



INTERNAL AUDIT SERVICE
APRIL 2010 – MARCH 2011

*Annual Report by Internal Audit &
Business Improvement Manager*

June 2011

Opening Comments from the Audit Committee Chairman



Councillor Jim Ranger

“It is pleasing to report that the Internal Audit team had another very successful year, looking at a large number of important areas of the Council’s activities despite their limited staff resources. The majority of the twenty four clearly written reports received a Substantial or Good Assurance opinion, with three receiving an Adequate Assurance opinion and only one received a Limited Assurance opinion and this was in the notoriously difficult area of IT procurement. None of these reports needed consideration by the Audit Committee although progress in implementing the IT Procurement recommendations will be monitored by the Committee.

From June 2011 the Internal Audit service will be provided by a shared service with Herts County Council and four other District Councils and will be based in HCC’s offices in Stevenage. This will provide extra resources as far as the District Councils are concerned and the intention is to provide an equally excellent service to that which we have become accustomed. The next Audit Committee will monitor this closely.

Our sincere thanks go to our Audit team who will be transferring to HCC and to Chris Gibson who is staying at East Herts Council.”

Internal Audit & Business Improvement Manager's Annual Report



Chris Gibson

Executive summary

This report outlines Internal Audit activity relating to the financial year 2010/2011.

Throughout 2010/11 the Internal Audit Section has striven to adopt best practice and is currently broadly compliant with the 2006 CIPFA Audit Code.

The impact of audit resources has been maximised by targeting areas of greatest risk.

Contained within the report are independent assurance opinions on areas of internal control that have been reviewed by Internal Audit during the year. The overall level of assurance awarded for systems reviewed is “good” meaning all major controls are in place but some minor controls may be absent, performance indicators are good and no errors were detected. This represents no change in the direction of travel since last year.

The report concludes that good risk management practices have been delivered throughout 2010/11 and that the approach adopted for monitoring the Annual Governance Statement Action Plan to enhance East Herts Council's internal control framework is robust.

The Internal Audit Service

1. The Internal Audit Section appraises financial and non-financial systems and performs consultancy/value for money work. The remit of Internal Audit is found in three areas, namely providing independent assurance on internal controls, risk based auditing and efficiency reviews.
2. Internal Audit has been under the direct managerial responsibility of the Director of Internal Services throughout the 2010/11 financial year. In discharging this management responsibility, the Director of Internal Services was charged with the statutory requirement to provide an “adequate and effective system of internal audit”.
3. The Internal Audit section has been staffed during the year by the Internal Audit and Business Improvement Manager, two Principal Internal Auditors (one has been engaged on audit activities for only 50% of her time since June 2010) and a part-time Audit Assistant (on maternity leave for much of the financial year). Cover for the staffing shortfall has been provided, within budget, through working in partnership with North Herts District Council’s Audit team and through engaging Tribal Business Consulting. The Internal Audit and Business Improvement Manager also has responsibility for the management of Risk Assurance, Insurance, Health and Safety and Procurement functions.

Review of the year to 31 March 2011

Resources & Planning

4. On 17 March 2010 the Audit Committee supported the draft Strategic Internal Audit Plan covering the period from April 2010 to March 2013.
5. Appendix A summarises the activities planned during 2010/11 and details a status against each item. Status is defined as follows:
 - Report issued- indicates that a final report has been issued.
 - Audit input- indicates where Internal Audit work has been undertaken in the area, often evidenced through emails or file notes. All non-chargeable time has also been categorised in this way.
6. Throughout 2010/11 robust management of the audit plan has been exercised taking account of risk based priorities. The Internal Audit and Business Improvement Manager worked alongside the Director

of Internal Services to prioritise delivery of the service. Three reviews were identified to be deferred into 2011/12, namely:

- Asset Management
 - Refuse Collection
 - Other Cleansing
7. Focus has largely been maintained on business critical projects and high risk areas. Regular follow up arrangements have also continued to concentrate on control weaknesses previously identified by Internal and External Audit and sharpen management attention.
 8. The Internal Audit team has continued to supply an income generating internal audit service to the Town Councils of Hertford, Bishop's Stortford, Buntingford and Ware.
 9. Internal Audit operated within their set budget during 2010/11.

Audit Committee

10. Five Committee meetings were held during the financial year- in June, September and November 2010 and in January and March 2011. All Internal Audit reports were produced according to schedule.
11. The following areas of training have been delivered to the Audit Committee during the financial year:
 - Programme and Project Management
 - Information Governance
 - Pension Assets and Liabilities
 - Anti-Fraud arrangements and fraud awareness
 - Risk Management
 - Commuted Sums.

