

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	28 th June 2011	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report - (Outturn 2010/11 & Annual Plan 2011/12)		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – 2010/11 Outturn Report			
Appendix 2 – Introduction to the Audit Plan 2011/12			
Appendix 3 – Audit Plan 2011/12			

1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2010/11 and its plans for 2011/12.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- a) Note the summary of audit work during 2010/11 (Appendix 1)
- b) Approve the Internal Audit Plan for 2011/12 (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 2010/11 (Appendix 1)

4.2 In the progress report in December 2010, to this committee, it was estimated that 80% of the plan would have been completed subject to no further unplanned work.

4.3 Appendix 1, attached to this report, shows all the Audit reviews in the original 2010/11 Annual Plan and the current status of each review at year end. In addition, details of the unplanned work, carried out by the team, are summarised at the end of Appendix 1, for which a contingency is allocated at the start of the year.

4.4 As at the end of the year (31st March) I can now report that the Internal Audit team has completed 81% of the Annual Plan, against an original target of 90% completion.

4.5 This should be seen as satisfactory performance as only 65% of the number of days, originally set aside for planned reviews, were eventually available to the Team. Three areas in particular have impacted on the Team, namely:

- Sickness: sickness amounted to 206 days, which equated to 375% of the allowance built into the plan.
- Unplanned work: the planning process had a built in contingency of 275 days. However, unplanned work amounted to 376 days, 137% of the full year contingency.
- Redundancy: by the end of December, two part-time members of staff had taken voluntary redundancy, equivalent to 15% of resources.

4.6 Unplanned work carried out during the year is summarised at the end of Appendix 1 and, in total, has involved some 40 pieces of work, including investigations, into fraud & corruption, plus requests from senior management. In addition, there were three Key Control Reviews brought forward from the previous year, which took significant time to finalise due to the nature of the issues involved.

4.7 As in previous years, it is pleasing to note that a number of these pieces of unplanned work relate to requests for consultancy and advice from Service Managers, who continue to value the services we provide and make available.

4.8 In addition, there have been a further 116 recorded requests from various Services for advice / assistance / information, during the year.

4.9 2010/11 has been a period of change and decision, for the Audit Service, due primarily to the current and future financial pressures on the Service:

- A detailed project was undertaken during 2010/11, which reviewed future options for service delivery and made recommendations to the Audit Committee and previous Cabinet Member. The results of these recommendations led to –
- Two part-time auditors taking early retirement during the year
- A restructure within the Risk & Assurance Service with the integration of the Risk Management and Internal Audit Teams into one Service, under one Manager, with effect from 1st April resulting in the Audit Manager also taking early retirement.

- Discussions taking place with Bristol City Council on forming a local partnership for internal audit services for implementation in 2012 or 2013.

4.10 Overall, the key outcomes from work carried out during the year can be summarised as follows: -

- a) The continuing development and integration of the new Audit & Risk Management software into our methodologies, which is improving the quality of the product, management information and productivity. In addition, the Team are developing links with regional Councils, who also use the same software.
- b) An effective response to the risks associated with fraud & corruption, particularly in the light of the current recession and economic climate.
- c) Being appointed as the “Responsible Officer” (in effect, an Internal Auditor) by 4 new Academies. This has necessitated working in partnership with their externally appointed Auditors.
- d) Enabling 6 schools to achieve the FMSiS standard, before being abolished by the Department for Children, Schools & Families. After the abolition of FMSiS, the Audit Service has received very positive feedback from Headteachers, concerning the positive and innovative way the Service had approached this process. Since the abolition of FMSiS, the Department for Education has been developing a replacement standard for schools. The Audit Service has been well regarded by the Department, around FMSiS, and it was most satisfying when they approached the Service to assist them in their “mini-pilot”, to help assess their new draft proposals.
- e) Working with colleagues within the Finance Service to reconcile the year end Teachers’ Pensions returns to the Teachers’ Pension Department and give assurance to the Council.
- f) Development of working protocols with the Council's External Auditors.
- g) Carrying out Stage 2 Complaint investigations, on behalf of the Council.

4.11 Performance

4.12 The Risk & Assurance Service has adopted a range of Performance Indicators to inform decision making and improve outcomes, both for the service and the Council as a whole.

4.13 The Internal Audit Service has a range of Performance Indicators, which are calculated monthly, quarterly and annually.

4.14 A summary of the Performance Indicators is provided below, showing performance as at 31st March 2011. Numbers 1 to 4 are a reflection on the control environment within the Council. The remainder relate specifically to the performance of the Team.

