

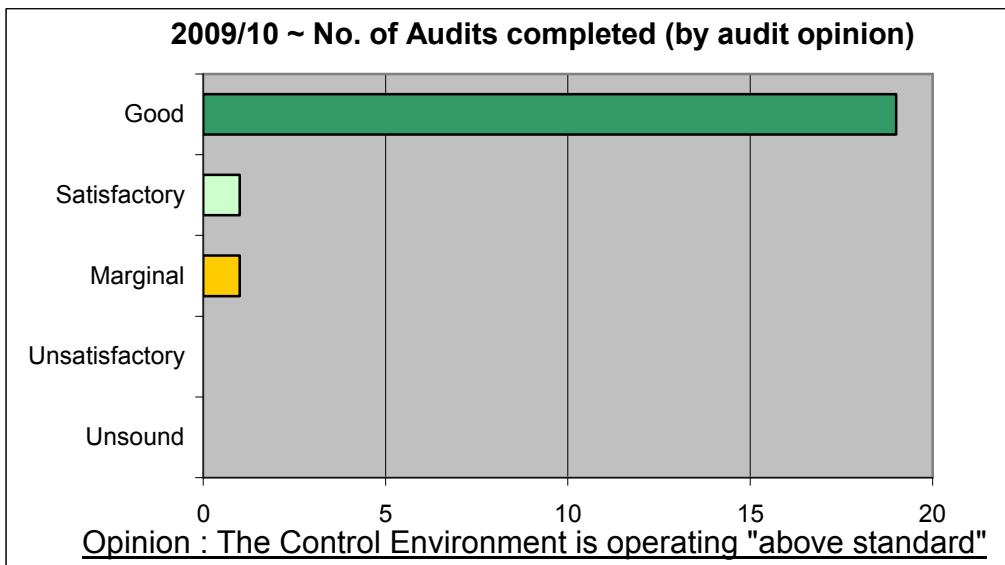


*Independent Assurance*

# Internal Audit Annual Report



**Ryedale DC  
June 2010**



Head of Partnership: James Ingham CPFA  
Audit Manager : Alison Newham BA(Hons)  
Circulation list: Members Overview & Scrutiny Committee  
Chief Executive  
Corporate Director (s151)

## **Summary**

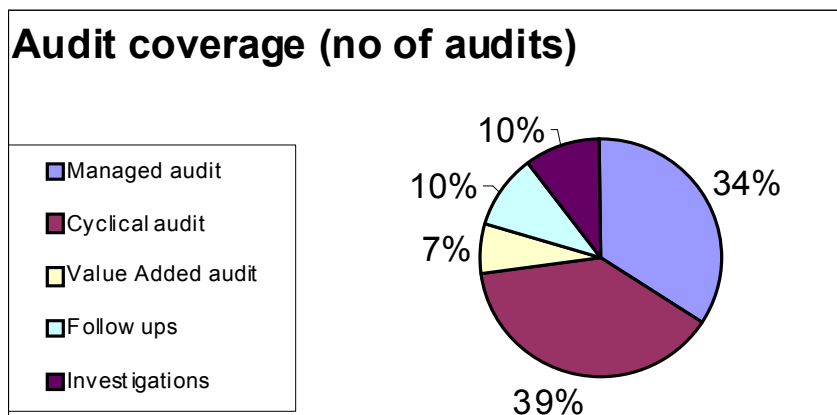
### **1.0 Introduction**

- 1.1 Internal Audit is a mandatory requirement for all councils, (Accounts & Audit regulations). The Council meets that requirement by an Internal Audit service provided through the North Yorkshire Audit Partnership.
- 1.2 The Partnership provides the service and works to the Cipfa Code of Practice for Internal Audit in Local Government. The council's external auditors undertake a tri-ennial review of the Partnership (next review due 2009/10), which adds to the Accounts & Audit regulation requirement that the council undertakes an annual review of the effectiveness of the system of Internal Audit. The results of both reviews are presented to the audit committee of the Council.
- 1.3 Internal audit providers in Local Government have an obligation to produce an Annual Internal Audit Report. This is an important document in many ways and brings together the following in one consolidated report.
  - ◆ A clear statement of assurance by the North Yorkshire Audit Partnership regarding the adequacy and effectiveness of the internal control environment.
  - ◆ The key issues and themes arising out of the internal audit activity that has been undertaken during 2009/2010, encompassing systems audit work and any specialist reviews.
  - ◆ A summary of our performance during the year, including details of:
    - The summary of the opinions for the audits completed
- 1.4 The Annual Report is, however, more than the sum of these parts; taken as a whole it is an important contribution to the Council reaching an understanding of what risks exist and how well they are being managed.

