

**MEETING: 27TH JUNE 2011**

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**SUBJECT: INTERNAL AUDIT ANNUAL REPORT – 2010/2011**

**REPORT OF THE HEAD OF INTERNAL AUDIT**

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**1. Purpose of Report**

- 1.1 To consider the performance of Internal Audit for 2010/2011, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

**2. Description of Decision**

- 2.1 The Governance Committee is asked to consider and note the Internal Audit Annual Report.

**3. Key Performance Indicators**

- 3.1 The Internal Audit service measured its performance in terms of Efficiency, Quality, Client Satisfaction and Continuous Improvement. Performance during the year is shown in Appendix 1. Where possible, performance specifically relating to the Authority is included.

- 3.2 All KPI's were achieved with the following exceptions:

- The target for the percentage of audits where the number of days between the start of the audit and the end of fieldwork is within twice the budgeted number of days was 75%. Actual performance for the year was 60%. This is due to two of the five audits completed falling outside of the target.
- Whilst the target of 10 days for the average number of days between the end of fieldwork to issue of the draft report was achieved (8.8 days), a separate target was set to improve upon previous performance (8.3 days). This improvement was not achieved, however given the good level of performance it is considered that continuing to seek improvement in this area is not productive. This measure is no longer a KPI from 2011/12.

**4 Summary of Internal Audit Work**

- 4.1 All of the audits included within the plan for the year were completed. The findings of these audits have been taken together with the findings of audits from the previous two years to form an opinion on each of the identified key financial and non-financial systems and an opinion of the adequacy of the overall system of internal control for the Authority. The detailed analysis of these opinions is provided at Appendix 2.

4.2 As a result of the audits carried out, a number of recommendations have been made to improve internal control. The numbers of recommendations made are shown below:

<b>Categorisation of Risk</b>	<b>Definition</b>	<b>Number Made</b>
High	A fundamental control weakness which presents material risk to the audited body and requires immediate attention by senior management.	0
Significant	There is a control issue which could have a significant impact on the achievement of the aims and objectives of the organisation, or which presents a significant risk to the organisation's reputation. Prompt management action is required to remedy the situation.	0
Medium	There is a control weakness within the system, which presents material risk to the area or service being audited, and management attention is required to remedy the situation within a reasonable period.	37
Low	There is a minor control weakness or non-compliance within the system and proportional remedial action is required within an appropriate timescale.	15

4.3 Although a number of recommendations to improve internal control were made, it is considered that the work undertaken did not identify any matters material to the overall internal control environment of the Authority.

4.4 Internal Audit has also provided support and guidance as requested throughout the year to date.

## **5. Quality Assurance**

5.1 Internal Audit operated a quality system which was certified to ISO 9001:2008. In July 2010 an external assessment was carried out which concluded that standards were being maintained. However, it has been decided that the external assessment no longer serves its purpose as the standards are well embedded in the procedures followed during day to day audit work. The service has therefore withdrawn from the ISO certification standard but will maintain its quality procedures in line with professional standards and undertake internal quality audits to ensure that the standards are upheld.

5.2 Post Audit Questionnaires are issued to clients after every audit to elicit their opinions on a range of areas using a scoring range of 1 (Good) to 4 (Poor) for each area. The number of questionnaires returned during the year from the Authority was 6, with the average score for the overall rating being 1.3 (meeting the IAS target of achieving an average score of less than 1.5). For information purposes the average score across all the service's clients stands at 1.2.

5.3 Within the year Internal Audit also took part in a user satisfaction survey run by the CIPFA benchmarking club. All clients who had received an audit report in the previous year were invited to complete a questionnaire which asked 35 questions covering Audit Services, Audit Staff, Conduct of Audits, Audit Reporting, and Customer Service. The questionnaire also asked for the respondent's overall rating of Internal Audit Services. The key results were as follows:

- In relation to the 35 questions, all except 2 received a performance rating of either excellent or good.
- The overall average rating was Good.
- The overall performance score was the second highest of the 20 authorities which took part in the survey.

## **6. Effectiveness of the System of Internal Audit**

6.1 The Audit Commission have carried out an independent review of the effectiveness of Internal Audit by reference to the CIPFA Code of Practice for Internal Audit. The Audit Commission concluded that the service continues to comply with the relevant standards.

## **7. Conclusions**

7.1 This report provides assurance that all of the planned audit work was completed within the year.

7.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2010/2011, it is considered that overall throughout the Authority there continues to be an adequate internal control environment.

## **Background Papers**

Internal Audit Operational Plan 2010/2011 - Governance Committee 22nd March 2010.

