

REPORT TO AUDIT AND PERFORMANCE REVIEW PANEL

Title: AUDIT AND REVIEW UNIT: 2008/09 ANNUAL INTERNAL AUDIT REPORT & ANNUAL REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S SYSTEM OF INTERNAL AUDIT

Date: 30 June 2009

Member Reporting: Councillor D McBride

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Wards Affected: All Wards

1. SUMMARY

- 1.1 The purpose of this report is two fold – firstly it summarises the work of the Internal Audit Service within the Audit and Review Unit for the period 1 April 2008 to 31 March 2009, identifying the main themes arising from the audit reviews and the implications for the Council. The report complements the 2008/09 Interim Internal Audit Report presented to this Panel on 8 December 2008. Secondly, this report presents the findings of an annual review of the Council's system of internal audit, in order to comply with the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006.

2. RECOMMENDATIONS

- 2.1 That progress against the 2008/09 Internal Audit Plan as at 31 March 2009, the matters identified during the various audit reviews and the action taken by management to implement the recommendations be noted.
- 2.2 That the approach taken to review the effectiveness of the system of internal audit for 2008/09 and the outcome of the review be noted. This will, in turn, support the Panel's consideration of the 2008/09 Annual Governance Statement and this 2008/09 Annual Internal Audit Report. In addition, the conclusion that there is a majority compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the "Code of Practice") should be noted.

What will be different for residents as a result of this decision?
Residents will have an independent and objective opinion on the Council's control environment (comprising risk management, control and governance) and an evaluation of the Council's effectiveness in achieving its objectives as a contribution to the proper economic, efficient and effective use of resources. In addition, residents will have assurances that the Council has an effective system of internal audit.

3. SUPPORTING INFORMATION

BACKGROUND

- 3.1 In order to fulfil its statutory requirements under S151 Local Government Finance Act 1972 and the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, the Council is required to make adequate provision for Internal Audit. The Internal Audit Service, within the Audit and Review Unit, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Panel. This Annual Report outlines the Internal Audit work undertaken during the year, which informs our overall opinion of the Council's control framework and supports the content of the 2008/09 Annual Governance Statement and its subsequent publication with the Annual Statement of Accounts.
- 3.2 In addition, the Regulations include a requirement for relevant bodies to conduct an annual review of the effectiveness of their system of internal audit. This process is also part of the wider annual review of the effectiveness of the internal control system, which also informs the Annual Governance Statement and its subsequent publication with the Annual Statement of Accounts.

SUMMARY OF INTERNAL AUDIT WORK COMPLETED FOR THE 2008/09 FINANCIAL YEAR

- 3.3 The original 2008/09 Internal Audit Plan provided for 1,352 audit days (full year). Against this Plan, 1,405 days have been provided for the 12-month period to 31 March 2009, due to minimal sick leave and fewer training day opportunities. Audits covered planned audit areas and responses to requests by management for contingencies and project work. However, work on Schools audits, the Financial Management Standard in Schools and a number of other audits, where additional work has been necessary, has taken longer than planned. The Audit Plan is based on a full establishment of experienced staff, which has included some agency cover for the shortfall in full time equivalent hours.
- 3.4 Appendix A shows progress against the Audit Plan for 2008/09 as at 31 March 2009. Audits described as being completed are those where a final report has been issued and a management response to the recommendations has been received. During the period, a total of 81 audit assignments have been completed, with a further 2 at draft report stage and 3 in progress at the time of writing this report, covering a range of areas corporately and within each directorate.
- 3.5 When issuing reports, management are informed of areas where, in the opinion of Internal Audit, action is required, together with an opinion on the overall control environment framework from one of the following four categories:
- Strong Controls in Place
 - Controls are in Place but Improvements would be Beneficial
 - Improvements in Application of Controls are Required
 - Urgent System Revision is Required

- 3.6 Appendix A shows the opinion given for those audits completed. The opinion stated in the audit report provides management with a brief objective assessment of the current and expected level of control over the subject audited. The overall opinion is a statement of the audit view of whether the objective is being met; it is not a statement of fact. The categories of opinion, which are based on terminology recommended by the Institute of Internal Auditors for classifying Audit reports, are detailed at Appendix B.
- 3.7 Based on ongoing work, there has been a general improvement in management controls compared to previous years and this is reflected by the reduced number of high risk recommendations being made and the reduction in the number of audit reviews attracting the lowest two categories of opinion.
- 3.8 Table 1 summarises for the 81 audit assignments, the overall opinions given and the audits to which they relate are listed at Appendix A. Due to the nature of certain audit assignments, a standard overall opinion is not always required.

