

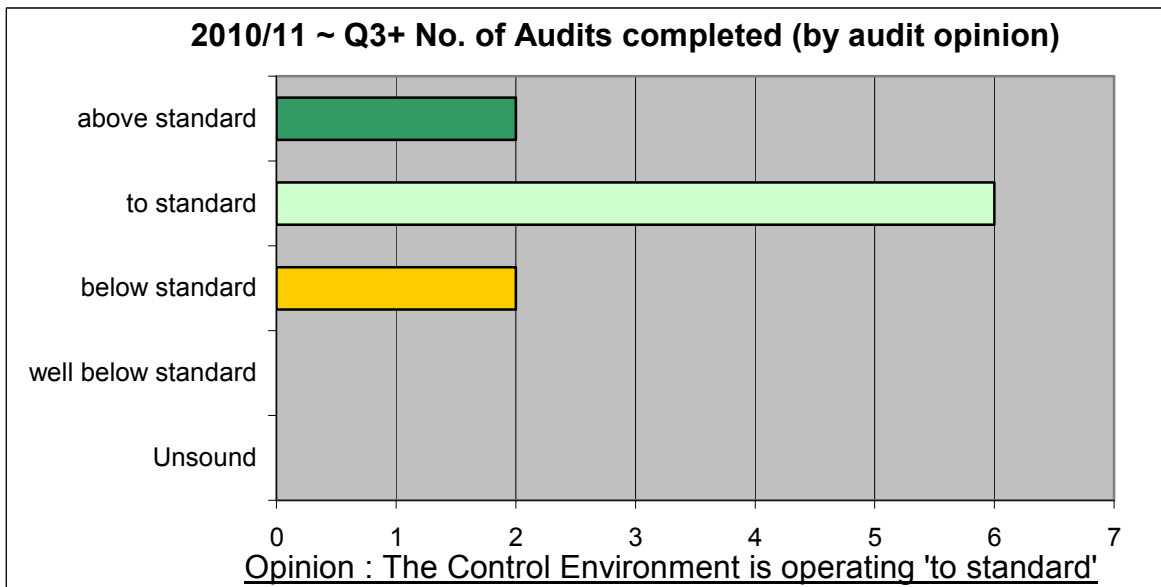


Independent Assurance

Internal Audit 2010/11 Q3+ report



**Ryedale DC
February 2011**



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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 one special investigation has been required to date, this work was carried out following instructions from management and the audit findings of one area. It is predominantly based around internet usage and has proceeded through the disciplinary process. No other investigations have been required which suggests that the present internal control framework is proving effective so far.
- 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 in 2011/2012 resulting in a 245 day audit plan 2011/12.
- 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 'to standard' 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: -
-  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 appointed a part time Health & Safety officer which now provides that function.*
 -  Controls surrounding Internal CCTV. *The audit has been completed and discussions continue to be held with the officers involved. Since we reported at the last Committee, significant improvements have been made and the new Policy and Procedures are awaiting final approval before all changes can be implemented.*
 -  The Taxi Licensing audit reported a number of significant control weaknesses. ~ *We are pleased 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”.

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>
<u>2010/11 ~ Material Systems (External Audit definition)</u>		
Council Tax	<i>Complete - To Standard</i>	<i>Feb 2011</i>
Income System	<i>Complete - Above Standard</i>	<i>Feb 2011</i>
Creditors + e-procure/purchase cards	<i>In Progress - Extra Testing Q4</i>	
Debtors	<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>	
Payroll	<i>Planned Q4</i>	
Treasury Mgt	<i>Planned Q4</i>	
<u>2010/11 Audit plan work</u>		
Internal CCTV	<i>Complete (below standard)</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 to 'to standard' after immediate implementation of some recommendations.</i>	<i>Dec 2010</i>
Performance Indicators	<i>Complete (to standard)</i>	<i>Feb 2011</i>
Garages and Depots	<i>Complete (above standard)</i>	<i>Feb 2011</i>
Risk Management Action Plans	<i>Complete (to standard)</i>	<i>Feb 2011</i>
Concessionary Fares	<i>Complete (to standard)</i>	<i>Feb 2011</i>
Housing Strategy	<i>In Progress</i>	
Grants	<i>Planned Q4</i>	
Development Control	<i>Planned Q4</i>	
Community Safety	<i>Planned Q4</i>	

