

**REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE - 28 SEPTEMBER 2009**

**REPORT ON: 2008/09 INTERNAL AUDIT ANNUAL REPORT**

**REPORT BY: CHIEF INTERNAL AUDITOR**

**REPORT NO: 480-2009**

## **1.0 PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee the Internal Audit Annual Report for 2008/09 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 2008/09 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 underpins the Statement on the System of 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 2008/09 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: 18 September 2009

## 2008/09 INTERNAL AUDIT ANNUAL REPORT

### 1. PURPOSE OF REPORT

To summarise the key areas of activities of the Council's Internal Audit Service during the 2008/09 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 2008/09 financial year was initially approved by the Audit and Risk Management Sub-Committee in January 2008 (Report No. 742-2008). This was prepared on the best information available at that time. However subsequent to the plan being approved turnover of staff and a higher than

anticipated level of sickness impacted on the estimated number of days available and resulted in the original plan being revised. The revised plan was approved by the Audit and Risk Management Sub-Committee in September 2008 (Report No. 478-2008).

- The performance of internal audit is also reviewed by the Council's External Auditor on an annual basis, currently Audit Scotland. This allows, where appropriate, reliance to be placed on the work of internal audit and for both parties to plan their work without duplication of work and unnecessary disruption to services.

## **5. AUDIT REPORTS**

- Each audit assignment results in an internal audit report which includes an executive summary and also details the audit findings, recommendations and management responses, if appropriate. The audit report essentially provides management with an action plan which assigns responsibility and details the timetable for the implementation of audit recommendations.
- Within all audit reports an opinion is given on the importance of each audit recommendation namely critical, significant or routine. On the basis of this an overall audit opinion on the level of assurance assigned to the area reviewed is given in the report's executive summary. Broadly there are four levels of assurance namely full, reduced, limited and no assurance.
- The findings and recommendations arising from the audit reviews reported upon in 2008/09 have been discussed with appropriate officers of the Council and agreed action plans have been put in place to address areas for improvement. The executive summary of all reports finalised have also been submitted to the Audit and Risk Management Sub-Committee for consideration.
- 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 2008/09**

- For the 2008/09 financial year the number of productive days available for direct audit activities such as audit reviews, advice on systems control and risk and specific investigations was originally projected to be 1,265 days. Due to staff turnover and a higher than anticipated level of sickness this was reduced to 1,175 days which represented a decrease in anticipated audit coverage of approximately 7%.
- Whilst in the organisational structure for the Council's internal audit service there are nine posts only seven of these are currently funded. Staff turnover within the 2008/09 financial year provided the opportunity to increase the number of qualified members of staff within the section. As a result of the appointment of a new senior internal auditor the percentage of qualified to unqualified/experienced staff has increased to approximately 57%. This benchmarks positively when compared to such staff ratios for other internal audit sections within local government in Scotland.

## **7. PLAN ACHIEVEMENT**

- During 2008/09 the actual total number of productive days for the Internal Audit Service was 1,464 days which was broadly in line with the total budgeted productive days. Of the actual productive days available 81% were spent on direct audit activities and 19% 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 2008/09 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 2007/08, 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 all of the planned areas for corporate and departmental reviews for Dundee City Council commenced in 2008/09 there was slippage particularly in relation to the anticipated time frame for some projects. This was due to a number of factors which included the embedding of relatively new working practices within the team, project overruns where the fieldwork took more time than originally anticipated, piloting joint working for some projects as part of a training initiative and the actual time spent on work for the outside bodies exceeding the days included in the plan. Provision has been made in the 2009/10 Internal Audit Annual Plan to complete prior year projects which still required to be finalised.
- In the 2008/09 financial year, 24 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 98% of recommendations made

## **8. OVERALL ASSESSMENT OF CONTROLS**

- Activity during 2008/09 included a wide spectrum of areas including corporate governance, fleet management, disaster recovery and business continuity, attendance management, fairer scotland fund, single status, housing benefit and council tax benefit, non domestic rates, treasury management, housing repairs partnership, recruitment and selection, fuel management, statutory performance indicators, property management, security of assets, service level agreements, stocks and stores (including year end work), grant claims and follow-up work.
- The 2008/09 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.
- Analysis of the overall audit opinion for the reports issued identified that 33% of the areas reported upon were considered to be well controlled (full assurance), 42% were adequately controlled (reduced assurance) and 25% were requiring improvement (limited assurance). None of the areas reported upon were deemed to be so poorly controlled that no assurance could be placed upon the systems and controls being operated.
- 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 2009 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 2009. 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 2008/09 Internal Audit Activity**

The work carried out during 2008/09 included reviews across a range of Council activities and provision of advice on systems control. In the 2008/09 financial year, 24 internal audit reports were issued. These covered a wide spectrum of areas including sickness absence, energy management, information technology back-ups, private nurseries, the joint equipment service, recruitment and selection, variations to pay, salary overpayments, overtime procedures, council tax liability, housing benefit and council tax benefit, the Fairer Scotland Fund, statutory performance indicators, fuel management, stocks and stores (including year end work), grant claims and follow-up reviews.

The 2008/09 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 2009.
- 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 2009.

*Sallie M. Dailly*

**Chief Internal Auditor  
Dundee City Council**

**DATE**

**04 June 2009**