

Audit Summary Report

July 2006



Review of Internal Audit

South Derbyshire District Council

Audit 2005-2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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Summary report

Introduction

- 1 The Internal Audit service provides assurance on the adequacy and effectiveness of the Council's entire internal control framework. It is well placed to alert management and members to any risks and problems with the control framework and is consequently a crucial component of the Council's performance and improvement system.

Background

- 2 The Accounts and Audit Regulations 2003, include a specific requirement that a relevant body must maintain an adequate and effective system of Internal Audit, of its accounting records and of its system of internal control in accordance with the proper internal audit practices (ie those contained within the CIPFA code). The Section 151 Officer also has specific responsibilities to maintain adequate internal control arrangements to ensure economic, efficient and effective use of resources.
- 3 The Council has to carry out an annual review of the effectiveness of its systems of internal control and prepare a Statement of Internal Control (SIC). The SIC has to be certified by the Chief Executive and the Leader of the Council. Internal Audit has a significant role in helping to discharge this task.

Audit approach

- 4 Our approach under the Code of Audit Practice is to maximise the reliance we can place on the audited body's own arrangements including Internal Audit this is documented in our joint working arrangements protocol. In order to place reliance on the work of Internal Audit we carry out a triennial full review of their activities with a less detailed review being taken in the interim years. The full assessment updates our understanding of the nature and quality of the work being carried out by Internal Audit and its effect on the control environment.

- 5 In order to satisfy ourselves that the Council has an effective Internal Audit service, our full review assessed Internal Audit against the standards of professional practice defined by CIPFA's Code of Practice for Internal Audit in local government:
- scope of Internal Audit;
 - independence;
 - audit committee (or equivalent);
 - relationships with management, other auditors and other review bodies;
 - staff training and development;
 - audit strategy;
 - management of audit assignments;
 - due professional care;
 - reporting; and
 - quality assurance.
- 6 The council had an independent external review of Internal Audit carried out in 2005/06. This report take account of recommendations made in that review but does not repeat them.

Main conclusions

- 7 Overall we are satisfied, apart from the points addressed in the action plan, the Council has appropriate constitutional and management arrangements in place for its Internal Audit service. We have been able to place reliance this year on Internal Audit's fundamental systems work to discharge elements of our statutory duties.
- 8 However there are issues about:
- the level at which the Internal Audit Manager is managed,
 - the timing and impact of reports Internal Audit report: and
 - the way Internal Reports inform the production and reliability of the Council's financial statements and the Statement on Internal Control (SIC).

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9 Our key findings are as follows:

- the Internal Audit Manager is not managed at Management Team level and the job description is out of date;
- The Internal Audit programme does not distinguish between financial system reviews undertaken as part of the joint working arrangements and those undertaken as part of your own risk assessment;
- the format of Internal Audit reports is not standardised or prioritise weaknesses (high, medium or low risk) and does not include monitored action plans; and
- to satisfy the requirements of the Statement on Internal Control the Audit Manager should produce a timely annual report supported by a documented programme of quality control.

10 Our recommendations on these issues are recorded in the action plan.

The way forward

11 We invite the Council to agree the action plan which deals with the issues raised in this report.

Appendix 1 - Action plan

Page no.	Finding	Conclusion	Recommendation	Responsibility	Response
	IA Organisational Standards - Terms of Reference.				
EX.1 Terms of Reference, C.2.PS.	Internal Audit's terms of reference have not been amended to reflect revised CIPFA guidance, the work required for the Statement on Internal Control in the Financial Statements and changes introduced as a result of recent external reviews.	Internal Audit's terms of reference need to be amended to reflect revised CIPFA guidance, the work required for the Statement on Internal Control in the Financial Statements and changes introduced as a result of recent external reviews.	Internal Audit's Terms of reference and the relevant financial regulations and financial procedure rules should be reviewed and revised to reflect current practice. These should be agreed with Internal Audit, approved by the audit sub committee and communicated effectively throughout the council.	Director of Corporate Services	The Terms of Reference and Financial Regulations and Procedure rules will be amended as appropriate by December 2006 (first available date for the Audit Sub Committee).

