

<b>Committee:</b>	<b>Performance Select Committee</b>	<b>Agenda Item</b>
<b>Date:</b>	<b>30 June 2009</b>	<b>5</b>
<b>Title:</b>	<b>Internal Audit Annual Report and Opinion 2008-09</b>	
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### Summary

- 1 The purpose of this report is to advise on the work carried out by Internal Audit during 2008-09 and provide an overall opinion on the Council's control environment for 2008-09. The report also shows the state of compliance with the CIPFA Code of Practice for Internal Audit in Local Government (The Code).

### Recommendations

- 2 That internal audit coverage, the internal audit opinion and compliance with The Code are noted.

### Background Papers

- 3 Internal Audit Reports 2008-09  
Internal Audit 6 Month Update Report to this committee September 2008  
Internal Audit Corporate Audits 2008-09 Report to this committee May 2009

### Impact

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Communication/Consultation	The Internal Audit Reports referred to in this report have been circulated to Members  This report has been circulated to the Strategic Management Board and the Heads of Divisions
Community Safety	none
Equalities	none
Finance	none
Human Rights	none

Legal implications	This report partly informs the Annual Governance Statement. The Statement forms part of the Council's accounts. This is a requirement set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

### Situation

- 5 Internal Audit is a statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.
- 6 The internal audit coverage for 2008-09 was delivered by the Council's in-house Internal Audit Team, which comprises of three full-time officers- 1 Audit Manager and 2 Internal Auditors
- 7 Internal Audit work partly informs the Annual Governance Statement which is included in the Council's Statement of Accounts.

### Residual 2007- 08 Audit Work

- 8 A total of 15 days were used to for all residual audits from the 2007-08 Internal Audit work plan. All 2007-08 audit work was completed by 31 August 2008.

### 2008-09 Audit Work

- 9 The emphasis of the Internal Audit work plan for 2008-09 was changed from previous years to reflect the financial situation facing the Council. A total of 30 audits were planned for 2008-09 of which 9 were corporate-wide audits and 21 operational audits.

420 days were allocated to audit work.

- 10 Following on from discussions with this Committee and Strategic Management Board (SMB), 130 days (31%) of available Audit time was initially allocated to corporate audit work and 290 days (69%) to operational audit work, of which 142 days were for the key financial audits which form part of our managed audit agreement with the Audit Commission.
- 11 The Internal Audit work plan is subject to review throughout the year to take account of changes in priority, auditee resource availability, additional unplanned time requirement etc. Two audits initially planned for 2008-09 have been rescheduled for the 2009-10 work plan with the agreement of this committee and Strategic Management.
- Asset Management      Lack of Auditee resource prevented progress with this audit, rescheduled as Corporate Audit 2009-10 audit plan, quarter 4
- Development Control      Service has been the subject of a Business Improvement Review during 2008-09, rescheduled as Operational Audit 2009-10 audit plan, quarter 2
- 12 The performance indicator for Internal Audit is for 90% of planned audits to be completed to draft stage by 31 March 2009. Of the remaining 28 planned audits, 25 (90%) were completed to draft report stage by 31 March 2009.
- 13 There were 8 audits awaiting final completion at 31 March 2009, all of which will be completed by 30 June 2009.
- 14 Tables 1 & 2 show the audit work undertaken, the planned audit days from the 2008-09 Internal Audit plan and days taken during 2008-09.

Table 1

audit	Risk Level	Planned days for 2008-09	Actual days 2008-09
<b>corporate audits</b>			
corporate income	3	20	43
information management	3	15	23
reconciliations	3	15	15
BVPI	2	10	11
budget monitoring and reporting	4	15	12
IT audit	3	10	9
contracts & procurement	2	10	17
corporate budget	4	20	11
asset management	2	15	0.5
		130	141.5

Table 2

audit	Risk Level	Planned days for 2008-09	Actual days 2008-09
<b>operational audits</b>			
Refuse & recycling	3	17	14
Housing Contract Systems	2	12	16
Car loans & leasing	1	15	17
Creditors & VAT	4	20	12
Development control	3	15	3
Housing Responsive Maintenance	3	12	28
Insurance	3	10	11
Legal Services	1	12	9
Rents	4	15	16
Business rates	4	15	11
Council tax	4	15	14
Treasury management	4	10	11
Licensing	2	12	15
Museum	2	12	9
Elections	1	10	17
Facilities Management	1	10	16
Housing benefits	4	20	18
Payroll, allowances & expenses	4	20	2
Revenue Recovery	4	15	3
Customer Services	4	12	13
Local land charges	2	11	0.5
		290	255.5

420 days were allocated for audit work, at 31 March 2009 audit work accounted for 397 days. The 23 residual audit days were used to cover unplanned non-audit work.

