

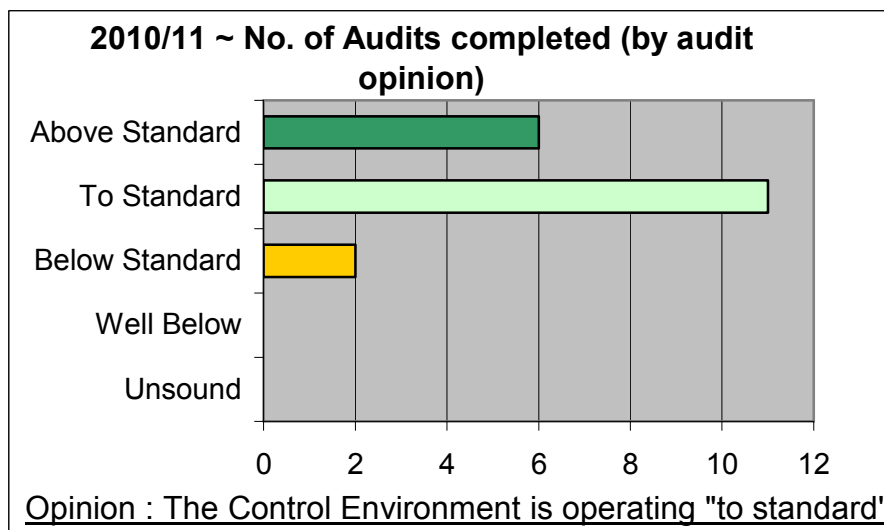


Independent Assurance

Internal Audit Annual Report



Ryedale District Council July 2011



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Circulation list: Members Overview & Scrutiny Committee
Chief Executive
Corporate Director s151

Summary

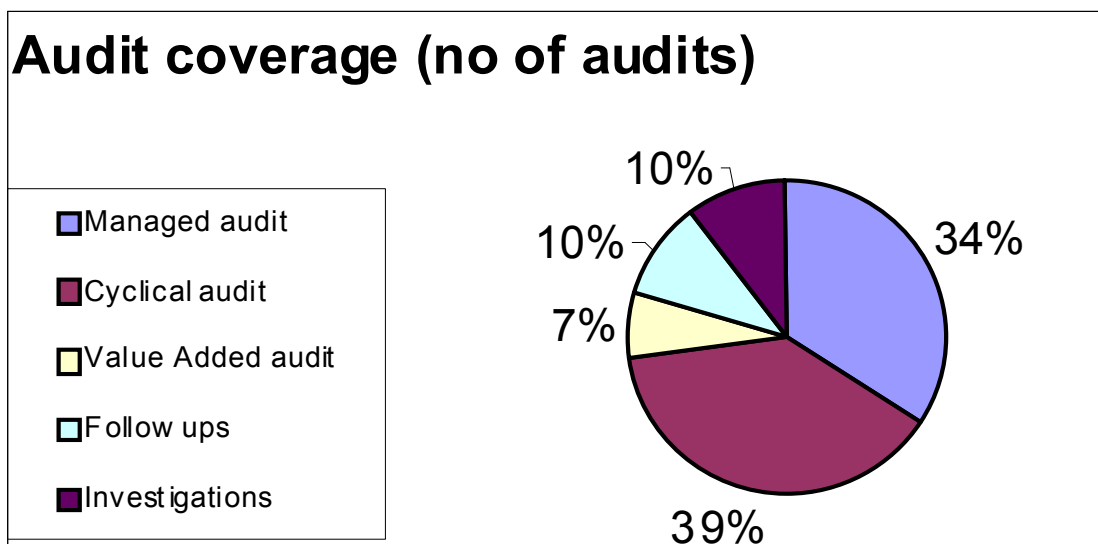
1.0 Introduction

- 1.1 Internal Audit is a mandatory requirement for all councils, (Accounts & 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 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 2010/2011, 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 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 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 of this report 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 2010/11?**

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 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 2011/2012 to provide bespoke training sessions to the staff and Members on 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 fundamentally 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 has been completed where the actions were 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.
-  Management and staff alike are now working much more closely alongside Internal Audit and seeking guidance with new ventures and projects.

