

<b>Bath &amp; North East Somerset Council</b>			
<b>MEETING:</b>	Corporate Audit Committee		
<b>MEETING DATE:</b>	15 <sup>th</sup> May 2012	<b>AGENDA ITEM NUMBER</b>	
<b>TITLE:</b>	<b>Internal Audit Annual Report - (Outturn 2011/12 &amp; Annual Plan 2012/13)</b>		
<b>WARD:</b>	ALL		
<b>AN OPEN PUBLIC ITEM</b>			
<b>List of attachments to this report:</b>			
Appendix 1 – 2011/12 Outturn Report			
Appendix 2 – Introduction to the Audit Plan 2012/13			
Appendix 3 – Audit Plan 2012/13			

## **1 THE ISSUE**

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2011/12 and its plans for 2012/13.

## **2 RECOMMENDATIONS**

2.1 The Corporate Audit Committee is asked to:

- a) Note the summary of audit work during 2011/12 (Appendix 1)
- b) Approve the Internal Audit Plan for 2012/13 (Appendices 2 & 3)

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

### **4.1 Internal Audit Work Carried out in 2011/12 (Appendix 1)**

4.2 In the report presented to this Committee on 6<sup>th</sup> December 2011, it was reported that as at 31<sup>st</sup> October 2011 63% of the plan had been completed or was work in progress. As at the 31<sup>st</sup> March 2012, this figure had increased to 86% with 14% of the originally planned work being rescheduled or cancelled

based on discussions between Internal Audit and Service Management. The cancelled work tended to be related to audit reviews of service areas being transferred to Sirona.

4.3 In addition to the completion of planned work, the Internal Audit team carried out 'unplanned' work totalling in excess of 190 days (14% of the Team's productive audit days). A significant proportion of unplanned work was carried out during the period January to March 2012 (Quarter 4). This included three formal 'investigations' and two Stage 2 Complaint investigations carried out on behalf of the Council.

4.4 Unfortunately for the second year running the number of days lost to sickness was significant. However, the vast majority of this sickness was related to two members of staff having to undergo surgery which for one of them required a long period of convalescence. Sickness amounted to 113 days, which equated to 235% of the allowance (48 days) built into the plan. As previously reported in December 2011 the impact of this level of sickness on the plan was managed based on the significant increase in productivity achieved through the revised audit follow-up process.

4.5 The number of days during 2011/12 spent on training / professional study totalled 46. This was just below that allocated and it was pleasing to note that currently three members of staff are studying for a professional Internal Audit qualification.

4.6 Appendix 1, attached to this report, records all the planned work in the original 2011/12 Annual Plan and the status of each review at year end. In addition, it lists 'Unplanned' Work.

4.7 An analysis of all work carried out during 2011/12 has been maintained and the table below records a number of adopted Performance Indicators.

<b>High Level Performance Indicator</b>	<b>As at 31<sup>st</sup> March 2012</b>
% of Audits completed within time allocated	84%
% of Services which rate Internal Audit as Excellent / Good	100%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	99%
% of recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	89%

4.7 In addition to the above, an analysis of work carried out during the financial year identified:

- 1) 83% of audit reviews assessed specific council activity at Assurance Level 3 or 4 ('Adequate' or 'Good'), 14% at Assurance Level 2 ('Weak') and 3% at Assurance Level 1 ('Poor').
- 2) The Assurance Level 1 ('Poor') review was in relation to Car Parking – Income reconciliation. Management agreed to implement all the 11 Audit recommendations made.
- 3) For the audits assessed at Assurance Level 2 ('Weak') again management have agreed to implement all Audit recommendations.
- 4) 44 'Follow-Up' reviews were carried out in 2011/12. Six of these were in relation to Audit Reviews awarded a 'Poor' or 'Weak' Assurance Level. For these six 'Follow-Ups' 80% of audit recommendations had been implemented at the time of the 'Follow-Up' Review.

4.8 In addition to the work recorded in Appendix 1 the function has been successful in bidding for and obtaining the role of 'Responsible Officer' (in effect, an Internal Auditor) for 9 Academy schools. This has necessitated working in partnership with the School and their External Auditors.

