

# AUDIT COMMITTEE

## Internal Audit Annual Report and Assurance Statement 2008/09

30 June 2009

### Report of Internal Audit Manager

#### PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2008/09 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

**This report is public**

#### RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.13 to 2.22) be accepted and considered in relation to the proposed Annual Governance Statement (presented elsewhere on this agenda).

#### 1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). The Code of Practice for Internal Audit<sup>1</sup> specifies that the Head of Internal Audit must "... provide a written report to those charged with governance timed to support the Statement on Internal Control". The report and assurance statement thus makes a significant contribution to the Council's statutory duty to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

#### 2.0 Proposal Details

- 2.1 Internal Audit is established as a section of Financial Services, reporting functionally to the Head of Financial Services. Professionally, it operates to standards set out in the CIPFA Code of Practice for Internal Audit and operates and reports in accordance with an approved Audit Charter.

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<sup>1</sup> Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)

## Annual Audit Plan 2008/09

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2008/09 was based on the provision of 870 days of Internal Audit work. In terms of Assurance Work, the plan provided for 520 days work and the production of from 35 to 45 audit reports and assurance opinions.
- 2.3 The detailed outturn position at 31<sup>st</sup> March 2009 is attached as Appendix A with a summary of the final position for the year being set out in the following table. Please note that in the printed agenda, the appendices will be in black and white, but may be viewed in colour on computer screens.

Area of work	Resources (audit days)			Outputs (audit reports & opinions)	
	Planned	Actual	Variance	Planned	Actual
Core Financial Systems	100	28	-72	8-10 reports	8 reports
Core Management Arrangements	125	127	+2	8-10 reports	5 reports
Risk Based Assurance Audits	250	284	+34	19-25 reports	14 reports
Follow-Up Reviews	45	67	+22		
<b>Sub-Total, Assurance Work</b>	<b>520</b>	<b>506</b>	<b>-14</b>	<b>35-45 reports</b>	<b>27 reports</b>
Advice & Support Work	105	145	+40		
Efficiency & VfM	100	0	-100		
Investigations	35	76	+41		
Audit Management	60	77	+17		
Non Audit Duties	10	90	+80		
General Contingency	40	0	-40		
<b>Total Chargeable Days</b>	<b>870</b>	<b>894</b>	<b>+24</b>		
Non-Chargeable Activities (note 1)	146	148	+2		
<b>Total Available Days</b>	<b>1,016</b>	<b>1,042</b>	<b>+26</b>		

*Note 1 Non-chargeable activities include team meetings, section and service management, general administration, EDPA, regional audit group meetings, etc.*

- 2.4 Twenty-seven new audit reports produced during the year have been taken into account in informing the assurance opinion given later in this report. This total falls short of the range targeted for the year but has been seriously affected towards the end of the year by the demand for investigative work.

### Explanation of Major Variances

- 2.5 As can be seen from the table, the total number of available days has been exceeded by 26 days, this being a combination of:
- 10 days (2 days per person) being lost through strike action;
  - 7 days of annual leave not taken during the year (these have been carried forward to 2009/10);
  - Sickness levels being lower than provided for (the section had an average of 2.2 days per person); this provided an additional 8 days availability;
  - "Other" absences being 6 days less than provided for (this covers authorised absences such as election duties, compassionate leave, etc)

- Training days being 6 fewer than provided for (staff received an average of 5 days training).
- Unpaid overtime providing an additional 7 days

This extra availability has translated into an additional 24 days of chargeable work being delivered, although there have been some significant variations across the areas in the plan. Changes in demand for Internal Audit work have been managed so as to ensure that an acceptable level of assurance work is delivered. Significant changes in the range of work undertaken have resulted from:

- Investigations arising in the final quarter, diverting resources from planned assurance work
- Under “Support Work”, the major piece of work being undertaken by the Principal Auditor in the mapping and evaluation of the Council’s significant partnerships. This required 41 days work during the year and is continuing during 2009/10.
- Under “Non Audit Duties”, the direct involvement of the Internal Audit Manager in the Fair Pay project in undertaking the pay modelling process. This role, which is ongoing, required 74 days work which was not included in the original plan.
- Fair Pay has also required the most resource demanding piece of assurance work, accounting for 55 days during 2008/09. This work will also continue whilst the Fair Pay project is running.
- No work being undertaken on “Efficiency and VfM”. This was mainly due to the above mentioned demands, being perceived as a lesser priority during 2008/09 than the mainstream assurance work programme.

2.6 In terms of reports produced, the table indicates that, although the level of resources devoted to assurance work is only slightly below plan, the number of reports produced is more adrift. At the 31<sup>st</sup> March 2009, 27 reports had been completed compared with the target of between 35 and 45. It should be noted that there were 17 audits in progress at that date which will culminate in an audit report. Progress on many of these audits has suffered as a result of the demand for investigations work, which is still ongoing.

