Report

Subject	: Annual Audit Report 2007 / 08
Report to	: Audit Committee
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1 Introduction

1.1 This report covers the Internal Audit opinion on the control environment of Salisbury District Council and the outcomes of the internal audits carried out in 2007 / 08.

2 Summary

2.1 This annual report details the level of assurance given on all finalised internal audits undertaken during 2007 / 08 and gives an overall assurance opinion.

2.2 The overall opinion on the operation of the control framework of the council is a **substantive assurance.**

2.3 Internal Audit has completed 96% of the planned audits for 2007 / 08.

3 Internal Audit Opinion

3.1 The CIPFA code of practice requires an opinion on the overall adequacy and effectiveness of the council's control environment. This is based upon the internal audit work carried out in the year. The control environment of the council includes governance, risk management and internal control and audit work has been carried out on each of these during 2007 / 08.

3.2 For the last three years, Internal Audit has supplemented the level of assurance given for each internal audit assignment with an opinion on the management action plan produced in response to the identified risks. This is reviewed again at the time of the follow up review.

3.3 The following tables set out the level of assurance that has been given to each of the areas audited.

Audit Area	Level of Assurance	Audit Opinion on Proposed Management Actions at Final Report	Audit Opinion on Management Actions at Follow Up Review
FINANCIAL CONTROL AUDITS			
Cash Collection & Banking	Full	A Full Assurance will be maintained.	A Full Assurance will be maintained.
Ordering and Purchasing	Substantive	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	*Follow Up due Sept 2008*
Council Tax	Full	A Full Assurance will be maintained.	A Full Assurance will be maintained.
Housing and Council Tax Benefits	Full	A Full Assurance will be maintained.	*Follow Up due Sept 2008*
Payroll	Limited	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*
Debtors	Substantive	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*
Creditors	Substantive	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*
Main Accounting System	Full	*No key risks were found.*	*N/A*

Audit Area	Level of Assurance	Audit Opinion on Proposed Management Actions at Final Report	Audit Opinion on Management Actions at Follow Up Review
CORPORATE AUDITS			
Corporate Procurement	Limited	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	*Follow Up sent 14th May 2008 – no response received yet*
Advertising and Sponsorship	Limited	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*
Internet and Email	Limited	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	The improvement in internal control should lead to a higher level of assurance.
Remote Access	Substantive	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	*Follow Up due July 2008*
Salisbury Vision Project	Substantive	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	*Follow Up due Oct 2008*
Wireless Networks	Substantive	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*

Audit Area	Level of Assurance	Audit Opinion on Proposed Management Actions at Final Report	Audit Opinion on Management Actions at Follow Up Review
SERVICE UNIT AUDITS			
Service Charges on Council Properties	No / Limited	The improvement in internal control should lead to a higher level of assurance.	The improvement in internal control should lead to a higher level of assurance.
Housing Repairs	Limited	The improvement in internal control should lead to a higher level of assurance.	The improvement in internal control should lead to a higher level of assurance.
Resalable Goods – Leisure	Limited	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	The improvement in internal control should lead to a higher level of assurance.
Vehicle Workshops	Limited	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*
Affordable Housing	Substantive	The improvement in internal control should reduce risk but not sufficiently to change the level of assurance.	*Follow Up due June 2008*
Contract Final Accounts	Limited	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due July 2008*
Property Management Follow Up	Limited	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Jan 2009*
CCTV Follow Up	Limited	The improvement in internal control should lead to a higher level of assurance.	*Follow Up due Sept 2008*

