

Item 8

AUDIT COMMITTEE

23rd MARCH 2009

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

Subject: INTERNAL AUDIT SERVICE – ANNUAL REPORT 2008-09 TO 1ST MARCH 2009

1. SUMMARY

- 1.1 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2006, in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 1.2 The Internal Audit Plan for 2008-09 year was considered and approved by the Audit Committee on 15th April 2008 (Minute ref: AC.30/07). An interim audit report on the work undertaken for the first 5 months of the year was considered by the Audit Committee on 24th September 2008 (Minute ref: AC.12/08). Normally a report would be presented to this Committee after the end of the financial year, but as this Council will be abolished on 31st March 2009, this is not possible. This report therefore provides performance information for the first 11 months of the financial year, with details of specific areas of work undertaken in the latter part of the year. The report has been prepared in accordance with standards defined in the CIPFA Code of Practice for Internal Audit in Local Government 2006.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 Audit Committee notes the contents of the Internal Audit Service Annual Report 2008-09 to 1st March 2009.

3. AUDIT ACTIVITY APRIL 2008 TO MARCH 2009

3.1 Background

- 3.1.1 Senior managers within each department are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control. The Audit Committee is

responsible for obtaining assurance in respect of the control environment, part of which comes from the work and opinion of Internal Audit.

3.2 Annual Audit Plan

- 3.2.1 The Internal Audit Section produces an Annual Audit Plan based on an assessment of risks in relation to audit areas and allocates its resources accordingly. The approved Audit Plan for 2008-09 scheduled a total of **808** days for the full year. Actual audit work due to be carried out up to week ending 1st March, 2009 totalled **559** days resulting in a shortfall of 249 days less than planned.
- 3.2.2 The reason for the shortfall in audit days is that the Internal Audit Section has been operating with staffing vacancies during the year. As a consequence, audit work was prioritised during the year with greater emphasis given to areas of higher risk to ensure that Internal Audit was able to complete work in these areas and provide a sufficient opinion on the adequacy of the control environment, with particular emphasis given to completion of 'core' financial systems work.
- 3.2.3 There were **32** formal audit reports issued during the period 1st April, 2008 to 1st March, 2009 and **21** reports contained recommendations which required implementing by the Client Department.
- 3.2.4 Within the **21** reports issued where recommendations had been made there were a total of **45** classified as being of '**high**' importance, and **22** of '**medium**' importance.
- 3.2.5 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers.

3.3 Audit Opinion

- 3.3.1 **Appendix A** provides a brief summary of actual audit work carried out and of matters identified as part of the work undertaken by the Internal Audit Section. 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.
- 3.3.2 Based on the work undertaken during the year and the implementation by management of audit recommendations, Internal Audit can provide **reasonable assurance** that the Council's systems of internal control were operating adequately and effectively during 2008-09. There are **no** qualifications to this opinion.
- 3.3.3 The above opinion is derived from audit work undertaken, both planned and unplanned, which is detailed in **Appendix A**. Other sources of information, such as Audit Commission reports have also been taken into consideration where appropriate. Specifically, the level of assurance takes into account:

- All audit work completed in 2008-09;

- Follow up actions from previous years' audits;
- Management responses to findings and recommendations;
- Effects of significant changes in Council systems;
- Quality of Internal Audit Service performance.

3.3.4 There are no issues identified of such significance as to require disclosure in the Council's Annual Governance Statement for 2008-09.

3.4 Quality Assurance Programme and Performance Management

3.4.1 Audit work is governed by standards set out in the Code of Practice for Internal Audit and the Audit Section's own Audit Manual. All audits are subject to ongoing supervisory input throughout all stages of audit fieldwork and are subject to a two stage review; firstly, by Principal Auditors and secondly, by the Audit and Resources Manager. This quality review process ensures that work is carried out to an acceptable standard and in line with the CIPFA Code of Practice. Some of the key features of the quality review and assurance process are as follows:

- An up to date internal audit manual provides direction to all auditors in carrying out day to day audit work
- Work is carried out by auditors with appropriate experience and skills
- All audit work is supervised, monitored and quality assessed
- Key performance indicators have been devised for monitoring performance
- User feedback is requested after each planned audit assignment

3.4.2 A range of performance measures is maintained covering the work of the audit team. The outturn performance for a range of selected indicators is as follows:

No.	Performance Measure	2008-09 Target	2008-09 Outturn
1.	Percentage of overall audit plan completed in year [1]	90%	59%
2.	Percentage of audit recommendations accepted by client	100%	100%
3.	Percentage of planned audit assignments on 'core financial systems' completed in year	100%	100%
4.	Average customer satisfaction rating received [2]	4 = Good	4 = Good
5.	Average sickness absence per employee [3]	5	0
6.	Maintain service costs within budget	Yes.	Yes (savings of £38, 550 expected)

Notes:

[1] This figures includes Audits due to be substantially completed by end March 09

[2] Overall 87% rated the service as 'good' or 'very good'

[3] No sickness absence in the Audit Section in 2008-09

3.5 Staffing

- 3.5.1 The Audit plan for 2008-09 allowed for 4 persons to deliver the work contained in the plan. The interim report on Internal Audit activity for the five months to 31st August 2008 explained that at the time the section was operating with 2 vacancies. It was envisaged that 1 of the 2 vacancies would be filled, however, recruitment protocols subsequently agreed by the Council's within County Durham meant that this post remained unfilled, maintaining the existing audit team of 3 to carry out the work contained in the audit plan (and keeping 2 posts vacant).
- 3.5.2 A further vacancy with the departure of a Principal Auditor on 1st November and the Audit team was operating with three vacancies. The staffing arrangements and resource requirements were reviewed to ensure that the Internal Audit function continued to maintain the standard of service and that appropriate resources were in place to ensure that 'core' systems work was completed.

3.6 Risk Management

- 3.6.1 Risks are identified in each individual audit report produced. However, no system of review can give full assurance that all risks have been minimised and all controls have been operating effectively throughout the year. The Annual Audit Report therefore provides reasonable assurance based on the work that has been carried out.
- 3.6.2 The audit planning process aims to target the work of the Section to those areas where the impact of a control failure would have the highest impact and leave the Council vulnerable to major risks. Activity is directed toward providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.
- 3.6.3 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 during the year and the Operational Risk Management Group considered a wide range of issues. Risk is also a key feature of individual audits undertaken by the Audit team which involves reviewing 'generic risk profiles' as part of audit fieldwork.

4 RESOURCE IMPLICATIONS

- 4.1 There are no direct implications for resources arising from the content of this report.

5. CONSULTATION

- 6.1 The Audit Plan for 2008-09 had been prepared and delivered following consultation across the Council and with the Audit Commission.

6. OTHER MATERIAL CONSIDERATIONS:

6.1 Links to Corporate Objectives / Values

6.1.1 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.

6.2 Risk Management

6.2.1 This has been considered in Section 3.6 of this report. The full co-operation of management across the Council is essential to the maintenance of good quality governance, including risk management.

6.3 Equality and Diversity

6.3.1 No material considerations have been identified.

6.4 Legal and Constitutional

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

6.5 Other Material Considerations

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

7. LIST OF APPENDICES

7.1 Appendix A - Internal Audit Plan Summary of Work – April 2008 to March 2009

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Wards:	Not ward specific
Key decision validation:	Not applicable

Background Papers:

1. Audit Committee, Internal Audit Plan for 2008-09, 15th April 2008
2. Audit Committee, Interim Audit Report 2008-09 (first 5 months), 24th September 2008

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 checked="" 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 checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4. The report has been approved by Management Team. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |