

Governance Committee

Meeting: 30th June 2008

Subject: Internal Audit Services Annual Report for 2007/2008

Report of the Finance Officer

1. Introduction

- 1.1 Internal Audit Services (IAS) produce an annual report each year in relation to the Authority, which provides details of the performance of the service during the year and an overall opinion of the soundness of the internal control environment in place to minimise risk to the Authority.
- 1.2 The previous annual report for 2006/2007 concluded that the Authority continued to have a sound internal control environment.
- 1.3 This report provides details of the performance of IAS during 2007/2008. The report also provides an overall opinion of the soundness of the internal control environment in place to minimise risk to the Authority.

2. Audit Planning

- 2.1 The work of IAS is based upon its Audit Strategy and 5-year Strategic Audit Plan which covers all areas of audit activity and as such is a dynamic document continually changing to reflect new initiatives, risk areas and legislation.
- 2.2 The Audit Strategy and 5-year Strategic Audit Plan are updated in January/February of each year based upon:
- consultation with the Chief Fire Officer, the Chief Emergency Planning Officer and Senior Managers to ensure that account is taken of any concerns they raise,
 - new Authority initiatives, Government initiatives and legislation,
 - discussions with the External Auditor,
 - strategic risks as identified in discussions with the Finance Officer.
- 2.3 Each area of activity is also 'scored' by carrying out an assessment of the risks associated with it, both objective and subjective, using a scoring template.
- 2.4 There is also a continuous reassessment of risk scores as audits are undertaken, plus regular consultation with the Chief Fire Officer, Chief Emergency Planning Officer, and Senior Managers to ensure that account is taken of any concerns they raise.

- 2.5 The Annual Operational Audit Plan is drawn up from the 5-year Strategic Audit Plan having considered high, new and changed areas of risk whilst ensuring appropriate coverage of all areas of risk, in line with available resources.
- 2.6 As part of the planning process formalised liaison arrangements have been drawn up with the External Auditor to avoid duplication of work and maximise use of resources.

3. IAS Performance 2007/08

3.1 *Summary of Work Carried Out*

- 3.1.1 The agreed Operational Internal Audit Plan for the year included eight audits of the Authority's local systems. These were as follows:

- Integrated Risk Management Plan
- Asset Management
- Payroll
- Emergency Planning Unit – Prevention of Computer Misuse
- Creditors
- Information Governance
- Procurement
- Internet/Intranet Security

- 3.1.2 All of these audits were completed within the year. The actual days taken to complete the above audits was 124 against a planned budget of 108.

- 3.1.3 Two audits planned for 2006/2007, relating to Performance Management and Network Controls, were also completed within 2007/2008.

- 3.1.4 The background to and process followed in relation to the sale of surplus sites resulting from the PFI scheme was also reviewed.

- 3.1.5 In addition to the above, audit work was undertaken on the Lead Authority's key financial systems which are used by the TWFRAs (e.g. payroll).

- 3.1.6 In accordance with the agreed scheme for the audit of the Authority's key systems, audits have been undertaken within various key areas over the year. The findings of these audits have been analysed together with the findings of audits within these key areas during 2005/2006 and 2006/2007, to form an opinion of the adequacy of the overall control framework in each area. For each system the opinion is either satisfactory or good. The detailed analysis is provided at Appendix 1.

- 3.1.7 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 alter the opinion that overall the Authority has a sound internal control environment.

- 3.1.8 Audit recommendations are categorised as high, medium or low priority, according to the exposure to risk in the context of the Authority. During the year the following numbers of recommendations were made in relation to systems operated within the TWFA.

Priority	Number of Recommendations Made
High	0
Medium	73
Low	20

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

- 3.1.10 The target number of days for the issue of draft reports is 15 from the date of completion of fieldwork. Performance against this target for reports issued to the Authority within the last 12 months is an average of 11.1 days.

3.2 *Implementation of Agreed Audit Recommendations*

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

- 3.2.2 The target for the implementation of high and medium priority recommendations is for 90% of recommendations to be implemented in accordance with the agreed timescale. During the year, 122 agreed recommendations were followed up and the implementation rate was 82%, an increase from the overall rate for 2006/2007, which was 73%. Efforts continue to increase the level of implementation.

