

**Rossendale Borough Council
Annual Internal Audit Report 2007/08**

Lancashire Audit Service



ROSSENDALE BOROUGH COUNCIL

Internal Audit Service

Annual Audit Report 2007-08

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Appendix 1 – Scope, Responsibilities and Assurance

1. Introduction

Purpose of this report

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Head of Internal Audit to provide a written report to those charged with governance, timed to support the statement on internal control, which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents our opinion based upon the work we have performed.
- 1.2 This report covers the period 1 April 2007 to 31 March 2008 and is timed to support the preparation of the statement on internal control for that year.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by staff across the Authority in the course of our work.

2. Assessment of internal controls

Overall opinion

- 2.1 The level of internal control in respect of the majority of systems of internal control was found to be adequate and effective, although in some cases, there may be scope for improvement.
- 2.2 Internal audit work during 2007/08 around the three main financial systems (payroll, debtors and creditors) assessed key changes to the system of internal control and confirmed that appropriate steps have been taken towards actioning recommendations raised in previous audit reports. No significant issues were raised as part of these reviews and it was noted that appropriate action has been, or will be taken, towards actioning previous audit recommendations.

Key issues and themes arising during the year

Core Financial Systems

- 2.3 Over recent financial years the Council has taken a number of steps to address its risks and it is acknowledged that a significant level of progress has been made. It is important now for the Council to maintain this approach to managing its control environment and ensure further improvements are introduced.

- 2.4 Our work to date on the Council's core financial systems (payroll, debtors, creditors, general ledger, cash and banking and council tax) has found that there are generally sound systems of internal control to achieve the control objectives. As part of our core financial systems work we raised one high priority recommendation during the treasury management audit where the overall opinion was that whilst the system design may be inadequate, it has been operating effectively and the potential risk so far has not materialised. The high priority recommendation related to there being inadequate separation of duties whereby the Exchequer Manager had the facility to withdraw funds from the National Westminster Bank account using the BACS transfer system, without the need for a second officer. The recommendation was agreed and appropriate action taken by the Financial Control team to rectify the position. This area will be revisited during 2008/09 to verify action taken by RBC management in rectifying the position.
- 2.5 We worked closely with the Audit Commission in 2006/07 to structure our work to comply with their requirements and this approach has once again been adopted during 2007/08. Our change in approach to the core financial systems, which now provides an overview of each system, has provided the Audit Commission with the assurance that we have completed an appropriate level of systems documentation for each core financial system. The Audit Commission rely on our work to complete their International Standards in Auditing (ISA) assessments.

Focussed Reviews

- 2.6 During our review of the Authority's recruitment and selection procedures we identified some significant issues that should be addressed in order to strengthen controls and ensure that the Council complies with legislative requirements. It is acknowledged that the Head of People and Organisational Development intends to review the Recruitment and Selection Policy and related procedures and this report identifies several areas to be considered during that review.
- 2.7 It is in particular evident that managers often do not comply with the requirement in the Recruitment and Selection Policy to return shortlisting and interview documentation to the People and Organisational Development Team for safekeeping and, consequently, the justification for several selection decisions was not made available during the audit. It is also of concern that controls designed to ensure the fair shortlisting of candidates were stretched in one case to allow the subsequently successful candidate to be interviewed. In this case the successful candidate was only added to the interview list after the responsible manager realised that they had not been selected from the original assessment of application forms during the shortlisting process. This practice undermines the Authority's policy relating to the fair and equal treatment of all job applicants.

- 2.8 During 2007/08 Internal Audit also undertook a review of the Authority's contract management arrangements in respect of the partnership agreement with the Leisure Trust. It was noted in particular, that the contractual agreements established at the creation of the Leisure Trust in 2004 are not supported by related procedural documentation that address the risk of inadequately defined responsibilities, contract and performance management practices. The development of such procedures would support the effective processes that are already in place in respect of these areas.

Fraud/special investigations

- 2.9 We did however spend five days during 2007/08 to undertaken a review of the flexitime system at the One Stop Shop. A number of operational issues were raised and brought to the attention of RBC management to consider as part of the implementation of the electronic flexitime system across the Authority.

Implications for the Annual Governance Statement

- 2.10 Each Head of Service has a responsibility for maintaining a system of sound internal controls and risk management processes that support the achievement of the corporate and service objectives, and for reviewing their effectiveness. The work of internal audit may be used to assist and inform individual Heads of Service in their requirement to produce an Assurance Statement on Internal Controls, which in turn may form part of the Authority's overall Annual Governance Statement.

