

Mission Statement

To Improve the Quality of Life
For Those Who Live and Work in The District

Dear Councillor

You are hereby invited to a meeting of the **Audit Panel** to be held in Committee Room 2, Civic Centre, Portholme Road, Selby on **29 March 2011** commencing at **4.30pm**.

AGENDA

1. Apologies for Absence and Notice of Substitution

To receive apologies for absence and notification of substitution.

2. Disclosure of Interest

To receive any disclosures of interest in matters to be considered at the meeting in accordance with the provisions of Section 117 of the Local Government Act 1972, and Sections 50, 52 and 81 of the Local Government Act 2000 and the Members' Code of Conduct adopted by the Council.

3. Minutes

To confirm as a correct record the minutes of the meeting of the Audit Panel held on 7 December 2011 (pages 3 to 5 attached).

4. Overview on International Financial Reporting Standards

To receive a presentation from Marianne Dixon, the Audit and Engagement Manager on Councillors' governance role.

5. The Audit Plan Report

To receive the report of the Audit Commission (pages 6 to 25 attached).

6. Internal Audit Q3 + Interim Report 2010/11

To receive the report of the Head of Service – Finance (pages 26 to 44 attached).

7. Internal Audit Plan 2011/12

To receive the report of the Head of Partnership – North Yorkshire Audit Partnership (pages 45 to 50 attached).

8. Accounts & Audit Regulation: Regulation 6 Review

To receive the report of the Head of Service – Finance and Head of Partnership – North Yorkshire Audit Partnership (pages 51 to 64 attached).

Jonathan Lund
Deputy Chief Executive

Disclosure of Interest – Guidance Notes:

- (a) Councillors are reminded of the need to consider whether they have any personal or prejudicial interests to declare on any item on this agenda, and, if so, of the need to explain the reason(s) why they have any personal or prejudicial interests when making a declaration.
- (b) The Democratic Services Officer or relevant Committee Administrator will be pleased to advise you on interest issues. Ideally their views should be sought as soon as possible and preferably prior to the day of the meeting, so that time is available to explore adequately any issues that might arise.

**Membership of the Audit Panel
6 Members**

Conservative	Labour
Mrs E Casling (Chair)	Mrs W Nichols
J Cattanach - Vice Chair	R Packham
M Jordan	
Mrs A Spetch	

Enquiries relating to this agenda, please contact Jade Hibberd on:
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Selby District Council

MINUTES

Minutes of the proceedings of a meeting of the Audit Panel held on 7 December 2010, in Committee Room 3, The Civic Centre, Portholme Road, Selby, commencing at 4:30 pm.

390	Apologies for Absence and Notice of Substitution
391	Disclosure of Interest
392	Minutes
393	Internal Audit Quarter 2 + Report 2010/11
394	Gas Central Heating
395	Annual Audit Letter
396	Private Session
397	Review of Corporate Risk Register

Present: Mrs E Casling (In the Chair)

Councillors: J Cattanach, R Packham and Mrs A Spetch.

Also in attendance: Head of Service – Finance, Audit and Engagement Manager (Audit Commission), and Audit Manager, North Yorkshire Audit Partnership.

Public: 0

Press: 0

390 **Apologies for Absence**

Apologies were received from Councillor S Shaw-Wright, Councillor M Jordan and Councillor Mrs C Goodall (*as Councillor M Jordan's substitute*).

391 **Disclosure of Interest**

There were none.

392 **Minutes**

Resolved:

That the minutes of the Audit Panel held on 22 June 2010 be confirmed as a correct record and be signed by the Chair.

393

Internal Audit Quarter 2 + Report 2010/11

Councillors received the report of the Head of Partnership, North Yorkshire Audit Partnership presented by the Audit Manager, the Internal Audit Q2 + Report for 2010/2011.

The report provided a clear statement of assurance by the North Yorkshire Audit Partnership regarding the adequacy and effectiveness of the internal control system and a summary of the Partnerships performance during the year to date.

Following councillors questions the committee was reassured by officers that their normal working practice meant that any significant weaknesses would be reported back to the Audit Committee.

Resolved:

That the report be noted.

394

Gas Central Heating

Councillors received the report of the Head of Service – Finance presenting a briefing on an overspend on gas central heating work on the Council's housing stock.

The report highlighted required improvements to internal control systems within the Housing and Property Services department and provided assurance to councillors that appropriate action has and is being taking.

Resolved:

That the report be noted.

395

Annual Audit Letter

As a late correspondence to the meeting councillors received the report of the Audit and Engagement Manager presenting the Annual Audit Letter of 2009/10.

The findings within the letter covered both an audit of Selby District Councils financial statements and the auditor's assessment of the Councils arrangements to achieve value for money in its use of resources.

Resolved: That;

- i) **The Audit Committee congratulate officers on the success of the Annual Audit Letter; and**
- ii) **The report be noted.**

396

Private Session

That in accordance with Section 100(A)(4) of the Local Government Act 1972, in view of the nature of the business to be transacted, the meeting be not open to the Press and public during consideration of the following items as there will be a disclosure of exempt information as defined in Section 100(1) of the Act as described in paragraph 3 of Part 1 of Schedule 12A to the Act.

397

Review of Corporate Risk Register

Councillors received the report of the Head of Partnership, North Yorkshire Audit Partnership presented by the Audit manager, covering the latest Corporate Risk Register.

It was explained that the management of Corporate Risks continues to run well, with the register now being reviewed quarterly by OMT and Risk Management Plans developed in all cases where risks are considered to be outside tolerance levels.

Councillor Packham requested that the new executive arrangements and structure agreed at the last Full Council meeting be included as future risk indicators, officers responded to say that these were subject to project risk registers and as such, would be monitored by the member working group which has been established to oversee their implementation.

Resolved:

That the report be noted.

The meeting closed at 17:15

Audit plan

Selby District Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £103,000, as indicated in my letter of 26 April 2010.

4 The Audit Commission scale fee for a Council of your size is £109,500. The fee proposed for 2010/11 is 6 per cent below the scale fee and is within the normal level of variation specified by the Commission.

5 However, the Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed but is now underway.

6 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit.
- LG - The Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all relevant material systems and this is available for our review by 1 June 2011.

7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Head of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Selby District Council could take to reduce its audit fees

9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

11 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

12 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of opinion risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Opinion risks identified**

Risk area	Audit response
Non- compliance with International Financial reporting Standards could lead to material errors in your 2010/11 financial statements.	Review the implementation of management controls and processes relating to your compliance with International Financial Reporting Standards We will apply, where appropriate, Audit Commission guidance.
New financial systems are in operation in 2010/11. If the controls are not fully operation this could lead to material errors in your 2010/11 financial statements.	Review the controls in operation over the new financial systems and determine the appropriate testing required to gain assurance over the accuracy of your financial statements

Value for money risks

13 I will undertake my risk assessment for the vfm conclusion later in the year and communicate with you further then.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

14 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

15 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Investments – ownership.
- Year-end feeder system reconciliations.
- Property, plant and equipment
- Related party declarations

Where I identify other possible early testing, I will discuss it with officers

16 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

17 I also plan to rely on the work of Mercers actuary, for your pension fund asset and liability disclosures and valuations for your 2010/11 financial statements and Deloitte LLP for assurance on the operation of controls at the North Yorkshire Pension Fund.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

18 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

19 I will plan a programme of VFM audit work based on my risk assessment.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

20 The key stages in producing and auditing the financial statements are in Table 2.

21 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

22 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	February - March 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	1 July 2011
Start of detailed testing	1 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	By 30 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Cameron Waddell District Auditor	c-waddell@audit-commission.gov.uk 0844 798 1632	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Marianne Dixon Audit Manager	m-dixon@audit-commission.gov.uk 0844 798 7175	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Nicola Hallas Team Leader	n-hallas@audit-commission.gov.uk	Supervises the on-site work. Key point of contact for finance staff.

Independence and objectivity

23 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

24 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

25 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

26 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

27 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

28 My team will discuss and agree reports with the right officers before issuing them to the Audit Panel / Policy and Resources Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit Plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum (if required)	November 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on the relevant systems that that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by 1 July;
 - good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS)
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Panel. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Head of Finance	AM and Team Leader (TL)	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Chief Accountant	AM and TL	Quarterly	Update on audit issues
Audit Panel	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

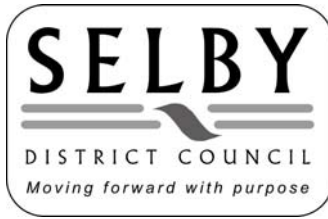
In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider being the most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.



Title: Internal Audit Q3+ Report 2010/11

To: Audit Panel

Date: 29 March 2011

Service Area: Finance

Author: Karen Iveson: Head of Service – Finance

Presented by: James Ingham: Head of Partnership,
North Yorkshire Audit Partnership.

