

STEVENAGE BOROUGH COUNCIL

INTERNAL AUDIT ANNUAL REPORT

AND

ANNUAL ASSURANCE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

Contents

EXECUTIVE SUMMARY	1
Introduction	1
Chief Internal Auditors Opinion on the Effectiveness of Internal Control 2008/09	1
Scope of Responsibility	1
The Purpose of the System of Internal Control	2
The Internal Control Environment	2
Review of Effectiveness	2
Chief Internal Auditor's Annual Opinion Statement	2
Basis of Assurance	2
Audit Assurance Opinions	3
2008/09 Year Opinion	4
Corporate Governance	4
Risk Management	4
DETAILED REPORT	5
Introduction	5
Significant Control Weaknesses	5
Qualifications to the Opinion	6
Risk Management Process	6
Risk Management Strategy	6
Risk Registers	6
Audit Plan	6
Internal Audit Assurance Levels and Recommendations	6
Effectiveness of the System of Internal Audit	7
Internal Audit Performance	7
Internal Audit Quality Standards	8
Working with External Audit	8
APPENDIX 1 - ASSURANCES AND RECOMMENDATIONS 2008/2009	9

EXECUTIVE SUMMARY

Introduction

This report has been compiled to document and communicate an overall opinion based on the work undertaken by Internal Audit during 2008/09.

Our Audit Report and Assurance Statement has been structured to:

- Summarise Internal Audit activity for 2008/09;
- Draw attention to matters of particular concern, especially via individual assurance opinions; and
- Highlight areas requiring the specific attention.

Management are responsible for ensuring that the financial management of Stevenage Borough Council is adequate and effective and that the organisation has a sound system of internal control, which facilitates the effective exercise of that organisation's functions and which includes arrangements for the management of risk.

Chief Internal Auditors Opinion on the Effectiveness of Internal Control 2008/09

This opinion statement is provided for the use of Stevenage Borough Council in support of the statement of accounts for the year ended 31 March 2009.

Scope of Responsibility

The management of Stevenage Borough 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.

In discharging this overall responsibility, the management of Stevenage Borough Council is also responsible for ensuring, that there is a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable, not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Stevenage Borough Council policies, aims and objectives. To evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Internal Control Environment

The CIPFA Code of Practice for Internal Audit states that the internal control environment comprises three key areas - internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment should be based on an assessment of each of these key areas.

Review of Effectiveness

Stevenage Borough Council has responsibility for the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the Service, who have responsibility for the development and maintenance of the internal control environment. By comments made by the external auditors and other review agencies and inspectorates in the annual letter and other reports.

Chief Internal Auditor's Annual Opinion Statement

Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2008/09, including our assessment of Stevenage Borough Council corporate governance and risk management processes.

The internal audit plan for 2008/09 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

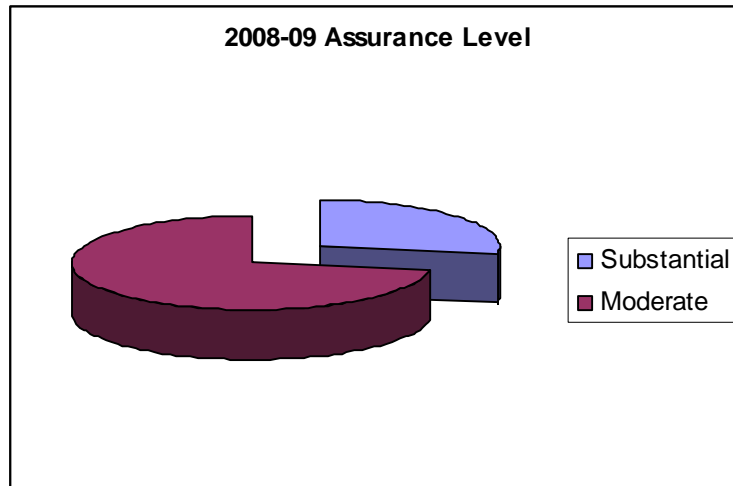
Basis of Assurance

We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, and additionally from our own internal quality assurance systems. This programme of work is outlined at **Appendix 1**.