3. Internal audit work undertaken

Internal audit plan 2007/08

- 3.1 On 7th December 2005 the Cabinet approved a proposal for Lancashire County Council's Lancashire Audit Service to provide internal audit services for Rossendale Borough Council for three years from 1st April 2006, with an option for two further years. This report covers the second year of that agreement.
- 3.2 Work carried out during 2007/08 was in accordance with the Audit Plan presented and approved by Audit Committee on 14 June 2007. Details of the assurance provided and key issues identified for each of the areas covered was provided to senior managers. A summary of our findings for key areas is to be found at section 5 of this report.
- 3.3 We have undertaken a total of 303 audit days against planned input of 290 days. The variance of 13 days related to time spent on finalising the key financial systems reviews carried forward from 2006/07 and the expansion of the scope and coverage on a number of reviews.

- 3.4 This work has been undertaken with regular liaison with the Authority's external auditors to minimise any duplication.
- 3.5 Individual action plans have been agreed in respect of all the completed areas of work. These set out the management responses to each of our recommendations, and indicate that positive action has been, or will be taken. Implementation of these plans will be followed up as part of our 2008/09 work.

Internal audit plan 2008/09

- 3.6 The plan for the coming year amounts to a total resource of 280 audit days (2007/08: 290 days). This reflects the approach agreed when Lancashire Audit Service was appointed as Rossendale Borough Council's internal auditors for the period 2006/7-2008/09.
- 3.7 The internal audit plan for 2008/09 is to be presented to the June 2008 meeting of the Audit Committee for approval. Meetings will be held with the Authority's Head of Financial Services on a regular basis during 2008/09 to discuss the progress of the plan and any issues that may arise during the year which will impact on the audit coverage. Progress against this plan will be reported to the Audit Committee on a regular basis throughout the year.

4 Scope, responsibilities and assurance

- 4.1 Details of the scope of our work, and management's and internal audit's responsibilities regarding systems of risk management, internal control are explained in Appendix 1. This also sets out the basis of our assessment and limitations on the assurance that we can provide.

Access to this report and responsibility to third parties

- 4.2 We have prepared this report solely for Rossendale Borough Council. As you are aware, this report forms part of a continuing dialogue between the Internal Audit Service, the Chief Executive, Audit Committee and management of the Authority. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 4.3 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

5 Summary of key findings

- 5.1 We have set out in Table 1 on the following pages, a brief summary of each review undertaken during the period and the areas to be covered in the remainder of the year. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business where work has been finalised. The key issues identified encapsulate the significant issues and areas where key recommendations were made. They reflect the findings at the time the work was carried out.
- 5.2 As the plan progresses, we will distil the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 5.3 The table will indicate briefly with simple ticks (✓) and crosses (x) our overall assessment of each system where reviews have been finalised during the period and the assurance you may take from its operation in supporting effective internal control.
- 5.4 A dash (-) indicates an area where work is in progress or where we are unable to give an assessment because of the reason given.
- 5.5 They reflect the findings at the time the work was carried out.

