



Title: **Head of Internal Audit's Annual Report 2010/11**

Wards Affected: **All Wards**

To: **Audit Committee** On: **22 June 2011**

Key Decision: **No**

Change to Budget: **No** Change to Policy Framework: **No**

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## **1. What we are trying to achieve**

- 1.1 This report provides an audit opinion on the adequacy of Torbay's internal control environment, summarises the work undertaken by Devon Audit Partnership during 2010/11, and reviews the performance and effectiveness of the Internal Audit service. This report also informs Members of the views of the Head of Internal Audit as to whether there are any matters of concern for Members.
- 1.2 The report forms part of the evidence to allow the Council to prepare its Annual Governance Statement, and provides the opportunity for the organisation to review its processes, controls and objectives and to provide assurance to Members, Senior Officers and stakeholders as to the reliability of its statement of accounts and the probity of its operations.

## **2. Recommendation(s) for decision**

- 2.1 **That the Committee considers the Head of Internal Audit's opinion as set out in Section 9 of the report and determines whether there are any matters requiring to be brought to the attention of the Mayor and Cabinet.**
- 2.2 **That the contents of this report be noted, in particular the adequacy and effectiveness of Torbay Council's system of internal audit for the year ended 31 March 2011.**

## **3. Key points and reasons for recommendations**

- 3.1 The Internal Audit (IA) Service for Torbay Council is a commissioned service delivered by the Devon Audit Partnership.
- 3.2 All local authorities and other relevant bodies subject to the Local Government Act 1972 Section 151 and the Accounts and Audit Regulations 2003 (as amended 2006) must maintain an adequate and effective system of Internal Audit of its accounting records

and of its system of Internal Control in accordance with the proper practices in relation to internal control.

3.3 To satisfy the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom and to enable full consideration of the Annual Governance Statement which is included in the Council's Statement of Accounts, the Head of Internal Audit must provide a written report to those charged with governance which must: -

- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
- Disclose any qualifications to that opinion, together with the reasons for the qualification
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
- Comment on the compliance with the standards contained in the CIPFA Code of Practice on Internal Audit in Local Government in the United Kingdom and communicate the results of the internal audit quality assurance programme

This report is prepared in line with the above requirements and provides the Head of Audit's opinion for the 2010/11 financial year.

3.4 Based on the audit work undertaken throughout the year, irregularity investigations and any other relevant information, our overall opinion is that there is reasonable assurance as to the adequacy and effectiveness of the Authority's internal control environment.

**For more detailed information please refer to the supporting information.**

**Martin Gould**  
**Head of Devon Audit Partnership**

## Supporting Information

### 1 INTRODUCTION

- 1.1 The Audit Committee, under its Terms of Reference contained in Torbay Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.
- 1.2 The Internal Audit plan for 2011/12 has already been presented and approved by Audit Committee on 23rd March 2011. The following report and appendices, therefore, set out the background to audit service provision, reviews work undertaken in 2010/11, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 1.3 The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

### 2 BACKGROUND

#### 2.1 *Service Provision*

- 2.1.1 The Internal Audit (IA) Service for Torbay Council is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000; the Partnership was formed on 1<sup>st</sup> April 2009. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

#### 2.2 *Regulatory Role*

- 2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:
  - **Section 6 of the Accounts and Audit Regulations 2003 (England and Wales) (as amended)** which states that ".....a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control ....."
  - **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.
- 2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including CIPFA's Code of Practice for Internal Audit in Local Government and the Institute of Internal Auditors' Standards and Guidelines.
- 2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

2.2.4 The Internal Audit Strategy sets out how the service will be provided and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the Section.

### **3 OBJECTIVES AND SCOPE**

3.1 The Internal Audit Plan for 2010/11 was submitted to, and agreed by, the Audit Committee on 24<sup>th</sup> March 2010.

3.2 This report now compares the work carried out with the work that was planned; presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements;
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives; and
- a summary of evidence of the quality of internal audit work delivered.

