

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE – 13 JUNE 2002

INTERNAL AUDIT – ANNUAL REPORT 2001/2002

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1** To submit to Members details of the Internal Audit Annual Report for financial year 2001/02.

2. BACKGROUND

- 2.1** Internal Audit annual reporting procedures require that an Annual Report on internal audit activities be presented to the Council's Policy and Resources Committee.

3. CORPORATE GOVERNANCE

- 3.1** The Local Authority (Scotland) Account Advisory Committee (LASAAC) statement of recommended practice (SORP) 2002 introduces for the first time a requirement for councils to include an assurance statement on internal financial control in published accounts. The assurance statement should set out the framework within which financial control is managed and reviewed, and the main components of the systems of internal control, including arrangements for internal audit.
- 3.2** There is no direct requirement in the CIPFA 'Code of Practice for Internal Audit in Local Government' for Internal Audit to produce an annual assurance statement on the reliability of the council's systems of internal control, however the code does state that it is becoming common practice for Chief Auditors to include an assurance statement within an annual report. Annual audit reports prepared by East Ayrshire Council have for sometime included the Chief Auditor's opinion on the adequacy and effectiveness of the council's systems of internal control.
- 3.3** The framework of internal control can be defined as the whole system of controls, financial and otherwise, established by management in order to carry on the business of the authority in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of records.

4. ANNUAL REPORT 2001/2002

- 4.1** The attached report (Appendix 1) summarises the audit work carried out in 2001/02. The report presents an analysis of the performance of the Internal Audit section during the year ending 31 March 2002, and provides a synopsis of the significant audit findings arising from the work carried out in the financial year 2001/2002.
- 4.2** All plan items have been completed, either by 31 March 2002 or shortly into the new financial year. In addition, a number of unplanned audit assignments requested by departments have also been satisfactorily delivered within the audit plan year. In summary terms, the audit section has successfully delivered the 2001/02 audit plan.
- 4.3** Internal Audit has put forward a range of recommendations in the areas examined and action plans have been developed in consultation with management which, when implemented, should result in a continued improvement in the overall control environment.

5. OVERALL ASSESSMENT OF CONTROLS

- 5.1** In arriving at an opinion the Chief Auditor has taken into account the findings and conclusions from the systems that have been audited during the year, and drawing on the experience of work carried out in earlier years.
- 5.2** Overall, Internal Audit is of the opinion that reasonable assurance can be placed upon the systems of internal control in operation.
- 5.3** Internal Audit is satisfied that there is management commitment to act where control improvement opportunities are identified, and that staff understand and accept the need for systems to be robust and reliable.

6. RECOMMENDATIONS

- 6.1** Members are asked to note the contents of the Internal Audit Annual Report 2001/2002.

Colin Houston
Chief Auditor
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LIST OF BACKGROUND PAPERS

A job worth doing – Raising the standard of internal audit in Scottish councils, prepared by Audit Scotland.

CIPFA Code of Practice for Internal Audit in Local Government.

Anyone wishing further information on the content of this report should contact the Chief Auditor on Tel. No. (01560) 323836.

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE – 13 JUNE 2002

INTERNAL AUDIT - ANNUAL REPORT 2001/2002

Report by the Chief Auditor

1 PURPOSE OF REPORT

- 1.1 To summarise the activities and findings of internal audit work carried out in financial year 2001/2002, and within this summary provide an opinion on the adequacy and effectiveness of the systems of internal control.

2 CORPORATE GOVERNANCE

- 2.1 The Local Authority (Scotland) Account Advisory Committee (LASAAC) statement of recommended practice (SORP) 2002 introduces for the first time the requirement for councils to include an assurance statement on internal financial control in published accounts. The assurance statement should set out the framework within which financial control is managed and reviewed, and the main components of the systems of internal control, including arrangements for internal audit.
- 2.2 The assurance statement should be signed by the 'proper finance officer', in our case the Director of Finance, who is assigned responsibility for the systems of internal control under section 95 of the Local Government (Scotland) Act 1973. The internal control assurance statement should thereafter inform the council's corporate governance assurance statement.

3 INTERNAL CONTROL

- 3.1 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;
 - ◆ adequate and effective internal audit.
- 3.2 The framework of internal control can be defined as the whole system of controls, financial and otherwise, established by management in order to carry on the business of the authority in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of records.

