
INTERNAL AUDIT ANNUAL REPORT AND OPINION 2009/10

1 SUMMARY

- 1.1 This annual audit report and opinion for 2009/10 is to inform Members of the progress of internal audit work during the year and to report the opinion of the Audit & Performance Manager in respect of the effectiveness of the systems of internal control that exist within the Authority. This opinion contributes to the Annual Governance Statement.
- 1.2 Although the Audit & Performance Manager cannot provide total assurance that control weaknesses or irregularities do not exist, due to time and the amount of audit coverage, it is the opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2010, with good assurance being given to the specific areas audited by Internal Audit at the time of the audit.
- 1.3 This opinion is based on a programme of audit work carried out by experienced and qualified auditors, in accordance with the CIPFA Code of Practice and to a standard approved by the External Auditors.

2 BACKGROUND

- 2.1 Internal audit is a statutory function under the Local Government Act 1972, Section 151. Internal Audit's work has been based upon the annual audit plan approved by this Committee on 29 April 2009, including all core systems identified by the External Auditors, PKF.
- 2.2 The audit opinion also takes into consideration any internal or external reviews that have been carried out across the Authority.
- 2.3 This opinion can only provide reasonable and not absolute assurance of effectiveness as it is based on areas of work covered.
- 2.4 The main objectives of the Council's internal control systems are:-
- To ensure adherence to management policies and directives in order to achieve the organisation's objectives.
 - To safeguard assets and protect the interests of the Council.
 - To secure the relevance, reliability and integrity of information so ensuring as far as possible the completeness and accuracy of records, and
 - To ensure compliance with statutory requirements.

3 ASSURANCE FRAMEWORK

- 3.1 Internal audit is an independent appraisal function established by the management of the Council for the review of the internal control system as a

service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

3.2 Audit Planning and Monitoring

3.3 The risk-based annual audit plan forms a fundamental part of the assurance framework and forms the basis for the opinion, covering as it does the core financial areas identified as the highest risk within the Authority. The annual audit plan is agreed by the Audit Committee and monitored regularly throughout the year. The Audit Committee also agrees the resources required to meet the audit plan.

3.4 The following table details the percentage of time spent on the audit plan in relation to time allocated. The target is 97%. For comparative purposes the figures for 2008/09 are shown. All core audit work for 2009/10 was completed.

Quarter	1	2	3	4
2008/09	23.14%	44.48%	65.93%	91.66%
2009/10	22.94%	42.65%	70.72%	96% (tbc)

3.5 In addition to the monitoring of the percentage of audit time used there is also a monitoring process for progression of the various audit projects and tasks. A target of 95% was set and achievement is around 94% with several projects in the final stages as shown in appendix 1.

3.6 Appendix 1 summarises the audit areas covered and details the recommendations that have arisen as a result. All recommendations are formally monitored at each sitting of the Audit Committee until such time as they have been actioned.

3.7 A series of “pro-active checks” are carried out throughout the year on a range of subjects including petty cash controls, telephone calls, flexi-forms and time recording, asset inventories by service area, credit card purchases, controlled stationery, authorised signatories and post opening. Deficiencies, if identified, are raised at the time with the relevant line management. There were no significant issues identified during 2009/10.

3.8 Audit Resources

3.9 The audit plan is based on an annual resource of 2.5 full time equivalent staff that are experienced, qualified or training for an accounting qualification. The audit work is reported to the relevant line managers, Head of Service, Chief Executive and Corporate Directors, the External Auditors and the Audit Committee. Good assurance can therefore be placed on the audit work completed by the team and reflects on the overall assessment for the authority.

4 OTHER SOURCES OF ASSURANCE

4.1 Governance Arrangements

4.2 The Council has good governance arrangements across the Authority in the form of detailed policies, procedures and reporting arrangements. The Constitution is a key document which includes details of Committees, codes of conduct, financial regulations and delegation of authority.

4.3 The various policies and procedures are communicated across the Council through the intranet, management team meetings, service team meetings, core briefs, alerts and 1 to 1 with staff.

4.4 Risk Management

4.5 The Council's current risk management framework, which incorporates our risk management policy and the Corporate Risk Register, has been approved and monitored by the Audit Committee during 2009/10.

4.6 All the risks contained in the Corporate Risk Register have been reviewed by the Corporate Risk Group and where changes are required these have been reported to the Audit Committee.

4.7 The risk management framework sets out how the Council will ensure, and demonstrate, that risk is managed and that risk management is of the highest quality consistent with the efficient and effective use of its resources.

