



Chester-le-Street
District Council

Internal Audit Annual Report 2007/08



Internal  Audit

March 2008

Introduction

The Accounts and Audit Regulations 2003 and subsequent CIPFA Code of Practice for Internal Audit in Local Government (the Code) require Internal Audit to report annually to *'those charged with governance'* on their findings and conclusions and provide an overall opinion on the adequacy and effectiveness of the internal control environment. This opinion is also significant in support of the Statement of Internal Control which is a statutory requirement of the Act.

In order to give validity to this opinion Internal Audit must be managed and conducted in accordance with 'proper internal audit practices' and therefore the first part of this report contains a self-assessment on the Section's compliance with the key elements of the Code of Practice and a summary of the performance of the Section during 2007/08. The second part of the report provides a summary of the results of audit assignments and my overall opinion on the internal control environment.

It is important to be aware that the system of internal control is designed to manage risk to a reasonable level rather than eliminate it altogether and therefore this report and my opinion can provide only reasonable assurance on the effectiveness of internal control.

The overall opinion contained in this report is my own, which I have prepared without fear or favour and which is based upon the findings of internal audit work carried out throughout the 2007/08 financial year.

CIPFA Code of Practice

The Code is recognised by the Accounts and Audit Regulations as the definition for 'proper audit practices' and consists of eleven standards. Only when internal audit work is managed and conducted in accordance with the Code can it be deemed as being of sufficient quality to inform an annual report and the Council's Annual Governance Statement. Where internal audit is not managed or operated in accordance with the Code then the reliability of opinions and the level of assurance provided may be compromised.

In December 2006 CIPFA issued a revised and updated Code of Practice which included one new standard and additional requirement within existing standards. The 2006 Code also included a checklist for assessment against the standards which is more prescriptive in the evidential requirements for full compliance.

Self assessment against the code

A self assessment of Internal Audit's compliance with the Code using the checklist provided has been performed and the findings are as follows:

	Standard	Assessment
1	Scope of Internal Audit	Compliance
2	Independence	Compliance
3	Ethics for internal auditors	Compliance
4	Audit Committees	Compliance
5	Relationships	Partial Compliance
6	Staffing, Training and Continuing Professional Development	Compliance
7	Audit strategy and planning	Compliance
8	Undertaking audit work	Compliance
9	Due professional care	Compliance
10	Reporting	Partial Compliance
11	Performance, quality and effectiveness	Compliance

The result of the self-assessment is that Chester-le-street Internal Audit Section is **WORKING TOWARDS** full compliance with the 11 standards of the CIPFA Code of Practice for Internal Audit 2006.

An independent review of our self-assessment was conducted by the Head of Internal Audit at Derwentside District Council in March 2008 and this confirmed the integrity of our self assessment and the validity of the result obtained.

An action plan to achieve full compliance has been developed and is incorporated within the Internal Audit Service Plan; progress will be monitored by the Audit Committee.

Review by the Audit Commission

The last review of Internal Audit by the Audit Commission was carried out during 2006/07 in order to assess whether they can place reliance upon our work and contribution to the Annual Governance Statement (AGS) formerly the Statement on Internal Control (SIC).

The overall conclusion of this assessment was that they are satisfied that the Council has appropriate constitutional and management arrangements in place for the internal audit service. However there were recommendations made as part of the audit and the implementation of these have been incorporated within the Internal Audit Service Plan. A review of Internal Audit by the Audit Commission is scheduled to take place during 2008/09.

Quality assurance

In order to ensure consistency and compliance with professional standards and audit procedures, all audit work is reviewed and signed off by the Acting Head of Internal Audit at appropriate stages throughout the audit. The purpose of the review is to ensure that:

- The objectives of the audit have been fulfilled and that the conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence;
- All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used;
- Audit files are complete and properly structured;
- The related audit report is complete, accurate, objective, clear, concise, constructive and timely;
- The audit assignment has been completed within the allocated time budgets or that appropriate time variations have been authorised.

All internal audit staff had a Personal Development Plan during 2007/08 in accordance with the corporate policy and procedure and the majority of identified training needs have been met or during 2007/08. Outstanding training needs are incorporated in the workforce development plan for the section.

Internal Audit processes and procedures are currently under review as part of the actions to ensure compliance with the Code of Practice; as a result a bespoke audit manual has been under development and aspects were introduced in a phased approach during the year.

Customer surveys

Although the essential criteria for measuring the quality of internal audit are the standards contained in the CIPFA Code of Practice, the views of our customers are essential to service improvement and in order to obtain as much feedback as possible our customers were consulted in the following two ways:

- Customer Satisfaction Survey
- Post-audit questionnaires after each assignment.

The results of the survey and questionnaires were on the whole very positive and show that the customer base is confident in the quality of the internal audit service and the professionalism of the auditors.

The key findings from the satisfaction survey were that there is a high level of satisfaction with the service provided and Internal Audit has a good working relationship with all clients. The department has demonstrated continuous improvement during the year and awareness of the nature and function of the Audit Committee has significantly increased. The only negative issue was a reduction in the number of clients who felt they had been adequately consulted in the individual audit assignment planning process.

Internal Audit performance against the 2007/08 audit plan

Performance of Internal Audit against the Audit Plan is reported on a quarterly basis to the Audit Committee.