4 ROLE OF INTERNAL AUDIT

- 4.1 Internal audit has an important role to play in assisting the Director of Finance discharge his Section 95 responsibilities. The responsibilities and duties of Internal Audit are summarised in the Financial Regulations of the Council, which state:

"Internal Audit shall be arranged for the purpose of carrying out an examination of financial and related systems of the Council to ensure that the interests of the Council are protected."

- 4.2 Internal Audit carries out a range of functions, across its client group, designed to meet the above objectives. These include systems reviews, computer audit work, audit probes, location audits, contract audit, value for money studies, performance indicator work and defalcation investigations.
- 4.3 There is no direct requirement in the CIPFA 'Code of Practice for Internal Audit in Local Government' for Internal Audit to produce an annual assurance statement on the reliability of the council's systems of internal control, however the code does state that it is becoming common practice for Chief Auditors to include an assurance statement within an annual report.
- 4.4 Annual audit reports prepared by East Ayrshire Council have for some time included the Chief Auditor's opinion on the adequacy and effectiveness of the council's systems of internal control. In arriving at an opinion the Chief Auditor takes into account findings and conclusions from the systems that have been audited during the year.

5 PRESENTATION OF RESULTS

- 5.1 The following sections of the report present an analysis of the performance of the Internal Audit section during the year ending 31 March 2002, and provide a synopsis of the significant audit findings arising from the work carried out in the financial year 2001/2002. Section 16 of the annual report presents an overall assessment of controls taking account of the findings and conclusions from the systems that have been audited during the year and in previous years.

6 STAFFING OF INTERNAL AUDIT

- 6.1 A review of the Internal Audit structure was carried out in the spring of 2001, taking advantage of the opportunity for restructuring offered by continuing vacancies. This revision established the new posts of Audit Manager Client Services, Audit Manager Information Technology and a qualified Auditor post. The Audit Manager Information Technology post was filled by the existing computer auditor and the posts of Audit Manager Client Services and Auditor were filled in July, 2001. This brings the section close to full establishment. An assistant auditor post remains to be filled. In addition, there will normally be a trainee accountant on secondment from the Finance Department.

6.2 The Chief Auditor, Audit Manager Client Services, Audit Manager Information Technology and the Auditor are all CCAB (Consultative Committee of Accountancy Bodies) qualified accountants.

6.3 Internal Audit is an element of the internal control system set up by management. A strong internal audit function is considered important for the effectiveness of the internal control systems established.

7 AUDIT PLANNING

7.1 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. This involves strategic and annual audit planning.

7.2 A new three year strategic plan, covering financial years 2001/2002 to 2003/2004, was approved by the Policy and Resources Committee on 14 June, 2001. The new strategic audit plan took account of changed circumstances since the previous strategic plan was prepared in 1998, including council restructuring, new challenges and reordered priorities.

7.3 The Annual Audit Plan for year 2001/2002 provided a detailed list of the specific audit assignments to be carried out during the audit year. This level of detail is required for a number of reasons, including timetabling, staff allocation, and to avoid duplication of effort between internal and external audit. The 2001/2002 annual audit plan was approved by the Policy and Resources Committee on 5 April 2001.

7.4 An annual service level agreement is in place with all audit clients, setting out audit standards, and providing service descriptions and details of all planned assignments.

8 AUDIT REPORTS

8.1 Each significant audit assignment results in an audit report which includes an 'Action Plan' designed to solicit action, assign responsibility and set a timetable for the implementation of audit recommendations.

8.2 The findings arising from 2001/2002 audit assignments have been discussed with appropriate officers of the Council and agreed action plans have been put in place to address areas for improvement.

8.3 Internal Audit routinely undertake follow up work on all major audit assignments in order to assess progress on the implementation of audit recommendations and to assist management to discharge this responsibility.

9 PLAN ACHIEVEMENT

9.1 All 2001/2002 plan audits were commenced within the audit year and completed by 31 March 2002, or within the first few weeks of the new audit year. A number of unplanned audit assignments, arising out of requests from clients, were also satisfactorily completed within the audit year and without detriment to planned assignments.