Summary of Key Issues arising from audits completed to 31st January 2011

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status; – Follow up due: –</u>
<u>PI/Data</u> <u>To Standard</u> <u>(Draft)</u>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The Covalent system is effective and staff are trained to monitor the data regularly. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Whilst the Covalent system is effective - there were a number of weaknesses surrounding the sample of PI's.: - ◇ Calculations could not always be verified (no evidence present) ◇ Verification checks are not carried. 	<p>Recommendations</p> <ul style="list-style-type: none"> ◇ PI Figures should be uploaded onto Covalent. Previous figures should also be reviewed to ensure accuracy.] ◇ Adequate evidence sheets should be retained to support collection and calculations. 	Regular PI monitoring will continue to take place throughout the year.
<u>Garages and Depots</u> <u>Above Standard</u>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ 28 recommendations were made at the previous audit of which almost all have been implemented with significant improvements noted. Particularly with regard to security. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Procedure documentation needs improvement. 	<p>Recommendations</p> <ul style="list-style-type: none"> ◇ Existing procedure documents should be assembled, additional ones re-written as required to address any gaps and a manual compiled to address all areas of administration. 	Audit next due 2013/14
<u>Risk Register Actions</u> <u>To Standard</u> <u>(Draft)</u>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The Risk Management process is established both at Corporate and Service level. ◇ Training is readily available and the systems work effectively. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Significant Partnerships risk registers are not included, as 	<p>Recommendations</p> <ul style="list-style-type: none"> ◇ Encourage Partners to use Covalent and 	Regular monitoring will continue to take place throughout the year.

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status: – Follow up due: -</u>
	detailed in the Risk Management Strategy.	upload their risk registers as part of ongoing assurance provision. ◇ The annual reporting of Partnership risk management needs to be included in the forward plan.	
<u>Concessionary Fares</u> <u>To Standard</u> <u>(Draft)</u>	Strengths ◇ Overall, controls are working effectively. Weaknesses ◇ Recording of data/information could be improved. ◇ Certain income is coded into a suspense account and then transferred when a short code could be created.	Recommendations ◇ The type of documents provided as proof should be recorded. ◇ A miscellaneous income short code should be set up to enable cashiers to post payments for replacement passes directly to concessionary fares income.	Transferring function to NYCC
<u>Income Systems</u> <u>Above Standard</u>	Strengths ◇ Overall, controls are working effectively. Weaknesses ◇ Spot checks and cash ups are not being carried out. ◇ Cash “Overs & unders” are not recorded correctly.	Recommendations ◇ Spot checks should be carried out at least 3 times a year at the cash offices. ◇ Cash “Overs and unders” should be recorded clearly in the cashiers book.	Next audit due 2012/13
<u>Council Tax</u> <u>To Standard</u>	Strengths ◇ The introduction of an interim Local Taxation Manager has brought about much improvement. ◇ Policies and procedures are being re-written in line with legislative and system changes. Weaknesses	Recommendations	Audit Due 2012/13

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status: – Follow up due: -</u>
	<ul style="list-style-type: none"> ◇ Resource issues have resulted in inspections becoming infrequent and exempt or discounted properties are not being verified. ◇ There was insufficient evidence to provide assurance that the input had been verified before payment runs. ◇ No reconciliation between people, number of bills and number of bills posted. 	<ul style="list-style-type: none"> ◇ When the risk assessment of exemptions and discounts has been completed, a policy should be drawn up to clarify policing them. ◇ Reconciliations should be carried out regularly and adequate documentation be placed on file to evidence that this has been done. 	

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

Previously reported to the Committee

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status; – Follow up due: -</u>
<p><u>Internal CCTV</u></p> <p>DRAFT</p> <p><u>Below Standard</u></p>	<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. 	<p>Follow up due 2011 Q1.</p> <p>Feb 2011: - <i>Constructive discussions have taken place with managers and there has been significant progress with the action plan.</i></p>
<p><u>Health and Safety</u></p> <p><u>Below Standard</u></p>	<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. 	<p>Follow up due Q1 ~ 2011</p> <p>Feb 2011: - <i>A part time H&S manager has now been appointed.</i></p>
<p><u>Officers Allowances</u></p> <p><u>To Standard</u></p>	<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 an essential user allowance and 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. 	<p>Next audit due 2012/13</p>
<p><u>Taxi Licensing</u></p> <p><u>Below Standard</u></p> <p><u>lifted to "To Standard"</u></p>	<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 	<p>Recommendations</p> <ul style="list-style-type: none"> ◇ The database in use, 	<p>Next audit due 2012/13</p> <p>Feb 2011: - <i>Strong</i></p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status: – Follow up due: -</u>
	<p>legislation.</p> <ul style="list-style-type: none"> ◇ Lack of controls surrounding the issuing of licence plates and ID badges. ◇ Some weaknesses identified surrounding fees and income. 	<p>should act as the primary record and kept up to date</p> <ul style="list-style-type: none"> ◇ Consideration should be given to improving the licence renewal arrangements. ◇ Income should be reconciled regularly. 	<p><i>progress with improving systems.</i></p>

Opinion Description

<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.