
Report To:	Audit Committee	Date:	23 August 2011
Report By:	Corporate Director Regeneration & Environment	Report No:	AC/28/11/AF/APr
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Subject:	Internal Audit Annual Report And Assurance Statement 2010/2011		

1.0 PURPOSE

1.1 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2010/11, which forms part of the Council's Statement on the System of Internal Financial Control.

2.0 SUMMARY

2.1 The Internal Audit Annual Report 2010/11 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each system reviewed by Internal Audit.

2.2 Two reviews identified the need for a number of control improvements to strengthen the control environment as follows:

- The ongoing management and monitoring of the transfer of community facilities to Inverclyde Leisure. The need for a finalised funding agreement and service specification and associated performance management systems as well as embedding operational risk management processes was identified in order to ensure a robust system of internal control is in place.
- The ongoing development of the new HR/Payroll system. The need for corrective action was identified in relation to issues surrounding the separation of HR/Payroll duties, regular and complete performance of control account reconciliations, alleviating the single person dependency for system administration and the re-introduction of employee existence checks.

2.3 Improvement action is in the process of being implemented for these reviews.

2.4 It is also highlighted that, based on the results of the ongoing audit follow up process during 2010/11, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Audit Committee review and consider the Internal Audit Annual Report and Assurance Statement.

Aubrey Fawcett
Corporate Director Regeneration & Environment

4.0 BACKGROUND

4.1 Government Internal Audit Standards (“GIAS”) require that the Chief Internal Auditor provides a written statement to the Section 95 Officer to support the Statement on the System of Internal Financial Control. This report should present an opinion as to the overall adequacy and effectiveness of the organisation’s internal control environment.

4.2 The report should also:

- Disclose any qualifications to that opinion, together with reasons for the qualification;
- Present a summary of the audit work undertaken to formulate the opinion including reliance placed on the work by other assurance bodies;
- Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control; and
- Compare the work undertaken with work planned.

4.2 The Accounting Code of Practice (“ACOP”) requires that the Section 95 Officer produces a signed Statement on the System of Internal Financial Control as part of the Council’s Annual Report. This report is subject to External Audit scrutiny as part of the year-end audit process.

5.0 IMPLICATIONS

5.1 Legal: None
Finance: None
Personnel: None
Equalities: None

6.0 CONSULTATIONS

6.1 None

7.0 LIST OF BACKGROUND PAPERS

7.1 Internal Audit Annual Report and Assurance Statement 2010/11. By Andi Priestman, Chief Internal Auditor



Internal Audit Annual Report and Assurance Statement 2010/11

30 June 2011

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SECTION 1 – INTRODUCTION

Purpose of this report

- 1.1 Government Internal Audit Standards (“GIAS”) require that the Chief Internal Auditor provides a written statement to the s95 Officer timed to support the Statement on the System of Internal Financial Control. This report constitutes the required statement. As required by GIAS, this report presents the opinion of the overall adequacy and effectiveness of Inverclyde Council’s risk management, control and governance processes, based on the work Internal Audit has performed. The scope of internal audit work, the responsibilities of Internal Audit, and the assurance given on the adequacy and effectiveness of the Internal Control System of Inverclyde Council are explained further in Section IV of this report.

Main objectives of Inverclyde Council’s Internal Audit Team

- 1.2 Internal Audit is an assurance function that primarily provides an independent, objective opinion to the Council on the control environment. The overall objective of Internal Audit is to review, appraise and report on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. A secondary objective is to advise management on improvements in internal control systems.

Scope of Inverclyde Council’s Internal Audit Team

- 1.3 The scope of Internal Audit allows for unrestricted coverage of the Council’s activities and unrestricted access to records and assets deemed necessary by auditors in the course of an audit.

Acknowledgements

- 1.4 The assistance provided by Council staff in the course of the work undertaken by Internal Audit during 2010/2011 is gratefully acknowledged.

SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE

Scope

- 2.1 The work Internal Audit undertook in 2010/11 is summarised in Section 3 of this Report.
- 2.2 The overall assessment arising from work undertaken by Internal Audit during 2010/11 is summarised in paragraphs 2.3 to 2.5 below. In interpreting this assessment, consideration needs to be given to the respective responsibilities of Management and Internal Audit and the related limitations on the assurance that Internal Audit can provide (as explained in Section IV).

