AUDIT AND GOVERNANCE COMMITTEE   **28 May 2010**

INTERNAL AUDIT ANNUAL REPORT 2009/2010

Report of the Director of Financial Resources

1.   Purpose of Report

1.1   To provide details of the performance of Internal Audit Services during 2009/2010 and an opinion on the overall system of control in place within the Council. For completeness, this report includes performance information in relation to internal audit services provided to associated bodies.

2.   Performance 2009/2010

2.1   *Summary of Work Carried Out*

2.1.1   The Key Performance Indicators for Internal Audit Services were accepted by the Audit and Governance Committee as part of the Internal Audit Operational Plan (the Plan) for 2009/2010. Appendix 1 details performance achieved against the targets set for the year. Key information is set out below.

2.1.2   The agreed Plan for the year included 122 audits. Of these, 118 were completed. The four audits which were not completed are as follows:

- *Service Transformation* – time was set aside to provide support for the Council's preparation for the Employment Tribunal in relation to Equal Pay claims. Through regular meetings with the Service Transformation Team it became clear that the support planned was not required, however, a watching brief was maintained.

- *Children's Services' Commissioning* – a corporate project commenced within 2009/2010 in relation to reviewing the Council's overall approach to commissioning and as such this audit did not take place. Internal audit will provide input to this corporate project and review the new arrangements once in place.

- *City Services Traffic Management and Road Safety Service* – due to a review of service delivery in this area being undertaken by City Services during the year it was not appropriate to conduct this audit at this time. Time has been allowed in the 2010/2011 Operational Plan to provide support to this review.

- *Office of the Chief Executives Partnership Arrangements* – an audit was planned to review progress in implementing new partnership

arrangements in relation to the Job Linkage Service. As these arrangements were not finalised during the year it was not appropriate to complete the audit. This audit has been rescheduled for 2010/2011.

2.1.3 Performance against the plan is therefore reported as 97% (118/122).

2.1.4 A further 5 unplanned audits were undertaken during the year, utilising the contingency time set aside in the agreed plan.

2.1.5 The audits (planned and unplanned) carried out during the year are shown in the attached Appendix 2.

2.1.6 With regard to planned productive days, 88.2% of the days planned were delivered, which equates to 2,563 days. The shortfall is due to the secondments of two members of staff to assist with key corporate projects, one case of long term sickness and vacancies for part of the year following two staff taking up positions in other organisations. The shortfall has been partially offset by employing agency workers.

2.1.7 Where areas for improvement were identified, 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 material to the overall internal control environment of the Council.

2.1.8 As with the previous year, Internal Audit recommendations are categorised as high, significant, medium or low risk, according to the exposure to risk in the context of the Council or audited body.

Eight significant recommendations were made during the year, although seven of these were in relation to one of the associated bodies for which internal audit services are provided. The significant recommendation made in relation to the Council was in connection with Corporate Information Security Management. All of the recommendations have been agreed and time has been allowed in the Operational Plan for 2010/2011 to revisit this area.

2.1.9 During the year the following numbers of recommendations were made in relation to the Council.

Risk	Number of Recommendations Made
High	0
Significant	1
Medium	874
Low	296

Observations are also made in cases where an audit finds that, although the arrangements in place are adequate, there may be scope for minor improvements. Such comments are made purely for management consideration and are not formal recommendations.

2.1.10 Action plans have been drawn up for the implementation of recommendations and, whilst some action plans are awaiting final agreement with Directorates, of those action plans already agreed, management has accepted them all.

2.1.11 Results of the key areas of work are included below.

Key Systems

In relation to the Council's key systems (financial and non-financial), audits have been undertaken within the various key areas over the year. The findings of these audits have been analysed together with the findings of audits within these areas during 2007/2008 and 2008/2009, to form an opinion of the adequacy of the overall control framework in each of these systems. For each system the opinion is either satisfactory or good. The detailed analysis is provided at Appendix 3 and 4 respectively.

Business Continuity / Contingency Planning for ICT

In the Annual Report for 2008/2009, the position regarding business continuity / contingency planning for ICT was reported as being satisfactory in three of four areas, with the unsatisfactory opinion being in relation to the recovery of key applications. The current position regarding the key applications is shown in the table below and whilst work is ongoing in relation to those areas that remain Amber it is now considered that the opinion for this area is satisfactory.