Our opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the Internal Audit programme. While all principal risks identified within the organisation's framework may not have been included in Internal Audit's 2008/09 coverage, we have undertaken sufficient work to allow ourselves to give a reasonable assurance, that risks are being managed effectively.

Audit Assurance Opinions

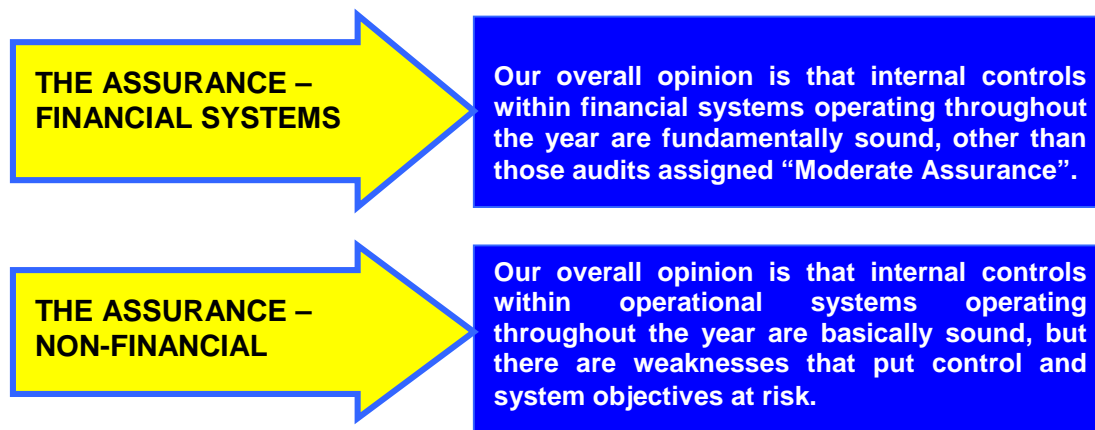
The audit work that was completed for the 2008/09 year is listed in **Appendix 1**. It shows the audits and their results in terms of the audit assurance level provided, together with the number of recommendations raised. The levels of assurance achieved on the systems audited by Internal Audit are depicted in the chart below.



29% (6 reports) of audits were issued with Substantial Assurance opinions and Moderate Assurance opinions amounted to a total of 71% (15 reports).

2008/09 Year Opinion

From the Internal Audit work undertaken in 2008/09 it is our opinion that we can provide **Moderate**¹ assurance that the system of internal control that has been in place at Stevenage Borough Council for the year ended 31 March 2009 accords with proper practice. The assurance can be further broken down between financial and non-financial systems, as follows:



Corporate Governance

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

Risk Management

It is noted that Stevenage Borough Council have developed the assessment, evaluation and documentation of risks and the focus on strategic risks has continued to improve during the year, as demonstrated in the Strategic Risk Register.

In drawing together our opinion we have relied upon our risk based audits relating to the 2008-09 financial year.

We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff during the year.

Gursh Bains

CHIEF INTERNAL AUDITOR

May 2009

¹ See Page 10 for definition of Assurance Levels

DETAILED REPORT

Introduction

This section is a report from Internal Audit detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Chief Internal Auditor opinion on Stevenage Borough Council system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion;
- the management processes adopted to deliver risk management;
- the effectiveness of the System of Internal Audit
- Internal Audit performance; and
- the Internal Audit work undertaken during the 2008/09 year.

Significant Control Weaknesses

Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2008/09 the following significant control weaknesses were identified:

- Business Continuity Plan requires further development and testing to confirm reliability; and
- There have been instances of non compliance with Contract Standing Orders. As a number of interim valuations in respect of staged payment contracts have not been submitted to Internal Audit for checking before being sent to Exchequer for payment. In addition, Internal Audit identified significant control weaknesses in relation to the verification of work undertaken, the authorisation of variations to the original contract, and the lack of payment retention or performance bonds.

Management action plans have been agreed to address the above weaknesses.

Qualifications to the Opinion

Internal Audit has had full access to all areas and systems across Stevenage Borough Council and has received appropriate co-operation from officers and members.

