

INTERNAL AUDIT MANAGER'S ANNUAL REPORT

Corporate Director (Resources)

1 Purpose

- 1.1 The Head of Internal Audit is required to provide a written annual report to those charged with governance, timed to support the Annual Governance Statement. This report should be presented to Members and considered separately from the Annual Governance Statement and formal Accounts.

2 Recommendations/for decision

- 2.1 The Committee is requested to note the contents of the Internal Audit Manager's Annual Report for 2008/09

3 The Assurance Framework

- 3.1 This committee's terms of reference include dealing with internal and external audit issues. This report allows formal recognition of the Internal Audit Manager's report by a committee of the Council.
- 3.2 The Council is required to issue its draft Statement of Accounts (subject to Audit) by 30th June each year. That matter will be reported to this meeting of the Audit Committee on 29th June 2009. Included in the statement of accounts is a statutory Annual Governance Statement to be signed by the Leader and Chief Executive. This statement gives assurance that matters relating to the Council's operations are being properly managed and controlled.
- 3.3 The Annual Governance Statement draws upon the management and internal control framework of the Council, especially the work of Internal Audit and the Council's Risk Management framework. In particular the independent report of the Council's Audit Manager is a significant factor in determining the position to be reported.
- 3.4 The attached report includes the Internal Audit Manager's overall opinion on the adequacy and effectiveness of the Council's risk management systems and internal control environment.

4 Options considered

- 4.1 None – The Internal Audit Manager's Report is a statutory requirement.

5 Reasons for Recommendation

- 5.1 To comply with legislation.

6 Resource implications

- 6.1 The resources required to produce the report have been found from within the Internal Audit Section's budget.

7 Response to Key Aims and Objectives

- 7.1 The Internal Audit Manager's report is required to support the Annual Governance Statement. As such it is an integral part of the Council's Annual Accounts and requires formal consideration at Committee.

Contact Officer
Background Documents

Val Hinkins 01296 585343
Audit Committee papers - all meetings
AVDC Annual Accounts



AYLESBURY VALE
DISTRICT COUNCIL

INTERNAL AUDIT MANAGER'S ANNUAL REPORT

APRIL 2008 – MARCH 2009

Aylesbury Vale District Council

Internal Audit Manager's Annual Report

April 2008 to March 2009

1. Introduction

The purpose of Internal Audit is to provide the Council with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives. In order to provide this opinion, Internal Audit must annually review the risk management and governance processes of the organisation and undertake a regular review of the operation of the internal control systems.

2. Internal Audit Manager's Opinion

Based on the Internal Audit work undertaken for the year 2008-2009 and the implementation by management of the recommendations made, Internal Audit has reached the opinion that the key financial systems are operating soundly. There is no fundamental breakdown of controls resulting in material weakness sufficient to qualify the overall audit opinion.

The key financial systems have been reviewed by the Internal Audit team, and the interim financial check undertaken by the External Auditors is currently in progress. To date no significant control weaknesses have been raised in the financial areas under review.

This year the Internal Audit team has not given a "No" assurance opinion in any of its reviews. However we have given a "Limited" Assurance opinion in five areas this year. A list of these is at paragraph 5 below. I am pleased to report that management have responded rapidly to Audit's concerns in these areas and in most cases action was immediately taken to address the issues raised.

3. Overview of Audit Activity 2008-2009

The Audit Plan for 2008-2009 was written flexibly to enable the team to respond to emerging issues throughout the year. In a number of areas additional work was requested and delivered. Examples include a review of procedures related to the employment of casual workers in response to a specific concern and work on the handling of credit and payment card payments from members of the public. In a few areas work which had been planned was no longer appropriate or could not be completed due to changes in the management arrangements or

priorities in the Council. Where we feel it necessary, these areas will be covered in the 2009/10 year.

Internal Audit presented a progress report to the Audit Committee in March 2009. This demonstrated good progress against the plan with many areas of audit work already completed. Although there are two audits which are not yet finalised, the team has completed a sufficient spread of work during the year to enable an audit opinion to be given.

There are a number of areas in the plan where the team has an ongoing involvement rather than a set project or review to be completed. These include attendance at corporate groups or working parties, eg the Information Governance Group and involvement in corporate projects, eg Business Transformation. The work undertaken in these areas adds significantly to the Audit team's understanding and knowledge of the council's operations, which again contributes to the annual audit opinion.