9.2 Performance statistics have been collated from the audit management systems in relation to the audit year 2001/2002 and these reveal:

- ◆ 36 audit assignment reports were issued (34 reports in 2000/2001);
- ◆ 73% of all staff time was spent on direct audit activities (79% in 2000/2001), the remaining 27% of audit time was spent on support activities such as management, planning, training and development areas;
- ◆ 1235 chargeable audit days were produced against a plan of 1050 days (1067 days in 2000/2001);

9.3 The following provides an analysis of audit time by audit function in 2001/2002 (2000/2001 figures are provided for comparison):

<i>FUNCTION</i>	<i>2001/2002 PLAN %</i>	<i>2001/2002 ACTUAL %</i>	<i>2000/2001 ACTUAL %</i>
<i>Systems Reviews</i>	39	40	35
<i>Computer Audit</i>	9	8	14
<i>Value for Money</i>	9	15	2
<i>Location/Probity Audits</i>	6	5	5
<i>Defalcation</i>	17	9	28
<i>Contract audit</i>	6	4	4
<i>Advisory Services</i>	4	4	3
<i>Stocks & Inventories</i>	3	6	4
<i>Performance Indicators</i>	7	9	5
TOTAL	100	100	100

9.4 All priority audit assignments, in particular plan work on core systems, were completed, either within the year or early in 2002/2003. The volume of investigative work, which is notoriously difficult to predict, was significantly down for the year.

9.5 An analysis of audit time, actual versus plan, by council service is provided in the table below (2000/2001 figures are provided for comparison):

<i>FUNCTION</i>	<i>2001/2002 PLAN %</i>	<i>2001/2002 ACTUAL %</i>	<i>2000/2001 ACTUAL %</i>
<i>Corporate Resources</i>	12	16	11
<i>Finance</i>	27	32	21
<i>Community Services</i>	12	10	24
<i>Development Services</i>	12	7	11
<i>Educational & Social Services</i>	19	18	12
<i>Homes & Technical Services</i>	18	17	21
TOTAL	100	100	100

9.6 The above table reveals the actual spread of time across audit clients to be reasonably close to plan. Divergence from plan is usually explained by the volume

of unplanned work requested by services or enhancements to planned audit assignments.

10 STAKEHOLDER PERCEPTIONS OF THE AUDIT SERVICE - AUDIT SCOTLAND STUDY

- 10.1 In 2001/2002 Audit Scotland prepared a national report 'A Job Worth Doing – Raising the Standard of Internal Audit in Scottish councils'. The study was directed by the Accounts Commission in order to establish a clear picture of performance of internal audit services in all councils in Scotland, and to provide benchmarking data to support continuous improvement. Performance was assessed against the standards set by the CIPFA Code of Practice for Internal Audit in Local Government. The Commission is concerned to ensure that all councils achieve the highest standards of corporate governance and financial stewardship, and internal audit plays a key role in assessing the quality and effectiveness of the system of internal controls.
- 10.2 The national report on the performance of internal audit in Scottish councils was published in August 2001. The national report found that the internal audit service in East Ayrshire has well-developed procedures, performs well in most areas covered by the study and displays a number of examples of good practice. The performance of councils was benchmarked against each other and split into four performance bands. East Ayrshire Internal Audit was included in band one, and was ranked equal first among Scottish councils.

11 STAKEHOLDER PERCEPTIONS OF THE AUDIT SERVICE – AUDIT CLIENTS

- 11.1 A post audit appraisal questionnaire is sent to audit clients at the end of each audit assignment. The questionnaire solicits the views of clients on the audit process, including perceptions on the professionalism of audit staff, feedback on the style, format and content of the audit report and the practicality of audit recommendations.
- 11.2 The returned questionnaires covering the audit work carried out in the 2001/2002 have been assessed and these reveal a high level of satisfaction with the audit approach, audit reports and the accompanying recommendations. The overall audit rating was 'good'.

12 RESULTS OF AUDIT TESTING - FINANCIAL SYSTEMS

- 12.1 The following summarises the audit work on financial systems. This work has been completed as part of the planned audit work for 2001/2002. In each area, the audit findings have been discussed with appropriate officers of the Council and action plans are in place to effect the necessary improvements. In general terms the conclusion drawn from the audit work was that the majority of the anticipated controls were in place and operating effectively. Internal Audit will undertake follow up work on all major systems audit assignments with a view to assessing progress on the implementation of agreed action plans.