Independent Assurance Opinions

12. Audit opinions are incorporated into internal audit reports to provide an indication of the status of internal control within individual systems. Classifications have been adopted using a traffic light methodology:
 - Substantial- all required controls are in place, performance indicators are good and no errors are detected

- Good- all major controls are in place but some minor controls may be absent, performance indicators are good and no errors were detected
 - Adequate- major controls are in place but some minor controls encountered deficiencies and no significant errors were detected
 - Limited- major controls have failed and/or major errors have been detected.
13. Direction of travel statements have been provided to enhance the quality of assurance statements in line with Audit Commission practices. An additional paragraph has also been incorporated into all reports that identifies whether any efficiency gains or one-off savings have been specifically identified during the course of the review.
14. During 2010/11 the following audit opinions have been assigned to reviews undertaken.

Substantial assurance

Main Accounting & Budgetary Control- unchanged direction of travel.

Treasury Management- unchanged direction of travel.

Council Tax/ NNDR- improved direction of travel.

Benefits- unchanged direction of travel.

Sundry Debtors- improved direction of travel.

Advanced Payments- unchanged direction of travel.

Performance Management- no previous appropriate opinion.

Development Control- improved direction of travel.

Good assurance

Payroll- improved direction of travel.

Creditors- unchanged direction of travel.

Cheque Accounting- unchanged direction of travel.

Car Parking- unchanged direction of travel.

Recycling- unchanged direction of travel.

Travel & Subsistence- improved direction of travel.

Grounds Maintenance- unchanged direction of travel.

Homelessness, Allocations & Nominations- no previous appropriate opinion.

Commuted Sums- improved direction of travel.

Building Control- unchanged direction of travel.

Private Sector Improvement Grants, Empty Houses Grants & Disabled Facilities Grants- no previous appropriate opinion.

Emergency Planning- no previous appropriate opinion.

Adequate assurance

Cashiers- unchanged direction of travel.

Licences- no previous appropriate opinion.

Hertford Theatre Income- improved direction of travel.

Limited assurance

IT Procurement- no previous appropriate opinion.

15. Customer Satisfaction Surveys are issued following all audit reviews. There have been no adverse comments and auditees appreciate the value of internal audit.
16. On balance the overall level of assurance awarded for systems reviewed by Internal Audit is "good with an unchanged direction of travel". I am pleased to report that only one report has fallen into the limited assurance category and that arrangements have been very quickly put in place to rectify the situation.

Arrangements to Monitor the Implementation of Internal and External Audit Recommendations

17. Throughout 2010/11 regular monitoring by the Audit Committee of progress made towards implementing Internal and External Audit recommendations has taken place. These arrangements have resulted in more timely and effective management action to strengthen the internal control regime. The follow up arrangements continue to sharpen management focus.

Risk Management

18. Good risk management practices have been delivered throughout 2010/11. Strategic risks and actions taken to mitigate these risks have been monitored and reported to Corporate Management Team, the Audit Committee and the Executive.
19. Throughout 2010/11 risk management practices have continued to be embedded into the activities of the Council. Risk discussions take place at Departmental Management Teams meetings and departmental risk registers are completed. Similar processes take place at C3W Programme Group with reports to Programme Board.
20. The Operational Risk Management Group has met regularly to co-ordinate and enhance operational risk management practices throughout the organisation.

21. A workshop for senior management has taken place to identify strategic risks for 2011/12 and the Risk Management Strategy is currently being updated.

Opinion on Internal Control & Corporate Governance Arrangements

22. The 2010/11 Annual Governance Statement Action Plan identified nineteen measures to enhance the Council's internal control framework. Corporate Management Team and the Audit Committee continue to review the progress made against the Action Plan.

Anti-Fraud and Anti-Corruption Arrangements

23. An Anti-Fraud and Anti-Corruption Strategy and a Disclosure (Whistleblowing) Code are in place. A Whistleblowing hotline and email facility has been set up under the control of the Internal Audit team. This facility has been well publicised both inside and outside the Council. All staff also received their Annual Declaration Letters with their February 2011 payslips.
24. The Audit Committee in March 2011 considered the implications of the Bribery Act 2010. The Act creates a number of criminal offences, the most relevant being that of bribing another person, or of being bribed, or of failing to prevent bribery. The Audit Committee approved a Policy on Bribery.
25. Council in May 2010 approved a revised set of Financial Regulations and in December 2010 approved new Procurement Regulations. These have ensured greater levels of internal control and recognise the responsibilities within the Council.
26. The Internal Audit and Business Improvement Manager undertook a self-assessment of the service against the CIPFA Code of Practice for Internal Audit in Local Government. The favourable results of this exercise have been shared with the Council's Chief Finance Officer and External Audit and is included at Appendix B.
27. Throughout 2010/11 Internal Audit has continued to be the key contact for the National Fraud Initiative's data matching exercises. Information has also been submitted to the Audit Commission's Annual Fraud & Corruption Survey.

External Audit

28. Based on the review completed as part of their interim audit process, External Audit have not identified any significant issues in respect of Internal Audit works undertaken during 2010/11.

The Future Internal Audit Service

29. The Hertfordshire Shared Internal Audit Service has taken on responsibility for delivery of the Internal Audit Plan from 1st June 2011. The Shared Internal Audit Service (SIAS) will also deliver a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council and Welwyn Hatfield Borough Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.