The Audit Plan has to ensure that the team remains up to date in key corporate areas & developments, as well as performing sufficient formal Audit reviews to support the Annual Audit opinion.

4. Summary of Audit work in significant areas, including progress on items previously raised.

4.1 Corporate Governance

The Council's Audit Committee has continued to provide a robust and effective forum for scrutiny of Corporate Governance, internal control and management issues. The Committee receives regular reports from both Internal and External Audit, including updates on progress made by managers in implementing Audit recommendations.

The Audit Committee produced its first Annual Report to Council in March 2009.

It is noted that there has been no further progress in the development of the revised Code of Conduct for officers, which is still waiting for further guidance from central government. There is still a need for more explicit procedures for acceptance of gifts and hospitality and declarations of interest to be communicated to staff. This matter has now been outstanding for some considerable time and should be urgently addressed.

4.2 Partnership Arrangements

Partnership working is increasingly important for the council to ensure the delivery of its corporate plan and is also a key element of the new Use of Resources framework.

A Partnership Evaluation report prepared by management was considered by Corporate Team in January 2009. The list of AVDC's significant partnerships provided with that report had itself been reviewed in October 2008. The information gathered in the Corporate Team report showed that all significant partnerships had been subject to management review during the third quarter of 2008/9.

The report identified that some improvements were needed in the way that information about partnerships is provided to Members. It was noted that while lead Members are well informed and annual reports are produced by the partnerships, this information may not be regularly shared with other Members.

In consideration of the detailed nature of the management review, internal audit decided not to carry out a formal review of partnership management at AVDC this year. However, Audit review work to follow up the recommendations made in the management report has been scheduled for 2009-2010.

4.3 Performance Management

The Council's performance management and data quality arrangements were affected by the management restructuring and are now part of the expanded Audit, Risk and Performance area. Heads of Service worked with the Policy and Performance officer to ensure consistent quality of their submitted data. Internal Audit staff were also able to assist managers in particular areas to review their processes for collecting the information. These efforts have again been recognised by the External Auditors' award of a level 3 opinion in their review of Data Quality.

4.4 Risk Management

Responsibility for Risk Management at AVDC has been transferred to the expanded Audit, Risk and Performance area. The Risk Manager has continued to work with Members, the Corporate Management team and Heads of Service throughout the year to improve Risk Management at AVDC.

4.5 Financial Governance

AVDC is still facing unprecedented pressure on financial resources. At the same time there are a number of large projects already in hand. Arrangements for the control of these projects were reviewed and improved during the year. Corporate

Management team need to continue to keep a careful control over all current projects to ensure that they are completed on time and to budget. Resources will not be available to allow costs or timescales to creep upwards.

The Internal Audit team has recently updated their assessment of AVDC's financial systems including following up on the outcomes of previous reviews. This year we were able to supply all the necessary assurance audits using a combination of internal staff and exchanges of staff with other Councils in the area. This approach was used in the audit of the Payroll system which AVDC coordinated, drawing upon expertise and assistance from the Audit Sections of those other Councils who use AVDC's service. The Audit report has been shared with them. They were thus able to obtain an independent opinion on the Payroll Service for their own assurance purposes.

This year has seen considerable upheaval in financial markets. AVDC had money invested in two collapsed Icelandic banks and is still unsure if this will all be recovered. Internal Audit undertook a review of the investment decisions and were satisfied that they complied with AVDC's policies and procedures at the time they were made.

A number of audit reviews have highlighted that AVDC's financial regulations and procedures are in need of updating and review. The Section 151 officer has agreed to complete this review by September 2009. A robust framework is essential and Internal Audit will continue to monitor this work through to completion.

4.6 Capital Projects

The Council is responsible for successfully managing a number of high profile projects, including the Waterside development, the new Theatre and the planned growth in Aylesbury Vale. Costs and timescales will need to be tightly controlled throughout these projects. Senior management must ensure that they do not enter into commitments which cannot be met and that the resources required do not have an adverse impact on other services provided by the Council.

4.7 Fraud and Corruption

4.7.1 Benefit Fraud

The Audit Fraud Investigation Unit works closely with the Department for Work and Pensions to identify and investigate Benefit Fraud. 461 cases were referred to the team for investigation during the financial year 2008/2009. Following an initial risk assessment 218 of these were fully investigated. Of these, 118 potentially serious cases of fraud or incorrect benefit were identified, leading to 10 prosecutions and 30 cautions. In total the team's work identified over £152,000 in benefit overpayments.

