

TITLE	: INTERNAL AUDIT ANNUAL REPORT		
TO / ON	: AUDIT SUB COMMITTEE	5 JUNE 2003	
BY	: CHIEF INTERNAL AUDITOR		
STATUS	: FOR PUBLICATION		

1.0 TYPE OF DECISION

1.1 What type of decision is to be taken:-

EXECUTIVE DECISION				COUNCIL DECISION
Key	No	Non Key	No	No

1.2 If a key decision, has it been included in the Forward Plan

Inclusion in Forward Plan	N/a	Date of Plan	
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2.0 SUMMARY

This report summarises the work undertaken by the section in the previous financial year (2002/03) compared to the Audit Plan for the year. It contains an "Audit Opinion" which assesses the authority's control framework, finding it to be "sound". Members are also updated on some of the issues facing the Internal Audit service in the current year.

3.0 OPTIONS AND RECOMMENDED OPTIONS (with reasons)

Members can accept, reject or amend the conclusions reached in the report.
Based on the evidence provided Members are recommended to endorse the report.

4.0 THIS REPORT HAS THE FOLLOWING IMPLICATIONS

Corporate Aims	<p>The work of the Internal Audit section underpins the achievement of all of the Council's Aims and Objectives.</p> <p>The section particularly contributes to the aim of Improving the Quality and Availability of Council Services.</p>				
Policy Framework	<p>No direct implications. The work of the Internal Audit section underpins the achievement of all of the policies in the Framework.</p>				
Statement by Monitoring Officer	<p>The Internal Audit Annual Report complies with statutory requirements.</p>				
Statement by Director of Finance and E-Government	<p>The work of the Internal Audit section is an essential element of the framework by which I discharge my obligations under s151 of the Local Government Act 1972. The opinion given by the Chief Internal Auditor on the control framework provides assurance that key controls are operating to an acceptable standard.</p> <p>There are no direct financial implications arising from the report.</p>				
Human Resource IT/Land and Property Implications	<p>There are no direct resource implications arising from the report.</p>				
Wards/Area Boards affected	<p>The work of the Internal Audit section impacts on all of the Council's wards and Area Boards</p>				
Scrutiny Panel's Interest	<p>None</p>				
Consultations	<p>Director of Finance and E-Government</p>				
Call-in	<p></p>				
Briefings	<table border="1"> <tr> <td data-bbox="598 1881 901 1982">Executive Members/ Chair</td> <td data-bbox="901 1881 1045 1982">Yes</td> <td data-bbox="1045 1881 1236 1982">Chief Executive</td> <td data-bbox="1236 1881 1377 1982">No</td> </tr> </table>	Executive Members/ Chair	Yes	Chief Executive	No
Executive Members/ Chair	Yes	Chief Executive	No		

5.0 INTRODUCTION

5.1 Members of the Audit Sub Committee are actively involved in the planning and monitoring of the work of Internal Audit in reviewing the corporate governance arrangements of the Council. This is achieved through the approval of the annual plan, scrutiny of reports produced, and regular progress monitoring. The first annual report was introduced in 1999 and has become a regular feature. It provides an opportunity to look at the performance of Audit over the whole (completed) year, and to take stock of the overall position with regard to systems and controls, having regard to the risks involved.

6.0 BACKGROUND

6.1 A comprehensive Internal Audit Plan for the financial year 2002/03 was approved by the Audit Sub-Committee at the meeting on 5th March 2002. Throughout the year Members have received regular progress reports monitoring performance and keeping them informed of our day to day activities. I have also circulated detailed reports of all the individual pieces of work carried out by the Section. This annual report aims to assess overall performance against that original plan, giving additional information about the productivity and costs of the Section.

6.2 The stated intention in the plan was that the emphasis of our work would be the examination, review and testing of systems and controls, paying particular attention to the fundamental systems. This report gives an opinion of the adequacy and effectiveness of those systems and controls, based on our work throughout the year, and our accumulated knowledge of those systems, and the control framework within the authority.

7.0 THE INTERNAL AUDIT SECTION

Objectives

7.1 The Internal Audit Section is a directly employed in-house, Internal Audit Service, providing a continuous review in accordance with the Council's obligations under the Local Government Act 1972, and the Accounts and Audit Regulations 1996/2000. It operates under the APB (Auditing Practices Board) Guidelines and CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government, as approved by this sub-committee. It has the following objectives:

- independently review and appraise systems of control throughout the authority and its activities
- ascertain the extent of compliance with procedures, policies, regulations and legislation
- provide reassurance to management that their agreed policies are being carried out effectively
- facilitate good practice in managing risks
- recommend improvements in control, performance and productivity in achieving corporate objectives
- review the value for money processes, Best Value arrangements, systems, and units within the authority
- work in partnership with the external auditors
- identify fraud as a consequence of its reviews and to deter crime.

