



**Report to: Audit Committee**

**Subject: The Annual Internal Audit Report 2009-10**

**Date: 15<sup>th</sup> June 2010**

**Author: Manager of Audit & Risk Services**

## **1. PURPOSE OF THE REPORT**

To report on the activity of the Internal Audit section during the 2009-10 financial year.

This report will also provide assurance on the internal control systems across the Authority to support the Annual Governance Statement provided within the Annual Statement of Accounts.

## **2. BACKGROUND**

The Accounts and Audit Regulations 2003 (amended 2006), and the Code of Practice for Internal Audit in Local Government in the United Kingdom make detailed and specific requirements for the Annual Internal Audit report in support of the Annual Governance Statement. These requirements are:

“The Head of Internal Audit’s formal annual report to the organisation should:

- Include an opinion on the overall adequacy and effectiveness of the organisation’s internal control environment,
- Disclose any qualifications to that opinion, together with the reasons for the qualification,
- Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement,
- Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function,

- Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme”.

### **3. RECOMMENDATION**

The Annual Internal Audit report is attached at Appendix 1 and indicates that the Council’s systems and controls are generally operating adequately. This conclusion is of importance in reviewing and supporting the Annual Governance Statement in support of the Annual Statement of Accounts.

Members are requested to note the contents of the report.

## Appendix 1



GEDLING BOROUGH COUNCIL

Annual Report of the Internal Audit Service

2009-10

For presentation at the Senior Management Team (18<sup>th</sup> May 2010), Cabinet (3<sup>rd</sup> June 2010) and the Audit Committee (15<sup>th</sup> June 2010)

Prepared by: Vince Rimmington, Manager of Audit & Risk Services  
Date: May 2010

# **1: Introduction**

## **The Role of the Internal Audit Service**

- 1.1 The role of the internal audit service is to provide management with an objective assessment of whether systems and controls are adequate and working effectively. It is a key part of the Gedling Borough Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:
- The Council and senior management are aware of the extent to which they can rely on the whole system of control; and
  - Individual managers are aware how reliable the systems and controls are for which they are responsible.
- 1.2 The internal control system comprises the whole network of systems and controls established to manage Gedling Borough Council to ensure that its objectives are achieved. It includes financial and other controls, and also arrangements for ensuring that Gedling Borough Council is achieving value for money from its activities.

## **Definition of Internal Audit**

- 1.3 The definition of internal audit, as described in the CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom is set out below.
- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
  - Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related activity.

## **Annual Governance Statement**

1.4 Under Regulation 4(2) of the accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, authorities are required to publish a Statement on Internal Control (SIC). From 2007-08, authorities should publish an Annual Governance Statement (AGS) in line with the CIPFA/SOLACE Good Governance Framework to meet that statutory requirement. The statement brings a number of benefits to government organisations, including:

- Increased awareness of internal controls and control weaknesses, and risk management among Section 151 Officers, Councillors and senior management,
- Greater awareness of the importance of risk identification and monitoring amongst staff at all levels,
- Better appreciation of the benefits of a strong internal audit function,
- Greater awareness of other internal and third party assurance sources that operate within the organisation and the importance of the role that they fulfil, and
- Increased and encouraged audit committee activity.

As Gedling Borough Council's internal audit provider, the assurance opinions provided in each audit review undertaken throughout the year are part of the framework of assurances that assist in the preparation of the Annual Governance Statement.

Our work for the 2009-10 financial year is summarised in this report, and we have highlighted in section 2.4 any specific issues that we are aware of and that should be reflected in the 2009-10 Annual Governance Statement.

### **Significant Events / Factors During the Year**

1.5 There have not been any significant events or factors during the financial year that have affected the extent of our internal audit work or needed to be addressed as part of our internal audit plan.

