

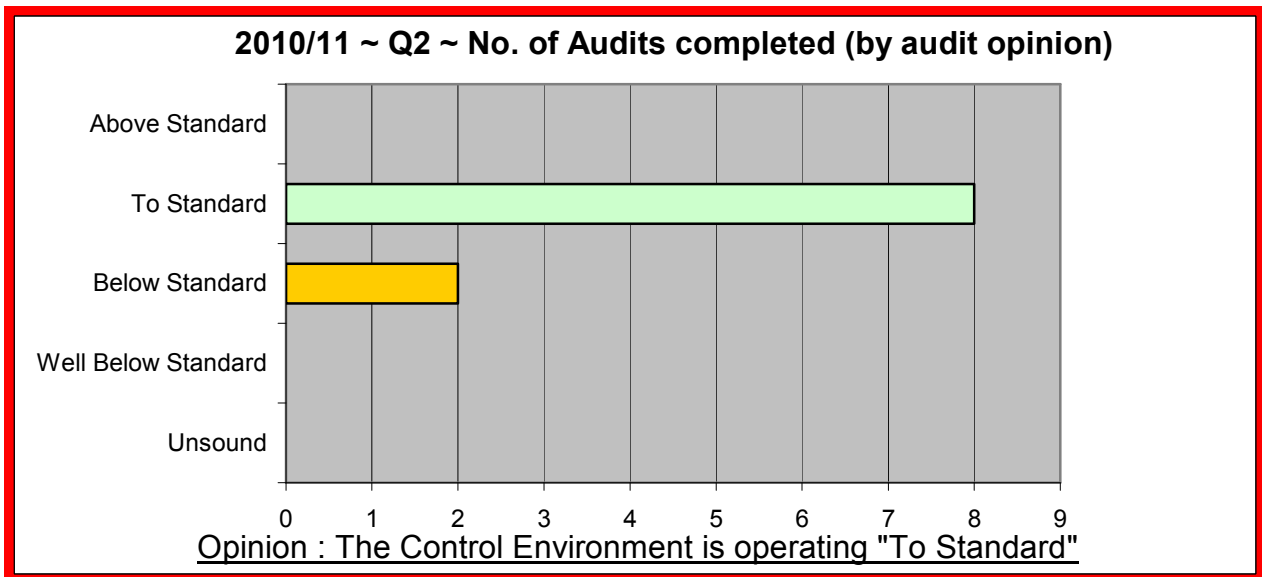


Independent Assurance

Internal Audit 2010/11 Q2+ report



Ryedale DC December 2010



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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 and 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 have undertaken a tri-ennial review of the Partnership which added to the Accounts and 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 Overview and Scrutiny Committee (in its audit committee role) of the Council.
- 1.3 Internal audit providers in Local Government have an obligation to produce an Annual Internal Audit Report. The Partnership considers that it is important for the committee to receive regular interim reports of audits completed, and these two reports follow a common style.
- 1.4 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 2010/2011, encompassing systems audit work and any specialist reviews.
 - ◆ A summary of the opinions and key issues for the audits completed.
- 1.5 This interim 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.
- 1.6 The presence of an effective internal audit function contributes significantly to the strong counter-fraud and corruption culture that exists in the council.
- 1.7 During 2010/11 no significant special investigations have been required to date, suggesting that the present internal control framework is proving effective so far. As part of our audit plan, we have carried out a number of internet log analysis exercises on behalf of management to ensure that any potential abuse or misuse is addressed promptly.
- 1.8 The internal audit team are closely involved with governance matters, and take an active part in the Council's governance and are directly involved with the preparation and drafting of the Council's Annual Governance Statement.