### 2008-09 Non-Audit Work

#### 15 Annual Governance Statement work –

An unplanned 12 days of Audit Manager time has been used in co-ordinating the compilation of the Annual Governance Statement 2007-08, co-ordinating the review and monitoring of control and governance issues identified in the

2007-08 Annual Governance Statement and the preparation of the 2008-09 Statement.

- 16 Risk Management facilitation – Internal Audit is facilitating the embedding of risk management throughout the Council by co-ordinating the setting up of Corporate and Operational risk registers within the Covalent Performance Management System and providing advice and assistance to Risk Managers. 27 days against an initial allocation of 25 days have been used.
- 17 Reporting to committees - Internal Audit is contributing items to this committee's work programme and to that of the Risk Management Steering Group. All 24 of the 24 days allocated to servicing committees have been used.
- 18 Consultancy and advice – proactive audit advice is provided as part of managing change at the Council. This takes place on an ad-hoc basis throughout the year. 32 days against an initial allocation of 15 days have been used. The extra time predominately relates to providing specific audit assurance on areas falling outside of the originally agreed audit scope in a number of audits from the 2008-09 audit plan.
- 19 Special enquiries provision – time is set aside for dealing with any referrals of fraud, corruption or theft. There were no significant referrals warranting detailed investigation by internal audit during 2008-09.
- 20 Follow up reviews – each internal audit assignment is followed up to ensure agreed recommendations have been implemented. There is a rolling programme for following –up audits. All 2007-08 audit assignments had been followed-up during 2008-09 and, dependent on management action implementation dates, 2008-09 audit assignments have either been followed in 2008-09 and will be followed up during 2009-10. 7 of the 10 days allocated to follow-up work have been used.
- 21 Contribution to Corporate Management  
Internal Audit staff are involved in all aspects of working for the Council, actively contributing to the Equality Standards Working Group; the U-Perform Working Group; the Council's Accommodation Review and Emergency Planning training.

## Annual Audit Opinion

- 22 Our audit opinions are formed on the basis of the number and level of risk associated with the recommendations made. (*Opinion and Risk definitions are reproduced for information at the end of this report*).
- 23 Table 3 shows the audit opinions formed as a result of our audit work for the twenty-eight completed Corporate Audits and Operational Audits 2008-09.

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Table 3

Audit	Type	Audit Opinion	Number of recommendations				
			Risk Level				
			total	4	3	2	1
Information Management	Corporate	little	11	0	7	2	2
Contracts & Procurement	Corporate	little	10	1	9	0	0
Corporate Income	Corporate	limited	9	0	3	5	1
Reconciliations	Corporate	limited	2	0	2	0	0
Budget Monitoring and Reporting	Corporate	adequate	3	0	2	1	0
IT audit	Corporate	adequate	5	0	0	5	0
Corporate Budget	Corporate	adequate	2	0	1	1	0
BVPI	Corporate	substantial	0	0	0	0	0
Creditors & VAT	Operational - key financial	adequate	3	1	1	1	0
Rents	Operational - key financial	adequate	2	0	0	2	0
Treasury management	Operational - key financial	adequate	5	0	0	4	1
Revenues Recovery	Operational - key financial	adequate	5	0	1	3	1
Customer Services	Operational - key financial	adequate	7	0	1	2	4
Payroll, allowances & expenses	Operational - key financial	substantial	3	0	0	2	1
Business rates	Operational - key financial	substantial	1	0	0	1	0
Council tax	Operational - key financial	substantial	1	0	0	0	1
Housing benefits	Operational - key financial	substantial	2	0	0	2	0
Car loans & leasing	Operational - service	limited	10	0	6	3	1
Housing Responsive Maintenance	Operational - service	limited	4	2	1	1	0
Elections	Operational - service	adequate	5	0	2	3	0
Facilities Management	Operational - service	adequate	6	0	1	5	0
Licensing	Operational - service	adequate	4	0	1	2	3