Risk Management Process

The principal features of the risk management process are described below:

Risk Management Strategy

Stevenage Borough Council has established a Risk Management Strategy that sets out the organisation's attitude to risk and to the achievement of business objectives. The strategy:

- Explains Stevenage Borough Council's underlying approach to risk management;
- Documents the roles and responsibilities of Stevenage Borough Council;
- Outlines key aspects of the risk management process; and
- Identifies the main reporting procedures.

This strategy has been approved by the Audit Committee.

Risk Registers

Stevenage Borough Council has risk registers in place and these will be further developed during 2009/10.

Audit Plan

A three year audit plan was produced by Internal Audit to cover the period 1st April 2007 to 31st March 2010, which was agreed with the Strategic Director (Resources). In addition, the three year audit plan was reviewed and approved by the Head of Finance and the Audit Committee. This formed the basis for the 2008/09 year annual audit plan that was agreed by both management and the Audit Committee.

Internal Audit Assurance Levels and Recommendations

A table is provided at **Appendix 1** setting out the level of assurances achieved on each audit, as well as the number and priority of recommendations raised and agreed.

We have issued 6 reports that were given a Substantial Assurance opinion and 15 reports were given a Moderate Assurance opinion.

The table also has details of the priority we give to our recommendations, together with the total number of recommendations made. Of the recommendations made 5% were high priority, 72% were medium priority and 23% were low priority.

Management action plans have been agreed to address the control weaknesses identified and the progress in implementing the action plans is monitored and reported to the audit committee.

Effectiveness of the System of Internal Audit

The Accounts and Audit (Amendment) (England) Regulations 2006 came into force from 1 April 2006. Paragraph 6 (3) states that:

“the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of Internal Audit”.

To comply with the Accounts and Audit Regulations a self assessment against the standards in the CIPFA Code of Practice for Internal Audit in Local Government in the UK was undertaken by the Chief Internal Auditor. In addition an external peer review was undertaken by the Audit Manager at North Herts District Council.

The self assessment and external peer review both concluded that the system of Internal Audit at Stevenage Borough Council is effective.

In addition the External Audit Opinion confirmed that the Internal Audit service complied with the CIPFA Code of Practice.

Internal Audit Performance

The table below compares Internal Audit's 2008/09 performance against targets and the performance in the previous year.

Performance Indicator	Target	2008-09 Actual	2007-08 Actual	Direction of travel
Percentage of planned audit days completed	90%	82%	24%	Improvement
Average Satisfaction Score (1 = unsatisfactory, 5 = excellent)	3	4.24	No comparable data	Not applicable
External Audit Opinion	Achieving minimal standards	Achieving minimal standards	Satisfactory	No change

Whilst the percentage of planned audit days completed is 8% below the 90% target, there has been a significant improvement in performance since the previous year. Measures previously outlined to the Audit Committee to improve Internal Audit delivery rates will continue to be in place until the desired levels of performance is achieved.

A new Internal Audit satisfaction questionnaire was introduced in 2008/09 and the average satisfaction score is above target. There is no comparable data available for 2007/08.

The scoring system used by External Audit to provide their opinion was updated in year to reflect the Use of Resources scoring scale. Whereby level one would be inadequate, level two would be achieving minimum requirements, level three would be achieving above minimum requirements and level four would be demonstrating innovative practice. External

Audit stated that although the Internal Audit service had improved in delivering the plan, the amount of the plan not delivered by the year-end was sufficient to feel that they could not have awarded a level three. External Audit awarded a level two and stated that there were elements of good practice in terms of our requirements through regular liaison meetings, formal protocols in place and fraud reporting arrangements, to allow the reporting requirements to the Audit Commission to be discharged.

Internal Audit Quality Standards

Internal Audit has comprehensive quality control and assurance processes in place that comply with the best practice standards established by CIPFA.

Working with External Audit

Grant Thornton, who are the external auditors for Stevenage Borough Council, were consulted with regards to Internal Audit coverage and further meetings and liaisons regarding future audit plans and work programmes have been planned.

APPENDIX 1 - ASSURANCES AND RECOMMENDATIONS 2008/2009

The table below summarises the assurance opinion assigned to each system, an analysis of the number of recommendations made in each priority category and the total.

