

Audit Committee – 27th May 2010

## 5. South West Audit Partnership - Annual Report 2009/2010

*Head of Service:* Gerry Cox, Head of Internal Audit Partnership  
*Lead Officer:* Dave Hill, Group Auditor  
*Contact Details:* david.hill@southwestaudit.gov.uk or 01305 838251

### 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:

# AC

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

## Internal Audit Work Programme for 2009/2010

### 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 23 operational audits were planned.

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

▲★★★★ **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.

▲★★★★ **Reasonable** - I am able to offer reasonable assurance as 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** - I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

▲★★★★ **None** - I am not able to offer any assurance. 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 152 agreed actions for improvement:

14 audits were completed and final reports issued:

- |                                     |                     |
|-------------------------------------|---------------------|
| • Asset Management                  | ▲★★★★ Partial       |
| • CCTV                              | ▲★★★★ Comprehensive |
| • Community Resource Centre         | ▲★★★★ Reasonable    |
| • Customer Focus                    | ▲★★★★ Reasonable    |
| • Data Centre Facilities Management | ▲★★★★ Partial       |
| • Development Control               | ▲★★★★ Reasonable    |
| • Fleet Management                  | ▲★★★★ Reasonable    |

- Goldenstones ▲★★★★ Reasonable
- Health and Safety At Work ▲★★★★ Comprehensive
- Human Resources ▲★★★★ Reasonable
- Markets ▲★★★★ Partial
- Officers Claims and Allowances ▲★★★★ Comprehensive
- Parks and Open Spaces ▲★★★★ Reasonable
- Yeovil Recreation Centre ▲★★★★ Partial

2 audits are at draft stage pending client approval

- Octagon Theatre ▲★★★★ Reasonable
- Software Licensing ▲★★★★ Partial

For the following 4 audits, testing is in progress or a discussion document has been issued and a draft report will be issued shortly:

- Car Parks
- Community Safety
- Licensing
- Strategic Housing

### **Governance Audits**

Governance audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. The following is a summary of the reviews. Those completed at least to draft stage have resulted in 29 agreed actions for improvement:

- Absence Management
- Business Continuity - Communications
- Corporate Policy
- Fees and Charges
- Gifts and Hospitality
- Health and Safety – Lone Working
- Information Governance
- Performance – Service Planning
- Procurement Cards and Petty Cash
- Section 106 and Commuted Sums

### **Managed Audits**

Managed audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. The following reviews have been completed which resulted in 7 agreed actions for improvement:

- Capital Accounting (0)
- Council Tax (1)
- Creditors (0)
- Debtors (2)
- Housing Benefits (0)
- Main Accounting (0)
- NNDR (4)
- Payroll (0)
- Treasury Management (0)

# AC

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 Assistant Director (Finance and Corporate 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.

## Special Investigations

In 2009/10 there were 9 investigations that required a significant amount of time from SWAP:

- Burial Committee Cemetery Lodge
- Yeovil Recreational Centre
- Licensing Income
- Licensing (6 separate investigations)

## Other Activities

In 2009/10 SWAP were also asked by management to undertake some specific reviews that were not in the original audit plan:

- ACI Chard Regeneration Scheme Statement of Accounts
- Yeovil Crematorium and Cemetery Committee Annual Accounts Return
- Data Quality work as assurance to the Audit Commission

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.

As a result of the time spent on investigations and other activities the following audits were deferred from the 2009/10 plan with agreement of management:

- Homelessness – this has been started in Qtr 1 2010/11 financial year
- Partnership Arrangements - this has been deferred to 2010-11 financial year
- Property Services - this has been deferred to 2010-11 financial year
- Telephones - this has been deferred to 2010-11 financial year
- Risk Management - this has been deferred to 2010-11 financial year
- ICT Strategy - this has been deferred to 2010-11 financial year

## SWAP - Performance

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 2009/10 performance was as follows:

Operational/Governance Audits completed in year compared to the plan:	30 out of 36 (83%)
Number of actions for improvements agreed by managers:	181
Managed Audits completed in year compared to plan:	9 out of 9 (100%)
Number of actions for improvements agreed by managers:	7

Customer Satisfaction – 84.39% where 75% represents Good.

### **SSDC – Summary of Activity**

For all of the reviews an agreed action plan has been drawn up with the cooperation 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 7 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 Assistant Director (Finance and Corporate Services) has been provided with a record of these actions and has agreed to monitor progress through to completion.

### **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 2009/10 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 Assistant Director (Finance and Corporate Services) is monitoring these through to completion. It should be noted that the number of agreed actions to further improve the financial control environment has shown a significant decrease from the previous financial year, from 33 to 7. It is worth commenting that the results of these audits are exceptional and confirm that key financial controls are operating very effectively.

**Background Papers:** *None.*