

Audit Committee – 25<sup>th</sup> February 2010

## 5. Internal Audit Quarter 3 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 October 2009 to 31st December 2009.

### 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 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. Ten full Operational audits, eight Governance audits and seven Managed audits from the 2009/10 plan have to date been completed and final reports issued.

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** - 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 158 agreed actions for improvement:

Operational Audits reported to this Committee during the period April to December 2009:

<b>Audit Area</b>	<b>Audit Opinion</b>
Asset Management	▲★★★ Partial
CCTV	▲★★★★ Comprehensive
Community Resource Centre	▲★★★ Reasonable
Corporate Governance (2008-09)	▲★★★ Reasonable
Development Control	▲★★★ Reasonable
Fleet Management	▲★★★ Reasonable
Goldenstones (2008-09)	▲★★★ Reasonable
Human Resources	▲★★★ Reasonable
Insurances (2008-09)	▲★★★ Reasonable
Markets	▲★★★ Partial
Parks and Open Spaces	▲★★★ Reasonable
Yeovil Recreation Centre	▲★★★ Partial

Governance Audits reported to this Committee during the period April to December 2009:

Absence Management (2)  
 Business Continuity - Communications (2)  
 Corporate Policy (1)  
 Gifts and Hospitality – Register of Interests (3)  
 Health and Safety – Lone Working (5)  
 Information Governance (7)  
 Procurement Cards and Petty Cash (15)

Operational Audits completed since December 2009 Committee:

<b>Audit Area</b>	<b>Audit Opinion</b>
Officers Claims and Allowances (2)	▲★★★★ Comprehensive

I am able to offer comprehensive assurance as 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.

**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 2009/10:

<b>Audit Area</b>	<b>Audit Opinion</b>
Capital Accounting	▲★★★★Comprehensive
Council Tax	▲★★★Reasonable
Creditors	▲★★★★Comprehensive
Debtors	▲★★★Reasonable
Main Accounting	▲★★★★Comprehensive
NNDR	▲★★★Reasonable
Payroll	▲★★★★Comprehensive
Treasury Management	▲★★★★Comprehensive

It is worth commenting that results of these audits are exceptional and confirm that key financial controls are operating very effectively.

**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 in this quarter have resulted in 7 agreed actions for improvement.

<b>Audit Area</b>	<b>Audit Opinion</b>
Fees and Charges (7)	▲★★★Reasonable

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 4**

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

Partnership Arrangements  
 Performance (Service Planning)  
 Petty Cash Checks  
 Section 106 and Commuted Sums  
 Community Safety  
 Customer Services  
 Octagon Theatre  
 Car Parks

**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.*

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