## **2: The Statement of Assurance**

### **Background**

2.1 As the provider of the internal audit service to Gedling Borough Council we are required to provide the Council with assurance on the whole system of internal control. In providing our opinion it should be noted that the level of assurance given can never be absolute. The internal audit service can only provide reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In arriving at the audit opinion, consideration has been given to:

- The results of all audits undertaken during the financial year,
- The results of follow-up action taken in respect of audits from previous years,
- Whether or not any high or medium risk recommendations have not been accepted by management and the consequential risks,
- The effects of any material changes in the organisation's objectives and activities,
- Any limitations that have been placed on the scope of internal audit,
- Whether there have been any resource constraints imposed upon internal audit which may have impinged on our ability to meet the full internal audit needs of the organisation,
- The proportion of the organisation's internal audit requirements that have been covered to date.

### **2.2 Internal Audit Opinion**

Internal Audit are satisfied that sufficient internal audit activity has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Gedling Borough Council's risk management, governance and control processes.

It is internal audits opinion that, for the 12 months ending 31<sup>st</sup> March 2010, Gedling Borough Council has adequate and effective risk management, control and governance processes to manage and achieve the organisations objectives.

- 2.3 In reaching this opinion the following factors were taken into particular consideration:

### **Risk Management**

The Authority introduced a revised Risk Management Strategy during 2007-08. Key enhancements include the introduction of a standard approach (common language) to risk terminology, the formalisation of reporting procedures and the introduction of Key Performance Indicators to measure how effectively risks are being managed and the extent to which risk management procedures are embedded across the organisation.

Strategic and operational risk registers are reviewed bi-annually by management. All identified risks are aligned to the 11 corporate risks identified against the Authority's objectives. All audit recommendations are also aligned to these corporate risks, which, when considered with other internal and external sources of assurance, provide the Authority with an integrated and holistic assurance process.

The outcomes from these multiple assurance sources are consolidated into the Authority's Corporate Risk Scorecard and reported into the Senior Management Team and Audit Committee on a quarterly basis.

This approach provides a well-organised system and methodology to underpin the arrangements made by the organisation to address and mitigate the risks arising from its environment.

Overall, it is Internal Audit's opinion that Gedling Borough Council has adequate and effective risk management processes to manage the achievement of its business objectives.

### **Governance**

The CIPFA/SOLACE guidance note and framework - Corporate Governance in Local Government defined corporate governance in local authorities as "the system by which local authorities direct and control their functions and relate to their communities". The guidance issued a framework for local authorities and recommended that they draw up a Local Code of Corporate Governance.

Gedling Borough Council has established a Local Code of Corporate Governance and developed a Governance Framework based on the principles within the CIPFA/SOLACE guidance. The Framework is subject to an annual review, led by the S151 and Monitoring Officer, who produce a report for the consideration of members and senior managers.

In addition to the Governance Framework review signed Assurance Statements are obtained from all Section Heads, with specific statements made by the Chief Executive, Deputy Chief Executive, S151 Officer and the Monitoring Officer. The statements are based directly on assurances given with respect to compliance with the Authority's Financial Regulations. Section Head's are encouraged to involve their section heads in the process, particularly where day-to-day responsibilities are delegated.

Overall, it is Internal Audit's opinion that Gedling Borough Council has adequate and effective governance processes to manage the achievement of its business objectives.

### **Internal Control**

A summary of Internal Audit activity during 2009-10 is provided in section 3.4.

Overall, it is Internal Audit's opinion that Gedling Borough Council has adequate and effective control processes to manage the achievement of its business objectives.

- 2.4 The overall internal audit opinion statement provided in section 2.2 should be used by the Authority in the preparation of the Annual Governance Statement.

The internal audit statement is further evidenced by external evaluators such as CAA inspection, the Use of Resources assessment, the Audit Commissions annual audit and inspection letter and other inspectorate reports such as the Planning Inspectorate.

