

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>14 June 2012</b>
<b>REPORT TITLE</b>	<b>INTERNAL AUDIT – ANNUAL REPORT and OPINION ON THE ADEQUACY OF INTERNAL CONTROL 2011/12</b>
<b>Report of</b>	<b>Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

The purpose of this report is to summarise and inform members of the principal activities of the Internal Audit section of Finance & Audit during 2011/12, by:

- Showing the progress made by the section against the 2011/12 audit plan reviewed by members in April 2011;
- Providing an Opinion on the adequacy of the Council's control environment;
- Outlining any significant findings and the action taken by managers to address the recommendations; and
- Providing a summary of the main issues raised by individual audits.

The report links with the separate report to this Committee on the Effectiveness of the System of Internal Audit, and the three previous quarterly reports for 2011/12 on progress against the audit plan.

**Financial implications:**

None, within existing budgets.

**RECOMMENDATIONS:**

**It is recommended that the Audit Committee note this report and the Chief Internal Auditor's Opinion on the Adequacy of Internal Control.**

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## 1. BACKGROUND

- 1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2011 (Minute reference A.30/10) and cover:

Purpose, Authority and Responsibility;  
Independence;  
Audit Management;  
Scope of Internal Audit's Work;  
Audit Reporting; and  
Audit Committee.

- 1.2 The Audit Strategy was updated for 2011/12 and was approved by the Audit Committee in April 2011 (Minute reference A.39/10 refers) and covers:

Objectives and Outcomes;  
Opinion on Internal Control;  
Local and National Risk Issues;  
Provision of Internal Audit; and  
Resources and Skills.

### Annual Governance Statement (AGS)

- 1.3 As part of the system required to allow the AGS to be signed by the most senior member and officer of the Council, reviewed by the Audit Committee (separate report to the Audit Committee of 17<sup>th</sup> July 2012) and approved by the Council, the head of internal audit must include an opinion of the adequacy and effectiveness of the control environment.
- 1.4 Details of any weaknesses that qualify this opinion and issues relevant to the preparation of the AGS must also be disclosed.
- 1.5 An annual Review of the Effectiveness of the System of Internal Audit must also support this Opinion. The Effectiveness of the System of Internal Audit has been reviewed and reported to this Committee under separate cover. The satisfactory result provides assurance for the Chief Internal Auditor's Opinion.

### ***Chief Internal Auditor's Opinion on the Adequacy of Internal Control***

1. ***The Chief Internal Auditor has concluded that the Council's overall control environment is adequate and effective for the purposes of the 2010/11 Annual Governance Statement.***
2. ***This opinion is based on the work done and opinions as set out in Appendix A, further details of which are included in Appendices B, C, D and E of this report.***
3. Appendix A shows that of 30 reports issued carrying an Opinion: **3** were graded **Excellent**; **20 Good**, **7 Fair** and **0 Poor**.

## 2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2011/12

### Audit Plan 2011/12

- 2.1 The 2011/12 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2011 (A.40/10 refers).

### Local and National Risk Based Amendments to the Plan

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 There was one minor amendment to the 2011/12 audit plan, with an extra 4 days used for shared services work at West Devon (recharged accordingly) instead of the computer audit review of the controls at South Hams for updating the Council's website.
- 2.4 As reflected in the report to this Committee on the effectiveness of the system of internal audit, 96% of the audit plan (including West Devon, 95% South Hams only) has been completed, with Building Control and Asset Management to 2012/13 audit plan (April 2012 Audit Committee).

### Progress Against the Plan

- 2.5 The 2011/12 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.
- 2.6 The reporting of individual high priority recommendations is set out at **Exempt Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.
- 2.7 **Exempt Appendix C** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. This too forms part of the report to the S.151 Officer. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.
- 2.8 **Exempt Appendix D** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

## Non Compliance with Contract or Financial Procedure Rules

- 2.9 There are no significant issues to bring to the attention of the Committee for 2011/12.

## Fraud, Corruption or Bribery

- 2.10 No actual, suspected or allegations of fraud, corruption or bribery have been identified during 2011/12, outside of benefit fraud. The Council informed the Audit Commission in their annual fraud survey that for 2011/12 there were 24 cases of benefit fraud with a total value of £49,731. Four of these cases were prosecuted.

## **3. LEGAL IMPLICATIONS**

- 3.1 Statutory Powers: **Accounts and Audit Regulations 2003, 2006, 2011**

## **4. FINANCIAL IMPLICATIONS**

- 4.1 None, within existing budgets.

