

Report

Report subject: Internal Audit Annual Audit Report 2005/6

Report to: Audit Committee

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1 Introduction

- 1.1 The report covers the performance of Internal Audit during 2005/6 and provides the internal audit opinion on the council's control environment.

2 Summary

- 2.1 The annual report includes the level of assurance for all of the audits undertaken by Internal Audit during 2005/6 and gives an overall opinion.
- 2.2 The opinion on the control framework of the council is substantive assurance. The audit work has identified an overall improvement in internal control in the areas audited. Although there are some gaps and areas of weakness in the application of the framework, these tend to be localised rather than systemic.
- 2.3 Three areas already identified for inclusion in the Statement on Internal Control are confirmed by the findings of internal audit work in the year:
- Business continuity arrangements
 - Payroll
 - IT security policy & corporate standards.
- No new areas were identified for inclusion in the Statement.
- 2.4 Internal Audit has completed 90% of the planned audits from 2005/6. Actual audit resources were 99% of the planned resources. Internal Audit has supported corporate work on risk management, the Statement on Internal Control, information management and e-procurement.

3 Audit Opinion

- 3.1 Internal Audit is required to provide an opinion on the overall adequacy and effectiveness of the council's internal control environment. This is based on the audit work carried out in the year. The control environment of the council covers risk management, control and governance and audit work has been carried out in each of these areas in 2005/6.



Awarded in:
Housing Services
Waste and Recycling Services



- 3.2 From 2005/6, in addition to the level of assurance given to each audit, Internal Audit publish an opinion on whether the actions proposed by managers in response to the risks identified will lead to an improvement in internal control. This is reviewed again at the time of the follow up of the risk assessment and action plan. The audit opinion on the management actions is shown for each of the audits carried out in 2005/6. It should be pointed out that this is a judgement on proposed management actions whereas the follow up process will assess actual actions where taken.
- 3.3 The following table sets out the level of assurance that has been given to each of the areas audited, grouped together by theme. Key financial control audits are undertaken annually and five have improved the level of assurance in 2005/6 in comparison to 2004/5. It is particularly pleasing for 'full assurance' to be given in one area and for there to be no areas of 'no assurance'.

Audit Area	Level of Assurance	Audit opinion on proposed management actions at the point the report was issued	Audit opinion on management actions at the point of the follow up review
Financial Control audits			
Cash collection & banking	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>The improvement in internal control should lead to a higher level of assurance.</i>
Purchasing arrangements	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>Response outstanding</i>
Budget management and reporting	Substantive on reporting, limited on management	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>
Main accounting system	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>Response outstanding</i>
Council Tax	Full	<i>The improvement in internal control should maintain the high level of assurance.</i>	<i>The improvement in internal control should maintain the high level of assurance.</i>
Debtors	Substantive	<i>Draft report and action plan to be agreed.</i>	<i>No follow up yet carried out.</i>
Payroll	Limited	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>
Housing rents	Substantive	<i>The improvement in internal control should reduce risk but not sufficiently to change the</i>	<i>No follow up yet carried out.</i>

		<i>level of assurance.</i>	
Housing benefits	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>
Creditors	Substantive	<i>Draft report and action plan to be agreed.</i>	<i>No follow up yet carried out.</i>
Corporate and Service Unit Audits			
Housing repairs follow up	Limited	Follow up report did not follow the same format as other reports in 2005/6, so these conclusions were not made.	
Waste management	Limited	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>The improvement in internal control should lead to a higher level of assurance.</i>
Sale of council houses under right to buy	Substantive	<i>The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.</i>	<i>The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.</i>
Housing Advances	Substantive on financial administration, Limited on policy	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>Financial Services: The improvement in internal control should reduce risk. Strategic Housing Services: There is no significant improvement in internal control.</i>
CCTV	Limited	<i>There is no significant improvement in internal control.</i>	<i>No follow up yet carried out.</i>
Planning applications	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>The improvement in internal control should lead to a higher level of assurance.</i>
Homeless housing and leased properties	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>There is no significant improvement in internal control.</i>
Section 106 Agreements	Limited	<i>Draft report and action plan to be agreed.</i>	<i>No follow up yet carried out.</i>
Land Charges	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>

