involves the identification, documentation, evaluation and testing of controls. Recommendations are made to management where weaknesses are identified. Where appropriate, use is made of CIPFA's System Based Auditing Control matrices. These matrices act as an aid to identifying the control objectives, expected controls and compliance tests for each main system.

5.2.3 Probity audits involves testing, by means of sampling, transactions to ensure that the 'rules' of the organisation have been adhered to, that material fraud and significant levels of error are not in evidence, and that the organisation is acting within its statutory powers.

5.2.4 The audit work on the main financial systems (e.g. main accounting system, creditors, benefits, payroll, council tax, NNDR) involved the testing of key controls as detailed within the Joint Working Agreement between Internal Audit and External Audit. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the Joint Working Agreement is for External Audit to place a high degree of reliance on the work of the internal audit team. This will help inform their judgement on the council's financial control environment and is also one of the factors taken into account when calculating the External Audit fee.

5.2.5 Follow-up audits are planned to be carried out to ensure that agreed recommendations have been implemented. In the 'Follow-Up' audits that were completed, some delays in implementing audit recommendations were identified. All such cases have been reported to Members via the Internal Audit Plan monitoring report. Where Rank 1 'High Priority' audit recommendations had not been implemented by the agreed date, the appropriate Group/Service Manager was invited to attend a meeting of the Audit Meeting to explain the reason(s).

## **5.3 Other Issues**

5.3.1 In relation to the 2011/12 Revised Annual Plan, 90% of the agreed Audit Plan has been completed. Best practice guidance suggests (at least) 90% for completion of the audit plan as a good benchmark.

5.3.2 The Section has a number of other performance indicators to monitor performance. These are: -

Indicator	Target	Performance 2009-10	Performance 2010-11	Performance 2011-12
Cost/Auditor (£000)	Median	£51.60 (£52.30) M	£55.80 (£52.90) M (£55.80) UP	£53.53 (£52.00 Est.) M (£55.70 Est.) UP
Pay Cost/Auditor (£000)	Median	£40.00 (£37.70) M (£37.70) M	£40.00 (£39.10) M (£41.50) UP	£40.2 (£40.30 Est.) M (£42.20 Est.) UP
Overhead Cost/Auditor (£000)	Median	£11.60 (£13.10) M	£15.80 (£12.00) M (£14.80) UP	£13.37 (£13.50 Est.) M (£15.00 Est.) UP
Productive Days per Auditor	Upper quartile	180 (193) UP (177) M	184 (190) UP (184) M	168 (190 Est.) UP (184 Est.) M (176 EST) LQ
Cost per Chargeable Audit Day	Median	£300 (£299) M (£338) UP	£327 (£3288) M (£318) UP	£317 (£295 Est.) M (£336 Est.) UP
% of Audit Plan Completed	Min 90%	83%	85%	90%(Revised Plan)
Level of Customer Satisfaction – per audit.	Good	Good (3.26 out of 4)	Good (3.72 out of 4)	See para. 5.3.3below
Level of Customer Satisfaction – ‘whole service’	Good (5) NB – Adequate =4 Excellent = 6	>Good (4.83 out of 6)	<Good (4.93 out of 6)	<Good (5.06 out of 6)

Key:-

LQ = Lower Quartile

M = Median

UP = Upper Quartile

The ‘Quartile’ target figures refer to the CIPFA Benchmarking Club data, and these are shown in brackets in the table. The benchmarking data shown in the table for 2011/12 is based on estimates, the final outturn figures are due to be published in July 2012.

5.3.3 At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4, 1 = Poor; 4 = Very Good) on the audit. As at the end of March 2012, only a minimal number of survey forms had been completed and returned which meant that no meaningful data could be obtained. Although the procedures state an Effectiveness Survey should be issued after the completion of all appropriate audits, it is not known whether this has been complied with for each audit. Also, there has been no formal follow-up of non-returned forms.

5.3.4 The work of each member of staff is controlled by the Group Manager Audit & Assurance to ensure compliance with the Code. All reports and working papers are reviewed to ensure the correct approach has been adopted, no matters have been overlooked, and any conclusions can be supported.