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

- 3.2.4 The implementation of agreed recommendations is being monitored through regular liaison meetings with the Authority.

3.3 *General Support*

- 3.3.1 IAS also provided support and guidance during the year in relation to systems developments, identification of risks, improvements to financial procedures and general day-to-day advice.

3.4 Quality Assurance

- 3.4.1 IAS operates a quality system which is certified to ISO 9001:2000. In February 2008 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 *“has established and maintained its management system in line with the requirements of the standard...”*

3.5 Clients Views

- 3.5.1 In 2007/2008 IAS issued 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.
- 3.5.2 Within the year nine post audit questionnaires were issued to managers within the Authority, of which six were returned. The scores in all areas were marked as 1 and therefore the 'overall rating for the work of Internal Audit' was 1, exceeding the IAS target of achieving an average score of less than 1.5.

3.6 Opinion of External Auditor

- 3.6.1 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 are 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”*.

4. Conclusions

- 4.1 This report provides accountability of IAS to the Authority's Governance Committee and seeks to provide assurance that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve the standards of its output.
- 4.2 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 2007/2008, it is considered that overall throughout the Authority there continues to be a sound internal control environment. 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.

5. Recommendation

- 5.1 The Committee is asked to note this report.

Background Papers

Review of the Effectiveness of Internal Audit – 30th June 2008

Creating the Safest Community

Audit of Key Systems - 2007/2008

Key Financial Systems***City Council Systems***

System	Audit Findings			Overall Opinion		
	Yr 1 2005-06	Yr 2 2006-07	Yr 3 2007-08	2003-06	2004-07	2005-08
Main Accounting System	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Capital Asset Accounting	-	-	Good	Satisfactory	Satisfactory	Good
Treasury Management	-	-	Good	Good	Good	Good
Leasing Administration	-	Satisfactory	-	Satisfactory	Satisfactory	Satisfactory
Accounts Payable	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Payroll	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Accounts Receivable	Satisfactory	Good	Good	Satisfactory	Good	Good

TWFRA Systems

System	Audit Findings			Overall Opinion		
	Yr 1 2005-06	Yr 2 2006-07	Yr 3 2007-08	2003-06	2004-07	2005-08
Procurement	-	Satisfactory	Satisfactory	-	Satisfactory	Satisfactory
Accounts Payable	Satisfactory	-	Good	Satisfactory	Satisfactory	Good
Payroll	Satisfactory	-	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Income	-	-	-	Satisfactory	Satisfactory	-
Budgetary Control	Satisfactory	-	Good	Satisfactory	Satisfactory	Good

Audit of Key Systems - 2007/2008

Key Non-Financial Systems***City Council Systems***

System	Audit Findings			Overall Opinion		
	Yr 2 2005-06	Yr 3 2006-07	Yr 3 2007-08	2003-06	2004-07	2005-08
Legality	Satisfactory	-	-	Satisfactory	Satisfactory	Satisfactory

TWFRA Systems

System	Audit Findings			Overall Opinion		
	Yr 2 2005-06	Yr 3 2006-07	Yr 3 2007-08	2003-06	2004-07	2005-08
Corporate Governance	-	-	-	-	-	-
Risk Management	Good	-	Good	Good	Good	Good
Integrated Risk Management Plan	-	-	Good	-	-	Good
Performance management	-	Satisfactory	-	-	Satisfactory	Satisfactory
Information Governance	-	Satisfactory	Good	-	Satisfactory	Good
Asset Management	-	-	Good	-	-	Good
Anti Fraud & Corruption Arrangements	-	-	-	-	-	-
Attendance Management Arrangements	-	-	-	-	-	-
Recruitment & Selection Procedures	-	Good	-	-	Good	Good
Training & Development Arrangements	-	Good	-	-	Good	Good
Business Continuity/Contingency Planning	-	-	-	-	-	-

Note: The agreed list of Key Non-Financial Systems was not introduced until 2006/2007. All areas will be reviewed by the end of 2008/2009.

Creating the Safest Community