During the 2009-10 financial year the following issues were identified via the Authorities risk management, governance and internal control processes as being relevant to the preparation of the Annual Governance Statement:

- **Data Security** – whilst the Authority has not experienced any significant data breaches, a Data Security Working Group (DSWG) has been established with the key objective of undertaking a thorough review of data security arrangements to provide assurance to members and officers that procedures are adequate and effective.

During 2008-09, Internal Audit undertook a baseline assessment against the security standard ISO27002. An action plan was formulated to address the issues raised and has been progressed through the work of the DSWG, resulting in the Authority receiving accepted status for connection to the Government Connect initiative. This provides the Authority with

a secure interface with other public sector organisations achieving accepted status.

The Council is subject to an annual review of its procedures to maintain its accepted status. Following its recent annual inspection, Gedling Borough Council continues to maintain its accepted status to the Government Connect initiative.

Revised draft policies and procedures have been developed, however, these will require approval and subsequent end user training to ensure effective implementation and adherence.

**EMERGING GOVERNANCE ISSUES:** The following issue is not highlighted as a current control or risk concern, but included to highlight the Council's awareness of emerging issues through its proactive and holistic approach to governance.

- **External Economy** – in addition to the issue highlighted above, the Council remains susceptible to, but vigilant for, the external risks posed by the economic climate and the uncertain political climate. Despite ongoing pressures and squeezes on cost and income streams, effective planning has resulted in the Council's 2010-11 budget having no significant reductions in service, no requirement for redundancies and a Council Tax increase below the rate of inflation. In addition, the Council has invested in its new priority for Economic Prosperity within the Borough.

The Council's current sound financial position, combined with the Medium Term Financial Plan, means that the Council is well placed to deal with the ongoing uncertainty in the UK and global economy. However, the Council will continue to monitor the external environment and develop strategies to counter threats from the wider economy.

Action plans have been formulated to address the weaknesses identified and, once action has been fully implemented, will ensure that controls associated are adequate and operate effectively.

Internal Audit will monitor the progress of the action plans and evaluate the effectiveness of the actions in addressing the issues identified.

### **3: Audit Activity & Performance**

#### **The Audit & Risk Services Section**

- 3.1 In July 2008, the Councils Health & Safety activities were transferred to the Resource Services section, integrating the Health & Safety role into the overall Risk Management philosophy.

A review of the sections resource requirements was undertaken, with the section being re-titled Audit & Risk Services. The review concluded that the post of Principal Auditor should be ceased to increase the number of hours available at Internal Auditor level to 2.5 FTE's.

Furthermore, to aid team development and progression and alleviate problems associated with recruiting suitably skilled and qualified Internal Auditors, the role of the Risk Management Administrator was enhanced to include responsibilities for Internal Audit, effectively becoming a trainee risk and audit role under the title Audit & Risk Technician.

The current structure of the section is as follows:

- Manager Audit & Risk Services (1 FTE)
- Internal Auditor (1 FTE)
- Externally Procured Resource (1.5 FTE)
- Insurance & Risk Management Officer (0.5 FTE)
- Audit & Risk Technician (1 FTE)
- Health & Safety Officer (1 FTE)

The activity of the section covers Corporate Governance, Risk Management, Insurance, Business Continuity Planning, Health & Safety and Internal Audit.

Over the past five years the section has had a partnership arrangement with the County Council for the provision of Internal Audit work to ensure that the annual audit plan is achieved. The cost of this partnership arrangement has been met by vacancy savings equating to 1.5 FTE (Internal Auditor posts).

The agreement for 2009-10 with the County was for 40 days of audit work to be undertaken. Delivery of the audit plan within the financial budgetary limits was achieved by engaging RSM Bentley Jennison to provide 107 days of audit activity.

This approach to partnership work and co-sourcing audit resource will continue during 2010-11, as it provides the Authority with greater flexibility to meet the challenges ahead and access to a greater skill set and knowledge base.