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EX.2 C.2.PS.	<p>The Structure of the Corporate Services Directorate was revised in the 2004/05 year. The Internal Audit Manager is now managed by the Head of Finance and Property Services. This is at a lower level than the management team and is not in accordance with CIPFA guidelines.</p>	<p>Line managements for the Internal Audit Manager need to be reviewed.</p>	<p>CIPFA guidelines recommend the Internal Audit Manager should be managed at management team level.</p>	<p>Director of Corporate Services</p>	<p>The management of Internal Audit is being elevated within the corporate hierarchy of the Authority by the introduction of an Audit Committee and implementing the recommendations from recent reviews of the audit service.</p> <p>The Director of Corporate Services is now responsible for strategic audit management.</p> <p>In addition, a forthcoming review of the senior management structure will consider this issue.</p>

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EX.3 C.5.PS	<p>Staff Training and development - Internal Audit Manager's Job Description</p> <p>The Internal Audit Manager's job description is not up to date, it was agreed on the 29 September 2003 and should be reviewed and revised in line with the latest developments.</p>	<p>The Audit Manager's job description needs to be reviewed and updated against Internal Audit's revised terms of reference in line with the findings of the external reviews.</p>	<p>Revise the Internal Audit manager's job description.</p>	<p>Director of Corporate Services</p>	<p>The Audit Manager's job description will be amended as appropriate. This will be by January 2007.</p>

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EX.4 D.2.PS	<p>In the Internal Audit's annual programme the financial system reviews undertaken as part of the joint working arrangements are not distinguished from those undertaken based upon Internal Audit's risk assessment.</p> <p>Our joint working arrangements requires Internal Audit to document each key financial system, identify the controls and test the 'key' controls on an annual basis. Internal Audit's programme also includes a more detailed testing of all controls on a cyclical basis, based upon a risk assessment.</p>	<p>Financial system reviews undertaken as part of the joint working arrangements should be distinguished from that undertaken based upon Internal Audit's risk assessment and the level of testing varied accordingly.</p>	<p>The Internal Audit annual plan should distinguish systems reviews undertaken as part of the joint working arrangements and other more detailed system reviews.</p>	<p>Internal Audit Manager</p>	<p>System reviews undertaken as part of the joint working arrangements will be endorsed as such.</p>
<p>Management of assignments - work carried out under the joint working arrangements</p>					

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<p>EX .5 C.3.PS, D.4.PS</p>	<p>Reporting - Audit Findings Internal Audit reports are not standardised and do not include action plans. Consideration is currently being given to a new standardised reporting style.</p>	<p>Internal audit need to adopt a standardised reporting format. This should include classification of control weakness as high medium or low risk. An overall opinion should be given on the adequacy of each system to support the statement on internal control. Actions plans should be drawn up to address each weaknesses.</p>	<p>Reporting templates should be completed for each audit assignment summarising prioritised findings and expressing an opinion upon the adequacy of the system. As a minimum summary and follow reports should be presented to the audit sub committee quarterly.</p>	<p>Internal Audit Manager.</p>	<p>An executive summary report for each audit, including a recommendation classification, will be implemented. (Now in place). A summary of audits including any high-risk weaknesses will be reported to the Audit Sub-Committee once fully established. (From September 2006). Follow-up, on an exception basis, will be reported to the Audit Sub-Committee. (From September 2006). A system assessment is already included in the overall conclusion for SIC purposes. (Now in place).</p>
	<p>Reporting - Annual Report</p>				

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EX.6 D.4.PS, D.5.PS, D.4.PS	The Internal Audit Annual Report should include an opinion on the overall adequacy and effectiveness of the council's internal control environment. This should be presented to those charged with governance (the recently formed audit sub-committee) before the Internal Audit Manager gives his statement of assurance on the control environment which is included in the Statement on Internal Control.	The timing of Internal Audit's Annual Report impacts on the Statement on Internal Control in the financial statements and should be produced before the end of June.	The Internal Audit Manager's statement on the control environment should be reported to the audit sub committee before the Statement on Internal Control is prepared for the financial statements.	Internal Audit Manager	The assurance statement is included with the annual report on the Internal Audit Service, which is to be reported to the Audit Sub-Committee in June each year.

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EX.7 D.4.PS, D.5.PS	<p>The Statement on Internal Control must include a comment on Internal Audit compliance with professional and include a reference to quality assurance programme. To support this statement the Internal Audit Manager will need to evidence quality assurance reviews during the year.</p>	<p>The Internal Audit Manager will need to undertake an evidenced quality assurance programme during the year.</p>	<p>The Internal Audit Manager should undertake a programme of quality assurance checks on a sample of audits using a 'compliance with the Internal audit manual checklist'.</p>	<p>Internal Audit Manager</p>	<p>Agreed.</p>