## **5. RISK MANAGEMENT**

- 5.1 The risk management implications follow this table :

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2003, 2006, 2011
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
<b>Appendices attached:</b>	<b>Appendix A:</b> Audit Plan 2011/12 – Progress <b>Exempt Appendix B:</b> Planned Audit 2011/12 – Final Reports: Detailed Items <b>Exempt Appendix C:</b> Planned Audit 2011/12 – Summary of Results <b>Exempt Appendix D:</b> Unplanned Audit 2011/12 – Summary of Results

### STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity of Make the Best Use of Scarce Audit Resource	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor places reliance upon the work of internal audit, resulting in no additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Chief Internal Auditor
2	Inappropriate Use of Scarce Audit Resource	The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Chief Internal Auditor on the System of Internal Control.	2	2	4	↔	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.	Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Links with External Audit	The external auditor placing no reliance upon the work of internal audit, resulting in additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	2	2	4	↔	Regular liaison with the external auditor.  Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.  Regular monitoring of progress by the S.151 Officer and the Audit Committee.	Chief Internal Auditor
4	Assurance for the Annual Governance Statement	The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	2	2	4	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee.  Audit approach adheres to the appropriate professional standards.  Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2011/12 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	11	■	■	■	■		■			Summary to Audit Committee - June 2012
Creditor Payments	9	■	■	■	■		■			Summary to Audit Committee - June 2012
Payroll	10	■	■	■	■		■			Summary to Audit Committee - April 2012
Council Tax	12	■	■	■	■			■		Summary to Audit Committee - June 2012
Business Rates (NDR)	10	■	■	■	■			■		Summary to Audit Committee - April 2012
Benefits	20	■	■	■	■		■			Summary to Audit Committee - June 2012
Debtors	9	■	■	■	■		■			Summary to Audit Committee - June 2012
Treasury Management	7	■	■	■	■	■				Summary to Audit Committee - April 2012
Capital Expenditure	8	■	■	■	■		■			Summary to Audit Committee - June 2012
<b>Fundamental Systems</b>	<b>96</b>									
Email Monitoring	4	■	■	■	■	■				Summary to Audit Committee - November 2011
Internet Monitoring	4	■	■	■	■	■				Summary to Audit Committee - November 2011
Computer Audit	26	-	-	-	-	-	-	-	-	See the end of Appendix A.
Car and Boat Parking	9	■	■	■	■			■		Summary to Audit Committee - June 2012
Dartmouth Lower Ferry	9	■	■	■	■		■			Summary to Audit Committee - April 2012
Private Sector Housing Renewal	8	■	■	■	■		■			Summary to Audit Committee - April 2012
National & Performance Indicators incl. Data Quality	5	■	■	■	■		■			Summary to Audit Committee - November 2011
Salcombe Harbour	10	■	■	■	■		■			Summary to Audit Committee - April 2012
Grants - RDPE Rural Community LAGs	60	88 days used	-	-	-	-	-	-	-	244 project claims audited; plus 82 Management & Admin invoices.

## Progress Against the 2011/12 Internal Audit Plan

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Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Follow Up of Previous Year's Audits	10	10 days used	-	-	-	-	-	-	-	See table at Appendix C.
Contingency (Unplanned)	50	52 days used	-	-	-	-	-	-	-	See table at Appendix D.
Corporate Governance	8	■	■	■	■	-	-	-	-	Presented to joint meeting of Audit and Standards Committees – April 2012
Exemptions to Contract or Financial Procedure Rules	4	2.5 days used	-	-	-	-	-	-	-	9 Exemption applications received 2011/12 with 7 approved.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	AGS recommended to the Council for approval following report to the Audit Committee - July 2011. Published September 2011.
Risk Management / Business Continuity	5	■	■	■	■		■			Summary to Audit Committee - June 2012
<i>West Devon Borough Council</i>	85 + 4	89 days used	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee
Dartmouth Town Council	5	■	■	■	■	-	-	-	-	Summary to Audit Committee - September 2011
<b>Other Essential</b>	<b>307</b>									
Elections	8	■	■	■	■		■			Summary to Audit Committee - April 2012
CST/Cash Collection	8	■	■	■	■			■		Summary to Audit Committee - November 2011
Public Conveniences	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Recycling	9	■	■	■	■		■	■		Summary to Audit Committee - September 2011
Leisure Client and Tourism	8	■	■	■	■			■		Summary to Audit Committee - September 2011
Travel and Subsistence	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Building Regulations incl Other Building Control Work	10	-	-	-	-	-	-	-	-	Carried forward to 2012/13.
Employment Estates	8	■	■	■	■			■		Summary to Audit Committee - September 2011
Stores	5	■	■	■	■			■		Summary to Audit Committee - April 2012





