

# AUDIT COMMITTEE

## Internal Audit Annual Report 2005/06

28 June 2006

### Report of Internal Audit Manager

#### PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2005/06 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

**This report is public**

#### RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.10 to 2.14) be accepted and considered in relation to the proposed Statement on Internal Control & Corporate Governance (presented elsewhere on this agenda).

#### 1.0 Introduction

- 1.1 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 currently 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 contributing to the Council's responsibility to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

#### 2.0 Proposal Details

- 2.1 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.

## **Annual Audit Plan 2005/06**

2.2 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 2005/06 contained 34 audit assignments, and 960 days of Internal Audit work. The workload during 2005/06 also included the completion of 8 audits from the 2005/06 audit plan which were in progress at 31 March 2005. A summary of the final position for the year is set out in the following table, with a list of audit reports issued during the period attached at Appendix A.

Area of activity	Original Plan		Actual	
	No of Assignments	Days	No of Assignments	Days
Advice & Support	n/a	100	n/a	188
Planning & Monitoring	n/a	42	n/a	48
Computer Audit	2	40	1	18
Investigations	n/a	35	n/a	37
General Contingency	n/a	45	n/a	0
Follow Up Reviews	n/a	70	n/a	69
Financial Systems	18	238	14	169
Management Arrangements	15	320	13	315
Non-Audit Duties	n/a	5	n/a	4
Operational Audits	7	65	5	51
Totals	42	960	33	899

### **Explanation of Major Variances**

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

- An intensive piece of work led by the Principal Auditor to gather information for and co-ordinate the Council's Use of Resources self-assessment in preparation for the Audit Commission's external assessment. This work (included in the "Advice and Support" heading) took 38 days.
- During the Procurement Officer's period of maternity leave, cover for certain day-to-day activities was provided by the Principal Auditor, accounting for 12 days work.
- Arrangements with Lancashire County Council to provide audit resources, particularly regarding Computer Audit work were delayed by staffing changes at County. Ten days work were provided at a cost of £3,000 out of the consultancy budget of £18,000.

2.4 In reviewing the plan during the year, the following adjustments were approved by the Audit Committee at its meeting on 25 January 2006:

- Postponing work on documenting and flowcharting the Income Management, Job Management, Asset Management and some aspects of Housing Benefits to the 2006/07 plan.
- Postponing planned audits of partnership arrangements and fraud and corruption arrangements to the 2006/07 plan.

- Due to operational considerations in the services concerned, audits of licensing and of renewal (Strategic Housing) were postponed to the 2006/07 plan.

2.5 In terms of specific planned audit assignments, 33 audits were undertaken compared with 42 included in the approved plan or continuing from 2005/06 (76%). In terms of resources devoted to planned audit activity (including advice, support, follow-ups and investigations), the final outturn was 841 days against the approved plan of 913 days (92%). As indicated in §2.3, the main factors behind this shortfall were the delayed arrangements with Lancashire County Council and the provision of cover for the Procurement Officer's maternity leave.

### **Quality Considerations**

2.6 Customer satisfaction with Internal Audit work is judged through managers' responses to a post-audit satisfaction survey sent out following the completion of each assignment. The questionnaire seeks views, expressed as scores on a range from 1 to 9, on sixteen aspects of the audit, covering aspects of communication and consultation, conduct, objectivity, reporting and impact of the work. Summary results from questionnaires returned over the past 24 months are demonstrated in Appendix B.

2.7 The summary represents the average scores obtained from 41 returned surveys. Against a target level of 8 for all aspects of the audit, only two have not been met (albeit marginally), these being questions 15 and 16 relating to risk management outcomes from the audit. This aspect of our work's effectiveness is therefore the priority for improvement and bears a direct relationship to the ongoing development of risk management arrangements throughout the Council.

2.8 At the time of writing, an Audit Commission report following a review of Internal Audit is being finalised and the results of this report will be presented to the next meeting of the Committee on 20 September 2006. It is also worth noting at this stage that, under a revision to the Accounts & Audit Regulations 2003, an annual review of Internal Audit will be expected. A report on options for fulfilling this requirement will also be presented to the next meeting of the Committee.

### **Results of Audit Work**

2.9 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.

### **Controls Assurance Statement**

2.10 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 results of follow-up reviews into previously completed audits. The reports contributing to this assurance statement are set out in Appendix A, showing the date of issue and date that they were considered by the Audit Committee.

