

**Report to:** Audit Committee  
**Date:** 22<sup>nd</sup> May 2008  
**Report by:** Gordon Fletcher, Internal Audit Manager  
**Subject:** 2007/2008 Annual Report  
**Ward:** All

**1. Purpose of the Report**

- 1.1. The purpose of the annual report is to inform Members of the Audit Committee of the audit work completed in 2007/2008 and to give an overall opinion on the Council's system of internal controls for the year.

**2. Consultation**

- 2.1. In preparing this report I have consulted with:  
Director of Finance and Corporate Services  
Head of Financial Management  
Senior Auditor

**3. Background**

- 3.1. Management of the Council is responsible for the system of internal control in operation, and should set in place policies and procedures to ensure that the system of control is functioning correctly.
- 3.2. On behalf of the Director of Finance and Corporate Services in reporting to the Audit Committee, the Council's Internal Audit Section review, appraise and report on the efficiency, effectiveness and economy of these financial and management controls.
- 3.3. Every quarter Members of the Audit Committee are presented with a report that outlines the Section's activity since the date of the last quarterly report together with reports of a general interest. Such reports generally summarise the main findings of reviews undertaken and provide Members with an insight into any control weaknesses.
- 3.4. In addition to this, it is considered important that at least annually, Members of the Audit Committee should receive a report from the Audit Manager that includes an assessment of the adequacy, reliability and effectiveness of the internal control systems of the Council
- 3.5. The purpose of this report is therefore twofold, firstly it is to provide a control opinion, and secondly to provide Members with an overview of the Internal Audit Section's activities and achievements during 2007/2008.

**4. Position Statement and Option Appraisal.**

**4.1. Respective responsibilities of management and internal auditors in relation to internal control**

- 4.1.1. In terms of the Council's Financial Regulations it is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the internal Audit Manager to provide an annual overall assessment of the robustness of the internal control system.

- 4.1.2. The main objectives of the Council's internal control system are:
- to ensure adherence to management policies and directives in order to achieve the Council's objectives;
  - to ensure high standards of Corporate Governance are maintained throughout the Council
  - to ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records
  - to safeguard assets
  - to ensure compliance with statutory requirements
- 4.1.3. Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations.

## **4.2. The work of Internal Audit**

- 4.2.1. Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic efficient and effective use of resources
- 4.2.2. During the year 2007/2008 the Section undertook an annual programme of work, based on a rolling three year Strategic Audit Plan, approved by the Audit Committee.
- 4.2.3. This Strategic Planning process was based on a formal risk assessment methodology, revised on an ongoing basis to reflect evolving risks and changes within the Council. This also enabled an assurance to be given, based on current risks. This risk based approach to audit planning results in a comprehensive range of audit reviews being undertaken during the course of the year, to support the overall opinion on the control environment. I.e.:
- System based reviews of all central financial systems that could have a material impact on the accounts of the Council;
  - Other systems work carried out either annually, two or three yearly;
  - Corporate Governance reviews;
  - Providing an Internal Audit Service for East Durham Homes
- 4.2.4. All Internal Audit reviews conclude with a report, identifying system improvements and/or non-compliance with expected controls. These are brought to the attention of Managers and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports, that appropriate action is taken on audit recommendations, or that they understand the risk of not taking action. Significant matters, including non-compliance with audit recommendations arising from Internal Audit work, are reported to the Audit Committee.

## **4.3. Performance Overview**

- 4.3.1. A detailed Annual Plan outlining the proposed activity for the Internal Audit Section for the year 2007/2008 was presented to the Audit Committee on 22<sup>nd</sup> February 2007.
- 4.3.2. In order to monitor performance against this Plan, staff detail the activities they have been involved with, onto a weekly timesheet, these are then

processed by the Audit Manager onto a monthly summary sheet and monitoring spreadsheet relating to the audit activities.

4.3.3. Full details of the areas of activity planned during 2007/2008, and those actually undertaken, are presented for comparison as Appendix 1.

4.3.4. Unfortunately, the planning process cannot be an exact science as there will always be problems that circumstances dictate, or management may wish to have addressed immediately. In addition there will be situations where the planned input has to be exceeded for a number of reasons, including material findings encountered, unfamiliarity with new systems and changes of personnel involved.