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

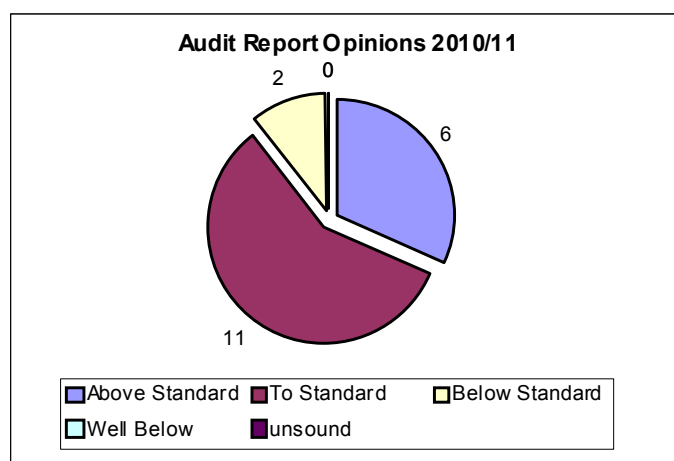
-  Internal CCTV caused some significant concerns and the audit opinion was "below standard". As soon as Management became aware of the issues, improvements were made, controls were introduced, and risks greatly reduced. We will be completing a follow up report in 2011/12.
-  There has only been one special investigation that was significant in terms of time spent on it, and it was investigating alleged misuse of internet facilities. This has now been completed, the issue resolved and appropriate action was taken. Preventative measures and tighter controls have also been introduced as a result of this investigation.

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 2010/11, 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".

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. (89% of audits completed had an 'Above Standard' or 'To Standard' 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 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	Complete - To Standard	Feb 2011
Creditors + e-procure/purchase cards	Complete - To Standard	Feb 2011
Debtors	Complete - Above Standard	July 2011
Income System	Complete - Above Standard	July 2011
NNDR	Complete - To Standard	July 2011
G. Ledger + Bank Reconciliations	Complete - Above Standard	July 2011
Housing Benefits	Complete - To Standard	July 2011
Payroll	Complete - Above Standard	July 2011
Treasury Mgt	Complete - Above Standard	July 2011
<u>2009/10 Audit plan work</u>		
Internal CCTV	Complete - Below Standard	Dec 2010
Health and Safety	Complete - Below Standard	Dec 2010
Officers Allowances	Complete - To Standard	Dec 2010
Taxi Licences	Complete - Below Standard (opinion raised to "to standard" after immediate implementation of recommendations)	Dec 2010
Performance Indicators	Complete - To Standard	Feb 2011
Garages and Depots	Complete - Above Standard	Feb 2011
Risk Management Action Plans	Complete - To Standard	Feb 2011
Concessionary Fares	Complete - To Standard	Feb 2011
Housing Strategy	Complete - To Standard	July 2011
Cultural Grants	Complete - To Standard	July 2011
Development Control	Deferred to 2011/12	
Community Safety	Deferred to 2011/12	

Ryedale District Council

Internal Audit Performance measures

	Performance Measures	Partnership Performance 2010/2011
Cost	<ul style="list-style-type: none"> Estimated cost of service compared with similar organisations, based on the number of days in the audit plan. 	<ul style="list-style-type: none"> Partnership £ 62,275 Family Group c.£ 72,875 Private Sector c.£ 74,000
Audit Coverage	<ul style="list-style-type: none"> Actual audits completed compared with the plan. Productive or field work time as a percentage of total time Actual areas covered within the plan. 	<ul style="list-style-type: none"> 19 out of 19 audits planned were ultimately completed; 100%. (Revised 10/11 plan) plus follow up audits. (Some completed in Q1 2011/2012) 100% non-productive time is borne by the Partnership. All necessary work completed; (any changes made to the original plan are agreed with the client ~ Corporate Director (s151).
Audit Plans	<ul style="list-style-type: none"> Timeliness of preparation. Conformity with CIPFA Standards Usefulness to readers 	<ul style="list-style-type: none"> Annual audit plan produced and approved in advance of new financial year. Complies with CIPFA standards and external audit requirements. Council to consider this aspect.
Audit Reports	<ul style="list-style-type: none"> Timeliness of preparation. Factual accuracy. 	<ul style="list-style-type: none"> Draft reports to be issued within 15 days of completion of audit. (over 80% within target). Council responses to draft reports reflect high levels of factual accuracy achieved.
Recommendations	<ul style="list-style-type: none"> Comments by clients and management. Implementation of the Management Action Plan (MAP) by clients. Timeliness of follow up of implementation. 	<ul style="list-style-type: none"> Council responses to reports normally very positive. Generally good implementation of the MAP by clients. Formal follow up process and regular reports to the Overview & Scrutiny Committee.
Relationships	<ul style="list-style-type: none"> Senior management's opinion of Internal Audit provided by the Partnership. Relationship with the External Auditors. 	<ul style="list-style-type: none"> This is reflected in the questionnaires used in the A&A Reg 6 review of effectiveness. Relationship with the external auditors is good and audit work is co-ordinated to achieve optimum effectiveness for the Council.
Reviews by other agencies	<ul style="list-style-type: none"> Extent of External Auditor's reliance on Partnership work. 	<ul style="list-style-type: none"> External auditor continue to place reliance on our work.
Staffing and Training	<ul style="list-style-type: none"> Continuity in staffing. Provision of appropriate training for staff. Use of staff with specialist skills; e.g. ICT Audit 	<ul style="list-style-type: none"> Head of Partnership for management, Local Audit Manager for Ryedale for service continuity, and local knowledge. Partnership has an established training policy and programme. Used as required or appropriate to Council's needs.