AVDC will seek to recover the overpaid benefit from the claimants concerned. An additional sum of £61,000, being 40% of these overpayments, is also added to AVDC's benefit subsidy as part compensation for the costs of investigation.

4.7.2 National Fraud Initiative

AVDC participates in this exercise which is co-ordinated by the Audit Commission. Cases arising from the data gathered in NFI 2006 have now been closed. Over eight hundred data matches were investigated. A formal Audit report on the outcomes of this exercise showed that overpayments of benefit totalling £120,689.40 were identified and are now being recovered.

Data gathering for the next NFI exercise, NFI 2008, was conducted in the Autumn of 2008. Data relating to AVDC's staff, members, creditors, debtors, licence holders, Council Tax payers and benefit claimants was submitted to the Audit Commission. The first tranche of results has been received and staff are working through the potential matches identified to determine whether any overpayments have been made.

AVDC is able to use powers granted under the Regulation of Investigative Powers Act (RIPA) to carry out surveillance of individuals. Any such use has to be specifically authorised by one of 6 named senior staff at the Council all of whom have received training in their duties and responsibilities under the Act.

The Council's track record in respect of the use of RIPA is good and evidences an appropriate and proper use of surveillance powers. Since RIPA came into force in September 2000, 12 authorisations only have been granted (in one case however the authorisation was renewed twice). In terms of the subject matter of the investigation, this figure breaks down as follows: fraud x3; benefit fraud x7; fly-tipping x1 and criminal damage/vandalism/graffiti x1.

IT Governance

This relates to maintaining the confidentiality, availability and integrity of information and includes physical and personnel security in addition to the security of data.

The Information Governance Group (IGG) formed during 2007-08 has produced new guidance and policy documents which clarify corporate responsibilities for all aspects of information security. The group is chaired by a Corporate Director with representatives from various services. During the year it mounted a major campaign to increase staff awareness of information security issues.

IGG members also took a leading role in preparing AVDC for the challenge of joining the Government Secure Intranet. A large and effective programme of work ensured that AVDC passed an independent external security inspection and received accreditation to join the network. This allows AVDC staff to exchange

confidential information with central government departments in a secure manner when required.

These improvements were implemented in March 2009. During 2009/10 Internal Audit will be reviewing the operation of the new arrangements, particularly the security of personal data and the use of restrictive security marking of documents.

4.8 Assurance work on other systems

Work has been completed to review internal control systems across the Council. These include both financial and non-financial systems, for example reviews of the Council's arrangements for administering the new national concessionary travel scheme and offering advice to citizens in financial difficulties were undertaken during the year.

4.10 Value for Money work

Internal Audit completed two Value for Money reviews during 2008-9, one on the Council's provision of loans to staff for car purchase and the second of the debt advice service run by Housing Services referred to earlier. Both reviews raised recommendations which were intended to assist the Council in making better use of its limited resources.

4.11 Reliance on work by other assurance bodies

Under the Strategic Partnership arrangements previously agreed with other Councils in Buckinghamshire, Internal Audit has been provided with copies of reports produced by the Buckinghamshire County Council Internal Audit Service which reviewed the Local Area Agreement and the Buckinghamshire Pension Fund. These reports have been relied upon to inform AVDC's opinion and give assurance in these areas.

5. Audit Reporting arrangements

The Audit Committee is provided with regular progress reports on the work performed by the Internal Audit Section. They also receive reports on the implementation of recommendations made in Internal & External Audit reports, including exception reports which highlight those actions which have not been fully implemented within the expected timescale. This reporting and review ensures that audit recommendations are followed up and implemented appropriately.

Each full Audit review results in a formal Audit report including an Audit opinion. This will range from "Full assurance" where no control weaknesses have been identified, to "No assurance" where suitable controls are not in place.

Internal Audit have not needed to give a 'No' assurance opinion during this year. However, a 'Limited' opinion has been reached in five areas, the same number as the previous year. These were:

The staff car loan scheme, concessionary travel arrangements, fixed assets, card payments and arrangements for making BACS payments.

I am pleased to report that actions have already been taken by managers to improve the control environment in these areas.

