

Report of	Meeting	Date
Director of Finance	Audit Committee	11/07/05

INTERNAL AUDIT ANNUAL REPORT 2004/5

PURPOSE OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2004/5 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 Internal Audit Service has an impact on the following corporate priorities:
 - Investing in our **Capacity** to deliver;
 - Serving our **Customers** better.
5. In particular, with regard to capacity, one of the key objectives of Internal Audit is to evaluate the extent to which the Council is making an **economic, efficient and effective use of resources**.

RISK ISSUES

6. 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.

THE ROLE OF INTERNAL AUDIT

7. 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**.
8. The CIPFA Code of Practice now 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**

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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".

INTERNAL AUDIT OPINION

9. 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.
10. 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. 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**.
11. The prime responsibility for maintaining and reviewing the system of internal control rests with the Council's senior management. Therefore a management group comprising of the Director of Legal Services (Monitoring Officer), Director of Finance (S151 Officer), Head of Corporate & Policy Services and Audit & Risk Manager have carried out a detailed, evidenced-based review of the Council's system of internal control. In arriving at a view on the areas listed in 10 (above) the management group sought to take account of any agreed findings made by **independent assurance sources** such as Internal and External Audit.
12. With regard to **Internal Audit**, a schedule of audit work undertaken during 2004/5 is shown at Appendix 1, which gives individual opinions on the adequacy of control for each of the systems examined 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 2004/5. To arrive at an annual judgement on the overall level of control a view needs to be taken on the relative significance of each system reviewed 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**. Although we have given a limited assurance rating for a number of the areas examined during 2004/5, this is largely due to non-compliance with established protocols rather than underlying control weaknesses.
13. Our overall audit opinion should also be seen in the context that Internal Audit's assurance role is in a transitional stage between one of reviewing largely financial-based systems to that of evaluating the wider business risk / internal control environment (the latter now being recognised as best auditing practice). Future Internal Audit work will be 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. This wider role for Internal Audit will in turn lead to a wider remit for the Audit Committee itself, therefore proposals to review the Committee's terms of reference will be presented at the next meeting.

PERFORMANCE

14. Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2004/5. This shows the key **inputs** and **outputs** for the Service, including:

- An analysis of chargeable and non-chargeable **time**;
- An analysis of overall **costs** and cost per chargeable day;
- 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.

15. 2004/5 was a challenging year due to the continuing maternity leave of two team members in April / May 2004 and their subsequent return to work on a part-time basis. The shortfall in resources was met by extending our partnering arrangement with Lancashire County Council's Internal Audit Service.
16. During 2004/5 the authority received **617 days** of Internal Audit coverage. The Internal Audit Service produced **20 reports** containing **187 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.
17. The following **achievements and developments** within the Service are worthy of specific mention:

- Establishing a corporate framework & process to evaluate the Council's system of internal control to support the **Statement on Internal Control (SIC)**;
- Facilitating **workshops in business risk assessment** as part of the new integrated business planning process;
- Reviewing key financial systems to meet the **Audit Commission's Code of Practice and managed audit** requirements;
- Providing controls advice & assurance in respect of the new **Radius financial systems**.

18. Service quality has remained high as we have sought to maintain the standards achieved under **CPA, an Audit Commission scored judgement of 4 (out of a possible 4)**. Indeed our partnering arrangement with LCC has led to an enhanced service in areas like ICT audit.

19. In their recent **Annual Audit & Inspection Letter** to the Council, the **Audit Commission** commented:

"Our assessment is that Internal Audit continues to provide an effective service. We are pleased to report that once again we are able to rely on the work undertaken by the section, and that the work undertaken provides an effective component of the Council's control environment and governance arrangements".

COMMENTS OF THE HEAD OF HUMAN RESOURCES

20. Not applicable to this report.

RECOMMENDATION

21. That the Internal Audit Annual Report for 2004/5 be noted.

Gary Hall
Director of Finance

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

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	24th May 2005	Annual Report 04-05