1 Purpose of Report

- 1.1 The purpose of the report is to present the Internal Audit Q3+ Report for 2010/2011. That report is prepared by the North Yorkshire Audit Partnership and is attached as a supporting document.

2 Recommendation

- 2.1 **It is recommended that the attached Internal Audit Q3+ Report 2010/11 be approved.**

3 Executive Summary

- 3.1 The report highlights:
- a clear statement of assurance by the North Yorkshire Audit Partnership regarding the adequacy and effectiveness of the internal control system; and
 - a summary of the Partnership's performance during the year to date.

4 The Report

- 4.1 The Internal Audit Q3+Report provides a statement of assurance, primarily to the Head of Service – Finance that ultimately will support the Annual Governance Statement (AGS) that is included with the Council's Financial Statements. It also includes a summary of the audit opinions issued for the audits completed in the year to date, to support the overall opinion, and thence to the AGS. The Audit Partnership works to the Cipfa Code of Practice for Internal Audit in Local Government.
- 4.2 One of the issues emerging is that the Council will need to continue its existing high degree of commitment and effort with Risk Management, especially as it is close to embedding it within the performance management framework through the Covalent Performance Management system. It is in this respect that internal audit have taken a key role through the facilitation of Risk Management and therefore will assist, by extending the understanding and implementation of risk management across the Council. It will also include an assessment of the application of risk management, and management of the identified risks, within its programme of audits.
- 4.3 One point of information that should be brought to Members' attention relates to the present North Yorkshire Audit Partnership Agreement which runs to 31.3.2012. There are initial discussions underway to consider the best, most cost-effective way to provide internal audit to the Council after that date. Options include: - agreeing a further Partnership Agreement; opening the service to external competition, and merging with Veritau the company created to provide audit services to the City of York and the County Council.
- 4.4 Each option has a number of facets, and the Council, through the Partnership Management Board of the Audit Partnership will be considering each and recommending a course of action to the Partner Councils in the New Year. The Head of the Partnership and the Head of Service – Finance; the Council's Responsible Financial Officer (S151 Officer) are closely involved in the assessment of the alternatives. The option of merging with Veritau offers a significant number of benefits; a reduction in cost, the ability to respond to changes in the demand for audit services, with the maintenance of the existing quality and depth of audit work being provided.

5 Financial Implications

- 5.1 There are no financial implications, beyond the existing budget for Internal Audit and any additional work in respect of Risk Management, and special investigations.
- 5.2 There is budget provision to meet the above costs

6 Conclusions

- 6.1 The review provides an overall opinion and assurance that given all the circumstances pertaining with the Internal Control Environment in Selby DC during 2010/11 to date that it is considered as 'above standard'. This is not a 'carte blanche' but a balanced judgement. As with any such review there will always be areas that could be improved and this is no different.

7 Link to Corporate Plan

- 7.1 This report supports the Council's requirement to comply with all legislation. It also supports the Corporate Strategic Theme 'Making better use of resources', by demonstrating a commitment to local democracy and accountability.

8 How Does This Report Link to the Council's Priorities?

- 8.1 The provision of a system of Internal Audit is a statutory requirement. There is no direct linkage to any of the Council's Priorities, as internal audit is a support service, which provides internal control, and activity assurance to Service Unit Managers on the operation of their services, and specifically to the Head of Service- Finance and Central Services on financial systems.

9 Impact on Corporate Policies

9.1	Service Improvement	Some impact through the acceptance and implementation of Audit recommendations.
9.2	Equalities	No Impact
9.3	Community Safety and Crime	No Impact
9.4	Procurement	Some impact through the acceptance and implementation of Audit recommendations.
9.5	Risk Management	Some impact through the acceptance and implementation of Audit recommendations.
9.6	Sustainability	No Impact

9.7	Value for Money	Some impact through the acceptance and implementation of Audit recommendations.

10 Background Papers

10.1 North Yorkshire Audit Partnership report: - Internal Audit Q3+ Report 2010/11

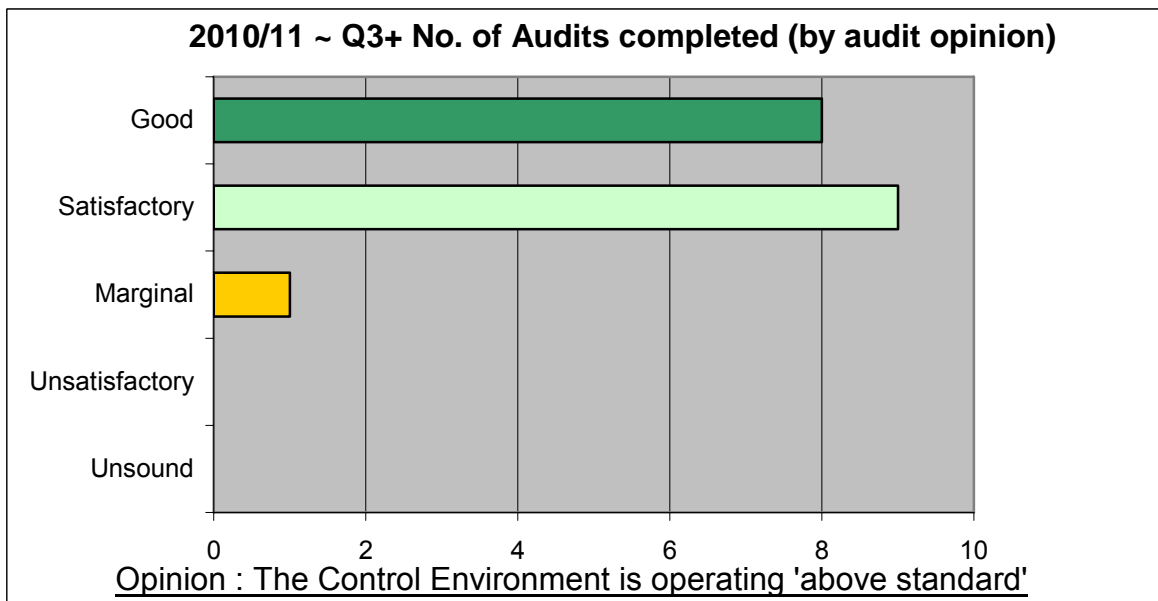


Independent Assurance

Internal Audit 2010/11 Q3+ report



Selby DC February 2011



Head of Partnership: James Ingham CPFA

Audit Manager : John Barnett

Circulation list: Members ~ Audit Panel
Chief Executive
Head of Service – Finance (s151 Officer)

Summary

1.0 Introduction




- 1.1 Internal Audit is a mandatory requirement for all councils, (Accounts & Audit regulations). The Council meets that requirement by an Internal Audit service provided through the North Yorkshire Audit Partnership.
- 1.2 The Partnership provides the service and works to the Cipfa Code of Practice for Internal Audit in Local Government. The council's external auditors undertake a tri-ennial review of the Partnership, which adds to the Accounts & Audit regulation requirement that the council undertakes an annual review of the effectiveness of the system of Internal Audit. The results of such reviews are presented to the audit panel of the Council.
- 1.3 Internal audit providers in Local Government have an obligation to produce an Annual Internal Audit Report. The Partnership considers that it is important for the panel to receive regular interim reports of audits completed, and this report follows the style of the annual report.
- 1.4 This is an important document in many ways and brings together the following in one consolidated report.
 - ◆ A clear statement of assurance by the North Yorkshire Audit Partnership regarding the adequacy and effectiveness of the internal control environment.
 - ◆ The key issues and themes arising out of the internal audit activity that has been undertaken during 2010/2011, encompassing systems audit work and any specialist reviews.
 - ◆ A summary of the opinions and key issues for the audits completed.
- 1.5 This interim report is, however, more than the sum of these parts; taken as a whole it is an important contribution to the Council reaching an understanding of what risks exist and how well they are being managed.
- 1.6 The presence of an effective internal audit function contributes significantly to the strong counter-fraud and corruption culture that exists in the council.
- 1.7 During 2010/11 only one special investigation has been undertaken to date. This is the investigation into the Gas Central Heating Boiler Maintenance and Replacement expenditure in the housing stock, and has been previously reported to members.
- 1.8 The internal audit team are closely involved with governance matters, and are directly involved with the preparation and drafting of the Council's Annual Governance Statement.
- 1.9 One point of information that should be brought to Members' attention relates to the present North Yorkshire Audit Partnership Agreement which runs to 31.3.2012. There are initial discussions underway to consider the best, most cost-effective way to provide internal audit to the Council after that date. Options include: - agreeing a further Partnership Agreement, opening the service to external competition, and merging with Veritau the company created to provide audit services to the City of York and the County Council.
- 1.10 Each option has a number of facets, and the Council, through the Audit Partnership Management Board will be considering each and recommending a course of action to the Partner Councils in the New Year. The Head of the Partnership and the Council's Responsible Financial Officer (the s151 Officer) are closely involved in the assessment of the alternatives. At this stage no firm recommendation is being made.