Staffing

7.2 During the year 2002/03:

- We have a staffing establishment of eleven, but have carried a vacancy throughout the year. We have been able to mitigate the impact of the vacancy on the achievement of the Audit Plan quite easily, by minimising non-rechargeable time. However, we have been less able to recover the ground lost due to unusually high sickness absences, and have had to re-schedule and prioritise our work during the year.
- All staff in the section are fully qualified; either accountants or accounting technicians. Additionally, two of our accountants are also graduates, one of the technicians is a qualified member of the Institute of Internal Auditors, and another holds the specialist Qualification in Computer Audit (QiCA).
- We have continued to supplement professional training with on-the-job training, specialist courses and seminars. These are identified mainly through the staff appraisal system and help us to maintain a highly trained team.
- We have continued to support the activities of professional bodies such as CIPFA (Chartered Institute of Public Finance and Accountancy) and working groups such as the Greater Manchester Chief Internal Auditors Group and the G.M. Computer Audit Group. I have (with support from my colleagues) again chaired the G.M. Contract Audit Group throughout the year, extending also into the current year (hosting and leading the Group). Our support of the Greater Manchester Fraud Initiative has been maintained, and in particular our participation in the ground breaking data matching exercises which have produced such impressive savings over the years.
- We have a broad spread of skills and experience in the section, and have continued to review that mix under the overall structure, linking with the best value review of corporate governance. Our computer auditor has gained a promotion under the Council's job evaluation scheme enabling us to re-designate one of our deputy group auditor posts "Senior Auditor – ICT". We are preparing to look to the market again as two of our team are exploring alternative opportunities. We have also continued the fruitful scheme with our external auditors. Purchasing additional time has enabled us to carry out computer audit work under the guidance of District Audit specialist staff, whilst still developing our in-house capability. We have also continued to explore, with our Greater Manchester colleagues, the possibility of joint working arrangements in computer audit, and possibly other areas.

7.3 Planned Inputs

- We planned for a full establishment of 11 full time staff, which equates to a total of 2860 working days, before making allowance for vacancies, holidays, sickness and other absences.
- Time was also provided from within this total to cover training and the management and administration of the Section.
- We therefore aimed to provide 1927 days of work, directly rechargeable to our clients. Actual time recharged was 1642 days.
- The vacancy was offset by targeted reductions in non-rechargeable time. Additional days worked also helped to make up much of the shortfall. However, as stated above, we were unable to accommodate all of the sickness absences. In the resultant re-scheduling we ensured that our resources were focussed on key controls, working in conjunction with our Audit Commission colleagues.
- An analysis can be seen at Appendix A.

8.0 OUTPUTS COMPARED TO THE PLAN

8.1 Work Output

- The analysis at Appendix A shows that many of the targets set for departments were achieved. The inevitable shortfall in output due to the staffing absences was mitigated by the re-programming of work to fit in with operational requirements. Members can be assured that the measures taken, and reported throughout the year, were designed to ensure that the absences did not have a detrimental effect on the achievement of the core elements of the Plan.
- Within the analysis there has also been some re-scheduling of time to reflect changes in priority and the involvement of auditors on working groups, and more particularly, in conducting investigations. Members have been made aware of these changes through regular updates throughout the year. We have ensured that the core systems work has been carried, out and reductions limited to the lower risk areas, which we have been able to defer in the short term.

8.2 Costs and Charges

- The cost of the Section for the year was £350,000. This has been recharged to our clients on an hourly recharge basis in accordance with our Service Level Agreement.
- Average cost per auditor was £35,000. (NB. This average is inflated because of the vacancy)
- Our recharge rate was £27.50 per hour.
- Our costs/charges have remained amongst the lowest in Greater Manchester for several years.
- Our rates compare very favourably with our external auditors and with firms in the profession.

9.0 AUDIT OPINION

9.1 Control Framework

The effectiveness and security of local authority systems and controls are underpinned by the overall control framework. At Bury this is considered to be sound, based on the following:

- The Council has clear and unambiguous Standing Orders, Financial Regulations and Scheme of Delegated Powers which have been updated, and are subject to continual review.
- The Council has a recently installed Constitution encompassing codes of conduct for both Members and employees, and clearly linked to the appropriate Standing Orders, Financial Regulations etc. The new National Code for Members has been adopted at Bury.
- The Council has regularly revised and updated its Anti-Fraud Strategy and has incorporated its "Whistleblowing" (Public Interest Disclosure Act 1998) and Benefit Fraud Prosecution policies into the strategy, together with a section on corporate governance.