Overall assessment

- 2.3 On the basis of Internal Audit work carried out in 2010/11, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls, it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls. Work is continuing in line with Audit Action Plans to improve the arrangements for:-
- The ongoing management and monitoring of the transfer of community facilities to Inverclyde Leisure. The need for a finalised funding agreement and service specification and associated performance management systems as well as embedding operational risk management processes was identified in order to ensure a robust system of internal control is in place.
 - The ongoing development of the new HR/Payroll system. The need for corrective action was identified in relation to issues surrounding the separation of HR/Payroll duties, regular and complete performance of control account reconciliations, alleviating the single person dependency for system administration and the re-introduction of employee existence checks.

Other matters

- 2.4 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2010/11 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in internal audit reports have been obtained. When actioned, the recommendations made in the Internal Audit reports should provide management with additional comfort that the system of control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- 2.5 A monthly follow up process was put in place in January 2008 and continues to operate effectively. All actions arising from internal and external audit reviews are captured within a follow up database and are subject to follow up and validation by the CMT and the Chief Internal Auditor on a regular basis, with reporting on progress to the relevant Audit Committee.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED

Internal audit approach

3.1 The internal audit work has been conducted in accordance with GIAS, the CIPFA Local Government Internal Audit Manual and the agreed annual audit plans.

Progress on the 2010/11 internal audit plan

3.2 The Annual Internal Audit Operational Plan 2010/11 was discussed and agreed with the Audit Committee on 27 April 2010.

3.3 Progress against planned audit work for the year to 31 March 2011 can be summarised as follows:-

Planned audit coverage	Status
Risk Based Reviews	
Freedom of Information Arrangements	Completed
Waste Management	Completed
Building Standards	Completed
Community Learning and Development	Draft Report
Budgetary Control	Draft Report
Workforce Development	Completed
Education Psychology Service	Deferred due to positive HMle report
Limited Scope Finance Reviews	
Non-Domestic Rates	Completed
Housing Benefits	Completed
HR/Payroll Administration	Completed
Business Assurance Reviews	
Procurement Compliance – Pre Contract Stage	Deferred to 11/12 Plan
Arms Length Organisation Reviews	
Inverclyde Leisure Trust	Completed
Riverside Inverclyde	Deferred to 11/12 Plan
Regularity Reviews	
CSA – Education	Completed
CSA – Social Work	Completed
Performance Reviews	
Mailroom Services	Completed
Statutory Performance Indicators	Completed
VFM Study – Council Vehicles	Fieldwork Complete

3.4 The total number of issues raised is set out in the following table:

Report	Red	Amber	Green	Overall Grading
Freedom of Information Arrangements	0	2	6	Satisfactory
Waste Management	0	1	5	Satisfactory
Building Standards	0	1	6	Satisfactory
Non-Domestic Rates	0	2	2	Satisfactory
Housing Benefits	0	0	2	Strong
HR/Payroll Administration	0	8	7	Requires Improvement
ILT – Transfer of Community Facilities	0	13	5	Requires Improvement
CSA – Education	0	1	3	Satisfactory
CSA – Social Work	0	1	3	Satisfactory
Mailroom Services	0	2	3	Strong
Statutory Performance Indicators	0	1	3	Satisfactory
Total	0	32	45	

Progress on Implementation of Action Plans

3.5 A number of action plans were agreed in relation to the reports generated for the 10/11 Audit Plan. The following table sets out the number of actions agreed for each report issued and the status of completion at 30 June as follows:

Report	No of Actions Agreed	No of Actions Complete at 30/6/11	No of Actions Revised at 30/6/11	No of Actions Not Due at 30/6/11
Freedom of Information Arrangements	13	6	1	6
Waste Management	6	6	0	0
Building Standards	7	6	0	1
Non-Domestic Rates	7	7	0	0
Housing Benefits	2	2	0	0
HR/Payroll Administration	17	2	0	15
ILT – Transfer of Community Facilities	55	0	0	55
CSA – Education	6	0	0	6
CSA – Social Work	4	0	0	4
Mailroom Services	5	5	0	0
Statutory Performance Indicators	15	0	0	15
Total	137	34	1	102

3.4 It is encouraging to note that, of the 137 agreed actions subject to follow-up procedures, 33 out of 34 (97%) which were due for completion by 30 June 2011 have now been fully implemented. Management have agreed a revised action date for the one item which was not fully implemented on the original due date. All actions are subject to ongoing follow up by Internal Audit and are included within the Internal Audit action plan follow up reports to the Corporate Management Team and the Audit Committee on a regular basis.

