

Report of	Meeting	Date
Director of Finance	Audit Committee	22 June 2006

INTERNAL AUDIT ANNUAL REPORT 2005/06

PURPOSE OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2005/6 financial year;
2. To give an **opinion on the adequacy and effectiveness of the control environment** in the Council as a whole and in individual service areas;
3. To give an appraisal of the Internal Audit Service's **performance**.

CORPORATE PRIORITIES

4. The Accounts and Audit Regulations 2003 require every local authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices". Such practices are laid down as standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
5. The CIPFA Code of Practice defines Internal Audit as "an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising **risk management, control and governance** 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**".
6. The Internal Audit Service therefore seeks to provide assurance that the Council is a **performing organisation**.

RISK ISSUES

7. The report contains no specific risk issues for consideration by Members. All Internal Audit activity is geared towards the identification and management of business risks.

STATEMENT ON INTERNAL CONTROL

8. Under Regulation 4 of the Accounts and Audit Regulations (2003) every Council is now required to conduct an annual, internal review of the effectiveness of its system of internal control and publish a **Statement on Internal Control (SIC)** each year alongside the authority's financial statements. The most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) are required to sign the SIC. They must



therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment.

9. The SIC is about **corporate controls** and is not confined to financial issues (hence the signatories required). The internal review should cover the Council's arrangements for:
 - Establishing / monitoring the **achievement of its objectives**;
 - **Policy and decision making**;
 - Ensuring **compliance** with established policies, procedures, laws & regulations;
 - Ensuring the **economic, efficient & effective use of resources**;
 - **Financial, performance & risk management**.
10. The prime responsibility for maintaining and reviewing the system of internal control rests with the Council's senior management. The Corporate Governance Group have therefore carried out a detailed, evidenced-based review of the Council's system of internal control and produced a draft SIC. This has since been challenged and amended by Strategy Group.
11. **When carrying out their review, the Corporate Governance Group took full account of any important control issues raised by the Audit Commission and Internal Audit.**

INTERNAL AUDIT OPINION

12. With regard to Internal Audit, a schedule of audit work undertaken during 2005/6 is shown at Appendix 1, which gives individual opinions on the adequacy of control for each of the areas audited during the year. The majority of these reviews have already been reported in some detail by way of interim / progress reports to the Audit Committee during the course of 2005/6. To arrive at an annual judgement on the overall level of control a view needs to be taken on the relative significance of each area audited and the nature and significance of the weaknesses identified. Taking this into account, **in our overall opinion the Council, in general, continues to operate within a sound control environment.**
13. Our overall audit opinion should be seen in the context that Internal Audit's assurance role is still in a transitional stage between one of reviewing largely financial-based systems to that of evaluating the wider business risk / internal control environment, which is now recognised as best auditing practice. Internal Audit work is now being constructed more around reviewing the key business risk, governance and control issues facing the authority and as such will be of significantly greater value as a source of assurance supporting the SIC.
14. This wider role for Internal Audit reflects the wider remit of the Audit Committee itself, which has now adopted new terms of reference to comply with the latest guidance on audit committees published by CIPFA.

PERFORMANCE

15. Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2005/6. This gives a breakdown of the key **inputs** and **outputs** for the Service, including:

- An analysis of chargeable and non-chargeable **time**;
- An analysis of the percentage of the annual **Audit Plan** completed, **reports issued** and **recommendations** accepted by management;
- An analysis of the average **customer satisfaction** score per audit assignment.

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16. 2005/6 was again a challenging year due to the maternity leave of a team member. The shortfall in resources was met by extending our partnering arrangement with Lancashire County Council's Internal Audit Service.
17. During 2005/6 the authority received **612 days** of Internal Audit coverage. The Internal Audit Service produced **18 reports** containing **174 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.
18. The following **achievements and developments** within the Service are worthy of specific mention:

- Co-ordinating the **Use of Resources / Value for Money** self-assessment exercises on behalf of the Council, which led to an auditor scored judgement of 3, indicating that the authority is performing well in this area.
- Charting all the main financial systems and evaluating the key controls in accordance with new **International Standards in Auditing (ISA)**.
- Overseeing the review of the system of internal control and producing the **Statement on Internal Control**.
- Assisting with the establishment of new **Audit Committee arrangements** to comply with CIPFA guidelines.
- Revising the processes and formats for producing **risk registers** at the strategic and operational / service levels.
- Overseeing the process to renew the **Council's insurances**.

19. We have sought to maintain the standards achieved under **CPA, an Audit Commission scored judgement of 4 (out of a possible 4)**. In the latest **Annual Audit & Inspection Letter** to the Council, the Audit Commission commented:

“Our assessment of Internal Audit confirms that it continues to provide an effective service. We are happy to report that we can rely on the work undertaken by the section and the work undertaken provides an effective component of the Council’s internal control environment and governance arrangements”.

COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES

20. Not applicable to this report.

RECOMMENDATION

21. That the Internal Audit Annual Report for 2005/6 be noted.

REASONS FOR RECOMMENDATION

22. To appraise the Audit Committee of the work undertaken by Internal Audit during 2005/6 and to reassure members that the Internal Audit Service continues to be an effective component of the Council’s internal control environment and governance arrangements.

