

Audit Committee – 10th December 2009

5. Internal Audit Quarter 2 Report 2009-10

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Purpose of the Report

To provide the Audit Committee with a summary of internal audit activity for the period 1st April 2009 to 30th September 2009.

Recommendation

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

The Role of Internal Audit

The Internal Audit service for SSSC is provided by 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 also reviewed and endorsed by the Audit Committee on 26th February 2009.

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)

Internal Audit Work Programme for 2009/10

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. Three full Operational audits and three Governance audits, from the 2009/10 plan have to date been completed and final reports issued. In addition, two further audits are at draft report stage and will be issued shortly.

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.

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▲★★★ **Partial** - Some key 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:

Operational Audits reported to this Committee August 2009:

Fleet Management - ▲★★★ **Reasonable**
Human Resources - ▲★★★ **Reasonable**
CCTV - ▲★★★★ **Comprehensive**
Insurances - ▲★★★ **Reasonable**
Corporate Governance - ▲★★★ **Reasonable**
Goldenstones - ▲★★★ **Reasonable**

Governance Audits reported to this Committee August 2009:

Absence Management (2)
Gifts and Hospitality – Register of Interests (3)
Health and Safety – Lone Working (5)

Audits completed since August 2009 Committee:

- Asset Management (18) - ▲★★★ **Partial**

The commercial rents do not provide us with any assurance, however overall I give partial assurance because I believe that proactive work is taking place by the Senior Land and Property Officer and the Land and Property Assistant to help ensure that we are continually strengthening the service provided.

There is still a fair amount to do and improvements need to be introduced to provide assurance that our commercial properties are being used effectively and are adequately controlled.

Improvements have been agreed to maintain best practice and ensure accountability of potential medium to high risk areas within the service. When these improved controls are implemented or operating fully then I am confident that with the desire of the key staff to manage the Councils Asset's effectively then the level of audit assurance will become at least reasonable.

- Development Control (8) - ▲★★★ **Reasonable**

Overall the service has good systems in place. Staff have implemented effective practices to ensure that the planning application process runs smoothly for customers in South Somerset. Similarly the Enforcement Team offer robust

practices to ensure that complaints and planning breaches are dealt with in a timely manner.

- Parks and Open Spaces (7) - ▲★★★ **Reasonable**

This audit has found that there are a number of measures that need to be in place to fully satisfy government guidance however I believe that proactive work/measures are in place as part of the strategy to ensure that we are delivering a variety of open spaces and continually strengthening the service provided. Full Council will adopt and formally endorse the Open Spaces Strategy when completed. Improvements have been agreed to maintain best practice and ensure accountability of potential medium to high risk areas within the service.

- Markets (18) - ▲★★★ **Partial**

Due to the diligence and commitment of the Market Supervisor, the basic objective of ensuring that regular markets take place throughout the district is met. However, overall the service currently lacks strategic objectives and this is reflected in the audit opinion. In addition there are some administrative control weaknesses that undermine the effective governance arrangements for the service.

- Yeovil Recreation Centre (10) - ▲★★★ **Partial**

The audit review can only provide management with partial assurance, however I believe that proactive work is taking place by both the Senior Leisure Facilities Officer and the Facilities Management Officer to help ensure that we are continually strengthening the service provided. There is still a fair amount to do and improvements need to be introduced to provide assurance that income is adequately controlled.

Improvements have been agreed to maintain best practice and ensure accountability of potential medium to high risk areas within the service. When these improved controls are implemented or operating fully then I am confident that with the desire of the key staff to continue to manage the Yeovil Recreation Facility then the level of audit assurance will become at least reasonable.

- Community Resource Centre (7) - ▲★★★ **Reasonable**

The Resource Centre provides a service to a variety of users and Community Groups who appreciate and value the service. While currently running at an operational cost of £81k per year, £34k of this is attributable to the Activity Bus. As identified in the Management Summary, there is a £33k shortfall against the income budget for Resources and Mini Bus Hire. The hire equipment has been greatly reduced over recent years and the hire of the Mini Bus has been limited (the Mini Bus hire will be removed completely in August 2010 when the current lease expires). However, with this knowledge, the income target has continued to increase even though this level of income is clearly not achievable.

The staff are very focussed on achieving targets as demonstrated by the budget performance, with the above exception. Reviewing the Resources income target to a more realistic figure will, in my opinion, serve to increase motivation for the team to achieve it.

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On the whole, with the exception of fire alarm testing, we have found only minor issues relating to the key controls reviewed. The Resource Centre Manager is keen to address these and in some instances, has taken immediate action to do so.

2 audits are at draft stage pending client approval:

- Fees and Charges
- Performance Indicators – Quality Check

Governance Audits

This year, for the first time, we have introduced a new specialist area of Governance, Fraud and Corruption. The audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. The reviews that have been completed have resulted in 25 agreed actions for improvement.

- Corporate Policy (1)
- Information Governance (7)
- Business Continuity - Communications (2)
- Procurement Cards and Petty Cash (15)

Internal Audit will use the findings of these reviews to support the assurance we are required to provide as part of the Council's Annual Statement on Governance. I am pleased to report that whilst there are some areas where improvement is required there are no high risks that require the immediate attention of Management.

2009/10 Quarter 3

The following audits from the audit plan are planned for quarter 3:

- Strategic Housing
- Capital Accounting
- Council Tax
- Creditors
- Debtors
- Housing Benefits
- Main Accounting
- NNDR
- Payroll
- Treasury Management

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 working 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.*