3.4   The following chart shows the levels of assurance given in previous years and 2007 / 08. It should be noted that the annual internal audit plans cover different audit areas each year, with the exception of principal financial control audits. The chart demonstrates that there has been an overall reduction in internal control with only 52 percent of audits, as opposed to 65 percent of audits in 2006 / 07, providing either full or substantive assurance on the systems audited.
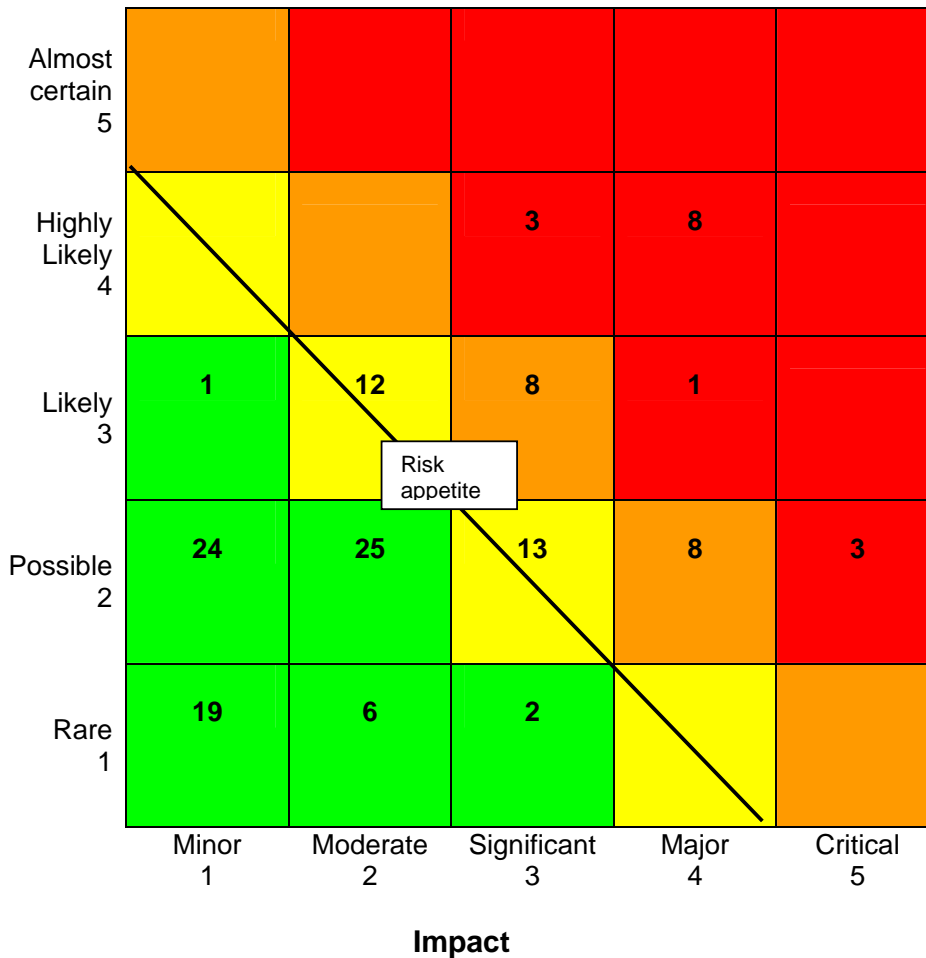
Assurance Levels Over Time
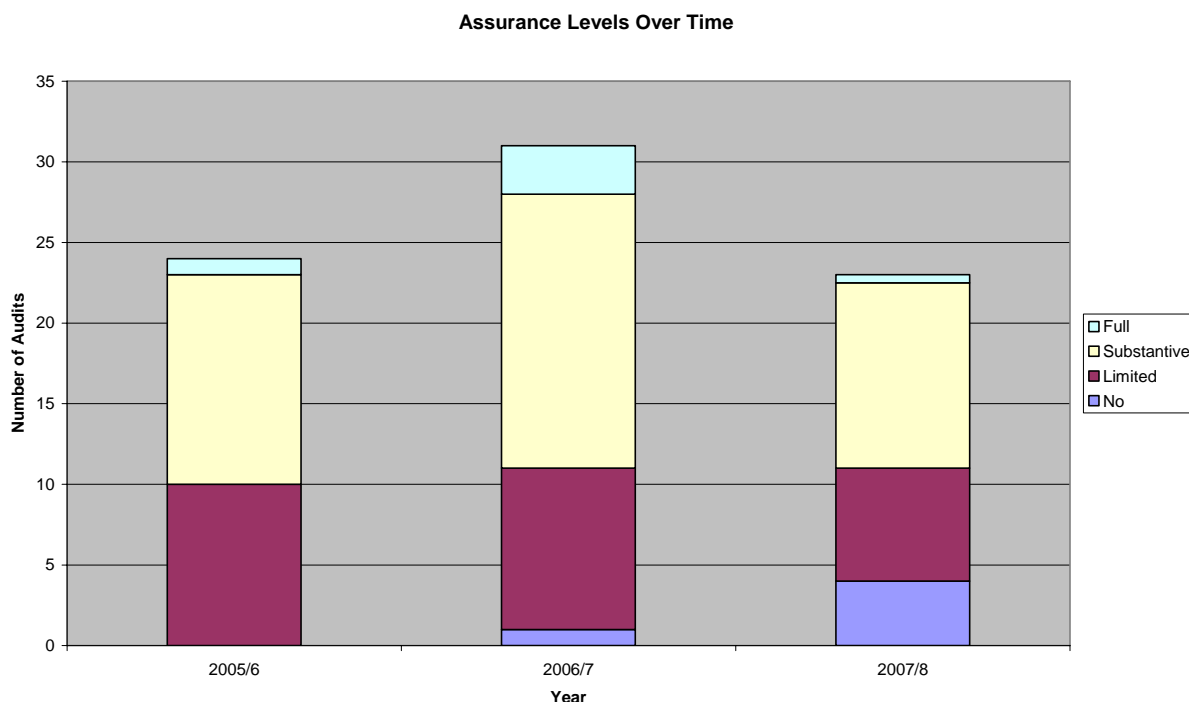
3.5   Each internal audit report includes the managers' risk assessment of the identified risks and this is plotted on a risk map. The map in section 3.7 below is a composite of all managers' risk assessments of internal audits in 2007 / 08. (Assessments have not been included for the internal audit of Housing Rents, as the report has not yet been finalised). The map shows that 133 risks were reported and that the majority of risks identified have been assessed as within or at the council's risks appetite. However, 31 risks (23 percent) have been assessed as above the risk appetite of the council.