Ad hoc assignments

3.5 Internal Audit undertook the following ad hoc assignments during 2010/11:-

Ad hoc assignment	Status
Audit/Risk Management Input to Scottish Parliamentary Election process	Completed
Co-ordination and drafting of SSIFC for 09/10	Completed
Audit input to HR/Payroll system project.	Completed
Providing input to FOI requests as appropriate.	Completed
Audit input to Information Governance and Management Working Group.	Completed
Audit input to Transactional Shared Services – Future Process Mapping.	Completed
Audit/Risk Management input to Scottish Parliamentary Election process.	Completed
Audit/Risk Management input to Inverclyde Constituency By-Election	Completed
CWSS Grant Claim	Completed

Reliance by external audit

3.6 During the year under review, close liaison has taken place with the Council's External Auditors through joint attendance at the Audit Committee, meetings, ad hoc discussions and the sharing of audit plans and reports. External audit have indicated that they intend to place reliance on specific areas of Internal Audit work for the purposes of their external audit.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE

Approach

- 4.1 In accordance with the GIAS, and in compliance with the CIPFA Local Government Internal Audit Manual, the overall scope of the internal audit work encompasses Inverclyde Council's risk management practices, governance practices and internal controls.
- 4.2 The Annual Audit Plan is based on a formal risk assessment and audit needs assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Internal Audit Annual Audit Plan 2010-11 was discussed and agreed at the Audit Committee on 27 April 2010. In addition, extensive consultation on the content and coverage of the audit plan took place with Corporate Directors, and the Chief Executive.

Responsibility and reporting lines of the Chief Internal Auditor

- 4.3 The Corporate Director Regeneration and Resources has overall management responsibility for Internal Audit in Inverclyde Council, and provides the direct reporting line for the Chief Internal Auditor. The Chief Internal Auditor is responsible for the day-to-day management of the Internal Audit Team and reports directly to the Head of Legal and Democratic Services on administrative issues. The Chief Internal Auditor also has open access to the Chief Executive, Audit Committee and other elected Members as required. The adoption of these arrangements enables the Council's to comply with the reporting line requirements of the International Standard on Auditing ("ISA") (UK and Ireland) 610 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 4.4 The Chief Internal Auditor also has a specific responsibility to the Council's s95 Officer to provide assurances which informs the annual preparation of the Statement of the System of Internal Financial Control for inclusion in the Council's Annual Accounts.

The work of Internal Audit

- 4.5 Internal Audit is an independent appraisal function established by the Council 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.
- 4.6 In accordance with the principles of Corporate Governance, the Chief Internal Auditor reports with independence and impartiality to the Council's Audit Committee on a regular basis. The Chief Internal Auditor prepares an annual report containing a view on the adequacy and effectiveness of the systems of internal controls.
- 4.7 The Internal Audit team operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. Internal Audit undertakes an annual programme of work approved by the Council's Audit Committee. The Strategic Audit Plan is based on a formal risk assessment and audit needs assessment which is revised on an ongoing basis to reflect emerging risks and changes within the Council. The Internal Audit Annual Audit Plan for 2010-11 was discussed and agreed at the Audit Committee on 27 April 2010.

- 4.8 All Internal Audit reports identifying system weaknesses or non-compliance with expected controls are brought to the attention of management and include recommendations for improvement and agreed Action Plans. It is management's responsibility to give proper consideration to Internal Audit reports and take appropriate action on audit recommendations. The Chief Internal Auditor is required to confirm that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and accepted the risks of not taking action. Management progress on implementing significant actions, which have been categorised as Red or Amber, is reported to the Corporate Management Team on a bi-monthly basis, and to the Council's Audit Committee on each committee cycle.

Responsibilities of Management and Internal Audit

- 4.9 It is Management's responsibility to maintain systems of risk management, internal control and governance.
- 4.10 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.
- 4.11 Internal Audit's role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of the internal audit assessment

- 4.12 In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, the assessment on risk management, control and governance is based upon :
- Internal Audit work undertaken by the Internal Audit Team during the year to 31 March 2011 (in accordance with the plan approved by the Audit Committee);
 - The assessments of risk completed during the preparation and updating of the Annual Audit Plan;
 - Reports issued by Audit Scotland, the Council's External Auditors; and
 - Internal Audit's knowledge of the Council's governance, risk management and performance monitoring arrangements.

Limitations on the assurance that Internal Audit can provide

- 4.13 It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of risk management, control and governance are adequate. The most that internal audit can provide to the Corporate Director Improvement and Performance, s95 Officer and Audit Committee is a reasonable assurance based on the work performed.
- 4.14 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of faulty judgment in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- 4.15 Organisations and their internal control needs differ by type, size, culture and management philosophy. One organisation's internal control system may be very different from another's in relation to similar processes. Also, decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.