

# AUDIT COMMITTEE

## Internal Audit Annual Report 2006/07

27 June 2007

### Report of Internal Audit Manager

#### PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2006/07 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 2.14 to 2.19) 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). The Code of Practice for Internal Audit<sup>1</sup> specifies that the Head of Internal Audit must "... provide a written report to those charged with governance timed to support the Statement on Internal Control". The report and assurance statement thus makes a significant contribution to the Council's statutory duty 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 and operates and reports in accordance with an approved Audit Charter.

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<sup>1</sup> Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)

## **Annual Audit Plan 2006/07**

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2006/07 contained 34 specific audit assignments, and 924 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 audit reports issued during the period attached at Appendix A.

Area of activity	Original Plan		Actual	
	No of Assignments	Days	Reports Issued	Days
Advice & Support	n/a	185	n/a	225
Planning & Monitoring	n/a	45	n/a	55
Computer Audit	2	50	1	27
Investigations	n/a	35	n/a	49
General Contingency	n/a	45	n/a	0
Follow Up Reviews	n/a	70	n/a	60
Financial Systems	13	126	13	183
Management Arrangements	7	150	5	127
Non-Audit Duties	n/a	5	n/a	4
Operational Audits	12	153	6	117
Efficiency & VfM	n/a	60	n/a	15
Totals	34	924	25	862

## **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 in developing and implementing the corporate project management methodology “LAMP” which was launched on 01 April 2007. This work (included in the “Advice and Support” heading) accounted for approximately 55 more days than originally planned.
- The long-term sickness absence of the Principal Auditor, which reduced the available audit resources by approximately 43 days.
- The completion of a number of financial systems audits in progress at 31 March 2006 added approximately 30 days to the plan.
- Work in relation to the Council’s efficiency and Value For Money (VfM) arrangements did not materialise as envisaged.

- 2.4 In reviewing the plan during the year, the following adjustments were approved by the Audit Committee at its meeting on 24 January 2007:

- Postponement of Efficiency & VfM work (projects & reviews) – 40 days
- Postponement of unallocated Computer Audit work – 40 days
- Savings on Risk Management and Performance Management – 15 days
- Postponement of Workforce Management Strategy audit – 15 days

- 2.5 In terms of specific planned audit assignments, 25 audit reports have been issued compared with the 34 scheduled audits included in the approved plan (74%). In addition to the plan adjustments approved by the Audit Committee (see § 2.4), the following scheduled audits are either still in progress at the time of writing or have been postponed to the 2007/08 plan:
- Partnership arrangements
  - Risk management
  - Performance management
  - Renewal (Strategic Housing)
  - Environmental protection
  - Licensing
  - Elections and electoral registration
  - Facilities management
- 2.6 It will be seen from Appendix A that there are a number of reports that have been issued but have yet to be considered by Audit Committee. The majority of these are reports originally scheduled to be considered at the meeting on 25 April 2007, which was cancelled. A few other reports have been issued since that date, but none have yet been issued to the newly appointed members of the current Committee. It is proposed to issue these reports following this meeting for them to be considered at the next meeting on 19 September 2007.
- 2.7 In terms of resources devoted to planned audit activity (including advice, support, follow-ups and investigations), the final outturn was 862 days against the approved plan of 924 days (93%). As indicated in §2.3, the main factor behind this shortfall was the long-term sickness of the Principal Auditor.

### **Quality Considerations**

- 2.8 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.
- 2.9 The summary represents the average scores obtained from 12 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 position reflects the responses received in previous years and therefore remains an issue for improvement.
- 2.10 During 2006/07, the Audit Commission published a report into their three-yearly review of Internal Audit, which was presented to the Audit Committee on 20 September 2006. The Audit Commission's conclusion commented: *"Overall, the extent and quality of coverage by Internal audit means that we can place reliance on their work for the purposes of our audit. We consider internal audit to be an effective part of the Council's arrangements for ensuring economy, efficiency and effectiveness through its role in the Council's systems of internal control. Internal audit demonstrate good practices in many areas and are well respected within the Council."*

- 2.12 The report did result in a number of actions which were agreed to further raise the standards attained by Internal Audit. A number of these related to the development of the Internal Audit Strategy document included elsewhere on the agenda. A formal update of progress with the actions agreed in the report will be provided to the next meeting of the Committee.