	Measure	2009/10 Actual	2010/11 Target	2010/11 Actual
1	% of Services which have an excellent, good or adequate internal control framework	83%	80%	82%
2	% of Critical, High & Medium Audit Recommendations implemented by Services	88%	90%	65%
3	% of schools achieving the FMSiS standard during the year	100%	90%	100%
4	% of Council budget where there is no identifiable fraud	99.99%	99%	99.99%
5	% of notional savings when comparing cost of Internal Audit against the Unitary average	9%	3%	6.5%
6	% of Audit Plan Completed	84%	90%	81%
7	% of assignments completed within time allocated	86%	80%	89%
8	% of Services which rate Internal Audit as excellent or good	100%	90%	96%
9	% of queries dealt within 5 working days of being logged	100%	95%	99%
10	% of planned Core Systems reviewed within the Annual Plan	81%	85%	80%
11	% of Final Reports issued within 4 months of start date	91%	80%	92%
12	% of Staff Appraisals completed	100%	100%	100%
13	% of Planned attendance at work	96%	95%	91%

4.15 Service Managers continue to think highly of the Audit Service, as judged by the completed Audit Quality Assurance Questionnaires received at the end of reviews.

4.16 The only disappointing indicator identified above is in relation to the implementation of critical or high risk recommendations. This was raised through the Annual Governance review which is separately reported to this committee and revolves primarily around controls to existing or legacy information systems.

4.17 CIPFA Benchmarking Exercise 2010

4.18 Each year CIPFA through their consulting arm (IPF) carry out national benchmarking studies and Internal Audit have joined this study since it started in 2001. The exercise compares Internal Audit teams over a detailed range of measures as well as sharing best practice and is an invaluable tool in improving the performance of the service.

4.19 The exercise is carried out over financial years and so the results reflect the year 2009/10 and the comparisons are to Unitaries as a whole and to a family or group of reasonably similar Internal Audit teams.

4.20 The results are very detailed and sizeable both in hard copy and electronic form but are available to the members of the Committee outside of the meeting. A brief summary of the headline measures is, however, detailed below (note: these were provided in the December interim report but are provided again for continuity):-

INDICATOR	B&NES (2008/09)	B&NES (2009/10)	UNITARY AVERAGE
Cost Per Chargeable Day	£306	£288	£308
Staff Cost Per Auditor	£37,526	£38,000	£42,541
Overheads Cost Per Auditor	£10,772	£10,778	£13,028
Cost per £M Gross Turnover	£1,207	£1,099	£955
Audit Days per £M Turnover	3.94	3.81	3.19
Productive Days per in-house Auditor	157	169	171

4.21 In general terms the results of this exercise are positive with the team confirming again it is low cost whilst retaining satisfactory levels of productivity.

4.22 A comparison with the indicators from the previous financial year show that whilst the staff and overhead costs per auditor are virtually the same, the trend for the other four indicators show a favourable situation, with costs reducing and productive days increasing.

4.23 As part of the initiative to drive the cost of Audit overheads down, whilst at the same time making the Team more efficient and effective, we are classified as mobile workers. We have exchanged our PC's for laptops whilst reducing the size of our office base.

4.24 Internal Audit Annual Plan 2011/12 (Appendix 3)

4.25 Appendix 3 details a summary version of the Audit Annual Plan for 2011/2012, i.e. only those areas identified for review in 2011/12. The plan is prepared using a number of factors to risk assess which areas merit coverage. The factors used are -

- a) A Risk on the Corporate Risk Register
- b) An improvement Priority within the Corporate Plan
- c) Time since last audit review
- d) Assurance level last audit
- e) Considered as a Core System
- f) Impact of failure on organisation
- g) Size of budget / turnover
- h) Inherent risk (including Service risk register)

4.26 The focus for this year will be on several areas -

- Moving forward with regards the options for the future delivery of the Internal Audit Service. This was the subject of a report to the February 2011 Audit Committee, which recommended that work is sanctioned to investigate a detailed model for a potential audit partnership with Bristol City Council;
- Ensuring a successful implementation of the Service restructure, with the integration of the Internal Audit and Risk Management teams into one Service, with effect from 1st April 2011;
- Improving management information and productivity, through the continued development of the new audit and risk management software and integrating even further a risk based approach to audit work;
- Developing and improving the quality and quantity of Audit work associated with the Avon Pension Fund;

- Improving the approach to Information Management & Technology Risk. This is as a result of the external audit review of the ICT contract during 2009/10;
- Successful completion of the contract work to be carried out on behalf of the new Academies, whilst at the same time identifying further opportunities for work in this area;
- Successful completion of contract work to be carried out on behalf of the new Social Enterprise, whilst at the same time identifying further opportunities for work in this area.

4.27 Comments of the Head of Risk and Assurance

4.28 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.

4.29 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.

4.30 As previously reported to the Committee the long-term future in terms of service delivery for internal audit is now clear and the recent restructure has enabled fresh impetus into all aspects of service delivery. The success or otherwise of discussions with Bristol City Council will therefore be of paramount importance in maintaining progress.

4.31 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.

4.32 The changing horizon with respect to Council Services, i.e. creation of Academies and our new Social Enterprise has created financial pressures but also opportunities and progress in these areas in the next 12 months will continue to be important with for example new approaches to School audits.

4.33 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.

4.31 Accounts and Audit Regulations 2006

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

4.33 Guidance has been sought regarding the basis for this review and how it should be carried out including contact with CIPFA and the DCLG.

4.34 From these enquiries it appears that 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 SIC and 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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Background papers	
Please contact the report author if you need to access this report in an alternative format	