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2010/2011

Cost & Efficiency			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provides Value for Money	1) Charge per Audit Day	1) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	1) Achieved – Sunderland Cost per audit day £282 and average for comparator group £310
	2) Percentage of planned audits completed (including agreed variations)	2) 100%	2) Achieved – all audits completed
	3) Average number of days between end of fieldwork to issue of draft report	3) 10 working days or less	3) Achieved – 8.8 working days
	4) Percentage of draft reports issued within 15 days of the end of fieldwork	4) 85%	4) Achieved - 100%
	5) Percentage of audits where the number of days between the start of the audit and the end of fieldwork is within a target of twice the budgeted number of days	5) 75%	5) Not Achieved – 60%

**Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2010/2011**

<b>Quality</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
1) To maintain an effective system of Quality Assurance	1) ISO9001:2000 Certification	1) Retain certification	1) Achieved - Certification was retained in July 2010 although it has since been decided to withdraw from the scheme due to value gained.
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of high, significant and medium risk recommendations made which are agreed	2) 100%	2) Achieved - 100%
	3) Percentage of agreed high, significant and medium risk recommendations which are implemented	3) 100% for high and significant risk 90% for medium risk	3) No significant risk recommendations to follow up Achieved - Medium risk 91%
	4) Opinion of External Auditor	4) Satisfactory opinion	4) Achieved: Satisfactory opinion
<b>Client Satisfaction</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) Achieved - Overall average score of 1.3 from 6 returns from the Fire and Rescue Authority (score of 1.2 from 47 returns for the whole service)
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) On Target: IPF survey of clients showed overall rating of 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) No complaints. 2 compliments from the Fire Authority

**Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2010/2011**

<b>Continuous Improvement</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing	<p>Improvement in actual performance in relation to previous years in the following areas:</p> <ol style="list-style-type: none"> <li>1) Average number of days between end of fieldwork to issue of draft report</li> <li>2) Percentage of draft reports issued within 15 days of the end of fieldwork</li> <li>3) Percentage of agreed high, significant and medium risk recommendations which are implemented</li> </ol>	Improvement in actual performance from 2009/2010.	<p>Performance in relation to the Fire Authority</p> <ol style="list-style-type: none"> <li>1) Not Achieved Performance 2009/2010 – 8.3 Performance 2010/2011 – 8.8</li> <li>2) Achieved Performance 2009/2010 – 88.9% Performance 2010/2011 - 100%</li> <li>3) Achieved Performance 2009/2010 – 89% for medium risk recommendations. Performance 2010/2011 – 91% for medium risk recommendations</li> </ol>

**Key Financial Systems*****City Council Systems***

System	Audit Findings			Overall Opinion 2010/2011
	Yr 1 2008-09	Yr 2 2009-10	Yr 3 2010-11	
Main Accounting System	Satisfactory	Good	-	Good
Capital Asset Accounting	Satisfactory	-	-	Satisfactory
Treasury Management	-	-	-	Good
Leasing Administration	-	Good	-	Good
Accounts Payable	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Payroll	Good	Satisfactory	Good	Good
Accounts Receivable	-	Good	-	Good

***TWFRA Systems***

System	Audit Findings			Overall Opinion 2010/2011
	Yr 1 2008-09	Yr 2 2009-10	Yr 3 2010-11	
Procurement	-	-	Satisfactory	Satisfactory
Accounts Payable	-	Satisfactory	-	Satisfactory
Payroll	-	Satisfactory	-	Satisfactory
Income	-	Satisfactory	-	Satisfactory
Budgetary Control	Good	Good	-	Good

**Key Non-Financial Systems*****City Council Systems***

System	Audit Findings			Overall Opinion 2010/11
	Yr 1 2008-09	Yr 2 2009-10	Yr 3 2010-11	
Legality	-	Satisfactory	-	Satisfactory

***TWFRA Systems***

System	Audit Findings			Overall Opinion 2010/2011
	Yr 1 2008-09	Yr 2 2009-10	Yr 3 2010-11	
Corporate Governance	Good	-	-	Good
Risk Management	-	Good	-	Good
Integrated Risk Management Plan	-	Good	-	Good
Performance Management	-	Good	-	Good
Information Governance	-	-	Satisfactory	Satisfactory
Asset Management	-	-	Good	Good
Anti Fraud & Corruption Arrangements	Good	-	-	Good
Attendance Management Arrangements	Good	-	-	Good
Recruitment and Selection/Induction Arrangements	-	Satisfactory	-	Satisfactory
Training & Development Arrangements	-	Good	-	Good
Business Continuity/Contingency Planning	Satisfactory	-	-	Satisfactory