Table 1: Summary of Overall Audit Opinions

Audit Opinion	Number of Assignments
Strong Controls in Place	3
Controls are in Place but Improvements would be Beneficial	28
Improvements in Application of Controls are Required	13
Urgent System Revision is Required	2
Overall Opinion Not Required	35
Total Completed Reviews	81

- 3.9 In addition, Appendix A details the number of recommendations made for each audit assignment undertaken and the number agreed for implementation by management. A total of 894 recommendations were made for the 81 reviews completed (104 high risk and 790 medium risk). Where high-risk recommendations are made, the appropriate director is requested to sign off those recommendations, proposed actions and timescales for implementation. Systems are in place for audit to undertake follow up work once timescales for their implementation have been achieved, to ensure that they have been applied as prescribed.

MAIN THEMES

- 3.10 The following paragraphs summarise the main themes arising from Internal Audit work undertaken in 2008/09 and the key issues arising. It is not an exhaustive list of all audits undertaken. The 2008/09 Interim Audit Report, which supports this report provided coverage of our audits in the first seven months of the year to the end of October 2008. This included a synopsis of our work in a number of areas including Berkshire Pension Fund Governance Arrangements, Pensions Investments, Administration and Payroll; Business Continuity; Community Safety; Deputies and Appointeeships; Meals on Wheels; Computer Audits – Data Security and the PARIS System. As a consequence, these have not been included below.

- 3.11 Key issues arising are being reviewed on a regular basis at Finance Management Team meetings, attended during the year by Councillor Hilton and are also discussed on a regular basis with the Chair of the Audit and Performance Review Panel.
- 3.12 This report explains the position in relation to each audit at the time the review was undertaken. Where the current position is known through other audit work, this is reported below.

Corporate Governance and Annual Governance Statement

- 3.13 Under the Accounts and Audit Regulations 2006, local authorities are required to produce an Annual Governance Statement (AGS). The 2008/09 AGS has been prepared by the Head of Audit and Review and is presented alongside this Annual Report for approval by the Panel.
- 3.14 In order to inform the AGS, Internal Audit prepared on behalf of the Chief Executive, a self-assessment questionnaire and explanatory note for managers based on the CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*". Managers have, through their Directorate Management Teams, regularly undertaken a review of Corporate and Directorate governance arrangements during the year to assess whether the Council's arrangements are both robust, effective and to identify any gaps. This has also fed into the Balanced Scorecard process. Progress reports have periodically been prepared by the Head of Audit and Review for the Services Management Team.
- 3.15 Internal Audit has reviewed and tested the content of a sample of Corporate and Directorate self-assessments to confirm that they are supported with sufficient evidence to inform the overall 2008/09 AGS. The self-assessment and review work will continue during 2009/10.
- 3.16 Following the self-assessment and review process, each Strategic Director, Head of Policy and Performance and Head of Planning and Development has been asked to sign an Annual Assurance Statement and Action Plan for their specific directorates/units.
- 3.17 During 2007/08 Members were asked to complete a Governance Questionnaire, the contents of which were revisited in 2008/09 and any required actions have fed into a Significant Issues Action Plan that is appended to the 2008/09 AGS.
- 3.18 The progress of the Significant Issues Action Plan, which accompanied the 2007/08 Annual Governance Statement, has also been monitored and an update of position is provided with the 2008/09 AGS.

2009 Comprehensive Performance Assessment (CPA) Use of Resources

- 3.19 Internal Audit assisted the Policy and Performance Unit in the coordination of the evidence to be presented for the 2009 Use of Resources assessment ready for review by External Audit and acted as the liaison point for them in clarifying the evidence put forward and guiding them where further evidence was requested.

Managed Audit

- 3.20 Internal Audit completed the 2008/09 testing of the high level controls for key financial systems to meet the External Auditors (KPMG) requirements. Systems reviewed included Housing and Council Tax Benefits, Council Tax, National Non Domestic Rates, Debtors', Cash and Banking Arrangements and Reconciliation, with a special exercise requested by the Head of Finance review progress on the use of Purchase Orders throughout the Council. In their Management Letter, KPMG reported that, where appropriate, they were able to place reliance on the work of Internal Audit.

NNDR

- 3.21 The reconciliation between the NNDR system and the General Ledger had not been completed as promptly as expected by the High Level controls issued by KPMG, and there were a number of other completeness issues, which needed to be addressed. Valuation Office reconciliations need to be independently reviewed and an on-going difference reviewed and resolved. Although progress had been made since last year's audit, there were still matters arising on the majority of the previous recommendations.

Creditors

- 3.22 The controls over the posting and update of creditors transactions to the General Ledger operate effectively. Controls over access to the supplier master file and segregation of duties within the Purchase Ordering and Goods Receipting Modules of the Creditors System are effective when applied. However, weaknesses continue to exist through the use of registered invoices where the Purchase Ordering System would have been more appropriate.
- 3.23 The levels of manual intervention and occasional amendment of invoice numbers to facilitate the registration of invoices weakens system controls to prevent the processing of duplicate invoices and can increase the risk that invoices are paid twice.
- 3.24 There is an established process for reporting cost centres' performance on non - pay expenditure to managers. It is intended that the scheduled issue of cost centre reports by the BIS Team will cease but this will then require managers to be able to produce and analyse their own reports from Agresso, with some assistance from service accountants. Until this is fully in place, however, there is a risk that managers may overlook a variance reporting mechanism (variance against profiled budget) that can assist in the prompt identification of overspends, errors or misposting.