3.6   The risk map is an illustration of the total risk profile of those areas internally audited in 2007 / 08. At the follow up review, which is issued to managers approximately six months after the date of the final report, the responsible managers are asked to identify any actions taken and any changes which they feel have occurred to the risk assessment. It is proposed that this 2007 / 08 map is updated with the results of the follow up reviews received to date, and that this is reported to a later meeting of the Audit Committee.

3.7   Where there are risks above the council's risk appetite, then the relationship between internal audit work and the risk management process becomes important. This issue was first considered by the Risk Management Group on 27th July 2007. It has been proposed that risk registers are updated by the Risk Management Group in the first instance, with Service Unit Heads checking and amending the registers as appropriate.

3.8   Whilst Internal Audit has a responsibility to report on the results of internal audit assignments and on managers' responses to those risks, ensuring effective implementation of responses to risks is primarily a management function.

Likelihood

	Minor 1	Moderate 2	Significant 3	Major 4	Critical 5
Almost certain 5					
Highly Likely 4			3	8	
Likely 3	1	12	8	1	
Possible 2	24	25	13	8	3
Rare 1	19	6	2		

Risk appetite

Impact

4 Key Risks Arising from Audit Work

4.1 In the first quarter of 2007 / 08, the internal audit of Service Charges on Council Properties was given a no assurance rating in respect of sheltered housing and a limited assurance in respect of leaseholder properties. The key risks were concerns about the absence of any clear written policy and detailed procedure manual on the administration of service charges, the failure to ensure consistency, transparency and equality in the application of service charges across tenancies, and the failure to recover the costs of providing leasehold services in accordance with current legislation. Work has been undertaken to address these issues during the year and a follow up audit will be undertaken during 2008 / 09 to review progress.

4.2 For the 5th year running, Payroll was awarded a limited assurance opinion. Since 2002 / 03, Internal Audit have been required to repeatedly report on control weaknesses and the potential risks arising from such failures. Key risks identified annually have related to a lack of separation of duties, a lack of systematic and effective management or independent checking or review, input errors in particular in relation to sickness, starters and leavers, the incorrect payment of employees with sickness due to incorrect input and the late notification of medical certificates by Personnel and Organisational Development, and the overpayment of leavers also as a result of late notification by Personnel and Organisational Development. It is a matter of concern that identified risks and agreed management actions are not given sufficiently high priority by responsible managers.

4.3   As part of the Business Management Programme for the establishment of the unitary council, it is proposed that the council's payroll function will transfer to form part of the Shared Services Team at Wiltshire County Council in June / July 2008. Although this will address some of the key risks identified by Internal Audit, such as separation of duties and independent reviews, it will not overcome the difficulties of ensuring that data presented to payroll is complete and accurate. This will need monitoring to ensure improvement.

4.4   A review of the council's corporate procurement arrangements identified a number of weaknesses leading to a limited assurance rating. These weaknesses related to training and guidance issues, capacity, and reviewing and reporting progress against both National and internal corporate strategies for procurement. A key weakness identified was the failure to update ordering regulations as the consequent risk was a lack of guidance on purchasing procedures to be followed by service units. It is anticipated that the unitary re-organisation will determine future procedures once the new Council adopts an E-Procurement system in 2009.

