

Audit and Governance Committee

29 June 2010

Report of the Head of Internal Audit

Annual Report of the Head of Internal Audit

Summary

- 1 This report summarises the outcome of audit and fraud work undertaken in 2009/10 and provides an opinion on the overall adequacy and effectiveness of the council's internal control arrangements.

Background

- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2003 (as amended) and the CIPFA Code of Practice for Internal Audit in Local Government (issued in 2006). In accordance with the code of practice, the Head of Internal Audit is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the council's control environment and identify any issues relevant to the preparation of the Annual Governance Statement.

2009/10 Internal Audit and Counter Fraud Work

- 3 This report covers the first year of the new arrangements for the provision of internal audit and counter fraud services by Veritau. It has been a successful year overall, with a number of enhancements to the services provided to the council alongside the delivery of other audit and counter fraud work.
- 4 Internal audit delivered 94.9% of the 2009/10 internal audit plan by 30 April 2010 (against a target of 90%). Details of the work completed and the reports issued are given in Annex 2. The service also achieved a positive customer satisfaction rating of 100% (against a target of 95%), and agreed actions to address 100% of high priority issues identified through audit work (against a target of 90%). Other developments in internal audit this year are set out below.

- An audit strategy has been developed setting out how internal audit services will be delivered and developed in accordance with the council's terms of reference for internal audit and how the service links to the council's organisational objectives and priorities.
 - A new audit report has been adopted. The new format is designed to be clear and concise, allowing managers to easily see any significant issues or key risks which have been identified during the audit. The new reporting process also places an emphasis on reaching agreement with management on the measures necessary to address any control weaknesses found.
 - New wording has been adopted for the audit opinions and recommendations. The new wording is designed to reflect the role of internal audit, which is to provide assurance to management and those charged with governance. The amended wording is also intended to ensure greater consistency and be less susceptible to misinterpretation.
 - A revised Customer Satisfaction Survey has been developed to enable more accurate feedback to be obtained from audit customers.
 - Work has been undertaken to review the Audit Procedure Manual so that it reflects the changes in working practices.
- 5 Counter fraud work was undertaken in accordance with the approved plan. A summary of the work completed during the year was presented to this committee as part of the last audit and fraud monitoring report on 26 April 2010 (annex 1). Service developments in relation to counter fraud work include the following.
- Establishment of a project to investigate housing tenancy related fraud. An initial publicity campaign appears to have been well received, and a number of suspected cases of fraud are currently being investigated.
 - A fraud awareness survey involving approximately 300 managers across the council was undertaken during the year (as reported to this committee in April). This highlighted a number of issues, which require addressing. Action to be taken includes the roll out of a counter fraud e-learning application in 2010/11 which has recently been purchased by Veritau.
- 6 The successful and innovative partnership working between the council and North Yorkshire County Council, which led to the formation of Veritau, was recognised when both councils and the company were jointly awarded the Cliff Nicholson Award for Innovation and Excellence in Public Service Audit by the Chartered Institute of Public Finance & Accountancy (CIPFA). Veritau has provided a good example of how two local authorities can work together to develop a shared service and, as a result, a number of other local authorities have already expressed

an interest in seeing whether the approach adopted can be used as the model for delivering shared audit services in their areas.

- 7 A review of the work of Veritau was also carried out by the Audit Commission as part of their role in ensuring the council maintains an effective system of internal audit. The review concluded that the service continues to meet its professional and statutory duties and no areas of concern were identified.

Breaches of Financial Regulations

- 8 There have been a number of breaches of the council's financial regulations identified during the course of internal audit work in 2009/10. A summary of those breaches identified since the last report to this committee in April 2010 is included in annex 3. A significant number of the breaches relate to issues identified as part of the recent petty cash project. Additional guidance has subsequently been issued by the Assistant Director of Customer & Business Support Services (Customer Service & Governance) to address these issues, and further monitoring is ongoing.

Opinion of the Head of Internal Audit

- 9 In accordance with the council's terms of reference for internal audit, the Head of Internal Audit is required to provide an annual written report to the Audit and Governance Committee. The report sets out the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the council's control environment and contributes to the overall review of the effectiveness of its systems of internal control and to the preparation of the Annual Governance Statement.
- 10 The opinion of the Head of Internal Audit is given in Annex 1. The opinion is based on audit and counter fraud work completed during the year including that detailed in annex 2 to this report, and other monitoring reports to this committee during the year. Internal audit work has been conducted in accordance with the CIPFA Code of Practice for Internal Audit.
- 11 In giving this opinion attention is drawn to the following significant control weaknesses which are considered relevant to the preparation of the 2009/10 Annual Governance Statement:
 - a) Reconciliations of the banking transactions occurred on a daily basis, however there was no complete reconciliation of the council's bank accounts during the course of 2009/10. This was due to system related problems following the implementation of the new FMS on 1 April 2009. It is understood that a full bank reconciliation is being produced for the financial year end, and that regular bank reconciliations will be undertaken in the future.
 - b) There were significant issues with the creditor payments system during the year. Again these arose following the implementation of the new FMS. Problems included delays in payments and the

threat by some suppliers to withdraw services. Management are taking action to address these problems.

- c) The fraud awareness questionnaire referred to in paragraph 5 above has highlighted a significant lack of awareness of the possibility of fraud across the council. This will be addressed through the work of the counter fraud team in 2010/11 including the use of the new e-learning application and other targeted fraud awareness training.

Consultation

- 12 Not relevant for the purpose of the report.

Options

- 13 Not relevant for the purpose of the report.

Analysis

- 14 Not relevant for the purpose of the report.

Corporate Priorities

- 15 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to making the council an effective organisation.

Implications

- 16 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 17 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported and the annual statement and opinion of the Head of Internal Audit is not considered by those charged with governance.

Recommendations

18 Members are asked to;

- note the results of the audit and fraud work undertaken in 2009/10.

Reason

To enable members to consider the implications of audit and counter fraud findings.

- accept the opinion of the Head of Internal Audit on the adequacy and effectiveness of the council's internal control environment.

Reason

To enable Members to consider the opinion of the Head of Internal Audit.

- note the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement.

Reason

To enable the Annual Governance Statement to be prepared.

Contact Details

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Report Approved



Date 18/6/10

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Internal Audit Risk Assessment and Audit Strategy
2009/10 Audit Plan
2009/10 Counter Fraud Activity Plan

Annexes

Annex 1 - Opinion of the Head of Internal Audit
Annex 2 - Audits Completed and Reports Issued
Annex 3 - Breaches of Financial Regulations