Cash and Banking Arrangements

- 3.25 This audit identified that staff welfare is put at risk and that building security issues previously raised by the Council's insurers and Internal Audit have not been addressed. In addition, car park collections by a lone worker still take place despite audit concerns and insurance requirements.

Cash and Bank Reconciliation

- 3.26 The audit identified the need for management to review the bank reconciliation processes and procedures to increase efficiency, for example, through streamlining of the bank accounts and the introduction of an automatic and more structured bank reconciliation process.

Housing Benefit and Council Tax Benefit

- 3.27 This audit highlighted that improvements are still required in Administration, Assessment, Overpayments and Recovery and Reconciliations, as reflected by the recent Audit Commission Inspection.

Council Tax

- 3.28 The audit identified that there are opportunities for improvement in respect of the adequacy and operation of the expected High Level controls by KPMG, including the prompt completion of reconciliations between the Council Tax System and the General Ledger and the Council Tax System and the Valuation Office Listing. The audit also identified that the take up of the payment method of Direct Debit has increased in comparison to that for 2007/08 and the collection rate figure for 2008/09 is similar to the collection rate figure of 2007/08, which in the current financial climate should be commended.

SERVICE REVIEWS

- 3.29 The following paragraphs give an overview to Members of the main themes arising from audits undertaken within specific services for the period to the end March 2009.

Partnerships

- 3.30 The audit identified the absence of a Corporate partnership framework to guide and support officers in the setting up, operation and governance of partnerships. There is no Protocol, Policy or Corporate Partnerships Register in place and there is no Corporate officer role to help coordinate partnerships across RBWM. It is recognised that community partnerships are subject to more scrutiny and greater control under the management of the Community and Business Partnerships Manager, e.g. the Local Strategic Partnership. It is also acknowledged that, in the absence of Corporate guidance, the success of RBWM partnerships is reliant on the diligence, skill and experience of the officers involved, together with specific National / Statutory guidance. Internal Audit issued a Questionnaire to 35 Partnerships listed on the Significant Partnerships List from which it was demonstrated that there were varying degrees of governance standards applied to partnerships. However, feedback was only received on 1/3rd of those Significant Partnerships, and as such there is still a considerable knowledge gap on the other Significant Partnerships, together with all other partnerships within RBWM.

- 3.31 These factors are fundamental to the Comprehensive Area Assessment (CAA) inspection from April 2009, to ensure that we are meeting the needs of residents. There is also a need to verify that partnerships are meeting their objectives, that they are linked to the Community Strategy Themes and are providing Value for Money.
- 3.32 Opportunities for improvement included: -
- Introducing an electronic Corporate partnerships management service to provide detailed guidance to officers.
 - Identifying all partnerships and verifying their governance standards, their significance to RBWM, completing a risk assessment and ensuring Legal Services approval for the appropriate high risk partnerships.
 - Introducing partnership guidance, risk assessments, checklists, sample templates, etc that will constitute the protocols required of officers and this should be disseminated through training.

Procurement

- 3.33 Overall, it was found that major contracts are subject to greater scrutiny and are procured on a sound basis with the relevant approvals achieved. Where officers only periodically procure services and for the smaller contracts / consultancies (under £140k), the levels of control were inconsistent and unreliable across all Directorates. It was agreed that more robust management controls needed to be introduced and that the Contract Rules and processes surrounding these needed to be reiterated, to help ensure that there is a better and more consistent application of control and that Value for Money is achieved for RBWM.

Child Protection (Safeguarding Children) Follow Up

- 3.34 This extended follow-up audit has demonstrated that the management are highly committed to continually raising the standard seen within the Child Protection and Safeguarding Service. Currently, a review is being undertaken by the managers and teams within the Safeguarding and Specialist Service area, in the light of recent highly publicised national cases and reports, to identify areas where improvements would be beneficial. However, this audit has highlighted the need to examine the tasks undertaken by the Social Workers to determine whether administrative based functions can be transferred to the Administration Team thus creating more time to focus on the key responsibilities of their role and service delivery.
- 3.35 In addition, whilst good progress has been seen within the Child Protection (CP) area since the previous review, there is a need to improve access to key information including training courses i.e. within First Class. Quality assurance monitoring and informal audits undertaken within the CP Section have demonstrated and proven to be an invaluable tool for improving and drawing attention to training needs.
- 3.36 There is a need for management within the Children in Need Team to ensure that records are fully completed i.e. case notes when undertaking supervision/Integrated Childrens' System monitoring and records on the PARIS System need to fully reflect all actions undertaken or to be taken.

