

AUDIT COMMITTEE

Internal Audit Annual Report and Assurance Statement 2009/10

30 June 2010

Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2009/10 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 2.10 to 2.20) 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 Audit¹ 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.

¹ *Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)*

Annual Audit Plan 2009/10

- 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 2009/10 was based on the provision of 880 days of Internal Audit work divided evenly between assurance work (440 days) and other audit activity (440 days).
- 2.3 The detailed outturn position at 31st 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)		
	Planned	Actual	Variance
Core Financial Systems	90	85	-5
Core Management Arrangements	75	57	-18
Risk Based Assurance Audits	225	164	-61
Follow-Up Reviews	50	91	+41
Sub-Total, Assurance Work	440	397	-43
Advice & Support Work	105	153	+48
Efficiency & VfM	50	8	-42
Investigations	125	240	+115
Audit Management	60	70	+10
Non Audit Duties	60	30	-30
General Contingency	40	0	-40
Total Chargeable Days	880	898	+18
Non-Chargeable Activities (note 1)	122	125	+3
Total Available Days	1,002	1,023	+21

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

Explanation of Major Variances

- 2.4 As can be seen from the table, the total number of available days has been increased by 21 days, this being a combination of:
- Unpaid overtime providing an additional 7 days
 - Sickness levels being lower than provided for (the section had an average of 3 days per person); this provided an additional 5 days availability;
 - Training days being 9 fewer than estimated (staff received an average of 4.5 days training).

This extra availability has translated into an additional 18 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 – Whilst a higher than normal allocation was made in the plan reflecting an ongoing investigation at the start of the year, this investigation and another arising later in the year made a major demand on resources, diverting resources from both planned assurance work.
- Under “Support Work”, the continued involvement of the Principal Auditor in leading the mapping and evaluation of the Council’s significant partnerships. This required 32 days work during the year. Under the service restructuring, this piece of work has now been taken on by the Technical Support Team in the new Community Engagement Service.
- The Principal Auditor taking a lead in the council’s provision of information for the external auditor’s Use of Resources assessment required 30 days work not originally budgeted for in the plan.
- Under “Non Audit Duties”, the original plan anticipated an ongoing direct involvement of the Internal Audit Manager in the Fair Pay project. This involvement was less than anticipated releasing 30 days for other work.
- As in 2008/09, the Fair Pay project was one of the most resource intensive pieces of assurance work, accounting for 33 days.
- The above mentioned demands again resulted in planned work under “Efficiency and Value For Money” being postponed. This is to be picked up again in the 2010/11 plan.

Quality Considerations

- 2.5 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 18 months are demonstrated in the chart in Appendix B.
- 2.6 The summary represents the average scores obtained from 24 returned surveys. Against a target level of 8 for all aspects of the audit, three have not been met (albeit marginally), these being questions 8, 15 and 16.

The average score for question 8 – *“The results of the risk evaluation were discussed with the appropriate staff”* was affected by two low scores given by the Exchequer Services Manager in relation to the Sundry Debtors and Creditors audits. In these instances, the scope and objectives of the audit had been agreed with the Head of Financial Services to cover additional exposure to risk from the economic downturn. The risk evaluation was not discussed in detail with the managers and staff responsible for the corporate system. This position has been considered and will be borne in mind when undertaking similar audits in future.





Over the years, the average score for both questions 15 and 16 have consistently fallen marginally below the target of 8. There were no particularly revealing comments made in connection with these questions. The lower scores tended to result from audits, particularly those of core financial systems, where risks are already well understood and managed. In these instances, the main objective of the audit is to give assurance that controls are operating effectively.

Review of the Effectiveness of Internal Audit

- 2.7 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

- 2.8 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:

Level of assurance	Image	Definition
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.

- 2.9 The Table in Appendix C sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2009, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.10 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.
- 2.11 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.

Assurance Level (at most recent review)	No of Audits
Substantial	2
Reasonable	16
Limited	9
Minimal	1

- 2.12 A substantial assurance opinion has been given as a result of both the NNDR and Council Tax audits, these systems being well-established and managed.

- 2.13 The sole minimal assurance opinion during the year resulted from the procedural review within Council Housing's Repair & Maintenance Service. This review stood alongside the disciplinary investigation undertaken by internal audit during 2009/10. The governance and internal control issues raised in this audit have also been referred to by the Head of Council Housing in his annual assurance statement. In the Internal Audit Manager's view, these issues are of sufficient significance to be mentioned in the annual governance statement.
- 2.14 Notwithstanding the above, the results demonstrate that procedures for reporting and 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

- 2.15 Assurance levels on the Council's key financial systems are consistently good, with both Council Tax and NNDR resulting in a substantial assurance opinion. All other financial system audits included in Appendix C with the exception of "Income Management – Housing Rents Direct Debit Payments", and "Payroll" having resulted in a "reasonable" assurance level. Progress with these audits continues to be monitored by Audit Committee.
- 2.16 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 to operate an inefficient and error-prone manual system. This is a long-standing issue which is under ongoing review and will continue to be reported to the Audit Committee.
- 2.17 As regards Payroll, outstanding issues are centred on a planned review of personnel policies and procedures and the planned procurement of an integrated HR and Payroll system. Progress and developments are being reported to and monitored by the Audit Committee.
- 2.18 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

- 2.19 Audits of Performance Management and Business Continuity Planning resulted in a "reasonable" assurance opinion. The "limited" assurance opinion resulting from an audit of "Procurement and Contract Management" in 2008/09 has yet to improve. This reflects the wide ranging programme of action being pursued in support of the revised corporate procurement strategy. The level of progress and the assurance opinion are being assessed as part of the formal audit follow-up. The main messages arising from the audits have been incorporated in the governance review and Annual Governance Statement.

Other Audits

- 2.20 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 2009/10 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 Section 151 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 2009/10
Internal Audit Files

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