

Report to: Special Audit Committee
Date: 24th March 2009
Report by: Gordon Fletcher, Internal Audit Manager
Subject: 2008/2009 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 2008/2009 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 2008/2009.

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 2008/2009 the Section undertook an annual programme of work, based on examining the main systems of the Council.
- 4.2.3. 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. An Annual Plan outlining the proposed activity for Internal Audit for the year 2008/2009 was presented to the Audit Committee on 13th March 2008.
- 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 2008/2009, and those actually undertaken, are presented for comparison as Appendix 1. Members are to note that due to LGR this report has been brought forward, and the details are shown at the end of February, therefore, 1 more months work is still outstanding, and the Audit Manager has estimated the planned time for March. However, it can be seen that the planned work on the main systems will be completed for the year

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 attached Appendix:

- It can be seen from the table that from the 880 days of planned audit work 747 days were delivered at the end of February with an expected 76 days for March. This gives a total number of days of 823, which represents a coverage rate of 94%. Therefore 57 days of planned audit work were not completed during the year, mainly due to unforeseen sick and strike days.

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 2008/2009 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 sources, 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 financial year 2008/2009.

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

AUDIT WORK	PLANNED DAYS	ACTUAL DAYS TO FEBRUARY	DAYS ESTIMATED FOR MARCH	TOTAL DAYS	% completed	REASON FOR VARIANCE
MAIN SYSTEMS	169	144	18	162	96	All audits completed.
OTHER SYSTEMS	40	25	2	27	68	All audits completed.
REGULAR	65	67	0	67	103	All audits completed.
ANNUAL	23	12	3	15	65	All audits completed.
2 YEARLY	6	10	0	10	167	All audits completed
3 YEARLY	15	18	2	20	133	All audits completed
COMPUTER	30	27	1	28	93	
AUDIT COMMITTEE	15	12	2	14	93	
CORPORATE ISSUES eg AGS	25	21	5	26	104	Difficult to plan.
FINANCIAL PROCEDURES	10	13	0	13	130	Difficult to plan.
STANDING ORDERS/FIN REGS	10	2	0	2	20	Work carried out when required
GRANTS /PARTNERSHIP	50	21	0	21	42	Partnership work included within risk management and AGS
ADMIN./ CONTINGENCY	215	192	20	212	99	
LGR	100	103	10	113	113	
EDH GOVERNANCE WORK	20	8	5	13	65	
SCHOOLS	87	72	8	80	92	
TOTAL DAYS	880	747	76	823	94	Days lost due due to unexpected sickness and strike days.