6. Audit Resources

The Internal Audit team has four members of staff, one of whom is part time. There have been no staff changes during the year. However, changes to the management structure at AVDC have resulted in the Section taking on additional responsibilities for the direct management of Fraud, Risk Management, Insurance and Performance Management. The total strength of the section is now ten members of staff.

All members of staff are encouraged to keep up to date and two have been following courses of professional training and development during the year. One has passed the examinations for the CISA qualification in IT audit and is now amassing the necessary experience to obtain the full qualification. Another has made a successful start on the Institute of Internal Auditors professional audit qualification.

As part of a strategic partnership arrangement with the other Councils in Buckinghamshire Internal Audit is able to call on additional resources from an external supplier at a preferential rate when required. Working relationships within the partnership also allow sharing of audit information and staff between the Councils involved.

During 2008-09 AVDC did not need to call on the commercial contract for external assistance with Audit work. However, we have used joint working arrangements to exchange staff with other councils for specific items of work. This widens the experience of our staff and also provides opportunities for other audit staff to work with AVDC. In the coming year 2009-10 the joint working arrangements will be expanded further to include regular work with Wycombe District Council. This will generate income for AVDC.

The Pathfinder initiative is a major project to review many of AVDC's functions and explore options to improve performance and make savings by integrating and streamlining service provision across the whole of Buckinghamshire.

Internal Audit is not currently included within the Support Services stream of the Pathfinder project. If the project goes ahead there will be future opportunities to reduce overall audit input and cost across all the Councils taking part. These savings would result from the combining of support services and systems within one organisation, rather than running independent services in each Council as at present.

While the projected savings claimed for Pathfinder look substantial it will be important not to underestimate the transition costs to the new arrangements. These will need careful management.

When planning ahead for these new arrangements it is important to remember that each Council will still need to manage its own risks and receive its own assurance that the new arrangements are providing an adequate system of control for their individual purposes.

7. Performance Measures

The Financial Services Service Plan for 2008-9 included key performance measures for the Internal Audit Section. These were:

Performance Assessment		Target	2008/9
1	Maintain "Managed Audit" status with External Audit. i.e. External Audit will rely on Internal Audit work where relevant.	Maintain	Achieved 2008/9. Confirmed by External Audit in a report presented to the Audit Committee in December 2008.
2	Costs to be at or below benchmark average.	Below Average	Benchmarking data due in July
3	Costs per £M of Gross Turnover	Below Average	Benchmarking data due in July
4	Deliver against Audit Plan	90%	92%
5	% of Productive time over period	67.5%	72%
6	Audit reports found helpful and recommendations agreed.	90% compliance with recommendations	Achieved - All agreed with management.

The expanded Audit, Risk and Performance team will be producing a separate Service Plan for the year 2009-10, reflecting our additional responsibilities.

Each year Internal Audit participates in a Benchmarking Club run independently by CIPFA which allows our performance to be compared with other Councils across England. A number of our performance measures above are derived from information prepared for this exercise. A full report on the outcome of last year's

Benchmarking was presented to the Audit Committee in November 2008, with the results of the Review of Effectiveness.

The Benchmarking service also offers an “Audit Customer Satisfaction Survey – Inter Authority Review”. In September 2008 all AVDC’s Directors and Heads of Service were asked to complete this survey and return it directly to CIPFA. They scored the Internal Audit Service between 1 (low) and 6 (excellent) in a number of areas. The overall rating for the AVDC Internal Audit Service was 5.19 out of six. This represented an improvement from the score of 5.13 in the previous year.

8. Review of Effectiveness and Quality Assurance

The Accounts and Audit Regulations issued in 2006 require a “Review of the Effectiveness of Internal Audit” to be conducted annually. The results of this year’s review were reported to the Audit Committee in November 2008.

Internal Audit operates to the standards set out in CIPFA’s 2006 “Code of Practice for Internal Audit in Local Government in the United Kingdom”. The Review of Effectiveness was conducted using the Checklist included in the Code. An Action Plan has been developed to address areas identified for further review and improvement. This is being implemented and outcomes will be reported to the Audit Committee.

Every three years the External Auditors conduct their own independent review of Internal Audit. This review took place just before the start of the year and has confirmed that the Audit Section is meeting the expected standards.

Val Hinkins
Internal Audit Manager
June 2009