

AUDIT SERVICES ANNUAL REPORT ON INTERNAL CONTROL 2004/05

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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 2004/05 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 2003 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 2004/05.

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 are reported quarterly to the Audit Sub Group. A summary of the opinion on individual systems arising from the 2004/05 audits is given at Appendix A.

2.2 Opinion 2004/05

Based on the work undertaken during the year, Internal Audit has reached the opinion that key systems are operating effectively 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 2004/05, which reviews the wider system of internal control.

3. SIGNIFICANT ISSUES ARISING 2004/05

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 omissions in the collection of performance data collected for 2003/04, for publication in 2004/05, due to an error made by the company who conducted the General Satisfaction Survey and the fact that the Housing Satisfaction Survey was not carried out.

As part of the Corporate Governance Audit 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 being met, causing delays in verifying the information and carrying out quality checks before the statutory deadline.

As at April 2005, reporting frequencies and making support available to services was now under review, with a view to revising processes and approach.

3.2 Cash Receipting

There were concerns raised in the new cash office, in the Copeland Centre, that increase the operational risks involved for the security and health and safety of the cashiers. The Council's insurers reported the issues to be addressed within a given time period. All issues had to be addressed by the end of June 2005.

3.3 Sundry Debtors

Some departments were continuing to raise debts with insufficient evidence to enable recovery if this became necessary. There was still considerable scope for improving the promptness of recovery action. Decentralised employees

inputting Sundry Debtors invoices were often not aware of Data Protection issues.

3.4 Wages

There was a potential breach of the Working Time Regulations, as there was an inconsistent approach to the treatment of holiday pay for casual workers. This issue had been addressed by April 2005. There was also a delay of several months before Personnel carried out an independent check of rates on the payroll following the pay rise.

3.5 Salaries

The password controls needed to be amended as there was no “view only” facility.

3.6 PFI Payments [new offices]

Systems were in place to check payments were in line with contractual obligations. However, as at December 2004, there had been no deductions from monthly payments in respect of specified failures by the facilities management provider. This was still in process.

3.7 Corporate Governance

A follow up, in March 2005, of the action plan arising from the 2003/04 Code of Corporate Governance audit, reported the following agreed actions as outstanding:-

- Customer Service Standards to be approved and adopted corporately
- Performance reports to link performance/outputs with financial budgets/expenditure
- Employee Code of Conduct to be updated
- Protocols and codes of conduct to ensure that the implications for supporting community political leadership for the whole Council to be updated
- Corporate Risk Register to be reviewed and updated quarterly
- Corporate Risk Register to include details of action taken and progress being made to address risks
- Operational Risks to be documented
- To formalize the manner in which the Council considers external risks arising at other bodies that could be applicable to this Council

4. OTHER SIGNIFICANT ISSUES

4.1 Organisation Restructure

During 2004/05, the Council undertook an organization-wide restructure. Pending approval of the second phase of the restructure in March 2005, vacant posts could not be filled on a permanent basis.

Recruitment of Heads of Service, together with vacancies lower down the structure, has impacted on the implementation of audit recommendations – particularly those relating to Corporate Governance. [See 3.7 above]. Assimilation of existing staff continued into April, with the objective of all posts being filled by June 2005. Internal Audit will continue to monitor the implementation of outstanding audit recommendations on a quarterly basis.

4.2 Revenues and Benefits System

2004/05 saw a major Change Programme in the Revenues and Benefits service, including the implementation of new integrated Revenues and Benefits software and a document imaging / workflow system. The new Revenues and Benefits software went live in March 2005, in time for the year end procedures. 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 Housing Stock and the Building Division

Prior to the transfer in June 2004, Internal Audit carried out checks on key systems which would feed into the Statement of Accounts for 2004/05. This included Rents, Salaries and Wages.

4.4 Move to new Offices

There was a minimum of disruption to financial systems following the office move in September 2004. Internal Audit tested all key systems, except Loans and Investments and Council Tax, following the move. Reconciliations of the Council Tax database were, however, checked prior to Go Live of the new system in March 2005.

5. AUDIT PERFORMANCE

5.1 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. Full details were reported to the Overview and Scrutiny Committee Performance and Resources, on 8 March 2005. The following table provides a summary of compliance with the CIPFA Code of Practice:-

Extent of Compliance	No. of Standards	Percentage of applicable total
Fully compliant	86	83%
Partially compliant	16	15%
Not compliant	2	2%
Not applicable [e.g. outsourced work]	2	-
Total	106	100%

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 has been drawn up to address those areas of non-compliance.

