

**Meeting of:** AUDIT COMMITTEE

**Date:** 19 OCTOBER 2005

**Report of:** INTERNAL AUDIT MANAGER

**Reference:** aud/audcomm/191005

**Title:** ANNUAL REPORT AND CONTROLS ASSURANCE STATEMENT 2004/05

## **PUBLIC/EXEMPT ITEM**

This item is for consideration in the public part of the meeting.

## **PURPOSE OF THE REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2004/05 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

## **RECOMMENDATIONS**

- 1. That the report be noted.**
- 2. That the Controls Assurance Statement be considered in relation to the proposed Statement on Internal Control & Corporate Governance (presented elsewhere on this agenda).**

## **REPORT**

### **1. Introduction**

The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). Whilst the CIPFA Code of Practice for Internal Audit does not prescribe the production of an annual report and assurance statement, this is regarded as best practice within the profession. The report and assurance statement plays a significant role in relation to the Council's responsibility to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

### **2. Organisation of Internal Audit**

Internal Audit is established as a section of Financial Services, reporting functionally to the Head of Financial Services. Professionally, it operates to standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom and operates and reports in accordance with an approved Audit Charter.

### 3. **Annual Audit Plan 2004/05**

Internal Audit plans and assignments are developed on a strongly risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2004/05 contained 36 audit assignments and 935 days of Internal Audit work. A summary of the final position for the year is set out in the following table, with a list of completed audit reports attached at Appendix A.

Area of activity	Original Plan		Actual	
	No of Assignments	Days	No of Assignments	Days
Advice & Support	n/a	120	n/a	109
Planning & Monitoring	n/a	40	n/a	40
Computer Audit	3	60	1	11
Investigations	n/a	100	3	162
General Contingency	n/a	45	n/a	0
Follow Up Reviews	n/a	50	n/a	47
Financial Systems	8	133	8	110
Management Arrangements	12	232	10	232
Non-Audit Duties	n/a	5	n/a	3
Operational Audits	13	150	9	113
Totals	36	935	31	827

#### **Explanation of Major Variances**

Changes in demand for audit work and variations to the approved Plan were reported to and approved by Audit Committee during the year. The two most significant factors causing changes to the original plan were:

- Maternity leave of one member of staff, reducing the number of days available by 100.
- Resources devoted to two major internal investigations, taking 62 days more than budgeted for.

As a result of these factors, the following audits were not undertaken:

- Rent Setting, Collection & Control
- Job Management Systems
- Partnership Arrangements
- Emergency & Business Continuity Planning
- Licensing

#### **Results of Audit Work**

In all cases, completed audit assignments have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. There are ongoing arrangements for all reports to be revisited and a further follow-up report to be produced regarding progress made in implementing agreed actions.

### 4. **Controls Assurance Statement**

It must be recognised that Internal Audit cannot be expected to give total assurance that control weaknesses or irregularities do not exist.

This assurance statement is drawn from a) the results of individual internal audit assignments and b) the review of the Internal Control Framework.

## **Results of Internal Audit Assignments**

Our work on the Council's financial systems has indicated that effective internal financial controls exist to ensure the accuracy and integrity of the information they provide and no significant control weaknesses have been identified.

In other areas, Internal Audit work undertaken during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council's Statement on Internal Control & Corporate Governance. Where control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions.

## **Review of the Internal Control Framework**

To assist with the Council's responsibility to review the effectiveness of its Internal Control Framework, Internal Audit has established an "Internal Control & Corporate Governance" database, comprising a framework of controls based on the guidance issued by CIPFA. The finally agreed framework consists of a set of sixty-seven internal control features within the following eight headings:

1. Statutory Obligations
2. Corporate Objectives
3. Corporate Governance
4. Performance Management
5. Risk Management
6. Internal Control
7. Assurance
8. Statement on Internal Control

Internal Audit has undertaken its own evaluation of this control framework, based on work during the period and on its accumulated knowledge of the organisation. The results of this exercise are demonstrated in Overview Chart and Evaluation Reports attached at Appendices B and C. The evaluation has also been used to identify any internal control issues and a range of actions to address them, which will be developed and reported to a future meeting of the Committee.

Overall, it is Internal Audit's opinion that the Council has established a generally sound Internal Control Framework. It is acknowledged, however, that there are areas in which improvements are both possible and necessary to strengthen the framework and to provide greater assurance as to its effectiveness.