2.0 Planned Audit work 2010/11

- 2.1 The agreed number of days in the plan for internal audit was 425. The plan itself was derived from the Partnership's risk model, devised to target resources to those areas that are considered to be of the greatest risk.
- 2.2 It is, however, tempered by a number of factors, the most significant of these being the expectation of the external auditors that internal audit undertake work on the material (significant) systems of the council on an annual basis. The volume of time required is largely constant, so the balance is used for locally directed and determined audit assignments.

- 2.3 The plan also includes a provision for specialist audit work including ICT audit, and work around the partnership governance area. Finally it also includes an amount of time to meet Client support requirements, including attending audit committee, and ad-hoc or special investigations.
- 2.4 As part of the Councils cost saving measures, the amount of internal audit work is being reduced year on year by around 5% per annum. Therefore the volume or number of audit days will reduce in 2011/12 to 400 (425 ~ 2010/11) and 375 in the following year. This requires that the audit plan which will be presented to the 29th March meeting is reviewed to ensure that it meets the needs of the Council going forward.
- 2.5 The report also contains a table which shows the schedule of planned audit work, and the audit opinion associated with those audits completed.

3.0 Matters of significance from the work completed in the year

- 3.1 The areas that were especially pleasing to report are as follows: -
-  Audit Panel now see all IA reports in full, and are now requesting line management to attend the Audit Panel to discuss their response to the audit reports.
 -  We are pleased to report that there are no areas that have been classified as 'unsound' or 'unsatisfactory' from the audits completed to date in 2010/2011.
- 3.2 The only areas that generated concern were as follows: -
-  A number of concerns around the Creditors audit led to a "marginal" audit opinion. The recommendations have been accepted by management.

4.0 Audit Opinion and Assurance Statement

- 4.1 We have conducted our audits both in accordance with mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government.
- 4.2 The Cipfa Code defines Internal Audit as an assurance function providing an independent opinion on the Internal Control Environment, comprising Risk Management, Governance and Internal Control. Accordingly we have structured our opinion around those three themes.
- 4.3 For 2010/2011, the internal audit opinion is derived from work completed as part of the agreed internal audit plan, which includes compliance with the managed audit. This is work done as part of the joint protocol between the Council's internal and external auditors who themselves are required to give an opinion on the Council's accounts. It is accepted that Internal Audit has an established position of independence within the Council more especially with the specific arrangements that exist with the North Yorkshire Audit Partnership. It has experience in control and assurance matters generally.
- 4.4 On balance, based upon the audit work done, together with the pre-existing cumulative audit knowledge and experience of other areas not subject to audit this year our overall audit opinion is that the Internal Control Environment for the Council is "Above Standard".

The Assurance:	
Risk Management	The Council has embedded Risk Management within the organisation. The acquisition of, and use of Covalent performance management software for Risk Management during the year will enhance this position and provide solid bedrock for future improvement.
Governance	Our work this year to date leads us to the overall opinion that the Corporate Governance arrangements are sound.
Internal Control [financial systems, etc.]	<p>Our overall opinion is that the internal controls within the financial systems in operation in the year to date are fundamentally sound. (>90% of audits completed had a 'good' or 'satisfactory' audit opinion.</p> <p>This is based upon our examination of the key financial systems as part of the managed audit approach, and the other financial systems that were actually audited. On that basis and our previous experience and knowledge there is no reason to believe that the systems are other than sound.</p>

Table of 2010/11 audit assignments completed

<u>Audit</u>	<u>Status</u>	<u>Audit Panel</u>
<u>2010/11 ~ Material Systems</u>		
Creditors	Completed ~ Marginal	Dec 2010
Debtors	Completed ~ Satisfactory	Dec 2010
Housing Benefits	Completed ~ Good	Dec 2010
Housing Rents	Completed ~ Good	Dec 2010
NNDR	Completed ~ Good	Dec 2010
Council Tax	Completed ~ Satisfactory (Draft)	Feb 2011
Income System	Completed ~ Satisfactory	Feb 2011
General Ledger + Bank Reconciliations	Completed ~ Satisfactory	Feb 2011
Fixed Assets (Capital Account)	In progress	
Payroll	Scheduled ~ Q4	
Treasury Mgt	Scheduled ~ Q4	
<u>2010/11 Audit plan work</u>		
<i>Head of Finance</i>		
Performance Indicators	Completed ~ Good	Feb 2011
Tax Management	Scheduled ~ Q3	
<i>Head of Customer and Business Support</i>		
Internal CCTV	Completed ~ Satisfactory	Dec 2010
Money Laundering	Completed ~ Satisfactory	Dec 2010
Public Interest Disclosure Act	Completed ~ Good	Dec 2010
Local Land Charges	Completed ~ Good (Draft)	Feb 2011
Personnel and Training	Completed ~ Good (Draft)	Feb 2011
<i>Head of Partnerships and Procurement</i>		
Partnership Governance	Completed ~ Good	Dec 2010
Procurement Partnership	Completed ~ Satisfactory	Dec 2010
NY Partnership	Scheduled ~ Q3	
Environmental Health Service Provision	Scheduled ~ Q4	
Leisure Trust [Wigan Leisure]	Scheduled ~ Q4	
<i>Head of Housing</i>		
Health and Safety	Completed ~ Satisfactory	Dec 2010
Markets	Completed ~ Satisfactory	Dec 2010
Asset Management	Scheduled ~ Q3	
Environmental Sustainability	Scheduled ~ Q4	
<i>Follow Ups</i>		
<i>From 09/10 Audits</i>		
Homelessness	Scheduled ~ Q3	
Warden Scheme	Scheduled ~ Q3	
<i>Follow Ups</i>		
<i>From 10/11 Audits</i>		
Public Interest Disclosure Act	Scheduled ~ Q3	
Creditors	Scheduled ~ Q4	

Summary of Key Issues arising from audits completed to 31st January 2011:

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
<p>Council Tax 4/0110.10</p> <p><i>Satisfactory</i></p>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ Generally system controls are satisfactory. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ In the case of this year's main billing run, the posting dockets show 36183 bills despatched but the billing summary shows 36201 bills prepared. No receipt or evidence was available for the difference, i.e. 18, which was said to be the bills posted by air mail. ◇ A review of a sample of accounts in credit highlighted a lack of or delayed action on accounts in credit some of which date back to 2005. ◇ Examination of recovery action suppressions on accounts has revealed that many accounts have suppression end dates set well in the future, e.g. 21/5/13, which was not always appropriate and in some cases this has led to a delay in write off. ◇ An Annual Billing & Year End Guide is issued by "Northgate". In previous years it had been the practice to annotate the guidance notes pages with the names/initials of the officers who have undertaken the routines, providing evidence of by whom and when the routines were undertaken. It was highlighted at the last audit that this practice had ceased and management agreed that the master copy would be suitably annotated. 	<p>Recommendations</p> <ul style="list-style-type: none"> ◇ On completion of the annual billing, the reconciliation of the number of bills posted out, to the aggregate of the bill print summaries (RRV203) should be documented and retained for audit (including evidence of items sent by air-mail.) <i>[Repeated from the last audit]</i> ◇ A report of credit balances should be drawn from the system on a regular basis to form a rolling programme and be subject to review. <i>[Repeated in part from previous audits.]</i> ◇ A comprehensive review of the validity of suppressions should be undertaken. Any debts to be written off should be dealt with promptly. <i>[Repeated from the last audit]</i> ◇ When undertaking the annual billing and year-end routines, the system provider's (Northgate) notes should be annotated at each key stage with the initials of the officer completing the task and those of a second officer verifying that each routine described has been successfully completed. <i>[Repeated from last</i> 	<p>Material System. Next audit 2011/12</p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
	<p>However only a limited number of pages have been signed and dated.</p> <p style="text-align: center;">Draft</p>	<i>audit]</i>	
<p>Income/Cash Receipting 4/0170.10</p> <p><i>Satisfactory</i></p>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ Generally system controls are satisfactory. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Cash office door within the Civic Centre is not secured even though cash can sometimes be present. ◇ It remains the case that the un-bagging, counting, bagging and sealing of cash is usually carried out by only one member of staff. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Cash should be kept in a physically secure environment. <i>[Repeated from previous audits].</i> ◇ Cash should be made up for collection by two officers in the presence of each other, who should both sign the credit slip counterfoil retained in the cash office, to verify correctness of the cash made up. <i>[Repeated from previous audits].</i> 	<p>Material System. Next Audit 2011/12</p>
<p>General Ledger 4/0140.10</p> <p><i>Satisfactory</i></p>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ Generally system controls are satisfactory. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Feeder reconciliation work was not immediately carried through into the current year and it was not until period 5 that requests were sent out for this work to be done. The underlying reason for this delay was the need to identify how reports may be produced from the new system. This requirement, coupled with prioritising overall needs and resources received full consideration. Reconciliations work for cash and bank accounts was also not up to date. The underlying reasons for this 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Reconciliation work should continue on a regular basis and brought fully up to date as soon as possible. The stated perceived level of risk identified at the inception of the audit work is being mitigated by the recent activity to bring work up to date. Although it is acknowledged that work upon bank account reconciliations is 	<p>Material System. Next audit 2011/12</p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
	<p>delay are cited as there being insufficient training on the system and the degree of manual work required to effect this work in the initial months.</p> <ul style="list-style-type: none"> ◇ Journals authorised under the new COA system requires attention as there are examples of authorisation by an officer with no delegated authority. ◇ Sufficient attention is not paid to Unpaid Bank Giro Credit Suspense to reduce the number of items seen. A debit balance of £421,954.34 was seen on the COA system together with a non-carried forward balance of credit £31,633.22. ◇ A comparison of COA system users with a current list of SDC employees revealed that two former officers still appeared on the system as current users. ◇ It appears that administrators have the ability to effect system changes at other sites sharing the common COA platform e.g. to set up and amend user profiles. 	<p>progressing to bring them fully up to date, that relating to Housing Benefits, where no work has been undertaken since last year, is in need of early attention.</p> <ul style="list-style-type: none"> ◇ All journal transfers should be authorised by an officer with delegated authority before they are processed. ◇ A review should be undertaken of the number of entries outstanding on Unpaid Bank Giro Credit Suspense (TASK 7352-99999 & COA SZ0713-Z169). Additionally, through reconciliation, identify why there is such a high debit balance on the COA account when, by its very nature, it would be expected to be in credit. ◇ Officers leaving the service of the Authority should immediately have their COA user profiles disabled. ◇ The capability of system administrators to amend information in the COA system at sites other than their own should be subject to review as to whether this is acceptable to the partner authorities or whether restrictions should be put in place. Aspects of fidelity insurance and 'global approval' should be considered. 	