Section 106 Agreements

- 3.37 This audit commenced in 2007/08 and was completed in 2008/09. Recommendations included the need for an exercise to be undertaken to establish the feasibility of providing management with regular information from Agresso regarding receipt of s106 monies and using a Corporate database that is user friendly and meets their individual requirements. A recent response from the manager was that that this has been 95% completed and Agresso is now managing the income and allocation of s106 monies. Agresso needs a further module to cope with text fields to enable searches and input of information without monetary value - this is scheduled for future requirements.
- 3.38 Furthermore, audit recommended that a target should be set for checking the entries shown on the Developers' Contributions Section 106 Cost Centre and Section 106 spreadsheet and establishing the reason for the continuing increase in the carry forward figure. In addition there should be a control in place that ensures that s106 monies received are allocated to the appropriate Capital Project within the specified timescales. Management has recently explained that the system is now in good shape and this will be confirmed through further audit work, as the achievement of agreed recommendations are due to be followed up in quarter 1 of 2009/10.

External Funding Follow Up

- 3.39 From a 2007/08 review of this area, a number of issues were identified relating to recommended improvements in the administrative processes for this activity to secure income due to the Council. Following the audit a restructure of the management of this function was put in place and the Strategic Development Manager has confirmed that, with the exception of one recommendation, all the recommendations have been implemented. The one outstanding recommendation is in relation to updating the External Funding Strategy, which is timetabled for completion by the end of June 2009, after which, audit will undertake work to confirm that all recommendations have been applied as prescribed.

Review of the Governance Framework of the Local Area Agreement (LAA)

- 3.40 The Annual Statement of Grant Usage (SOGU) was audited to ensure that expenditure relating to Local Area Agreement (LAA) Grant (a ring-fenced grant) had been received and utilised on eligible expenditure and that there are adequate procedures and system of internal control for managing and monitoring the performance of reward targets.
- 3.41 Values were verified as correct following adjustment for inconsistencies, relating to how grant and performance were accounted for. However, it was identified that there was a lack of an informed point of contact, which meant that the officers involved in providing information for this audit were not properly aware of the grant conditions and what was required of them. This has resulted in the weak management controls and inconsistencies mentioned above. As a result, RBWM may not maximise the reward monies available.

- 3.42 Due to the issues arising during this review, an audit covering the governance of the LAA Grant has been programmed into the 2009/10 Audit Plan.

Financial Management Standard in Schools (FMSiS) and Schools Audits

- 3.43 Work commenced during the first seven months of the year on the external accreditation of 20 primary schools to assess whether they meet the Financial Management in Schools Standard (FMSiS), introduced by the DfES in 2006/07. The Standard is a statement that a school is financially well managed. It provides a clear and consistent benchmark that schools can use to encourage self-improvement and is intended to cover standards and processes that should already be in place in schools, rather than to introduce a new, higher standard.
- 3.44 The Standard is intended to help schools in evaluating the quality of their financial management and to aid in training staff to become better financial managers. Effective financial management in schools is essential so that they can make the most of their resources, demonstrating value for money, exercise proper controls over the significant amounts of public money delegated to them and allocate resources effectively to meet school priorities for development and improvement.
- 3.45 The external assessment is provided by the Internal Audit Team, at the request of the Council's Section 151 Officer.
- 3.46 During the year, we completed the external accreditation for 5 Primary Schools from the 2007/08 round of accreditations, with 2 schools yet to achieve the standard. Of the original 20 schools scheduled for assessment in 2008/09, 2 were not considered to have had sufficiently strong financial management systems in place to enable the assessment to have started in the current year. Of the remaining 18 First and Primary Schools assessed during the year, one failed to meet the Standard while Action Plans were prepared for the other 17. Fifteen of these schools have since fulfilled their action plans and have been awarded the Standard in 2008/09.
- 3.47 Due to FMSiS work we are undertaking, we have reviewed our Audit Programme of visits to schools and we undertake the audit work alongside the FMSiS review. This has enabled us to avoid duplicating work and to ensure that schools are only subject to one review.

Proactive Anti Fraud and Corruption Work

- 3.48 During 2008/09, Audit has revised the Council's and School's Anti Fraud and Corruption and Whistleblowing Policies and issued them to all staff, partner organisations and contractors. From a 2007/08 Survey of Members and Officers, we identified that it was felt that an honest and open culture exists and that anti fraud is taken seriously, although knowledge of strategies and policies was inconsistent. Although the reported instances of fraud within RBWM are low, we want to ensure that this remains so but also to ensure that officers are aware of the procedures to report a fraud and to feel uninhibited in doing so. During early 2009/10, a Fraud Awareness Software package will be purchased and rolled out to all officers across the Council, starting in those areas where fraud could be more prevalent. The package is a web hosted interactive training module, which provides a better

understanding to all levels of staff (via a structured approach) of what constitutes fraud and how it has to be dealt with. Officers, via the training module, will be able to test their understanding and awareness of fraud issues.