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 a Customer Satisfaction Questionnaire in the final quarter of the financial year. 33 questionnaires were issued. Despite reminders, only 10 were returned. The detailed results are tabled in Appendix B, with a summary below:-

- 70% did not require any extra audit services
- 38% rated the standard of audits and reports as excellent
- 50% rated the standard of audits and reports as good

On the whole, given the limited audit resources of 3.5 staff, Internal Audit appears to be meeting managers' requirements. [The assumption is that, if this had not been the case, more managers would have been motivated to respond].

One manager did comment that more in-depth audit coverage would be preferred but the limitations of audit resources were recognized. We will address this by providing more in depth coverage over a 5 year cycle, in addition to the annual testing of key system controls.

5.3 Performance against the approved Audit Plan 2004/05

A detailed review of audit activities is given in the quarterly monitoring reports submitted to the Audit Sub-Group. Despite a staff vacancy and 3 cases of long-term sickness, 88% of the Audit Plan was achieved. Due to a delay in going live with the new Revenues and Benefits system, we were also able to bring forward some work scheduled for 2005/06. The performance indicators for 2004/05 are shown at Appendix C. Actual days carried out against the approved plan are shown on the report presenting the Strategic Audit Plan.

6. Overview and Scrutiny

The Audit sub-group of the Overview and Scrutiny Committee for Performance and Resources noted the statement on Internal Control and made the following observations:

- That further investigation be carried out by the full Committee into the issue of performance monitoring at 3.1 above.
- That there was insufficient priority being given to audit recommendations, particularly in respect to 3.3 above, given that only 1 employee had attended the specially organised data protection training.
- That disappointment be noted at the poor response to the questionnaire.

Their comments were fed back through to both the full Overview and Scrutiny Committee and to Corporate Team.

7 Recommendation to Council

That the Annual Report on Internal Control be noted.

List of Appendices:

Appendix A – Opinion on controls of individual systems 2004/05

Appendix B – Results of Internal Audit Customer Satisfaction Questionnaire 2004/05

Appendix C – Audit performance indicators 2004/054

List of Background Documents:

Audit system files

Officers Consulted:

Corporate Team

SUMMARY OF THE OPINION ON INDIVIDUAL SYSTEMS AUDITED 2004/05

RENTS

OVERALL AUDIT OPINION	Good
CONTROL DESIGN	Good
CONTROL EFFECTIVENESS	Good
RISK EXPOSURE	Low

LOANS & INVESTMENTS

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

ACQUISITION OF IT HARDWARE / SOFTWARE

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

COUNCIL TAX

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

PERFORMANCE INDICATORS

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

NATIONAL NON DOMESTIC RATES (NNDR)

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

CASH RECEIPTING

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

- Risk Exposure is higher than it would normally be at present due to the security arrangements in the Cash office in the Copeland Centre. Once these are improved the risk level will be reviewed.

CREDITOR PAYMENTS

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY but WEAK re payment within statutory target
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	MEDIUM

SUNDRY DEBTORS

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY re prompt issuing of debtors and reminders WEAK re evidence of debt and recovery
RISK EXPOSURE PROBABILITY IMPACT	MEDIUM MEDIUM

BENEFITS

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

WAGES

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY re processing and payment of salaries
	WEAK re password control re compliance with EC directive
RISK EXPOSURE PROBABILITY IMPACT	MEDIUM MEDIUM

SALARIES

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY re processing and payment of salaries
	WEAK re password control
RISK EXPOSURE PROBABILITY IMPACT	LOW MEDIUM

PFI PAYMENTS [New offices]

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY Re authorization of payments in line with schedule WEAK re scope for deductions
RISK EXPOSURE PROBABILITY IMPACT	LOW MEDIUM

BUDGETARY PROCESS & BUDGETARY CONTROL

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

MAIN ACCOUNTING SYSTEM

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

APPENDIX B

RESULTS OF CUSTOMER SATISFACTION QUESTIONNAIRE

QUESTIONNAIRES ISSUED/RETURNED

Issued	33	
Returned	10	30%

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
10	0	10
100%		

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

YES	NO	TOTAL
8	1	9
89%	11%	

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

YES	NO	TOTAL
3	7	10
30%	70%	

If Yes:

- Systems audits/advice on our external partnership programmes, in house financial arrangements (ie are they being followed), housing grants programme, cash arrangements with remote offices.
- A consultancy type service.
- Continued value for money audits.
- Check the BVPI's quarterly before they are submitted to the DWP.
- Computer systems audits and broader audits of controls, reconciliation and internal checks.