The performance for the period April 2007 to March 2008 is as follows:

Activity	Planned	Actual
Planned audits	386	251
Investigations & advice	102	119
Management	109	102
Corporate activities	115	92
Total productive days	712	564
Non productive	328	280
Total available days	1040	844

Performance against the audit plan for 2007/08 was affected by investigative work, sickness within the section and the departure of two members of staff, a principal auditor in October 2007 and the Head of Internal Audit in December 2007. The section delivered 67 % of the number of productive days, therefore the number of planned audits actually completed was reduced and only 74% of the audit plan was delivered. The audit work plan was continually reviewed during the course of the year to ensure as far as possible that all core and high-risk financial systems were covered and to limit the slippage in the planned work to lower risk and non-financial areas. A small number of core systems were still in progress at the time this report has been drafted.

Performance indicators

Internal Audit set 11 local performance indicators in the 2006/09 Service Plan. Three indicators are monitored on a quarterly basis and the remaining eight annually.

The full year results for 2007/08 for the three indicators monitored quarterly are as follows:

Performance Indicator	Target	Actual
Percentage achievement of audit plan	90%	74%
Percentage of productive days	60%	67%
Percentage of recommendations agreed	80%	100%

The results for the remaining eight local performance indicators monitored annually are as follows:

Performance Indicator	Target	Actual
Compliance with CIPFA Code of Practice	Compliance	Partial Compliance
PDPs completed on time	100%	100%
% variance from budget	0%	-21%
Post Audit satisfaction	85%	89%
Customer satisfaction	85%	85%
% usage of CAATS in audits	70%	46%
Audits addressing risks from Risk Register	30%	7%
% days for consultancy	15%	21%

Results of audit assignments

On conclusion of each assignment a report is produced which evaluates the control environment under review and gives one of four opinions on the effectiveness of the control environment. These opinions are discussed and agreed with the relevant manager and a definition of the categories is detailed in appendix A.

During 2007/08 Internal Audit have performed the following assignments and, where applicable, given the following opinions:

Score and opinion 2006/07		Audit assignment	Score and opinion 2007/08	
		MATERIAL SYSTEMS		
4	Strong	Housing Benefits & Rent Allowances	4	Strong
3	Effective	Cash & Banking	3	Effective
3	Effective	Council Tax and NDR	3	Effective
2	Adequate	Accounts Payable (Creditors)	3	Effective
3	Effective	Accounts Receivable(Debtors)	3	Effective
3	Effective	Main Accounting	3	Effective
4	Strong	Rent Collection & Accounting	4	Strong
4	Strong	Treasury Management	4	Strong
3	Effective	Payroll	3	Effective
3.2		MATERIAL SYSTEMS AVERAGE	3.3	

Score and opinion 2006/07		Audit assignment	Score and opinion 2007/08	
3	Effective	IT General Controls	3	Effective
3	Effective	Best Value Performance Indicators		Scheduled May 2008
N/A		Purchasing & Procurement	2	Adequate
N/A		Market Income	3	Effective
N/A		Leisure Income Follow Up	N/A	
N/A		IT LPIS 06/07 re Charter Mark	3	Effective
N/A		Investigation – Environmental Services	N/A	
N/A		Investigation – Regeneration	N/A	
N/A		Investigation – Leisure Services	N/A	
N/A		ICT Strategy	4	Strong
3.0		OVERALL AVERAGE	3.2	

Internal Audit recommendations

During 2007/08 Internal Audit made 23 recommendations to address identified weaknesses in internal control and all of these were accepted by managers.

Audit Committee has received quarterly update reports on the implementation of recommendations. In circumstances where agreed actions have not taken place Audit Committee has sought assurance by inviting managers to attend special meetings to discuss the issues and agreeing actions to address the risk exposure.

Investigations

During the year Internal Audit has reacted to four allegations of irregularity, of which one was dismissed through lack of evidence. Of the three allegations investigated, two resulted in significant system improvements but did not find evidence to confirm any inappropriate activity by officers and one resulted in disciplinary action against the officer concerned.

Advice and consultancy

Internal Audit acts in an advisory capacity and during the year have replied to 22 requests for advice (32 in 2006/07). In the main this advice still relates to advice on the requirements of the Financial Regulations and Standing Orders relating to Contracts but advice on other issues such as consultation on policy and procedure development and more general issues of internal control have also been provided.

Key findings and qualifications

There are no particular issues arising from internal audit assignments that, in my opinion, are significant enough to be considered as part of the Annual Governance Statement.

No system of internal control can provide absolute assurance against material misstatement or loss and nor can Internal Audit give that assurance. This statement is designed to provide reasonable assurance on the adequacy of the control environment.

Failure to comply with the CIPFA Code of Practice for Internal Audit would usually be an appropriate qualification to my opinion but given the circumstances outlined previously I do not think it appropriate to attach such a qualification at this time.

Overall opinion

Based upon the results of the audit assignments carried out during 2007/08 my opinion is that the internal control environment has maintained a position where it is **EFFECTIVE**.

I am satisfied that there are sufficient and robust action plans in place to rectify the weaknesses that have been identified and I am confident that the Audit Committee will support my actions to ensure that those plans are implemented as agreed.

Mark Welsh
Acting Head of Internal Audit

Definition of Internal Audit opinions

Score	Opinion	Definition
1	Ineffective	Key controls and other parts of the internal control system are not in place and are not adhered to and therefore do not provide reasonable assurance that the control objectives will be achieved. Other internal controls are also not working effectively and significant corrective action is required in both areas.
2	Adequate	Key controls are generally adequate or are in place but not always adhered to and some corrective action is required. Other internal controls may or may not need corrective actions.
3	Effective	Key controls are in place and being complied with but other parts of the internal control system require corrective action.
4	Strong	All key controls and other controls are in place and are being complied with, providing reasonable assurance that the control objectives will be achieved.

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