

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

28 JUNE 2007

ANNUAL REPORT

Report of the Chief Internal Auditor

1.0 PURPOSE OF THE REPORT

- 1.1 To provide a summary of the internal audit work performed during the year ended 31 March 2007 and to express an opinion on the overall internal control environment in place within the County Council.
- 1.2 To further update Members in respect of frauds and irregularities already reported to the February meeting and provide details of breaches to Contract Procedure Rules during 2006/07.
- 1.3 To consider the quality assurance procedures in place for 2006/07, Internal Audit performance for 2006/07 and proposed performance targets for 2007/08.

2.0 BACKGROUND

- 2.1 Detailed internal audit findings have been reported by the Chief Internal Auditor (CIA) to this Committee on the basis of a full year's work performed for each Directorate on the following cycle:-

June 2006	Children and Young People's Service
September 2006	Adults and Community Services plus Computer Audit
December 2006	Business and Environmental Services plus Contract Audit
February 2007	Finance and Central Services, which includes Material Systems
April 2007	Chief Executives Unit

In each of these reports the Chief Internal Auditor gave an opinion on the overall control environment of that Directorate or audit area. This report consolidates these opinions and should therefore assist the Committee when it considers items such as the annual Statement on Internal Control.

- 2.2 The logic for including the other elements in this report are:-

- (i) the 2006 Code of Practice for Internal Audit requires the Head of Internal Audit to bring to the attention of the Audit Committee:-

“the arrangements for and results of quality assurance process

and performance management processes.”

- (ii) the Comprehensive Performance Assessment (CPA) judgement for Use of Resources and feedback on Corporate Governance Reviews by the Audit Commission indicate that it would be good practice to report breaches of Contract Procedure Rules on an annual basis.

3.0 **OVERALL WORK DONE FOR 2006/07**

- 3.1 In 2006/07 the Internal Audit Service completed over 90% of the agreed Internal Audit Plan. The overall opinions expressed to this Committee at meetings between June 2006 and April 2007 are summarized in **Appendix 1**.
- 3.2 The reported work for 2006/07 continued to be influenced by the need to work together with the Audit Commission on the requirements needed to comply with International Auditing Standards in the United Kingdom. The work on the 26 material systems including the whole year testing of transactions has now been completed and there are no material issues which the Chief Internal Auditor needs to bring to the attention of this Committee from this work at this point in time.
- 3.3 For the work relating to 2006/07 not already reported to Committee the issues identified will be reported at the appropriate time when the Directorate specific reports are submitted to this Committee in due course (see separate report on Agenda re Planned Programme of Work). There are no material issues arising from this work which require the Audit Committee’s attention at this point in time.
- 3.4 The number of specific matters investigated by the Internal Audit Service has increased in 2006/07. This continues in part to be due to improved detection methods (eg better use of data matching techniques), a well used and publicised whistleblowing policy and increased awareness amongst staff (eg extensive training has been given to key staff in the last few years). The County Council has recognised the risks in this area and a detailed report on the Counter Fraud Strategy was submitted to this Committee in February 2007. Details of each of the cases resolved since the February meeting will be provided at the meeting, but because some involve either disciplinary or potential criminal matters the details will be ‘Not For Publication’.
- 3.5 One further recommendation of the Audit Commission is that the Chief Internal Auditor should report, on an annual basis, details of breaches to Contract Procedure Rules. **Appendix 2** details those instances detected by the IAS. Members have added reassurance that future non compliance to Contract Procedure Rules will be considered more serious due to the joint work going on between the Corporate Director – Finance and Central Services, Monitoring Officer and Chief Internal Auditor. More background to this issue will be provided in the Chief Internal Auditor’s – confidential one to one session with Members in advance of the formal meeting.

4.0 **AUDIT QUALITY ASSURANCE PROCESS**

- 4.1 In 2003 a new Code of Practice for Internal Audit was introduced which requires the Head of Internal Audit to bring to the attention of the Audit Committee the following information:-

“the arrangements for and results of quality assurance process and performance management processes”.