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.	
	Y	N	Y	N	Y	N
Systems Audits eg. Council Tax	8		7		1	
Regularity Audits eg. Cash & Banking	9		4		1	
Value for Money Audits eg. Pest Control	7		4			
Quality Audits – can be offered	6		3		1	
Contract Audits eg. Project Management	8	1	4			
Computer Audits eg. Security	7		3		1	
Investigations	9		6		1	
Reports to Audit Sub-Group	5	1	3			
Advice	8		9			
Totals	67	2	43		5	
	74%	2%	48%		6%	

SECTION 3 – AUDIT PLANNING AND REPORTS

Q5. Table 2. Rating of Audits and Audit Reports

	Please rate the following:	Excellent	Good	Adequate	Poor
a	<u>General</u> The overall usefulness of the audits we do	3	5	2	
b	<u>Audit Planning</u> The appropriateness of the scope and objectives of the Audits we do	3	4	2	1 Prefer more in-depth coverage
c	The usefulness of initial discussions	3	6	1	
d	<u>Quality of the Report</u> Fair presentation of findings	4	6		
e	Usefulness of recommendations	3	4	3	
f	Clarity	4	6		
g	<u>Timing</u> Timelines of audit report	4	4	2	
h	<u>Communication</u> Consultation of findings	4	6		
i	General helpfulness of audit staff	6	4		
j	The responsiveness of Audit to Manager's / Members needs	4	5	1	
	Total	38	50	11	1
		38%	50%	11%	1%

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	5			10
50%	50%			

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

ALWAYS	MOSTLY	SOMETIMES	NEVER	TOTAL
7	3			10
70%	30%			

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

EXCELLENT	GOOD	ADEQUATE	POOR	TOTAL
3	7			10
30%	70%			

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
4	4			8
50%	50%			

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

YES	NO	TOTAL
2	5	7
28%	72%	

AUDIT PERFORMANCE INDICATORS – 2004/05

Indicator Audit Services:	2003/04		2004/05 Target	Key Objective Ref.	2004/05 Actual to Date
	Target	Actual			MARCH
% of monthly audit plan completed	90%	87%	90%		88% *
Direct audit time as a % of total time	68%	66%	68%		51% ***
% of 12 fundamental systems audited against plan	100%	100%	100%		100%
% of other systems audited against plan	70%	76%	70%		64% **
% of follow ups issued against plan	90%	96%	90%		96%

- * Slippage due to amount of non audit work, substantial additional work on the follow up for the Beacon establishment audit, 2 cases of sickness in August and September (39 days) & 1 in January (13.5 days) and time spent preparing for the office move (33 days).

Non audit work assisting other sections: 34.5 days (Accountancy), 8 days (Beacon/TIC stocktake), 3.5 days (Exchequer), 10.25 days (Careline Debtors), 17.75 days (Procurement Strategy) and 7.75 Post Opening Supervision (Finance).

Additional work brought forward from 05/06, that was not planned for, accounted for 57.5 days as follows; Telephones & Mobiles (15.25 days), Development Control (20.5 days), Beacon Museum Collection (8 days), Members Allowances (6.75 days), Landscape Management Stores (7 days).

- ** 9 of the 14 non-fundamental audits planned were completed by 31/03/05.

1 delayed due to relevant manager (Capital Accounting system then completed by external audit), 1 unable to do due to computer system problem (Weekly Incentive Benefits Scheme) and 1 left for responsive grant claim work due to changes in requirements from Audit Commission. 1 was delayed due to the delay in the new Revenues and Benefits system going live. The remaining 1 was the VFM on Procurement and was issued in draft form in March. The final report will be issued in April.

- *** Direct audit time was down due to 52 days of the Fixed Term Audit Assistant being seconded to Accountancy, the level of non-audit work in the first quarter, preparations for the office move and to the level of sick leave.