Summary of key findings

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems						
Payroll	5	3	2	✓	✓	Fieldwork in respect of this review has been completed and a draft report was issued in May 2008. Our review noted that all of the 11 recommendations made at the previous review in September 2007 have now been implemented or are being adequately addressed. There is still however a requirement to ensure the Disaster Recovery Plan is fully tested.
				We can confirm that outstanding recommendations have either been fully implemented or there has been some action taken towards implementing these.		
Debtors	10	3	7	-	-	Fieldwork in respect of this review is complete and a draft report will be issued for management response imminently. Of the eight recommendations agreed at the previous audit, three have been fully implemented, one is considered to be on-going and four remain outstanding.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Creditors	10	11	(1)	✓	✓	<p>A draft audit report has been issued for management response and we are currently awaiting a response to enable the finalisation of this report. Our review of the five previous audit recommendations highlighted that four of these had not been fully implemented and require further action. We identified two areas where improvements to the control environment could be made and these relate to follow up action to resolve invoices in dispute and the requirement for corporate procurement card holders to provide evidence and supporting documentation in relation to expenditure incurred. We also identified one area for efficiency improvement whereby hard copy invoice documentation could be discarded at an earlier stage potentially freeing up additional storage space.</p>
				<p>We can confirm that outstanding recommendations have either been fully implemented or there has been some action taken towards implementing these.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Council Tax	10	13	(3)	✓	✓	Management responses received from Capita Group Plc in May 2008 have been incorporated into the final audit report for this review. Adequate and effective controls exist to ensure that the council tax is set in accordance with statutory requirements; and there is a comprehensive budget setting process in place to facilitate the setting of council tax on an annual basis. Manual inspection records for void properties are maintained however we noted that the records are not comprehensive and visits are not maintained on the council tax system for the majority of properties visited. Also, the Service Assurance Team does not currently undertake any formal monitoring of the efficiency and effectiveness of the system for property inspections.
				<p>In our opinion the system of internal control over the operation of the council tax system provides adequate controls to achieve its control objectives.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Housing Benefits	25	28	(3)	✓	✓	<p>The final report relating to this review was issued in January 2008. Testing of the assessment of new claims, established that claims have been processed despite authorisations from the claimant or the landlord being omitted. Substantive testing established that the landlord declarations are not consistently signed and authorised by landlords who accept housing benefit payments for a tenant. There are anomalies surrounding visiting officers records, with regards to time recorded for travelling to, and undertaking, intervention visits. The reconciliation of uncashed cheques is undertaken infrequently, despite a recommendation made by the Benefit Fraud Inspector. The Housing benefit reconciliation is not signed/dated by the originator and declaration of interest forms have not been completed for all staff working on the RBC benefits team.</p>
				<p>In our opinion the system of internal control over the operation of the Housing Benefit System, in general, provides adequate controls to achieve its control objectives. However, weaknesses have been identified in the design of the system and effectiveness of controls which could lead to fraud or financial loss to the Council.</p>		
National Non Domestic Rates (NNDR)	10	16	(6)	✓	✓	<p>Whilst the system of internal control around NNDR was considered adequate overall weaknesses around following up outstanding arrears, inspections of NNDR properties and the design of the system in respect of access to the NNDR system where certain users have been given a higher level of access than is required for their specific roles, were identified.</p>
				<p>In our opinion the system of internal control over the operation of the NNDR systems, in general, has adequate controls achieve its control objectives.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Cash & banking	5	6	(1)	✓	✓	The final report relating to the cash and banking audit is due to be issued to management as responses from respective RBC management have been obtained. The Exchequer Services Manager has produced written guidance in relation to the issuing of receipts and banking of income. The guidance has been disseminated to all applicable service areas with the exception of the Market Service. The Exchequer Services Manager has agreed to produce and disseminate guidance specific to the Market Service by the end of June 2008. In addition, an internal review of the Market Service has recently been undertaken and is due to be presented shortly. The review includes: market licences, payment schedules and a charging policy. The outcome of the review will impact on three of the recommendations followed up within this review.
				<p>Our review of the 26 recommendations raised as part of the cash collection and banking review in 2007 has shown that good progress has been made in implementing these recommendations. The majority of recommendations have either been implemented or at least addressed. Significant improvements have been made to the internal control within the system. However, there are still some areas which need addressing</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General ledger and Budgetary control	5	5	0	✓	✓	A draft report has been issued for management response. The following significant issues were highlighted within this report. There is currently no independent review of journals. Access to the general ledger has not been restricted to the extent that staff within the Finance Team are able to input and authorise transactions resulting in an inappropriate segregation of duties. Payroll, creditors and debtors control account reconciliations are not currently up to date and Monthly bank reconciliations have been performed, however, these have not been subject to review and independent authorisation.
				Our review of the ten recommendations raised as part of the General Ledger and Budget Monitoring review earlier in 2007 has shown that five have been implemented, four are partly implemented and one of these is not implemented.		
Treasury Management	5	5	0	x	✓	A significant weakness was identified in the design of the treasury management system relating to there not being adequate segregation of duties and authority limits to restrict access to the withdrawal of funds from the National Westminster bank account by the Exchequer Manager. Subsequent action has been taken by management to rectify the situation with respect to the separation of duties issue.
				The system of internal control had inadequate controls to fully achieve its control objectives. However, whilst the system design may be inadequate, it has been operating effectively and the potential risk has so far not materialised.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Asset Management	5	7	(2)	✓	✓	The majority of recommendations arising from our reviews in January 2005 and April 2006 have been addressed. However, issues surrounding the financial procedure rules, updating the asset register, the process for identification of new acquisitions and the disposal of assets policy are yet to be actioned.
				The system of internal control in respect of the management of the Authority's assets has adequate controls to fully achieve its control objectives		
Procurement	15	15	0	✓	✓	Fieldwork on this audit was completed in April 2008 and the draft report is to be issued imminently. As a result of our work in this area we did not identify any significant issues. Key areas for improvement highlighted relate to the development of a standard file format to be followed for procurement exercises and the review of expenditure for supplies to ensure only selected or approved suppliers are used.
				In our opinion the system of internal control over the operation of procurement has adequate controls to achieve its control objectives		
Contingency	5	0	5	-	-	

