

Report of	Meeting	Date
Director of Finance	Audit Committee	21/06/07

## INTERNAL AUDIT ANNUAL REPORT 2006/7

### PURPOSES OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2006/7 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**, including an evaluation of the effectiveness of the Council's "**system of internal audit**".

### 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 2006.
5. The CIPFA Code of Practice defines Internal Audit as "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".
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.



## BACKGROUND - ANNUAL GOVERNANCE STATEMENT

8. Regulation 4 of the Accounts and Audit Regulations (2003) requires every Council to conduct an annual 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 Council has produced a compliant SIC for each financial year up to and including 2005/6.
9. The Accounts and Audit Regulations also gave Councils the option to publish a wider **Statement on Governance** in place of the SIC but few have done so, largely due to a lack of clear guidance. However in June 2006 CIPFA and SOLACE issued a consultation draft document entitled "Good Governance in Local Government: A Framework", under which Councils are urged to:
  - develop and maintain an up-to-date **local code of governance** consistent with certain "core principles" set out in the Framework;
  - **review their existing governance arrangements** against the Framework;
  - prepare a **governance statement** in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
10. The new CIPFA SOLACE framework defines proper practice for the form and content of a governance statement that subsumes the requirement to prepare and publish a Statement on Internal Control (SIC). Although CIPFA SOLACE is only due to become mandatory in 2008/9 the Council has elected to publish an Annual Governance Statement for 2006/7 rather than a SIC.
11. **The Corporate Improvement Board have undertaken a self assessment of the Council's system of governance and in so doing so have taken 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 2006/7 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 2006/7. 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 has changed from 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 is of significantly greater value as a source of assurance supporting the Annual Governance Statement.
14. This wider role for Internal Audit also reflects the wider remit of the Audit Committee itself, which adopted new terms of reference last year 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 2006/7. 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;
- An analysis of the average **customer satisfaction** score per audit assignment.

16. 2006/7 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 2006/7 the authority received **685 days** of Internal Audit coverage. The Internal Audit Service produced **15 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:

- **Annual Governance Statement** - facilitating the process leading to the publication of the Statement.
- **Use of Resources** - improved scores for Key Line of Enquiry (KLOE) 4 - Internal Control and an aggregate score of 3 indicating that the authority is performing well in this area.
- **Management of Partnerships & Partnering Contracts** - Reviewing the Council's current arrangements and producing a new corporate Framework for Partnership Working
- **Strategic Risk Register** - facilitating the revision of the Register to align it with the Corporate Strategy and the Business Improvement Planning process.
- **Insurance** - revising all the Council's insurance policies to take account of the housing stock transfer and the procurement of additional specialist covers.
- **Health & Safety** - Establishing a new service level agreement with Bolton Council for the supply of the Council's Health & Safety service

## REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

19. The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of internal control / governance.

20. The Audit Commission conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit / checklist for the same purpose. Our recommendation therefore is that the Audit Committee relies on the Audit Commission's triennial review plus internal self-assessments in the intervening years.
21. On this basis we have undertaken a self-assessment of the system of internal audit for 2006/7 and identified no substantive compliance issues with regard to the CIPFA Code of Practice, with the exception of the need for us to produce a formal Internal Audit Strategy for Audit Committee approval which clarifies:
- our objectives & required outcomes
  - how we will form our audit opinion on the control environment
  - how our work will address local and national issues & risks
  - the audit resources and skills required
  - how the service will be sourced

### COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES

22. Not applicable to this report.

### RECOMMENDATION

23. That the Internal Audit Annual Report for 2006/7 be noted.

### REASONS FOR RECOMMENDATION

24. To appraise the Audit Committee of the work undertaken by Internal Audit during 2006/7 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

25. None.

GARY HALL  
DIRECTOR OF FINANCE

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Accounts & Audit Regulations	2003		
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	FINANCE DIRECTORATE	UNION ST. OFFICES
CIPFA and SOLACE - Good Governance in Local Government: A Framework	2006		

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay	5468	13/06/07	Annual Report 06-07.doc

## SUMMARY OF INTERNAL AUDIT ACTIVITY 2006/7

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
<b>1. Corporate Governance (Support)</b>			
Annual Governance Statement	Co-ordinated a corporate review of the system of internal control and drafted the Statement on Internal Control (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	Assisted with the corporate self-assessments and complied the respective reports / submissions to the Audit Commission	Ditto above	Ditto Above
Whistle Blowing Policy	Produced a Corporate Policy and disseminated this to officers via the Intranet and Team Brief	Ditto above	Ditto above
National Fraud Initiative (NFI)	Co-ordinated the Council's input to the national exercise	Ditto above	Ditto Above
Best Value Performance Indicators (BVPI's)	Sample checking several indicators as part of the data quality control process	Ditto above	Ditto above

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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**2. Corporate Governance (Reviews)**

Anti-Fraud & Corruption Strategy

Completed a risk assessment exercise and compiled an Anti-Fraud & Corruption risk register as part of the review of the Council's Anti Fraud and Corruption Strategy.