## Effectiveness of Internal Audit

- 3.2 The Audit Commission undertakes an annual review of the Internal Audit function and the quality of its work. When undertaking the review they ensure compliance with the CIPFA Code of Practice and, where relevant, make recommendations on how compliance can be improved or developed further.

In addition, the Audit Commission undertakes a detailed review of Internal Audit work every 3-4 years. This was last completed in March 2009. The Audit Commission identified no issues and confirmed that Gedling Borough Council's Internal Audit function fully satisfies the requirements of the CIPFA Code of Practice.

The Accounts and Audit (Amendment) (England) Regulations 2006 came into force on the 1<sup>st</sup> April 2006. Two of the amended regulations have an impact on the preparation of the Annual Governance Statement.

Regulation 6 requires the Authority to undertake an annual review of the effectiveness of their system of internal audit, and under Regulation 4 for the findings of the review to be considered by a committee of the Authority (or by the Authority as a whole).

A review of the Authority's system of internal audit was completed during April 2010. The review comprised a self-assessment against the standards outlined in the CIPFA Code of Practice. The individual criteria within the standards were prioritised into 4 levels to provide a formal conclusion and a benchmark comparator to monitor future progress.

The review was completed by the Authority's Chief Financial Officer, Chair of the Audit Committee and via an external peer review conducted by the Audit Manager at Mansfield District Council.

The review concluded that:

"Following completion of the self-assessment and peer review process, it is considered that the system of internal audit is operating to an excellent professional standard and is providing an excellent level of effectiveness for the Authority. Overall performance is considered to be excellent, with robust plans in place to further enhance the effectiveness of the service".

A summary of the review is provided in **Appendix A**.

In support of the internal self assessment and Audit Commission reviews outlined above, Internal Audit introduced a Customer Satisfaction Questionnaire (CSQ) during 2009-10. Essentially this additional feedback now provides a comprehensive 360 degree review of the Internal Audit function.

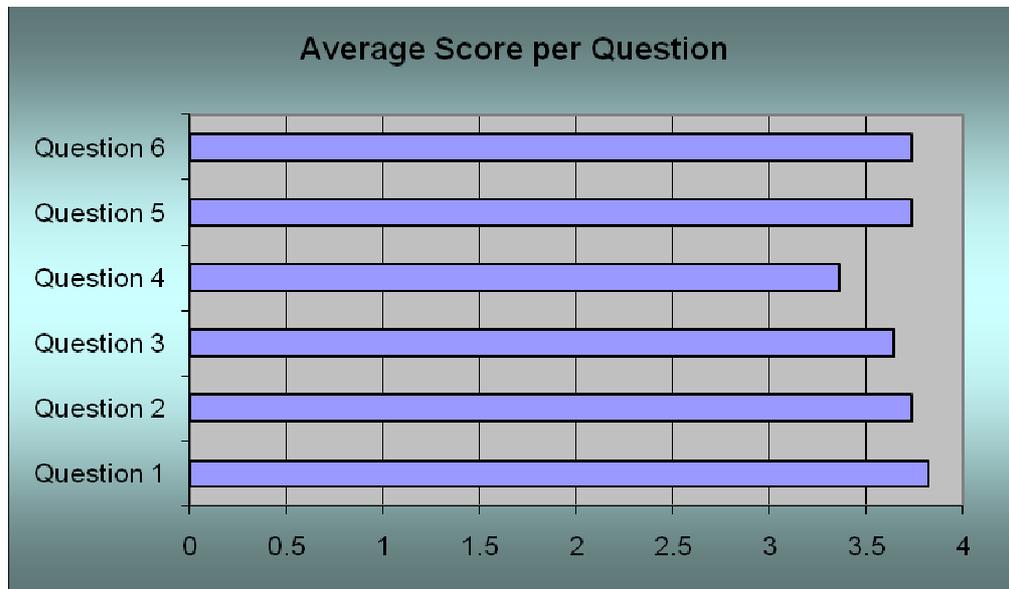
The Questionnaire comprises six questions covering the end to end audit process, which are ranked on a scoring basis as follows:

