

BURY MBC INTERNAL AUDIT
ANNUAL REPORT AND OPINION FOR 2004/05

1.0 SUMMARY

- This report details the activities of Internal Audit during 2004/05.
- It compares the output of work against the Audit Plan for the year.
- It is particularly concerned with the authority's control framework, and its assessment, which forms the basis of the Audit Opinion.

2.0 BACKGROUND

- 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.
- Members of the Audit 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 annual plan and its approval, scrutiny of reports produced, and regular progress monitoring.
- This report will provide some of the assurance Members have 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 INTRODUCTION

- A comprehensive Internal Audit Annual Plan for the financial year 2004/05 was approved by the Audit Committee at the meeting on 24th February 2004.
- 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.
- 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 ABOUT THE INTERNAL AUDIT SECTION

4.1 Audit Objectives

The Internal Audit Section is the Council's own directly employed in-house Internal Audit Service, and provides 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 the Council, with 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 Audit Staff

- Internal Audit has a staffing establishment of eleven. This has been reduced to ten throughout the last year, initially due to difficulties with recruitment, and latterly due to the policy of not filling vacancies.

4.3 Audit Skills

- We employ qualified staff (Accountant or Technician). Additionally, three of our team are also graduates, and some hold additional qualifications, e.g. Member of the Institute of Internal Auditors, 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 employee review system and help us to maintain a highly trained team. Three members of the Section have been 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, the G.M. Computer Audit Group, the GM Fraud Group and the G.M. Contract Audit Group. We have supported the National and Greater Manchester Fraud Initiatives from the outset and have maintained 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. This year we have purchased additional computer audit expertise to supplement our own. We have worked with District Audit specialist staff, and now purchase specialist skills from the Greater Manchester Computer Audit Consortium (operated on our behalf by Salford City Council). 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.

5.0 THE PLAN - INPUTS

- We planned to provide 1839 days of directly rechargeable work, and achieved 1804 (98%).
- The plan was based on a full establishment of 11 full time staff, which equates to a total of 2860 working days, before making allowance for non-rechargeable time (management, administration and training), vacancies, and other absences (e.g. holidays, sickness etc.). However, a vacancy throughout the year effectively reduced the section to 10, and further time was lost due to planned career breaks.
- We took measures to overcome this situation, partly by minimising non-rechargeable time (reducing management and administrative time), but significantly the team has again voluntarily worked additional time to ensure completion of our planned work targets.
- An analysis of time planned and worked can be seen at Appendix A.

6.0 THE PLAN – OUTPUTS

- The analysis at Appendix A shows that targets were generally achieved, at least in terms of inputs. It reflects the fact that some re-scheduling of time has taken place to effect changes in priority and allow for the involvement of auditors on working groups and 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 any reductions have been limited to the lower risk areas, which we have been able to defer in the short term.

7.0 THE COSTS

- The cost of the Section for the year was £405,000. This has been recharged to our clients on an hourly recharge basis in accordance with our Service Level Agreement.
- Average cost per auditor was £40,500 (inclusive of overheads). (NB. This average is inflated because of the vacancy)
- Our recharge rate was £31.00 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.

8.0 AUDIT OPINION

8.1 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 an up to date Anti-Fraud and Corruption Strategy which was re-launched during the year. Publicity featured in the local press and in the Council news bulletin "Metro Matters". 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 Whistleblowing Policy was also extensively publicised, and all staff received leaflets with their payslips.
- The Council has a Standards Committee (supported by the Monitoring Officer), and an Audit Committee (supported by the Head of Audit and Risk Management and the District Auditor) promoting 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 during this year the Head of Audit and Risk Management has taken on a wider role with regard to these activities. 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.

8.2 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 Committee has been instrumental in our approach to following up our recommendations.

I believe that we have achieved a good coverage of systems and controls, but as always, I must remind Members 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 conducted a rigorous examination of the Council's fundamental systems and key controls. This has included work on Debtors, Creditors, Cash Collection, Information Services, Contracts, 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, under the "Managed Audit" strategy. Under this arrangement they have placed reliance upon our work, enabling us to co-ordinate our efforts and achieve maximum coverage in our systems audit work. This arrangement is based on 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 the Audit 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.

9.0 LOOKING AHEAD

- 9.1 We are now delivering our plan for 2005/06 (approved 24th March 2005). 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 is now operating under its new title “Audit and Risk Management”. There was not, initially, a deliberate intention to merge the functions, bearing in mind the need for Internal Audit independence. But, as Internal Audit has continued to develop its risk based approach, the two functions have been drawn closer together. This development will continue. We had also identified a need for the Risk Management function to become focussed and led by a dedicated officer. At the moment this responsibility is being shared by the Director of Finance and E Government, and the Head of Audit and Risk Management. This arrangement is likely to continue through this year.
- Internal Audit will continue to develop its own risk based approach to its work, particularly as part of the planning process.
- The Section will continue to develop its entry on the Authority intranet site as a means of promotion.
- Best Value/CPA – Internal Audit will continue to play its part in the process. We have already worked extensively on Best Value Performance Indicators, and have again been asked to continue this work.
- The implementation of new systems under the Council’s ambitious programme of mainframe migration is at a critical stage, and will require Audit inputs.
- Performance Indicators – Internal Audit will continue 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).

9.2 The Council are now required to produce a “Statement on Internal Control” annually (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 it. 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 2004/05

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