

EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE
26 JUNE 2013
ANNUAL REPORT OF INTERNAL AUDIT
FOR THE YEAR ENDED 31 MARCH 2013

1. INTRODUCTION

1.1 The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (2006) states that Internal Audit should produce an annual report to the Audit and Governance Committee, timed to inform the organisation's Annual Governance Statement. The purpose of the annual report is to:

- give an opinion on the overall adequacy and effectiveness of the Council's control environment
- report any qualifications to the opinion together with details for any qualification
- present a summary of the audit work undertaken that supports the opinion including reliance placed on the work undertaken by other assurance bodies
- record any issues that are considered particularly relevant

2. ROLES AND RESPONSIBILITIES

2.1 Councillors and managers

Councillors and managers are responsible for ensuring that there is an adequate and effective system of internal control in operation by establishing, for example, appropriate policies and procedures including Financial Regulations and for monitoring to ensure they are complied with.

In accordance with the *Accounts and Audit Regulations 2006* the Council is responsible for maintaining an adequate and effective system of internal audit

2.2 Internal Audit

The role and responsibilities/objectives of Internal Audit are to:

- a) review and assess:
 - the soundness, adequacy and reliability of financial, management and performance systems and data
 - the effectiveness of internal controls, and make recommendations to improve these where appropriate
 - procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- b) check for compliance with legislation, Council policies and procedures
- c) promote and assist the Council in the effective use of resources
- d) undertake independent investigations regarding allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation

3. OPINION ON THE COUNCIL'S CONTROL ENVIRONMENT

3.1 Internal Control Statement

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the effectiveness of these systems. It is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the internal control systems are to ensure:

- compliance with the Council's policies, procedures and directives in order to achieve the Council's objectives
- high standards of Corporate Governance are achieved and maintained throughout the Council
- that assets are safeguarded
- the relevance, reliability and integrity of information, and the completeness and accuracy of records
- compliance with statutory requirements, recognised standards and best practice.

Systems of control can only ever provide reasonable, but not absolute, assurance that control weaknesses and irregularities do not exist, and that there are no risks of material errors, losses, fraud or breaches of laws or regulations. The Council is therefore continually seeking to improve the effectiveness of its systems of internal control.

Internal Audit is charged with continually reviewing the system of internal control system on behalf of the Council and its management. Internal Audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit operates in accordance with the above CIPFA Code of Practice. The work of Internal Audit is based upon a risk assessment of the Council's financial and non-financial systems, from which an annual audit plan is established that was referred to the Scrutiny Resources Committee in March for approval.

3.2 Basis of Opinion

Our evaluation of the control environment is informed by a number of sources:

- the work undertaken by Internal Audit during the year to 31 March 2013
- the acceptance of significant recommendations by management
- reports issued by the External Auditors
- risks identified in the Council's Corporate risk register
- the review of the adequacy and effectiveness of the Council's system of internal control as it relates to corporate governance, risk management and quality of data arrangements
- other sources of assurance and information

3.3 Areas of Concern

As a result of the audit work that has been undertaken throughout the year a number of issues have been reported for management action. The main areas of concern that we wish to highlight are:

- a) Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered, separation of duties continues to be an area of concern. There is significant risk that inadequate separation of duties could

weaken the system of internal control, resulting in an increased risk of fraud, irregularities and errors. Therefore, it is important that the introduction of new processes and changes to existing processes are effectively managed to ensure that internal controls are not compromised.

- b) Data Quality – during the year a number of internal audit reports identified some data quality issues, some more significant than others. The decision making process relies on accurate data and data errors can have a financial impact on the Council, therefore, it is important that managers remind staff of the importance of accurate data input.
- c) Risk Management – the risk management process is currently under review along with Business Continuity Management, however, there is currently no process in place to review corporate risks and the Corporate risk register has not been reviewed and updated since March 2012. Therefore, current risks facing the Council may not have been considered and mitigated.

3.4 **Opinion**

From the audit work undertaken during the year, and despite the areas of concern that we have identified above, we consider that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy.

However, as mentioned above, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is only intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2013.

4. **RECOMMENDATION**

- 4.1 Members are recommended to note the contents of this report.

Helen Putt and Helen Kelvey
Senior Auditors
May 2013

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:

None