



Audit and Risk Management Committee - 29 June 2010

Annual Report of Internal Audit

Summary

The Report seeks to inform Members of the work completed during 2009/10 and to provide Members with an explicit internal audit opinion on the Council's system of internal control and risk management arrangements and its governance arrangements. The report also seeks to inform Members of the effectiveness of the internal audit function

Attachment(s)

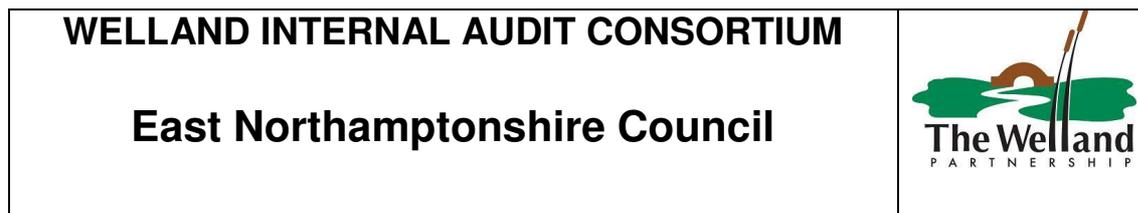
Appendix - Annual report of Internal Audit (plus two associated appendices of progress against plan and summary of issued audit reports)

- 1 Introduction
 - 1.1 The Annual Report of Internal Audit is attached at Appendix A. It includes details of the audit opinion based on work carried out during the year to March 31st 2010, and a review of the performance and effectiveness of Internal Audit to provide an opinion upon which Members can place reliance.
- 2 Internal Audit Opinion
 - 2.1 The Consortium provided an annual assurance rating of Good for the year ended 31st March 2009. Audit findings and conclusions during the current year have resulted in maintaining the level of assurance of Good for the year ended 31st March 2010.
 - 2.2 This is the highest assurance rating of the five levels in the model adopted by the Consortium. No issues of serious concern have been raised. Weaknesses that have been identified have been addressed through agreed action plans which are monitored and reported.
- 3 Performance and Effectiveness of Internal Audit
 - 3.1 The detailed report at Appendix A provides evidence of the work carried out by Internal Audit and the performance against the key lines of enquiry that are considered suitable for providing Members with a basis for effective scrutiny of Internal Audit.
 - 3.2 The performance of Internal Audit against the key lines of enquiry, self assessment through appraisal and training for all staff and the customer satisfaction levels achieved contribute to the opinion that the Consortium is delivering an effective service. Further supporting evidence was provided by External Audit's review of effectiveness in March 2008 which concluded that the Consortium was substantially compliant with the CIPFA Code of Practice. The Action Plan resulting from that review has been completed and the Consortium is operating in accordance with the Code.
 - 3.3 Based on the evidence in Appendix A, Members can be confident that the Consortium is providing an effective service and that the opinion can be relied upon.
- 4 Recommendations
 - 4.1 It is recommended that the progress, effectiveness, and achievements of the

Consortium be noted and that the overall opinion that the internal control arrangements provide a Good Level of Assurance be noted.

Implications:					
Corporate Outcomes or Other Policy/Priority/Strategy					
Good Quality of Life	<input type="checkbox"/>	Good Reputation	<input type="checkbox"/>		
Good Value for Money	<input checked="" type="checkbox"/>	High Quality Service Delivery	<input checked="" type="checkbox"/>		
Effective Partnership Working	<input checked="" type="checkbox"/>	Strong Community Leadership	<input type="checkbox"/>		
Effective Management	<input checked="" type="checkbox"/>	Knowledge of our Customers and Communities	<input checked="" type="checkbox"/>		
Employees and Members with the Right Knowledge, Skills and Behaviours			<input type="checkbox"/>		
Other:					
Decision(s) would be outside the budget or policy framework and require full Council approval					
Financial	There are no financial implications at this stage				<input type="checkbox"/>
	There will be financial implications – see paragraph				<input type="checkbox"/>
	There is provision within existing budget				<input checked="" type="checkbox"/>
	Decisions may give rise to additional expenditure at a later date				<input type="checkbox"/>
	Decisions may have potential for income generation				<input type="checkbox"/>
Risk Management	An assessment has been carried out and there are no material risks				<input checked="" type="checkbox"/>
	Material risks exist and these are recorded at Risk Register Reference - inherent risk score - residual risk score -				<input type="checkbox"/>
Staff	There are no additional staffing implications				<input checked="" type="checkbox"/>
	Additional staff will be required – see paragraph				<input type="checkbox"/>
Equalities and Human Rights	There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications				<input checked="" type="checkbox"/>
	There will be an impact on equality (see categories above) or human rights implications – see paragraph				<input type="checkbox"/>
Legal	Power: Section 151 Local Government Act 1972, Accounts & Audit Regulations 2006				
	Other considerations:				
Background Papers: None					
Person Originating Report: Rosanne Fleming - Audit Manager, Welland Internal Audit Consortium rfleming@rutland.gov.uk 01572 758 302					
Date: 10 June 2010					
CFO		MO		CX	