4.5   An audit of the council's Housing Management department's contract final accounts also reported a limited assurance. The key areas of weakness that were identified were the lack of structure and variability of filed documentation leading to inadequate evidence being available to support the costs of works and subsequent payments made, incomplete and sometimes arithmetically incorrect contract administrators instructions leading to incorrect valuations, and a failure to independently review all final accounts leading to overpayments. A follow up to review progress of management actions agreed to address the identified risks will be undertaken in July 2008.

4.6   A follow up audit on the council's CCTV arrangements was undertaken to review progress on this area. It was found that progress to address the issues raised in January 2006 had been slow, and that the transition to a unitary council had been difficult for CCTV managers in Salisbury, because CCTV is unique among Wiltshire districts in providing such a comprehensive service in its city centre. The need to urgently fund and upgrade the system and set a strategy for modernisation is critical if the service is to continue. Council managers are in discussion with Wiltshire County Council officers to secure both an early commitment to the continuation of the system post-Vesting Day and also to secure agreement to an early investment in the replacement of the recording system. A follow up to review will be undertaken in September 2008.

4.7   The operational management of the council's vehicle workshops was found to be ineffective, due principally to insufficient controls within the system for the ordering and purchasing of parts and spares, the lack of adequate stock records for verifying the value of stock at any given time, and the lack of any management control and formal verification of the stock held in the stores with the stock database. A follow up to review progress of management actions agreed to address the identified risks will be undertaken in September 2008.

4.8   Three audits were undertaken within IT: internet and email, CRM security, remote access and wireless networks. A limited assurance was given for the former two audits, and a substantive assurance for the latter two audits. Key risks identified within the internet and email audit included four risks relevant to compliance with the Payment Card Industry Data Security Standards. Within CRM security, key risks included logical access controls below recognised industry standards, insufficiently restricted administrator privileges, and the lack of a designated Lagan systems administrator. This audit was undertaken jointly with Kennet and North Wiltshire District Councils, and a response to the draft report issued in February 2008 is still awaited from North Wiltshire District Council.

5   Management Responses to Internal Audit Reports

5.1   All Internal Audit draft reports are issued with a covering memorandum to responsible managers. The memo asks managers to assist Internal Audit through the completion of the risk assessment, proposed management actions, resource implications and target dates within 10 working days of receipt of the draft report. It is hoped that a prompt response will ensure that the Final Report is promptly issued so as to retain its timeliness and relevance. There is concern that some responses to draft audit reports are significantly delayed.

5.2   An assessment of the numbers of days taken to achieve certain milestones in the internal audit process revealed some significant differences. The range in the number of days taken to respond to draft reports was from the same day to 209 days. The average response time was 50 days; this is significantly greater than the target time of 10 working days. The most significant delays arose in respect of the following draft audit reports:

Audit Title	Key Responsible Service Unit	Date of Draft Report	Date of Management Response	Time Taken from Draft to Response
Corporate Procurement	Democratic Services	29.06.07	01.11.07	125 days
Advertising and Sponsorship	Community Initiatives	19.09.07	17.03.08	180 days
Ordering and Purchasing	Democratic Services	28.09.07	24.04.08	209 days
Remote Access	IT Services	01.11.07	14.04.08	166 days

5.3   Delays in finalising audit reports undermine internal control processes and continue the council's exposure to risk. This issue has been raised in previous Internal Audit Annual reports.

6   Monitoring of Risks and Managers Action Plans

6.1   Internal Audit operates a follow up review process to establish progress made by managers against the agreed management action plans, and to obtain a new risk assessment. Each follow up request is made on average 6 months after the issue of the final report. Following receipt of the managers' risk and action follow up, an assessment is made by Internal Audit on whether risk has been reduced as a result and whether the actions taken should lead to a higher level of assurance.