- 3.49 In addition, Benefit Fraud Awareness training has taken place with Benefits Service officers and Registered Social Landlords and Private Landlords. Sessions have been programmed for the Customer Service Centre, Council Tax and any new Benefits Officers over the remaining part of this financial year. There has been publication of the Benefit Fraud successes in local newspapers and a Benefit Fraud Newsletter will be issued to all staff early in 2009/10 to further raise fraud awareness.

Additional Work Requested by Management

- 3.50 In addition to the planned work, management made specific requests to Internal Audit to undertake work in respect of a health check of Corporate Complaints and assisting the activities of the Independent Executive Board appointed at Churchmead School.

OTHER ITEMS OF SPECIFIC INTEREST

Irregularities

- 3.51 Finance Rules require that all matters that might involve financial irregularity are reported to the Head of Finance and the Head of Audit and Review and that Internal Audit shall undertake an appropriate investigation.
- 3.52 During 2008/09, the Team assisted management in investigating a case of Internet misuse and location specific access to the Internet has been withdrawn to prevent re-occurrence.

National Fraud Initiative (NFI)

- 3.53 The Authority takes part in the Audit Commission's National Fraud Initiative (NFI) Data Matching exercise. From 2008/09, the type of data matched has been extended and alongside the usual matches relating to payroll, pensions, housing benefit claimants, student loans and creditors, data sets of Care Home residents, Transport passes and parking permits, Insurance claimants, licences (taxi and alcohol) are now also matched. Work is continuing on the matches received for investigation.

Housing and Council Tax Benefit Fraud Investigations

- 3.54 Tables 2 to 4 summarise the results of the Benefit Fraud Team investigations during the financial year. Good progress has been made in investigating benefit frauds, which is reflected by the year-end results.

Table 2: Results of Benefit Fraud Team from 1 April 2008 to 31 March 2009

	Number
Referrals Received by the Benefit Fraud Team	397
Investigations Completed	230

	2008/09 Target (Full Year), £	2008/09 Actual (Full Year), £
Benefit Fraudulent Overpayments Identified	-	£349,638
Administrative Penalty Income (30% fine)	-	£12,443
Total Fraudulent Overpayments and Administrative Penalty Income Identified (all recoverable)	£400,000	£362,081

Table 3: Summary of Sanctions Accepted as at 31 March 2009

Sanctions Given	2008/09 Target (Full Year) Number	2008/09 Actual (Full Year) Number
Cautions)	2
Administrative Penalties) 50 (total)	26
Prosecutions)	24

Total Sanctions Target and Accepted to 30/13/09	50	52
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Table 4: Summary of Sanctions in Progress (to be Accepted as at 31 March 2009)

Sanctions in Progress (to be Accepted)	Number
Cautions	0
Administrative Penalties	0
Prosecutions	14

Total Sanctions Waiting to be Accepted as at 31/03/09	14
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Regulation of Investigatory Powers Act Policy and Procedural Guidance

- 3.55 During the latter part of the year, the Head of Audit and Review became the Regulation of Investigatory Powers Act (RIPA) Monitoring Officer and as part of these duties updated and revised the Council's RIPA Policy and Procedural Guidance. In addition, training was organised for the Council's new Authorising Officers for RIPA, as well as awareness training for officers that undertake regulatory, enforcement or investigative duties. An Inspection by the Office of Surveillance Commissioners, who oversees RIPA and ensures that RIPA is being

applied properly, was undertaken in January 2009. Following this recent inspection, which included a review of the revised and updated RBWM Policy and Guidance Notes, processes, procedures and training arrangements for officers, the Council received an excellent report.

Support to Working Groups and Projects

- 3.56 Internal Audit has been represented at several of the Council's Corporate working groups in order to proactively enable audit advice to be built into the development of systems and procedures. In particular, Internal Audit has been represented at the group implementing the new Trent Human Resources/Payroll System, Fleet Management, preliminary stages of Transforming Social Care and Information Security Working Groups. In addition, attendance at these groups assists in informing the audit work in terms of keeping the Audit Team up to date with current developments.

ANNUAL REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S SYSTEM OF INTERNAL AUDIT (2008/09)

- 3.57 The Accounts and Audit (Amendment) (England) Regulations 2006 came into force on 1 April 2006 and one of the amendments from the 2003 Regulations was a requirement for relevant bodies to conduct an annual review of the effectiveness of their system of internal audit. This process is also part of the wider annual review of the effectiveness of the internal control system, which informs the Annual Governance Statement and its subsequent publication with the Annual Statement of Accounts.
- 3.58 The Accounts and Audit Regulations 2006 also state that internal audit should conform to proper practices and the Department of Communities and Local Government (DCLG) advises that proper practice for internal audit is set out in the Code of Practice for Internal Audit in Local Government in the United Kingdom, published in 2006 by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.59 The Council's Finance Rule 3.27 states that internal audit will comply with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Therefore, CIPFA's Code of Practice forms part of the guidance that the Internal Audit Service aims to adhere to.
- 3.60 It should be noted that an ineffective system of internal audit would undermine the entire Governance framework of the Council. This would, in turn, have serious implications for the External Audit assessment of our internal controls and governance arrangements as part of the Comprehensive Area Assessment (CAA) Use of Resources and their review of the Council's AGS.
- 3.61 The purpose of this report is to confirm that an effectiveness review has been undertaken and to set out the findings of the 2008/09 review, which has resulted in a positive opinion.