(Committee Report Normal Rev. 21)



ANNUAL REPORT OF INTERNAL AUDIT FOR 2009/10

1. INTRODUCTION

The Accounts and Audit Regulations require that the head of the Council's internal audit function produce an annual report to Members discharging the role of the Audit Committee. The report must include an explicit internal audit opinion on the Council's systems of control and risk management and its governance arrangements. In developing the internal audit opinion, the head of internal audit must cite the relevant evidence derived both from internal audit work and from other sources of assurance. There is also a requirement to report the results of an annual review of the effectiveness of the internal audit function to provide Members with a basis for determining the extent to which reliance can be placed on the internal audit opinion: at a minimum there is an expectation that an effective internal audit function will operate in compliance with the CIPFA Code of Practice for Internal Audit.

2. INTERNAL AUDIT OPINION

Based on work carried out by the Consortium in line with the approved audit plan for 2009/10 and additional information provided by relevant managers on their responses to audit recommendations, I have formed the opinion that the Council's overall internal control arrangements provide a **Good Level of Assurance**. This represents the highest of the five levels of assurance within the model adopted by Consortium.

3. EVIDENCE SUPPORTING THE AUDIT OPINION

The Audit Opinion is based upon the assurance ratings arising from the audits completed in the year, and on progress in implementing recommendations arising from those reports. Table 1 summarise the level of assurance rating issued to each of the audits issued in respect of work undertaken in 2009/10: the coverage provided depends upon the date of issue of the audit report.

The overall time of 214 days spent on work at the Council is slightly less than the planned 260 days for the Financial Year. This is due to resources smoothing across the Consortium, and some re-prioritising of work. It should be noted that the Council did receive 29 additional days in 2008/9. A small saving of £3,200 was delivered in 2009/10 against the original budget of £59k.

Table 1 Summary of Assurance Ratings from 2009/10 Audit work

Audit	Coverage		Assurance Level	Assurance score
	Year	Quarter		
Key Financial Systems				
Local Taxes	2009/10		Good	5
Accounting for Tax	2009/10		Sound	4
Benefits	2009/10	4	Good	5
Public Facing Services				
Waste Management	2009/10	2	Good	5
Maintaining Managing Public Space	2009/10	2	Good	5
Customer Services	2009/10	2	Good	5
Land Charges	2009/10	2	Sound	4
Building Control	2009/10	4	Sound	4
CICT	2009/10	4	Sound	4
Governance and Performance				
Member Development	2009/10	4	Sound	4
Corporate Decision Making and Leadership	2009/10	2	Sound	4
Business Continuity	2009/10	3	Sound	4
Enterprise Risk Management	2009/10		N/A - see below	
Minimum Assurance Provision	2009/10	4	Sound	4
Overall Assurance Ratings			Good	4.4

In the assurance model adopted by the Consortium a “**Good**” assurance rating indicates a satisfactory management of risk and only minor elements of the control framework could be improved.

No assurance rating was provided for the audit of the Council’s risk management arrangements (Enterprise Risk Management draft report). The audit was specifically designed to provide an estimate of the Council’s progress in implementing appropriate risk management processes to support and promote a risk management culture. The draft audit conclusion – that the Council was “Risk Managed” (fourth highest level on a scale of 5) which means that consistent and effective application of appropriate Risk Management techniques across the entire organisation are in place. The conclusion indicates there has been no significant movement on the previous year where the conclusion for this audit was also “Risk Managed” (fourth level on a scale of 5).

Consultancy work undertaken during the year included the co-ordination and production of the Annual Governance Statement, certification of the Growth Area funding Grant, and advice on a complaint regarding Hackney Carriage fees.

