

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**7 June 2010**

**REPORT OF THE HEAD OF INTERNAL AUDIT PARTNERSHIP**

**Report prepared by Brian Parsons**

**1. Internal Audit Annual Report 2009/10**

**1.1 Issue for Decision**

1.1.1 To consider the work of the Internal Audit Section over the financial year 2009/10 and the opinion of the Head of Internal Audit in relation to the Council's control environment, in the context of the Annual Governance Statement.

1.1.2 To decide whether the outcomes of Internal Audit work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council.

**1.2 Recommendation of the Head of Internal Audit Partnership**

It is recommended that the Audit Committee:

1.2.1 Note the Head of Internal Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.

1.2.2 Note that there are no qualifications to that opinion.

1.2.3 Note that the results of the work of the Internal Audit Section as shown in the appendices and as previously reported to the Committee on 30 November 2009, are the prime evidence source for the opinion shown at 1.2.1.

1.2.4 Agree that the outcomes of the Internal Audit work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2009/10.

1.2.5 Note the improvements in control that occur as a result of the audit process.

1.2.6 Agree that, on the basis of the work and process set out in this report, and the outcome of the Audit Commission Triennial Review of Internal Audit in 2009, the Committee is satisfied that the Council's system of internal audit is effective.

### 1.3 The Annual Internal Audit Report

1.3.1 The statutory Code of Practice for Internal Audit in Local Government in the United Kingdom requires that the Head of Internal Audit must provide a written report to those charged with governance, timed to support the Annual Governance Statement.

1.3.2 The Head of Internal Audit's annual report to the organisation must:

- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
- Disclose any qualifications to that opinion, together with the reasons for the qualification
- Present a summary of the audit work from which the opinion is derived, 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 against its performance measures and targets
- Comment on compliance with the standards (the Code of Practice) and communicate the results of the internal audit quality assurance programme.

1.3.3 The Accounts and Audit (Amendment) Regulations 2006 also require that "the relevant body shall at least once in each year, conduct a review of the effectiveness of its system of internal audit". In previous years a separate report has been prepared containing the 'review of effectiveness'. However, in the context of last year's Triennial Review of Internal Audit by the Audit Commission, which confirmed the effectiveness of Internal Audit at that time, and the transition to the new four-way Internal Audit Partnership it is considered that a separate report is not appropriate. Therefore, Members are asked to agree that, on the basis of the work set out in this report and the outcome of the Triennial Review, the Council's system of internal audit is effective.

1.4 The opinion on the overall adequacy and effectiveness of the Council's control environment

1.4.1 It is the opinion of the Head of Internal Audit & Risk Strategy that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council. The evidence to support the opinion is contained within this report.

1.5 Any qualifications to that opinion, together with the reasons for the qualification

1.5.1 There are no qualifications to that opinion.

1.6 A summary of the audit work from which the opinion is derived

1.6.1 The opinion on the control environment is principally formed through the results of Internal Audit work during the financial year. However, the following factors have also been considered:

- The results of external audit work during the year (including the Use of Resources assessment) and any concerns expressed by the External Auditor
- The effectiveness of the Council's risk management arrangements
- Significant control breakdowns during the financial year, whether they were found by Internal Audit or not
- The results of any other form of external inspection or assessment, and;
- The effectiveness of senior management in resolving control weaknesses.

Internal Audit work

1.6.2 Thirty-two audit projects were completed between April 2009 and March 2010 and are listed at Appendix A. The list shows the control assurance for each audit. The projects completed during the first six months of the financial year were reported in more detail to the Committee in an 'Interim Report' on 30 November 2009.

1.6.4 A number of projects completed during the year did not include a 'control assurance assessment' as it was not appropriate to the project. This included work on the Audit Commission's National Fraud Initiative and Grant Claim work relating to Non-Domestic Rates.

1.6.5 Two internal investigations were completed during the year; one of the investigations resulted in the dismissal of an employee.

