

**AUDIT SERVICES ANNUAL REPORT ON INTERNAL CONTROL 2010/11**

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**SUMMARY:** This report provides Members with assurance and an opinion on the Council's systems of internal control in 2010/11.

<b>Recommendation:</b> That Members note the report and consider its contribution to the Annual Governance Statement.
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## **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 2010/11 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 (England) 2011, SI 2011 No 817, to maintain an adequate and effective system of internal audit of the Council's accounting records and of its system of internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 (Standard 10) requires that the Head of Internal Audit should provide a formal annual report to the organization, to support the Annual Governance Statement to be approved.

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### 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 or staffing 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 Committee. A summary of the opinion on individual systems arising from the 2010/11 audits is given at Appendix A.

#### 2.2 Opinion 2010/11

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.

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 2010/11 which reviews the wider system of internal control.

### 3. SIGNIFICANT ISSUES ARISING 2010/11

**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 Partnership Working System Controls

Governance arrangements and the cost/benefit evaluation of partnerships had previously been identified as an area for improvement. We found that the task group set up to address this had not made significant progress, due to other pressures. This remains a potential risk. Work is due to be concluded on the review by June 2011.

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**4. OTHER SIGNIFICANT ISSUES**

4.1 There were no other significant issues identified.

**5. AUDIT PERFORMANCE**

**5.1 Compliance with the CIPFA Code of Practice for Internal Audit**

The latest triennial review of Internal Audit by the Audit Commission was reported in September 2009. They concluded that, overall, Internal Audit complied with the Code of Practice. All recommendations for further improvement were implemented. A self-assessment, in February 2011, reviewed our compliance with the CIPFA Code of Practice. Full details are reported separately, as part of the report on the Effectiveness of the System of Internal Audit.

**5.2 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 and to team leaders whose areas had been audited in 2010/11. Only 11 questionnaires were returned (26%). [Note: This response represents 30% of those who have had areas actually audited in 2010/11]. We also issued a Management Satisfaction Questionnaire covering the quality of the audit, at the end of each audit undertaken. These generated a 58% response (18 returned). We assume that if managers had concerns about the internal audit service, they would have taken this opportunity to record this. [Managers are given the opportunity to send back their completed questionnaires anonymously]. The feedback from both types of questionnaire has been combined, where survey questions were the same. A summary is given below:-

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	Trend (%)
• 11 felt they were sufficiently consulted on the Audit Plan	↑ (100%)
• 2 would like extra audit services [7 would not] [2 no response]	↑ (18%)
• 5 rated audit services as providing excellent value for money	↑ (46%)
• 4 rated audit services as providing good value for money	↓ (36%)
• 8 did not prefer audit services to be provided differently [3 no response – previous year all responded]	↓ (73%)
• 18 rated the overall usefulness of audits as excellent, 10 good [1 no response] [Combined questionnaire results]	↑ 97%
• 22 rated the general helpfulness of audit staff as excellent, 7 good [Combined questionnaire results]	= (100%)
• 10 rated the responsiveness of audit to managers' needs as excellent, 1 good	↑ (100%)

This largely shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is related to wanting more audit coverage – 2 respondents would like extra audit services. Given the limited audit resources of 2 FTE staff (there was 1 post vacant) plus the manager and the requirements that have to be met for the external auditor and the CIPFA Code of Practice for Internal Audit, there was little we could do to develop more operationally-focused audits. The main emphasis is on financial and corporate governance controls.

**5.3 Performance against the approved Audit Plan 2010/11**

A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Committee, together with the audits that have had to be deferred. We achieved 87% of planned audit work for the financial year, compared to the target of 90%. There was some slippage due to the vacant post. No non-audit work was undertaken in the year. Details of the audits which had to be deferred until the 2011/12 Audit Plan are shown at Appendix C to the report on the Effectiveness of Internal Audit (also on this agenda). The impact of the slippage on the control environment was minimal.