2.0 Planned Audit work 2010/11

- 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 The number of days is to reduce gradually over the forthcoming years by around 7.5% p.a. resulting in a 245 day audit plan 2011/12 and 225 day plan in 2012/13. With the present form of service delivery this ultimate level must be considered to be at the threshold of adequacy to allow sufficient resources for the audit of the Council's activities.
- 2.3 That projected plan value is, in our professional opinion, adequate to allow the Partnership to provide the requisite assurance to the Council on the system of Internal Control. The proportion committed to the material systems may become disproportionately large being almost 50% of the total plan value. The consequence is that over a number of years, a number of discrete work areas may not be subject to an internal audit.
- 2.4 We are aware that the Council is moving to a 'commissioning' model and that may influence the range and type of Internal Audit work that is required.

- 2.5 The projected plan 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.
- 2.6 We therefore will be reviewing the present plan to ensure that we use the resources available to optimal effect with maximum efficiency. We may consider proposing some audit plan time for pro-active counter fraud work, as there is a view in the profession that the current cuts in local Council budgets combined with enforced staff reductions may create the 'perfect storm' conditions where fraud flourishes.
- 2.7 We note that the council has awarded its Housing Benefit Fraud work to Veritau, for a fixed period, and we will work closely with the company in this particular area.
- 2.8 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.
- 2.9 This report also contains a table which shows the schedule of planned audit work, and the audit opinion associated with those audits completed.

3.0 Matters of significance from the work completed in the year

- 3.1 The areas that were especially pleasing to report are as follows: -
-  The majority of audits undertaken so far have returned a 'good' opinion (including in progress and draft stage).
 -  Recommendations from previous years have been, for the most part, implemented.
- 3.2 Areas which generated concern are as follows: -
-  Controls surrounding Internal CCTV. The audit has been completed in draft and discussions continue to be held with the officers involved. We will report further on this at the next Committee meeting.
 -  The lack of a dedicated Officer resulted in the Health and Safety function lapsing to a degree and there was limited contingency in place whilst the position was vacant. The Council has now appointed a part time Health & Safety officer which now provides that function.
 -  The Taxi Licensing audit reported a number of significant control weaknesses. We are please though that these were recognised and have been quickly addressed by management and thereby resulted in the overall audit opinion being lifted.

4.0 Audit Opinion and Assurance Statement

- 4.1 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.
- 4.2 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.
- 4.3 For 2010/2011, 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.

4.4 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”.

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| The Assurance: | |
| Risk Management | The Council has embedded Risk Management within the organisation. The use of performance management software has enhanced this position and has provided a basis for future improvement. |
| Governance | Our work this year to date 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 in the year to date are fundamentally sound including the audit work to date of the main systems. This will be supplemented by additional testing in quarter 4 to complete the audits, and concurrently ensure that the audit covers as much of the financial year as practicable. This will provide a higher degree of assurance to the Council and support to the external auditors</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 at this stage.</p> |

Table of 2010/11 audit assignments completed

| <u>Audit</u> | <u>Status</u> | <u>O&S (Audit) Committee</u> |
|---|---|----------------------------------|
| <i>2010/11 ~ Material Systems (External Audit definition)</i> | | |
| | | |
| Council Tax | <i>In Progress - Extra Testing Q4</i> | |
| Creditors + e-procure/purchase cards | <i>In Progress - Extra Testing Q4</i> | |
| Debtors | <i>In Progress - Extra Testing Q4</i> | |
| Income System | <i>In Progress - Extra Testing Q4</i> | |
| NNDR | <i>In Progress - Extra Testing Q4</i> | |
| G. Ledger + Bank Reconciliation's | <i>In Progress - Extra Testing Q4</i> | |
| Housing Benefits | <i>In Progress - Extra Testing Q4</i> | |
| Asset Management (Capital Accounting) | <i>Planned Q3</i> | |
| Payroll | <i>Planned Q4</i> | |
| Treasury Mgt | <i>Planned Q4</i> | |
| | | |
| <i>2010/11 Audit plan work</i> | | |
| | | |
| Internal CCTV | <i>Complete (below standard - draft)</i> | <i>Dec 2010</i> |
| Health and Safety | <i>Complete (below standard)</i> | <i>Dec 2010</i> |
| Officers Allowances | <i>Complete (to standard)</i> | <i>Dec 2010</i> |
| Taxi Licences | <i>Complete (below standard) Opinion raised after immediate implementation of some recommendations.</i> | <i>Dec 2010</i> |
| Performance Indicators | <i>Complete (to standard)</i> | |
| Garages and Depots | <i>Complete (above standard)</i> | |
| Risk Management Action Plans | <i>In Progress</i> | |
| Housing Strategy | <i>Planned Q3</i> | |
| Concessionary Fares | <i>Planned Q3</i> | |
| Grants | <i>Planned Q3</i> | |
| Development Control | <i>Planned Q3</i> | |
| Community Safety | <i>Planned Q4</i> | |
| | | |