Who Should Carry out the Review of Effectiveness of the Internal Audit System?

- 3.62 The Accounts and Audit Regulations do not specify how the review should be conducted or define what constitutes the “internal audit system”.
- 3.63 Guidance from the Authority’s External Auditor has indicated that the annual review of internal audit’s work, carried out as part of the external auditor’s accounts and governance audit, will not in itself be sufficient to meet the needs of the annual review required by the Accounts and Audit Regulations.
- 3.64 However, guidance from the DCLG advises that where an Audit Committee exists, such a committee should consider the outcome of the annual review, as it has a role in monitoring internal audit but is independent from it.

Arrangements for Reviewing the Council’s Effectiveness of the Council’s System of Internal Audit

- 3.65 By its very definition, effectiveness is concerned with results and having an effect. Whilst efficiency can be defined simply as “doing things right”, effectiveness is more concerned with “doing the right things”. Thus, any review is more than just how the Internal Audit Team operates within its own procedures and follows accepted professional guidance. The review needs to embrace issues surrounding how the annual plan is comprised, the means whereby the organisation allows internal audit to operate, independent reporting methods, independence from management of control functions and the status of the Service, the organisation’s anti-fraud and corruption culture and how managers respond to internal audit recommendations.
- 3.66 The CIPFA Code of Practice identifies eleven standards, which are set out in a detailed Checklist. For 2008/09, the Internal Audit Service reviewed the previous detailed self-assessment of its arrangements (which had been independently verified), and updated progress in complying with the standards. This has provided an update of where the Service is and what is outstanding to fully meet the requirements of the Code of Practice. The review identified that standards in place at the time of the 2007/08 review remain in place and of the 3 outstanding areas, the Internal Audit Service is now partially compliant in two standards and is working towards being fully compliant in these and one remaining standard. These have been included within the Audit and Review Unit’s 2009/10 Work Plan.
- 3.67 Table 5 below shows the results of the 2008/09 self-assessment against the eleven standards and the number of areas where the system of internal audit is judged to be fully compliant (98%); partially compliant (1.5%) or not compliant (0.5%). As such, the Internal Audit Service is compliant with the majority of the Code of Practice. Appendix C shows the 2007/08 Action Plan updated with progress and outstanding actions as at 31 March 2009.

Table 5 – 2008/09 Self-Assessment against the CIPFA Code of Practice for Internal Audit

Standard	Description	Compliant		
		Fully	Partially	Non
1	Scope of Internal Audit, e.g. Terms of Reference, Scope of Work.	20	0	0
2	Independence	15	0	0
3	Ethics for Internal Auditors	11	0	0
4	Audit Committees	11	0	0
5	Relationships e.g. Members, management, other auditors	12	0	1
6	Staffing, Training, and Continuing Professional Development	9	2	0
7	Audit Strategy and Planning	21	0	0
8	Undertaking Audit Work	18	0	0
9	Due Professional Care	11	0	0
10	Reporting	32	0	0
11	Performance, Quality and Effectiveness	27	0	0
Total		187 (98%)	2 (1.5%)	1 (0.5%)

3.68 The effectiveness of the system of internal audit should not solely be judged by the extent of compliance with the Code of Practice. The purpose of the review is also to ensure that the opinion of the Head of Audit and Review may be relied upon as a key source of evidence in the AGS. Assurances should also be sought from the wider aspects of the system of internal audit, as set out below.

Further Support to the Review of the Effectiveness of the System of Internal Audit

Effectiveness of the Audit and Performance Review Panel

3.69 A Survey was carried out during 2007/08 involving all of the 7 Members of the Audit and Performance Review Panel and 9 key officers that have involvement with the Panel. The Survey was repeated in 2008/09 with the Survey split into questions on the general operation of the Panel, together with questions on the specific activities of External Audit, Internal Audit, Performance Management, Risk Management, Partnerships and External Review and Inspections.

3.70 Compared to 2007/08, when 7 responses were received (3 Members and 4 Officers), in the 2008/09 Survey, 10 responses were received, (4 Members and 6 Officers). Overall, there had been an improvement in the scoring of the effectiveness of the Panel. The majority of scores fell into the ‘Satisfactory’ or ‘Good’ categories. The areas particularly scoring well compared to the previous Survey related to the Panel having the following: -

- Information that is concise, relevant and timely.
- Meetings held sufficiently far in advance of Council meetings.