Limited

Several risks were identified at the corporate individual directorate levels. An action plan has now been developed to address the weaknesses identified

Management of Partnerships & Partnering Contracts

An exercise to review and identify the Council's key partnerships and partnering activity together with an evaluation of the mechanisms for performance management, risk management and monitoring.

Limited

The new "Framework for Partnership Working" needs to be embedded within the Council to direct and control all current and future partnering activity

Compliance Review

A review was completed at the request of the Director of Finance to assess the level of understanding, awareness and compliance with elements of the key financial procedures in the Constitution.

Limited

The Financial Procedure Rules require some revision and there is a need to produce supplementary procedures in several areas. Some compliance issues within Directorates were also identified

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>3. Risk Management</b>			
Strategic Risk Register	Facilitated the revision of the Register to take account of changes in the Corporate Strategy and actions taken during 2006/7	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.
Insurance	Arranged the renewal / tender for the Council's insurances. Management of the insurance function.	Ditto above	Ditto Above
Health & Safety	Established a new service level agreement with Bolton Council for the supply of the Council's Health & Safety service	Ditto above	Ditto above

<b>4. Key Business Systems</b>			
ICT Security	A review to establish whether the safeguards in place to protect the Council's ICT resources are adequate	Limited	Recommendations were made to improve the operation of the Information Security Policy and the Internet and Email Acceptable Use Policy
Data Protection	An audit to ascertain whether the Council has procedures in place to ensure full compliance with the Data Protection Act	Limited	<p>Policies and procedures need to be revised and training provided for key staff</p> <p>Responsibilities for data protection at the corporate and directorate levels need to be clarified to avoid ambiguity</p>

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>4. Key Business Systems (cont'd)</b>			
Freedom of Information	An audit to ascertain whether the Council has procedures in place to ensure full compliance with the Freedom of Information Act.	Limited	Several improvements to the policy and procedural documentation were identified and the roles and responsibilities of key staff need to be clarified
Business Continuity Planning (BCP)	An audit to ensure that the Council has a clear, up to date BCP which is regularly tested and fully understood by those responsible for invoking it in the event of an emergency.	Limited	The Council's procedures need to be re-communicated and embedded and directorate BCP's need updating to reflect recent organisational changes
Project Management	An audit to ensure that corporate standards for project management conform with best practice	Adequate	None

<b>5. Financial Systems</b>			
Key Systems	A high-level annual review of the key controls in all the main financial systems	Adequate	None
Debt Management	An audit to ensure that debt is minimised by the adoption of alternative income collection methods, efficient and effective debt collection.	Adequate	None



AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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## 6. 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.
Post Audit Reviews	Monitoring the implementation of recommendations made in earlier Internal Audit Reports	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 Review - LSVT Pre-Ballot Publicity	Investigation of a complaint to the Audit Commission alleging that the housing stock transfer guidelines may have been breached.	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 Review - Registers of Disclosures	Review of the system for making disclosures of pecuniary interests and offers of gifts / hospitality	Limited	Staff had not been reminded of the procedures for several years and the manual recording system had not kept pace with organisational changes
Unplanned Review - Housing Inventories	Assisted Housing Services to update inventories to facilitate a clear hand over at the point of transfer.	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 Review - Local Public Service Agreement / PI's	A review to ensure that the Council has adequate systems to produce the PI's required and an audit of the actual outturn figures used to obtain the performance related grant	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.

## KEY TO CONTROL RATINGS

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

## PERFORMANCE DATA 2006-7

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	PLAN 2006/7		ACTUAL 2006/7	
	Days	%	Days	%
<b>NON-CHARGEABLE TIME (In-house)</b>				
Unavailable Days (Leave / Training)	146	16	182	20
Non-Chargeable Management Administration	78	8	94	10
	21	2	17	2
<b>SUB-TOTAL</b>	<b>245</b>	<b>26</b>	<b>293</b>	<b>32</b>
<b>CHARGEABLE TIME (In-house &amp; bought-in)</b>				
Corporate Governance (Support)	135	15	160	17
Corporate Governance (Reviews)	100	11	92	10
Risk Management	90	10	58	6
Key Business Systems	120	13	130	14
Financial Systems	120	13	84	9
Contingency (Investigations & Advice)	120	13	113	12
<b>SUB-TOTAL</b>	<b>685</b>	<b>74</b>	<b>637</b>	<b>68</b>
<b>TOTAL DAYS IN YEAR</b>	<b>930</b>	<b>100</b>	<b>930</b>	<b>100</b>
<b>Number of Auditors (in-house / FTE)</b>	<b>3.2</b>		<b>3.2</b>	
<b>Chargeable Days Provided In-house</b>	<b>578</b>		<b>530</b>	
<b>Bought In Audit Days</b>	<b>107</b>		<b>107</b>	
<b>Chargeable time as a % of total time available</b>	<b>74%</b>		<b>69%</b>	
OUTPUT ANALYSIS	TARGET 2006/7		ACTUAL 2006/7	
<b>% Audit Plan Achieved</b>	<b>89%</b>		<b>89%</b>	
<b>Average Customer Satisfaction Score Per Audit (Max 5)</b>	<b>4.4</b>		<b>4.3</b>	
<b>Unqualified reliance on IA work by the Audit Commission</b>	<b>Yes</b>		<b>Yes</b>	