

**REPORT TO:           AUDIT AND RISK MANAGEMENT SUB-COMMITTEE 16/05/05**

**REPORT ON:           INTERNAL AUDIT ANNUAL REPORT 2004/05**

**REPORT BY:          CHIEF INTERNAL AUDITOR**

**REPORT NO:           334-2005**

**1.    PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee the Internal Audit Annual Report which summarises the activities of the Council's Internal Audit Service for the 2004/05 financial year.

**2.    RECOMMENDATIONS**

The Sub-Committee Members are asked to note the information contained within this report.

**3.    FINANCIAL IMPLICATIONS**

None

**4.    LOCAL AGENDA 21 IMPLICATIONS**

None

**5.    EQUAL OPPORTUNITIES**

None

**6.    BACKGROUND**

- 6.1.** Attached at Appendix A is a report pertaining to the Council's Internal Audit Service which provides a broad summary of the work carried out and other information that has impacted on the service during the 2004/05 financial year.
- 6.2.** In the 2004/05 financial year the actual days available for direct audit work totalled 1,005 compared to a budget of 1,185 days. The shortfall was the result of a number of factors such as unfilled posts and sickness absence. Some projects that should have been undertaken in 2004/05 have been deferred and are included in the 2005/06 Internal Audit Annual Plan.
- 6.3.** In terms of the work undertaken in 2004/05, a total of 43 Internal Audit Reports have been drafted covering a wide range of systems across the Council. The majority of the Executive Summaries for these reports have been reported to the Members of the Audit and Risk Management Sub-Committee and those that are still in the process of being finalised will be submitted in due course.

**DAVID K DORWARD  
DEPUTE CHIEF EXECUTIVE (FINANCE)**

**06 May 2005**

**BACKGROUND PAPERS**

None

## INTERNAL AUDIT ANNUAL REPORT 2004/05

### 1 PURPOSE OF REPORT

- 1.1 To summarise the activities of the Council's Internal Audit Service for the 2004/05 financial year.

### 2 INTERNAL CONTROLS

- 2.1 Each local authority is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of management and, therefore, a responsibility placed upon elected members and officers of an authority.
- 2.2 That responsibility is discharged by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources, and by the preparation, maintenance and reporting of accurate and informative accounts.
- 2.3 There are a number of aspects of corporate governance which are essential prerequisites to the traditional public sector values of impartiality, openness and transparency and the highest standards of probity and propriety appropriate to the handling of public funds. These include a sound control environment, security of key financial systems and an adequate and effective internal audit function.

### 3 ROLE OF INTERNAL AUDIT

- 3.1 Internal audit is an independent appraisal and review function which has been set up within Dundee City Council as a service to the Audit and Risk Management Sub-Committee, Chief Executive, Depute Chief Executive (Finance) and all levels of management. The remit of the service is to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources throughout the Authority's activities.
- 3.2 The existence of internal audit does not diminish the responsibility of management to establish the extent of internal control in the organisation's systems and management should not depend on internal audit as a substitute for effective controls.
- 3.3 Internal audit is independent of the activities which it audits. This is essential to ensure that the service provides unbiased judgements and impartial advice to management.
- 3.4 The role of internal audit is to understand the key risks faced by the Authority and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the Authority. Internal Audit has unrestricted access to all activities undertaken within the organisation in order to review, appraise and report on a wide range of areas which includes system reviews, computer audit work, location audits contract audit, specific investigations and advice on systems, controls and risk.

### 4 AUDIT PLANNING

- 4.1 A vital element in the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, and best value is achieved. This involves strategic and annual audit planning.

- 4.2 A four year Internal Audit Strategic Plan, covering financial years 2005/06 to 2008/09, was approved by the Audit and Risk Management Sub-Committee in January 2005 (Report No. 61-2005). The updated strategic plan takes account of changed circumstances including Council restructuring, new challenges and reordered priorities which have arisen since the previous strategic plan was prepared in 2000.
- 4.3 The Internal Audit Annual Plan provides a summary of the audit reviews to be carried out during the forthcoming year. The Internal Audit Annual Plan for the 2004/05 financial year was approved by the Audit and Risk Management Sub-Committee in September 2004 (Report No. 644-2004)

## **5 AUDIT REPORTS**

- 5.1 Each audit assignment results in an internal audit report which details the audit findings, recommendations and management responses, if appropriate. The reports essentially provide management with an action plan which assigns responsibility and details the timetable for the implementation of audit recommendations.
- 5.2 The findings and recommendations arising from the audit reviews reported upon in 2004/05 have been discussed with appropriate officers of the Council and agreed action plans have been put in place to address areas for improvement.
- 5.3 Internal Audit also undertakes follow up work to confirm that management has discharged its responsibility for implementing audit recommendations within the agreed timescale. Follow up work in respect of reports issued during 2004/05 will be reported upon in due course.