### **2.0 Planned Audit work 2008/09**

- 2.1 The agreed number of days in the plan for internal audit was 265. The plan itself was derived from the Partnership's risk model, devised to target resources to those areas that are considered to be of the greatest risk.
- 2.2 It is, however, tempered by a number of factors, the most significant of these being the expectation of the external auditors that internal audit undertake work on the material (significant) systems of the council on an annual basis. The volume of time required is largely constant, so the balance is used for locally directed and determined audit assignments.
- 2.3 The plan also includes a provision for specialist audit work including ICT audit, and work around the partnership governance area. Finally it also includes an amount of time to meet Client support requirements, including attending audit committee, and ad-hoc or special investigations.

2.4 The chart below shows the spread of audit assignments.



2.5 Appendix A shows the final table of planned audit work, and the audit opinion associated with the audits completed.

2.6 This section of the annual report focuses on measuring the performance of the North Yorkshire Audit Partnership specifically against the delivery of the internal audit service to Ryedale District Council. Appendix B provides a summary of the performance indicators as measured against accepted standards. It will be noted that some of the performance measures are subjective and can only be considered by the Council.

### 3.0 **Where did Internal Audit “add value” in 2009/10?**

3.1 In the current and anticipated future economic climate, all parts of the Council, whether internal units, contracted partners, or joint service arrangements will need to demonstrate that they are ‘adding value’ to the Council.

3.2 Whilst there is a statutory requirement for internal audit, the method used to comply with that basic premise is open to the Council to determine. Therefore it is vital that we identify that we have not only provided a ‘legally compliant’ service but can show where we consider that we have ‘added value’ through our work for Ryedale DC.

3.3 The dilemma is that, whilst there is no doubt that internal audit work provides an amount of added value, simply by its very presence, it can be somewhat problematical to determine and quantify ‘added value’ where the output is a positive internal audit report. However the assurance and added value is intrinsic in that if internal audit were not present, active and effective would there be areas of concern that the Council may not be aware of? In effect we add value by the work we do and through that the confirmation of an effective system of internal control which is assessed and reported to members and the wider public through the Annual Governance Statement.

3.4 We consider that we have added value in the year through the following: -

- ◆ Material Systems audit work; where our work provides a solid base for the external auditors in their review of these systems as part of their opinion work. This also improves External Audit liaison and this shared work if not done may lead to increased external audit fee. The work we do, therefore maintains, and may also be said to reduce, the external audit fee.
- ◆ Assurance from cyclical audit work adds value to the organisation by providing that continuing confidence that our work has not identified significant control failings. Where issues are identified these are discussed with relevant line management and recommendations are proposed and agreed with them for implementation. Through this dialogue we add value by enhancing the control environment and by providing the Committee where member responsibility for that exists through the regular briefings in our quarterly and annual IA reports on the control environment. .
- ◆ Our Follow up process which covers most of the audits adds value by providing assurance to line management, Corporate Directors, Heads of Service, and the Committee members that the agreed recommendations are being properly implemented. Through this process the overall Control Environment is continually upgraded.

- ◆ We have added value to the Overview & Scrutiny (Audit) Committee through our support and advice to it. We have assisted by suggesting and facilitating the attendance at Committee of managers to respond directly to members questions and concerns over the audit reports and the actions that managers are taking to implement agreed recommendations.
- ◆ We also add value through that part of our remit where we provide support to the Council's Risk Management process. This we achieve through reviewing and revising the Risk Management Strategy, and process. It should be noted that with the effective implementation, and imaginative use of Covalent our role has continues to diminish.
- ◆ We consider that we would add value to the developing and changing nature of the Council's activities through our presence and attendance at development group meetings as we are there to ensure that where there are proposed and new ways of delivering services that the control environment is not overlooked which could lead to the Council being exposed. Through our active participation in these groups we look to make the new ways of working secure and effective without imposing needless bureaucracy.
- ◆ We are also planning for 2010/2011 to provide bespoke training sessions to the staff, for Risk Management and FAT (Fraud Awareness Training).

#### **4.0 Matters of significance from the work completed in the year**

4.1 The areas that were especially pleasing to report are as follows:-

- 👍 We are pleased to report that Performance management is now largely embedded in the day to day routines of the Council, using Covalent. This is also now being used to further develop Risk Management. In addition, a Risk Register Action Plan Audit is scheduled for 2010/11 when the actions will be monitored from the registers and cross referenced to the relevant audits in the plan.
- 👍 We anticipate being able to use Covalent ourselves to drive improvements in the follow up process of agreed audit recommendations.

