

AUDIT SERVICES ANNUAL REPORT ON INTERNAL CONTROL 2006/07

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SUMMARY: This report provides Members with assurance and an opinion on the Council's systems of internal control in 2006/07.

Recommendation:	That Members note the report and consider its contribution to the Statement on Internal Control.
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1 INTRODUCTION

1.1 The Annual Reporting Process

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. This report is based on the work undertaken by internal audit in 2006/07 and seeks to:

- Provide an opinion on the adequacy of the control environment
- Comment on the nature and extent of significant risk
- Report the incidence of significant control failings or weaknesses

1.2 Requirement for Internal Audit

There is a requirement under the Accounts and Audit Regulations to maintain an adequate and effective system of internal audit of the Council's accounting records and of its system of internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 (Standard 10) requires that the Head of Internal Audit should provide a formal annual report to the organization, to support the Statement on Internal Control to be approved alongside the Statement of Accounts for 2006/07.

2 REVIEW OF INTERNAL CONTROL

2.1 How Internal Control is Reviewed

Internal Audit adopts a risk-based approach to audit. The risk assessment is carried out at least annually and is updated throughout the year, as audits are carried out or as circumstances change. The risk assessment is used to prioritise work in the audit plan. Factors used in the risk assessment include

financial materiality, potential for fraud or theft, findings at the last audit, changes to the system or staffing and the time elapsed since the last audit.

The range of audits undertaken during the course of the year supports the overall opinion on the control environment. Details of audits undertaken were reported quarterly to the Audit Committee. A summary of the opinion on individual systems arising from the 2006/07 audits is given at Appendix A.

2.2 Opinion 2006/07

Based on the work undertaken during the year, Internal Audit has reached the opinion that key systems are operating satisfactorily and there is no fundamental breakdown of controls resulting in material error or discrepancies. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Council's financial affairs.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance. This statement is intended to provide reasonable assurance. It should be read in conjunction with the internal audit report on Corporate Governance 2006/07, which reviews the wider system of internal control.

3. SIGNIFICANT ISSUES ARISING 2006/07

The following section provides a summary of the more significant issues that have been identified and reported during the year. This is by exception only.

3.1 Business Continuity

Whilst an Emergency Plan framework was in place, as at April 2007, detailed business continuity plans for all services were still to be drawn up. This is to be progressed during 2007/08.

3.2 Disabled Facilities Grants

Staffing resources were severely under pressure in the last quarter of 2006/07, due to staff vacancies. As at April 2007, these posts had still not been filled and there had been a further resignation. There is a significant risk to the Council's ability to deliver this mandatory service.

4. OTHER SIGNIFICANT ISSUES

4.1 New Financial Management System Project

Considerable Accountancy and IT staffing resources were used in implementing the new Financial Management System Project. As well as a new ledger, this also included new Purchasing, Creditor Payments and Sundry Debtors modules. Internal Audit monitored the implementation of the new software throughout the year and carried out pre-Go Live checks. The system went live on 2 April 2007. Audit will be carrying out detailed checks on the systems in 2007/08.

5. AUDIT PERFORMANCE

5.1 Compliance with the CIPFA Code of Practice for Internal Audit

A self-assessment, copied to the external auditor, reviewed our compliance with the new Code of Practice issued in December 2006. Full details were reported to the Audit Committee, on 28 March 2007. The Internal Audit service at Copeland B.C. fully complied with 45% of the relevant standards and mostly complied with a further 55%. An action plan was drawn up to bring the service fully in line with the standards in 2007/08. Areas of non-compliance had arisen from changes to the Code of Practice when it was revised and issued in December 2006. The District Auditor commended Internal Audit on being proactive in addressing the new issues contained in the revised Code and confirmed to the Audit Committee that he had no concerns relating to the Internal Audit service.