## **KEY EVENTS IMPACTING ON THE INTERNAL AUDIT SERVICE DURING 2004/05**

### **6 AUDIT SCOTLAND STUDY**

- 6.1 In July 2004 Audit Scotland issued a national follow-up report entitled 'A Job Worth Doing – Raising the standard of internal audit in Scottish councils'. The objective of this study was to measure the progress made by the internal audit functions within local government in Scotland since the initial study in 2001. Audit Scotland undertook this study on behalf of the Accounts Commission and the assessment framework used was developed from the CIPFA Code of Practice for Internal Audit in Local Government.
- 6.2 The extent to which each Council's Internal Audit Service met the standards of good practice was assessed using six critical success factors which covered setting clear and properly focused objectives for their work, maintaining audit independence, resourcing their work programme, planning and controlling their work, reporting and follow-up arrangements and being accountable for their performance. In the national report the Internal Audit Service in Dundee City Council was scored as Band 1 which represented those Councils which are almost fully compliant with these objectives. The Council's Internal Audit Service had previously been scored as Band 2. The upgrading reflected the improvements made by the Chief Internal Auditor between the two studies.

### **7 STAFFING LEVELS WITHIN THE INTERNAL AUDIT SERVICE**

- 7.1 For 2004/05 the establishment for the Internal Audit Service consisted of 9 posts namely that of the Chief Internal Auditor, the Senior Internal Auditor and seven internal auditor posts. During 2004/05 three of these posts were unfilled. Both the Chief Internal Auditor and the

Senior Internal Auditor are CCAB (Consultative Committee of Accountancy Bodies) qualified accountants.

7.2 The structure of the Internal Audit Service was considered as part of the Finance Department (General) – Review of Staffing Structure (Report No. 739-2004) which was approved by Committee in December 2004. The main changes arising as a result of this report were that the Senior Internal Auditor was re-designated Principal Internal Auditor and two of the Internal Auditor posts were re-designated Senior Internal Auditor posts. Since this report was approved steps have been taken to appoint staff. As a result two of the vacant posts will be filled during the first quarter of the 2005/06 financial year.

## **8 PLAN ACHIEVEMENT**

8.1 The following statistics have been collated from the internal audit management systems in relation to 2004/05 financial year:

- 81% of the actual productive days was spent on direct audit activities, with the remaining 19% being spent on support activities such as management, audit planning, training and development.
- Actual days available for audit reviews was 1,005 against a budget of 1,185 days. This represents a 15% shortfall in resources available and was primarily due to difficulties in the recruitment of additional staff and sickness absence being at a higher level than anticipated.
- Notwithstanding the difficulties in staffing levels, work carried out during 2004/05 included 30 major reviews and 27 areas where advice on systems control and risk was provided or specific investigations were undertaken. Slippage of projects due to lack of resources has resulted in certain projects being deferred and these have been included in the 2005/06 Internal Audit Annual Plan.
- 43 internal audit reports have been prepared on the basis of the work undertaken and have generally been well received by departments.

## **9 OVERALL ASSESSMENT OF CONTROLS**

9.1 Work carried out during 2004/05 covered a wide spectrum of areas and included cash collection and receipting, debtors and debt management, payroll, creditors and creditors' payments, information technology, verification of grant claims and year end stocks and stores. There was internal audit coverage across most departments of the Council.

9.2 The 2004/05 audit of corporate and departmental systems has identified that many of the expected controls are in place and operating satisfactorily in the areas examined. The audit work has, however, also identified scope for improvement in systems which either lack or have weaknesses in controls.

9.3 The Internal Audit Service has put forward a range of recommendations in the areas examined and action plans have been developed in consultation with management which, as they are implemented, should result in continued improvement in the overall control environment.