- Monitoring progress and follow up.
- Reaction to bad news – defensiveness has declined.
- Panel is perceived to have a positive impact.
- Role in relation to anti fraud and whistleblowing.
- The administration set out to improve openness and this has improved.

Areas still performing well as identified in the previous Survey included: -

- Appropriate skills and experience.
- A clear Terms of Reference.
- A robust debate at Panel meetings, focussing on appropriate areas.
- Good quality of chairmanship - Chairman ensures that important issues are addressed outside of meetings.
- A structured and appropriate annual agenda – much clarity added in 2008/09 and a clear 2009/10 agenda is required to build on this.
- A frank and open working relationship with senior officers.
- Focus on the appropriate areas.
- A positive impact is perceived and;
- There is on-going personal development / training for Panel members.

The general areas where scoring could be improved are as follows: -

- Needs to be clarity as to the Panel's role and responsibilities in relation to External Reviews, Inspections and Partnerships.
- Attendance and contribution to meetings - there are markedly differing levels of contributions from Members that may reflect skills / agenda interests and Members need to have adequately studied the papers to be able to meaningfully participate.
- Members have differing understanding of the different risks inherent in the Authority's business activities. The Panel should also consider whether it has appropriately responded to risks in terms of understanding officers' response to them.
- Understanding of Partnerships for service provision needs to be improved and the associated risk of partnership arrangements.
- There should be some measure for the impact of the Panel.

External Audit

- 3.71 A prime indicator is the opinion of the Council's External Auditor and they have a regime of inspecting Internal Audit in depth every two to three years. They annually inspect work and monitor changes to ensure that they can rely on the work that Internal Audit perform and are working to prescribed requirements, as part of their accounts and governance work.
- 3.72 Members will note that in May 2009, External Audit reported that after reviewing the work of Internal Audit for 2008/09, where appropriate, they were able to place reliance on that work. Internal Audit will continue to work and develop its relationship with External Audit to ensure that they can continue to place reliance on the work of

Internal Audit, to help ensure that there is no duplication of work and to reduce costs to the Council.

Management Opinion

- 3.73 There is also the opinion of Management. On the completion of each audit, Managers are asked to respond to a Customer Satisfaction Questionnaire. This Questionnaire (results in Table 6 below) is based on best practice and was developed so as not to be too time consuming to complete but still covering the key issues on audit delivery.

Staff Survey on the Internal Audit Service

- 3.74 During 2007/08, a Staff Survey was completed utilising a service provided by CIPFA, who, on our behalf, collate the responses and benchmark the data. The Survey was issued to all senior managers within the Council.
- 3.75 The Council's Internal Audit Service received a 'Good' overall rating and the score was in line with the average performance score of all Local Authorities undertaking the exercise.
- 3.76 Due to the Council's restructure, a Staff Survey was not undertaken during 2008/09 but this will be repeated for 2009/10.

Performance Indicators and Benchmarking

- 3.77 Performance measures are an important indicator of Audit effectiveness and Internal Audit at Windsor and Maidenhead has a good record of producing and reporting a comprehensive range of performance measures.

Table 6: - Performance Indicators and Benchmarking

Performance Indicator	Result
Reliance on IA work by the External Auditor	High standard and ability to place reliance on Internal Audit's work
Percentage of Audit Plan Completed (productive days)	100%+ - The Annual Internal Audit Plan for 2008/09 aimed to deliver 1,352 productive days (full year) and after taking into account annual leave, sick leave, training, performance management etc, 1,405 days were achieved due to sick leave and training days being lower than planned.
Percentage Productivity	There has been a sustained improvement in productivity from 86% in 2001/02 to 100% at year-end in 2005, 2006, 2007, 2008 and 2009.
Audit Efficiency	In terms of efficiency, for 2008/09, our available chargeable days per auditor are above average compared to other unitaries by 6%.

Calibre of Internal Audit Team	The calibre of the Internal Audit team is represented by being in the upper quartile compared to similar unitary authorities for qualifications held, as each member of the Team has a professional accountancy or auditing qualification.
Customer Satisfaction Responses	For the 2008/09 financial year, 100% of the Customer Satisfaction questionnaires returned following completed audits ranked the Internal Audit Team as good or satisfactory overall.