4.2 The only areas that generated concern were as follows: -

- 👎 We were included in the team reviewing the arrangements for the support of Community Leisure Ltd. The amount of financial support is significant and there are some concerns around the present arrangements, and particularly the future options that face the Council.
- 👎 Another cause for concern was the findings resulting from the Fixed Assets audit – whilst the accounting systems and controls were robust, the weaknesses identified lie with the property side, where there continues to be delay in getting an effective and efficient asset management register in place, although progress is now being made. The council, a number of years ago, invested in proprietary software which has not been used. This issue has also been in the Council's Annual Governance Statement for at least two years with only minimal progress with implementation of agreed actions.
- 👎 Controls could have been better with mobile telephony, but there was no evidence of either control failure or misuse. The Partnership will be following up areas of concern in 2010/11.
- 👎 There have been two material (in terms of IA time) special investigations during the year, one of which was centred on additional work to support the external audit review of poor budget monitoring in one specific area. Consequently and concurrently the Council's FPR (Financial Procedure Rules) are being reviewed and revised. The second was on a standards matter in a Parish Council, and was undertaken to support the Council's Monitoring Officer.

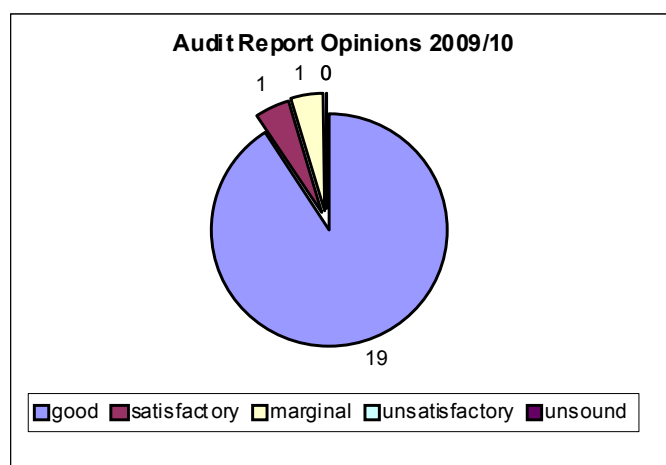
## 5.0 Audit Opinion and Assurance Statement

- 5.1 We have conducted our audits both in accordance with mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government.
- 5.2 The Cipfa Code defines Internal Audit as an assurance function providing an independent opinion on the Internal Control Environment, comprising Risk Management, Governance and Internal Control. Accordingly we have structured our opinion around those three themes.
- 5.3 For 2009/2010, the internal audit opinion is derived from work completed as part of the agreed internal audit plan, which includes compliance with the managed audit. This is work done as part of the joint protocol between the Council's internal and external auditors who themselves are required to give an opinion on the Council's accounts. It is accepted that Internal Audit has an established position of independence within the Council more especially with the specific arrangements that exist with the North Yorkshire Audit Partnership. It has experience in control and assurance matters generally.
- 5.4 On balance, based upon the audit work done, together with the pre-existing cumulative audit knowledge and experience of other areas not subject to audit this year our overall audit opinion is that the Internal Control Environment for the Council is operating "to standard".

5.5

The Assurance:	
Risk Management	The Council is has managed to embed Risk Management within the organisation through the effective implementation, and imaginative use of Covalent.
Governance	Our work this year leads us to the overall opinion that the Corporate Governance arrangements are sound.
Internal Control [financial systems, etc.]	<p>Our overall opinion is that the internal controls within the financial systems in operation throughout the year are fundamentally sound. (95% of audits completed had a 'good' or 'satisfactory' audit opinion.)</p> <p>This is based upon our examination of the key financial systems as part of the managed audit approach, and the other financial systems that were actually audited. On that basis and our previous experience and knowledge there is no reason to believe that the systems are other than sound.</p>

Table of 2009/10 audit assignments completed



<b>Audit</b>	<b>Status</b>
<b><u>2009/10 ~ Material Systems (External Audit definition)</u></b>	
Council Tax	Work in Progress ~ completed Q1 2010/2011 ~ Good
Creditors + e-procure/purchase cards	Work in Progress ~ completed Q1 2010/2011 ~ Good
Debtors	Completed ~ Good
Income System	Completed ~ Good
NNDR	Work in Progress ~ completed Q1 2010/2011 ~ Good
G. Ledger + Bank Reconciliations	Completed ~ Good
Housing Benefits	Work in Progress ~ completed Q1 2010/2011 ~ Good
Payroll	Work in Progress ~ completed Q1 2010/2011 ~ Good
Treasury Mgt	Completed ~ Good
Asset Management (Capital Accounting)	Work in Progress ~ completed Q1 2010/2011 ~ Good
<b><u>2009/10 Audit plan work</u></b>	
<b><u>Head of Environmental Services</u></b>	
<i>Health &amp; Environment</i>	
Licensing Act(s)	Completed ~ Good
Markets	Completed ~ Good
<i>Street Scene Services</i>	
Trade Refuse	Completed ~ Good
<b><u>Head of Economy &amp; Housing</u></b>	
<i>Economic &amp; Community</i>	
Leisure Contract (C L Ltd)	Internal Audit ~ participation in CL Ltd review process
<i>Housing Services</i>	
Grants (Disabled access; etc)	Completed ~ Good