Summary of Key Issues arising from audits completed to 30th November 2010;

| <u>Audit & Opinion</u> | <u>Key Issues</u> | <u>Recommendations</u> | <u>Status: – Follow up due: -</u> |
|--|--|--|-----------------------------------|
| <u>Internal CCTV</u> <u>DRAFT</u> <u>Below Standard</u> | <p>Strengths</p> <ul style="list-style-type: none"> ◇ Officers involved are quick to recognise weaknesses and are working closely with Internal Audit. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Policies or Procedures, possible breaches of DPA / HR/ and RIPA, no maintenance or procurement agreements. SLA with Police. | <p>Recommendations</p> <ul style="list-style-type: none"> ◇ Several recommendations made which will be reported separately. | Follow up due 2011 Q1. |
| <u>Health and Safety</u> <u>Below Standard</u> | <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Ownership for Health and Safety issues. ◇ Possible breaches. | <p>Recommendations</p> <ul style="list-style-type: none"> ◇ A large number of recommendations have been made in order that risks are addressed swiftly. | Follow up due Q1 ~ 2011 |
| <u>Officers Allowances</u> <u>To Standard</u> | <p>Strengths</p> <ul style="list-style-type: none"> ◇ All allowances tested were set in accordance with the Council Policy. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Details of vehicles/insurance details are not current. ◇ Authorisation is not always sought before expenses are paid. ◇ Officers are receiving essential user allowance who are not claiming regular mileage. | <p>Recommendations</p> <ul style="list-style-type: none"> ◇ Vehicle details should be brought up to date before mileage is paid. ◇ Consideration should be given to carrying out a review of the posts which are entitled to essential user allowance. | Audit due 2012/13 |
| <u>Taxi Licensing</u> <u>Below Standard</u> <u>lifted to "To Standard"</u> | <p>Strengths</p> <ul style="list-style-type: none"> ◇ Management are keen to address risks swiftly and introduce tighter controls. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Potential Breaches in legislation. ◇ Lack of controls surrounding the issuing of licence plates and ID badges. ◇ Some weaknesses identified | <p>Recommendations</p> <ul style="list-style-type: none"> ◇ The database in use, should act as the primary record and kept up to date ◇ Consideration should be given to improving | Due 2012/13 |

| <u>Audit & Opinion</u> | <u>Key Issues</u> | <u>Recommendations</u> | <u>Status: – Follow up due: -</u> |
|----------------------------|------------------------------|---|---|
| | surrounding fees and income. | the licence renewal arrangements. ◇ Income should be reconciled regularly. | |

Opinion Description

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|----------------------------|---|
| <i>Above Standard</i> | Minimal risk identified; a few minor recommendations. |
| <i>To Standard</i> | Some risk identified; some minor changes should be made. |
| <i>Below Standard</i> | Some risk identified; some changes should be made. |
| <i>Well Below Standard</i> | Unacceptable risk identified; major changes must be made. |
| <i>Unsound</i> | Major risk exists; fundamental improvements are required. |