



Stevenage Borough Council

Annual Assurance Statement & Internal Audit Annual Report

13 June 2012

Recommendation

<p>Members are recommended to note the Annual Assurance Statement and Internal Audit Annual Report</p>
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1. Purpose and Background

Purpose of Report

1.1 The purpose of this report is to:

- document and communicate internal audit's overall opinion on the overall adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes
- summarise the audit work from which the opinion is derived
- summarise the performance of the internal audit service.

Background

1.2 The provision of an annual opinion to the Council on internal control is a key duty of the Shared Internal Audit Service (SIAS) Head of Assurance and is timed to support the production of the Council's Annual Governance Statement.

1.3 Reporting the work of internal audit to Council Members 'charged with governance' gives them an opportunity to review and monitor this activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance.

1.4 Our opinion is based on the work of the audit service in the 2011/12 year. We are grateful for the co-operation and support we have received from all those who have engaged with the audit process, particularly during this transitional period for the internal audit function.

2. Annual Assurance Statement 2011/12

Context

2.1 *Scope of responsibility*

The management of the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk.

2.2 *Control environment*

The Council's control environment comprises three key areas: internal control, governance and risk management arrangements.

These areas of the control environment together are designed to manage risk to a reasonable level rather than eliminate risk completely. The purpose of these arrangements is to help ensure that the Council's policies, aims and objectives are achieved.

2.3 *Review of effectiveness*

As a pre-requisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Head of Assurance is required to confirm the effectiveness of the internal audit service and therefore its fitness for purpose to carry out work that informs the opinion.

The Head of Assurance of the Shared Internal Audit Service, which delivers internal audit services to the Council, has carried out an exercise to ensure the activity of the internal audit service has been carried out in accordance with the mandatory standards and good practice contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) 2006 Code of Practice for Internal Audit in Local Government in the UK.

Further, an independent review of internal audit has taken place and the effectiveness of the service has been confirmed as a result. Detail of the key findings and recommendations of the independent review is shown in section 4 of this report.

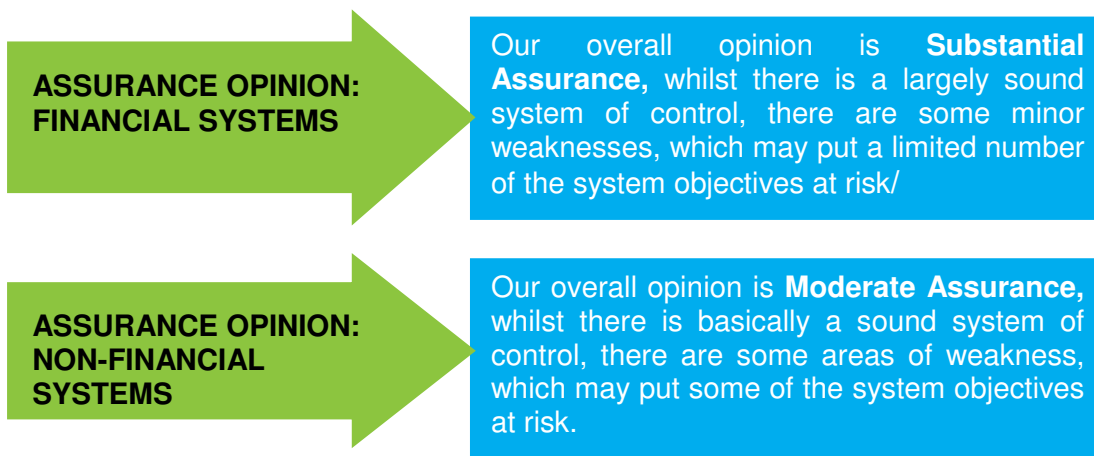
2.4 *Basis of assurance opinion*

Our assurance opinion is based on the work carried out by internal audit during the year which has been planned in order to give sufficient assurance on the management of risks within the organisation.