Licences	Substantive	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>
Information Management	Limited	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>
Teamspirit (personnel & payroll) application system	Limited	<i>The improvement in internal control should lead to a higher level of assurance.</i>	<i>No follow up yet carried out.</i>
Durrington Pool	Limited	<i>The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.</i>	<i>No follow up yet carried out.</i>

The following table shows the levels of assurance given in last year's annual report. It should be noted that the audit plans cover different audit areas each year, with the exception of the principal financial control audits.

Level of assurance	2002/3	2003/4	2004/5	2004/5 updated	2005/6
Full	0	0	0	0	1
Substantive	12	8	10	11	13
Limited	11	12	13	16	10
No	0	1	4	0	0
Total number of audits in year	22	21	27	27	24

The comparison of 2005/6 to the previous three years shows that there has been an overall improvement in the level of control.

- 3.4 A full audit on risk management was undertaken in 2004/5 and a follow up review has been undertaken in 2005/6. This has shown that significant progress has been made in the past year. Key developments have been:
- Re-establishment of the Risk Management Group and Operational Risk Management Group.
 - New terms of reference and reporting relationships for the group.
 - Integration of risk reporting with the performance reporting to Cabinet.
 - Regular updates of risk registers and extension to operational risks.
- 3.5 An assessment of risk maturity was presented to the last Audit Committee meeting which identified a number of actions for development during 2006/7. Internal Audit are represented on the Risk Management Group and will monitor progress during the year. The Audit Committee has recommended carrying forward risk management on the Statement on Internal Control

action plan for another year to support the process.

- 3.6 An annual review of the corporate governance framework was undertaken and reported to the January meeting of the Audit Committee. The review identified improvements in three areas: community focus, service delivery arrangements and risk management and internal control. An action plan was agreed for 2006. A further report will be made on this later in the year.

4 Overall Opinion and Statement on Internal control

- 4.1 The Audit Committee has already reviewed those areas in last year's Statement on Internal Control action plan and recommended those that should remain for this year's action plan. The findings of audit work in 2005/6 confirm that the following areas should remain within the action plan:

- Administration and management of payroll
- Business continuity arrangements
- Information security standards

- 4.2 On the basis of other audit work undertaken, areas of significant weakness are already subject to service unit action plans as a result of the audit report. The one exception is CCTV where further work has not yet been determined pending the outcome of the Scrutiny Panel. As a result it is not proposed that any further areas are recommended for inclusion in the Statement on Internal Control.

5. Key issues arising

- 5.1 Where a limited assurance rating has been given the key issues arising are summarised in the following paragraphs.
- 5.2 There has been an absence of separation of duties between the system administration functions, maintenance of the establishment list and payroll processing functions. The absence of management checks meant that incorrect input of standing data was not identified resulting in payment errors. The payroll function has now transferred from Personnel to Financial Services and steps are being taken to address these issues.
- 5.3 The audit of waste management identified that there was a significant risk that the recycling strategy would not deliver the planned improvements. Issues of value for money and the need to monitor best practice elsewhere were also identified. The audit report was used as evidence in the recent Scrutiny report and the council has since adopted a new strategy.
- 5.4 The need for improvements to the contract arrangements for the CCTV service together with clear development and management plan for the service were identified. Planning and Economic Development Overview and Scrutiny Panel are also reviewing this service.
- 5.5 The audit of information management focused on the council's arrangements for data protection, freedom of information requests and record retention. The report highlighted the continuing need for information security standards to ensure appropriate protection of data and the need for further development and awareness of data protection matters within service units. The Information Management Board has prioritised the projects and will be monitoring progress.
- 5.6 A review of the arrangements for the collection, expenditure and monitoring of commuted sums identified the need for improved monitoring to ensure full and effective use is made of the agreements and to ensure that all sums due are collected.
- 5.7 Security of stock and income at Durrington Pool were highlighted as weaknesses together with the absence of proper stock records. A follow up audit of the management of the housing

repairs stock identified that progress had been made but that further improvements in purchasing arrangements could be made. In addition management of the stock database and reporting facilities needed improvement.