### **Results of Audit Work**

- 2.13 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**

- 2.14 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute 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**

- 2.15 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.
- 2.16 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 any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions.
- 2.17 The support and proactive work undertaken by Internal Audit during 2006/07 has concentrated on a number of areas recognised by the Council as needing development, notably its arrangements for managing significant projects. In addition, Internal Audit has again been instrumental in reviewing and developing the Internal Control and Corporate Governance framework. 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**

- 2.18 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 the Committee undertakes an active role in monitoring (and challenging where appropriate), the progress made in implementing agreed actions.

2.19 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 2006/07 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 2006/07  
Internal Audit Files

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## Appendix A

### Internal Audit Plan 2006/07 – Reports Issued

<b>Audit No</b>	<b>Title</b>	<b>Report Date</b>	<b>Reported to Audit Committee</b>
<b>Financial Systems Audits</b>			
05/0616	Main Accounting 2005/06	16/05/06	28/06/06
05/0598	Sundry Debtors 2005/06	09/06/06	20/09/06
05/0596	Payroll 2005/06	01/09/06	24/01/07
06/0639	Stores	05/12/06	24/01/07
06/0636	VAT	07/12/06	24/01/07
06/0641	Income Management	26/01/07	
06/0650	Council Tax 2006/07	07/02/07	
06/0651	Treasury Management 2006/07	20/02/07	
06/0655	Housing Benefits and Council Tax Benefits 2006/07	05/04/07	
06/0648	NNDR 2006/07	16/01/07	
06/0647	Creditors 2006/07	27/04/07	
06/0661	Sundry Debtors 2006/07	29/05/07	
06/0664	National Fraud Initiative	29/05/07	
<b>Computer Audit</b>			
06/0643	Information Security Development	24/01/07	
<b>Management Arrangements</b>			
05/0609	Performance Management	10/07/06	20/09/06
05/0604	Health and Safety	31/08/06	24/01/07
05/0610	Internal Communications	03/11/06	24/01/07
06/0667	Risk Management	Not yet issued	
06/0669	Performance Management	Not yet issued	
<b>Operational Audits</b>			
05/0607	Regeneration Programmes	25/07/06	20/09/06
06/0638	Homelessness and Housing Advice	02/03/07	
06/0635	Tourism	27/03/07	
06/0652	Waste Management	05/03/07	
06/0631	Housing Repairs & Maintenance	25/04/07	
06/0642	Building Control	29/05/07	

### **Follow Up Reports**

05/0600	NNDR 2005/06	20/06/06	20/09/06
04/0571	Best Value	10/07/06	20/09/06
04/0588	Payroll 2004/05	15/08/06	20/09/06
05/0597	Treasury Management	08/09/06	24/01/07
03/0540	Supported Housing	12/19/06	24/01/07
03/0514	Grant Management	15/09/06	24/01/07
04/0531	Members and Civic Expenses	02/10/06	24/01/07
05/0615	Council Tax	04/10/06	24/01/07
04/0584	Financial Management	06/11/06	24/01/07
04/0585	DDA & Race Relations Compliance	04/12/06	24/01/07
05/0602	AONB	18/12/06	24/01/07
05/0616	Main Accounting	26/01/07	
05/0606	Creditors	21/02/07	
05/0596	Payroll 2005/06	26/02/07	
05/0598	Sundry Debtors	27/02/07	
05/0606	Income Tax & National Insurance	12/02/07	
06/0641	Income Management	01/05/07	

### **Proactive Audit Work 2005/06**

06/0628	Corporate Project Management Development	Contributing to the ongoing development of corporate project management (LAMP)
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