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
Performance Indicators/Data Quality 4/1085 <i>Good</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The opinion is arrived at through an assessment of the overall controls in place and the lack of any recommendations. The introduction of Covalent has been effectively managed and this has to a great extent addressed the issues raised at the last audit which concerned the access to the various spreadsheets that were used for PI reporting. <p>No weaknesses.</p>	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Minor verbal recommendations agreed by management. 	Next Audit 2011/12.
Local Land Charges 4/1070 <i>Good</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ System(s) are effectively managed. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ At the last audit it was agreed that monthly reconciliations would be undertaken but these have not been implemented. <p style="text-align: center;">Draft</p>	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Land Charges income should be reconciled to the General Ledger on a monthly basis. <i>[Repeated from the last audit].</i> 	Next audit 2014/15
Personnel And Training 4/1090 <i>Good</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ System(s) are effectively managed. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ All HR documents are held in hanging files within cabinets which are locked overnight. During the day the cabinets are left unlocked with the keys left in the locks. ◇ When staff leave the authority a calculation is made of their remaining holiday/leave entitlement or any leave 	<p>Recommendations</p> <ul style="list-style-type: none"> ◇ The cabinets containing personnel files should remain locked at all times with the keys to the cabinets being held by a responsible officer. <i>[Repeated from the last audit].</i> ◇ When staff leave the authority their leave cards should be reviewed (and 	Next Audit 2013/14.

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
	<p>owed. A review of a sample of leavers highlighted that leave records were not always held and as such it could not be confirmed that their entitlement had been correctly calculated.</p> <p style="text-align: center;">Draft</p>	<p>retained on file) to ensure that the correct amount of leave due or owed has been calculated.</p>	

Summary of Key Issues arising from audits completed to 31st October 2010;

and previously reported

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
Public Interest Disclosure Act 4/1120 <i>Good</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ Compliance with the Act is effectively administered. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Whistle Blowing Policy needs slight amendments to bring it up to date. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Minor recommendations agreed by management. 	<p>Follow up not required: - Next due 2014/15</p>
Internal CCTV 4/1665 <i>Satisfactory</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ Generally system controls are satisfactory. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ No policy for internal CCTV ◇ Training needed for use of digital equipment. ◇ Lack of control of used tapes. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Policy to be formulated, approved, and training to be given. 	<p>Follow up not required: - Next due 2014/15</p>
Money Laundering (ML) 4/2570 <i>Satisfactory</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ Improvement seen in the understanding and implementation of ML regulations since the last audit. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ The current policy needs to be reviewed. ◇ Lack of staff training. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Policy will be reviewed and appropriate training given. 	<p>Follow up not required: - Next due 2014/15</p>
Partnership Governance 4/1095 <i>Good</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ System(s) are effectively managed. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Consideration should be given to the adequacy of The Local Code of Practice on Corporate Governance (2004) with regard to detailing partnership working. <i>(Repeated from the last audit)</i> ◇ The Partnership Risk Register held on the Risk Management Drive on "Docserv" needs to be reviewed and updated. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Minor recommendations agreed by management. 	<p>Follow up not required: - Next due 2011/12</p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
Procurement Partnership 4/0125 <i>Satisfactory</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ System(s) are effectively managed. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ Management information is weak. ◇ Budget projections are poor. ◇ PI's need reviewing. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Agreed and to be implemented. 	<p>Follow up not required: - Next due 2012/13</p>
Health and Safety 4/1050 <i>Satisfactory</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The service is effectively administered. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ H & S recommendations are not followed up. ◇ Up to date 'violent persons' register needed. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Agreed and to be implemented. 	<p>Follow up not required: - Next due 2013/14</p>
Markets 4/2120 <i>Satisfactory</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The service is effectively administered. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ There are no penalty charges for trader non-attendance. ◇ Appropriate trader insurance not verified. <p><i>(Repeated from the last audit)</i></p>	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Agreed and to be implemented. 	<p>Follow up not required: - Next due 2014/15</p>
Creditors 4/0120.10 <i>Marginal</i>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The service is generally effectively administered. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ At present COA is not being used to process orders and with the removal of the Creditors Certification Slip it is not clear that there has been segregation between ordering/authorising; receiving; and checking goods and services. ◇ Under COA supervisory checks are not being carried out on any potential unauthorised or fraudulent payments. 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ A review should be undertaken to look at the most practical way to ensure that there is evidence of segregation of duties between ordering/authorising, receiving and checking goods/services. ◇ Supervisory checks by a designated, suitably trained, officer having access to the COA system should be introduced 	<p>Follow up March 2011</p> <p>N.B. ~ Material system audit, therefore next due 2011/12.</p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
	<ul style="list-style-type: none"> ◇ The Payments Bank Account Reconciliations had been actioned and signed appropriately each month since the last audit until month end March 2010. However none had been undertaken since then. ◇ COA is not currently used to process orders but is being used to register and process invoices. Authorisation of invoices for payment is via email (with the scanned image of the invoice attached) from the budget holder who confirms the budget code to be used. However the memos are filed in an outlook folder and tracing individual authorisations for particular invoices is time consuming and inefficient. 	<p>to highlight any potentially fraudulent or unauthorised payments.</p> <ul style="list-style-type: none"> ◇ The Bank reconciliation due 31/4/2010 should be undertaken as soon as possible. ◇ The current system of filing the authorising memos in "bucket" outlook folder is inefficient and needs to be reviewed. It should be easily possible to trace the authorising officer back from the paid invoice. 	
<p>NNDR 4/0180.10</p> <p><i>Good</i></p>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The service is effectively administered. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ End dates on arrears follow up suppressions need to be reviewed. ◇ End dates on reliefs grant need to be reviewed. <p><i>(Repeated in part from last audit)</i></p> <ul style="list-style-type: none"> ◇ Write-offs on Northgate are not reconciled to the General Ledger. <p><i>(Repeated in part from last audit)</i></p>	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Agreed and to be implemented. 	<p>Follow up not required: - Material system audit, therefore next due 2011/12.</p>
<p>Sundry Debtors 4/0130.10</p> <p><i>Satisfactory</i></p>	<p>Strengths</p> <ul style="list-style-type: none"> ◇ The service is effectively administered. <p>Weaknesses</p> <ul style="list-style-type: none"> ◇ VAT regulations provide that VAT may be recovered on 	<p>Recommendations:</p> <ul style="list-style-type: none"> ◇ Every effort should be made to ensure that 	<p>Follow up not required: - Material system audit, therefore</p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
	<p>bad debts within a 3 year 6 month period only. Outside of that the Authority has to absorb the VAT in write-off. In one of the 10 cases examined the original invoice had been raised in 2003 but VAT had been included in the write-off</p> <p>◇ A review of 20 invoices raised since the introduction of COA highlighted that only 3 were date stamped when received within Sundry Debtors Section. VAT regulations require invoices to be raised within 2 months of the goods/service provision. In one case the invoice was not raised until 3 months after the date of the invoice request. The date the work was carried out was shown as 1/4/09-31/3/10; the invoice request was dated 26/3/10 but stamped as received within Sundry Debts on 2/7/10.</p> <p><i>(Repeated from the last audit)</i></p>	<p>the VAT element of any bad and doubtful debts written off is dealt with correctly.</p> <p>◇ VAT regulations prescribe that where a local authority supplies taxable goods or services in the course of business activities, the supply may be treated as taking place at the time when the local authority issues a VAT invoice in respect of it, provided that the invoice is raised no later than 2 months after the date of removal of goods or performance of the services.</p>	<p>next due 2011/12.</p>
<p>Housing Benefits 4/0150.10</p> <p><i>Good</i></p>	<p>Strengths</p> <p>◇ System(s) are effectively managed.</p> <p>Weaknesses</p> <p>◇ Minor weaknesses only</p>	<p>Recommendations:</p> <p>◇ Minor recommendations agreed by management.</p>	<p>Follow up not required: - Material system audit, therefore next due 2011/12.</p>
<p>Housing Rents 4/160.10</p> <p><i>Good</i></p>	<p>Strengths</p> <p>◇ System(s) are effectively managed.</p> <p>Weaknesses</p> <p>◇ Nil rent debits are not verified. <i>(Repeated from the last audit)</i></p>	<p>Recommendations:</p> <p>◇ A periodic examination, at irregular intervals, should take place of those properties where there is a Nil rent debit to verify that the reasons are bona fide. For this purpose, an ad hoc</p>	<p>Follow up not required: - Material system audit, therefore next due 2011/12.</p>