4. SUMMARY OF PERFORMANCE AND EFFECTIVENESS

Table 2 below provides an overview of the Consortium's performance for the year ended 31st March 2010 using selected Key Lines of Enquiry. It is considered that these Key areas provide Members with a basis for effective scrutiny of Internal Audit.

Table 2

Key line of Enquiry		Available Evidence
Performance of the Consortium		
☐	Will the Audit Plan be delivered in full?	The key financial audit work was delivered in accordance with the Plan. Some non-financial audits were not delivered as originally planned. Amendments to the plan were made during the year to reflect management needs and take account of changes in circumstances. Some planned audits were deferred following discussion with managers, and additional consultancy work was also undertaken. Progress with the Audit Plan is at Appendix (i) to this report. A summary of the reports issued since the March progress update to the Audit & Risk Committee are at appendix (ii).
✓	Are audits being delivered on time and to budget?	All draft audit reports have been issued within 5 working days of completion of field work and all final reports have been issued within the agreed timeframe following agreement of the Action Plan. Delivery within original budgeted days remains challenging but has been much close to target for most assignments.
✓	Is staff productivity satisfactory? Time spent on productive work as a % of time available. <i>Productive work = planned audits and consultancy work.</i> <i>Time available = 260 days per auditor per year, less annual leave, sickness and professional training.</i>	Productivity across the Consortium team is at 88% which exceeds the target of 87% for 2009/10. Individual productivity by the three more experienced auditors is at the expected levels ranging from 86% to 96%. Note that the Consortium does not engage any administrative support and therefore all non-audit tasks required to keep the Consortium running are performed by the auditors as part of their roles.
✓	Is the quality of work of a sufficiently high standard?	The External Audit Review of Internal Audit in January 2008 concluded that the Consortium was substantially compliant with the CIPFA Code of Practice. The Welland Board has consistently reported that the quality of the internal audit service provided by the Consortium is significantly better than the service received before September 2006 by in-house provision.

Key line of Enquiry	Available Evidence
<p>✓ Is the Consortium satisfying clients' needs & expectations?</p>	<p>Across the Consortium, 60 customer satisfaction questionnaires have been received in 2009/10. All customers rated the Consortium as Good or Very Good in most areas with 95% of responses being in these categories. The average score across all questionnaires received was 3.6. (3 = good, 4 = very good).</p> <p>The Annual Customer Satisfaction Questionnaire results received produced positive comments on the helpfulness of Internal Audit. Scoring was consistently at or above the target of 3.</p>
The Control Environment	
<p>✓ Do the completed audits provide assurance that the Council has made appropriate and effective arrangements to manage its key risks?</p>	<p>The completed audits shown in Table 1 show a range of assurance ratings. The average assurance across the audited entities is GOOD based on numerical calculation (5 points for Good, 1 point for Unsound). Action Plans to improve the control environment have been agreed for all audited entities.</p>
Implementing Recommendations	
<p>✓ Are effective arrangements in place to ensure that managers respond to the agreed audit recommendations for which they are responsible in a timely manner?</p>	<p>All managers agree the action for each recommendation prior to the issue of the final report. Significant effort is made by the auditors to produce SMART recommendations, including a target date for implementation. The Internal Audit database (Galileo) is used to track and follow up recommendations.</p>

Direction of travel: The Consortium provided an annual assurance rating of Good for the year ended 31st March 2009. Audit findings and conclusions during the current year have resulted in maintaining that level of assurance of Good for the year ended 31st March 2010. No issues of serious concern have been raised. Weaknesses that have been identified have been addressed through agreed action plans which are monitored and reported. The percentage of productive time for the year has improved from 79% in 2007/08 and 83% in 2008/09 to 88% in 2009/10.

5. CONCLUSIONS AND LOOKING FORWARD

The Consortium is now delivering income generating internal audit services to two parish councils in the Welland area (Asfordby and Broughton Astley) and all the schools in Rutland. The Consortium has also taken on a fifth client which generated a small saving for each existing partner in 2009/10 and the projections for 2010/11 indicate further efficiency savings for all the client councils. The

addition of a further member of staff will help improve resilience in service provision.

The Audit Manager continues to receive requests for information from other councils on how to deliver a successful shared service for internal audit. This raises the profile of the Welland Internal Audit Consortium, and reflects favourably on the reputation of East Northamptonshire Council as a founder member of the Consortium.