6. **Monitoring of Internal Audit Recommendations and of Managers' Action Plans**

- 6.1 Internal Audit carry out a follow up review of audit recommendations, which involves a certification on progress by the responsible Service Unit Head. This is normally sent out between three and six months after the date of the final report depending on the timescales in the action plan. Internal audit monitor the implementation of agreed recommendations and actions as an indication of the improvement to the control environment. In last year's annual report there was concern about the level of agreed recommendations that had not been implemented, which was 23% in relation to 2003/4. For 2004/5 there has been an improvement to 15% of agreed recommendations that had not been implemented at the time of the follow up.
- 6.2 Whilst most follow up reviews are responded to promptly by Service Unit Heads, there remain difficulties in receiving responses on some. The following table shows elapsed time from sending out the review and receiving the response and a comparison to last year's results.

Response times to Follow up Reviews

	Up to 1 month	1 to 2 months	2 to 3 months	3 to 4 months	4 to 7 months	8 to 15 months
April 2005 to date	23	8	3	3	5	2
2004/5	18	2	0	3	0	5

- 6.3 This demonstrates that there has been some improvement in response times, however there remain a few areas where responses are only received after one or more reminder. In the future it is planned that outstanding follow-ups will be referred to Management Team after four months.
- 6.4 Non-implementation of audit recommendations was one of the drivers for changing the audit approach of focusing on risks rather than recommendations. Although only some of the 2005/6 audit reports have been followed up so far, the majority of responses show that the actions proposed by the manager responsible have been taken or are in progress.

7. **Internal Audit Performance**

- 7.1 Internal audit monitors its performance using a number of indicators. These are shown below with comparisons to previous years.

Indicator	2002/3	2003/4	2004/5	2005/6
Percentage of audit time against plan	92	101	96	98.7
Percentage of planned audits completed	82	88	90	90.3
Percentage of recommendations agreed	92	97	95	
Issue of draft report within 3 months of start of audit (percentage)	68	86	87	92.6

- 7.2 Whilst almost 99% of audit resources planned for were available in the year, just over 90% of planned audits were completed. The main reasons for this were:

- An increased level of non-audit work, principally a high volume of credit searches to assist Housing's revision of their select list.
- Additional time spent on training as a result of the new member of staff to provide maternity leave cover.
- Additional time spent on responsive audit work, which is not included in the performance indicator above. For example additional time was spent on fraud work, risk management development and support for the Audit Committee.
- Significant variances on time for planned audit work. Principally payroll as a result of the issues arising, Licenses which included an element of training for the new member of staff, CCTV which included a wider scope than originally planned for and waste management which involved some liaison with the Scrutiny Panel.
- Carry forward of audits which were started in 2004/5 but completed in 2005/6. Inevitably there is always some carry forward between years.

7.3 Although a comparison with previous years is not possible for the new system of identifying risks, the percentage of significant risks identified for which managers have proposed actions is estimated to be 88%. Although lower than the previous level for the acceptance of recommendations, it is still a high level of agreement.

8. Conclusions

- 8.1 As a result of the audit work undertaken, there are three areas that should be included in the Statement on Internal Control for 2004/5. These same areas have already been carried forward to the Statement on Internal Control action plan at the last meeting of the Audit Committee. No new areas have been identified from this year's audit work.
- 8.2 There has been good performance by internal audit but there is scope to improve the effectiveness of internal audit by addressing the area of the agreement and implementation of management action following audit work.
- 8.3 Internal Audit's approach of focusing on risks rather than recommendations has received a cautiously positive response. Whilst the management culture is not there yet, Internal Audit believe that this approach does support the development of effective risk management and internal control within the council.

9 Recommendation

- 9.1 It is recommended that the Audit Committee note the performance of Internal Audit for 2005/6.