- 12.2 **Non Domestic Rates:** Internal Audit undertook a review of the council's recovery and enforcement procedures in relation to the non domestic rates system. The study comprised an examination of the current systems and applied compliance tests to assess the accuracy, completeness and validity of the arrears process. Net non domestic rates charges amount to around £24m per year, relating to some 4,000 properties. The audit highlighted several areas that had the potential to improve collection performance. These included targeting council resources more effectively and introducing formal monitoring arrangements for sheriff officers.
- 12.3 **Payroll:** A payroll audit was carried out during the audit year in the area of travel and subsistence. The purpose of the travel and subsistence assignment was to assess the adequacy of the management information systems and compliance with conditions of service and inland revenue regulations. The audit highlighted a need for clarification of certain aspects of the scheme, including entitlement where journeys commence or finish at other than the member of staff's administrative base, and the treatment of single journeys outwith the 100 mile radius parameter. A number of suggested revisions to the mileage claim form were proposed in order to ensure that all relevant data is included for authorisation and payroll processing purposes.
- 12.4 **Asset Registers:** Internal Audit has undertaken a review of the systems and controls operated by EAC with regard to the administration and management of the fixed asset registers. The procedures surrounding the various input sources to the asset registers were assessed, including capital accounting controls, the adequacy of the management information and compliance with statutory financial regulations, including the CIPFA Accounting Code of Practice. The net book value of assets held by East Ayrshire Council is around £460m, and this includes council housing, land and buildings, vehicles etc. Audit recommendations have been made in the areas of asset management and capital accounting arrangements designed to ensure that best practice is followed.
- 12.5 **Miscellaneous income:** The purpose of this review was to report on the controls surrounding the banking, ledgering and reconciliation of miscellaneous income. For the purposes of this audit, miscellaneous income was defined as all income collected outwith the Council's cash receipting system, around £2m of miscellaneous income is derived from a range of council services including libraries, games halls, schools and car parks. Due to the nature of this type of income effective budgetary control and centralised monitoring of income are pivotal to creating a satisfactory system of internal controls. Internal Audit has made a number of recommendations which, when implemented, should result in improvements to the overall control environment.

Housing rents: The purpose of this audit assignment was to record and evaluate the internal control systems in respect of the receipt and ledgering of housing rent income. The housing rents process is the shared responsibility of the department of Homes and Technical Services and the Department of Finance. Audit recommendations were made in the areas of the rent income control account reconciliations, the housing masterfile database and former tenant arrears to strengthen the control environment.

13 RESULTS OF AUDIT WORK ON OTHER DEPARTMENTAL SYSTEMS

- 13.1 The following summarises the audit work on other departmental systems. In each area, the audit concerns have been discussed with appropriate officers of the council and action plans are in place to effect the necessary improvements. Internal Audit is committed to undertaking follow up work on all major systems audits with a view to assisting management discharge responsibility for implementing audit recommendations.
- 13.2 **Homecare income:** Internal Audit has undertaken a review of East Ayrshire Council's homecare income procedures. The work has been completed as part of the planned work for Educational and Social Services for 2001/02. The purpose of this review was to report on the adequacy of controls surrounding the billing and collection of homecare income by the Homecare Section of East Ayrshire Council (EAC). The study included compliance tests to assess the accuracy, completeness and validity of the charges. The audit identified issues concerning follow up action, the verification of debtors accounts and client data being held on a shared drive. Internal Audit has put forward a number of recommendations which, when implemented, should result in improvements to the overall control environment.
- 13.3 **On Site Services payroll:** Internal Audit has undertaken a review of the systems and controls operated by the On Site Services Business Unit with regard to the compilation, processing and monitoring of manual workers payroll. This work has been completed as part of the planned audit work for 2001/2002 for the Educational & Social Services Department. The On Site Services Business Unit provides cleaning, catering, janitorial and school crossing patrol services. The unit currently employs approximately 1,100 staff and the total expenditure on payroll amounts to some £9million per annum. In overall terms, the controls operated by On Site Services provided sufficient assurance over the processing, payment and monitoring of payroll data. Recommendations were made in a number of areas, including the benefits which could be derived from a direct feed into the payroll system so as to remove the risk of data transposition errors.
- 13.4 **Local Area Offices:** The purpose of this study was to review the controls operated by the Department of Community Services with regard to the collection, processing and reconciliation of income received by local area offices. There are currently nineteen local offices within EAC. Over the last year there has been a marked increase in payment activity experienced at the local offices. Six offices were visited by audit staff for the purpose of carrying out a detailed review of cash collection procedures. The remaining thirteen offices were subject to unannounced cash spot checks. The cash counts carried out did not reveal any material differences. The audit work identified some areas with scope for improvement, and recommendations have been made to effect the necessary improvements.

