

BURY MBC INTERNAL AUDIT
ANNUAL REPORT AND OPINION FOR 2003/04

1.0 SUMMARY

- 1.1 This report concerns the work undertaken by the Section in the financial year 2003/04, comparing it 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.

2.0 INTRODUCTION

- 2.1 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. They achieve this through their involvement in the approval of the annual plan, scrutiny of reports produced, and regular progress monitoring. The first annual report was introduced in 1999 and the report has now 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. This report will form part of the assurance Members are now required to seek under the provisions of the Accounts and Audit Regulations 2003. They will draw upon assurances gathered from various sources in order to fulfil the Council's obligation to issue a Statement on Internal Control.

3.0 BACKGROUND

- 3.1 A comprehensive Internal Audit Plan for the financial year 2003/04 was approved by the Audit Sub-Committee at the meeting on 12th March 2003. 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.
- 3.2 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.

4.0 THE INTERNAL AUDIT SECTION

4.1 Objectives

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 2003. 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.

4.2 Staffing

During the year 2003/04:

- Internal Audit has a staffing establishment of eleven, but we have had to deal with vacancies during the year, including one member of staff taking a career break, and I reported during the year that we had had particular difficulty in filling one of our vacancies. However, we have been able to mitigate the impact of the vacancy on the achievement of the Audit Plan, partly by minimising non-rechargeable time. We have been assisted in this by an excellent attendance record (low sickness absence), and the team has worked additional time to ensure completion of our planned work targets.
- All staff in the section have accountancy qualifications (Accountant or Technician). Additionally, three of our team are also graduates, one technician is a qualified member of the Institute of Internal Auditors, and another holds the specialist Qualification in Computer Audit (QiCA). Also, at the present time, one member of staff is studying for the QiCA certificate and one is taking a professional accountancy qualification,
- We have continued to supplement professional training with on-the-job training, specialist courses and seminars. These are identified mainly through the employee review system and help us to maintain a highly trained team. Currently, three members of the Section are undergoing the Senior Management Breakthrough training.
- We also 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 again (with support from my colleagues) chaired the G.M. Contract Audit Group throughout the year (hosting and leading the Group). Our support of the National and Greater Manchester Fraud Initiatives has been maintained, and in particular our participation in the ground breaking data matching exercises, which have produced such impressive savings over the years.
- Our broad spread of skills and experience in the section is constantly under review, and we are currently in the process of recruiting a new auditor. We have also continued the successful scheme of purchasing additional computer audit work by District Audit specialist staff, and are also purchasing specialist skills from the newly formed Greater Manchester Computer Audit Consortium. Both of these work alongside our own, in-house staff. We are also still developing our in-house capability by training another member in QiCA (see above).

4.3 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 1832 days of work, directly rechargeable to our clients. Actual time recharged was 1818 days.
- The vacancy was offset by targeted reductions in non-rechargeable time, and our sickness record for the year was very good. The team also worked additional days, on a planned basis, to ensure that the plan was substantially completed. As always, considerable effort was focussed on key controls, working in conjunction with our Audit Commission colleagues.
- An analysis can be seen at Appendix A.

5.0 **OUTPUTS COMPARED TO THE PLAN**

5.1 Work Output

- The analysis at Appendix A shows that targets were generally achieved, at least in terms of inputs. 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.

5.2 Costs and Charges

- The cost of the Section for the year was just over £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 (inclusive of overheads). (NB. This average is inflated because of the vacancy)
- Our recharge rate was £30.00 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.

6.0 **AUDIT OPINION**

6.1 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's Constitution 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's Constitution also encompasses codes of conduct for both Members and employees, clearly linked to the appropriate Standing Orders, Financial Regulations etc. The National Code for Members has been adopted at Bury.
- The Council has recently reviewed and updated its Anti-Fraud Strategy after extensive consultation. The policy takes a strong line on fraud, which underlines the anti-fraud culture within the authority. Incorporated into the Strategy are its Confidential Reporting (Whistleblowing) Policy, Benefit Fraud Prosecution Policy, Members' Guidance (re outside bodies), and a Local Code of Corporate Governance. Standards of Conduct are also reiterated here.
- 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 is continually developing its approach to corporate governance and risk management, and a new post of Risk Manager has been established to work under the re-designated Head of Audit and Risk Management. This development is intended to provide focus to the day to day RM activities, previously carried out by a variety of different officers. An active Risk Management Group operates within the authority, and is led personally by the Director of Finance and E Government. Much progress has been made during the year, under the guidance of the Council's external consultants.
- No limits have been placed on the scope of Internal Audit work, and as Head of Audit and Risk Management I have direct access to the Chief Executive. I report directly to the Director of Finance and E Government, other Directors, and to Members, and liaise regularly with the Audit Commission.

6.2 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 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 and NNDR. 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 earlier carried out a rigorous evaluation of Internal Audit, 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 check invoices, payroll variations and suchlike, making sure that systems are working in practice and are being adhered to. We have also continued to offer support to inter-departmental working groups, providing advice on new or revised systems, e.g. Procurement, Payroll, Purchasing Cards. Requests for our advice and involvement at the early stages of schemes have noticeably increased.
- 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.

7.0 THE COMING YEAR

7.1 We are now delivering our plan for 2004/05 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:

- The Section has been re-named “Audit and Risk Management”. This is not an intention to merge the functions, indeed, Internal Audit must remain independent and able to freely examine all of the Council’s operations. There is, however, a need for the Risk Management function to become focussed and led by a dedicated officer. The Risk Manager will be based within the Section, under the direction of the Head of Audit and Risk Management, but will operate as a distinctly separate stream.
- It is clear that Internal Audit, whilst not taking over responsibility for risk management, will have an increasingly important role to play in the independent examination of the function and of its review, just as it would for any other developing service or function. Programmes and work plans will be developed to this end. Internal Audit will also continue to develop its own risk based approach to its work, particularly as part of the planning process.
- Promotion of the Section will be effected by inclusion on the Authority intranet site.

- Best Value/CPA – Internal Audit will continue to play its part in the process, and in following up the BV Review of Corporate Governance and Corporate Support which led to the report based on the CIPFA/SOLACE recommendations (note: Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers). We have already worked extensively on Best Value Performance Indicators, and have again been asked to continue this work.
 - The Council is undertaking an ambitious programme of mainframe migration which will require inputs in terms of guidance and advice from Internal Audit.
 - 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.
 - Anti-Fraud and Corruption – a review of the policy/strategy has been completed (see earlier).
- 7.2 The Council will be required to produce a “Statement on Internal Control”, under the requirements of the Accounts and Audit Regulations 2003. It is hoped that this report, and the work of Internal Audit, will provide some of the assurance needed in support of that statement. The Head of Audit and Risk Management will be required to co-ordinate this and other inputs to that statement.

J W BUTTERWORTH

HEAD OF AUDIT AND RISK MANAGEMENT

Background documents:

Internal Audit Plan 2003/04

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