Annual Assurance Statement for 2011/12

2.5 *Assurance opinion on internal control*

From the internal audit work undertaken in 2011/12 it is our opinion that we can provide moderate assurance on the adequacy and effectiveness of the Council's control environment. The assurance is broken down between financial and non-financial systems as follows:



2.6 *Assurance opinion on Corporate Governance and Risk Management*

In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

Head of Assurance for the Shared Internal Audit Service

May 2012



3 Overview of Internal Audit Activity in 2011/12

- 3.1 This section of the report summarises the work of the audit service during the year, highlighting matters of significance in respect of the internal control environment and opportunities for improvement.
- 3.2 Appendix 1 lists the audit work that was completed for the 2011/12 year and the final position on the agreed audit plan. It shows the audits and their results in terms of the assurance level provided, together with the number of recommendations raised. The levels of assurance are summarised in the table below.

Assurance level	Number of reports	Percentage of reports
Full	3	15%
Substantial	13	65%
Moderate	3	15%
Limited	1	5%
No	0	0%
Total	20	100%

- 3.3 A break down of the categorisation of recommendations by audit is also shown in Appendix 1 and is summarised below:

Recommendation Priority level	Number of recommendations	Percentage of recommendations made
High	4	7%
Medium	30	49%
Merits Attention	27	44%
Total	61	100%

- 3.4 Because this is the first year of deliver of the service by SIAS we have not presented comparative data in respect of previous years although it is our intention to do so in future years to help to demonstrate the direction of travel of the control environment.
- 3.5 During the year we reported on the significant control matters outlined in sections 3.6 to 3.10.

Matters relating to individual Assurance Opinions

- 3.6 We have issued one report with a Limited Assurance Opinion, it related to Community Funding. Two high priority recommendations were made relating to the application and selection criteria used to awarded grants.

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- 3.7 IT Disaster Recovery plans require further development and testing to confirm reliability. The Council should consider this for inclusion in its Annual Governance Statement.
- 3.8 Contract Payments, Internal Audit have previously reported to Stevenage Homes instances of non compliance with Contract Standing Orders. The follow up audit work in this area has not yet been finalised therefore we cannot confirm that that all previous control weaknesses have been addressed.

Matters relating to High Priority Internal Audit Recommendations

- 3.9 A summary is given below of matters arising from agreed high priority recommendations picking up where, in our opinion:
- a) A number of related points are indicative of a particular theme
 - b) A point has a cross-Council impact
 - c) A gap exists in expected governance arrangements / policies
 - d) In our opinion an issue could have a significant adverse impact in future.
- 3.10 The key improvement points arising are:
- G4S cash collection arrangements, differences identified by the Reconciliations Team on the Car Parks income reconciliation between the cash collected and banked by G4S should be highlighted for possible investigation by service management.
 - Community Funding, formalisation of the new funding process.

4 Performance of the Internal Audit Service in 2011/12

Performance indicators

4.1 The table below compares Internal Audit's 2011/12 performance against targets set by the Board of the Shared Internal Audit Service

Indicator	Target for 2011/12	Actual to 31 March 2012
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	No target set because of the transitional year	92%
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	No target set because of the transitional year	68%
3 External Auditors' Satisfaction – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work	Formal Reliance	Achieved
4 SIAS Annual Plan – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year	Deadline met	Achieved
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level	Score of at least 39/65 i.e. 'satisfactory' overall	100%
6 Head of Assurance's Annual Report – prepared in time to present to the first meeting of each Audit Committee in the financial year	Deadline met	Achieved
7 Number of High Priority Audit Recommendations agreed	95% agreed	100%