Planning level		Status October 2009	Status March 2010
Recovery plans in place which have been tested successfully.	Green	14	17
Documented recovery plan in place which has not been tested or has been tested, failed and corrective action has not yet been implemented, or Systems have previously been recovered following unavailability / failure but a formal testing plan has not yet been developed or tested.	Amber	10	7
No formal recovery plan in place and system has not been recovered previously or the arrangements in place do not meet the agreed recovery times.	Red	0	0
Total		**24**	**24**

Grants

During the year Internal Audit were asked to provide an opinion on the use of three grants received by the Council. In all areas assurance was provided that grant statements submitted to the funder had been fairly stated and all expected sums were claimable.

Building Schools for the Future

Reviews of the arrangements for the monitoring of the handover of service provision to the new ICT contractor and preparation for transferring schools to the three Academies were undertaken. The results of the audits were generally satisfactory although there were some issues highlighted in relation to the disposal of assets that were no longer required and were to be disposed off. Recommendations were made and accepted in order to strengthen controls in this area for the future.

Partnerships

A review was undertaken of 5 partnerships that the Council is engaged, namely:

- Learning Disabilities Partnership (Health, Housing and Adult Services);
- Community Equipment Service Partnership (Health, Housing and Adult Services);
- Tourism Tyne and Wear Partnership (City Services);
- 'It's Your Service' Partnership (City Services);
- Sunderland FEAST Partnership (City Services).

The arrangements in place were, overall, found to be satisfactory.

ContactPoint

ContactPoint is an online database of information about children for use by practitioners working with and providing support to them. The implementation of this system by Children's Services is still ongoing and a number of pieces of work have been completed by Internal Audit in order to support the arrangements being put in place. This includes the provision of self assessment documents and an action plan in relation to ICT security arrangements. An annual audit is required from 2010/2011 onwards and has been provided for within the Operational Plan.

Sunderland Strategic Transport Corridor (SSTC)

Audit work has been undertaken in relation to financial elements of the project. The overall arrangements were considered to be satisfactory and recommendations were made in order to strengthen the arrangements further.

Corporate Information Security Management

As already mentioned in paragraph 2.1.8, concerns have been identified with the physical security arrangements within the Civic Centre. The Council has also established a project board to implement the Local Government Association's Data Handling Guidelines. Implementation of the guidelines is ongoing and progress will be reviewed during 2010/2011.

Schools

The requirement to achieve the Financial Management Standard in Schools is mandatory for secondary, primary and special schools. Schools must receive an independent, external assessment to determine if the Standard has been met, and all schools in Sunderland chose Internal Audit Services to be their external assessors. In accordance with the timetable as laid down by the DCSF, all schools had received their first assessment by the end of 2009/2010. Results of assessments and the current status of all schools is summarised in the table below:

Total Schools	Secondary	Primary	Special	Nursery *
	14	82	7	9
Number meeting the Standard	12	79	5	9
Number not meeting the Standard and require reassessment **	2	3	2	0

* There is no statutory requirement for Nursery Schools to meet the Standard. However, it is expected by the Council that Nurseries should also demonstrate compliance and they therefore receive the same assessment as other schools.

** Schools found not to be meeting the requirements of the Standard are given up to 12 months from the date of assessment to ensure that all of the required arrangements are fully in place. Reassessments are planned during 2010/2011.

Counter Fraud Work

Specific work aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss has been undertaken in the following areas:

- Follow up of the National Fraud Initiative (NFI) data matching exercise, managed by the Audit Commission.
- Telephony usage.
- Council Tax refunds.
- Car mileage claims.
- Credit card refunds.
- Petty cash claims.
- Analytical review of payroll costs.

The results of the NFI work identified 4 duplicate payments out of a total of 886,438 payments made for the period April 2005 – October 2008. The payments amounted to £69,292. Action has been taken in relation to these matters and all monies have been repaid. In relation to these duplicate payments the underlying systems were reviewed and recommendations made to address any weaknesses.

It was pleasing to note that no fraudulent activity was discovered and that, in general, sound controls are in place within the areas examined to manage the risk of fraud. Where appropriate, advice was provided to improve arrangements to manage the risk of fraud.