## **Significant Issues Arising**

In the majority of instances, the issues identified and recommendations made are at a relatively low and detailed level, in themselves not significant enough to warrant mention in an annual Statement on Internal Control.

The Internal Audit evaluation of Internal Control does, however, highlight areas in which the Council, during the 2004/05 financial year, did display weaknesses and a need to improve controls. These areas are illustrated and highlighted by the "gaps" in the Overview Chart and Evaluation Reports at Appendix B. It is fair to say that attention has already been given to these issues and a lot of progress has been made since the Internal Audit review was undertaken. This is reflected in the report on the draft Statement on Internal Control & Corporate Governance, elsewhere on the agenda.

Main messages arising during the 2004/05 financial year were:

Area	Key Messages
Statutory Obligations	<ul style="list-style-type: none"><li>• Good arrangements in place for establishing statutory obligations</li><li>• Explore ways of ensuring that legal responsibilities are effectively communicated and understood throughout the Council</li></ul>
Corporate Objectives	<ul style="list-style-type: none"><li>• Continue to develop corporate policy and financial planning arrangements.</li></ul>
Corporate Governance	<ul style="list-style-type: none"><li>• Consider arrangements for reviewing and monitoring the Council's Code of Corporate Governance</li><li>• Continue to raise awareness of Corporate Governance issues and expectations</li></ul>
Performance Management	<ul style="list-style-type: none"><li>• Need to develop and implement clear corporate performance management arrangements</li></ul>
Risk Management	<ul style="list-style-type: none"><li>• Need to continue with the implementation of risk management procedures and principles.</li></ul>
Internal Control	<ul style="list-style-type: none"><li>• Generally good arrangements in place;</li><li>• Need to develop service/business continuity plans.</li></ul>
Assurance	<ul style="list-style-type: none"><li>• Continue to develop and refine arrangements for identifying, coordinating and reviewing potential sources of assurance.</li></ul>
Statement on Internal Control	<ul style="list-style-type: none"><li>• Formalise arrangements for producing future years' Statements</li></ul>

### **Future Developments**

Internal Audit's review of the Internal Control Framework for 2004/05 has focussed on identifying the existence of relevant arrangements and controls. Future reviews will seek to provide more in-depth evaluation of the effectiveness of those arrangements.

### **FINANCIAL IMPLICATIONS**

None arising from this report

### **LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments.

### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments to add

### **SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

### **BACKGROUND PAPERS**

Internal Audit Plan 2004/05

## Appendix A

### Internal Audit Plan 2004/05 – Reports Issued

Audit No	Title	Report Date	Reported to Audit Committee
<b>Financial Systems Audits</b>			
565	Housing & Council Tax Benefits	08/11/04	26/01/05
588	Payroll	Ongoing	
557	Purchasing	16/06/04	29/07/04
584	Financial Management	Ongoing	
568	Internet & Telephone Payments	27/06/05	27/07/05
<b>Computer Audits</b>			
560	Software Licensing	29/09/04	26/01/05
<b>Management Arrangements</b>			
523	Public Relations & Communications	16/06/04	28/07/04
571	Best Value	01/09/05	Tba
582	Corporate Governance & SIC	Framework development	19/10/05
587	Electronic Government	17/08/05	Tba
575	Project Management	Ongoing	
<b>Operational Audits</b>			
585	DDA & Race Equality in Recruitment	Ongoing	
540	Supported Housing Services	13/01/05	26/01/05
552	Leisure Management	16/07/04	28/07/04
567	Planning	13/04/05	27/07/05
538	Contaminated Land	16/07/04	28/07/04
583	Museums Partnership	Ongoing	
510	Economic Development, Marketing & Promotion	10/11/04	26/01/05
514	Grants Management	17/01/05	27/07/05
511	Markets	09/09/04	26/01/05
589	Management of Commercial Properties	Ongoing	
537	City Centre Development & Management	15/07/04	20/07/04
531	Members & Civic Expenses	01/02/05	27/07/05
<b>Proactive Audit Work</b>			
547	Risk Management	Strategy development	
546	Procurement Strategy	Strategy development	
562	Performance Management	Support	
478	Partnership Arrangements	Evaluation Guidance, etc	
574	Fraud & Corruption	Development of Risk Registers	