

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
<b>Governance Committee</b>	<b>30<sup>th</sup> June 2009</b>

Report template revised June 2008



<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
<b>Internal Audit Annual Report 2008-2009</b>	<b>Not Applicable</b>	<b>G. Barclay C. Ware</b>	

## **SUMMARY AND LINK TO CORPORATE PRIORITIES**

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2008 to March 2009;
- to give an Audit opinion on the adequacy and effectiveness of the control environment in the Council as a whole and for individual Audit reviews;
- to give an appraisal of the Internal Audit Service's performance, including an evaluation of the effectiveness of the Council's 'system of internal audit'.

The report links with all of the corporate priorities, in particular to be an 'efficient, effective and exceptional Council'.

## **RECOMMENDATIONS**

That the Internal Audit Annual Report for 2008/9 be noted.

## **DETAILS AND REASONING**

### **Background – Annual Governance Statement**

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have published guidance entitled 'Good Governance in Local Government: A Framework', under which councils are required to:

- develop and maintain an up to date Local Code of Corporate Governance consistent with certain 'core principles' set out in the Framework;
- review their existing governance arrangements against the Framework;
- prepare an Annual Governance Statement (AGS) in order to report publicly on the extent to which the Council complies with its own Code including how it has monitored the effectiveness of its governance arrangements in the year and on any planned changes in the coming period.

Full Council adopted a revised Local Code of Corporate Governance at its meeting of 8<sup>th</sup> May 2008. This outlines how the Council aims to meet a number of core principles of corporate governance which are consistent with the council's aims and values and its corporate priorities.

The 2009 AGS has been drafted following a self assessment of the Council's system of governance, which also takes account of any important control issues raised by the Audit Commission, the Council's External Auditors and Internal Audit. The draft AGS is included on this meeting's agenda.

## **INTERNAL AUDIT OPINION**

A schedule of Internal Audit work undertaken during 2008/9 is shown at Appendix 1. This gives individual opinions on the adequacy of control for each of the areas audited during the year.

In arriving at an annual judgement on the overall level of control a view has been taken on the relative importance of each area audited and the nature and significance of the weaknesses identified. No review was given either limited or no assurance, therefore, it is Internal Audit's opinion that overall the Council continues to operate within a strong control environment.

## **INTERNAL AUDIT PERFORMANCE**

2008/9 was a particularly eventful year due to the establishment of the new Financial & Assurance Shared Services Partnership with Chorley Council. The table at Appendix 2 sets out the key performance data for the Internal Audit Service during 2008/9. This indicates that all the Service's performance was around or above target, with the exception of the completion of the Audit Plan which was 20% below target. This was a temporary shortfall, largely due to the time spent on the shared services implementation, which exceeded the time originally planned. We were however able to absorb this, as several planned assignments were no longer required and two assignments have been carried forward to the 2009/10 Audit Plan.

## **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

The Accounts and Audit (Amendment) (England) Regulations 2006 state at paragraph 6 (3) that (the Council) 'shall at least once a year conduct a review of the effectiveness of its system of internal audit'. In addition, that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of internal control / governance.

The Council's External Auditors conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA Code of Practice for Internal Audit in Local Government contains a self assessment checklist for the same purpose.

For the purpose of conducting the annual review of Internal Audit, the Council relies upon the External Audit triennial review plus self-assessments against the CIPFA Code of Practice in the intervening years.

The External Auditors undertook their last triennial review in 2007/8 and they reported that Internal Audit provided an effective service to management and complied with all standards within the CIPFA Code of Practice. This was reported to the Policy & Service Review Scrutiny Committee in June 2008.

For 2008/9, Internal Audit has completed a self assessment which found that the service continues to comply with all standards within the CIPFA Code of Practice.

Under the new shared services partnership a Business Improvement Plan has been established which aims to drive up service and performance standards further in 2009/10.

## IMPLICATIONS OF REPORT

The matters raised in the report are cross cutting and impact upon individual services and the council as a whole.

## WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

<b>FINANCIAL</b>	There are no financial implications arising directly from this report.		
<b>LEGAL</b>	<p>The Accounts and Audit Regulations require the Council to conduct a review of the effectiveness of its internal control system and to publish an annual Statement on the adequacy of such a system, (the Annual Governance Statement).</p> <p>An Internal Audit Annual Report is a requirement of the CIPFA Code of Practice for Internal Audit in Local Government (2006).</p> <p>The Accounts and Audit (Amendment) Regulations 2006 require an annual review of the effectiveness of Internal Audit.</p>		
<b>RISK</b>	A Risk Assessment has been carried out which concluded that adequate controls are in place to mitigate any risks identified.		
<b>OTHER (see below)</b>			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

## BACKGROUND DOCUMENTS

Risk Assessment

## SUMMARY OF INTERNAL AUDIT ACTIVITY 2008/9

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1.	<b>CORPORATE GOVERNANCE</b>			
	Local Code of Corporate Governance	Support was provided in collating evidence to demonstrate compliance with the Local Code of Corporate Governance as part of the work undertaken to evidence the Annual Assurance Statement.	Not applicable to this item. Proactive input rather than an audit / review.	Not applicable to this item. Proactive input rather than an audit / review.
	Use of Resources	Support was provided in collating information for the Use of Resources assessment particularly in respect of Internal Control issues.	Not applicable to this item. Proactive input rather than an audit / review.	Not applicable to this item. Proactive input rather than an audit / review.
	Annual Governance Statement	We co-ordinated the collation of evidence to support the AGS.	Not applicable to this item. Proactive input rather than an audit / review.	Not applicable to this item. Proactive input rather than an audit / review.
	Ethical Audit	Support was provided to undertake the corporate Ethical Audit, covering such areas as the Referral Scheme, Whistle-blowing Policy, Complaints about staff, Codes of Conduct and Staff Induction.	Adequate	None
	Data Quality	A sample of Best Value Performance Indicators (BVPIs) was reviewed to verify the accuracy of the reported out-turn figures. A sample of the new National Indicators (NIs) was also reviewed to ensure there are sound data collection processes in place.	Adequate	None