- 1.6.6 The work of the Internal Audit Section has established that for the majority of the areas examined, substantial controls are in place. Where weaknesses have been identified they were reported to the appropriate Head of Service who then has the responsibility for taking the necessary action in order to rectify those weaknesses.
- 1.6.7 The external auditors were able to place reliance on the work of Internal Audit when completing their 2008/09 final accounts work.

*The results of external audit work during 2009/10*

- 1.6.8 The main part of the external auditors work relates to the Council's financial accounts. The auditors will be considering the accounts for 2009/10 shortly. Internal Audit has had meetings with the Commission's Audit Manager and Principal Auditor during 2009/10 and no issues have been raised which would give concern in relation to the Council's internal controls. The Use of Resources assessment for 2008/09 (reported to the Audit Committee on 30 November 2009) is positive, with an overall rating of 3 out of 4. Internal Control was assessed to be at level 3.
- 1.6.9 The Annual Audit and Inspection Letter, for 2008/09, is extremely positive.

*The effectiveness of the Council's risk management arrangements*

- 1.6.10 Risk management arrangements are considered to be embedded into the strategic and operational planning and decision making of the Council. Risk management continues to be a consideration in all reports to Management Team and Members. In order to ensure that risk management arrangements remain effective, a fresh Strategic Risk Register will be compiled in the early part of 2010/11 and comprehensive risk management training will be provided to all service managers.

*Significant control breakdowns during the financial year, whether they were found by Internal Audit or not*

- 1.6.11 There were no significant control breakdowns during 2009/10.

*The results of any other form of external inspection or assessment*

- 1.6.12 There have been no external inspections or assessments during 2009/10, other than the normal external audit work.

The Effectiveness of senior management in resolving control weaknesses

- 1.6.13 When a Head of Service responds to an audit report, the response is assessed for adequacy by the Head of Internal Audit. If the response is not adequate, for example if the proposed action is not clear, the response is referred back to the Head of Service. In effect, this will occur until an adequate response is received.
- 1.6.14 Internal Audit carries out a follow-up to each audit in order to ensure that the agreed actions have resulted in the desired improvements.
- 1.6.15 Twenty-five audit follow-ups took place during 2009/10. At the year end there were four audits with a 'limited' assurance rating which were awaiting a follow-up. These are shown at Appendix B.
- 1.6.16 If Internal Audit find that only a limited level of control assurance is in place at the time of the follow-up, the relevant Head of Service will attend the next meeting of the Corporate Governance Group (which is chaired by the Chief Executive) or the Audit Committee in order to set out an action plan for addressing the control weaknesses. This process means that all significant issues are addressed and no control weaknesses are left outstanding.
- 1.6.17 It is considered that senior management is effective in resolving control weakness.

1.7 Issues that the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement

- 1.7.1 The only outstanding audit work that is relevant to the Annual Governance Statement in terms of its corporate impact is 'IT Disaster Recovery', where only limited control assurance was in place at the time of the audit. The audit had not been followed-up at the 31 March 2010. The subject has therefore been added to the AGS.
- 1.7.3 Other than this, there are no issues relevant to the Annual Governance Statement arising from Internal Audit work, other than the opinion of the Head of Internal Audit that substantial reliance can be placed on the Council's control environment.

1.8 Performance of the internal audit function against its performance measures and targets

- 1.8.1 The internal audit function has three performance targets which are measured and reported throughout the year. The targets are:
- Completion of the annual internal audit plan

- Percentage of chargeable time (i.e. time spent on planned audit work - the target is 75%).
- Achievement of customer care targets.

1.8.2 In practice, during 2009/10 the internal audit function achieved 89% of the internal audit plan and on a month by month basis achieved an average 80 % of chargeable time over the year.

*Customer care targets*

1.8.3 Customer surveys are issued to clients following each internal audit to assess satisfaction with the audit process, auditor performance and the quality of audit reports relating to that specific audit. All who responded rated the service as either good or excellent.