- 4 - Very Satisfied
- 3 - Generally Satisfied
- 2 - Generally Dissatisfied
- 1 - Very Dissatisfied

The questions covered are outlined below:

- 1 - The auditor clearly explained the scope and objectives of the audit.
- 2 - The audit met the objectives outlined.
- 3 - The report was accurate and understandable.
- 4 - The audit recommendations were practical and useful.
- 5 - The auditor clearly discussed the audit issues and findings.
- 6 - The auditor conducted his/her work in a professional manner.

During 2009-10 12 completed CSQ's were returned from the 18 audit reports issued. Results are summarised in the chart below and highlight that respondents are generally to very satisfied with all aspects of the audit process.



Internal Audit will focus efforts to raise the scores relating to the practicality and usefulness of recommendations to those of the other areas of the audit process.

## **Analysis of Audit Activity 2009-10**

- 3.3 Within the Authority's aims and objectives, the Internal Audit section has a performance target of 24 audit reports to be issued during the financial year.

During the year 26 reviews were undertaken, 2 of which did not produce formal audit reports, but provided information for management consideration. 24 audit reports were issued against the target of 24. Of the 24 reviews generating audit reports 6 did not provide a formal assurance statement. These are summarised below.

There are no audit reviews being carried forward to the 2010-11 audit plan.

### 3.4 Summary of Audit Report Conclusions and Recommendations

Ref.	Title	Plan Days	Actual Days	Audit Recommendations			Assurance Level
				High	Medium	Low	
<b>Audit reports providing a formal assurance statement</b>							
IAR0910-04	Leisure Income (Deposits)	10	10	0	1	4	Substantial
IAR0910-05	Contracts	10	10	0	0	4	Substantial
IAR0910-06	Banking	5	5	0	0	1	Substantial
IAR0910-07	Council Tax	15	15	0	0	5	Substantial
IAR0809-08	NDR	15	15	0	0	2	Substantial
IAR0910-10	Housing Benefits	30	30	0	1	3	Substantial
IAR0910-11	FMS	10	10	0	0	1	Substantial
IAR0910-12	Creditors	10	10	0	1	5	Substantial
IAR0910-13	Capital	10	10	0	0	2	Substantial
IAR0910-14	Car Park Charges (Draft)	35	38	0	5	7	Limited
IAR0910-15	Lending & Borrowing	5	5	0	0	1	Substantial
IAR0910-16	Cash Receipting	10	10	0	6	6	Limited
IAR0910-17	Payroll	15	7	0	0	5	Substantial
IAR0910-18	Debtors	15	10	0	2	1	Substantial
IAR0910-19	Insurance & Inventory	10	10	0	1	3	Substantial
IAR0910-20	Officers Disbursements	10	10	0	0	5	Substantial
IAR0910-21	Leisure Income	15	10	0	0	4	Substantial
IAR0910-22	Performance Indicators	15	15	0	0	3	Substantial
<b>Totals</b>		<b>245</b>	<b>230</b>	<b>0</b>	<b>17</b>	<b>62</b>	

Ref.	Title	Plan Days	Actual Days	Audit Recommendations			Assurance Level
				High	Medium	Low	
<b>Audit reports not providing a formal assurance statement</b>							
IAR0910-02	Cash Ups (Civic Centre)	2	2	N/a	N/a	N/a	N/a
IAR0910-03(a-e)	Cash Ups (Leisure Centres x 5)	3	4	N/a	N/a	N/a	N/a
<b>Other Work</b>							
	Audit Follow-up Activity	40	37				
	08-09 work carried forward	10	10				
	Performance Indicators / Data Quality	10	22				
	Health & Safety	25	23				
	Risk Management / Corporate Governance	20	20				
	System Assurance (Data Validation Checks)	25	18				
	Contract (Final Check)	5	5				
	Contingency / Grant Work	65	60				
	Data Protection / Data Security	20	21				
<b>Work carried forward to 2010-11</b>							
	<b>Grand Totals</b>	<b>470</b>	<b>452</b>				

Assurance definitions are provided in **Appendix B**.

