

REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE - 22 SEPTEMBER 2008

REPORT ON: 2007/08 INTERNAL AUDIT ANNUAL REPORT

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 481-2008

1.0 PURPOSE OF REPORT

To submit to Members of the Audit and Risk Management Sub-Committee the Internal Audit Annual Report for 2007/08 which summarises the activities of the Council's Internal Audit Service for this period and provides an opinion on the overall adequacy and effectiveness of the Council's control environment.

2.0 RECOMMENDATIONS

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

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1. The remit of the Audit and Risk Management Sub-Committee, as laid down in Report No 368-2007, is to consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and to seek assurances that action is being taken on risk related issues that have been identified. A number of sources are used to provide assurance on which the assessment of effectiveness is based which include the Annual Report prepared by the Chief Internal Auditor. Attached at Appendix A is the Internal Audit Annual Report for the 2007/08 financial year.

4.2. On an annual basis the Chief Internal Auditor is also required, to prepare a statement on the adequacy and effectiveness of the internal control system of the Council. This statement forms part of the assurance gathering process which unpins the Statement on the System Internal Financial Control included within Dundee City Council's Annual Statement of Accounts. A copy of the statement prepared by the Chief Internal Auditor for the 2007/08 financial year is attached at Appendix B.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty and Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive and Head of Finance have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 12 September 2008

2007/08 INTERNAL AUDIT ANNUAL REPORT

1. PURPOSE OF REPORT

To summarise the key areas of activities of the Council's Internal Audit Service during the 2007/08 financial year.

2. INTERNAL CONTROLS

- 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 the authority.
- Such 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.
- 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

- 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, Head of Finance and all levels of management. The remit of the Internal Audit Service is to provide an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the Council's objectives. The Service objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources throughout the Council's activities.
- The existence of internal audit does not diminish the responsibility of management to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements and management should not depend on internal audit as a substitute for effective controls.
- The role of internal audit is to understand the key risks faced by the Council and to examine and evaluate the adequacy and effectiveness of risk management processes, control systems, accounting records and governance arrangements as operated by the Council.
- Internal Audit has unrestricted access to all activities undertaken within the organisation in order to be able to effectively discharge its remit. The primary thrust of internal audit work is to review, appraise and report on a wide range of areas. Various types of review work are undertaken which includes systems work, computer audit work, location audits, contract audit, specific investigations and advice on systems, controls and risk.
- The Internal Audit Service is independent of the activities which it audits. This is essential to ensure that the service provides unbiased judgements and impartial advice to management.

4. AUDIT PLANNING

- 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.
- The Internal Audit Annual Plan provides a summary of the areas where it is planned that work will be carried out during the forthcoming year. The Internal Audit Annual Plan for the 2007/08 financial year was approved by the Audit and Risk Management Sub-Committee in January 2007 (Report No. 72-2007).

5. AUDIT REPORTS

- 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.
- The findings and recommendations arising from the audit reviews reported upon in 2007/08 have been discussed with appropriate officers of the Council and agreed action plans have been put in place to address areas for improvement.
- Internal Audit also undertakes follow-up work and progress reviews to confirm that management has discharged its responsibility for implementing audit recommendations within the agreed timescale. Such work is also formally reported upon.

6. KEY EVENTS IMPACTING ON THE INTERNAL AUDIT SERVICE DURING 2007/08

- At the start of the 2007/08 financial a comprehensive review of the working papers used by staff to document audit fieldwork was undertaken by the Chief Internal Auditor with a view to ensuring consistency of approach, improving the quality of working paper files and streamlining the file review process. This was a fairly radical change in approach to working practices for staff within the Section and required more time than anticipated to become embedded which in turn impacted upon the delivery of audit assignments within the planned budget. However the changes have generally been well received by staff and it is anticipated should in time improve efficiency of the audit process.

7. PLAN ACHIEVEMENT

- During 2007/08 the actual number of productive days for the Internal Audit Service was 1586 days which was 2% more than the budgeted productive days. Of the actual productive days available 86% were spent on direct audit activities and 14% were spent on support activities such as management, audit planning, staff training and development. This is broadly in line with the figures for previous financial years.
- In respect of Dundee City Council the 2007/08 Internal Audit Annual Plan included 28 areas, both at a corporate and departmental level, where new reviews were to be undertaken and also allocations of audit days for follow-up reviews and progress reviews, finalisation of audit assignments which commenced in 2006/07, advice being given to clients on systems, control and risk and specific investigations. In addition the plan also included allocations for the provision of internal audit services to external bodies namely Dundee Leisure Limited, Tay Road Bridge Joint Board and Tayside Valuation joint Board as detailed in the respective service level agreements.
- Whilst work on over 80% of the planned areas for corporate and departmental reviews for Dundee City Council was undertaken in 2007/08 there was slippage on achievement on the overall plan. This was due to a number of factors which included the impact of the introduction of new working papers reported upon in section 6 above, project overruns where the fieldwork took more time than originally anticipated, the number of grant claims which required to be subject to audit was higher than had been anticipated and the actual time spent on work for the outside bodies exceeding the days included in the plan. The key projects not achieved as part of the 2007/08 work namely corporate governance, fleet management and performance, management and monitoring are to be included as part of the 2008/09 Internal Audit Annual Plan.
- In the 2007/08 financial year, 38 internal audit reports have been prepared on the basis of the work undertaken. These have generally been well received by departments with management agreeing to implement the vast majority of recommendations made.