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Museum	Operational - service	adequate	3	0	1	2	0
Refuse & recycling	Operational - service	adequate	2	0	1	0	1
Insurance	Operational - service	adequate	6	0	0	6	0
Legal Services	Operational - service	substantial	0	0	0	0	0
Housing Contract Systems	Operational - service	substantial	2	0	0	2	0
Local land charges	Operational - service	substantial	1	0	0	1	0
total			114	4	40	56	16
				3%	35%	49%	14%

- 25 For the 28 audits in the 2008-09 audit plan, 114 recommendations have been made to improve the Council's control environment. This is in comparison with the 102 recommendations made in the 21 audits completed from the 2007-08 audit plan and the 75 made in the 22 audit completed from the 2006-07 audit plan.
- 26 72 out of the 114 recommendations (64%) arising from our 2008-09 audit work were assessed as being at level 2 (some impact) or level 1 (little or no impact). This means that key controls mostly exist but there may be some inconsistency in application.
- 27 The audit opinions for 22 out of the 28 audits (79%) were that there was either 'adequate' or 'substantial' assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled. The audit opinions for the 9 key financial audits were either 'adequate' or 'substantial'.
- 28 Therefore, our audit opinion on the control environment for 2008-09 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are **adequately managed and controlled**.
- 29 We were however concerned that the risk of error or loss was not always as well controlled in some areas that we reviewed. The audit opinions for 6 out of the 28 audits were that there was either 'limited' or 'little' assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled.
- 30 The 4 Corporate Audits 2008-09 with assurance opinion 'little' or 'limited' were reported to the May 2009 meeting of this committee
- 31 Operational Audits with assurance opinion 'little' –

- **Car Loans & Leasing** – all of the recommendations were agreed with management and are to be addressed in the review of Car Leasing reported to Finance & Administration committee in November 2009
- **Housing Responsive Maintenance** – the level 4 and 3 recommendations relating to stock control were agreed by management and implemented with immediate effect, the level two recommendation has been agreed subject to budgetary considerations.

### Implications

- 32 To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To this end management action plans need to be completed and returned in good time and agreed recommendations need to be implemented in a timely way. Delays in the return of some management action plans in 2008-09 have led to a revision of our reporting protocols to ensure that from 2009-10 all management action and timetable for implementation is agreed prior to the issue of the final report.
- 33 Implementation of recommendations made in the audits will be followed up either as part of our rolling follow up programme at six months after the latest implantation date of the agreed management action or as part of the 2009-10 audit of these areas
- 34 All Corporate audit reports are copied to Strategic Management, all Operational audit reports are addressed to the Director responsible for the audited area and copied to the Chief Executive, Section 151 Officer and Assistant Chief Executive. Members of this committee also review selected Internal Audit Reports and have the opportunity to discuss progress on the implementation of recommendations made in the reports with the Chief Auditees.

### Audit Commission

- 35 Quarterly liaison meetings are held between the Audit Mangers of Internal Audit and the Audit Commission, to discuss current work being undertaken and future work plans.
- 36 At the September 2008 meeting of this committee, the Audit Commission reported on its review of Internal Audit and its compliance with the CIPFA Code of Practice for Internal Audit in Local Government. All 12 of the recommendations made by the Audit Commission were implemented by 31 March 2009, the majority of these through inclusion in the revised Internal Audit Charter & Terms of Reference and Strategy for 2009-10 approved by this committee in February 2009.



## **Compliance with the CIPFA Code of Practice for Internal Audit in Local Government**

37 The Code of Practice sets out organisational and operational standards for internal audit in Local Government. A general position statement on compliance with each of these is set out below:

1 *Scope of internal audit – the terms of reference, scope of work and responsibilities are set out in an approved Service Plan.*

The Internal Audit Charter introduced during 2007 was reviewed and an updated version which incorporates its Terms of Reference was agreed in February 2009. An Internal Audit Strategy 2009-10 was drawn up and agreed in February 2009.

2 *Independence – organisational status enables Internal Audit to function effectively.*

The Audit Manager has the structural status that complies with The Code of Practice and effective discussion of audit issues is facilitated. The independence of individual auditors is characterised by not having any operational responsibility.