- 5.3.5 In order to help ensure audit staff keep up to date with current issues and techniques, quarterly work reviews and annual staff development reviews are carried out to identify any training and personal development needs. In addition, all staff are encouraged to register with an appropriate Continuing Professional Development (CPD) scheme.
- 5.3.6 In accordance with the Accounts & Audit (England) Regulations 2011, a review of the effectiveness of internal audit has been undertaken in accordance with guidance issued by the IPF Finance Advisory Network. The conclusion from the review, which is the subject of a separate report to the Audit Committee on 25<sup>th</sup> June 2012, was that internal audit is effective.
- 5.3.7 In addition to the annual review of effectiveness, the Council's External Auditors, KPMG, also carry out an overall assessment of the internal audit function. In their 'Interim Audit Report 2011/12', dated June 2012, it states that KPMG assessed internal audit against the eleven standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. The result of their full assessment was that internal audit fully complies with the Code.
- 5.3.8 In relation to staffing matters, Gloucester City Council (GCC) and Stroud District Council (SDC) formed the Gloucestershire Audit & Assurance Partnership (GAAP) in order to deliver a professional, cost effective, efficient internal audit function to the partner organisations. The provision of the Internal Audit service is by a team of 6 auditors (3 based at GCC and 3 based at SDC) and is managed by the Head of the Partnership.

#### **4.0 Alternative Options Considered**

- 4.1 Not applicable.

#### **5.0 Reasons for Recommendations**

- 5.1 In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, the Council's Group Manager Audit & Assurance is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.

#### **6.0 Future Work and Conclusions**

- 6.1 The Council's Internal Audit Plan for 2012/13 was approved by the Audit Committee on 15<sup>th</sup> March 2012.
- 6.2 As stated above, the provision of the internal audit service is provided under the formal shared service arrangement between GCC and SDC. The main benefits to the two Councils of the shared service are increased capacity by bringing together staff resources from both partners, and, increased service resilience by standardising processes across partner sites and creating skilled staff who can support both partners
- 6.3 In conclusion, this report has been prepared in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and provides the Group

Manager Audit & Assurance' opinion on the overall adequacy and effectiveness of the Council's internal control environment.

- 6.4 The opinion, which is based upon, and limited to the work performed by Internal Audit during the year, is that a good/satisfactory level of assurance can be given that there is a generally sound system of internal control, which is designed to meet the Council's objectives, and that controls are generally being applied consistently.

## **7.0 Financial Implications**

- 7.1 As detailed in the report.

(Financial Services have been consulted in the preparation this report).

## **8.0 Legal Implications**

- 8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report).

## **9.0 Risk & Opportunity Management Implications**

- 9.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records, and, governance arrangements. The organisation's response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisations objectives.

## **10.0 People Impact Assessment (PIA):**

- 10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

- 10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

## **11.0 Other Corporate Implications**

### Community Safety

- 11.1 There are no community safety implications arising out of this report.

### Sustainability

- 11.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

- 11.3 There are no staffing and trade union implications arising out of this report.

**Background Documents:** Internal Audit Strategy  
Internal Audit Charter  
CIPFA Code of Practice for Internal Audit in Local  
Government in the UK 2006  
Accounts & Audit (England) regulations 2011

## APPENDIX A

### List of audits that resulted in a 'Limited' or 'Unsatisfactory' Level of Assurance

<b>Audit</b>	<b>Limited</b>	<b>Unsatisfactory</b>
Capital Accounting	Impairment review, reconciliation between fixed asset register and General Ledger, supervisory review re amendments to asset register	
Cash & Bank		Reconciliation of income from credit card transactions
Gloucester Guildhall	Official orders, Review of outstanding commitments	
General Ledger	Bank Reconciliation statement, Reconciliation of Debtors Control Account	
ICT	PC controls, Procurement, Physical and Environmental controls	
Creditors	Exception reporting re supplier details, review of 'open' orders	
Choice Based Lettings	Duplicate applications, approval of property advertisements, recording of reasons for override of assessment, assurance from Registered Providers re offers of properties to applicants	
Treasury Management	Compliance with Counterparty Limits, clarity of Treasury Management Strategy, access to CHAPS system	
Payroll	Independent review of Exception reports, Periodic circulation of Establishment lists	