

## AUDIT SERVICES ANNUAL REPORT ON INTERNAL CONTROL 2007/08

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**SUMMARY:** This report provides Members with assurance and an opinion on the Council's systems of internal control in 2007/08.

<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 2007/08 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. 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 alongside the Statement of Accounts for 2007/08.

### 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 2007/08 audits is given at Appendix A.

## **2.2 Opinion 2007/08**

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 2007/08, which reviews the wider system of internal control.

## **3. SIGNIFICANT ISSUES ARISING 2007/08**

**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 Business Continuity**

Further work was undertaken by individual departments in 2007/08 to support the basic Corporate Business Continuity Plan and a Business Continuity exercise took place on 28 March 2008. This identified gaps in planning which need to be addressed in 2008/09. Each service needs to have a business continuity plan which addresses loss of staff; loss of premises; loss of ICT facilities (computer systems, communications); or a combination of the above.

### **3.2 Implementation of Outstanding Audit Recommendations**

In the first half of 2007/08, the implementation of audit recommendations was slowed down by competing priorities and the failure to recruit staff for some posts. However, by the second half of the year, significant progress had been made on the implementation of some long-standing recommendations. Progress continues to be made and is reported to the Audit Committee on a quarterly basis.

## **4. OTHER SIGNIFICANT ISSUES**

### **4.1 Closure of the Council's Cash Offices and the introduction of Alternative Payment Methods.**

In December 2007, the Council phased in a card payment system (Allpay) to enable customers to make payments at pay points throughout the Borough, in preparation for the closure of the Council's own cash offices at the end of March 2008. Internal Audit undertook a check of transactions made through this method and verified that transactions were correctly accounted for. Measures were in place to deal with cash payments for all types of services from 31 March 2008.

## 5. AUDIT PERFORMANCE

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

A self-assessment, copied to the external auditor, reviewed our compliance with the new Code of Practice issued in December 2006. Full details are reported separately on this agenda, as part of the report on the Effectiveness of Internal Audit. The main issue related to maintaining adequate staff resources to achieve the planned audit coverage. Despite a staff vacancy for 5 months, work on all the main financial systems was completed and the audit of corporate governance arrangements was undertaken in April 2008. Actions have been identified to address the minor issues in Appendix B of the report on the Effectiveness 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 2007/08. Only 11 questionnaires 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. A summary is given below:-

- |   | <u>Trend</u> |
|---|--------------|
| • 10 felt they were sufficiently consulted on the Audit Plan [1 no response]                  | ↑            |
| • 2 would like extra audit services [1 no response]   | =            |
| • 4 rated the overall usefulness of audits as excellent, 5 good [2 no response]               | ↑            |
| • 8 rated the general helpfulness of audit staff as excellent, 1 good [2 no response]         | ↑            |
| • 8 rated the responsiveness of audit to managers' needs as excellent, 1 good [2 no response] | ↑            |
| • 8 did not prefer audit services to be provided differently [3 no response]                  | ↑            |
| • 4 rated audit services as providing excellent value for money                               | ↑            |
| • 4 rated audit services as providing good value for money [1 adequate; 2 no response]        | ↑            |

This 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 3 FTE staff, plus the manager who is also responsible for the Fraud section, 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 is on financial and corporate governance controls.

### **5.3 Performance against the approved Audit Plan 2007/08**

A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Committee. 1 full time post was vacant for 5 months. Also, annual audits on 3 of the main financial systems exceeded the allocated time, due to these being new software systems implemented in April 2007. This meant that only 68% of the Audit Plan was achieved, compared to a target of 90%. Further details are given at Appendix A of the report on the Effectiveness of Internal Audit, reported separately on this agenda. 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 2007/08

**List of Background Documents:** None

**Officers Consulted:** Corporate Team

**SUMMARY OF THE OPINION ON INDIVIDUAL SYSTEMS AUDITED  
2007/08**

**BUDGET PROCESS 06/07 [07/08 AUDIT REPORT]**

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

**NNDR3 GRANT CLAIM 06/07 [07/08 AUDIT REPORT]**

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

**FINAL ACCOUNTS PROCESS 06/07 [07/08 AUDIT REPORT]**

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

## FINANCIAL MANAGEMENT OF IT

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

## ECONOMIC DEVELOPMENT ADMINISTRATION OF GRANT CLAIMS

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

## CAPITAL ACCOUNTING

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

## ENFORCEMENT

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

**COUNCIL TAX**

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

**CONTRACT MANAGEMENT (PUBLIC BUILDINGS)**

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

**LOANS & INVESTMENTS**

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

### BENEFITS

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

### CASH RECEIPTING

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

### PAYROLL

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



### CREDITORS

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

### NATIONAL NON-DOMESTIC RATES (NNDR)

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

### SUNDRY DEBTORS

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

**BUDGET PROCESS 07/08**

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

**MAIN ACCOUNTING SYSTEM**

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