4.2 **Appendix 3** details the Audit Quality Assurance Process which was adopted by the Internal Audit Service in 2004/05. The Quality File Review detailed in the process was undertaken by the Chief Internal Auditor up to 23 June 2006. A formal report has been issued to both Principal Auditors on detailed points which have arisen because of this file review. Overall the standard of the review was satisfactory and there are no plans to change the quality assurance process detailed in **Appendix 3**.

4.3 The Performance Targets for 2006/07 were agreed with the Audit Committee at the beginning of the year. **Appendix 4(a)** sets out the final performance against the agreed targets for 2006/07 and **Appendix 4(b)** sets out the proposed targets for this year – the 2007/08 targets include the broader role/responsibilities of the IAS (see targets 4, 8 and 10).

5.0 **AUDIT OPINION**

5.1 The IAS works to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. In connection with reporting to Audit Committees, that guidance states that:

"The Head of Internal Audit's formal annual report to the organisation should

- (a) include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment
- (b) disclose any qualifications to that opinion
- (c) present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies
- (d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement of internal control
- (e) compare work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria
- (f) comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme”.

5.2 The overall opinion of the Chief Internal Auditor on the controls operated in the County Council is that they are **satisfactory**. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion. A statement has been included from the Chief Internal Auditor in the Final Accounts setting out this opinion.

6.0 **RECOMMENDATIONS**

6.1 Members are asked to:-

- (i) note the overall “satisfactory” opinion of the Chief Internal Auditor regarding the internal control environment of the County Council
- (ii) note the findings on both the levels of detected fraud and the breaches to Contract Procedure Rules
- (iii) accept the Quality Assurance Process and Performance Measures proposed for the IAS in 2007/08.

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Chief Internal Auditor

Finance and Central Services
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Northallerton

19 June 2007

OPINIONS ISSUED IN 2006/07

Report	Directorate/Audit Work Area	Opinion	Period Covered
June 2006	Children and Young Peoples	Satisfactory	1 June 2005 to 31 May 2006
September 2006	Adult and Community Services	Satisfactory	1 September 2005 to 31 August 2006
	Computer Audit	Satisfactory	1 September 2005 to 31 August 2006
December 2006	Business and Environmental Services	Satisfactory	1 December 2005 to 30 November 2006
	Contract Audit	Satisfactory	1 December 2005 to 30 November 2006
February 2007	Finance and Material Systems (The coverage was heavily influenced by the need to audit material systems)	Good	1 April 2006 to 31 March 2007
April 2007	Chief Executive's Group	Satisfactory	1 April 2006 to 31 March 2007

SIGNIFICANT BREACHES OF CONTRACT PROCEDURE RULES

The following table summarises the significant breaches of Contract Procedure Rules identified during the year:

	Schools	Other
Receipt of quotations by email without appropriate security procedures in place – no dedicated email address set up for quotations at different times	2	
Sealed quotations sought, but opened at different times	2	
Quotations not sought	3	
Contract expired but had not been re-tendered	2	
Contract not signed by the County Council and Contractor despite works starting on site		2
Documentation to support the appointment of the Contractor was not retained appropriately		1
Evidence not available to support a quotation exercise	4	
Contractor with previous supplier extended without a quotation exercise	1	
Lease for equipment entered into by a school without agreement of Finance	3	
Appropriate Standard Contract Conditions are not always included in County Council Contracts		1
Legal Services are not consulted in advance of Contract Conditions being agreed or signed the final contract	8	1
TOTALS	25	5

INTERNAL AUDIT QUALITY ASSURANCE PROCESS**QUALITY CONTROL**

The quality control process within the North Yorkshire Internal Audit Service is built into the Galileo automated working papers package. Staff are allocated the following access rights:-

- Auditors (these staff can only prepare but not authorise working papers)
- Managers (these staff can prepare and authorise working papers)

Manager access rights are allocated to only five staff:-

- Chief Internal Auditor
- Principal Auditors (X2)
- Senior Auditors (X2)

Whilst the system cannot prevent these staff authorising their own working papers, the following conventions have been agreed:-

- Principal Auditors will authorise all working papers produced by the Senior Auditors unless the matter is urgent
- The Chief Internal Auditor will authorise all working papers produced by the Principal Auditors unless the matter is urgent.