1.8.4 Annual Customer Questionnaires are issued to Heads of Service, Directors and the Chief Executive to assess overall satisfaction with the audit service. Questions relate to the quality of internal audit, advice and consultancy services during the year; auditor interaction with client staff and management; perceptions of auditor skills and knowledge; the value of audit reports and recommendations and satisfaction with the internal audit service overall.

1.8.5 Key issues arising from the survey were:

- a. Perception of the Audit service has, over the last year, either remained the same (72%) or improved (28%), which confirms that the significant preparations for partnership working have not had a detrimental impact on perceptions of the audit service.
- b. Senior Managers' Overall Satisfaction with the audit service was 83% satisfied or very satisfied, against a negative response of 17%.

1.9 Compliance with the CIPFA Code of Practice for Internal Audit in the United Kingdom and with the internal audit quality assurance programme

1.9.1 The external auditors (Audit Commission) carried out their triennial review of Internal Audit and reported the results in January 2009. A copy of the report was provided to the Audit Committee meeting on 17 February 2009. The report confirmed that Internal Audit is fully compliant in relation to the eleven standards, a position which the external auditors describe as being "commendable". The processes and standards have been maintained by Internal Audit since the triennial review.

1.9.2 The 'quality assurance programme' is maintained through the ongoing review of reports and working papers by the Head of Internal Audit and through adherence to the Code of Practice.

#### Assurance levels

1.9.3 Internal Audit use 'assurance levels' or assurance statements to provide the overall 'audit opinion' for the service or area that has been reviewed. The use of an assurance level is consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. There are four assurance levels, as detailed at Appendix D. The use of assurance levels allows a structured and balanced view to be taken by the auditor of the adequacy of internal control in the area concerned.

1.9.4 In the financial year 2009/10, a total of twenty-four audit reports included an 'assurance assessment' for the area that had been audited, (eight did not). The initial assurance assessments were categorized as follows:

High	1
Substantial	14
Limited	8
Minimal	1
Not given	8
Total	32

1.9.5 The collective assurance level, which can be extracted from the audit work performed during 2009/10, provides considerable evidence to support the statutory Annual Governance Statement, with 63% of the reports identifying control assurance as 'substantial' or 'high' at the time of the audit.

#### Reporting of Internal Audit work to the Audit Committee

1.9.6 The Audit Committee has previously resolved that the summary reports to Committee should highlight the following issues:

- In respect of limited assurance assessment, the summary should include an up-to-date position regarding the actions arising out of the Audit.
- In the limited assessment areas, there should be a fuller summary of the Audit including where necessary the full report and action plans as appropriate.

- On all audits listed, there should be a footnote on the response from the Service Manager by the Head of Internal Audit indicating whether he is satisfied with the response.

1.9.7 In addition, the Audit Committee has commented that the 'scope' and 'findings' of all of the summary audit reports should be expanded to make it clearer to Members which aspects were covered during the audit and the key issues arising from the audit work.

1.9.8 Appendices, B, C and D have been written to reflect the Committee's previous resolutions and comments. The summaries show which aspects were considered during the audit and the key issues arising. The complete report and the management action plan can be provided to Members if required. Members are asked to note that the Head of Internal Audit is satisfied with the final responses from the respective Head of Service for all of the audit work listed at Appendix A.

#### 'Outstanding issues'

1.9.9 Members have previously asked that reports on Internal Audit activity include a section indicating whether or not there were any important issues outstanding.

1.9.10 It is considered that there are no important issues arising from audit work during 2009/10 which are outstanding and need to be brought to the attention of Members in this report.

#### Mid- Kent Internal Audit Partnership

1.9.11 The Mid-Kent Internal Audit Partnership between Maidstone, Ashford Swale and Tunbridge Wells Borough Councils was implemented on 1 April 2010; the final decision to proceed with the partnership having been made in February 2010.

1.9.12 Although the key appointments have been made, a considerable amount of work is still required in order to fully implement the detailed arrangements that were set out in the Business Case. A report on the progress of the partnership will be provided to the Committee later in the year.