- The Council has a Standards Committee (supported by an Audit Sub Committee), and has appointed a Standards and Probity Officer to promote the high standards expected. I see this as strengthening the control framework and helping to encourage an anti-fraud and corruption culture throughout the authority.
- The authority has reviewed its approach to corporate governance and risk management following a best value review led by the Borough Engineer, in the role of “critical friend”.
- No limits have been placed on the scope of Internal Audit work, and as Chief Internal Auditor I have direct access to the Chief Executive, report directly to the Director of Finance and E Government and to Members, and liaise regularly with the District Auditor.

9.2 Systems and Controls

A major part of our function is to provide a continuous review and appraisal of systems and controls, to report our findings, and to make recommendations where appropriate. I am generally satisfied with the coverage that we have achieved, and I believe that systems and controls are generally sound. We have singled out weak systems and identified situations where existing systems have been allowed to lapse or fall behind, and where we believe that improvements can be made. We have continued to report on these issues to Directors, Chief Officers and Members, making appropriate recommendations. The Audit Sub Committee has been instrumental in our approach to following up our recommendations.

Whilst I am generally upbeat about our coverage of systems and controls, I must remind Members, as always, that we only ever examine a proportion of the Council’s activities (hence the need to focus our attention on “significant” systems and key controls), and that our examination often only represents a “snapshot” in time. Internal Audit is only a part of the Council’s control framework, and is not a substitute for management. For this reason we have tried to proactively encourage changes to the culture of the authority in promoting good corporate governance, an anti-fraud and corruption strategy and recognition of the need to address risk management.

The following comments relate to last year’s work:

- Throughout the year we have examined the Council’s fundamental systems and key controls. This has included work on Debtors, Creditors, Cash Collection, Information Services, Contracts, Stores, Housing Rents, Income Control, Payroll, Benefits, Council Tax, NNDR and FE Awards. Many other systems have also been examined.
- We have continued to work closely with our colleagues from the Audit Commission Operational Directorate, formerly District Audit, under the “Managed Audit” strategy. Under this arrangement they place reliance upon our work, enabling us to co-ordinate our efforts and achieve maximum coverage in our systems audit work. The Commission had carried out a rigorous evaluation of Internal Audit in the previous year, to satisfy their reliance criteria.
- In addition to formal examination of systems, we have also carried out a series of random tests throughout the course of the year. For example we regularly call in rent cards, check invoices, payroll variations and suchlike, making sure that systems are working in practice and are being adhered to.

- I have been encouraged, once again, by the general acceptance of audit recommendations, and by the support of Members. We have continued to develop our follow-up procedures under the auspices of this sub committee, which has led to an improved ratio of implementation. This, in turn, has helped to improve confidence in our systems.
- Controls often weaken when change has taken place, necessitating a revision of procedures. The authority has been, and still is, undergoing a period of great change and innovation. Throughout this period I have continued to constantly remind management and Members of the need to maintain adequate controls in such circumstances.
- We have again been directly involved in a number of special investigations, and I have reported individually on these in as much detail as is permissible. The lessons learned from some of these will hopefully help us to improve controls and remind us to remain alert.

10.0 THE COMING YEAR

10.1 We are now delivering our plan for 2003/04 which Members have approved. I will continue to inform Members of progress throughout the year, and will again present an annual report at the end. The following issues will also impact upon the performance of Internal Audit and its measurement, and are shown for the information of Members:

- We have a new Group Auditor in place, and a recently promoted Senior Auditor (ICT). We have some more moves in the pipeline which will enable us to re-examine requirements, and if necessary renew and refresh.
- District Audit Review – we will continue with our programme of implementation following the recommendations of the report.
- Best Value/CPA – Internal Audit will play its part in the process, following up the BV Review of Corporate Governance and Corporate Support. We have already worked extensively on Best Value Performance Indicators, and have been asked to continue this work.
- Performance Indicators – Internal Audit are now producing their own key indicators as part of a Performance Management Framework developed by the Director of Finance and E Government.
- Benchmarking – the Greater Manchester Chief Internal Auditors Group have been at the forefront of benchmarking. We will continue to contribute to this process, submitting data, and then analysing and reviewing the outputs.
- Risk Management – the Risk Management Group is now up and running. The Section must play its part in ensuring that the momentum is maintained, so that RM is embedded into the culture of the Authority, and RM procedures are introduced and maintained throughout.
- Anti-Fraud and Corruption – a review of the policy/strategy is already underway.

J W BUTTERWORTH

CHIEF INTERNAL AUDITOR

Background documents:

Internal Audit Plan 2002/03

For further information on the details of this report, please contact:

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