

**AUDIT AND ACCOUNTS COMMITTEE UPDATE**

**To:** Cabinet

**Date:** 27<sup>th</sup> September 2011

**From:** Audit and Accounts Committee

**Electoral division(s):** All

**Forward Plan ref:** N/a **Key decision:** No

**Purpose:** To advise Cabinet of two specific areas of concern raised by the Audit and Accounts Committee at its meeting held on 13<sup>th</sup> July 2011.

**Recommendation:** That Cabinet notes the concerns of the Committee.

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## 1. BACKGROUND

- 1.1 Within its terms of reference, the Audit and Accounts Committee is able to report as appropriate to the County Council, Standards Committee or to the Cabinet on issues which require their attention or further action. This report therefore highlights two specific issues raised by the Committee following the presentation of the Annual Report from the Head of Internal Audit.
- 1.2 As a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government 2006, the Head of Internal Audit is required to present an annual report, which, based on the work undertaken in-year:
- Gives the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment, drawing to the Audit and Accounts Committee's attention any issues particularly relevant to the preparation of the Annual Governance Statement;
  - Draws out key themes arising from the work of the Internal Audit service during the 2010/11 financial year; and
  - Compares the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.
- 1.3 At its July meeting, the Audit and Accounts Committee received and considered the Annual Report of the Head of Internal Audit. The Committee noted with concern two specific points, relating to the relatively low implementation rates by management for the agreed Internal Audit recommendations; and the impacts on the adequacy of Internal Audit coverage should there be any potential future reduction in the Audit budget.
- 1.4 The Chairman undertook to ensure that the concerns outlined above, which had been identified by the Committee in the course of its consideration of the findings of the Annual Report and the Head of Audit's Annual Opinion, were brought to the attention of Cabinet.

## 2. MAIN ISSUES

### **Implementation Rates for Internal Audit Recommendations**

- 2.1 As part of the reporting requirements to the Audit and Accounts Committee, the Head of Internal Audit currently reports implementation rates for agreed audit recommendations which are classified as either fundamental or significant on a half yearly basis. For clarity the standard description for fundamental or significant recommendations are as outlined below:

#### *Fundamental (Red) Recommendations*

“Failure to implement the recommendation has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial / reputational loss.

The action is critical to the system of internal control and should be implemented immediately”.

### *Significant (Amber) Recommendations*

“Failure to implement the recommendation may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial / reputational loss.

The action has a significant effect on the system of internal control and should be implemented as a matter of priority”.

- 2.2 The Head of Internal Audit reported that the implementation rates for the recommendations declined in 2010/11 relative to the previous year. Implementation performance by management for recommendations agreed as fundamental was 50% (71% in 2009/10) and 49% (74% in 2009/10) for agreed significant recommendations.
- 2.3 As outlined above, Internal Audit recommendations are made and agreed with management to address fundamental / significant control weaknesses which potentially exposes the organisation to an unacceptable level of risk. These are then subject to formal follow up by Internal Audit to ensure effective and timely implementation. Failure of management to implement these agreed management actions within the agreed timetable exposes the organisation to an unacceptable level of risk.
- 2.4 The implementation performance outlined above is a point of real concern and as a result and with the aim of improving implementation rates, the LGSS Head of Internal Audit has revised the follow up process followed by Internal Audit. The revisions specifically includes a refresh of the follow up approach completed by the Internal Audit team and quarterly rather than half yearly reporting of implementation performance to the Audit and Accounts Committee.
- 2.5 It should however be noted that responsibility for the effective implementation of agreed recommendations rests with management and therefore where performance does not improve the Audit and Accounts Committee will seek justifications from the relevant responsible officer.

### **Potential Future Reduction in the Audit Budget**

- 2.6 As part of the Annual Report, the Head of Internal Audit provided an assessment on the level of audit resources available to deliver an acceptable level of coverage whilst also maintaining its added value contribution to the Authority.
- 2.7 The Committee noted that based on recent benchmarking results, Cambridgeshire’s Audit Service continued to be the smallest team of all Counties participating. Concern was therefore raised that any future potential reduction in the Audit budget would jeopardise the Internal Audit Team’s ability to carry out its responsibilities effectively.
- 2.8 Within the Council, it is the statutory responsibility of the Local Government Shared Services (LGSS) Director of Finance, being the Section 151 Officer, to ensure there

are adequate and effective arrangements for audit in place. The concerns of the Committee have been discussed with the Director, who has given assurances that appropriate resources will continue to be provided to ensure the effective discharge of his statutory responsibilities.

2.9 It should however be noted that following the creation of LGSS, the combined audit team whilst not specifically providing additional available audit days to the Council, LGSS Internal Audit does provide greater resilience in terms of the specialisms within the team. The LGSS Head of Internal Audit therefore has responsibility for directing the pooled resources of the shared team to ensure full and effective coverage is provided to both Cambridgeshire and Northamptonshire County Councils.

### **3. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING**

#### **3.1 Supporting and protecting vulnerable people when they need it most**

There are no significant implications for this priority.

#### **3.2 Helping people live healthy and independent lives in their communities**

There are no significant implications for this priority.

#### **3.3 Developing the local economy for the benefit of all**

There are no significant implications for this priority.

#### **3.4 Ways of working**

No significant implications.

### **4. SIGNIFICANT IMPLICATIONS**

#### **4.1 Resource and Performance Implications**

Implications specifically relating to resources within the Internal Audit function are raised in paragraph 2.6 onwards.

#### **4.2 Statutory, Risk and Legal Implications**

Implications are raised within paragraphs 2.1 and 2.6.

#### **4.3 Equality and Diversity Implications**

No significant implications.

#### **4.4 Engagement and Consultation**

No significant implications.

<b>Source Documents</b>	<b>Location</b>
Cambridgeshire (Internal) Audit Service Annual Report for the Year Ended March 2011.	<a href="#"><u>Link to Annual Report</u></a>