TABLE OF 2008-09 AUDIT ASSURANCES AND RECOMMENDATIONS

AUDIT AREA	ASSURANCE ²					RECOMMENDATIONS			
	F	S	M	L	N	Priority ³			Total
						H	M	L	
Asset Management			✓						footnote ⁴
Cash and Payments		✓				0	10	4	14
Council Tax			✓						footnote ⁴
Creditors			✓			1	5	1	7
Housing Benefits		✓				0	6	1	7
Main Accounting System		✓				0	4	3	7
NNDR			✓			0	9	6	15
Payroll		✓				0	3	2	5
Sundry Debtors		✓				0	8	2	10
Treasury Management			✓			1	5	3	9
CCTV			✓						footnote ⁴
Garages			✓ ⁵			1	28	9	38
Taxi Licensing			✓ ⁵			1	15	5	21
Grant Funding			✓ ⁵			2	25	3	30
Mortgages			✓ ⁵			1	5	1	7
BVPIs		✓				0	5	2	7
Risk Management			✓						footnote ⁴
Corporate Governance			✓						footnote ⁴
Officers interests in Contracts			✓						footnote ⁴
Integra IT Application Review			✓			2	3	0	5
Northgate IT Application Review			✓			1	7	0	8
IT Post Implementation Reviews, Antares, eDemocracy and Insurance			✓			0	7	4	11
TOTAL	0	6	15	0	0	10	145	46	201

² See Page 11 for definition of Assurance Levels, F = Full, S = Substantial, M = Moderate, L = Limited, M = Moderate and N = No

³ See Page 12 for definition of Priority Categories, H = High, M = Medium and L = Low

⁴ Recommendations are in the process of being agreed with Management

⁵ Re-categorised as Moderate

In addition to the above systems audits, Internal Audit also completed the following work:

- 114 probity checks on interim valuation in respect of staged payment contracts,
- Advice on contracts
- 93 financial appraisals
- Formally responded to 19 requests for ad hoc advice
- Compliance with the Audit Code of Practice self assessment
- RIPA Compliance
- Input to the Annual Governance Statement
- IT baseline assessment
- Co-ordination of the National Fraud Initiative upload of data and investigation into the data matches
- Co-ordination and preparation of the external Office of Surveillance Commissioners inspection
- Administration of the whistle-blowing arrangements
- Delivery of five Ethics and Probity Training course
- Certification of Regeneration Grant Claims
- Development of a Follow Up strategy, database and templates of previous audit report recommendations
- Follow Up of five previous operational audit report recommendations, Information Management, Development Control, Housing Advice, Homelessness and Human Resources
- Follow Up of the previous Key Financial Systems audit recommendations
- Development and introduction of a new risk based internal audit methodology
- Updated the Internal Audit Manual
- Completed the Key Financial Audits carried forward from 2007/08
- Internal Audit work for Stevenage Homes.

Assurance Levels

In order to assist management in using our reports:

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Assurance Opinion	Definition
Full	<p>Evaluation opinion: there is a sound system of control designed to achieve the system objectives; and Testing opinion: the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p>
Substantial	<p>Evaluation opinion: basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or; Testing opinion: there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p>
Moderate	<p>Evaluation opinion: basically a sound system of control but there are some more significant/serious weaknesses which put system objectives at risk, and/or; Testing opinion: the level of non-compliance with some controls may put certain system objectives at risk.</p> <p>Moderate Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to more significant risks.</p>
Limited	<p>Evaluation opinion: weaknesses in the system of controls are such as to put the system objectives at risk, and/or; Testing opinion: the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p>
No	<p>Evaluation opinion: control is generally weak leaving the system open to significant error or abuse, and/or; Testing opinion: significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditors' judgement they can place no reliance on the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p>

Priority Categories

We categorise our **recommendations** according to their level of priority and we consider the level of risk associated with the weaknesses identified.

- High** Recommendations relate to major issues that have a significant impact on achieving service objectives and are to be implemented immediately or within one month where practical.
- Medium** Recommendations relate to issues that are expected to impact on achieving service objectives and are to be implemented within two months where practical.
- Low** Recommendations relate to issues that have a lesser impact on achieving service objective and are to be implemented within six months where practical.