<u>Audit & Opinion</u>	<u>Key Issues</u>	<u>Recommendations</u>	<u>Status</u>
	◇ Procedural guidance is out of date. (Repeated from the last audit)	report may be drawn from the Genero system. ◇ The procedural guidance should be gradually updated to reflect any changes in the system; for example the presentation of screen-prints in the instruction.	

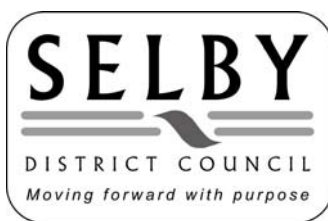
Opinion Description

<i>Good</i>	Minimal risk identified; a few minor recommendations.
<i>Satisfactory (The default option)</i>	Some risk identified; some changes should be made.
<i>Marginal</i>	Some risk identified; some changes should be made. [bordering on 'unsatisfactory']
<i>Unsatisfactory</i>	Unacceptable risk identified; changes must be made.
<i>Unsound</i>	Major risk exists; fundamental improvements are required.

[N.B. it is proposed that these descriptors will change to eliminate the 'damned with faint praise' implicit in the word 'satisfactory' which will be replaced by 'good', as the default, or expected opinion, with the top category becoming 'very good' together with a minor change in its description to read "Minimal risk identified; none or a few minor recommendations."]

Follow-Up Audits

Audit Subject Audit Year	No of agreed Recommendations	Status Date of review	Outstanding
Warden Control 2009/10			
Homelessness 2009/10			
Public Interest Disclosure Act 2010/11			
Creditors 2010/11			



Title: Internal Audit Plan 2011/12

To: Audit Panel

Date: 29 March 2011

Service Area: Finance

Author: Karen Iveson: Head of Service – Finance

Presented by: James Ingham: Head of Partnership,
North Yorkshire Audit Partnership.

1 Purpose of Report

- 1.1 To present the Internal Audit Plan for 2011/12. The plan is prepared by the North Yorkshire Audit Partnership and is attached as a supporting document.

2 Recommendation

- 2.1 **It is recommended that the attached Internal Audit plan for 2011/12 be approved.**

3 Executive Summary

- 3.1 The Internal Audit plan has been drafted using the Partnership's risk assessment model. This model considers various aspects appertaining to activities within Selby DC and assesses the level of inherent risk. This then determines the relative frequency of audit. The plan has a total value of 400 days and the plan is therefore constrained by that limit. The draft plan has been subject to appropriate consultation.

4 The Report

- 4.1 The plan is drafted annually, and operates over a periodic 4 year cycle. Where the risk score of the activity is high, then the frequency of audit within the overall cycle is increased.
- 4.2 The plan is agreed between the Head of Service – Finance as the Council's S151 Officer and the Audit Partnership.

- 4.3 In addition views are sought from Heads of Service, and the council's external auditors.
- 4.4 This wider review is to make sure that the plan is relevant and appropriate to the council's needs.
- 4.5 The view sought from the council's external auditors is appropriate to the continuing expectation that the Partnership works closely with them to minimise the cost of external audit by allowing them to be able to place reliance on the Partnership's audit plan and work in their assessment of the Council.
- 4.6 This does tend to distort the plan to a degree as they expect that we audit the material systems of the council on an annual basis. This drives part of the plan outwith the Partnership's risk assessment. Typically this work accounts for around 35% of the annual plan.
- 4.7 With the development of the concept of the SDV (Selby Delivery Vehicle) the plan has had to be re-structured to try to reflect the changes that have happened and those that will follow. It should be born in mind that in such circumstances the plan must be seen as able to be adapted to changing needs during the year.
- 4.8 The plan is attached as Appendix A. Progress against the plan is reported to the Audit Panel on a regular basis, and the plan itself will be reviewed during the year to take cognisance of changes within the audit environment. This review will reported to the Panel at its autumn meeting.

5 Financial Implications

- 5.1 There are no financial implications, beyond the existing budget for Internal Audit and any additional work in respect of Risk Management, and special investigations.
- 5.2 There is budget provision to meet the above costs

6 Conclusions

- 6.1 The plan has been drafted in consultation with the Council's S151 Officer, with consultation with Heads of Service and with the External Auditor's opinion.
- 6.2 Therefore it represents an appropriate plan within the limitations of the budget for Internal Audit.

7 Link to Corporate Plan

- 7.1 This report supports the Council's requirement to comply with all legislation. Internal Audit is a legal requirement for Councils, and furthermore underpins Delivery of the Corporate Strategic Theme 'Making better use of resources',

by demonstrating a commitment to local democracy and accountability. Furthermore completion of the approved plan assists in ensuring that the control environment is reviewed on a structured and logical basis.

8 How Does This Report Link to the Council’s Priorities?

- 8.1 The provision of a system of Internal Audit is a statutory requirement.
- 8.2 There is no direct linkage to any of the Council’s Priorities, as internal audit is a support service, which provides internal control, and activity assurance to Service Unit Managers on the operation of their services, and specifically to the Head of Service- Finance and Central Services on financial systems. Internal Audit examines all aspects of the Council’s work and accordingly all the Council’s Corporate Priorities.

9 Impact on Corporate Policies

9.1	Service Improvement	Some impact through the acceptance and implementation of Audit recommendations.
9.2	Equalities	Likely to be little or no Impact
9.3	Community Safety and Crime	No Impact
9.4	Procurement	Some impact through the acceptance and implementation of Audit recommendations.
9.5	Risk Management	Some impact through the acceptance and implementation of Audit recommendations.
9.6	Sustainability	Little or no Impact
9.7	Value for Money	Some impact through the acceptance and implementation of Audit recommendations.

10 Background Papers

- 10.1 None

NORTH YORKSHIRE AUDIT PARTNERSHIP

SELBY DISTRICT COUNCIL AUDIT PLAN 2011/12 to 2013/14

AUDIT AREA	2011/12 days	2012/13 days	2013/14 days
<u>COUNCIL/CORE</u>			
Theme:- Organising to Deliver			
Corporate Issues	20	15	15
SDV			
TSO/CEF			
Executive Structure			
48526 - Performance Mgt Software - Covalent			
- Service Plans			
Localism Bill	8	0	0
41085 Performance Management/Data Quality	15	0	10
41125 Election Expenses	0	0	4
	43	15	29
<u>SERVICE DELIVERY VEHICLE (SDV)</u>			
Theme:- Putting Customers First			
41110 Public Interest Disclosure Act	0	0	7
41175 Freedom of Info Act	0	8	0
42120 Markets	0	0	8
43040 Homelessness Accomodation	8	0	0
43070 Sheltered Accom/Warden Scheme	0	8	0
	8	16	15
Theme:- Protecting the Environment			
42020 Environmental Sustainability	0	0	10
42070 Dog Enforcement	0	7	0
42085 Food Safety	0	8	0
42130 Pest Control	8	0	0
	8	15	10
Theme:- Healthier Communities			
43060 Housing Grants - Disability Grants	0	8	0
43610 Sports Development	0	0	8
43095 New Homes Bonus (Grant)	0	5	0
	0	13	8
Theme:- Promoting Prosperity			
41020 Economic Development - inward invest	0	8	0
41075 Land Sales	0	8	0
	0	16	0