The Consortium's investment in staff development, as a means of assuring service quality, continues. Two Assistant Auditors (recruited as trainees in April 2007) have been successful in gaining professional qualifications - one has obtained the full Practitioner's diploma from the Institute of Internal Auditors, while the other is due to complete the AAT qualification in June 2010. Two further Assistant Auditors (recruited as trainees in April 2009) are progressing well with their AAT qualifications having recently passed exams, skills tests and assignments.

During 2009/10, the Consortium has made a positive contribution to the Council's control framework and has provided a robust challenge to the internal control framework and corporate governance arrangements of the Council. The Consortium has operated in compliance with the CIPFA Code of Practice and has delivered an acceptable overall level of customer satisfaction. The Consortium has expanded its client base to what is considered an optimum number for the current management structure and is now in a sound position for improving the delivery of audits within in accordance with the risk based Plan. The Consortium will continue to promote a positive image and raise the profile of Internal Audit as an effective management tool for the Council's Management Team and Members.

Appendix (i) 200910 progress against Plan

Strategic Outcomes	Priority Outcomes	ENTITY CODE	ENTITY (AUDIT TOPIC)	Planned Quarter	Planned Audit days 2009/10	Actual days	Status at end of Q4	Comments
Cleaner	Clean streets	MMP5	Maintaining/Managing Public Space	1	15	11	Final report issued	
Cleaner	Effective management of waste	WAMA	Waste Management (inc recycling)	1	15	13	Final report issued	
High quality service delivery	Enhanced customer experience	CUSE	Customer Services	1	10	9	Final report issued	
High quality service delivery	Enhanced customer experience	LACH	Land Charges	1	5	8	Final report issued	
Councillors and staff with the right knowledge, skills and behaviours	Continuous development	MEDE	Member Development	1	5	11	Final report issued	Over-run at all sites. Original planned days underestimated
Cleaner	Good public health	PEST	Pest Control	2	5	1	Postponed at client request	Line Manager resources limited due to planning for new waste management contract. Audit combined with Dog Warden review in new risk based plan
Cleaner	High quality built environment	STPL	Strategic Planning Function (inc Local Plan)	2	8		Planned for 2010/11	Staff resources and uncertainty over the status of the Local Plan
Cleaner	High quality built environment	BUCO	Building Control	2	10	11	Final report issued	
Effective Management	Effective third sector	CDML	Corporate Decision Making & Leadership	2	8	4	Draft report	
Effective Management	Improved business processes	MAP	Minimum Assurance Provision	2 to 4	25	36	Final report issued	
Effective Management	Good use of resources	UORE	Use of Resources Framework	3	8		Not completed	resources diverted to focus on key financial work
Council services which provide good value for money	Good value for money	EXFU	External Funding	3	8		Planned for 2010/11	
Effective Management	Improved business processes	TAX	Accounting for Tax	3	5	8	Final report issued	rescheduled to Q3 (from Q4) to fit resources available
Effective Management	Improved business processes	BENE	Benefits	3	20	22	Final report issued	rescheduled to Q3 (from Q4) to fit resources available
Effective Management	Improved business processes	PUCO	Public Consultation (inc market research)	3	8		Not completed	resources diverted to focus on key financial work
Effective Management	Improved business processes	LOTA	Local Taxes	3	10	15	Final report issued	rescheduled to Q3 (from Q4) to fit resources available
Cleaner	Good public health	PUHP	Public Health & Protection	4	15		Not completed	resources diverted to focus on key financial work
High quality service delivery	Effective third sector	MPAR	Managing Partnerships	4	8		Not completed	resources diverted to focus on key financial work
Effective Management	Effective business continuity	BUSC	Business Continuity	4	10	3	Final report issued	rescheduled to Q4 awaiting feedback on work done by Zurich
Effective Management	Improved website and online transactions	ICT	Corporate ICT	4	10	2	Field work in progress	
Effective Management	Improved business processes	ENRM	Enterprise Risk Management	4	10	8	Final report issued	
Councillors and staff with the right knowledge, skills and behaviours	Continuous development	APDE	Appraisal & Development	4	8		Planned for 2010/11	
Healthier	Increased participation in play, sport, leisure and culture	HEAL	Healthy Lifestyle Promotion	4	5		Not completed	resources diverted to focus on key financial work
			Total Audit Days		231	162		
			Total Consultancy Days		29	22		
			Closure of 2008/09 work			30		
					260	214		