## **Results of Internal Audit Assignments**

- 2.11 Our work on the Council's financial systems has indicated that 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.
- 2.12 In the assurance work undertaken, Internal Audit activity 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.
- 2.13 The support and proactive work undertaken by Internal Audit during 2005/06 has concentrated on a number of areas recognised by the Council as needing development, notably its Performance Management and Risk Management arrangements. In addition, Internal Audit has again been instrumental in reviewing and developing the Internal Control and Corporate Governance framework. All of these arrangements are key elements in the Council's review of the Internal Control and Corporate Governance framework and the current position is reflected in the evaluation undertaken and reported elsewhere on this meeting's agenda. Whilst Internal Audit has not produced a formal report in such areas, its views and knowledge have been fed into the evaluation process.

## **Results of Internal Audit Follow-Up Reviews**

- 2.14 Previously issued audit reports are subject to follow-up, normally six months after the date of the final report. In all cases, the results of these follow-up exercises are reported to the Audit Committee, and under recently revised arrangements, the Committee is undertaking a more active role in monitoring (and challenging where appropriate), the progress made in implementing agreed actions.
- 2.15 As with newly issued audit reports, the follow-up procedure has not identified any continuing control weaknesses of such significance that they would warrant disclosure in the Council's Statement on Internal Control & Corporate Governance.

## **3.0 Details of Consultation**

- 3.1 No specific consultation has been undertaken in compiling this report.

## **4.0 Options and Options Analysis (including risk assessment)**

- 4.1 The proposal is that the Committee accepts Internal Audit's assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

## **5.0 Conclusion**

- 5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2005/06 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating a significant level input and contribution to the development of a number of key systems and processes.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

**FINANCIAL IMPLICATIONS**

None arising from this report.

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has been consulted and has no further comments.

**LEGAL IMPLICATIONS**

None arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Internal Audit Plan 2005/06  
Internal Audit Files

**Contact Officer:** Derek Whiteway

**Telephone:** 01524 582045

**E-mail:** [dwhiteway@lancaster.gov.uk](mailto:dwhiteway@lancaster.gov.uk)

**Ref:** aud/ctte/aud/0506/28June06

## Appendix A

### Internal Audit Plan 2005/06 – Reports Issued

<b>Audit No</b>	<b>Title</b>	<b>Report Date</b>	<b>Reported to Audit Committee</b>
<b>Financial Systems Audits</b>			
04/0568	Cash & Banking (Internet & Automated Telephone payments)	27/06/05	27/07/05
04/0588	Payroll - Salaried Employees and Officer Expenses	02/11/05	25/01/06
05/0600	NDR 2005/06	07/12/05	25/01/06
04/0584	Financial Management	27/01/06	26/04/06
05/0597	Treasury Management	20/02/06	26/04/06
05/0626	Housing Benefits 2005/06 (Claims Security)	25/04/06	28/06/06
05/0615	Council Tax 2005/06	02/05/06	28/06/06
05/0606	Income Tax and National Insurance	10/05/06	28/06/06
<b>Computer Audits</b>			
04/0587	Electronic Government 2004/05	17/08/05	25/01/06
<b>Management Arrangements</b>			
04/0585	DDA and Race Equality compliance in relation to recruitment	22/12/05	25/01/06
04/0571	Best Value	02/12/05	25/01/06
04/0575	Project Management	20/04/06	28/06/06
<b>Operational Audits</b>			
04/0567	Planning	13/04/05	27/07/05
05/0602	Arnside and Silverdale A.O.N.B. Unit	27/03/06	26/04/06
<b>Follow Up Reports</b>			
03/0526	Fraud & Corruption	26/05/05	27/07/05
03/0552	Leisure Management	01/06/05	27/07/05
03/0470	Salt Ayre Leisure Centre	01/06/05	27/07/05
04/0565	Housing Benefits & Council Tax Benefits	07/06/05	27/07/05
03/0505	Personnel Management	01/07/05	27/07/05
03/0524	Car Parking - Provision and Control	20/07/05	25/01/06
03/0538	Contaminated Land	20/07/05	25/01/06
03/0510	Economic Development - Marketing and Promotion	19/08/05	25/01/06

**Follow Up Reports (contd)**

04/0567	Planning	21/11/05	25/01/06
04/0560	Software Licensing	23/12/05	25/01/06
03/0537	City Centre Development and Management	06/01/06	26/04/06
03/0557	Ordering, Receiving and Payments	26/01/06	26/04/06
02/0496	Financial Management	27/01/06	26/04/06
04/0568	Cash and Banking (Internet and ATP)	14/02/06	26/04/06
03/0527	Vehicles and Plant	02/02/06	26/04/06

**Proactive Audit Work 2005/06**

05/0595	Performance Management	Contributing to the development of the newly adopted performance management framework.
05/0594	Risk Management Strategy Implementation	Continuing the implementation of the Risk Management strategy and the development of risk registers and management arrangements.
05/0593	Procurement Strategy Development	Contributing to the ongoing development of the strategy and implementation of revised procurement policies and processes.