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 Directorates / Departments.

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 performance for the year is short of the target with the implementation rate being 84% for the Council (excluding schools). This is the same level of performance as for the previous year. The implementation rates for each Directorate / Department are shown in the table below:

Directorate / Department	*Implementation Rate March 2009*	*Implementation Rate March 2010*
Children's Services (non schools)	71%	73%
City Services*	93%	96%
Office of the Chief Executive*	92%	86%
Health, Housing & Adult Services	77%	81%
Total Council Implementation Rate Excluding Schools	**84%**	**84%**
Children's Services – Schools	89%	83%
Total Council Implementation Rate	**86%**	**84%**

* *Implementation rates now reflect the new structure of the Council.*

2.2.3   Figures in the table above relating to individual areas are based upon a pre-determined number of follow ups in each Directorate/area and efforts continue to maintain / increase the level of implementation. The rate for the Office of the Chief Executive for March 2009 has been calculated based on the results for the former Chief Executive's Department, Financial Resources, City Solicitor and those services which transferred from the Development and Regeneration departments.

2.2.4   Revised timescales have been agreed with managers in relation to the recommendations not implemented at the time of the follow up audits. Action taken to improve the implementation rate includes the following:

- Detailed information has been provided to directorates in relation to the recommendations which have not been implemented.
- Regular meetings take place with Liaison Officers identified in each directorate.
- Managers are given one months notice of the follow up being undertaken and are provided with an additional copy of the agreed action plan.
- Performance is monitored on a monthly basis by Internal Audit and Directors are made aware of any concerns regarding performance in this area.

In addition, it is intended to develop a quarterly report to directors to provide them with appropriate information on a regular basis. Follow up work will continue to be undertaken to monitor the implementation of recommendations.

2.3 *Investigations*

2.3.1 Investigation work is carried out in response to concerns raised by internal audits, by management or by third parties. In 2009/2010 reports were issued in relation to 3 investigations. Where necessary, action plans have been agreed to address internal control issues arising from the investigations. None of these investigations have highlighted weaknesses that would affect the overall internal control environment of the Council.

2.3.2 Internal Audit was also involved in providing advice on investigations carried out by management in various Directorates.

2.3.3 The merits of publishing the outcomes of investigations are considered on a case by case basis in order to raise the awareness of managers and to act as a deterrent.

2.4 *General Support*

Support and guidance was provided to all Directorates during the year in relation to systems developments and new initiatives including identification of risks, improvements to financial procedures and general day-to-day advice.

2.5 *Quality Assurance*

Internal Audit operates a quality system which is certified to ISO 9001:2008. In July 2009 an external assessment was carried out to establish whether or not the service continues to meet the requirements of the standard. Full re-certification of the management system is required every three years. The service successfully retained accreditation; this being the third consecutive time accreditation has been achieved. The audit report concluded that ""*The system is working very effectively and continues to improve*". Annual external quality audits also take place, the most recent being in January 2010. The report on this external quality audit concluded that Internal Audit had maintained its management system in line with the requirements of the ISO standard.

2.6 *Clients Views*

2.6.1 Post Audit Questionnaires are issued to clients after every audit to elicit their opinions 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.

2.6.2 The number of questionnaires returned during the year was 51, with the average score for the overall rating being 1.1 (meeting the IAS target of achieving an average score of less than 1.5).

2.6.3 Within the year Internal Audit also took part in a user satisfaction survey run by the CIPFA benchmarking club. All clients who had received an audit report in the previous year 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. The key results were as follows:

- In relation to the 35 questions, 4 received a performance rating of excellent with the rest receiving a rating of good.

- The overall average rating was Good.

- The scores received for the 35 questions were above the group average in all cases.

- The overall performance score received was higher than all of the other authorities which took part in the survey (19 in all).

2.7 *Opinion of External Auditor*

The Audit Commission have carried out an independent review of the effectiveness of Internal Audit 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.   Conclusion

3.1   This report provides details of the performance of Internal Audit and provides assurance that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve performance.

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 2009/2010, it is considered that overall throughout the Council there continues to be a sound internal control environment. Where areas for improvement have been identified, recommendations were made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management.

