

Audit Committee – 28th May 2009

## 6. South West Audit Partnership - Annual Report 2008/2009

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### Purpose of the Report

The Accounts and Audit Regulations (England) 2003 requires public authorities to publish an Annual Governance Statement (AGS).

The Statement is an annual review of the System of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. Guidance from the CIPFA Finance Advisory Network states that “the Head of Internal Audit should provide a written annual report to those charged with governance timed to support the Annual Governance Statement”.– Meeting the Requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment)(England) Regulations 2006 (IPF Publication).

The same reports state that the annual report from the Head of Internal Audit should:

- include an opinion on the overall adequacy and effectiveness of the organisation’s risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement.

### 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. The Partnership is also guided by the Internal Audit Charter, which is reviewed annually and the CIPFA Code of Practice for Internal Audit in Local Government.

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

- 4 -Year Plan of Operational Audit Reviews
- Annual Review of Key Financial System Controls

## Internal Audit Work Programme for 2008/2009

### Operational Audits

Operational Audits are a detailed evaluation of a service's 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 24 operational audits were planned, however, 1 review has been rescheduled for 2008/09.

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** - 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.

Where low to medium control or administrative weaknesses are identified, normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan.

The following is a summary of the reviews. Those completed at least to draft stage have resulted in 142 agreed actions for improvement:

18 audits were completed and final reports issued:

- Community Resource Centre - ▲★★★ **Comprehensive**
- Cash and Bank - ▲★★★ **Reasonable**
- Economic Development - ▲★★★ **Reasonable**
- Homelessness – **Non Opinion**
- Horticultural Services - ▲★★★ **Reasonable**
- IS Disaster Recovery Planning - ▲★★★ **Reasonable**
- Leisure Services and Arts - ▲★★★ **Reasonable**
- Museum - ▲★★★ **Reasonable**
- Octagon - ▲★★★ **Reasonable**
- Officers Claims and Allowances - ▲★★★ **Reasonable**
- Payroll - ▲★★★ **Reasonable**
- Pest Control - ▲★★★ **Reasonable**
- Planning Policy - ▲★★★ **Reasonable**
- Procurement - ▲★★★ **Partial**
- Stores - ▲★★★ **Reasonable**
- S106 Agreement and Commuted Sums – **Non Opinion**

- Treasury Management - ▲★★★ **Comprehensive**
- Yeovil Recreation Centre - ▲★★★ **Reasonable**

2 audits are at draft stage pending client approval

- IS – Social Networking - ▲★★★ **Partial**
- Corporate Information Security - **Non Opinion**

For the following 2 audits, testing has been completed and a draft report will be issued shortly:

- Insurances
- Corporate Governance

The following audit had no report produced as the allocated time, as agreed, was spent on a control risk self assessment workshop and risk advice:

- Area Development/Projects

1 audit was not completed from the plan with agreement of management:

- Goldenstones – this has been deferred to 2009-10 financial year

### **Managed Audits**

Managed audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. The reviews for Housing Benefits and Payroll have been incorporated into the Operational Audits above. In addition the following reviews have been completed which resulted in 33 agreed actions for improvement:

- Capital Accounting (0)
- Creditors (3)
- Main Accounting (2)
- Car Parks (12)
- Debtors (7)
- Council Tax (0)
- Housing Benefits (4)
- NNDR (5)

The External Auditors are likely to focus on these weaknesses when they carry out their work to sign off the Council's final accounts. Therefore a summary of all actions arising from the Managed Audits has been provided to the Head of Financial Services who has undertaken to monitor these through to completion. On the whole I am able to offer reasonable assurance that key financial controls are in place and working as intended.

### **Other Activities**

A partnership review of Building Control Fees was performed which led to an opportunity to share best practice across the County.

In addition to the above activities Internal Audit continue to provide support and advice to management on a wide range of internal control and risk matters including the facilitation of ad-hoc risk sessions. In addition the Group Auditor acts as the Data Protection Officer, providing necessary advice and dealing with Subject Access Requests. The

Group Auditor also acts as the Key Contact for the National Fraud Initiative and co-ordinates the Council's response.

### SWAP - Performance

In November 2008 SWAP expanded to include Weymouth and Portland Borough Council and West Dorset District Council. Work was also undertaken for Forest of Dean District Council and further work is ongoing. Performance standards are maintained across the partnership and during 2008/09 SWAP introduced a new web based auditing system (MKInsight) to improve management information and increase the flexibility of its staff.

With regards to SSDC on the plan for 2008/09 performance was as follows:

Operational Audits completed in year compared to the plan:	21 out of 24 (87.5%)
Number of actions for improvements agreed by managers:	142

Managed Audits completed in year compared to plan:	8 out of 8 (100%)
Number of actions for improvements agreed by managers:	33

Customer Satisfaction – 83.4% where 75% represents Good.

### SSDC – Summary of Activity

Compared to the audit reviews from last year, there has clearly been a marked improvement in the number of services receiving a reasonable assurance and two services given full assurance. Only one service received a partial assurance.

For all of the reviews an agreed action plan has been drawn up with the co-operation of the service management to address identified control weaknesses.

The managed audits of the key financial systems did not identify any serious concerns. Although there were 33 agreed actions resulting from these reviews they were of an administrative nature and the findings would not have had an impact on the Council's final accounts. The Head of Finance has been provided with a record of the 33 actions and has agreed to monitor progress through to completion.

The areas of particular concern were:

**Procurement** – The auditor's opinion of partial assurance was summarised as follows:

“The authority has completed and approved the necessary policy/strategy changes to bring about a more effective, corporate, procurement process. The audit review however has found that little effective progress has been made translating this into action”.

The Procurement Manager is fully aware and supportive of the issues raised in the report and is understood to be making significant progress on the actions agreed.

**Managers Operational Statements** - For those areas not covered by an Internal Audit Review, the Head of Financial Services has sought the assurance of the relevant Head of Service as to the adequacy of the internal control environment. A signed Operational Statement has been returned for each service offering further assurance that necessary controls are operating as intended; these have been reviewed and countersigned by the appropriate Director.

**SSDC - Group Auditor's Opinion**

For the year 2008/09 there has been continued improvement for the reviews carried out and based on our findings and the assurance received from Heads of Service Statements, I feel able to offer 'Reasonable' assurance that internal controls were in place and working well for those services reviewed.

For those reviews where concerns have been raised, I am confident that Heads of Service and the Corporate Governance Group have these on their 'radar' and are monitoring progress to a satisfactory conclusion.

The key financial systems have again been found to be operating effectively and for those actions agreed, the Head of Financial Services is monitoring these through to completion.

***Background Papers:*** None.

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