

Item 4

AUDIT COMMITTEE

5 November 2007

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

INTERNAL AUDIT SERVICE – REPORT FOR HALF YEAR ENDED 30 SEPTEMBER 2007

1. SUMMARY

- 1.1 The Internal Audit Plan for 2007/08 year was considered and approved by the Audit Committee on 23 April 2007 ((Minute ref: AC.32/06). This report deals with the first six months of audit activities, including the progress against the planned work and information on related areas of corporate governance.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 The half-yearly progress report is received.
- 2.2 A full year report be considered at the appropriate future meeting of this Committee.

3. AUDIT ACTIVITY 1 APRIL TO 30 SEPTEMBER 2007

- 3.1 The approved Audit Plan for 2007/08 scheduled a total of 911 man-days for the full year, with a first half-year performance of 431 days. A summary of the audit work carried out during the first half of the year is shown in the attached appendix and shows that a total of 377.5 days were achieved. The reason for the slight shortfall in Audit days is that the section has been operating with a staff vacancy during the year.
- 3.2 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.

3.3 Regularity Audit

- 3.3.1 The programme of regularity audit for the half-year, which forms the core of the Audit plan has been substantially completed. Those areas not finalised in the first half of the year included Contract Management & Monitoring and Housing Maintenance. It was decided to delay this review until decisions regarding future housing procurement options had been finalised. It is expected that these areas will be progressed shortly.
- 3.3.2 There were 37 formal audit reports issued during the period with 15 confirming that there were satisfactory arrangements in place.
- 3.3.3 Within the 22 reports issued where recommendations had been made there were a total of 32 classified as being of 'high importance', and 6 of 'medium' importance.
- 3.3.4 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers.
- 3.3.5 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. These items are intended to give a flavour of the wide range of activities covered by the Audit team and the matters that may arise from the work performed. Members will note that the appendix shows that positive progress has been made in the resolution of the matters highlighted.

3.4 Corporate Governance

- 3.4.1 The Council continues to have strong governance arrangements which are constantly under review to ensure 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 are achieved.
- 3.4.2 Revised Contract Procedure Rules have been formally adopted by the Council at its meeting in July 2007 (Minute ref: C.42/07). Compliance with the revised rules is a necessary feature of good governance arrangements and audit work will be scheduled to ensure that the Council operates within the requirements of the new Contract Procedure Rules.
- 3.4.3 Recent guidance has been issued by CIPFA / SOLACE regarding recommended best practice on governance in Local Government. The content of this new guidance is currently being examined with a view to revising, if necessary, the Council's Local Code of Corporate to reasonably reflect best practice.

3.5 Financial Management Information

- 3.5.1 This major system continues to be developed and enhanced to provide high quality and timely budgetary information to all managers.

3.6 Risk Management

- 3.6.1 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 have continued and the both Strategic and Operational Risk Management Groups continue to develop a wide range of issues. Risk is also a key feature of individual audits undertaken by the Audit team.

- 3.6.2 A review of the Council's Risk Management Policy and Strategy Statement has been undertaken by the Risk Management Group and these documents have been amended to take into account changes in the Council's corporate aims as well as a number of other amendments arising from the progress report previously considered by this Committee. Cabinet approved the revised Statement at its meeting on 26 April 2007.

- 3.6.3 Development work across all departments continues in relation to the major strategic risks affecting the Council. The risks initially identified have recently been re-focused to take into account the proposed structural changes associated with Local Government Review.

- 3.6.4 Risk assessment is carried out annually and facilitates the prioritising of audit work and targeting of resources where necessary. These risk areas will change in priority as services and circumstances themselves change; hence it is important to ensure that they are assessed at least annually. The risk assessment (noted in Appendix 1) does not include the main financial systems ; this is because the service has a commitment to ensure that all of these systems are audited on an annual basis without exception.

3.7 Statement on the Statement of Internal Control (SIC) and Corporate Governance

- 3.7.1 The Accounts and Audit Regulations 2003 introduced the requirement for a formal Statement on the system of Internal Control to be produced by the Council. The SIC for 2006/07 was considered by this Committee on 25 June 2007 (Minute ref: AC.6/07). Members will recall that the SIC was generally positive with updates provided on what progress had been made in dealing with issues raised in previous years. Audit work on the SIC is now concluded for 2006/07 and an unqualified opinion has been issued by the External Auditor.

- 3.7.2 So far as new issues are concerned, the SIC identified the importance of ensuring that effective energy monitoring arrangements are in place to ensure that consumption is reduced where possible. Development of the important features of SIC will continue through 2007/08 to ensure a satisfactory position is attained in respect of all aspects of the Council's control arrangements.

3.8 Energy Management

- 3.8.1 The Council's energy contracting arrangements are now consolidated via the North East Purchasing Organisation (NEPO), ensuring that value for money continues to be realised from the sophisticated energy marketplace. Whilst the contracting position is effectively resolved, the need for an increasingly efficient energy management function remains crucial.

4. STAFFING

- 4.1 The Audit plan for 2007/08 allows for 5.5 persons to deliver the work contained in the plan.
- 4.2 Following the Council's approval of the flexible retirement application from the Audit Manager, a review of the Financial Services division took place. The previous Audit Manager now occupies a part time post of Risk & Governance Manager, with the previous position of Policy and Finance Manager being redesignated as the Audit & Resources Manager and taking day to day management and responsibility for the Audit team.
- 4.3 The Audit team itself has been strengthened with the addition of a second Principal Auditor post, which has now been filled, to bring additional experience and skills; with a corresponding reduction in the number of Trainee Auditor posts from 4 to 3.
- 4.4 The Audit team is currently operating with a vacancy at the Trainee Auditor level and a second trainee has recently secured a job at a neighbouring authority and is due to leave at the end of November 2007. The staffing arrangements are currently being reviewed to ensure that the Internal Audit function continues to maintain the standard of service and that appropriate staffing is in place to carry out the work contained in the Audit Plan.

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 embed good risk management practices 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

- 7.3.1 No material considerations have been identified.

7.4 Legal and Constitutional

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

7.5 Other Material Considerations

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

8. LIST OF APPENDICES

- 8.1 Internal Audit Plan Mandays – April to September 2007

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Wards: Not ward specific
Key decision validation: Not applicable

Background Papers:

1. Audit Committee, Internal Audit Plan for 2007/08, 26 April 2007
2. Audit Committee, Statement on the System of Internal Control and Corporate Governance, 21 June 2007

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. The report has been approved by Management Team. | <input type="checkbox"/> | <input type="checkbox"/> |