Performance Against Key Indicators

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010			
Cost & Efficiency			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure the service provides Value for Money	1) Charge per Man Day	1) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	1) Achieved – Sunderland Cost per man day £283 and average for comparator group £304
	2) Audit cost per £m Gross Turnover of the Council	2) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	2) Cost equates to the average within the CIPFA Benchmarking club - £1,071
	3) Percentage of planned audits completed (including agreed variations)	3) 100%	3) Not Achieved – 97% (5 additional audits completed)
	4) Average number of days between end of fieldwork to issue of draft report	4) 10 working days or less	4) Not Achieved – 10.5 working days
	5) Percentage of draft reports issued within 15 days of the end of fieldwork	5) 85%	5) Achieved – 87.5%
	6) Percentage of audits where the number of days between the start of the audit and the end of fieldwork is within a target of twice the budgeted number of days	6) 75%	6) Not Achieved – 71.1%

Performance Against Key Indicators

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010			
Quality			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To maintain an effective system of Quality Assurance	1) ISO9001:2000 Certification	1) Retain certification	1) Achieved - Certification retained June 2009
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of high, significant and medium risk recommendations made which are agreed	2) 100%	2) Achieved - 100%
	3) Percentage of agreed high, significant and medium risk recommendations which are implemented	3) 100% for high and significant. 90% for medium risk	3) Achieved - 100% for significant risks Not Achieved – 84% for medium risks
	4) Opinion of External Auditor	4) Satisfactory opinion	4) Achieved - Satisfactory Opinion
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) Achieved - Overall average score of 1.1 from 51 returns
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Achieved - IPF survey of clients showed overall rating of 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 19 compliments received 1 complaints received

Performance Against Key Indicators

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010			
Continuous Improvement			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing	Improvement in actual performance in relation to previous years in the following areas: 1) Average number of days between end of fieldwork to issue of draft report 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of agreed high, significant and medium risk recommendations which are implemented	Improvement in actual performance from 2008/2009.	1) Achieved Performance 2008/2009 – 10.9 Performance 2009/2010 – 10.5 2) Achieved Performance 2008/2009 – 82% Performance 2009/2010 – 87.5% 3) Not Achieved – remained the same Performance 2008/2009 medium risk – 84% Performance 2009/2010 – 84%

Performance Against Key Indicators

Audit Work Completed

COMMON AREAS OF WORK

Creditors/Procurement
Children's Services
Development & Regeneration
Financial Resources
Chief Solicitor's
Tyne and Wear Fire and Rescue Authority
Beamish Museum

Recruitment and Induction
Children's Services
City Services
Development & Regeneration
Tyne and Wear Fire and Rescue Authority

Business Continuity Planning
City Services
Financial Resources
Tyne Wear Development Company
Children's Services

Payroll
Office of the Chief Executive
Financial Resources
Tyne and Wear Fire and Rescue Authority
Back on the Map

Risk Management Arrangements
Financial Resources
Tyne and Wear Fire and Rescue Authority

Human Resource Management
Beamish Museum
Tyne Wear Development Company

Sustainability - Green IT
Tyne and Wear Fire and Rescue Authority
ICT Unit

DIRECTORATE SPECIFIC WORK

Children's Services
Building Schools for the Future Contract Monitoring and Handover of ICT
Case Management
Early Childhood Services
4 Nursery Schools
15 Primary Schools
13 Secondary Schools
2 Special Schools

Audit Work Completed

Health, Housing and Adult Services
Private Housing Renewals
Respect Agenda Including Anti Social Behaviour
Direct Payments
Partnership Arrangements
Individualised Budgets
Supporting People Grant
Learning Disabilities Partnership
Home Improvement Agency and Accessible Homes
Home Support
Procurement Team

City Services
Environmental Services
Rank Grant
Refuse Collection - Domestic
Education And Civic Buildings Maintenance
Partnership Arrangements
Sport and Leisure Service
Tennis Centre
Libraries Service
Silksworth Sports Centre

Office of the Chief Executive
Realisation of Benefits/Savings
Corporate Performance Management
Corporate Health and Safety Arrangements
Community Leadership and Area Arrangements

Development and Regeneration Directorate
Parking Services
Review of Port Fee Income
Corporate Landlord - Health and Safety Procedures
Commissioning of Site Security
Sunderland Arc