3 *Audit committees or equivalent – there are specific mechanisms for reporting to members at overview level.*

The Performance Select Committee introduced during 2005-06 fulfils the Audit Committee functions for the Council.

4 *Relationship with management, other auditors and other review bodies – the Council seeks to co-ordinate Internal Audit work with that of other review agencies.*

External audit relies on the work of Internal Audit for assurance purposes. Regular Liaison meetings are held with external audit.

5 *Staff training and development – Internal Audit is fully staffed in terms of numbers. Staff have or are working towards appropriate qualifications and experience, having regard to its objectives and to The Code.*

6 *Audit strategy – a strategy is maintained for delivering the Internal Audit service as per the terms of reference.*

An Internal Audit Strategy 2009-10 was drawn up and agreed in February 2009.

7 *Management of audit assignments – assignments are prepared, discussed and agreed with line managers.*

A risk-based, systematic approach is undertaken. Assignments are recorded and there are standards for documentation and working papers.

8 *Due professional care – is appropriate to the objectives, complexity, nature and materiality of the audit being carried out.*

Care is ultimately achieved by adherence to The Code and quality assurance.

9 *Reporting – audit assignments and their results are reported to those charged with governance and any third parties.*

The performance of the Internal Audit function against plan is reported to the Performance Select Committee.

10 *Quality assurance – the work of Internal Audit is controlled at each level of operation.*

The management of Internal Audit is effectively controlled through a Charter & Terms of Reference; strategy; service plan; audit manual; staff appraisals; performance measures and indicators. Internal Audit is subject to regular quality review by External Audit.

## Definitions

38 The Internal Audit opinions and risk definitions used are:

Opinion	Definition
<b>Little</b>	Major controls have failed and/or major errors have been detected. There will be more than 15 recommendations or more than four recommendations at risk level 4 and 3 or more than 10 recommendations at risk level 2
<b>Limited</b>	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention. There should be no more than 14 recommendations of which no more than 4 recommendations are at risk levels 4 and 3 and no more than 10 recommendations are at risk level 2
<b>Adequate</b>	Sound satisfactory management of risk; identification of some elements of the control framework that merit attention; Marginal identification of deficiencies in the control framework that result in some risks not being managed effectively and must be addressed. There should be no more than 10 recommendations of which no more than 1 recommendation is at either a risk level 4 or 3 and no more than 6 are risk level 2 recommendations
<b>Substantial</b>	Good effective management of risk; no significant recommendations arising with no more than 6 recommendations of which none are risk level 4 or 3 recommendations and no more than 2 are risk level 2 recommendations

risk level	Definition
<b>4</b>	Catastrophic effect - immediate action required. Matters that are considered fundamental that require immediate attention and priority action.
<b>3</b>	Significant impact – action required.

	Matters that are considered significant that should be addressed within six months.
<b>2</b>	Some impact – action necessary.  Matters that are considered important that should be addressed within twelve months.
<b>1</b>	Little or no impact.  Matters that merit attention and would improve overall control levels.

**Risk Analysis**

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Risk	Likelihood	Impact	Mitigating actions
<p>No internal audit assurance is provided to those charged with governance.</p>	<p>1 = Little or no likelihood</p> <p>Internal Audit work plan for 2008-09</p>	<p>3 = Significant impact – action required</p> <p>Failure to provide internal audit assurance could lead to inability to meet corporate and operational objectives and Adverse audit Commission report and damage to the Authority's reputation</p>	<p>The Audit Commission review the outcome of Internal Audit work.</p> <p>The performance of the Internal Audit Section is monitored by senior management and Members.</p>
<p>Those charged with governance do not respond to Internal Audit recommendations.</p>	<p>2 = Some likelihood</p> <p>Reports can contain re-iterations of recommendations made during previous audit that have not been implemented.</p>	<p>3 = Significant impact – action required</p> <p>There would be varying levels of impact from any non-implementation of the recommendations given the high significance of the majority of control risks identified.</p>	<p>There is an escalation procedure.</p> <p>Internal audit reports are followed up to ensure compliance.</p> <p>The outcome of Internal Audit work is reviewed by the Audit Commission and by the Performance Select Committee.</p>