<b><u>Audit</u></b>	<b><u>Status</u></b>
<b><i>Head of Planning</i></b>	
<i>Forward Planning</i>	
Sustainability	Completed ~ Good
Local Plan	Deferred to 2010/2011
<b><i>Head of Transformation</i></b>	
Performance Indicators	Completed ~ Good
<b><i>Head of Resources</i></b>	
<i>Revenue &amp; Financial Services</i>	
Members Allowances	Completed ~ Good
Insurance	Completed ~ Good
Tax management	Completed ~ Good
<i>Facilities &amp; Emergency Planning Services</i>	
Industrial Units (rentals)	Completed ~ Good
<i>Customer Services &amp; Benefits</i>	
Telephones	Completed ~ Satisfactory
Risk Management Action Plans	Deferred to 2010/2011

## Ryedale District Council Internal Audit Performance measures

	Performance Measures	Partnership Performance 2009/2010
Cost	<ul style="list-style-type: none"> <li>Estimated cost of service compared with similar organisations, based on the number of days in the audit plan.</li> </ul>	<ul style="list-style-type: none"> <li>Partnership £ 62,275</li> <li>Family Group c.£ 72,875</li> <li>Private Sector c.£ 74,000</li> </ul>
Audit Coverage	<ul style="list-style-type: none"> <li>Actual audits completed compared with the plan.</li> <li>Productive or field work time as a percentage of total time</li> <li>Actual areas covered within the plan.</li> </ul>	<ul style="list-style-type: none"> <li>21 out of 23 audits planned were ultimately completed; 91%. (Revised 09/10 plan) plus follow up audits. (Some completed in Q1 2010/2011)</li> <li>100% non-productive time is borne by the Partnership.</li> <li>All necessary work completed; (any changes made to the original plan are agreed with the client ~ Corporate Director (s151).</li> </ul>
Audit Plans	<ul style="list-style-type: none"> <li>Timeliness of preparation.</li> <li>Conformity with CIPFA Standards</li> <li>Usefulness to readers</li> </ul>	<ul style="list-style-type: none"> <li>Annual audit plan produced and approved in advance of new financial year.</li> <li>Complies with CIPFA standards and external audit requirements.</li> <li>Council to consider this aspect.</li> </ul>
Audit Reports	<ul style="list-style-type: none"> <li>Timeliness of preparation.</li> <li>Factual accuracy.</li> </ul>	<ul style="list-style-type: none"> <li>Draft reports to be issued within 15 days of completion of audit. (over 80% within target).</li> <li>Council responses to draft reports reflect high levels of factual accuracy achieved.</li> </ul>
Recommendations	<ul style="list-style-type: none"> <li>Comments by clients and management.</li> <li>Implementation of the Management Action Plan (MAP) by clients.</li> <li>Timeliness of follow up of implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Council responses to reports normally very positive.</li> <li>Generally good implementation of the MAP by clients.</li> <li>Formal follow up process and regular reports to the Overview &amp; Scrutiny Committee.</li> </ul>
Relationships	<ul style="list-style-type: none"> <li>Senior management's opinion of Internal Audit provided by the Partnership.</li> <li>Relationship with the External Auditors.</li> </ul>	<ul style="list-style-type: none"> <li>This is reflected in the questionnaires used in the A&amp;A Reg 6 review of effectiveness.</li> <li>Relationship with the external auditors is good and audit work is co-ordinated to achieve optimum effectiveness for the Council.</li> </ul>
Reviews by other agencies	<ul style="list-style-type: none"> <li>Extent of External Auditor's reliance on Partnership work.</li> </ul>	<ul style="list-style-type: none"> <li>External auditor continue to place reliance on our work.</li> </ul>
Staffing and Training	<ul style="list-style-type: none"> <li>Continuity in staffing.</li> <li>Provision of appropriate training for staff.</li> <li>Use of staff with specialist skills; e.g. IT Audit</li> </ul>	<ul style="list-style-type: none"> <li>Head of Partnership for management,</li> <li>Local Audit Manager for Ryedale for service continuity, and local knowledge.</li> <li>Partnership has an established training policy and programme.</li> <li>Used as required or appropriate to Council's needs.</li> </ul>