SELBY DISTRICT COUNCIL AUDIT PLAN 2011/12 to 2013/14

AUDIT AREA	2011/12 days	2012/13 days	2013/14 days
Theme:- Community Safety			
41670 CCTV	0	8	0
Theme:- Making Better Use of Resources			
40110 Council Tax	15	15	15
40120 Creditors + e-procure/purch cards	15	15	15
40130 Debtors inc Legal Debt Recovery	12	12	12
40140 G.Ledger + Bank Rec's	12	12	12
40150 Housing Benefits	15	15	15
40160 Housing Rents	12	12	12
40170 Income System inc Access Selby	10	10	10
40180 NNDR	12	12	12
40190 Payroll	12	12	12
40200 Treasury Mgt	10	10	10
42520 Capital A/C & Asset Management	8	8	8
43050 Housing Repairs (inc Build Maint)	8	8	8
	141	141	141
Risk Management Process/Actions	10	10	10
40155 Benefit fraud inc NFI	9	0	0
41050 Health and Safety	0	0	10
41070 Local Land Charges	0	0	9
41100 Property Rentals inc Industrial Units	8	0	0
41150 Telephones	0	8	0
42050 Car Parks	0	8	0
42530 Insurance	8	0	0
42550 Tax Management	0	8	0
44011 PSU Stores	10	0	0
44020 Rechargeable Works	0	8	0
	45	42	29
Theme:- Organising to Deliver			
40195 Agency staff and Consultants	8	0	0
41080 Members Allowances	8	0	0
41081 Officers Allowances	0	8	0
41090 Personnel and Training	0	0	9
41370 Security of Council Buildings	0	0	8
41380 Vehicle Management	10	0	0
42110 Taxi Licencing	8	0	0
42111 Licencing/Gambling Acts	0	10	0
42140 Development Control/Planning Fees	0	10	0

SELBY DISTRICT COUNCIL AUDIT PLAN 2011/12 to 2013/14

AUDIT AREA	2011/12	2012/13	2013/14
	days	days	days
	34	28	17
SDV Partnerships (delivery inc governance)			
Theme:- Protecting the Environment			
42170 - Waste Man/Recycling/Trade/C Pk - Enterprise	10	0	0
43600 - Parks & Rec Grounds - Enterprise	10	0	0
- Environmental Health (serv prov)	10	0	0
	30	0	0
Theme:- Organising to Deliver			
40125 - Procurement Partnership	0	0	10
Theme:- Healthier Communities			
48977 Leisure Trust	0	0	10
Value Added & Technical (VAT)			
48000 ICT Audit Work	18	18	18
48xxx Community Project	10	0	0
48910 Capital Contracts - Final A/C's, Fin App	1	1	1
48977 Business P Re-engineering (project gp support)	2	2	2
Follow-Ups	15	15	15
Contingency	10	10	10
	56	46	46
Client Support & Advice (CSA)			
External Auditor Liaison	5	5	5
Client Overheads	20	20	20
49045 - Audit Panel (4-5 times pa)			
49046 - Reg 6 Review & AGS			
49046 - AGS review and action Plan f/u			
49045 - Annual Internal Audit Report			
Misc Advice	10	10	10
	35	35	35
	400	375	350



Agenda Item No: 8

Title: Accounts & Audit Regulation: Reg 6 Review
(Review of the Effectiveness of the system of
Internal Audit).

To: Audit Panel

Date: 29 March 2011

Service Area: Finance and Central Services

Author: James Ingham: Head of Partnership,
North Yorkshire Audit Partnership
Karen Iveson: Head of Service – Finance and
Central Services

Presented by: James Ingham: Head of Partnership,
North Yorkshire Audit Partnership.

1 Purpose of Report

1.1 This report presents the Annual Review of the effectiveness of the system of internal audit from the North Yorkshire Audit Partnership for approval.

2 Recommendation

2.1 **It is recommended that the attached report for 2010/11 be approved.**

3 Executive Summary

3.1 The report confirms that the System of Internal Audit can be considered to be 'effective'.

4 The Report

4.1 The Accounts and Audit Regulations 2003 require all Councils to annually review their systems of internal control and to provide an adequate and effective Internal Audit function.

4.2 In March 2007 Members' attention was drawn in my report to an amendment

to the Accounts and Audit Regulations 2003. The amendment in SI 2006/564 introduced a new requirement to undertake an annual review of the effectiveness of the system of Internal Audit on an annual basis. The amendment to Regulation 6 is as follows:

6(3) "The relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit."

6(4) "The findings of the review '...shall be considered, as part of the consideration of the system of internal control by the (relevant) committee'..."

4.3 The Audit Panel would be the body to receive these reports.

The Report, detailed in Appendix A, sets out the methodology applied and the results of the work.

4.4 At present there is only limited formal guidance. This will evolve as will an opinion from the Council's external auditors who will consider this report as part of their work examining the validity of the Council's AGS (Annual Governance Statement).

4.5 This report highlights issues that the self-assessment and service unit manager surveys identify. It forms an important part of the overall control framework, and is a component of the Annual Governance Statement.

4.6 The report detailed in appendix A, provides an assurance that the internal audit service provided through the partnership does, indeed, meet the criteria for an effective system of internal audit. It is not a 'carte blanche' but a balanced judgement.

4.7 The annual report to the committee in June will complete the review, as it will include the key performance indicators.

5 Financial Implications

5.1 There are no financial implications, beyond the existing budget for Internal Audit and any additional work in respect of Risk Management, and special investigations.

5.3 There is budget provision to meet the above costs

6 Conclusions

6.1 The review provides an overall opinion and assurance that the System of Internal Audit and provision of Internal Audit in Selby DC during 2010/11 must be considered as effective.

6.2 The self-assessment undertaken indicates that the service provided by the Partnership meets practically all the aspects of the Cipfa code. This was re-

-affirmed through the Audit Commission's tri-ennial review.

- 6.3 The results (7 surveys returned from 7 issued) of the survey indicate an overall assessment of effectiveness scoring 93% [96% 2009/10; 99% 2008/09; 98% 2007/08; 100% 2006/07] at the median or above.
- 6.4 However the score for approval in the top two categories has fallen from 65% to 59%. We are looking closely at the reasons for this and are undertaking constructive discussions with the Heads of Service who gave the lower scores.
- 6.5 Arising from the discussions already taken place there is a real demand, and need, for the IA service to recognise that the whole environment within which the Council is working has changed and will continue to change for the foreseeable future. This will require a different 'mindset' for the audit service, looking wherever possible to reduce and eliminate unnecessary controls, yet retaining a secure internal control environment.
- 6.6 The Audit Partnership is looking to undertake appropriate training and development to ensure it is well placed to secure work with the Council and the SDV over the longer term, by providing a cost effective audit that is seen to be capable of, and does deliver, 'added value' to both the Council and the SDV.
- 6.7 The low score for 'involvement of Internal Audit with new and developing projects' is a perennial issue and is consistent with results at other councils, notably at District level. However the Partnership does not have the ability to merely impose itself, it must be invited, and senior managers have a responsibility to promote the involvement of internal audit.

7 Link to Corporate Plan

- 7.1 This report supports the Council's requirement to comply with all legislation. It also supports the Corporate Strategic Theme 'Making better use of resources', by demonstrating a commitment to local democracy and accountability.

8 How Does This Report Link to the Council's Priorities?

- 8.1 The provision of a system of Internal Audit is a statutory requirement. There is no direct linkage to any of the Council's Priorities, as internal audit is a support service, which provides internal control, and activity assurance to Heads of Service on the operation of their services, and specifically to the Head of Service- Finance and Central Services on financial systems.

9 Impact on Corporate Policies

9.1	Service Improvement	No Impact

9.2	Equalities	No Impact
9.3	Community Safety and Crime	No Impact
9.4	Procurement	No Impact
9.5	Risk Management	No Impact
9.6	Sustainability	No Impact
9.7	Value for Money	No Impact

10 Background Papers

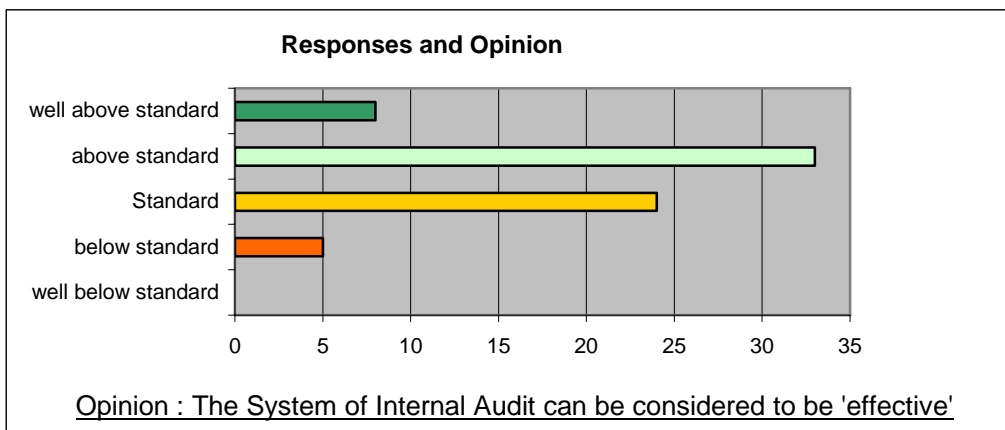
10.1 North Yorkshire Audit Partnership report: - A&A reg6 Review report 2010-11.