6.2   The following table shows the results of the assessment for audits undertaken in 2006/07. The first column shows the levels of assurance given in the Final Internal Audit Report, , the second column shows the level of assurance which should result were all the agreed management actions to be implemented. The final column shows the assessment of assurance levels made by Internal Audit following the risk and action follow up.
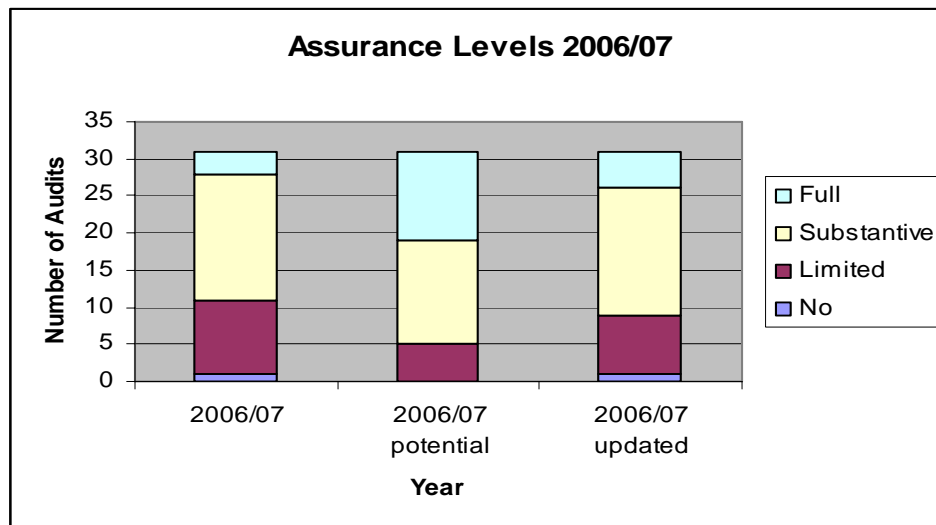
6.3   The chart demonstrates that managers were responsive to the risks identified in the audits undertaken during the year, and that appropriate actions were identified in many cases which would lead to a higher level of assurance. However, at the time of the completed risk and action follow up, it was found that in some cases, insufficient action had been taken by managers to address the risks that would be necessary to improve the given level of assurance. There are a number of reasons for this, which include:

• Management actions being delayed or still in progress.
• Having achieved 'substantive assurance', management actions required to move the function toward a 'full assurance' were not seen as a high priority despite an action being proposed.

- Some risks identified were complex and strategic in nature, therefore requiring a longer-term risk response.

6.4 Despite the reasons given above, Internal Audit is concerned that management action plans are not given appropriate priority by some senior managers, even though the actions contained within them are their own. Prior to 2007/08, it was agreed with Management Team that the appropriate Policy Director would receive a copy of the follow up review to track progress. In light of the council's restructuring following the departure of the remaining Policy Directors and the Chief Executive, this process has ceased. Instead, all Final Internal Audit reports are copied to the Interim Chief Executive so that she may take up any issues individually with Service Heads or the Audit Manager as seen fit.

6.5 Examples of areas audited in 2006/07, where the management actions proposed would have lead to an improvement in internal control sufficient to lead to a higher level of assurance, but where managers failed to address the risks identified with appropriate actions, included:

Audit Area	Assurance Level at Final Report	Potential Assurance level from Agreed Management Actions	Updated Assurance Level at Follow Up
Property Management	No	Limited	Risk reduced but assurance level unchanged
Crematorium & Cemeteries	Limited	Substantive	Risk reduced but assurance level unchanged
Fleet & Transport Management	Limited	Substantive	Risk reduced but assurance level unchanged
Project Management	Substantive & Limited	Full & Substantive	Risk reduced but assurance level unchanged
IT Security	Limited	Substantive	Risk reduced but assurance level unchanged
Business Continuity Follow Up	Limited	Substantive	No significant improvement in internal control

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	2005/06 %	2006/07 %	2007/08 %
Audit Time against Audit Plan	98.7	103.3	103.5
Planned Audits Completed	90.3	92.1	96.0
Proposed Management Actions to High Priority Risks Identified	92.4	98.1	87.2
Draft Reports Issued within 3 months of Start of Audit	92.6	90.6	88.0

7.2   Audit resources during the year remained stable with four members of staff operating at a consistent 2.98 whole time equivalents. The indicators demonstrate a good performance by Internal Audit during the year.

7.3   The overall opinion on internal control is a **Substantive Assurance**. This reflects a sound level of control, with the majority of audits finding adequate procedures and controls in place to address identified risks. Any areas of significant weakness identified during the year are subject to managers' action plans. If these plans are fully implemented, most areas audited should be able to achieve a higher level of assurance.

8   Risk Management and Governance

8.1   The Audit Commission has assessed the council's internal control and risk management arrangements through the Use of Resources Auditor Judgements 2007. Risk Management is judged to be 3 out of 4, which means that the council's management of its significant business risks is consistently above minimum requirements and performing well. The council has achieved the same score since 2005.