3.3. The Chief Internal Auditor is required to provide the Council with an assurance on the system of internal control of the Council. The opinions provided for each Commissioning area and units within those Commissioning areas have contributed to this overall assurance. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

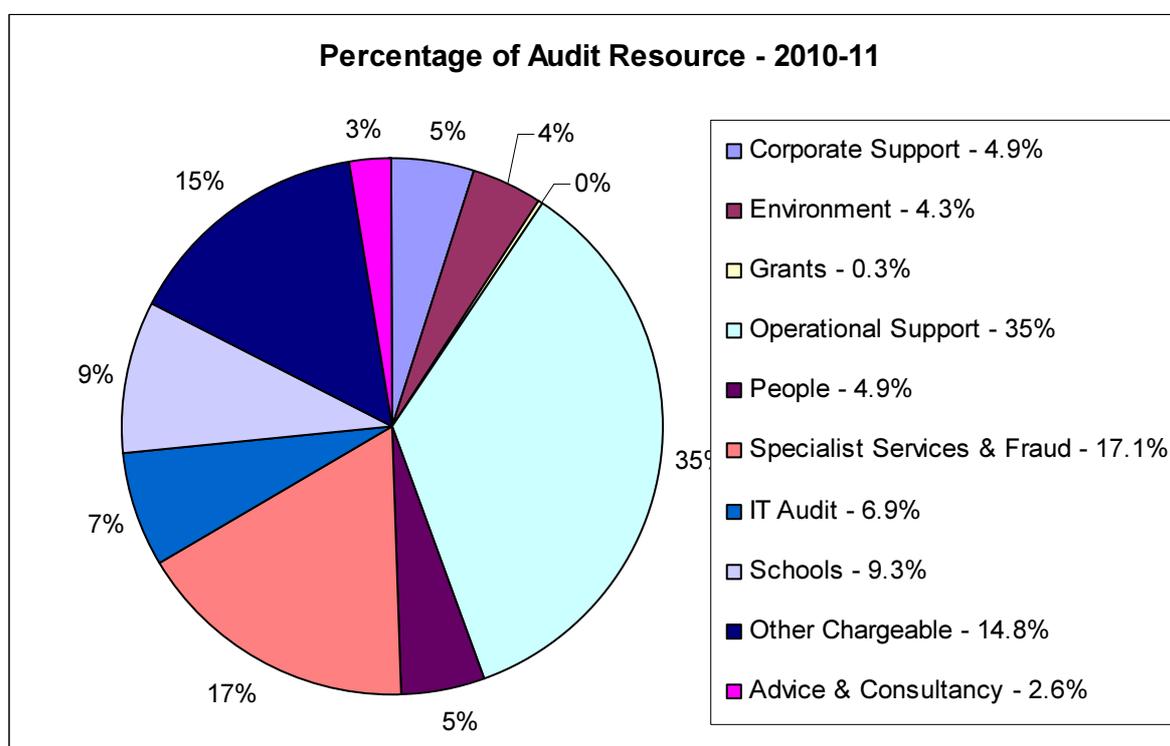
- all audits completed during 2010/11, including those audits carried forward from 2009/10;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

## 4 INTERNAL AUDIT COVERAGE 2010/11

### 4.1 Delivery Against Plan

4.1.1 The pie chart below and Appendix 1 attached shows total actual number of direct audit days in the year ended 31 March 2011, compared with the total number of days planned. There has been some variation between planned and actual days within individual audit assignments as we have adjusted the plan to meet operational needs. Some audits that were originally planned were not completed as the timing was inappropriate for the area under review; a number of projects have therefore been planned for review in 2011/12.

4.1.2 It will be noticed that there was a small shortfall in the total number of audit days provided during the year. When we prepare our plans we make an educated assessment of the number of days that an audit is likely to take. When the fieldwork is actually completed there is inevitably a variance from the planned days. In addition we provide an allowance for work on areas such as fraud and corruption; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review. In such instances we expect that a more senior officer will be able to complete the review in less time than a junior and also the need for managerial review of working papers will be less. In summary, and after taking the above factors into account, we have been able to deliver the plan with less audit days than originally expected.



### 4.2 Operational Support and Corporate Support

4.2.1 In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in these Commissioning areas.

- 4.2.2 Material systems controls have been maintained and improvements have been made to address previously identified weaknesses. However, our IT Audit coverage identified a number of control weaknesses; in general ICT were aware of the issues and are taking action to address them. Our assignment reports highlighted the need to consider the impact, including cost, on the organisation arising from the risk of IT failure in any restructuring activity, and to ensure that IT business continuity plans are established and effective in a shrinking organisation.
- 4.2.3 There have been no significant irregularities brought to our attention for this year, however it should be noted that there were instances of presentation of fraudulent Council cheques. Although concerning, robust controls at the Council and the Council's bankers promptly identified the cheques and there was no loss to the Council. The matter was referred to the Police who concluded that it was a known scam originating from Ghana.
- 4.2.4 National Fraud Initiative (NFI) - Co-ordination of the work associated with the 2010/11 National Fraud Initiative (NFI) exercise has continued. The exercise, which is run every two years by the Audit Commission, requires all councils to provide data for cross-matching with information supplied by other organisations, such as the Department for Works and Pensions and the NHS, to identify potential cases of fraud and error. To date, work on over 600 of the high priority matches has been completed; our work is ongoing.
- 4.2.5 Some audits originally included in the plan for Operational Support and Corporate Support were not undertaken due to the need to resource other audit priorities for the Council, however these areas have been included in the 2011 – 12 plan where appropriate.