<u>AUDIT AREA</u>	<u>ASSURANCE RATING</u>	<u>EXECUTIVE SUMMARY</u>	<u>KEY RECOMMENDATIONS</u>
Building Control	Sound	<p>Overall, the Building Control service is well managed and delivered in line with appropriate policies and the statutory requirements. Staff are well trained, proper records are maintained, and appropriate fees have been charged for services. The health and safety of officers performing site visits has been protected through provision of suitable clothing and equipment.</p> <p>Areas for potential improvement identified as:</p> <ul style="list-style-type: none"> • Limited separation of duties with regard to accessing the system and processing applications • No formal arrangements to cover leave or absence of the Building Control Manager with regard to the Council's statutory obligations for dealing with dangerous buildings out of office hours 	<p>The Head of Planning Services has acknowledged the risk that undetected error or inappropriate action may occur but due to the size of the team, but to maintain operational effectiveness the access rights are not going to be changed at present.</p> <p>The Executive Director agreed to consider the level of cover and resource issues once the management restructure was completed.</p>
Local Taxes	Good	<p>Procedures were operating as documented to ensure accurate and timely billing, proper record keeping and appropriate collection and recovery of income due. The Teams are appropriately trained to deliver the services required, and appropriate controls are operating effectively to mitigate the risk of fraud or error. Discounts and NDR reliefs have been applied for valid reasons and appropriate management checks are in place.</p> <p>One minor comment was made regarding the reliance on paper based records and large printouts: "It is the audit opinion that more efficient use of resources (time, paper and storage space) might be achieved if the software and reporting tools were reviewed to enable retention of reports in an electronic format".</p>	<p>No recommendations were made, but the Senior Officers in the team agreed to look at the reporting capabilities of the system and the possibilities for reducing reliance on paper records.</p>

<u>AUDIT AREA</u>	<u>ASSURANCE RATING</u>	<u>EXECUTIVE SUMMARY</u>	<u>KEY RECOMMENDATIONS</u>
Accounting for Tax	Sound	<p>Generally the Council's controls are operating adequately to ensure compliance with HMRC requirements, regulations and best practice. Responsibility for completing statutory returns to HMRC has been designated to appropriate officers, and those officers have received training. The Statutory returns were completed and submitted on time according to prescribed deadlines and all payments were made online as required. Up to date procedure notes on completing the returns are maintained by the officers responsible for submitting the returns. Documents are retained for six years to support VAT claims and sample testing confirmed that VAT was being claimed appropriately in most cases. The General Ledger modules for Debtors and Creditors have appropriate input controls to automatically check the accuracy of VAT calculations on invoices. Sample testing confirmed that the Payroll system was calculating PAYE and NI deductions correctly.</p> <p>However,</p> <ul style="list-style-type: none"> • There was no evidence of any process or procedure for non-financial officers to obtain advice on VAT matters, and although the Exchequer Team would query any obvious error, they are not responsible or appropriately trained for ensuring that the VAT treatment is in accordance with legislation. • There was also no clearly defined guidance on the classification categories of invoices to ensure the appropriate recording and classification of VAT in the General Ledger. 	<p>The Head of Resources & Organisational Development agreed to arrange training or production of comprehensive guidance notes for all officers involved in authorising invoices for payment, or raising debtor accounts to ensure VAT is treated correctly. In the meantime, the Financial Services Manager (EnCor) has agreed to be the 'expert' point of contact.</p> <p>The Head of Resources & Organisational Development has agreed to arrange the production of clear guidance on consistent classification of invoices in relation to VAT liability. This will be picked up by the new Finance Manager post.</p>