## Trend Analysis of Audit Activity

- 3.5 The table below highlights the trend in the level of assurance provided from internal audit reviews completed over the last 4 financial years. The assurance provided from internal audit activity clearly shows a continuing improvement in the control environment reviewed.

Assurance	Substantial	Limited	No
2009-10	16	2	0
	88.9%	11.1%	
2008-09	14	2	0
	87.5%	12.5%	0%
2007-08	17	4	0
	81%	19%	0%
2006-07	14	7	0
	67%	33%	0%

The table below summarises the total number of audit recommendations by risk category emanating from completed audit reviews over the last 4 financial years.

The table highlights a slight increase in the total number of recommendations (79 in comparison to 53 during 2008-09). However, a factor in this increase is that the number of audit reports issued increased from 16 in 2008-09 to 18 during 2009-10.

The continuing reduction in the number of medium risk recommendations (21.5% in 2009-10 compared to 26% in 2008-09), provides a better indication of the continuing improvement in the control environment.

It should also be noted that the review of Car Park Charges is still at draft stage and the number of audit recommendations may change.

Recommendations	High	Medium	Low
2009-10	0	17	62
		21.5%	78.5%
2008-09	0	14	39
	0%	26%	74%
2007-08	2	40	76
	2%	34%	64%
2006-07	1	50	81
	1%	38%	61%

## **4: Conclusion**

- 4.1 Internal Audit can confirm that adequate resources have been made available to allow sufficient internal audit activity to be undertaken so as to provide reasonable assurance regarding the adequacy and effectiveness of Gedling Borough Council's risk management, governance and control processes.
- 4.2 Overall, internal audit activity identifies a continuing improvement in the control environment during 2009-10 in comparison to preceding financial years.

## Annual Review of the Effectiveness of the System of Internal Audit 2009-10

### Assessment Definitions

Level		Requirement	Standard
1		Not all green criteria achieved.	Performing below minimum standards.
2		All green criteria achieved.	Performing at minimum standards.
3		All green criteria plus 70% of the pink.	Performing at a good standard.
4		All pink criteria plus 50% of the blue.	Performing at an excellent standard.

### Assessment Summary

#### CiPFA Standards

Criteria	Total Number	Total Achieved	Percentage
	26	26	100%
	24	24	100%
	13	11	84.6%

Internal Audit is currently achieving Level 4 with respect to Standards.

#### CiPFA Effectiveness

Criteria	Total Number	Total Achieved	Percentage
	2	2	100%
	7	7	100%
	4	2	50%

Internal Audit is currently achieving Level 4 with respect to Effectiveness.

# Overall Performance Assessment

## Standards

4	A	C	D (GBC 07-08)	D (GBC 08-09 & 09-10)
3	A	B	C (GBC 06-07)	D
2	A	B	B	C
1	A	A	A	A
	1	2	3	4
	Effectiveness			

A = Unacceptable – performing below minimum standards.

B = Satisfactory – performing at minimum standards.

C = Good – performing to a good standard.

D = Excellent – performing to an excellent standard.

## Risk & Assurance – Standard Definitions

### Audit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	<b>High</b>	Action is essential to manage exposure to fundamental risks.
2	<b>Medium</b>	Action is necessary to manage exposure to significant risks.
3	<b>Low</b>	Action is desirable and should result in enhanced control or better value for money.

### Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
<b>No</b>	The majority of the significant risks relating to the area reviewed are not effectively managed.
<b>Limited</b>	There are a number of significant risks relating to the area reviewed that are not effectively managed.
<b>Substantial</b>	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.