

Audit Committee – 27th March 2008

## 5. Internal Audit Quarter 3 Report 2007/2008

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### Purpose of the Report

To provide the Audit Committee with a summary of internal audit activity for the period 1st October to 31st December 2007.

### Recommendation

The Audit Committee is recommended to note the content of this report.

### The Role of Internal Audit

The Internal Audit service for SSDC is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA code of practice for internal audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting on 26th February 2004 and by Council on 18th March 2004. The Charter was last reviewed and endorsed by the Audit Committee on 25th October 2007.

Internal Audit provides an independent and objective opinion on the authority's control environment by evaluating its effectiveness. Primarily the work includes:

- 4 -Year Plan of Operational Audit Reviews
- Annual Review of Key Financial System Controls (Managed Audits)
- Follow Up Reviews

### Internal Audit Work Programme for 2007/8

#### Operational Audits

Operational Audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. In total 2 full operational audits, from the 2007/8 plan, were completed to draft report, between 1<sup>st</sup> October and 31<sup>st</sup> December 2007. Current performance is in line with the audit plan approved by the Audit Committee on 12<sup>th</sup> April, 2007.

As part of the Auditor's Opinion, each review is given a 'star' rating offering management the following levels of assurance:

▲★★★★ **Full** - The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.

▲★★★ **Reasonable** - Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

▲★★★ **Partial** - Most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

▲★★★ **None** - The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance and for management to address the issues identified and move the next audit assessment toward Full assurance. Where the assessed area falls below 'Reasonable' management is expected to address the risks identified and when the audit is followed up later, if those weaknesses have been addressed, then the service area can be reassessed upward.

Because of the heavy focus on Managed Audits, only two operational audits were completed to draft report stage in the quarter:

- Car Parks ▲★★★ Reasonable
- Housing Benefits ▲★★★ Reasonable

In addition, the following reviews are nearing completion or at an advanced stage:

- Octagon Theatre
- IS Networks
- Healthy Opportunities Funds
- Tourism
- Wincanton Sports Centre
- Health & Safety at Work
- Staff Training and Development

### Managed Audits

Internal audit carry out a review of key controls, of all the main financial systems, annually. These audits are done primarily to support the work of the external auditors, the Audit Commission, who are able to place reliance on our work and thereby reduce the amount of external audit resource required. The work completed does not cover the entire range of controls, although a complete review of every financial system is carried out at least every three years.

The following areas were covered in the third quarter of 2007/8:

- Capital accounting
- Main accounting
- Council tax
- Creditors
- Debtors
- Housing benefits (work incorporated into main operational audit)
- Treasury management
- NNDR
- Payroll

In total 125 controls were tested of which 94 were satisfactory, 13 were partially weak and 18 were weak. This continues a general level of year-on-year improvement and with

only one exception, NNDR, represents very good performance. Of the 16 controls tested in the NNDR service, 6 were designated weak and two partially weak. I am satisfied, however, that the service manager has agreed a robust action plan that should adequately deal with the issues raised.

### Follow-up Work and Outstanding Recommendations

In November 2007 Internal Audit adopted a new approach to how we review recommendations that have been agreed in previous audits completed. Each relevant service manager was sent a list of all agreed actions from recent operational audit reviews. They were each asked to self-certify as to the current status of each agreed action. The following table shows the results:

	No of Recommendation	Recommendations Completed	Overdue Action Date*	Action due in future
Abandoned Vehicles	7	6	1	
Payroll	12	12		
Democratic Services	2	2		
Development Control	6	5		1
Dog Wardens	16	1		15
Environ. Protection	16	15		1
Leisure Services & Arts	19	14	2	3
Telephones	13	10	2	1
Town Centre Management	12	4	6	2
Yeovil Rec. Centre	11	8		3

\*Please note that none of these overdue actions are in the high risk category.

The results show that, in general, service managers are proactively managing identified risks and implementing appropriate controls. Where agreed dates for action have been exceeded, internal audit have agreed revised dates with the appropriate manager. We will also be carrying out random tests to ensure compliance.

In future, internal audit will maintain a rolling review of outstanding actions the results of which will be reported to Audit Committee quarterly. The introduction of new and sophisticated internal audit management software in July this year will substantially improve our ability to monitor and report on this area.

**Background Papers:** None.