Independent Assurance

Internal Audit Report

Selby District Council Accounts & Audit regulation 6 Review of the Effectiveness of the System of Internal Audit March 2011



Auditor : James Ingham CPFA

Circulation list: Members Audit Panel
Chief Executive
Head of Service - Finance (s151 officer)

SUBJECT: REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2010/11

1. Introduction

- 1.1 The Accounts and Audit Regulations 2003 require all Councils to annually review their systems of Internal Control and to provide an adequate and effective Internal Audit function.
- 1.2 The regulations were added to with the issue of circular SI 564/2006. This required, inter alia, that the council undertake an annual review of the effectiveness of its system of internal audit, and to present the results of that review to the appropriate committee.
- 1.3 It has been established that the Audit Panel of the Council receive reports on the Annual Governance Statement (AGS), and associated matters. Therefore it is the appropriate body to receive, consider, review, and approve the report on the Review of Effectiveness of the System of Internal Audit.

2. Background and Issues

- 2.1 Internal audit at the Council is provided through the North Yorkshire Audit Partnership (NYAP) who provide the internal audit function.
- 2.2 The Partnership team comprises of the Head of Partnership, with Audit Managers, and audit staff.
- 2.3 The Partnership works principally with the Head of Service - Finance (s151 officer) and in 2010/11 provided a planned audit service to the council. The Internal Audit plan comprised 425 days.
- 2.4 Additional to that plan is a provision of 'up to 35 days' to provide support to the Council's Risk Management processes.
- 2.5 The Partnership works to the CIPFA Code of Practice for Internal Audit in Local Government (the CoP). The code has been reviewed and revised with the latest version issued in December 2006.
- 2.6 CIPFA have issued a guide to the "Role of the Head of IA" and they have issued further guidance (consultation draft) for the application to Local Government. Once these have been finalised we will undertake a self-assessment against the principles contained therein. Initial consideration suggests that the Partnership should meet the guidance contained in the document.
- 2.7 The code defines internal audit as: -

<p>Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.</p>
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The control environment is defined as comprising the systems of governance, risk management, and internal control.

- 2.8 The code sets out 11 standards for internal audit.
- 2.9 Of the 11 standards one is Performance and effectiveness. The remaining 10 relate to audit management, audit process, and audit relationships within the organisation.
 - a) Audit Mgt Independence; Ethics; Staffing Training & CPD;

- b) Audit Process Scope; Audit Strategy & Planning; Undertaking audit work; Due Professional Care; Reporting
- c) Audit Relationships Audit Committees; Relationships;
- 2.10 The code does try to define an effective internal audit, as being one which should 'aspire to' the following: -
- understand the whole organisation, its needs and objectives;
 - understand its position in respect to the organisation's other sources of assurance and plan its work accordingly;
 - be seen as a catalyst for change at the heart of the organisation;
 - add value and assist the organisation in achieving its objectives;
 - be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
 - be innovative and challenging;
 - help to shape the ethics and standards of the organisation;
 - ensure the right resources are available – recognising that the skills mix, capacity, specialisms and qualifications/experience requirements all change constantly;
 - share best practice with other auditors;
 - seek opportunities for joint working with other organisations' auditors.
- 2.11 An assessment of the position of the Partnership internal audit in respect of these aspirational effectiveness criteria is set out in Appendix 2.
- 2.12 With this background the issue is to determine what a Review of Effectiveness (RoE) is, and how it should be undertaken.
- 2.13 Guidance has been issued by the CLG that is non-prescriptive. It therefore leaves councils to determine their own methodology. As the review has to be reported to the council (normally the Audit committee or equivalent) the scrutiny will be there and through the external auditor's review of the AGS.
- 2.14 It is neither practicable nor possible to use the annual external auditor's opinion in their audit letter though their tri-ennial review would probably be sufficient.
- 2.15 The RoE review is annual, and the regulation does not specify a fiscal year. Therefore the review has been undertaken between Feb and March to avoid adding further to the year-end maelstrom of tasks.
- 2.16 Cipfa have now prepared some guidance to practitioners through the Audit Panel and this has been considered in the preparation for and the execution of the review.
- 2.17 One key principle for which there has yet to be a conclusive definition is the 'system of internal audit'. Therefore this review has focused on the Internal Audit function rather than take a much wider view that is espoused by some, to include the overall control framework, and the Audit Committee (Audit Panel at Selby DC) itself.
- 2.18 I consider that this wider definition more properly falls within the range of the AGS.
- 2.19 The general consensus is that until custom and practices have evolved further then a practical way of exercising this RoE is to undertake a self-assessment against the Cipfa code, and to undertake a survey of Directors and Heads of Service to determine their opinion of the effectiveness of the system of internal audit.
- 2.20 For the 2010/11 review we have continued with three-strand approach already established. Firstly to review the self-assessment undertaken, and primarily to consider what action has been taken to resolve the points arising, which were endorsed by the Audit Panel. Secondly we will re-perform the survey to see if there has been any material change in opinion over the intervening period and thirdly to note the performance of the internal audit team, in 2010/11 as reported to the Panel.

- 2.21 Cipfa have now issued a draft guide on the role of the Head of Internal Audit (HoIA) in local government. Once the final version is issued we will undertake a comprehensive self-assessment against the principles in the guidance. At this stage a preliminary self-assessment would suggest that the Partnership is effectively fulfilling the role.
- 2.22 The self-assessment completed highlighted specific areas where there could be improvement which were: -
- Encouraging greater inclusion of internal audit with new and developing projects.
 - ↳ *This has been an issue in all the surveys undertaken to date. There are some signs of an increasing acceptance that Internal Audit can play a valuable role with new projects and a gradual increase in the invitations to participate.*
 - ↳ *However the results of the 2010/11 survey continue to point this up as a weaker area. The Audit Partnership relies upon senior managers inviting Internal Audit to their project teams. Internal Audit does not have the right to impose itself.*
- 2.23 The results of the survey (7 responses from 7 invitations) are attached as Appendix 1. They indicate that overall there is a high level of satisfaction and by logical extension, effectiveness. Comments that were made are appended too.
- 2.24 One area that has a low 'score' is the involvement of internal audit with 'new and developing projects'. Clearly this is an area where internal audit need to be invited to participate. We would hope that your heads of service and project managers agree to consider this in future.
- 2.25 A second area, and perhaps of some concern is the view expressed by one respondent that the audits did not give Heads of Service a better understanding of control systems and risks in their service areas. This will be taken up with the head concerned and as a general point for the Partnership to improve the quality of the audit and associated reports issued.
- 2.26 From discussions that have already taken place there is a real demand, and need, for the IA service to recognise that the whole environment within which the Council is working has changed and will continue to change for the foreseeable future. This will require a different 'mindset' for the audit service, looking wherever possible to reduce and eliminate unnecessary controls, yet retaining a secure internal control environment.
- 2.27 The work that it does on the main systems to provide assurance to the council and external auditors must be a core focus, and the remaining audit plan will need to be reviewed with the new 'mindset' in place. Recognising that the SDV will be operating on a semi-commercial basis with the Council will require that audit work for the SDV understands their new way of working. This will be particularly important to allow the SDV to develop whilst reducing its cost base, and part of that cost base will be the cost of controls.

3. Consultation

- 3.1 Views have been sought from the Audit Commission. the Council's appointed external auditors, who will, through their review of the AGS will also take this RoE review into account. However, as they will undertake that role, there is, understandably reluctance on their part to give definite guidance or opinion.
- 3.2 Opinions have also been sought within the North Yorkshire Chief Internal Auditors Group and the current collective view is not consensual. This is no doubt because established custom has yet to evolve for this required review.

