

# **Tyne and Wear Economic Development Joint Committee**

**12<sup>th</sup> November 2009**

## **Internal Audit Annual Report 2008/2009**

### **Report of the Treasurer**

#### **1. Introduction**

1.1 The purpose of this report is to provide details of the performance of Internal Audit Services (IAS) during the year and to give an overall opinion of the soundness of the internal control environment in place to minimise risk to the Tyne and Wear Economic Joint Committee and the Development Company.

#### **2. IAS Performance 2008/2009**

##### *2.1 Summary of Work Carried Out*

2.1.1 The Internal Audit Operational Plan for the year included two audits, as follows:

- Allocation of Funding by the Joint Committee.
- Business Continuity Planning for the Tyne and Wear Development Company.

2.1.2 Both of these audits were completed within the year, the Business Continuity Planning audit by a risk and control self assessment schedule which was agreed with the Company.

2.1.3 In addition to the above, an unplanned audit was carried out in relation to the governance arrangements in place in relation to the Joint Committee. This was required to enable the head of internal audit to complete an element of the 'small bodies annual return', a requirement of the Accounts and Audit Regulations and will be undertaken annually in the future. Audit work was also undertaken on the Lead Authority's key financial systems which are used by the Development Company (e.g. payroll).

2.1.4 Where IAS identified areas for improvement, recommendations were made to further minimise the level of risk. Although a number of recommendations to improve internal control were made, the work undertaken did not identify any matters that would impact on the opinion that overall there is a sound internal control environment in relation to the Joint Committee and the Development Company.

2.1.5 Audit recommendations are categorised as high, significant, medium or low risk, according to the exposure to risk in the context of the organisation.

2.1.6 During the year the following numbers of recommendations were made in relation to systems audited:

<b>Priority</b>	<b>Number of Recommendations Made</b>
High	0
Significant	0
Medium	29
Low	0

2.1.7 Action plans have been drawn up for the implementation of the above recommendations and all recommendations have been accepted.

2.1.8 The target number of days for the issue of draft reports is 15 from the date of the completion of the fieldwork. Performance against this target for reports issued in relation to the Joint Committee and the Development Company within the last 12 months is an average of 8.7 days.

## 2.2 *Implementation of Agreed Audit Recommendations*

2.2.1 Follow-up audits are conducted to ensure that agreed audit recommendations are implemented within the time frames agreed with management.

2.2.2 The target is for 100% of high and significant risk recommendations and 90% of medium risk recommendations to be implemented in accordance with the agreed timescale. The implementation rate is calculated based upon a pre-determined number of follow ups completed. This method of calculating the implementation rates was introduced in 2008/2009. For the recommendations followed up the implementation rate was 90%.

2.2.3 Revised timescales have been agreed with managers in relation to the recommendations not implemented at the time of the follow up audits.

2.2.4 The implementation of agreed recommendations is being monitored through liaison meetings.

## 2.3 *General Support*

2.3.1 IAS also provided support and guidance during the year in relation to systems developments and general day-to-day advice.

## 2.4 *Quality Assurance*

2.4.1 IAS operates a quality system which is certified to ISO 9001:2000. In March 2009 an external quality audit was carried out to establish whether or not the service continues to meet the requirements of the Standard. The audit report concluded that IAS had maintained its management system in line with the requirements of the standard.

## 2.5 *Clients Views*

2.5.1 IAS issue Post Audit Questionnaires after every audit to elicit the client's opinion on a range of areas related to the way the audit was conducted using a scoring range of 1 (Good) to 4 (Poor) for each area.

2.5.2 Within the year two post audit questionnaires were issued, both of which were returned. The scores in all areas were marked as 2 (i.e. "satisfactory") and therefore the 'overall rating for the work of Internal Audit' was 2. For information, the performance in this area for all clients who are provided with internal audit services from the City Council the average score was 1.1 (based upon 76 post audit questionnaires returned in total).

2.5.3 Within the year IAS also took part in a user satisfaction survey run by the CIPFA benchmarking club. All senior managers within bodies that are provided with internal audit services by the City Council were invited to complete a questionnaire which asked 35 questions covering Audit Services, Audit Staff, Conduct of Audits, Audit Reporting and Customer Service.

The questionnaire also asked for the respondent's overall rating of Internal Audit Services.

2.5.4 The benchmarking club received 15 responses from 40 invited to participate (37.5% response). The responses were analysed and the following was reported back to the Council:

- Average score against each question;
- Average score against each question for all 29 Councils that participated in the survey.

2.5.5 The key results of the survey are as follows:

- In relation to the 35 questions the average performance ratings were as follows:
  - In 2 cases Excellent
  - In 31 cases Good
  - In 2 cases Adequate
- The average overall rating of Internal Audit Services was excellent.
- Internal Audit Services scored above average against all but one of the 35 questions, compared to all of the other Councils that participated in the survey.
- The score for the overall rating of Internal Audit Services was the highest of all Councils that participated in the survey.

## 2.6 *Opinion of External Auditor*

- 2.6.1 The Audit Commission have carried out an independent review of the effectiveness of IAS by reference to the CIPFA Code of Practice for Internal Audit. The Audit Commission's conclusion is that *"We found that there continues to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code"*.

## **3. Conclusions**

- 3.1 This report provides details of the performance of IAS to Members and seeks to reassure them that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve the standards of its service.
- 3.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2008/2009, it is considered that overall there is a sound internal control environment in place. Where IAS identified areas for improvement recommendations were made to minimise the level of risk, and action plans for their implementation drawn up and agreed by management.

## **4. Recommendation**

- 4.1 The Committee is asked to note this report.