

**REPORT FOR: GOVERNANCE, AUDIT &
RISK MANAGEMENT
COMMITTEE**

Date of Meeting: 28 June 2011

Subject: **INFORMATION REPORT –
Internal Audit Year-End Report
2010/11**

Responsible Officer: Tom Whiting, Assistant Chief Executive

Exempt: Appendix B to the report is an exempt report. This report has been excluded from public inspection under paragraphs 1 and 7 of part 1 of schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to individuals and information relating to actions taken in connection with the prevention, investigation and prosecution of crime).

Enclosures: Appendix A – Internal Audit Year-end Report 2010/11
Appendix B –Irregularity Investigations Report (Exempt)

Section 1 – Summary

This report sets out progress against the 2010/11 Internal Audit plan and key issues arising from work undertaken.

FOR INFORMATION

Section 2 – Report

Background

- 2.1. The Internal Audit Year-end 2010/11 report, Appendix A, covers progress against the internal audit annual work plan and information on suspected financial irregularities is provided in Appendix B.

Overview of Progress

- 2.2. Overall, the Internal Audit team achieved 91% of the annual work plan for 2010/11, which included 100% of the key financial system reviews relied upon by the council's External Auditors. A total of 232 recommendations were made of which 221 (95%) were agreed for implementation meeting the 95% target.
- 2.3 During the year work undertaken by the Internal Audit Team conformed with the section's Terms of Reference and a self-assessment against the CIPFA Code of Practice indicated that the section is complying fully with 89% of the standards and partially with a further 6%. All key service activities identified in the 2010/11 Internal Audit Delivery Plan have been achieved.
- 2.4 The report provides a summary of work undertaken during the year including an overview of each review, details of follow-up work and detailed results of the team's performance indicators showing that all of these were either met or surpassed.

Overall Audit Opinion

- 2.5 This is an interim opinion based on internal audit risk based work and an independent investigation carried out in 2010/11 and will be updated once the core financial systems work for 2010/11 has been completed and the results of the management assurance exercise for 2010/11 are available.

The adequacy and effectiveness of organisation's control environment for the 2010/11 financial year has been assessed as "adequate - good" based on the following:

- 59% of the traffic lighted systems reviewed during 2010/11 were given an amber, an amber/green or a green assurance rating;
- 95% of recommendations made during 2010/11 were agreed for implementation;
- 100% of schools assessed passed the Financial Management Standard in schools within the financial year;
- 58% of recommendations followed-up have been implemented, 39% are in progress or are planned at the time of follow-up thus it is expected that in due course 97% will be implemented. 89% of follow-ups resulted in an improved assurance rating;

- 22 suspected financial irregularities were reported to Internal Audit during 2010/11, the majority of irregularities investigated by Internal Audit were either caused by a break down/lack of control or where fraud was involved this was a contributing factor. In 18 (82%) cases there was no loss or the loss has been recouped (e.g. from banks, insurance or individuals); in 1 (4%) case there was a loss of over £2000 and in 3 (14%) cases work is ongoing to establish whether a loss has occurred and/or the level;
- An investigation was undertaken by PWC and a specialist consultant into capital expenditure on a small number of schools that identified significant weaknesses in the design and operation of system controls in place resulting in an overspend on the agreed capital programme. A considerable amount of work has been undertaken to improve the controls within the systems for financial control and monitoring of capital projects. (A report on this matter is also included on the agenda for this Committee meeting.)

Financial Implications/Internal Audit Resources

- 2.6 The 2010/11 annual audit plan was carried out within the existing Internal Audit budget. 4 of the 9 Internal Audit posts remained vacant throughout the year however recruitment to 2 of these posts is underway and co-sourcing arrangements are being developed to cover the other 2.

Performance Issues

- 2.7 All the Internal Audit performance indicators for 2010/11 have been met or exceeded.

Risk Management Implications

- 2.8 Support for managing risks across the council is the core business of the Internal Audit. The delivery planning process in Internal Audit manages and reflects the key risks facing the service.

Section 3 – Further Information

- 2.9 The next report on the performance of the Internal Audit team will be the 2011/12 Mid-year Report to be submitted to GARM Committee in November 2011.

Section 4 – Financial Implications

- 2.10 There are no financial implications to this report.

Section 5 – Corporate Priorities

2.11 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Name: Julie Alderson



Chief Financial Officer

Date: 08 June 2011

Section 6 - Contact Details and Background Papers

Contact: Susan Dixon, Service Manager, Internal Audit,
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Background Papers: None