

AUDIT SERVICES ANNUAL REPORT ON INTERNAL CONTROL 2009/10

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SUMMARY: This report provides Members with assurance and an opinion on the Council's systems of internal control in 2009/10.

Recommendation: That Members note the report and consider its contribution to the Annual Governance Statement.

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 2009/10 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 2006 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 2009/10.

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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 2009/10 audits is given at Appendix A.

2.2 Opinion 2009/10

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. Actions are now in place to improve the control system for Capital Grant Claims and for governance arrangements in relation to Partnership Arrangements.

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 2009/10, which reviews the wider system of internal control.

3. SIGNIFICANT ISSUES ARISING 2009/10

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

Business Continuity Plans are now in place for key services. Arrangements for loss of IT and loss of key staff were tested in practice during 2009/10 and were found to be satisfactory. However, arrangements for loss of premises have not yet been tested.

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3.2 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 during 2009/10, due to other pressures. This remains a potential risk.

3.3 Capital Grant Claims

External funding can provide material amounts to fund the capital programme. Whilst some progress had been made in improving monitoring of the capital programme, work on implementing a grants protocol and procedures was still outstanding as at March 2010, due to capacity issues. This would now be implemented in 2010/11. Until this is in place, there is a risk of loss of grant funding.

4. OTHER SIGNIFICANT ISSUES

4.1 Sickness levels continued to exceed corporate targets. This will impact on capacity to deliver key objectives and to implement outstanding audit recommendations.

4.2 The revised Medium Term Financial Strategy has identified that savings of £1.4m are needed to address the projected budget deficit for 2011/12 and an estimated £2.8m savings in total are needed over a 3 year period. This needs to be achieved without reducing the effectiveness of the internal control environment.

5. AUDIT PERFORMANCE

5.1 Compliance with the CIPFA Code of Practice for Internal Audit

In September 2009, the Audit Commission reported on their triennial review of Internal Audit, based on arrangements in place for 2008/09. They concluded that, overall, Internal Audit complied with the Code of Practice. All recommendations for further improvement were implemented. A self-assessment, in April 2010, reviewed our compliance with the CIPFA Code of Practice. Full details are reported separately on this agenda, as part of the report on the Effectiveness of the System of Internal Audit. The main issue related to agreeing an updated Protocol and having regular meetings with the external auditor. [Changeover of Audit Commission personnel delayed this in 2009/10].

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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 2009/10. Only 8 questionnaires were returned (16%). [Note: This response represents 40% of those who have had areas actually audited in 2009/10]. From October 2009, we also issued a Management Satisfaction Questionnaire covering the quality of the audit, at the end of each audit undertaken. These generated a 25% response (9 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:-

	Trend (%)
• 7 felt they were sufficiently consulted on the Audit Plan [1 no response]	↑ (88%)
• 3 would like extra audit services [5 would not]	↓ (38%)
• 3 rated audit services as providing excellent value for money	↑ (38%)
• 5 rated audit services as providing good value for money	↑ (62%)
• 8 did not prefer audit services to be provided differently	↑ (100%)
• 11 rated the general helpfulness of audit staff as excellent, 6 good [Combined questionnaire results]	↑ (100%)
• 9 rated the responsiveness of audit to managers' needs as excellent, 7 good [Combined questionnaire results]	↑ (94%)

This largely shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is related to wanting more audit coverage – 3 respondents would like extra audit services. Given the limited audit resources of 3 FTE staff, plus the manager who was 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.

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5.3 Performance against the approved Audit Plan 2009/10

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 83% of planned audit work for the financial year, compared to the target of 90%. There was some slippage due to the use of agency staff to cover 1 vacant post since October 2009 and also due to some audits overrunning the estimated days in the plan. No non-audit work was undertaken in the year. The following audits had to be deferred:-

- Development Control
[new software implementation was delayed. Audit to be completed in 1st quarter 2010/11]
- Asset Management
[Revised Asset Management Plan not yet available for audit]
- Information Systems / ICT Strategy
[Bought in computer auditor – report to be completed]
- Parks & Open Spaces – Nursery / Control of Stock
[Low priority audit, included in Plan at request of Manager]

Work on the Corporate Governance 2009/10 audit was undertaken in April 2010.

The impact of the slippage on the control environment was, therefore, minimal.

List of Appendices:

Appendix A – Opinion on controls of individual systems 2009/10

List of Background Documents: None

Officers Consulted: Corporate Team

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APPENDIX A
SUMMARY OF THE OPINION ON INDIVIDUAL SYSTEMS AUDITED
2009/10

Capital Accounting [2008/09 Accounts]

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

Final Accounts [2008/09 Accounts]

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

Elections Administration

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

Concessionary Travel

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

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Council Tax

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

Benefits

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

Cash Receipting

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

Payroll

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

Sundry Debtors

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

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Main Accounting System

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

National Non Domestic Rates (NNDR)

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

Loans & Investments

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

Marketplace Purchasing System

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

Creditors

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

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Building Control

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

Improvement Grants

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

Budget Process

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

Leased Transport

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

Capital Contract Management

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

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Capital Grant Claims

OVERALL AUDIT OPINION	WEAK
CONTROL DESIGN	WEAK
CONTROL EFFECTIVENESS	WEAK
RISK EXPOSURE PROBABILITY	MEDIUM
RISK EXPOSURE IMPACT	MEDIUM

Partnership Working System Controls

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

Corporate Governance

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

Business Continuity

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