Summary of Effectiveness of System of Internal Audit

- 3.78 In summary, there is currently a range of assurance sources to allow the Council to come to an opinion on the effectiveness of its system of Internal Audit.
- 3.79 In the opinion of officers, the Internal Audit Service has continued to deliver a high quality service. External Audit reviewed the work of Internal Audit for 2008/09 and reported in May 2009 that, where appropriate, they were able to place reliance on the work of Internal Audit. In addition, assurances have been obtained from a number of other sources.
- 3.80 The risk based Internal Audit Plan for 2008/09 aimed to deliver 1,352 productive days (full year) and after taking into account annual leave, sick leave, training, performance management etc, 1,405 days were achieved, due to minimal sick leave and fewer training day opportunities.
- 3.81 Internal Audit's full framework of key documentation, including strategies, policies and procedures and other key documents have been reviewed and updated to improve the Council's governance arrangements.
- 3.82 The 2008/09 Self-Assessment against the CIPFA Code of Practice identified that the majority of areas have now been implemented, with a small number to be implemented to ensure full compliance. The Internal Audit Team is now compliant or partially compliant in 99.5% (98% compliant and 1.5% partially compliant) of areas and Members will be able to continue to track progress in implementing the remaining actions thereby ensuring that the Council's Internal Audit Service works towards fully complying with the Code.
- 3.83 Customer feedback to date indicates that the auditors are performing their job to a good standard.
- 3.84 Performance monitoring and benchmarking indicators have shown that in terms of audit coverage, audit efficiency and calibre of audit staff, the Service has performed well.
- 3.85 Having considered the detailed Self-Assessment, the findings of External Audit and the cumulative knowledge of the Service provided by Internal Audit, it is considered by officers that the Council's system of internal audit is effective and meets the required standards.

3.86 The Audit and Performance Review Panel will need to ensure that it is satisfied with the extent of its arrangements for reviewing the effectiveness of the system of internal audit for 2008/09, as included in the consideration of the 2008/09 Annual Governance Statement.

4. OPTIONS AVAILABLE AND RISK ASSESSMENT

4.1 Options

	Option	Comments	Financial Implications
1.	To accept this report and note the progress made by Internal Audit in delivering the 2008/09 Internal Audit Plan as at 31 March 2009 and to note the approach taken to review the effectiveness of the system of internal audit for 2008/09 and the outcome of the review. This will ensure that the Council meets its requirements under S151 of the Local Government Finance Act 1972 and the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. This report will contribute towards the consideration of the Council's 2008/09 Annual Governance Statement.	The implementation of Option 1 will ensure that the Council meets its statutory requirements. Failure to do so may result in a qualification in the External Auditors' Annual Management Letter. Acceptance of the recommendation will also enable an assurance to be given to the Chief Executive and Leader of the Council in support of the Council's 2008/09 Annual Governance Statement.	Revenue Officer time in dealing with provision of the Internal Audit Service. Capital None.
2.	To accept this report with amendments.	Members may wish to request that this report be amended / altered if they feel that there are material issues which have not received sufficient emphasis or if there are specific issues the report is deficient in.	Revenue Officer time in dealing with provision of the Internal Audit Service. Capital None

3.	Not approve this report.	This may expose the Authority to unnecessary risks by not having an adequate internal control framework leading to poor performance, poor outcomes for service users/citizens and a specific attributable negative impact on the Council's Comprehensive Area Assessment (CAA).	Revenue Officer time in dealing with provision of the Internal Audit Service. Capital None
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4.2 Risk Assessment

Risk	Uncontrolled Risk	Controls	Controlled Risk
1. Failure of the Internal Audit Service to adequately plan and undertake audit reviews or to have an effective system of internal audit leading to failure of the Council to meet its statutory requirements. The Council's key systems and services are consequently at risk of not achieving their objectives in the most economic, efficient and effective way thus being exposed to misappropriation / fraud.	HIGH	Ensure and demonstrate internal audit coverage and compliance with nationally recognised standards for internal audit. Provide a regular written progress report of the work of internal audit to those charged with governance for endorsement.	LOW
2. Failure to provide assurance that the work of the Internal Audit Service and system of internal audit properly supports the RBWM governance framework and the content of the Annual Governance Statement leading to impact on the CAA governance score and a requirement for additional External Audit work at an enhanced cost to the Council.	HIGH	Internal audit coverage included as part of the governance assurance framework and informing the Annual Governance Statement.	LOW

5. CONSULTATIONS CARRIED OUT

- 5.1 Consultations on service priorities and risk management with the Section 151 Officer, the reporting Member, Chief Executive and all Directorate Management Teams took place in preparing and undertaking the 2008/09 Internal Audit Plan.
- 5.2 Management and staff have been consulted prior to and during the course of the audit reviews and at the conclusion of audits, to ensure that audits have been timed to suit both parties, to incorporate managements' priorities and to agree a course of action to implement the recommendations made.

6. IMPLICATIONS

The following implications have been addressed where indicated below.

Financial	Legal	Human Rights Act	Planning	Sustainable Development	Diversity & Equality
N/A	Y ¹	N/A	N/A	N/A	N/A

1. Statutory basis for Internal Audit stems from the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, which require every local authority to maintain an adequate and effective internal audit of their financial affairs. In addition, under S151 Local Government Finance Act 1972, the Head of Finance is responsible for ensuring that proper arrangements exist for the management of the Council's financial affairs. Reliance upon Internal Audit is fundamental to the fulfilment of that responsibility.

Background Papers:

2008/09 Internal Audit Annual Plan
Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006).
S151 Local Government Finance Act 1972
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code)