- 13.5 **External funding:** In December 2000, Internal Audit issued a report following investigative work at the Galleon Centre. The investigative work identified several issues which merited further examination. The purpose of this assignment was to conduct that further examination, along with an examination of other control areas. The scope of the audit assignment included financial systems, personnel procedures and information technology systems. A number of audit recommendations were made to improve the overall control environment.
- 13.6 **Vehicle fuel:** The purpose of the review was to report on the adequacy of controls surrounding the supply and monitoring of fuel to council plant and vehicles. The study included compliance testing to assess the accuracy, completeness and validity of fuel supplies and charges. EAC operate 4 internal fuel sites, which are administered by the Transport Section of Development Services. The sites are based at Crookedholm and Gauchalland in the north and Underwood and Lugar in the south of the authority. A new computerised fuel management system, (called Phoenix), for internal fuel sites became operational at the end of September 2001. At the time of the audit the Department of Development Services was evaluating a fuel card system (All Star) for use where fuel is obtained directly from external suppliers. The audit revealed scope for improvement in a number of areas and agreed actions are in place to address these matters.

14 SYSTEMS FOLLOW UP WORK

- 14.1 Eight follow up audits, designed to test progress against the agreed implementation of audit recommendations arising from earlier systems audit work, were undertaken. These included; payroll, car parks, Building and Works stores, grounds maintenance, leisure management, refuse collection and street cleansing, local office and leisure income. This work revealed that a large majority of agreed actions had been implemented by the time of the audit visit. Where audit recommendations have not been fully implemented the further action required has been brought to the attention of the service.

15 RESULTS OF AUDIT TESTING - SPECIALIST AUDIT AREAS

- 15.1 **Computer audit installation reviews:** Internal Audit carried out an audit assignment to review software licensing arrangements within East Ayrshire Council. The initial phase of the assignment was to identify issues relating to compliance with software licensing rules, and to identify mechanisms which the Council could employ to demonstrate compliance. The potential penalties caused by holding unlicensed software are significant. The audit review identified areas of risk, proposed a number of improvement opportunities and mapped out courses of action which could improve the overall control environment. The Council has engaged the services of FAST (Federation against software theft) to assist with improving the software control environment. Internal Audit also contributed to the design of a corporate internet investigation procedure for dealing with internet and email abuses.
- 15.2 **Computer Assisted Audit Techniques (CAATs):** Computer audit relates, not only to the audit of controls around computerised systems, but also to the use of computers in performing audit tasks. This type of work is referred to as computer

assisted audit techniques (CAATs). CAATs can improve the efficiency and effectiveness of the internal audit service. During the 2001/2002 audit year, CAATs were used on a number of audit assignments, including systems work, contract audit, performance indicators and special investigations.

- 15.3 **Contract Audit:** Internal Audit undertook a review of the tendering arrangements operated by the Technical Services Section. The purpose of this assignment was to assess compliance with European legislative requirements and appropriate Council procedures, and regulations in the areas of advertising, acceptance and award of contracts. In overall terms the procedures adopted by the Procurement Section met European and council requirements. A number of minor issues have been identified such as adjustments to tender documentation and maintenance of the standing list of contractors. A review of Roads and Transportation procedures in respect of contract tenders was also undertaken. The purpose of the review was to report on the adequacy of controls surrounding the selection of contractors, invitation to tender and the subsequent opening of tenders in respect of Roads contracts. Several opportunities for internal control improvements were identified. Internal Audit has made a number of internal control recommendations designed to address the areas for improvement in both contract areas under review.
- 15.4 **Value for Money:** Section 170 of the Local Government etc. (Scotland) Act 1994 imposed a statutory duty on Local Authorities to make proper arrangements for securing economy, efficiency and effectiveness in the use of resources. One means of discharging this obligation is through value for money studies. In the early part of the year Internal Audit completed work on a study of invoicing and billing arrangements. The study identified scope for increased cash flow and income from more efficient billing arrangements. Council services have been asked to examine each income stream with a view to identifying scope for increased efficiency in the billing process. Internal Audit has undertaken a review of debt recovery processes, incorporating an examination of the debt recovery practices operating across all key service areas during 2001/2002. The aim of this review was to examine the Council's performance with regard to collection of arrears, against considered best practice, with a view to identifying opportunities for improving debt recovery performance and recommending improvements to the recovery process. A number of detailed recommendations have been made both on a corporate and service specific basis, suggesting improvements to the current debt recovery processes. Internal Audit has commenced a review of overtime costs the results of which will be reported in the early part of the new audit year. These audit assignments were undertaken as part of Internal Audit's commitment to the current three-year Value for Money (VFM) Plan.
- 15.5 **Performance Indicators:** The Local Government Act 1992 placed a statutory duty on all councils to publish performance indicators. Since 1993 councils have had a duty to collect, record and publish defined performance indicators under the direction of the Accounts Commission. The External Auditor has a duty to satisfy himself that councils have made proper arrangements for collecting, recording and publishing performance indicator data and to test the accuracy and completeness of the data. As in previous years Internal Audit played an important role in assisting both the Council and the External Auditor in discharging these responsibilities. Internal Audit undertook selective audit work on the accuracy and completeness of the 2000/2001 performance indicators including further work in support of the

production of indicators where reporting difficulties had been experienced in the past. Detailed testing of a selection of indicators identified a number of issues. Some of the issues required remedial action to improve the accuracy and reliability of the indicators before being published, and this was achieved.

