

AUDIT SERVICES ANNUAL REPORT ON INTERNAL CONTROL 2005/06

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SUMMARY: **This report provides Members with assurance and an opinion on the Council's systems of internal control in 2005/06.**

Recommendation: That Members note the report and consider its contribution to the Statement on Internal Control.

1 INTRODUCTION

1.1 The Annual Reporting Process

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. This report is based on the work undertaken by internal audit in 2005/06 and seeks to:

- Provide an opinion on the adequacy of the control environment
- Comment on the nature and extent of significant risk
- Report the incidence of significant control failings or weaknesses

1.2 Requirement for Internal Audit

There is a requirement under the Accounts and Audit Regulations to maintain an adequate and effective system of internal audit of the Council's accounting records and of its system of internal control. In 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) also published a revised Code of Practice for Internal Audit in Local Government in the UK. Standard 9 of the Code requires that the Head of Internal Audit should provide a formal annual report to the organization. The opinion contained in this report will also contribute to the Statement on Internal Control to be approved alongside the Statement of Accounts for 2005/06.

2 REVIEW OF INTERNAL CONTROL

2.1 How Internal Control is Reviewed

Internal Audit adopts a risk-based approach to audit. The risk assessment is carried out at least annually and is updated throughout the year, as audits are carried out or as circumstances change. The risk assessment is used to prioritise work in the audit plan. Factors used in the risk assessment include financial materiality, potential for fraud or theft, findings at the last audit, changes to the system and the time elapsed since the last audit. The range of

audits undertaken during the course of the year supports the overall opinion on the control environment. Details of audits undertaken were reported quarterly to the Audit Sub Group. A summary of the opinion on individual systems arising from the 2005/06 audits is given at Appendix A.

2.2 **Opinion 2005/06**

Based on the work undertaken during the year, Internal Audit has reached the opinion that key systems are operating satisfactorily and there is no fundamental breakdown of controls resulting in material error or discrepancies. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Council's financial affairs. There were initial control weaknesses in respect of the newly implemented Benefits system but these have been addressed.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance. This statement is intended to provide reasonable assurance. It should be read in conjunction with the internal audit report on Corporate Governance 2005/06, which reviews the wider system of internal control.

3. **SIGNIFICANT ISSUES ARISING 2005/06**

The following section provides a summary of the more significant issues that have been identified and reported during the year. This is by exception only.

3.1 **Performance Indicators**

There were significant amendments required to the statutory Performance Indicators collected for 2004/05, before these could be published in 2005/06.

As part of the Corporate Governance Audit in 2004/05, we recommended that there should be independent spot checks to validate performance data submitted in bi-monthly performance reports. However, this recommendation was not agreed, at the time of the audit, due to the Policy Unit's workload. This would help to ensure that errors and omissions were discovered in time to take corrective action.

Internal deadlines for the submission of Performance Indicators to the Policy Unit were not met, causing delays in verifying the information and carrying out quality checks before the statutory deadline.

In 2005/06, the performance reporting process was revised and internal audit agreed to incorporate some spot checks on performance data as part of routine systems audits.

3.2 **Development Control**

Although there was proof on the Development Control files that payments had been made for planning applications, it was impossible to trace these payments to the financial ledger, to ensure that they had all been accounted for, as insufficient details were recorded on the cash receipting system by the cashiers. This has now been addressed.

3.3 **Benefits**

Reconciliations of both the Benefits system to the Council Tax system and the Benefits system to the FMS were not being carried out as at 19/1/06. [This work has now been completed]. At the time of the audit, interim rent payments were not being monitored or followed up. [The Revenues and Benefits Manager has confirmed that this was being done by the end of February 2006]. Unpresented cheques had ceased to be investigated, due to the long term absence of the responsible officer. This was to be restarted. Exception reports were being produced by the Academy system, however, they were not being reviewed at the time of the audit. [This has now been addressed]. Considerable work has been undertaken with the Department of Works and Pensions Performance Team to improve performance in the administration of Benefits.

3.4 **Whitehaven Civic Hall Cash & Banking**

The non-compliance with authorised procedures means that not only had Financial Regulations been breached and cash was at risk but also that employees were putting their own safety at risk. These issues were promptly addressed. [Leisure Services transferred to a Trust in April 2006].

3.5 **Markets**

There were weak procedures relating to cash collected from stall-holders, which also put the personal safety of the Enforcement Officers at risk. [Procedures were subsequently revised].