### **Quality Considerations**

2.7 Customer satisfaction with Internal Audit work is judged through managers’ responses to a post-audit satisfaction survey sent out following the completion of each assignment. The questionnaire seeks views, expressed as scores on a range from 1 to 9, on sixteen aspects of the audit, covering aspects of communication and consultation, conduct, objectivity, reporting and impact of the work. Summary results from questionnaires returned over the past 24 months are demonstrated in the chart in Appendix B.

2.8 The summary represents the average scores obtained from 33 returned surveys. Against a target level of 8 for all aspects of the audit, only two have not been met (albeit marginally), these being questions 15 and 16 relating to risk management outcomes from the audit. In both instances, the average score has improved marginally from last year. The second page of Appendix B details the below target responses received regarding these two questions. It can be seen that the most significant responses contributing to the lower score were those relating to audits of NNDR, Cultural Services Webstaff Payments, and Marketing & Promotions (circled in red on the report). A comment added to the response on the latter of these stated *“We were already reasonably aware of risks following a similar audit a couple of years ago”*. This is an audit planning issue which has been addressed by improving consultation with Service Heads in developing audit plans.





- 2.9 As in previous years, lower than average scores have again been recorded against a number of financial systems audits. This may be explained by the fact that these systems are relatively stable and not subject to significant changes in risks.

### **Review of the Effectiveness of Internal Audit**

- 2.10 The Account & Audit Regulations 2003 (as amended in 2006) require the Council to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review is included within the report on the annual review of governance elsewhere on this agenda.

### **Results of Assurance Work**

- 2.11 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

<b>Level of assurance</b>	<b>Image</b>	<b>Definition</b>
Substantial		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Reasonable		The Authority can place reasonable (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.12 The Table in Appendix C sets out the assurance opinions issued from audits and follow-up reviews completed since 31<sup>st</sup> March 2008, and any subsequent changes in assurance level.

### **Controls Assurance Statement**

- 2.13 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist.
- 2.14 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix C. The following table summarises the assurance opinions covered in the appendix, based on the most recent review.

<b>Assurance Level (at most recent review)</b>	<b>No of Audits</b>
Substantial	1
Reasonable	28
Limited	8
Minimal	0

- 2.15 The results demonstrate that procedures for following up audits (focusing on those not having achieved a reasonable assurance level) and reporting progress to Audit Committee are continuing to operate effectively.

### **Financial Systems**

- 2.16 Assurance levels on the Council's key financial systems are consistently good, with all audits included in Appendix C with the exception of "Income Management – Housing Rents Direct Debit Payments", "Income Management – Cultural Services Webstaff" and of Payroll having resulted in a "reasonable" assurance level.
- 2.17 Issues relating to Housing Rents Direct Debits are concerned with the inability of the current Rents system to transfer information to the General Ledger, and the consequent need for an inefficient and error-prone system of manual intervention. This issue is under ongoing review and will continue to be reported to the Audit Committee.
- 2.18 In the case of Cultural Services' Webstaff system, agreed actions relating to the recording of customers' credit card information had been implemented, but at the time of the follow-up review it was found that there had been a procedural breakdown resulting in an error being made. This failure has been readdressed and will be reviewed again by Internal Audit.
- 2.19 As regards Payroll, outstanding issues at the time of the most recent update (March 2009) centred around a planned review of personnel policies and procedures and the planned procurement of an integrated HR and Payroll system. These are long-term actions for which progress will be reported to the Audit Committee.
- 2.20 With these exceptions, it can be taken that effective internal controls exist to ensure the accuracy and integrity of the information that the key financial systems provide and no significant control weaknesses have been identified.

### **Governance Arrangements**

- 2.21 Audits of Risk Management, Performance Management, Business Continuity Planning and Partnership Arrangements resulted in a "reasonable" assurance opinion. A "limited" assurance opinion resulted from the audit of "Procurement and Contract Management". In this area, a wide ranging programme of action is being pursued in support of the revised corporate procurement strategy. All of these areas are key elements of the Council's governance arrangements and the main messages arising from the audits have been incorporated in the governance review and Annual Governance Statement.

### **Other Audits**

- 2.22 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council's Annual Governance Statement. Where any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

### 3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report.

### 4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee accepts Internal Audit's assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

### 5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2008/09 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating a significant level input and contribution to the development of a number of key systems and processes.

#### **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

This report has no direct impact on these areas.

#### **FINANCIAL IMPLICATIONS**

None arising from this report.

#### **SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has been consulted and has no further comments.

#### **LEGAL IMPLICATIONS**

None arising from this report

#### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

#### **BACKGROUND PAPERS**

Internal Audit Plan 2008/09  
Internal Audit Files

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