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**List of Appendices:**

Appendix A – Opinion on controls of individual systems 2010/11

**List of Background Documents:** None

**Consultees:** Corporate Leadership Team

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**APPENDIX A  
SUMMARY OF THE OPINION ON INDIVIDUAL SYSTEMS AUDITED  
2010/11**

**Sickness Absence Management 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Recruitment Procedures 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Capital Accounting 2010/11 [2009/10 Accounts]**

<b>OVERALL AUDIT OPINION</b>	<b>GOOD</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	MEDIUM

**Final Accounts Process 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>GOOD</b>
CONTROL DESIGN	EXCELLENT
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE PROBABILITY	LOW
RISK EX POSURE IMPACT	HIGH

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**Development Control 2010/11**

	<b>PROCESSING OF APPLICATIONS</b>	<b>HANDLING OF FEES</b>
<b>OVERALL AUDIT OPINION</b>	<b>GOOD</b>	<b>GOOD</b>
CONTROL DESIGN	GOOD	GOOD
CONTROL EFFECTIVENESS	GOOD	GOOD
(SECURE ACCESS TO SYSTEM)	WEAK	
RISK EXPOSURE PROBABILITY	LOW	MEDIUM
RISK EXPOSURE IMPACT	LOW	MEDIUM

**Council Tax 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Benefits 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	MEDIUM
RISK EXPOSURE IMPACT	HIGH

**National Non Domestic Rates [NNDR] 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

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**Car Parks Income 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Loans & Investments 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Procurement 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Creditors 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

**Payroll 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

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**Information Security 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY re IT responsibilities WEAK re corporate ownership of Information Asset Owners</b>
CONTROL DESIGN CONTROL EFFECTIVENESS	SATISFACTORY SATISFACTORY re IT responsibilities WEAK re corporate ownership of Information Asset Owners
RISK EXPOSURE Probability Impact	LOW HIGH

**Cash Receipting 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>GOOD</b>
CONTROL DESIGN CONTROL EFFECTIVENESS RISK EXPOSURE - Probability RISK EXPOSURE - Impact	GOOD GOOD LOW HIGH

**Main Accounting System 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN CONTROL EFFECTIVENESS RISK EXPOSURE - Probability RISK EXPOSURE - Impact	GOOD SATISFACTORY LOW HIGH

**Sundry Debtors 2010/11**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN CONTROL EFFECTIVENESS RISK EXPOSURE - Probability RISK EXPOSURE - Impact	GOOD SATISFACTORY LOW HIGH

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**Members Travel Claims**

<b>OVERALL AUDIT OPINION</b>	<b>WEAK at the time of audit SATISFACTORY as at February 2011, when all recommendations had been implemented</b>
CONTROL DESIGN CONTROL EFFECTIVENESS RISK EXPOSURE - Probability RISK EXPOSURE - Impact	WEAK WEAK LOW MEDIUM

**Improvement Grants**

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN CONTROL EFFECTIVENESS RISK EXPOSURE - Probability RISK EXPOSURE – Impact	SATISFACTORY SATISFACTORY LOW MEDIUM

**Budget Process & Budget Monitoring**

<b>OVERALL AUDIT OPINION</b>	<b>GOOD</b>
CONTROL DESIGN CONTROL EFFECTIVENESS RISK EXPOSURE PROBABILITY RISK EXPOSURE IMPACT	GOOD GOOD LOW MEDIUM

**IT Systems Development –  
Customer Relationship Management (CRM) & Self Service Project**

<b>OVERALL AUDIT OPINION</b>	<b>WEAK</b>
CONTROL DESIGN  CONTROL EFFECTIVENESS RISK EXPOSURE PROBABILITY RISK EXPOSURE IMPACT	GOOD  WEAK LOW MEDIUM

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CORPORATE GOVERNANCE 2010/11

<b>OVERALL AUDIT OPINION</b>	<b>SATISFACTORY</b>
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	MEDIUM
RISK EXPOSURE IMPACT	HIGH