3.6 **Corporate Governance**

As at April 2006, there were 3 items still to be progressed from the 2004/05 Code of Corporate Governance audit:-

- Performance reports to link performance/outputs with financial budgets/expenditure
- Formalizing the manner in which the Council considers external risks arising at other bodies that could be applicable to this Council
- Formally approving the Communications Strategy

4. **OTHER SIGNIFICANT ISSUES**

4.1 **Organisation Restructure**

During 2004/05, the Council undertook an organization-wide restructure. Assimilation of existing staff continued into June 2005, with some new posts remaining vacant until the third quarter of the year. This caused a delay in implementing outstanding audit recommendations. However, significant progress had been made on implementing recommendations by April 2006.

4.2 **Revenues and Benefits Systems**

The new Council Tax and Benefits software went live in March 2005, in time for the year end procedures, followed by the new National Non Domestic Rates software in June 2005. A new Cash Receipting system also went live on 1

March 2006. Internal Audit monitored the implementation of the new software throughout the year and carried out pre- and post- Go Live checks.

4.3 Transfer of Leisure Services to a Leisure Trust

Prior to the transfer on 1 April 2006, Internal Audit carried out checks on cash and banking at the various Leisure facilities, to ensure that all Leisure income was correctly accounted for.

4.4 Transfer of the Careline Service to the private sector

There was no audit involvement in the transfer of Careline, other than the usual systems audits throughout 2005/06, which would include Careline transactions e.g. Sundry Debtors, Creditor payments, Payroll.

AUDIT PERFORMANCE

4.4 Compliance with the CIPFA Code of Practice for Internal Audit

Following a self-assessment, the external auditor reviewed our compliance with the Code of Practice in 2005. Full details were reported to the Overview and Scrutiny Committee Performance and Resources, on 8 March 2005. At that time, the Internal Audit service at Copeland B.C. fully complied with 83% of the relevant standards and partially complied with a further 15%. An action plan was drawn up to address those areas of non-compliance. During 2005/06, all these actions were implemented to ensure full compliance with the CIPFA Code of Practice.

4.5 Customer Satisfaction

As part of Internal Audit's commitment to ensuring the highest professional standards, and to ensure we are continually improving the quality of work produced, we issued an annual Customer Satisfaction Questionnaire to Management Group. 34 questionnaires were issued. Only 7 were returned, despite issuing a reminder. We assume that if managers had concerns about the internal audit service, they would have taken this opportunity to record this. The detailed results are tabled in Appendix B, with a summary below:-

- 57% felt they were sufficiently consulted on the Audit Plan
- 71% did not require any extra audit services
- 23% rated the standard of audits and reports as excellent
- 57% rated the standard of audits and reports as good
- 67% did not prefer audit services to be provided differently

Where dissatisfaction was expressed it was to comment that more face to face consultation was preferred and for audits to have more emphasis on service and service users' needs. Given the limited audit resources of 4 FTE staff and the requirements that have to be met for the external auditor and the CIPFA Code of Practice for Internal Audit, there is little we can do to develop more operationally-focused audits. The main emphasis to satisfy statutory requirements is on financial and corporate governance controls.

4.6 Performance against the approved Audit Plan 2005/06

A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Sub-Group. Due to staff vacancies, the need to train 2 new recruits and higher than normal sick leave, only 71% of the Audit Plan was achieved, compared to a target of 90%. Time taken for audits also exceeded planned days due to the implementation of 4 new major financial systems in 2005/06. The performance indicators for 2005/06 are shown at Appendix C of the Audit Services Monitoring report for the Fourth Quarter. Actual days carried out against the approved plan are shown on the report presenting the Strategic Audit Plan.

List of Appendices:

Appendix A – Opinion on controls of individual systems 2005/06

Appendix B – Results of Internal Audit Customer Satisfaction Questionnaire 2005/06

List of Background Documents: Audit system files

Officers Consulted: Corporate Team

**SUMMARY OF THE OPINION ON INDIVIDUAL SYSTEMS AUDITED
2005/06**

BUDGETARY PROCESS & BUDGETARY CONTROL

OVERALL AUDIT OPINION	EXCELLENT
CONTROL DESIGN	EXCELLENT
CONTROL EFFECTIVENESS	EXCELLENT
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	LOW

PFI PAYMENTS [New offices]

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

CASH RECEIPTING

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	MEDIUM*
RISK EXPOSURE IMPACT	HIGH

* Risk Exposure is higher than it would normally be due to the fact that cash taken occasionally exceeds the insured value of cash held in the current safes. Risk also temporarily increased with the introduction of a new cash receipting system on 1 March 2005.