#### **4.9 Internal Audit Annual Plan 2012/13 (Appendix 3)**

4.10 Appendix 3 details a summary version of the Audit Annual Plan for 2012/2013. The plan is prepared using a number of factors to risk assess which areas merit coverage. The factors used are -

- 1) 2010/11 Annual Governance Issue or directly linked to Corporate Risk Register (December 2011).
- 2) Exposure to Financial Irregularity (Control Environment / Corruption).
- 3) Time since last audit review.
- 4) Assurance level last audit.
- 5) Business Continuity Risk (loss of function impacting on provision of critical services).
- 6) Expenditure (not including employee costs).
- 7) Income
- 8) Inherent risk (a multiplier based on taking into account 'other' risks and compensating controls such as review by external agencies / inspectorates).

4.11 Based on productive days available (following a deduction of days for leave, training and admin / management) the plan records a total of 81 Audit Reviews along with 50 days set aside for follow-up audits.

4.12 The Audit 'Follow-Up' process has been redesigned during 2011/12 enabling this work to be carried out more efficiently. A contingency number of days has not been allocated to 'Unplanned' Work so any such work will result in planned work being dropped from the 2012/13 Audit Plan.

4.13 In addition to completing the Internal Audit Plan 2012/13 the Audit & Risk Team will continue work on -

- Providing support to the risk management framework within the Council including the Corporate Risk Register, risk management within decision making and specific service and project support on key risks;
- Providing support to the corporate governance framework within the Council including the Annual Governance review and a lead on ethics and organisational values;
- Providing support to Services on best practice in relation to Financial Regulations, Contract Standing Orders especially where systems and processes are being developed or changed;
- Providing support to Services on potential mis-use of resources and the carrying out of Investigations relating to the disciplinary process;
- Progressing the options for the future delivery of the Internal Audit Service. This was the subject of update reports to the Audit Committee over the last 18 months, which recommended that work proceeds to investigate a detailed model for a potential audit partnership with neighbouring authorities;
- Improving management information and productivity, through the continued development of the audit and risk management software and integrating even further a risk based approach to audit and risk work;
- Reviewing the 'Audit & Risk' role in carrying out the chargeable 'Responsible Officer' role in Academies.

#### **4.14 Comments of the Divisional Director for Risk and Assurance**

4.15 It is pleasing to note that within the year once again there were no major frauds or fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

4.16 Audit coverage has been commented on in the earlier sections of this report and there are a number of positives that can be taken regarding the overall performance of the team.

4.17 Partnership working generally with Authorities in the South West continues to flourish and is an essential part of our ability to keep pace with the rapid developments to the way services are being delivered and the impacts on risk profiles. Therefore this remains of high importance as we move forward.

4.18 The coming 12 months will provide a major challenge to the team who will need to ensure that the service is continued to be delivered to an acceptable level whilst also pursuing the options of partnership delivery in the future. This will require significant additional management effort to deliver this agenda and ensure that standards are maintained. Therefore the support of the Committee through this coming year will be important.

**4.19 Accounts and Audit Regulations**

4.20 The Accounts and Audit Regulations request that the organisation should carry out 'an annual review of the effectiveness of the system of Internal Audit'

4.21 The work of the Audit Committee satisfies the requirements of this review through -

- A) Its normal scrutiny of the work of Internal Audit throughout the year.
- B) The review of the internal control environment through the Annual Governance Statement and the annual governance review process.
- C) The review of Internal Audit against the CIPFA Code of Practice for Internal Audit.
- D) The review of Internal Audit by External Audit as part of their planned work.

**5 RISK MANAGEMENT**

5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report to the committee.

**6 EQUALITIES**

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

**7 CONSULTATION**

7.1 The report was distributed to the S151 Officer for consultation.

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<b>Background papers</b>	<i>Report to Corporate Audit Committee – 6<sup>th</sup> December 2011</i> – Internal Audit – Update
<b>Please contact the report author if you need to access this report in an alternative format</b>	