4. Assessment and Conclusion

- 4.1 The review provides an overall opinion and assurance that the System of Internal Audit as defined above can be considered as effective.
- 4.2 Issues identified last year in the self assessment have been taken into consideration and will be actively pursued in this year.
- 4.3 Performance, must be judged as satisfactory.
- 4.4 The results of the survey indicate an overall assessment of effectiveness scoring 93% at the median or above for the assessment ~ (96% 2009/10; 99% 2008/09; 98% 2007/08; 100% 2006/07).
- 4.5 However the score for approval in the top two categories has fallen from 65% to 59%. We are looking closely at the reasons for this and are undertaking constructive discussions with the Heads of Service who gave the lower scores.
- 4.6 Arising from the discussions already taken place there is a real demand, and need, for the IA service to recognise that the whole environment within which the Council is working has changed and will continue to change for the foreseeable future. This will require a different 'mindset' for the audit service, looking wherever possible to reduce and eliminate unnecessary controls, yet retaining a secure internal control environment.
- 4.7 The work that it does on the main systems to provide assurance to the council and external auditors must be a core focus, and the remaining audit plan will need to be reviewed with the new 'mindset' in place. Recognising that the SDV will be operating on a semi-commercial basis with the Council will require that audit work for the SDV understands their new way of working. This will be particularly important to allow the SDV to develop whilst reducing its cost base, and part of that cost base will be the cost of controls.
- 4.8 Audit has a responsibility to assist the SDV by identifying surplus and redundant controls, without losing sight of the residual need for the SDV to operate a sound internal control framework.
- 4.9 The Audit Partnership is looking to undertake appropriate training and development to ensure it is well placed to secure work with the SDV over the longer term, by providing a cost effective audit that is seen to be capable of, and does deliver, 'added value' to the SDV.
- 4.10 The survey results do, however, point up some weak areas, though not significant, to do with the relevance of IA, did it 'add value or assurance'; looking at risk areas adequately. The Partnership, by undertaking this critical self-assessment and changing its 'mindset' expects to reverse those weaker results.
- 4.11 The low score for 'involvement of Internal Audit with new and developing projects' is a perennial issue and is consistent with results at other councils, notably at District level. However the Partnership does not have the ability to merely impose itself, it must be invited, and senior managers have a responsibility to promote the involvement of internal audit.

Selby District Council 2010/11

[7 survey forms sent out, 7 responses]



1. Did we involve you sufficiently in setting the internal audit plan?
2. Was the Internal Audit (IA) approach professional, in terms of making arrangements, undertaking the audit, and working with your staff?
3. Was the audit report format in a style that you found clear, and easy to understand?
4. Did the audits and their reports raise concerns over control systems clearly and concisely?
5. Were the audits relevant and add assurance or value?
6. Did the audits give you a better knowledge and understanding of control systems and risk in your service areas?
7. Do you consider that the audits looked at your risk areas adequately?
8. Do you consider that we were sufficiently involved with your new and developing projects?
9. Has the contribution of IA given you enough assurance for the Annual Governance Statement?
10. In your considered opinion, has IA been 'effective'?

		1	5	1
		1	4	2
		3	4	
		3	3	1
	1	3	3	
	1	3	3	
	1	2	3	1
	2	3	1	1
		2	4	1
		3	3	1
	5	24	33	8
	7	34	47	12

Totals

Percentages

Figures in brackets are prior year results:-
(2009/10; 2008/09; 2007/08; 2006/07)

59%
(65; 93; 88; 96)
93%
(96; 99; 98; 100)

Selby DC ~ 2010/11 Reg 6 review ~ comments

Who	What they said	What we say....
Jonathon Lund	<p>Selby is moving quickly to systems and structures which are largely new and uncharted, we will need IA to help ensure that effective control is not compromised.</p> <p>However we will also need IA to help identify unnecessary control systems and control systems which could be dispensed with once an assessment of risk has been undertaken. For example future Audit Reports might suggest that <i>“the eight control systems currently in place could be reduced to four with minimal and manageable additional risk of”</i></p>	<p>We agree, and recognise the need for a step change in the IA mindset to understand that there is a real need and demand for IA to review controls, not just that they are working, but perhaps more importantly, are they necessary? Is there something else that does the same task? Is there duplication that can be swept away?</p>
Karen Iveson	<p>Generally I find the service to be of a good quality but feel that a fresh approach is needed. As we have already discussed, I am looking for more added value from the IA service as we respond to the severe financial challenges we face.</p> <p>A true risk based approach to our business and control framework is needed and IA are well placed to offer advice on acceptable levels of risk vs the controls in place.</p> <p>We need to understand the risks within our control systems and look for opportunities for savings and efficiencies without compromising good stewardship of public funds whilst ensuring that controls are proportionate and value for money.</p> <p>I would particularly like to see recommendations on the aspects of control that could be removed from processes and the associated risk (within our tolerance).</p> <p>With such a change in emphasis I am sure that IA will add the extra value we are looking for from the service and will be able to make valuable contributions to our projects and business generally.</p>	<p>We agree that there is a real demand, and need, for the IA service to recognise that the whole environment within which the Council is working has changed and will continue to change for the foreseeable future.</p> <p>This will require a different ‘mindset’ for the audit service, looking wherever possible to reduce and eliminate unnecessary controls, yet retaining a secure internal control environment.</p> <p>The work that it does on the main systems to provide assurance to the council and external auditors must be a core focus, and the remaining audit plan will need to be reviewed with the new ‘mindset’ in place.</p> <p>Recognising that the SDV will be operating on a semi-commercial basis with the Council will require that audit work for the SDV understands their new way of working. This will be particularly important to allow the SDV to develop whilst reducing its cost base, and part of that cost base will be the cost of controls.</p>
Mark Steward	More of an opportunity	

Who	What they said	What we say....
	<p>I think it would be useful for IA to be involved in BPI programme to ensure a risk based approach to systems e.g are we maintaining controls that if removed would still leave adequate controls within tolerance or visa versa we do not expose ourselves to risk or a future audit recommendation. (We only maintain systems/controls that add value)</p> <p>I think the skill set will be more useful as we go through a significant transformational agenda with a more pro-active role in auditing change programmes.</p> <p>I also think it would be useful having undertaken an audit to recommend whether the 'risk' at which the current audit was commissioned annually which finds e.g 2/3 recommendations be reviewed to every 2 years. Apologies if we do this already.</p> <p>In addition to the above for the coming year</p> <p>Procurement & contract management to ensure best practices are incorporated consistently across all our contracts.</p>	<p>We agree, and recognise the need for IA to be party to the BPI process and we understand that there is a real need and demand for IA to review controls, not just that they are working, but perhaps more importantly, are they necessary? Is there something else that does the same task? Is there duplication that can be swept away? Our role will be to work with the SDV to streamline its internal control processes, without losing that framework. Knowing what matters will be critical.</p>
Rose Norris	No comment	
Janette Barlow	No comment	
Keith Dawson	No comment	
Martin Connor	No comment	

CIPFA CoP –Characteristics of Effectiveness that an effective Internal Audit should aspire to:-

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
Understand the whole organisation, its needs and objectives.	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's Activities (and so indirectly to the objectives).</p> <p>Individual audit assignments identify risks to the achievement of those activities (and so indirectly to the objectives of the Council).</p>	
Understand its position in respect to the organisation's other sources of assurance and plan its work accordingly.	Internal audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.	Monitor and improve the IA governance and assurance arrangements where there are joint service delivery arrangements, e.g. payroll.
Be seen as a catalyst for change at the heart of the organisation.	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics.</p> <p>Supportive role of audit for individual projects may be catalyst for change.</p>	<p>Selling the message of the benefits of IA involvement to line management.</p> <p>Controls assurance and the AGS / assurance statement.</p> <p>Identified need to extend the role of IA in new and developing projects.</p>
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work.	Identified need to extend the role of IA in new and developing projects.
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.	<p>When identifying risks and in formulating the plan changes on the national agenda are considered.</p> <p>The Partnership maintains awareness of new developments in the services it audits, risk management and corporate governance.</p>	<p>Would like a crystal ball! In the meantime...</p> <p>The Partnership maintains awareness of new developments in the services it audits, risk management and corporate governance.</p>
Be innovative and challenging	Internal audit has taken a positive approach to its reporting arrangements by focusing on risks, and using a brief report style.	The report format has been reviewed and a revised style has been used since 1 st April 2009. The format and the audit opinion descriptors are subject to a further re-assessment for 2011/12.
Help to shape the ethics and standards of the organisation.	<p>Was involved in KLOE/UoR assessments.</p> <p>Plays a key role in drafting the AGS.</p>	Involvement by IA in the review of policies

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.</p>	<p>Resources for Internal Audit are limited by budget constraints. Currently the IA plan is driven by this constraint.</p> <p>Arrangements are in place to review the future need for external specialist input on IT audit.</p> <p>Selby constrain the amount of audit time on a financial basis. It is therefore cash limited to a specified number of days. The art is in providing sufficient coverage within that limitation.</p>	<p>May need to consider an audit needs analysis and be aware of any difference between ideal and cost driven resources.</p>
<p>Share best practice with other auditors.</p>	<p>NYCIA and benchmarking groups.</p> <p>Team briefings.</p> <p>Personal links with auditors elsewhere.</p>	<p>Developing some joint training seminars with the other members of the CIA group.</p>
<p>Seek opportunities for joint working with other organisation's auditors.</p>	<p>Always a consideration.</p> <p>NYAP exists.</p> <p>Joint working now includes 5 of the 7 NY Districts, leaving only the Harrogate and Craven, the other two district councils.</p>	<p>The current Partnership Agreement runs to 31.3.2012, and the business case for NYAP to merge with Veritau is being developed.</p>