MEMBERS ALLOWANCES

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	EXCELLENT
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE	LOW

FINAL ACCOUNTS PROCESS

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE PROBABILITY IMPACT	LOW LOW

CAPITAL ACCOUNTING PROCESS

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE PROBABILITY IMPACT	LOW MEDIUM

BEST VALUE MANAGEMENT SYSTEM

	B.V. REVIEWS AND PERFORMANCE PLANS	PERFORMANCE INDICATORS
OVERALL AUDIT OPINION	GOOD	WEAK
CONTROL DESIGN	EXCELLENT	GOOD
CONTROL EFFECTIVENESS	GOOD	WEAK
RISK EXPOSURE PROBABILITY IMPACT	LOW LOW	MEDIUM MEDIUM

DEVELOPMENT CONTROL

	PROCESSING OF APPLICATIONS	AUDIT TRAIL RE FEES PAID
OVERALL AUDIT OPINION	GOOD	WEAK
CONTROL DESIGN	GOOD	GOOD
CONTROL EFFECTIVENESS	GOOD	WEAK
RISK EXPOSURE PROBABILITY IMPACT	LOW LOW	MEDIUM MEDIUM

MAIN ACCOUNTING SYSTEM

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

LOANS & INVESTMENTS

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	LOW (HIGH IMPACT)

BEACON MUSEUM COLLECTION

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	EXCELLENT
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	MEDIUM (HIGH IMPACT)

COUNCIL TAX

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	LOW (MEDIUM IMPACT)

TELEPHONES & MOBILES

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	WEAK
RISK EXPOSURE	MEDIUM (MEDIUM IMPACT)

NATIONAL NON DOMESTIC RATES (NNDR)

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	MEDIUM (HIGH IMPACT)

CREDITOR PAYMENTS

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

SUNDRY DEBTORS

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	MEDIUM MEDIUM

WAGES

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH*

* Impact increased to High, following the transfer of Salaries to the Sage Wages system in November 2005.

SALARIES [System discontinued Nov. 2005]

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

CLEATOR MOOR BOWLS CENTRE

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW LOW

BEACON TIC CASH & BANKING

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW LOW

SWIMMING POOL CASH & BANKING

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	MEDIUM LOW

SPORTS CENTRE CASH & BANKING

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW LOW

STORES [Landscape management & Pest control]

OVERALL AUDIT OPINION	WEAK
CONTROL DESIGN	WEAK
CONTROL EFFECTIVENESS	WEAK
RISK EXPOSURE PROBABILITY IMPACT	MEDIUM LOW [Low value]

BENEFITS

OVERALL AUDIT OPINION	WEAK
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	WEAK
RISK EXPOSURE (IMPACT)	MEDIUM

WHITEHAVEN CIVIC HALL CASH & BANKING

OVERALL AUDIT OPINION	WEAK
CONTROL DESIGN	WEAK
CONTROL EFFECTIVENESS	WEAK
RISK EXPOSURE PROBABILITY IMPACT [Low value but personal safety also at risk]	HIGH HIGH

MARKETS

OVERALL AUDIT OPINION	WEAK
CONTROL DESIGN	WEAK
CONTROL EFFECTIVENESS	WEAK
RISK EXPOSURE PROBABILITY IMPACT [Low value but personal safety also at risk]	HIGH HIGH

RESULTS OF CUSTOMER SATISFACTION QUESTIONNAIRE

QUESTIONNAIRES ISSUED/RETURNED

Issued	34	
Returned	7	21%

SECTION 1 – THE AUDIT PLAN

Annually, we revise the Audit Plan, timetabling our planned activities. The questions in this first section refer to that plan.

Q1. Do you feel that you are sufficiently consulted on the Audit Plan?

YES	NO	TOTAL
4	3	7
57%	43%	

- Would like more face to face discussion
- Not aware able to affect timings
- Do not remember being consulted about what time of year the audit would take place, only the number of days

Q2. If yes, are your comments/suggestions taken on board and incorporated into the final Audit Plan?

YES	NO	TOTAL
4		4
100%		

Comments:

- Generally, where applicable.

Q3. Are there any services you would like Audit to provide for you?

YES	NO	TOTAL
2	5	7
29%	71%	

Comments:

- No, other than current services provided
- No, all areas are audited
- I think it would be helpful if Audit could underpin their activities with a presumption to delayer systems to the essential core requirements and focus on delivering customer results.

SECTION 2 – THE SERVICES OFFERED BY AUDIT

Q4. Table 1. Services that Audit currently provide.

