

Audit Committee – 26th February 2009

5. Internal Audit Quarter 3 Report 2008/2009

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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 2008.

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 reviewed and endorsed by the Audit Committee on 27th March, 2008.

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 2008/9

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. Nine full operational audits, from the 2008/9 plan, have to date been completed to draft report. Current performance is in line with the audit plan approved by the Audit Committee on 24th April, 2008.

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

▲★★★★ **Comprehensive** - 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.

Operational audits completed by SWAP during the period April to December 2008 and previously reported to Committee are as follows:

Audit Area	Audit Opinion
Community Resource Centre	▲★★★★ Comprehensive
Lufton Stores	▲★★★★ Reasonable
Museum	▲★★★★ Reasonable
Yeovil Recreation Centre	▲★★★★ Reasonable
Economic Development	▲★★★★ Reasonable
Leisure Services & Arts	▲★★★★ Reasonable
Procurement	▲★★★★ Partial*
IS Social Networking	Draft – awaiting response
Section 106 Agreements	Non Opinion

* The Procurement Action Plan is attached at pages 4-6.

In addition, the following reviews are nearing completion:

- IS Corporate Information Security
- IS Disaster Recovery Planning
- Treasury Management

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 2008/9:

- Capital accounting
- Council tax
- Creditors
- Debtors
- Housing benefits
- Main Accounting
- NNDR
- Payroll

In total 119 controls were tested of which 94 were satisfactory, 17 were partially weak and 8 were weak. This continues a general level of year-on-year improvement and it is particularly pleasing to note that the number of weaknesses have halved since last year.

2008/9 Quarter 4

The following reviews from the audit plan are planned for quarter 4:

- Car Parks
- Insurances
- Cash and Bank
- Horticultural Services
- Homelessness
- Corporate Governance
- Goldenstones
- Octagon

Conclusion

Overall, based on the work completed to date this financial year, I can report that risks are generally well managed and the systems of internal control are operating effectively. SSDC management respond positively to internal audit suggestions for improvements and corrective action is often taken immediately, wherever this is possible or practical.

Background Papers: *None.*