8.2   The Risk Management Group, established in July 2005, regularly reports to the Audit Committee on the council's key risks. These are incorporated within a corporate risk register. The last report was received on 10th January 2008.

8.3   In its third annual assessment of the council's risk maturity, the Risk Management Group has assessed the council's risk maturity in respect of fifteen key processes. The purpose of this assessment is to show how well developed the council's risk management process is and to identify areas for improvement. The assessment uses a model developed by the Institute of Internal Auditors which identifies the characteristics that relate to each of the levels of risk maturity.

8.4   The results of the 2007/08 risk assessment are shown in **Appendix A**. Where it is considered that the council satisfies the characteristic, the box is shaded pale grey. Where the identified characteristic differs from the 2006/07 assessment, the previous year's assessment is shaded in darker grey.

8.5   The overall assessment results support the council as matching most of all the same level as in 2007, with a level of maturity of Risk Defined (strategy and policies in place and communicated with a defined risk appetite).However, as can be seen from the appendix, there are a number of areas where the council is meeting the higher standard of maturity of Risk Managed (enterprise approach to risk management developed and communicated).

8.6   The model provides a useful "snapshot" and when compared to the previous year's assessment shows what progress has been made. Although the model does have limitations, in that it can be difficult to follow, as this is the last assessment of risk maturity to be made for the council, the Risk Management Group decided to maintain the methodology being used to allow comparison with previous assessments.

8.7   As part of the preparations for the establishment of the unitary council, work is being undertaken on risk management through the Internal Governance Sub Group in the Resources workstream. This work is being lead by the Corporate Standards Manager at Wiltshire County Council. A report providing an update on the work of this group is also being presented at this meeting of the Audit Committee.

8.8   A review of Salisbury District Council's Governance Framework has been undertaken by the Governance Review Group in 2007. The conclusion from the review is that governance arrangements for the council measure up well to the new governance framework, although there are areas of particular weakness which would benefit from improvement. The final report of the review is also being presented at this meeting of the Audit Committee.

9   Recommendations:

9.1   It is recommended that the Committee note the overall opinion on the control environment and Internal Audit's performance.

10.   **Implications:**
        Financial   : None
        Legal   : None
        Human Rights   : None
        Personnel   : None
        Community Safety: None
        Environmental Impact: None
        Council's Core Values: Communicating with the public, excellent service, open learning council and a willing partner.

Assessment of Risk Maturity 2008

Process	Risk Naive	Risk aware	Risk defined	Risk managed	Risk enabled
The organisation's objectives are defined.	Possibly	Yes but no consistent approach	Yes	Yes	Yes
Management have been trained to understand what risks are and their responsibility for them.	No	Some	Yes	Yes	Yes
A scoring system for assessing risks has been defined	No	Unlikely	Yes	Yes	Yes
The risk appetite of the organisation has been defined in terms of the scoring system.	No	No	Yes	Yes	Yes
Processes have been defined to determine risks and these have been followed.	No	Unlikely	Yes but may not apply to whole organisation	Yes	Yes
All risks have been collected into one list. Risks have been allocated to specific job titles.	No	Some incomplete lists may exist	Yes but may not apply to whole organisation	Yes	Yes
All risks have been assessed in accordance with the defined scoring system.	No	Some incomplete lists may exist	Yes but may not apply to whole organisation	Yes	Yes
Responses to the risks have been selected and implemented.	No	Some responses identified	Yes but may not apply to whole organisation	Yes	Yes
Management have set up methods to monitor the proper operation of key processes, responses and action plans.	No	Some monitoring controls	Yes but may not apply to whole organisation	Yes	Yes
Risks are regularly reviewed by the organisation.	No	Some risks are reviewed but infrequently	Regular reviews probably annually	Regular reviews probably quarterly	Regular reviews probably quarterly
Management report risks to directors where responses have not managed the risks to a level acceptable to the board.	No	No	Yes but may be no formal process	Yes	Yes
All significant new projects are routinely assessed for risk.	No	No	Most projects	All projects	All projects
Responsibility for the determination, assessment and management of risks is included in job description.	No	No	Limited	Most job descriptions	Yes
Managers provide assurance on the effectiveness of their risk management.	No	No	No	Some managers	Yes
Managers are assessed on their risk management performance.	No	No	No	Some managers	Yes