Audit Service	(a) – those services that you are aware we offer.		(b) – those services that you have contact with us about.		(c) – those services that you would like to have a higher level of contact with us over.	
	Yes	No	Yes	No	Yes	No
Systems Audits eg. Council Tax	7	0	4	3	1	5
Regularity Audits eg. Cash & Banking	7	0	3	3	1	5
Value for Money Audits eg. Pest Control	7	3	2	4	1	5
Quality Audits – can be offered	3	3	1	5	2	4
Contract Audits eg. Project Management	5	2	2	4	0	6
Computer Audits eg. Security	6	1	2	4	0	6
Investigations	5	2	2	4	1	5
Reports to Audit Sub-Group	6	1	2	4	1	5
Advice	5	2	3	4	1	5
Totals	51	14	21	35	8	46
	79%	21%	38%	62%	15%	85%

SECTION 3 – AUDIT PLANNING AND REPORTS

Q5. Table 2. Rating of Audits and Audit Reports

	Please rate the following:	Excellent	Good	Adequate	Poor
a	General The overall usefulness of the audits we do	1	5	1	
b	Audit Planning The appropriateness of the scope and objectives of the Audits we do	1	3	3	
c	The usefulness of initial discussions		4	1	
1d	Quality of the Report Fair presentation of findings	1	6		
e	Usefulness of recommendations	1	4	2	
f	Clarity	2	5		
g	Timing Timelines of audit report		3	3	
h	Communication Consultation of findings	2	3		1
i	General helpfulness of audit staff	3	4		
j	The responsiveness of Audit of Manager's/Members needs	4	1	1	1
	Total	15	38	11	2
		23%	57%	17%	3%

Total responses : 66 out of a possible 70 [2 sections not rated by 2 responses]

Comments:

- Excellent service - timing marked down not due to factors within Audit's control.
- Timing not always as planned
- Particularly welcomed flexibility over timing of Payroll audits in 2005/06
- Consultation on findings rated poor – 1 particular recommendation didn't detail the other options considered.
- Responsiveness of Audit to Managers' needs rated poor – more operational audits wanted.
- Adequate scores given ... because I do think Audit needs to move to a new level of helping the Council meet the challenges it faces in the future.

SECTION 4 – OTHER INFORMATION AND ADVICE PROVIDED BY AUDIT

Audit provide other information, in addition to audit reports, in support of the services as listed in Table 1 above. We also provide advice and answer ad hoc queries as required.

Q6. Do you obtain the information you require?

ALWAYS	MOSTLY	SOMETIMES	NEVER	TOTAL
5	1			6
83%	17%			

Q7. Do you obtain the information you require on a timely basis?

ALWAYS	MOSTLY	SOMETIMES	NEVER	TOTAL
4	2			6
66.6%	33.3%			

Q8. How would you rate the information in terms of meeting your needs?

EXCELLENT	GOOD	ADEQUATE	POOR	TOTAL
1	4	1		6
17%	66%	17%		

[1 response had never used audit for ad hoc queries / advice]

SECTION 5 – GENERAL

Q9. How do you rate Audit Services, as a whole, in terms of providing Value for Money?

EXCELLENT	GOOD	ADEQUATE	POOR	TOTAL
1	3	2	1	7
14%	43%	29%	14%	

Comments:

- Audit are a blockage in the value chain – EFQM Quality Model.
- Central Establishment Costs are rising across the board as the Council outsources more, to the extent they are becoming anomalous
- The service provided is thorough and it feels as though the Council is safeguarded

Q10. Would you prefer Audit Services to be provided differently?

YES	NO	TOTAL
2	4	6
33%	67%	

[1 response: "Don't mind"]

Comments:

- We have a good audit unit capable of delivering the service
- Audit team are a committed service, though tend to work in a silo. Audit need to improve communication, demonstrate audit themselves are providing value for money – liaising more closely with service providers to better understand service needs and service priorities, to ensure the value chain is demonstrating joined up thinking and providing a culture for quality management.
- It is the focus or emphasis of Audit's work I would like to see changed to become a little more holistic.
- Would like audit at a time that suits ... when we have three large system audits it would be better to spread them out over the year. However, it was accepted this year that, due to the implementation of the new Academy system, these would be delayed.
- I am relatively new to the experience of Audit but have found the Audit team helpful and willing to assist rather than hinder my area of Business.
- Although there are advantages to having auditors with a lot of corporate knowledge, Audit can be provided in other ways, which could be considered.

SECTION 6 – ADDITIONAL COMMENTS

- Would be nice to have a constant level of staffing.
- Although 10 days have been allocated to BVPI audit, I hope that Internal Audit will be able to flag up performance system issues that they come across as part of their other audit work.