8. OVERALL ASSESSMENT OF CONTROLS

- Activity during 2007/08 included a wide spectrum of areas including sickness absence, energy management, disclosure checks, anti-money laundering, procurement, parking penalty charge notices, school placing requests, charges for residential and respite care, non-domestic rates,

scottish housing quality standard, planning applications, pension administration, general ledger, travel and subsistence, ordering receipting and creditor payments, establishment reviews, stocks and stores (including year end work), grant claims and follow-up work

- The 2007/08 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.
- 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.
- In line with the requirements of the Code of Practice on Local Authority Accounting in the UK the Chief Internal Auditor is required to provide an independent opinion on the adequacy and effectiveness of the Council's system of internal financial control. In compiling this statement, a copy of which is attached at Appendix B, the Chief Internal Auditor takes due recognition of the audit work carried out by the Service and other pertinent information. On the basis of the areas used to inform this process for the year to 31 March 2008 the overall audit opinion reached was that reasonable assurance could be placed on the Council's internal control system.

To the Members of Dundee City Council, Chief Executive and Head of Finance

As Chief Internal Auditor of Dundee City Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control system of the Council for the year ended 31 March 2008. It should be noted that the statement does not include assurances on group activities.

Respective Responsibilities of Management and Internal Audit in Relation to Internal Control

It is the responsibility of the Council's Senior Management to determine, establish and maintain a sound system of internal control and to ensure that the organisation's resources are properly applied on the activities intended. This includes responsibility for the prevention and detection of fraud. Senior Management is also charged with monitoring the continuing effectiveness of the internal control framework and taking action as appropriate. It is the responsibility of the Chief Internal Auditor to provide an annual assessment of the overall robustness of the internal control system within the Council.

Sound Internal Controls

The main objectives of the Council's internal control systems are as follows:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives.
- To safeguard assets.
- To secure the relevance, reliability and integrity of information, thereby ensuring as far as possible the completeness and accuracy of records.
- To ensure compliance with statutory requirements.

A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. It therefore provides reasonable but not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of law or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

The Focus of Internal Audit Work

Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The Council's Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom, published by the Chartered Institute of Public Finance and Accountancy (C.I.P.F.A.), and which represents best practice.

The Chief Internal Auditor prepares an annual internal audit plan which outlines the work to be undertaken. This takes cognisance of the risks associated with various activities undertaken by the Council, emerging issues and requests received from departments for specific reviews. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. The plan, any material changes to the plan and any significant matters that may impact upon the delivery of the plan are reported to the Audit and Risk Management Sub-Committee.

The Internal Audit Service formally reports upon the areas subject to review. Such reports, which identify system weaknesses and/or non-compliance with expected controls, are issued for the attention of departmental managers and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports. This includes management taking remedial action where appropriate or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. Internal audit has a responsibility to ensure that agreed action plans have been implemented. Matters arising from internal audit work are also reported to the Council's Audit and Risk Management Sub-Committee, the Chief Executive and the Council's External Auditor.

Summary of 2007/08 Internal Audit Activity

The work carried out during 2007/08 included reviews across a range of Council activities and provision of advice on systems control. In the 2007/08 financial year, 38 internal audit reports were issued. These covered a wide spectrum of areas including disclosure checks, anti-money laundering, procurement, parking penalty charge notices, school placing requests, charges for residential and respite care, non-domestic rates, scottish housing quality standard, planning applications, pension administration, general ledger, travel and subsistence, ordering, receipting and creditor payments, establishment reviews, stocks and stores (including year end work), grant claims and follow-up reviews.

The 2007/08 audit of corporate and departmental systems has identified that many of the expected controls are in place and operating satisfactorily. The audit work has, however, also identified scope for improvement in some systems which either lack or have weaknesses in controls. 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 control environment.

Limitation of Scope

In the financial year under review there was no limitation of scope placed upon the work undertaken by the Internal Audit Service.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources which include the following:

- The audit work undertaken by the Internal Audit Service during the year to 31 March 2008.
- The assessment of risk completed during the preparation of the audit plan.
- Reports issued by Audit Scotland, the Council's External Auditor and also reports by other review agencies.
- Knowledge of the Council's governance, risk management and performance monitoring arrangements.
- Formal assurances received from the Council's Directors/Heads of Service.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2008.

Sallie M. Dailly

**Chief Internal Auditor
Dundee City Council**

DATE

06 June 2008