The Chief Internal Auditor can authorise his own work and this happens on Corporate Projects and Special Assignments. If the Chief Internal Auditor undertakes a routine audit it will be authorised by a Principal Auditor.

FILE REVIEW

A detailed File Review for audits specified in the approved Plan which are not Corporate Projects or Special Assignments is undertaken by the two Principal Auditors.

Staff will prepare the relevant audit working paper and, when satisfied with the quality, mark the file for review. This will be reviewed by the Principal Auditor who will ask for clarification of any points by raising a review point. Once the Principal Auditor is happy the review point has been answered they will mark the working paper as reviewed.

For audits with an overall opinion of “good” or “satisfactory” the audit report can be issued by the Principal Auditor without reference to the Chief Internal Auditor.

All audits classed as “weak” or “unsatisfactory” are reviewed by the Chief Internal Auditor prior to being sent out in draft.

QUALITY FILE REVIEW

In February and March of each year the Chief Internal Auditor will carry out a Quality File Review on:-

- 3 Education Establishments
- 1 Social Services Establishment
- 2 System Based Audits by Team 2 classed as good or satisfactory
- 2 System Based Audits by Team 3 classed as good or satisfactory

A formal report will be issued to the Principal Auditors who will take on board the comments for the next year's audits.

PERFORMANCE TARGETS 2006/07 OUT-TURN

Target			Actual	
1	To deliver 90% of the agreed Internal Audit Plan	30 Apr 2007	92.04%	✓
2	To achieve a customer satisfaction level of 90% at good or satisfactory	31 Mar 2007	98.28%	✓
3	To ensure 90% of Essential Recommendations made are implemented	31 Mar 2007	90.89%	✓
4	To develop Galileo to record all Special Investigations	30 June 2006	This was done and now all Special Investigations are recorded on Galileo (the e-working paper package used by Internal Audit)	✓
5	To produce an Annual Report to the Audit Committee to assist in the approval of the Statement on Internal Control	29 June 2006	Reported to Audit Committee on 29 June 2006	✓
6	To review the format of reports submitted to the Audit Committee	31 Dec 2006	This was done in conjunction with the Audit Committee and the report was amended in the September cycle to include progress made by Directorates on addressing issues in the Directorate Assurance Statement and Risk Register	✓
7	To implement the new Financial Management Standard for Schools	30 Sept 2006	Internal Audit Approach agreed and in 2006/07 at present 42 schools meet the Standard	✓
8	To develop an approach to verifying Grant claims	31 Mar 2007	The 2007/08 Audit Plan reflects the Grants which need certifying by the Internal Audit Service	✓

PERFORMANCE TARGETS 2007/08

Target		
Operational Issues		
1	To deliver 90% of the agreed Internal Audit Plan	30 April 2008
2	To achieve a customer satisfaction level of 95% at good or satisfactory	31 March 2008
3	To ensure 90% of Essential Recommendations made are implemented	31 March 2008
4	To ensure 90% of FOI requests are answered within the Statutory deadline	31 March 2008
Performance Improvement Issues		
5	To assess 40% of Primary Schools and come to an opinion as to whether they achieve the Financial Management Standard for Schools	31 March 2008
6	To develop the audit approach to the Local Area Agreement	31 March 2008
7	To assist ICT Services to achieve ISO certification	31 December 2007
8	To review the procedures adopted by Internal Audit which enable surveillance to be undertaken on County Council staff	30 September 2007
9	To implement CIPFA/SOLACE guidance in relation to the Local Code of Corporate Governance	31 December 2007