All 66 performance indicators were reported for the year and all were accorded a reliable status, one of only 7 councils to do so. There have been considerable improvements in the performance indicator collection process in recent years, and these improvements have increased the reliability of the collection and review processes. Internal Audit has made several recommendations in the area of corporate review to further enhance the performance indicator process.

- 15.6 **Investigative work:** Internal Audit carried out work on twelve investigations in the year ended 31 March 2002, representing 9% of audit time and 111 audit days, five of which involved significant audit resources. This level of resource input is significantly down on the experience of previous years. The audit findings arising from this investigative work were reported to appropriate officers of the council for the purpose of disciplinary action. Defalcation investigations are referred to the Police, in accordance with the Council's Defalcation Procedures.

At the conclusion of each investigation Internal Audit has made appropriate recommendations designed to improve the internal control environment and minimise the possibility of any recurrence of these types of incident. Agreed action plans are in place to address the control issues identified.

16 SUMMARY OF PERFORMANCE

- 16.1 It is the view of the Accounts Commission that a sound control environment is an essential prerequisite to the efficient management of any local authority, and is an important element of the culture of the organisation. Responsibility for stewardship of public funds rests firmly with the Council and its officers. The role of Internal Audit is to assist in the discharge of this responsibility with particular reference to the necessary establishment, operation and effectiveness of internal controls.
- 16.2 The Accounts Commission has stated that each council must arrange for a properly resourced internal audit service of good quality. They have expressed the view that it is difficult to see how stewardship responsibilities can be satisfactorily discharged in the absence of sound internal audit support.
- 16.3 Audit Scotland has undertaken a national benchmarking study by assessing the performance of internal audit services in all Scottish Councils, against the standards set by the CIPFA Code of Practice for Internal Audit in Local Government. The national report was published in August 2001 and this placed East Ayrshire Internal Audit in band one, which includes those Councils (four in total) who most fully comply with the CIPFA Code.
- 16.4 This annual audit report provides a summary of the performance of the Internal Audit Section in the audit year 2001/2002. All planned audit assignments were either completed during the audit year or shortly into the new audit year. Performance, in terms of numbers of audit assignments completed compares

favourably with the previous audit year. The spread of audit time across the various clients of the service and across the range of audit activities was close to plan.

- 16.5 Internal Audit carried out a review of several of the Council's main financial systems in 2001/2002, including payroll, non domestic rates, income, housing rents and asset registers. In general terms the conclusion drawn from the audit work was that the majority of the anticipated controls were in place and operating effectively. Where opportunities for improvement were identified appropriate audit recommendations were made to effect the necessary improvements.
- 16.6 The 2001/02 audit of departmental systems identified that many of the expected controls are in place and operating satisfactorily in the areas examined. Recommendations to strengthen controls have been made where appropriate.
- 16.7 Internal Audit has undertaken follow up work on a number of previous audit assignments, with a view to establishing progress on the implementation of audit control recommendations. This work revealed that a large majority of agreed actions had been implemented by the time of the audit visit. Where audit recommendations have not been fully implemented the further action required has been brought to the attention of the service.
- 16.8 Internal Audit has carried out work on a range of other activities, including computer audit, performance indicators, value for money and contract audit and made a number of audit recommendations designed to improve the robustness of these processes. The volume of investigative audit work is significantly down on previous years.
- 16.9 Internal Audit 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.

17 OVERALL ASSESSMENT OF CONTROLS

- 17.1 In arriving at an opinion the Chief Auditor has taken into account the findings and conclusions from the systems that have been audited during the year, and drawing on the experience of work carried out in earlier years.
- 17.2 Overall, Internal Audit is of the opinion that reasonable assurance can be placed upon the systems of internal control in operation.
- 17.3 Internal Audit is satisfied that there is management commitment to act where control improvement opportunities are identified, and that staff understand and accept the need for systems to be robust and reliable.