ALTERNATIVE OPTIONS CONSIDERED & REJECTED

23. None.

GARY HALL
DIRECTOR OF FINANCE

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003	FINANCE UNIT	GILLIBRAND ST. OFFICES

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	09/06/06	Annual Report 05-06

SUMMARY OF INTERNAL AUDIT ACTIVITY 2005/6

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1. Corporate Governance			
Statement on Internal Control	Co-ordinated a corporate review of the system of internal control and drafted the SIC	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Use of Resources / VFM Assessment	Assisted with the corporate self-assessments and complied the respective reports / submissions to the Audit Commission	Ditto above	Ditto Above
Whistle-Blowing Policy	Assisted the DLS to produce the draft policy document.	Ditto above	Ditto Above
Anti-Money Laundering Procedures	Produced corporate procedures and undertook training & awareness	Ditto above	Ditto Above
National Fraud Initiative 2004	Co-ordinated the Council's input to the exercise	Ditto above	Ditto Above
Audit Commission Reports	Followed up and reported on the implementation of key recommendations	Ditto above	Ditto Above

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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2. Risk Management			
Risk Management Board	Serviced Board meetings. Submitted reports on key risk management developments.	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Strategic / Service Risk Registers	Introduced new procedures for compiling risk registers at both levels.	Ditto above	Ditto Above
Insurance	Arranged the renewal / tender for the Council's insurances. Management of the insurance function.	Ditto above	Ditto Above

3. Main Financial Systems			
Review of Key Systems	A high-level annual review of the key controls in all the main financial systems	Adequate	None
Main Accounting System	Detailed review of the system & procedures	Adequate	None
Creditors	Detailed review of the system & procedures	Limited	Several control weaknesses were identified in the new system, relating to access rights, separation of duties, reconciliations and the use of orders.
Debtors	Detailed review of the system & procedures	Limited	Several control weaknesses were identified in the new system, relating to access rights and performance monitoring.
Council Tax	Detailed review of the system & procedures	Adequate	None
Benefits (Resource	Detailed review of the	Adequate	None

Management)

system & procedures

**AUDIT
AREA**

**AUDIT
INPUT**

**CONTROLS
RATING**

**KEY CONTROL
ISSUES**

4. Business Risk Areas

Local Public Service Agreement

Detailed review of the system & procedures

Adequate

None

Performance Plus

Detailed review of the system & procedures

Not applicable to this item. Proactive input provided rather than an audit / review.

Not applicable To this item. Proactive input Provided rather than an audit / review.

Validation of Recycling Performance

Detailed review of the system & procedures

Adequate

None

Park Wise

Detailed review of the system & procedures

Inadequate

The new parking enforcement regime was implemented without the completion of legal contracts or the establishment of the management body. Several operational weaknesses were also identified in the new arrangements.

5. Best Value Audit

Mobile Phones

A Value For Money review of the distribution, usage and cost of mobile phones

Inadequate

Excessive circulation of mobile phones for business use and an inappropriate policy / system for making personal calls

BVPI's

Audit of specific indicators prior to their submission to the Audit Commission

Limited

A high level of errors and anomalies identified as a result of weaknesses in data quality control

Efficiency & Transformation

Advice on the retention of effective controls in new or re-engineered processes

Not applicable to this item. Proactive input provided rather

Not applicable To this item. Proactive input Provided rather

	than an audit / review.	than an audit / review.
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AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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6. Information Technology Audit			
System Administration	Review of the system & procedures	Limited	Weak controls over system access by technical staff / contractors and inadequate logging / monitoring of administration activity
Internet / Intranet Security	Review of the system & procedures	Pending	Pending
Network Operating System	Review of the system & procedures	Pending	Pending

7. Contracts Audit			
Town Hall Improvements	Current contract review through membership of the project team	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.

8. Contingency			
Investigations	Enquiries into a small number of irregularities arising during the year	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Unplanned Reviews	Withnell Fold Mill Section 106 Agreements	Adequate	None
Post Audit Reviews	Monitoring the implementation of recommendations	Not applicable to this item. Proactive input	Not applicable To this item. Proactive input

made in earlier
Internal Audit Reports

provided rather
than an audit /
review.

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KEY TO CONTROL RATINGS

Inadequate	Cannot place sufficient reliance on the controls in place. Substantive control weaknesses exist.
Limited	Can only place limited reliance on the controls in place. Significant control or compliance issues need to be resolved.
Adequate	Can place sufficient reliance on the controls in place. Only minor control weaknesses exist.

NOTE

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	PLAN 2005/6		ACTUAL 2005/6		COMMENTS ON VARIANCES ETC
	Days	%	Days	%	
NON-CHARGEABLE TIME (In-house)					
Unavailable Days (Leave / Training)	230	24	228	24	
Non-Chargeable Management Administration	70	7	103	11	Job evaluation pilot
	20	2	17	2	
SUB-TOTAL	320	33	348	36	
CHARGEABLE TIME (In-house & bought-in)					
Corporate Governance	110	11	133	14	Use of resources work
Risk Management	70	7	60	6	
Main Financial Systems	125	13	143	15	IAS systems work
Business Risk Areas	120	13	75	8	AC work on CC Act
Effectiveness / Best Value	60	6	82	9	BVPI work
Information Technology Audit	50	5	54	6	
Contracts Audit	50	5	19	2	Contract mgmt work 2006/7
Contingency (investigations & advice)	55	6	46	5	
SUB-TOTAL	640	67	612	64	
TOTAL DAYS IN YEAR	960	100	960	100	
Number of Auditors (in-house / FTE)	3.2		3.2		
Chargeable Days Provided In-house	512		484		
Bought In Audit Days	128		128		
Chargeable time as a % of total time available	67%		64%		
OUTPUT ANALYSIS					
	TARGET 2005/6		ACTUAL 2005/6		
% Audit Plan Achieved	89%		90%		
% Audit Reports Issued Within Target Time	78%		78%		
Number of Recommendations Made	No Target		194		
% Recommendations Made Agreed For Implementation	94%		90%		
Average Customer Satisfaction Score Per Audit (on a scale 1-5 where 5 is high)	4.3		4.3		
Retention of Full Managed Audit Status	Retained		Retained		