

26TH JUNE 2006

**REPORT OF HEAD OF
FINANCIAL SERVICES**

Portfolio: STRATEGIC LEADERSHIP

Subject: INTERNAL AUDIT SERVICE – ANNUAL REPORT 2005/06

1. SUMMARY

- 1.1 The Accounts and Audit Regulations 2003 require the Council to maintain an adequate and effective system of internal audit of accounting records and control systems, as well as imposing the requirement to publish a Statement of Internal Control (SIC) on an annual basis. The SIC must be supported by comprehensive evidence that the features of a good internal control system are working. Additionally, the statutory duty placed upon the Director of Resources, as the responsible financial officer by virtue of Section 151 of the Local Government Act 1972, for ensuring the proper administration of financial affairs is, in part, achieved by satisfactory performance of the Internal Audit Service.
- 1.2 Overview and Scrutiny Committee 1 approved a report on the planned work of the Internal Audit Service for 2005/06 on the 29th March 2005. The half-yearly report on work undertaken was considered on 22nd November 2005. The Committee also received reports on 30th August 2005 on Risk Management and Statement of Internal Control, these being two areas of particular relevance to the Council's control environment. This report covers the work carried out during the year ended 31st March 2006, with relevant comments on specific areas of activity.

2. RECOMMENDATION

- 2.1 It is recommended that the report on Internal Audit Service work in 2005/06 be noted.

3. AUDIT ACTIVITY 1ST APRIL 2005 TO 31ST MARCH 2006

- 3.1 The Audit Plan approved on 29th March 2005 scheduled a total of 812 days for the year.
- 3.2 The final outturn report at Appendix 1 shows a total of 904 days were actually achieved in the year.

3.3 *Systems and Regularity Audit*

All the major areas of work included in the Plan were either examined in the year or completed early in this current year, in accordance with anticipated year-end pressures. The Audit Plan for 2006/07 reflects the latest expected audit requirements following the work done in 2005/06. Reports have been issued for all audits undertaken in the year, with findings discussed with the relevant managers and appropriate actions agreed. I am pleased to report that there are no significant matters that need to be brought to the attention of this Committee in relation to the systems and regularity audit work.

3.4 *Performance Management*

The Council's Key Performance Indicators were reported to Strategic Working Groups on a quarterly basis. Many of these were examined during the year and the calculations were generally satisfactory. The systems within departments to monitor performance must continue to develop in recognition that performance management is more than preparation of Performance Indicators. The departmental review processes have been highlighted as part of the Statement of Internal Control (SIC) requirements as well as being an essential feature of the Key Lines of Enquiry (KLOE) and Comprehensive Performance Assessment (CPA).

3.5 *Financial Management Information Systems (FMIS)*

This major system, introduced in April 2004, continues to be developed and enhanced to provide high quality and timely budgetary information to all managers. Of course financial management arrangements are also an essential area of the Comprehensive Performance Assessment.

3.6 *Risk Management*

Internal Audit continued its close involvement in the development of the Council's risk management policies. Efforts to embed risk management into the Council's processes have continued and the Risk Management Group has instigated the development of a wide range of issues. An electronic risk register was acquired during the year and it is essential that the risks facing all services are identified and action plans developed. The risk register will assist in the demonstration of an increasing awareness of risk management around the Council.

3.7 *Data Matching*

The results of the National Fraud Initiative Data Matching exercise completed by the Audit Commission were made available to all local authorities during the year. These were examined and all issues resolved satisfactorily. Another similar exercise is anticipated to take place during 2006/07.

3.8 *Energy Management*

Internal Audit continued its involvement in energy contracting and management matters. The increasing costs of energy necessitate an active management approach and an Energy Task Group has been established to develop energy management practices.

4. CORPORATE GOVERNANCE

- 4.1 The Council has historically had strong governance arrangements and these are being reinforced by the continuing efforts to further enhance the risk management and performance management arrangements, including development of the Statement of Internal Control requirements.
- 4.2 The Accounts and Audit Regulations 2003 introduced the requirements for a formal Statement of Internal Control (SIC) to be prepared by the Council. Full compliance with the requirements will help to demonstrate that quality corporate governance arrangements are in place around the Council. The working group set up during 2005/06 continues to meet to develop a wide range of issues within each department, and to ensure that appropriate evidence is available to satisfy audit / inspection review.
- 4.3 Any significant issues highlighted during the SIC review processes will be prioritised within Internal Audit to ensure resolution at an early date.
- 4.4 My half-year report confirmed that several internal control matters had been satisfactorily resolved. With regard to the matter of value for money in relation to Housing Property Works, the development of the Housing Service Improvement Plan has included a range of actions being taken to improve performance management across the service. The Director of Housing is currently preparing a revised strategy for the delivery of the Housing Property Works activities. The Housing Inspectorate Key Lines of Enquiry assessment criteria also includes performance management and value for money issues.

5. AUDIT COMMISSION REVIEW OF INTERNAL AUDIT

- 5.1 The Audit Commission reviewed the Internal Audit Service against the new CIPFA Code of Practice for Internal Audit. Three areas were highlighted, relating to controls testing, formal audit strategy and Information Technology audit approach, and these are being considered.

6. STAFFING

- 6.1 The Internal Audit Plan for 2005/06 was based upon an establishment of 5 posts. It is expected that a trainee appointment will take place during 2006/07.

7. RESOURCE IMPLICATIONS

- 7.1 There are no resource implications.

8. CONSULTATION

- 8.1 The Audit Plan has been delivered following consultation and cooperation of managers around the Council.

9. OTHER MATERIAL CONSIDERATIONS

Internal Audit Service – Annual Report 2005-06

9.1 *Links to Corporate Objectives/Values*

The Internal Audit activity effectively supports all services in the delivery of the Council's priorities, together with the reinforcement of the need for accountability for public finances.

9.2 *Risk Management*

Much of the work undertaken by Internal Audit relates to minimising the risk to the Council of major system problems and failure of the internal control arrangements. Activity is directed towards providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.

Audit efforts to embed good risk management practices around the Council will continue to form a significant element of work undertaken. Of course, the full cooperation of management across the Council is essential to the maintenance of good quality governance, including risk management.

9.3 *Health and Safety*

No additional implications have been identified, beyond those contained within the Risk Management development work around the Council.

9.4 *Equality and Diversity*

No material considerations have been identified.

9.5 *Legal and Constitutional*

The Audit Plan recognises the statutory framework associated with services, the corporate governance framework, as well as the Council's constitutional arrangements.

9.6 *Other Material Considerations*

No other material considerations have been identified.

10. OVERVIEW AND SCRUTINY IMPLICATIONS

- 10.1 Following the establishment of the Audit Committee with effect from May 2006, the Council's Internal Audit Service will be reported to and monitored by the Audit Committee.

11. LIST OF APPENDICES

- 11.1 Internal Audit Plan Man Days 2005/06.

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Ward(s): Not Ward Specific

Key Decision Validation:

Background Papers: Scrutiny Committee 1 – 29th March 2005 –
Internal Audit Plan 2005/06
Scrutiny Committee 1 – 30th August 2005 –
Risk Management Progress Report 2004/05
Statement of Internal Control
Scrutiny Committee 1 – 22nd November 2005
Internal Audit Plan 2005/06 – Half-Year Report

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

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