

Item 6

AUDIT COMMITTEE

25TH JUNE 2007

REPORT OF DIRECTOR OF RESOURCES

PORTFOLIO : STRATEGIC LEADERSHIP

SUBJECT : INTERNAL AUDIT SERVICE – ANNUAL REPORT 2006/07

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 on 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 2006/07 on 10th April, 2006 (Minute Ref: OSC(1)44/05). The half yearly report on the work undertaken was considered by the Audit Committee on 30th October, 2006. This report provides performance information for the full year, with details of specific areas of work undertaken in the second half of the year.
- 1.3 The scheduled Audit Plan anticipated 915 man-days and a total of 909 days were actually achieved in the year.

2. RECOMMENDATIONS

- 2.1 That the report on Internal Audit Service work in 2006/07 be noted.
- 2.2 That half yearly reports for 2007/08 be reported to the appropriate meetings of this Committee.
- 2.3 That any relevant audit matters be reported to the quarterly meetings of this Committee.

3. AUDIT ACTIVITY 1ST APRIL, 2006 – 31ST MARCH, 2007

- 3.1 The Audit Plan approved on 10th April, 2006 scheduled a total of 915 days for the year.
- 3.2 The final outturn report at Appendix 1 shows a total of 909 days were actually achieved in the year.
- 3.3 Highlighted below are some of the major areas of work undertaken together with commentary on the key audit/control issues affecting the Council, which will require the continuing involvement of the Internal Audit staff.

3.4 Systems and Regularity Audit

3.4.1 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 2007/08 reflects the latest expected audit requirements following the work done in 2006/07.

3.4.2 There were 75 “formal audit reports issued during the period with 39 confirming that there were satisfactory arrangements in place.

Within the 36 reports issued where recommendations had been made, there were a total of 45 classified as being of “high importance”, and 26 of “medium importance”.

3.4.3 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers, and have been implemented in accordance with agreed action plans.

3.4.4 Details are shown in the Appendix which provides a brief summary of matters identified as part of the work undertaken by the Internal Audit team. The Appendix, together with the following paragraphs, are intended to give a flavour of the wide range of activities covered by the Audit team and the matters which may arise from the work performed. Members will note that the Appendix details positive progress being made in the resolution of the matters highlighted.

3.5 Corporate Governance

3.5.1 The Council has historically had strong governance arrangements and these are constantly under review to ensure a continuing relevance. Areas such as risk management, internal control arrangements, Constitution rules and performance management are key to the

Council's operations, and efforts continue to be made around the Council to ensure the highest possible standards.

3.5.2 The continuing development of the SIC requirements, which were introduced by the Accounts and Audit Regulations, 2003, will help demonstrate that quality governance arrangements are in place around the Council. The SIC features are important also to Key Lines of Enquiry (KLoE) and Comprehensive Performance Assessment (CPA).

3.5.3 Whilst Central Government's demands in relation to the performance improvement agenda continue to develop and change, the fundamental features of Corporate Governance must be maintained at the highest levels. Internal Audit will continue its interest in this crucial area.

3.6 **Financial Management System**

3.6.1 This major system continues to be developed and enhanced to provide high quality and timely budgetary information to all Managers around the Council.

3.7 **Risk Management**

3.7.1 Internal Audit continued its close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes continued and the Risk Management Group has helped to develop a range of issues.

3.7.2 The need to formally undertake a review of the Council's strategic risk position was identified during the year. Following the initial work with senior management to identify areas of risk, a Strategic Risk Group was established in 2007 and work is progressing on the priority risks to ensure that these risks to the Council are minimized. This work will continue through 2007/08 year.

3.7.3 This Committee considered a progress report on risk management in January 2007, and the recommendations made to Cabinet were accepted.

3.8 Data Matching

3.8.1 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 were progressed as necessary. Some cases of overpaid Housing and Council Tax Benefit have been resolved and several cases are being further examined by the Department of Work and Pensions.

3.9 Energy Management

3.9.1 Internal Audit continued its involvement in energy contracting and management matters. The Council's energy arrangements continue as a priority area, where energy costs are approximately £1,000,000 per annum. Audit resources will continue to be deployed to ensure value for money on energy contracts.

3.9.2 Energy efficiency must be a priority area and an Energy Task Group has been established to progress energy initiatives, including the important area of energy monitoring.

4. STAFFING

4.1 The Audit Plan for 2006/07 was developed on the basis of five posts being available for the first half year with one vacancy being filled in September, 2006. The graduate trainee appointed to this vacancy in August, 2006 left the Council in January, 2007 with a replacement being made in February, 2007.

4.2 The structure of the Financial Services Division of the Resources Department, is currently under review.

5. RESOURCE IMPLICATIONS

5.1 Whilst this report has no direct implications for resources, The Plan work undertaken could lead to additional costs or savings in relation to service provision.

6. CONSULTATION

6.1 The Audit Plan has been prepared and delivered following consultation with Managers around the Council.

7. OTHER MATERIAL CONSIDERATIONS

7.1 Links to Corporate Objectives/Values

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

7.2 Risk Management

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

- 7.2.2 Audit efforts to help embed good risk management priorities around the Council will continue to form a significant element of work undertaken. Of course, the full co-operation of management across the Council is essential to the maintenance of good quality governance, including risk management.

7.3. Equality and Diversity

No material considerations have been identified.

7.4 Legal and Constitutional

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

7.5 Other Material Considerations

Issues associated with procurement and efficiency are addressed within a wide range of audit activities.

8. LIST OF APPENDICES

- 8.1 Appendix 1 – Summary of Audit Work – April 2006 – March 2007.

Contact Officer: Dennis McKinnell
Telephone No: (01388) 816166 ext 4245
Email Address: dmckinnell@sedgefield.gov.uk
Ward(s): Not ward specific

Key Decision Validation: Not Applicable

Background Papers

1. **Overview and Scrutiny Committee 1 – 10th April, 2006**
Internal Audit Plan 2006/07
2. **Audit Committee – 26th June, 2006**
Statement of System of Internal Control and Corporate Governance
3. **Audit Committee – 30th October, 2006**
Internal Audit Service – Report for Half Year ended 30th September, 2006
4. **Audit Committee – 29th January, 2007**
Risk Management Progress Report 2006

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils 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 checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>