### **4.3 People**

- 4.3.1 In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in this Commissioning area. Where weaknesses have been identified and reported upon, recommendations have been made to strengthen controls in those audit areas reviewed.
- 4.3.2 A potential irregularity regarding land sale proceeds from a local school was referred to us. Internal Audit was asked to review compliance with Financial Regulations and communication arrangements. We concluded there was no clear breach of Regulations; however, there was a lack of any formal written agreements and only verbal / e-mail discussions to determine financial values.

### **4.4 Environment**

- 4.4.1 In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in this Commissioning area. Weaknesses were identified in the arrangements for concessionary fares and the TOR2 JVC contract arrangements; recommendations have been made to strengthen controls in these areas.
- 4.4.2 During 2010/11 we continued to support the South West Devon Waste Partnership PFI project as it progressed through Competitive Dialogue. We were able to report to the Project Executive Board that the bids were received and opened in accordance with recognised procedures; that the evaluation process had been carried out in line with the

agreed, published criteria and methodology and the overall scores reported to the Board and Joint Working Committee were correct.

- 4.4.3 The audit of Climate Change found a high standard of control with recognition of the potential impacts of climate change and the willingness to take action are likely to be key drivers for local authorities in the years to come. It is evident that Torbay Council acknowledges this and has produced a comprehensive Climate Change Strategy which acts as a mechanism in identifying the potential impacts of climate change and the actions required for mitigation and adaptation. Behind the scenes, a strong management and reporting structure is in place and the Environmental Policy Team is staffed with a committed team underpinned by a sound knowledge of climate change issues.
- 4.4.4 Some audits originally included in the plan for Environment were not undertaken due to the need to resource other audit priorities for the Council, however these areas have been included in the 2011 – 12 plan where appropriate.

## **4.5 Schools**

- 4.5.1 Our opinion - based on the work to date is that the systems and controls in schools are of a “Good to High Standard” and generally mitigate the risks identified.
- 4.5.2 The two key matters arising from the audits are the:
- demonstrable financing of school improvement plans and;
  - absence of controls in school security.
- 4.5.3 Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.
- 4.5.4 We completed 21 school audits in 2010-11. The requirements to meet the challenges of FMSiS were significant for schools in their first attempt; however the majority of schools met the standard prior to its abolition in November 2010. The FMSiS will be replaced by a simpler standard in September 2011 which will be applicable to all maintained schools but now not independent schools or academies.
- 4.5.5 We have been part of the DfE pilot study on the SFVS which has in general received positive comment from the pilot schools. Comments have been restricted to procedural aspects of its completion and the need for training and support. We have fed back similar comments and the need for LA’s to positively engage with the schools following review of their SFVS self-assessments.
- 4.5.6 Instances of fraud and irregularity have been limited, however each and every case is investigated by Internal Audit and disciplinary action will be taken if required.

## **5. INTERNAL AUDIT PERFORMANCE**

- 5.1. There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI’s:

<b>Local Performance Indicator (LPI)</b>	<b>2010/11</b>	<b>2010/11</b>
	<b>Target</b>	<b>Actual</b>
Percentage of Audit plan Completed (Torbay)	90%	91.5%
Actual Audit Days as percentage of planned (Torbay)	90%	94.9%
Percentage of fundamental / material systems reviewed annually	100%	100%
Percentage of chargeable time	65%	62.2%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	96%
Draft Reports produced within target number of days (currently 15 days)	90%	90%
Final reports produced within target number of days (currently 10 days)	90%	97%
Average level of sickness absence	2%	3%
Percentage of staff turnover	5%	0%
Out-turn within budget	Yes	Yes

5.2 Overall, performance against the indicators has been highly commendable. We have exceeded the targets in respect of percentage of Audit Plan completed and Actual Audit Days as a percentage of Planned. In addition, Customer satisfaction has exceeded the target and in addition specific complimentary correspondence has also been received from our customers. Performance in relation to prompt issuing of final reports has also exceeded targets.