5.2 Customer Satisfaction

As part of Internal Audit's commitment to ensuring the highest professional standards, and to ensure we are continually improving the quality of work produced, we issued an annual Customer Satisfaction Questionnaire to Management Group and to team leaders whose areas had been audited in 2006/07 . Only 10 questionnaires were returned, despite issuing a reminder. We assume that if managers had concerns about the internal audit service, they would have taken this opportunity to record this. A summary is given below:-

- 40% felt they were sufficiently consulted on the Audit Plan [50% no response]
- 10% felt they were not sufficiently consulted but this was through no fault of audit [Didn't have the time to read through the plan sent]
- 40% would like extra audit services
- 48% rated the standard of audits and reports as excellent
- 44% rated the standard of audits and reports as good
- 80% did not prefer audit services to be provided differently [10% no response]
- 60% rated audit services as providing excellent value for money
- 30% rated audit services as providing good value for money [10% no response]

This shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is related to wanting more audit coverage – 4 respondents would like extra audit services and the 1 respondent who would like audit services to be provided differently would like audit to cover more areas on a cyclical basis, if resources allowed. Given the limited audit resources of 3 FTE staff, plus the Manager who is also responsible for the

Fraud section, and the requirements that have to be met for the external auditor and the CIPFA Code of Practice for Internal Audit, there is little we can do to develop more operationally-focused audits. The main emphasis to satisfy statutory requirements is on financial and corporate governance controls.

5.3 Performance against the approved Audit Plan 2006/07

A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Committee. Staff vacancies and long term sickness resulted in lost time equivalent to 1 full time post for 5 months. In addition, annual audits on the main financial systems exceeded the allocated time due to following the new CIPFA audit testing guidance. This meant that only 68% of the Audit Plan was achieved, compared to a target of 90%. The performance indicators for 2006/07 are shown at Appendix C of the Audit Services Monitoring report for the Fourth Quarter. Actual days carried out against the approved plan are shown on the report presenting the Strategic Audit Plan.

List of Appendices:

Appendix A – Opinion on controls of individual systems 2006/07

List of Background Documents: Audit system files

Officers Consulted: Corporate Team

APPENDIX A**SUMMARY OF THE OPINION ON INDIVIDUAL SYSTEMS AUDITED
2006/07****FINAL ACCOUNTS PROCESS 05/06 [06/07 Audit report]**

OVERALL AUDIT OPINION	EXCELLENT
CONTROL DESIGN	EXCELLENT
CONTROL EFFECTIVENESS	EXCELLENT
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	MEDIUM

TRAVEL & SUBSISTENCE 05/06 [06/07 Audit report]

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	LOW

NNDR GRANT CLAIM 05/06 (06/07 Audit report)

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

CAPITAL ACCOUNTING 05/06 (06/07 Audit report)

OVERALL AUDIT OPINION	GOOD
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE	LOW
PROBABILITY	
IMPACT	MEDIUM

PAYROLL

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	LOW
PROBABILITY	
IMPACT	HIGH

LOANS & INVESTMENTS

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	LOW
PROBABILITY	
IMPACT	HIGH

CASH RECEIPTING

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	LOW
PROBABILITY	
IMPACT	HIGH

HOUSING BENEFITS

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE (IMPACT)	MEDIUM

NATIONAL NON-DOMESTIC RATES (NNDR)

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	MEDIUM

COUNCIL TAX

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

IT NETWORK CONTROLS

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

BEREAVEMENT SERVICES

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE	LOW

LICENSING

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD Re issuing of licences WEAK re reconciliation of income and audit trail to FMS
RISK EXPOSURE PROBABILITY IMPACT	LOW MEDIUM

FREEDOM OF INFORMATION ACT 2000

OVERALL AUDIT OPINION	GOOD
CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE	LOW

DISABLED FACILITIES GRANTS

OVERALL AUDIT OPINION	SATISFACTORY
CONTROL DESIGN	SATISFACTORY
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	LOW

MAIN ACCOUNTING SYSTEM

OVERALL AUDIT OPINION	GOOD
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY IMPACT	LOW HIGH

CREDITORS

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE PROBABILITY	LOW
RISK EXPOSURE IMPACT	HIGH

SUNDRY DEBTORS

OVERALL AUDIT OPINION	SATISFACTORY
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	SATISFACTORY
RISK EXPOSURE	MEDIUM
PROBABILITY IMPACT	MEDIUM

CORPORATE GOVERNANCE

OVERALL AUDIT OPINION	GOOD
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CONTROL DESIGN	GOOD
CONTROL EFFECTIVENESS	GOOD
RISK EXPOSURE	LOW
PROBABILITY IMPACT	LOW