<u>AUDIT AREA</u>	<u>ASSURANCE RATING</u>	<u>EXECUTIVE SUMMARY</u>	<u>KEY RECOMMENDATIONS</u>
Business Continuity	Sound	<p>Analysis of documentation and reviews undertaken by Zurich provides assurance that the Council has identified potential threats, critical activities and actions to take to ensure service continuity. The Council has also identified a variety of resources needed (staff, premises, plant and equipment) to ensure service continuity in the event of service disruption. Key staff and external organisations that the Council will work with in the event of service disruption have been identified and documented.</p> <p>Areas for improvement were identified as:</p> <ul style="list-style-type: none"> • Appropriate training and regular briefings should be provided to all staff. • A consistent format needs to be adopted for all business continuity documents • Business Continuity Arrangements should have Member involvement • Clear roles and responsibilities need to be allocated to key staff, who can implement business continuity arrangements in the event of service disruption. <p>These issues are addressed through the action plan that has been provided to the Council by Zurich.</p>	No additional recommendations were made by Internal Audit. Follow up of progress with the Action Plan provided by Zurich will be included in the audit work for 2010/11
Minimum Assurance Provision	Sound	<p>The minimum assurance work on key financial systems in 2009/10 covered: Cash & Banking, Creditors, Debtors, Payroll and Treasury Management.</p> <p>Overall, a satisfactory level of assurance was gained that the key high level controls across all areas examined are operating effectively, and key transaction streams have been substantiated.</p> <p>Some areas for improvement were identified:</p>	

<u>AUDIT AREA</u>	<u>ASSURANCE RATING</u>	<u>EXECUTIVE SUMMARY</u>	<u>KEY RECOMMENDATIONS</u>
		<p><u>Creditors</u></p> <ul style="list-style-type: none"> • Credit notes are not filed with a copy of the invoice to which they relate and do not always contain a reference to the invoice to which they relate, resulting in a lack of audit trail. • The appropriate New Supplier form is not always used to request a new supplier • Invoices are not always date stamped when received and payments had been made to invoices which did not contain the Council's address. <p><u>Debtors</u></p> <ul style="list-style-type: none"> • The recovery procedure was last recorded in 2006 and no longer accurately reflects working practices. • The current procedures for chasing delinquent debtors is not adequate, however it can be noted that this process is now under review. <p><u>Payroll</u></p> <p>There was a lack of consistency in how timesheets and overtime claims were being completed, claim forms were not always totalled correctly and as breaks are not always recorded, in some cases there was an inability to verify that employees had been paid correctly for the times worked</p>	<p><u>Creditors</u></p> <p>Recommendations were agreed and implemented regarding filing of credit notes, use of supplier forms and date stamping of invoices.</p> <p><u>Debtors</u></p> <p>Recommendations were agreed regarding updating procedure notes and reviewing the procedures for chasing delinquent debtors to include regular reporting of performance.</p> <p><u>Payroll</u></p> <p>Recommendations were agreed and have been partly implemented to update guidance notes on the completion of timesheets to ensure consistency in time claimed and the use of electronic form is also being considered to reduce the risk of errors occurring by manually calculating the total time worked.</p>

<u>AUDIT AREA</u>	<u>ASSURANCE RATING</u>	<u>EXECUTIVE SUMMARY</u>	<u>KEY RECOMMENDATIONS</u>
Enterprise Risk Management	Risk Managed	<p>This year's review focussed on the weaknesses identified during the 2008/09 audit to establish whether the Council's level of Risk Maturity had changed. The review concluded that the Council remained in the position where it fulfils most of the criteria to be a Risk Managed organisation and the Council's level of Risk Maturity has not altered since the review in 2008/09.</p> <p>The following areas for improvement were identified:</p> <ul style="list-style-type: none"> • The Council's Risk Management Strategy is saved on the Finance documents intranet page. As the document is saved under 'Finance' this does not help to promote the fact that Risk Management is a Corporate issue, not just a Financial issue; • Minimal evidence to ensure that RM standards for partnerships are in line with the requirements of the Council, before a Partnership is entered into; • Risk Management Training Programme has not yet been delivered and will not be delivered until the Council's restructure is complete; • Risk Management training for Members has not yet been agreed or delivered; • There is no specific guidance on the Risk Management information which must be included in Committee reports and the way in which risk scores are recorded was found to be inconsistent. 	<p>It was agreed to determine a more appropriate and prominent page on the intranet for the policy and take steps to promote it to all staff.</p> <p>It was agreed that the Partnership Protocol is being reviewed during 2010/11 and will be checked to ensure it includes robust references to the Risk Management Strategy to ensure partnerships comply with the same standards as the Council.</p> <p>The planned training programme will include member champions in each service area plus Members of the Audit & Risk Committee.</p> <p>It was agreed that guidance on including RM information in committee reports will be included as part of the work programme for the new Finance Manager once in post.</p>