1.9.13 The Head of Internal Audit was heavily involved in the progress of the four-way Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells during 2009/10. This included the creation of a detailed Business Case, the appointment of staff and attendance at many meetings during the year. The Head of Internal Audit was assisted by members of the Maidstone Internal Audit team, and particularly by the Principal Auditor who took on additional responsibility during the period. It is noteworthy that the



arrangements to create the partnership were achieved without a major impact on the output of the Internal Audit Team during 2009/10.

1.9.14 Opportunities will be taken during 2010/11 to align the four partners audit plans and create an overall partnership operational plan as agreed by the MKIP Programme Board.

#### 1.10 Alternative Action and why not Recommended

1.10.1 A total of thirty-two Internal Audit projects were completed during the financial year 2009/10. The work has led to improvements in control in the areas that were reviewed.

1.10.2 Although the audit work identified some areas where controls were in need of improvement, it has been established through the follow up process that the responsible manager has since taken the necessary action to address those weaknesses.

1.10.3 The matters referred to in this report and in the appendices provide evidence to support the recommendations at paragraph 1.2. No alternative action could be recommended.

#### 1.11 Impact on Corporate Objectives

1.11.1 The Internal Audit service contributes towards the Strategic Plan through its role as an independent and objective appraisal and consulting function, which provides the means to evaluate the adequacy of the controls that management has put in place to achieve its corporate objectives and its objectives for service delivery.

#### 1.12 Risk Management

1.12.1 The major risk arising from this report is that, if Members are unable to agree the decision as recommended, it would bring into question the adequacy of the Council's internal control arrangements and particularly the assurances under the statutory Annual Governance Statement. It is considered that the work of Internal Audit over the financial year 2009/10 and the associated matters shown in this report provide sufficient assurance for Members to be able to agree the recommendations shown at paragraph 1.2.

#### 1.13 Other Implications

1.13.1

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Social Inclusion	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.13.2 The work of Internal Audit includes the examination of all aspects of internal control but inevitably contains a strong emphasis on reviewing the adequacy of financial controls.

1.13.3 Each audit involves the participation of those staff that have responsibility for the various systems and processes that are being audited. The results of Internal Audit work are likely to lead to changes in the procedures operated by those staff.

1.13.4 Internal audit is a statutory requirement under the Accounts and Audit Regulations 2006 which state that "A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control." The guidance on the Regulations make it clear that the proper practices for internal audit may be found in the *Code of practice for internal audit in local government in the United Kingdom*, issued by CIPFA.

#### 1.14 Conclusions

1.14.1 The Internal Audit Annual Report 2009/10 highlights the work of the Internal Audit Section during the year and provides assurance to the Audit Committee that substantial standards of internal control are in place. Where controls were not adequate at the time of the audit, action has since been taken to improve the controls.

#### 1.15 Relevant Documents

##### 1.15.1 Appendices

- Appendix A – Audit Reports and Follow-ups issued 2009-10
- Appendix B – Audit Reports receiving a 'Limited' or 'Minimal' level of assurance where controls have not yet been reassessed to provide an adequate level of assurance
- Appendix C – Audit Reports receiving a 'Limited' or 'Minimal' level of assurance where controls have been assessed as adequately improved during the year
- Appendix D – Audit Reports receiving a 'Substantial' or 'High' level of assurance at the time of reporting (October 2009-March 2010)

1.15.2 Background Documents

Individual audit reports and working paper files.  
 The Code of Practice for Internal Audit in Local Government in the United Kingdom.

<b><u>IS THIS A KEY DECISION REPORT?</u></b>	
Yes <input style="width: 50px; height: 25px;" type="checkbox"/>	No <input checked="" style="width: 50px; height: 25px;" type="checkbox"/>
If yes, when did it first appear in the Forward Plan? .....	
This is a Key Decision because: .....	
.....	
Wards/Parishes affected: .....	
.....	