5.3 The customer satisfaction results derive from questionnaires completed after each audit, and the results continue to demonstrate the very high regard placed on the service by all sectors of the Authority.

## **6. REVIEW OF INTERNAL AUDIT BY EXTERNAL AUDIT**

6.1 Internal Audit is obliged under the Accounts and Audit Regulations to meet the standards specified in CIPFA's Code of Practice for Internal Audit in Local Government. These standards set out specific essential requirements of an Internal Audit department which include e.g. independence, staffing and training, planning, recording, performance and effectiveness etc.

6.2 External Auditors use CIPFA standards as a model against which to regularly assess and report on the competency and effectiveness of Internal Audit, to enable them to place reliance on Internal Audit's work as part of the 'managed audit' arrangements.

6.3 The External Auditors have carried out a review of the partnership during 2009/10 and concluded, overall, that "Internal Audit is effective as a management control, and that we can place reliance on specific pieces of work, where that work covers areas relevant to our own Code of Audit Practice." Further review has been completed in 2010/11 and the results are awaited.

## **7 REVIEW OF INTERNAL AUDIT SERVICE 2010/11**

### **7.1. Staffing**

7.1.1 The Devon Audit Partnership structure operated throughout 2010/11 with an approved total establishment of 41.6 FTE. These resources were distributed throughout all clients of the partnership and staff were utilised at more than one client.

## **7.2 Audit Service Quality**

- 7.2.1. The service we provide is designed to ensure compliance with the standards for internal audit published by CIPFA in its Code of Practice for Internal Audit in Local Government in the UK. The latest Code of Practice was published in December 2006, and Devon Audit Partnership's processes continue to comply with the professional standards required.
- 7.2.2. We have comprehensive procedures to ensure that all audits are conducted to the required standard. In particular, the scope of audit and audit brief are approved, before site work commences, by the appropriate Audit Manager, who also reviews each draft and final report before it is issued to ensure that all key controls have been properly evaluated and that adequate audit evidence has been obtained to support the findings.
- 7.2.3. We issue a "client satisfaction survey" form with audit reports, for a confidential response to the Head of the Devon Audit Partnership. The vast majority of those returned have continued to be very positive about the audit service received, the audit report, and the conduct of the audit by our team members, and this is a tribute to their professional conduct of the audits.
- 7.2.4. Based on the responses received, 96% of the responses covering all areas of the audit were "satisfactory" or "very satisfactory", and for a considerable number of audits (36%) every single response was "very satisfactory". The analysis of responses for this year shows that the team has maintained high standards achieved in previous years. This is a very commendable achievement by the team.

## **8 INTERNAL AUDIT OPINION**

- 8.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.
- 8.2 All final audit reports also include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.
- 8.3 Commissioners have been provided with details of Internal Audit's opinion on each audit review carried out in 2010/11 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be included with its published Statement of Accounts for 2010/11.
- 8.4 Overall, and based on work performed during 2010/11, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

## Appendix 1

### Internal Audit Plan 2010/11 Progress Against Plan

#### Comparison of Planned Days to Actual Use of Resources

	Planned Days No.	%	Actual Days No.	%
Corporate Support	65	5	72	4.9
Environment	71	4.2	63	4.3
People	100	10.9	72	4.9
Operational Support	515	30.2	513	35
Grants	3	0.9	4	0.3
Specialist Services and Fraud	311	20.5	250	17.1
IT Audit	150	8.8	101	6.9
Schools	123	7.2	136	9.3
Other chargeable	160	9.4	217	14.8
Advice & Consultancy	50	2.9	38	2.6
Contingency	86		86	
<b>Total Audit Days</b>	<b>1,634</b>	<b>100</b>	<b>1,552</b>	<b>100</b>