Review of Effectiveness

- 4.2 In accordance with CIPFA requirements, an exercise to review the effectiveness of Internal Audit has been undertaken. A peer review methodology was used with the Director of Veritau (a local authority internal audit company owned by North Yorkshire County Council and York City Council) acting as lead assessor and the Transformation Manager from Hertfordshire County Council acting as support assessor. The objectives of the review were:
- To assess the effectiveness of the SIAS Partnership for key stakeholders, in particular whether SIAS is now meeting the key business objectives for which it was established in July 2011
 - To meet the Code of Practice requirement for an annual review of effectiveness for IA
 - To make recommendations to help improve the effectiveness of SIAS / develop the SIAS business where applicable
- 4.3 The main lines of enquiry were to assess the following areas from the original business case for SIAS:
- a) How resilient is the SIAS service
 - b) How efficient is the SIAS audit process
 - c) How far is SIAS a good place to work, and to
 - d) Review the SIAS vision for 2012-2014 and consider whether the building blocks are in place for it to be delivered.
- 4.4 The assessors reviewed an evidence pack submitted by the Head of Assurance and then interviewed various stakeholder groups representing: senior leaders; auditees; employees of SIAS and the SIAS management team.
- 4.5 The assessors' conclusions were:
- a) SIAS has built a good reputation and profile – especially at senior level
 - b) SIAS has the support of the Board which has recognised the significant effort by SIAS staff to reach the current position
 - c) The service is beginning to deliver additional value as a result of the opportunities presented by working together
 - d) The original SIAS business case objectives relating to cost reduction and enhanced resilience have been delivered
 - e) An increasingly risk based approach is being adopted with reports that are clearly focussed on key issues
 - f) The Lean Audit Approach which has been adopted and understood by team is leading to efficiencies
 - g) The service is a good example that can be used for other areas looking to share services.

- 4.6 The assessors recognised that further work is required to:
- a) Ensure consistency of approach where work is carried out on behalf of SIAS by its partner PWC
 - b) Ensure that all stakeholders understand the new approach
 - c) Improve communications at team level and help the team to understand their role in delivering the future vision of the service
 - d) Ensure that the service has the skills and competencies for the future given the changing nature of local government and the prospect of the service gaining further clients in future
 - e) Improve the way in which IT is used to support the service
 - f) Exploit opportunities for sharing learning across partner organisations
 - g) Review the performance information used by the service to ensure 'value-added' is better represented.
- 4.7 Work is underway to determine steps to be taken to develop these areas, and proposals are to be developed for agreement at the SIAS Board and then inclusion into the SIAS Service Plan.

Compliance with the CIPFA Code of Practice for Internal Audit in Local Government

- 4.8 A self-assessment was carried out by the Head of Assurance to confirm that the service is compliant with the CIPFA Code of Practice for Internal Audit in Local Government. This exercise was reviewed by Grant Thornton, External Auditors to four of the organisations which form the SIAS partnership. The conclusion of this review was:

'SIAS completed a self assessment of their performance against the CIPFA Code of Practice for Internal Audit. Based on this review, we have not identified any major issues. In general, it appears that SIAS are meeting the requirements in place, with the only exceptions being annual reporting / review which had not happened at the time of the review, given that SIAS had not yet reached the end of the annual cycle.'

APPENDIX A FINAL POSITION FOR THE 2011/12 AUDIT PLAN

2011/12 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS		
		H	M	MA
2010-11 Year end controls testing	Substantial	0	2	0
Housing Benefits	Substantial	0	3	1
Payroll	Substantial	0	0	2
Creditors	Substantial	0	1	0
Debtors	Full	0	0	2
Main Accounting System	Substantial	0	1	2
NNDR	Moderate	0	2	5
Council Tax	Substantial	0	1	0
Fixed Assets	Substantial	0	0	1
Cash and Payments	Full	0	0	0
Treasury Management	Full	0	0	0
Community Funding	Limited	3	5	2
G4S Cash Collection Arrangements	Moderate	1	2	2
Mobile Phones	Moderate	0	2	2
Members Allowances	Substantial	0	5	3
Risk Management	Substantial	0	1	3
Corporate Governance ¹	Substantial	0	1	1
IT Governance Arrangements – Third Party Services	Substantial	0	1	0
IT Governance Arrangements – Application Software Licenses	Substantial	0	1	1
IT Penetration Testing	Substantial	0	2	0
Contract Payments ²				
TOTAL		4	30	27

In addition to these pieces of activity Internal Audit also completed the following work:

- Financial Administration of Stevenage Day
- Car Parks Follow Up
- Members Allowances Follow up
- Partnerships Follow Up Audits – Corporate Arrangements, Stevenage Leisure Limited and SoStevenage
- Quarterly Follow Up of High Priority recommendation
- Strategic Audit Management Support

¹ The draft report is being agreed with Management

² To be update when audit work has been completed

APPENDIX B: DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.