4.3.5. The following summarised information has been extracted from the Appendix:

- It can be seen from the table that from the 861 days of planned audit work, 831 days were delivered. This represents a coverage rate of 97%. Therefore 30 days of planned audit work were not completed during the year, mainly due to unexpected sick days being taken.
- During the year additional work was required on final accounts (37 days) and Local Government Reorganisation (36 days). Therefore decisions had to be made on which audits to omit from the original audit plan during the year.
- It seemed appropriate to omit the work on contract audits (other systems), and 4 audits from the 2 and 3 year plans were also omitted.
- As the planned Grants audit was not ready to commence this financial year, the planned days for this covered the 30 days lost, and the audit work will be carried forward to the next financial year.

## **5. Implications of the report**

### **5.1. Legal Implications.**

It is a requirement of law that the Council maintains an adequate and effective Internal Audit service.

### **5.2. Financial**

There are no direct financial implications for the Council as a result of this report.

### **5.3. Policy**

There are no direct policy implications for the Council as a result of this report.

### **5.4. Local Government Review Implications**

This report does not directly have any implications for LGR as it refers to the 2007/2008 work of Internal Audit.

### **5.5. Risk**

That the Annual Internal audit plan is not completed, and therefore not all of the Council's activities are examined.

### **5.6. Communications**

There are no direct communications implications for the Council as a result of this report.

## **6. Corporate Implications**

### **6.1. Corporate Plan and Priorities**

Priority 2 – Striving for excellence in the workplace.

SFE2 – To develop the capacity to achieve in the organization.

### **6.2. Equality and Diversity**

There are no direct implications.

### **6.3. E. Government**

There are no direct implications.

### **6.4. Procurement**

There are no direct implications.

### **6.5. Performance Management and Scrutiny**

The assessment provides assurance towards the Annual Governance statement for the Council.

### **6.6. Sustainability**

There are no direct implications.

### **6.7. 'Well being powers'**

There are no direct implications.

### **6.8. Human Resources**

There are no direct implications.

### **6.9. Crime and Disorder**

There are no direct implications.

### **6.10. Human Rights**

There are no direct implications.

### **6.11. Social Inclusion**

There are no direct implications.

## **7. Basis of opinion**

### **7.1. My evaluation of the internal control environment is informed from a number of sources:**

- the audit work undertaken by Internal Audit during the year (See Appendix 1 for details);
- the assessment of risk when preparing the Council's annual plan;
- reports issued by the Council's external auditors (Audit Commission);
- a high level review of the adequacy and effectiveness of the Council's system of internal control, as it relates to corporate governance, risk management and performance management.

### **7.2. It is my opinion from the above, that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2008.**

## **8. Recommendations**

- 8.1. Members are asked to note and comment on the information contained within the report.

## **9. Background**

- 9.1. Internal Audit planned work sheets  
Internal Audit timesheets.  
Internal Audit monthly time recording sheets.

**APPENDIX 1**

<b>AUDIT WORK</b>	<b>PLANNED DAYS</b>	<b>ACTUAL DAYS</b>	<b>%</b>	<b>REASON FOR VARIANCE</b>
MAIN SYSTEMS	153	145	95	All audits either completed or commenced.
OTHER SYSTEMS	108	55	51	See 4.3.5.
REGULAR	35	71	203	See 4.3.5.
ANNUAL	35	37	106	All audits completed.
2 YEARLY	38	30	79	See 4.3.5.
3 YEARLY	38	34	89	See 4.3.5.
COMPUTER	50	19	38	Only computer interrogation work (IDEA) carried out.
AUDIT COMMITTEE	18	14	78	
CORPORATE ISSUES EG. CPA	27	38	141	Difficult to plan.
FINANCIAL PROCEDURES	5	8	160	Difficult to plan.
STANDING ORDERS/FIN REGS	13	13	100	
GRANTS /PARTNERSHIP	60	28	47	Grants work planned, not commenced until next year. See. 4.3.5.
ADMIN./ CONTINGENCY	210	232	110	
LGR (UNPLANNED)	0	36		See 4.3.5.
EDH WORK	71	71	100	
<b>TOTAL DAYS</b>	<b>861</b>	<b>831</b>	<b>97</b>	See 4.3.5