4.8 The framework continues to be embedded within the divisional planning process and project management process used to monitor the achievement of the Council's objectives.

4.9 Internal and External Reviews and Inspections

4.10 Appendix 2 provides a summary of the internal and external reviews and inspections completed during 2009/10, which includes our External Auditors. A major review was the Use of Resources assessment and the evidence gathered to support the final result of 'good' is indicative of the good systems and procedures we have within the Authority.

4.11 The Improvement Board continues to meet with the Authority to monitor the ongoing development of the Council with regard to the Use of Resources requirements.

4.12 Partnerships

4.13 A Partnership Self Assessment Guidance and Questionnaire developed with the Local Strategic Partnership to provide a consistent approach to our partnership working is being used within the Council.

4.14 Internal Audit has reviewed the Essex On-Line Partnership, the Procurement Agency for Essex and the Thames Gateway South East Service Level

Agreement with Rochford District Council. The final reports for the 2008/09 partnerships were reported to the September 2009 Audit Committee with no significant issues arising.

- 4.15 Over the course of the year the Strategy and Partnership Management Team has reviewed a number of initiatives such as partnership arrangements, corporate strategy update, the introduction of the community information days and the work of the business process reengineering team. The minutes of the meetings are placed on the intranet for easy access and consideration.
- 4.16 **Review of Performance Indicators and Monitoring of Key Projects and Actions**
- 4.17 Regular reports are presented to the Portfolio Holder and the Executive on performance data for key indicators. A summary report for all national performance indicators is reported twice a year and a report on the progress of key projects is also regularly reviewed. The performance management framework is embedded within the Council and the implementation of a performance management software system for 2010/11 will develop the processes even further.
- 4.18 **Value for Money Reviews**
- 4.19 During 2009/10 a value for money review was carried out on Legal Services by Internal Audit. Within service areas a follow up on Handyman & Gardening is progressing, a review of the Council's insurance policy is coming to a conclusion and the Council continues to exceed its target for cashable savings.
- 4.20 The IT contract was reviewed and re-negotiated during 2009/10 identifying efficiency savings for the Council.
- 4.21 **Internal Audit Self-Assessment**
- 4.22 Internal Audit follows the CIPFA Code of Practice for Internal Audit in Local Government. It also follows the CIPFA Code of Conduct and in compliance with the recommended best practice within the Amendment to the Accounts and Audit Regulations a detailed self-assessment, using a CIPFA checklist, was carried out on the internal audit service. The 2009/10 internal audit self-assessment was undertaken and reported to the Audit Committee in March 2010 confirming that continued reliance can be placed on the work of the internal audit section.
- 4.23 External Audit gives an opinion on whether they can place reliance on the work of Internal Audit. Their opinion on the work of Internal Audit in the Annual Governance Report 2008/09, presented to this Committee on 30 September 2009, was that they could place full reliance on Internal Audit's work. For 2009/10 the work will be assessed during March / April 2010 and reported by September.

4.24 Audit Survey

- 4.25 As part of the quality assurance work on Internal Audit a biennial survey is sent to senior managers and a post audit survey is sent upon completion of all audit assignments.
- 4.26 The results of the biennial survey have shown that managers consider Internal Audit to be professional, effective with good working relationships and coverage of their service areas.
- 4.27 Overall the survey results reflect managers' view of a quality audit service that enables them to place assurance on our work and confirms our compliance with the CIPFA code of Practice.
- 4.28 The strategy and terms of reference for Internal Audit was reviewed, updated and approved by the Audit Committee on 16 March 2010.
- 4.29 There are no significant weaknesses from the audit opinion that need to be raised within the Annual Governance Statement.

5 RISK IMPLICATIONS

- 5.1 If Internal Audit section is under-resourced there is a risk that assurance cannot be given on the Council's systems. The audit plan must reflect a fair cover of the key financial areas of the Council plus those areas that are assessed as high risk.
- 5.2 Due to the limit on resources there is always a risk associated with not covering all systems of internal control within the Council.

6 RECOMMENDATION

- 6.1 It is proposed that the Committee **RESOLVES**
- (1) That the annual report be noted.
 - (2) That the Audit & Performance Manager's opinion on the systems of internal control be confirmed.

Yvonne Woodward

Head of Finance, Audit & Performance Management

Background Papers:-

None.

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AUDIT PROJECTS REPORTED TO AUDIT COMMITTEE 2009/10

Recommendation Priorities	
High Priority	Action that is considered imperative to ensure that the organisation is not exposed to high risks
Medium Priority	Action that is considered necessary to avoid exposure to significant risks
Low Priority	Action that is considered desirable and should result in enhanced control

Report Number 2008/09	TITLE	AUDIT COMMITTEE DATE	RECOMMENDATIONS	AUDIT OPINION
19	Car Parking	10/6/09	<p>Three Medium – Related to revised procedures for managing outstanding Penalty Charge Notices</p> <p>Two Low – related to improving control functions around day to day procedures and system access controls</p> <p>All Implemented</p>	Effective controls over day to day operations. Improvements were required in areas where recommendations made

Report Number 2009/10	TITLE	AUDIT COMMITTEE DATE	RECOMMENDATIONS	AUDIT OPINION
1	Data Security	June 2010		Finalising
2	Anti-Fraud & Corruption	30/9/09	None	Effective
3	Income Collection	June 2010		Finalising
4	National Fraud Initiative	30/9/09	None	Effective
5	Housing Benefit – Fraud Management	30/9/09	<p>One Medium – To increase publicity in respect of successful fraud prosecutions to act as a deterrent for potential fraudsters</p> <p>One Low – To develop procedures to share information between Housing Benefit Fraud, Licensing and Taxi Driver Licensing teams as a pro-active antifraud exercise</p> <p>All Implemented</p>	Day to day procedures were considered as Effective
6	Investments	30/9/09	None	Effective
7	IT Security and Access	2/12/09	<p>Two Medium – To develop procedures for actively managing access of system users with no current need</p> <p>All Implemented</p>	Effective with “Compliant” status in respect of the Government Connect IT security requirements

Report Number 2009/10	TITLE	AUDIT COMMITTEE DATE	RECOMMENDATIONS	AUDIT OPINION
8	Payroll	16/3/10	None	Effective
9	Creditors	16/3/09	<p>Three Medium – Around ensuring procurement procedures are both effective and enforced to aid effective management of budgets</p> <p>Two Low – Minor procedural issues to improve controls around orders and creditor records</p>	<p>Payment controls, system access controls and financial reconciliation controls are effective.</p> <p>The issues identified were mainly those of the timing of raising or recording orders for goods and services. The vast majority of orders were processed correctly but the error rate was significant enough to warrant the recommendations</p>
10	Cash and Banking	16/3/10	None	Effective
11	Main Accounting	16/3/10	None	Effective
12	Legal Services	20/4/10	Two Medium and Seven Low – Procedural improvements to ensure effectiveness and efficiency.	Legal Services provide an efficient and cost effective service to the Council with scope for minor control improvements. Risks are identified and mitigated

Report Number 2009/10	TITLE	AUDIT COMMITTEE DATE	RECOMMENDATIONS	AUDIT OPINION
			One Low – Re future benchmarking	
13	Debtors	16/3/10	None	Effective
14	Housing Benefits	20/4/10	None but Quality Assurance process will be revisited by Internal Audit in 6 months	Effective
15	Thames Gateway – Financial Services Provided	16/3/10	None	Effective
16	Council Tax	20/4/10	None	Effective
17	National Non-Domestic Rates	20/4/10	None	Effective
18	Contracts Review	June 2010		Finalising
19	Risk Management Controls	June 2010		Finalising

The following is a list of reviews or Inspections undertaken during 2009/10 that have been used as part of the Assurance Framework to support the Internal Audit Opinion for the Annual Governance Statement 2009/10.

Review/Inspection	Key Areas Covered	Monitoring Committee
Human Resources	<p>A self-assessment check on our compliance with the Investors in People Standard was commissioned by HR to review us against the new choices IIP standards, and help us identify good evidence / areas to work on until full re-assessment in February 2011.</p> <p>RDC has successfully applied for the Disability Symbol and is now recognised as an employer who is “positive about disabled people”.</p>	Monitored by officers through Divisional Planning Process
Charter Implementation Group	<ul style="list-style-type: none"> Charter for Elected Member Action Plan 	Charter Implementation Group
Revenues & Benefits	<ul style="list-style-type: none"> Charter Mark Award retained January 2010 	Monitored through the Executive
Review Committee including its sub groups	<ul style="list-style-type: none"> Review of Council’s Community Halls and other assets – Review Continuing Review of Area Committee Budgets Interim Report regarding Car Parking Charges Bulky Household Waste Collection Service Rochford Housing Association – Offer Document Update 	Annual Report to Review Committee and the Executive
External Audit	<ul style="list-style-type: none"> Grant Certification Report for 2008/09 Use of Resources Judgment for 2008/09 Annual Governance Report 2008/09 	Audit Committee 16 March 2010