



Annual Report

2005/06

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Introduction

The Accounts and Audit Regulations 2003 and subsequent CIPFA Code of Internal Audit Practice (the Code) require Internal Audit to report annually to *'those charged with governance'* on their findings and conclusions and provide an overall opinion on the effectiveness of the internal control environment. This opinion can be used to support the Statement of Internal Control which is a statutory requirement of the Act.

In order to give validity to this opinion Internal Audit must be managed and conducted in accordance with 'proper internal audit practices' as per the Code and therefore the first part of this report contains a self-assessment on the Section's compliance with the key elements of the Code. An independent assessment of compliance with the Code will be carried out by the Audit Commission in their review of Internal Audit and their findings will be included in the Annual Audit Letter and reported to Council.

It is important to be aware that the system of internal control is designed to manage risk to a reasonable level rather than eliminate it altogether and therefore this report and my opinion can provide only reasonable assurance on the effectiveness of internal control.

The overall opinion contained in this report is my own, which I have prepared without fear or favour and which is based upon the findings of internal audit work carried out throughout the 2005/06 year.

CIPFA Code of Practice

The Code is recognised by the Accounts and Audit Regulations as the definition for 'proper audit practices' and consists of ten standards, five organisational and five operational. Only when internal audit work is managed and conducted in accordance with the Code can it be deemed as being of sufficient quality to inform an annual report and the Council's Statement of Internal Control. Where internal audit is not managed or operated in accordance with the Code then the reliability of opinions and the level of assurance provided may be compromised.

Self-assessment against the 10 standards

I have performed a self assessment of Internal Audit's compliance with the Standards and my findings are as follows.

	Standard	Assessment
1	Scope of Internal Audit	Compliance
2	Independence	Compliance
3	Audit Committees or equivalents	Compliance
4	Relationships with management, other auditors and other review bodies	Compliance
5	Staffing, training and development	Compliance
6	Audit Strategy	Compliance
7	Management of audit assignments	Compliance
8	Due professional care	Compliance
9	Reporting	Compliance
10	Quality assurance	Compliance

The result of my self-assessment is that Chester-le-street Internal Audit Section **DOES** comply with the ten standards of the CIPFA Code of Practice for Internal Audit.

Compliance with the Code was a significant milestone for the Section and was achieved during 2004/05 from a base of non-compliance as at March 2004. However a revised Code is due to be issued from CIPFA during 2006 which includes revisions to existing standards and one additional standard. The current service planning process will present a mechanism for the Section to ensure continued compliance for 2006/07.

Internal Audit performance against the 2006 Audit Plan

The performance of Internal Audit against the Audit Plan is reported on a quarterly basis to the Audit Committee. During 2005/06 there was a failure to meet the number of productive audit days because of one full-time vacant post and an on-going maternity leave in the section. Although all planned activities on material systems were achieved, the vacancies meant that the numbers of days available for other audits were subsequently reduced.

Activity	Planned	Actual
Planned audits	553	323
Investigations & advice	110	106
Management	80	80
Total productive days	743	509
Non productive	297	531
Total available days	1040	1040

Performance indicators

Internal Audit set three local performance indicators in its 2006 Service Plan.

Performance Indicator	Target	Out turn
Percentage of productive days	60% (planned for 70%)	50%
Percentage of recommendations agreed	80%	97%
Percentage achievement of the 2005 Audit Plan	90%	69%

Results of audit assignments

On conclusion of each assignment a report is produced which evaluates the control environment under review and gives one of four opinions on the effectiveness of the control environment. These opinions are discussed and agreed with the relevant manager and they are: 1- ineffective, 2- adequate, 3- effective and 4-strong.

During 2005/06 Internal Audit have given the following opinions:

Score and opinion 2004/05		Audit assignment	Score and opinion 2005/06	
		MATERIAL SYSTEMS		
2	Adequate	Housing Benefits & Rent Allowances	3	Effective
2	Adequate	Cash & Banking	3	Effective
3	Effective	Council Tax and NDR	2	Adequate
1	Ineffective	Accounts Payable (Creditors)	2	Adequate
2	Adequate	Accounts Receivable(Debtors)	2	Adequate
1	Ineffective	Main Accounting	2	Adequate
3	Effective	Rent Collection & Accounting	4	Strong
1	Ineffective	Best Value Performance Indicators	3	Effective
2	Adequate	Loans and investments	3	Effective
2	Adequate	Payroll	2	Adequate
		IT Controls	3	Effective
1.9		MATERIAL SYSTEMS AVERAGE	2.6	
		Fleet Management	2	Adequate
		Debt Recovery	1	Ineffective
		Target Hardening Scheme	1	Ineffective
		Contractor selection by value (post audit review)	2	Adequate
		Selection of Partners for HRA Capital	3	Effective
		Tender Evaluation – Stock Condition Survey	3	Effective
1.8		OVERALL AVERAGE	2.4	

During 2004/05 Internal Audit made 77 recommendations (102 in 2005) to address identified weaknesses in internal control and all of these were initially accepted by managers.

However during the year 2 recommendations were disputed by managers who no longer agreed that the original agreed action was appropriate and 3 agreed actions remain outstanding. Audit Committee has received update reports on all 5 of these recommendations and has required managers to attend Audit Committee to discuss the issues. Audit Committee approved both of the revised agreed actions and ensured that action plans for the implementation of the 3 outstanding recommendations are in place and are being monitored.

Advice and consultancy service

During the year Internal Audit have reacted to 3 allegations of irregularity (6 in 2005/06), of which one was discontinued after initial investigations failed to reveal sufficient evidence to justify any further work. The 2 remaining investigations were pursued and one was dealt with as a disciplinary action and the other referred to the police for further investigation.

Internal Audit acts in an advisory capacity and during the year have replied to 57 requests for advice (58 in 2005). In the main this advice still relates to advice on procurement matters and the requirements of the Financial Regulations and Standing Orders relating to Contracts but advice on other issues such as consultation on policy and procedure development and more general issues of internal control have also been provided.

Internal Audit also acted in an advisory capacity on the implementation of the new income 'point of sale' system for the leisure department providing advice to leisure staff and assurance to Audit Committee prior and post 'go-live'.

Key findings

During 2004/05 I reported that financial control was an area of risk, with significant weaknesses in the management of both capital and revenue expenditure. I am happy to report that there has been progress in the effectiveness of the overall financial control framework. This began with the introduction of revised and more comprehensive Financial Regulations which was followed by training for users and the implementation of a restructure.

Another area where there was also significant improvement was the selection of contractors by the Housing Department. Two separate assignments to provide assurance on selection processes were commissioned and in each instance I was able to provide reasonable assurance that the procedures and controls were sound.

Overall Opinion

No system of internal control can provide absolute assurance against material misstatement or loss and nor can Internal Audit give that assurance. This statement is designed to provide reasonable assurance on the adequacy of the control environment.

It is my opinion that during the course of 2005/06 the control environment has been improving to a position where it is **more than adequate**. I am satisfied that there are sufficient and robust action plans in place to rectify the weaknesses that have been identified and I am confident that the Audit Committee will support my actions to ensure that those plans are implemented as agreed.

Jacqueline McConnell
Chief Internal Auditor