<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
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<b>2.</b>	<b>ANTI-FRAUD &amp; CORRUPTION</b>		
	National Fraud Initiative (NFI)	Contributed to the coordination of the Council's input to the national exercise.	Not applicable to this item. Proactive input rather than an audit / review.
	Fraud Policies.	Revision of Anti-Fraud and Corruption Strategy, Fraud Response Plan and the Whistleblowing Policy & contribution to the production or revision of the remaining governance documents.  Production of fraud articles & provision of governance awareness to Managers.	Not applicable to this item. Proactive input rather than an audit / review.
	Investigations	Fact finding exercises to assist management and to support a disciplinary case.	Not applicable to this item. Proactive input rather than an audit / review.

<b>3.</b>	<b>KEY BUSINESS SYSTEMS</b>		
	Standing Orders	Contributed to the revision of the Standing Orders.	Not applicable to this item. Proactive input rather than an audit / review.
	Equality & Diversity	A review of the documents to ensure that the Council was on target to achieve level 3 of the Local Government Equality Standard.	Adequate  SRBC had sufficient evidence to achieve level 3.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>3. KEY BUSINESS SYSTEMS (Cont'd)</b>			
Implementation of the Electronic Document Records Management System	Internal Audit representation on the project team for the implementation of the system.	N/A	N/A
Implementation of the Fraud Management System	Internal Audit Manager acted as Project Sponsor for this project.	N/A	N/A
PC Workstations	A review of Members' and Employees' understanding of and compliance with Email, Internet and Data Protection Polices.  Review of the security of PC workstations	Adequate	None

<b>4. FINANCIAL SYSTEMS</b>			
Payroll	Full system review	Adequate	None
Main Accounting	Review of reconciliations of feeder systems to the general ledger.	Adequate	None
Creditors	Full system review	Adequate	None
Capital Programme	The audit concentrated on capital spending and monitoring	Adequate	None
Treasury Management	Residual system review following the review of the Icelandic investments	Adequate	None

<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
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<b>4. FINANCIAL SYSTEMS (Cont'd)</b>			
Cash and Bank	Full system Review	Adequate	None
Council Tax	Full system Review	Substantial	None
Business Rates	Full system Review	Adequate	None
Debtors	Full system Review	Adequate	None
Housing and Council Tax Benefits	Full system Review	Adequate	None
Petty Cash	A random check of petty cash floats was undertaken	Adequate	None

<b>5. KEY OPERATIONS</b>			
Local Development Framework	Review of the partnership arrangements / agreement. Review of the effectiveness of the monitoring processes and completion of milestones.	Adequate	The Local Development Framework partnership arrangements require formal agreement
Development & Building Control	A full system review of income management processes and compliance with Corporate and legislative requirements	Adequate	None

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>6. GENERAL AREAS</b>			
<b>Post Audit Reviews</b>			
Licensing Enforcement	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented effectively.
Homelessness	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented effectively.
DWP Standard	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented effectively.
Absence Management	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented effectively.
Performance Appraisal	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented Effectively.
Recruitment and Selection	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented effectively.
Risk Management.	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented effectively.
Academy Revenues & Benefits System	Monitored the implementation of recommendations made in earlier Audit Reports	Adequate	Management actions have been implemented.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>6. GENERAL AREAS</b>			
<b>Unplanned Reviews</b>			
Election Payments	Assisted with the reconciliation of the Returning Officer's accounts, which are submitted to the Ministry of Justice	Not applicable to this item. Proactive input rather than an audit / review.	Not applicable to this item. Proactive input rather than an audit / review.
Treasury Management – Icelandic Investments	A review of the Council's investments made with the Icelandic Banks to ascertain compliance with national and local polices & procedures.	Adequate	None

#### KEY TO CONTROL RATINGS

<b>Substantial</b>	The controls and procedures in place are of a high standard. Management can place reliance on the integrity of the controls and their compliance.
<b>Adequate</b>	Can place sufficient reliance on the controls in place. Only minor control weaknesses exist.
<b>Limited</b>	Cannot place sufficient reliance on the controls in place. Substantive control weaknesses exist.
<b>No Assurance</b>	No reliance can be placed upon the controls in place. There are significant control or compliance issues which need to be resolved.

#### NOTE

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

## Internal Audit Performance Indicator Table – 2008/9

	Local Performance Indicators	Target 08/09	Actual 08/09	Comments
1	% of audit time utilised	100%	98%	This small discrepancy was due to a member of staff being on long term sick.
2	% of planned time used	100%	95%	This was due to time being used on three items of unplanned work.
3	% audit plan completed	92%	72%	This shortfall was largely due to the time spent on the shared services implementation, which exceeded the time originally planned. Also, a member of staff reduced her hours from October 2008. We were largely able to absorb this as several assignments were no longer required and two assignments were carried forward to the 2009/10 Audit Plan.
4	Percentage of management actions agreed	97%	100%	Target exceeded.
5	% of agreed management actions implemented	100% Red 80% Amber	96% Red 90% Amber 100% Green	In terms of the "Red" management actions, 24 out of 25 have been implemented and the outstanding action relating to the procurement of a Building Control document imaging system is being monitored. The "Amber" and "Green" actions are both above target.
6	Overall customer satisfaction rating	96%	100%	Target exceeded.