

Report of the Director of Resources and Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 28th September 2012

Subject: Internal Audit Annual Report 2011/12

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. On behalf of the Corporate Governance and Audit Committee ('the Committee') and the Director of Resources and Deputy Chief Executive, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
2. The terms of reference of the Committee require that it considers the Council's arrangements relating to internal audit. This specifically includes considering the annual report and the opinion on the control environment contained in that report and monitoring the performance of internal audit.
3. The overall conclusion is that Leeds City Council has a sound Corporate Governance framework from which those charged with Governance can gain assurance. Internal Audit has made a number of recommendations to further improve the systems of control but at the time of writing this report there are no outstanding significant issues arising from the work undertaken by Internal Audit. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice.

4. The proposed Internal Audit Operational Plan for 2012/13 is also included as part of this report.

Recommendations

5. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Annual Report 2011/2012 report and note the assurances given.
6. The Corporate Governance and Audit Committee is asked to note the Internal Audit Operational Plan for 2012/13.

1 Purpose of this report

- 1.1 This report brings to the attention of the Committee the basis of the internal audit assurance for 2011/12.
- 1.2 The proposed Internal Audit Operational Plan for 2012/13 is also included as part of this report and has been challenged and agreed by the Director of Resources and Deputy Chief Executive.
- 1.3 By reviewing, challenging and monitoring such reports the Committee itself is demonstrating sound governance arrangements and enabling it to take appropriate action if needed. It should be noted that Internal Audit will also issue interim reports to the Committee if any significant matters arise which would warrant immediate attention.

2 Background information

- 2.1 The Committee has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

3 Main issues

- 3.1 The Code of Practice for Internal Audit in Local Government in the UK 2006 states that the Head of Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control (now the Annual Governance Statement). This report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies. For 2011/12, the opinion is:

The internal control environment, including the key financial systems, is well established and continues to operate well in practice.

At the time of writing this report there are no outstanding significant issues arising from the work undertaken by Internal Audit.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 3.2 The annual opinion is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The report therefore contains a summary of completed jobs along with their individual opinions.
- 3.3 There are no issues identified by Internal Audit in the Annual Report 2011/12 that would necessitate direct intervention by the Corporate Governance & Audit Committee.

- 3.4 KPMG reviewed internal audit's work on key financial systems in 2011/12 and confirmed that it fully met their requirements in terms of timeliness, quality and supporting evidence. KPMG reported that:

“Internal Audit has covered all areas of work that we wished to rely upon to a good standard and we are again able to place full reliance on their work.”

- 3.5 The report also includes the 2012/13 Audit Plan. The Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on assurance and, more recently, business analysis and spending money wisely. The current level of resources available with existing staff levels for productive audit work is 7733 days. This figure assumed that it would be possible to recruit 5 trainee professional auditors to start in quarter 2 and also achieve the challenging income target set in the budget for both business analysis work by the Business Process Re-engineering Team and Internal Audit services. The level of resources required to be seconded or otherwise recharged to directorates for Business Analysis work is 1626 days and the number of days Internal Audit will require to deliver the Experian data matching project and achieve its income target is a further 1240 days. Therefore the estimated level of resources that are available to specifically provide the Head of Audit with the evidence for his opinion on the control environment is 4867 days.
- 3.6 The team has consulted with each directorate asking representatives where they would like internal audit to contribute. This covered areas such as fraud awareness, compliance, system review and spending money wisely ideas. Incorporating the results of this consultation process, key areas of the Plan have been expanded – in the areas of Risk Based Audits, Spending Money Wisely, Compliance and Procurement Contract monitoring. It is proposed that internal audit continues to prepare 3 monthly plans to ensure it is as current and relevant as possible throughout the year.
- 3.7 Progress against the plan will be monitored throughout the year and key issues reported to the Director of Resources and Deputy Chief Executive, the Chief Officer (Financial Management) and the Chief Officer (Audit & Risk.) The Head of Audit will report key issues arising from this work to the Committee in the Quarterly Internal Audit reports.
- 3.8 Internal Audit will continue to undertake a follow up audit on audit reports with limited or no assurance opinions or where the impact has been determined as either 'Major' or 'Moderate' to ensure the revised controls are operating well in practice.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council Policies and City Priorities

4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee.

4.4 Resources and Value for Money

4.4.1 In relation to use of resources and value for money, the Internal Audit work plan includes a number of value for money reviews and a number of initiatives in line with the council's value of spending money wisely.

4.5 Legal Implications, Access to Information and Call In

4.5.1 None.

4.6 Risk Management

4.6.1 The Internal Audit plan is subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

5 Conclusions

5.1 There are no issues identified by Internal Audit in the Annual Report 2011/12 that would necessitate direct intervention by the Corporate Governance & Audit Committee.

6 Recommendations

6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Annual Report 2011/2012 report and note the assurances given.

6.2 The Corporate Governance and Audit Committee is asked to note the Internal Audit Operational Plan for 2012/13.

7 Background documents

7.1 None.