**Table of Audit Reviews Undertaken 2010/11 and Assurance Opinion.****Operational and Corporate Support**

Audit Area	Year	Status	Assurance Opinion
LAA	2010/11	Final	Good Standard
H&S	2010/11	Final	Improvements Required
Corporate Governance	2010/11	Not applicable	Support and consultancy during the development of the new Information Security Policy.
Partnerships	2010/11	Not applicable	Follow up audit. All recommendations either implemented or in the process of implementation.
Transformation Agenda	2010/11	Not applicable	Watching brief maintained. Outlined the principle points on the Transformation Programme and the council's approach to programmes and projects in general.
Castle Circus Regeneration	2010/11	Work in Progress	Not applicable
Support Services Project	2010/11	Work in Progress	Not applicable
Commissioning Support	2009/10	Final	Improvements Required
New Burdens	2010/11	Final	Grant Conditions Satisfied
NI 179 Value for Money	2010/11	Not applicable.	The government has abolished NI179.
Pump Priming	2010/11	Final	Grant Conditions Satisfied
Asset Register	2009/10	Final	Good Standard
Bank Reconciliation	2009/10	Final	Good Standard
Benefits	2009/10	Final	Improvements Required
Commercial Rents	2009/10	Final	Improvements Required
Creditors	2009/10	Final	Improvements Required
Debtors	2009/10	Final	Improvements Required
FIMS Sys Admin	2009/10	Final	Good Standard
General Ledger	2009/10	Final	Good Standard
IBS Open Systems	2009/10	Final	Improvements Required
Payroll	2009/10	Final	Improvements Required
POP (electronic ordering)	2009/10	Final	Good Standard

Treasury Management	2009/10	Final	Good Standard
Bank Reconciliation	2010/11	Final	Good Standard
CTAX & NDR	2010/11	Draft	Improvements Required
Debtors	2010/11	Final	Improvements Required
Income Collection	2010/11	Final	Good Standard
Payroll	2010/11	Draft	Improvements Required
POP (electronic ordering)	2010/11	Draft	Good Standard
Treasury Management	2010/11	Final	Good Standard
Main Accounting System	2010/11	In progress	
FIMS Sys Admin	2010/11	In progress	
IBS Sys Admin	2010/11	In progress	
Benefits	2010/11	In progress	
Asset Register	2010/11	In progress	
Creditors	2010/11	In progress	
Active Directory & Exchange	2009/10	Final	Improvements Required
IT Risk Assessment	2009/10	Final	Improvements Required
IT Risk Assessment	2010/11	In progress	N/A
Change Control	2010/11	Final	Improvements Required
E Commerce	2010/11	Draft	Good Standard
IT IS Strategy	2010/11	Report Memo	N/A
ICT Resilience	2010/11	Final	Improvements Required
FIMS Upgrade Project	2010/11	Report Memo	
Internet Controls	2010/11	Final	Improvements Required
PCI Compliance Project	2010/11	Final	Improvements Required

## People

Audit Area	Year	Status	Assurance Opinion
Consultation and Research	2009/10	Final	High Standard
Housing Needs & Homelessness	2009/10	Final	Improvements Required
Housing Standards – Improvement Grants	2009/10	Final	Improvements Required
Pupil Admissions	2009/10	Final	High Standard
Contact Point	2010/11	Final	Certification
PARIS	2010/11	Draft	Good Standard
Permanency Planning	2010/11	Draft	Good Standard
School Organisation & Policy	2010/11	Final	Improvements Required
SIMS	2010/11	Final	Good Standard
Supporting People	2010/11	Draft	High Standard

Contract Audit Kings Ash School	2010/11	Final	Fundamental weaknesses identified
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### Environment

Audit Area	Year	Status	Assurance Opinion
Beach Services	2010/11	Final	Improvements Required
Concessionary Fares	2010/11	Follow Up Audit	Improvements Required
Museums	2010/11	Final	Improvements Required
Contract Audit Torquay Community College	2010/11	Final	Good Standard
Climate Change	2010/11	Final	High Standard
TOR2 JVC – initial review	2010/11	Final	Improvements Required
TOR2 JVC – second review	2010/11	Draft	Improvements Required
Economic Development Company	2010/11	Watching brief	
New Tourism Company	2010/11	Watching brief	
South West Devon Waste Partnership	2010/11	Final	Good Standard

### Schools

School	Year	Status	Assurance Opinion
Upton St James Church of England Primary School	2010/11	Final report issued	Improvements Required
Cockington Community Primary School	2010/11	Final report issued	Good Standard
Galmpton Primary School	2010/11	Final report issued	High Standard
Eden Park Primary school	2010/11	Final report issued	Good Standard
Sherwell Valley Primary School	2010/11	Final report issued	High Standard
Barton Primary School	2010/11	Final report issued	High Standard
Shiphay School and Orchard Nursery	2010/11	Final report issued	Good Standard
Roselands Primary School	2010/11	Final report issued	High Standard