Financial Resources
Accounts Payable - Processing and Payment
Shared Service Centre
Claims and Expenses
Time and Attendance Arrangements
Business Rates - Billing and Collection
Supplier Relationship Management Arrangements
Annual Governance Review 2008/09
E-Tendering Arrangements
Benefits - Private Landlords
Accounting / General Ledger
Benefits - Overpayments
Leasing Arrangements

Audit Work Completed

Accounts Receivable - Billing and Collection
Corporate Partnership Arrangements

Chief Solicitor's
Information Governance

ICT
Corporate Information Security Management
Web Content Development
Asset Management
Network Controls and Security
Performance and Financial Management

Tyne and Wear Fire and Rescue Authority
Performance and Financial Management
Training and Development
Emergency Planning Management of IT Risks
Income

Tyne Wear Development Company
Property Management

Tyne Wear Joint Committee
Accounts Certification Work

Beamish Museum
Performance and Financial Management

Back On The Map
Anti-Fraud and Corruption Arrangements
Management of IT Risks

Unplanned Audits
HHA Community Equipment Service
HHA Stroke Care Grant
Dame Dorothy Primary School
Back on the Map Property Acquisitions
Sunderland Strategic Transport Corridor

Appendix 2

Audit Work Completed

Key Financial Systems – Analysis of Audit Findings

System	Audit Findings			Overall Opinion 2009/2010
	Yr 1 2007/2008	Yr 2 2008/2009	Yr 3 2009/2010	
Main Accounting System	Satisfactory*	Satisfactory	Good	Satisfactory
Capital Asset Accounting	Good	Satisfactory		Satisfactory
Treasury Management	Good			Good
Leasing Administration			Good	Good
Cash Receipting	Good			Good
Procurement	Satisfactory*	Satisfactory		Satisfactory
Accounts Payable	Satisfactory	Satisfactory	Good	Satisfactory
Payroll	Satisfactory	Good	Satisfactory	Satisfactory
Accounts Receivable	Good		Good	Good
Periodic Income	Good	Good		Good
Council Tax	Good	Good		Good
NNDR	Satisfactory		Satisfactory	Satisfactory
Housing Benefit	Satisfactory	Good	Satisfactory	Satisfactory
Budgetary Control	Satisfactory	Satisfactory	Good	Satisfactory
Job Costing **			**	Satisfactory

* Conclusion based on work in schools.
** Arrangements were being reviewed at the time of a planned audit, therefore re-planned for 2010/11. The opinion given is based on work carried out prior to 2007/2008.

Key Non-Financial Systems – Analysis of Audit Findings

System	Audit Findings			Overall Opinion 2009/2010
	Yr 1 2007/2008	Yr 2 2008/2009	Yr 3 2009/2010	
Corporate Governance Arrangements	Good	Good	Good	Good
Corporate Legality			Satisfactory	Satisfactory
Risk Management Framework (Corporate and Directorate)	Satisfactory*	Satisfactory*	Satisfactory	Satisfactory
Procurement (Corporate and Directorate)	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Performance Management (Corporate and Directorate)	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Information Governance (Corporate and Directorate)	Good	Satisfactory	Satisfactory	Satisfactory
Asset Management		Satisfactory	Satisfactory	Satisfactory
External Funding	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Anti Fraud and Corruption Arrangements (Corporate and Directorate)	Good	Satisfactory	Satisfactory	Satisfactory
Recruitment and Selection/Induction Arrangements (Corporate and Directorate)	Satisfactory	Satisfactory	Satisfactory	Satisfactory

Key Non-Financial Systems – Analysis of Audit Findings

System		Audit Findings			Overall Opinion 2009/2010
		Yr 1 2007/2008	Yr 2 2008/2009	Yr 3 2009/2010	
Human Resource Management				Satisfactory	Satisfactory
Business Continuity		Satisfactory	Satisfactory	Satisfactory	Satisfactory
ICT Disaster Recover / Business Continuity	Framework	Unsatisfactory	Satisfactory	Satisfactory	Satisfactory
	Infrastructure		Satisfactory	Satisfactory	
	Desktop Services		Satisfactory	Satisfactory	
	Key Applications		Unsatisfactory	Satisfactory	

*Opinion based on work in schools.

Key Non-Financial Systems – Analysis of Audit Findings