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Focussed reviews</i>						
Best Value Performance Indicators	21	22	(1)	✓	✓	The final report relating to this review was issued to RBC management in October 2007. The theme of our main findings surround the fact that data for some of the PIs reviewed has been incorrectly calculated. In each case, the differences identified are minor and represent an understating of performance. Action has already been taken or is recommended in this report to prevent calculation errors in future.
				In our opinion the system of internal control over the operation of performance management within the Authority has adequate controls to fully achieve its control objectives.		
Corporate Governance	10	13	(3)	✓	✓	We have identified a number of areas, where changes in the requirements of the CIPFA/SOLACE guidance for best practice in relation to Corporate Governance will need to be properly planned for, or areas where potential improvements to the existing arrangements could be made. RBC need to consider requirement of the revised code to produce an Annual Governance Statement, establish systems to improve reporting around value for money and ensure risk management processes and correctly applied within partnerships.
				In our opinion the system of internal control over the operation of the high level Corporate Governance systems has adequate controls to fully achieve its control objectives		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Human Resources – Recruitment and Selection	10	19	(9)	✓	x	A final audit report relating to this review was issued in February 2008. The key issues arising included, for example, the Authority's Recruitment and Selection Policy does not fully reflect some of the more recent statutory requirements. It is in particular evident that managers often do not comply with the requirement in the Recruitment and Selection Policy to return shortlisting and interview documentation to the People and Organisational Development Team for safekeeping and, consequently, the justification for several selection decisions was not made available during the audit. There is no guidance regarding the action to be taken if a member of the short listing or interview panel has a potential conflict of interest because of a relationship with an applicant.
				<p>In our opinion the system of internal control over the operation of recruitment and selection within the Authority has adequate controls overall to achieve its control objectives. There are, however, some significant issues that should be addressed in order to strengthen controls and ensure that the Council complies with legislative requirements.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Risk Management	10	8	2	✓	✓	Audit fieldwork is now complete and a draft report was issued for management response in May 2008. Controls were generally operating effectively as intended, although some enhancements could be made to ensure that risk management is fully embedded in the day to day operations of the Authority. The Authority has made key improvements to their risk management framework with the aim of embedding a general risk management culture throughout the Organisation. The current format for recording risks allows managers to record an adequate level of information relating to risks, risk ratings, risk categories and mitigating actions. The Covalent system also allows for monitoring of the risks to take place. Managers need further encouragement to fully utilise these systems, especially in terms of identifying and recording risks on a continuous basis and updating the Covalent system regularly with updates on risk profiles
				In our opinion the system of internal control over the operation of risk management has adequate controls to fully achieve its control objectives		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Client side management arrangements – Leisure Trust	15	17	(2)	✓	x	Whilst the issues highlighted and proposed recommendations have been agreed we are awaiting formal management responses to finalise the report. We noted, in particular that, the contractual agreements established at the creation of the Leisure Trust in 2004 are not supported by related procedural documentation that address the risk of inadequately defined responsibilities, contract and performance management practices. The development of such procedures would support the effective processes that are already in place in respect of these areas. There is currently no overriding strategy for leisure provision and facilities within the Borough of Rossendale and lease agreements for the leisure facilities transferred to the Leisure Trust, at the outset of this arrangement, have not yet been formally agreed. There is no formally agreed process for the approval of Business Plans and there is a lack of evidence to support the formal agreement of the 2006-09 Business Plan between both RBC and the Leisure Trust. Terms of reference for the review meeting groups that have been formed to monitor the Leisure Trust have not been formally drawn up and agreed.
				In our opinion, the system for the monitoring and management of the relationship between the Council and the Leisure Trust provides adequate controls to enable achievement of the control objectives. The operation of these controls, however, has not been wholly effective in addressing the risks associated.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	15	20	(5)	-	-	Investigations in respect of the standard data submissions are now complete and matches highlighted were appropriately resolved. As part of the 2006/07 exercise RBC secured savings of £2128.85. RBC are currently awaiting further guidance on the categories of submissions for the next cycle of reviews to be undertaken during 2008/09. Our work has involved the management and coordination of the NFI exercise within RBC and to a lesser extent investigating some results ourselves. The Audit Commission decided to extend the mandatory data submissions for 2008/09 to include Council Tax and the electoral register for every local authority. This exercise will involve matching Council Tax data to the electoral register and other datasets scrutinizing areas such as, single person discounts and second home discounts. The details of all council tax payers were provided to the Audit Commission for matching purposes in October 2007. RBC decided not to submit electoral roll data to the Audit Commission in October 2007 following guidance from the Council of Electoral Registrars. Discussions on the submission of electoral roll data are currently ongoing and RBC are awaiting further guidance from the Audit Commission on the submission of the electoral roll data and the potential implications for non submission. The reason for variation in days is the work involved in the submission of the council tax data and the ongoing involvement in discussions relating to the submission of the electoral roll. This was unplanned and we were unaware this exercise was to take place when the plan was agreed.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Anti Fraud Corruption Policy (inc Whistle-blowing)	10	3	7	-	-	Audit fieldwork in this area is now complete and a draft report will be issued for management response in due course.
Specialist areas						
Response to fraud / impropriety	10	5	5	-	-	At the request of RBC management a review of the flexitime system at the One Stop Shop was undertaken. A number of operational issues were raised and brought to the attention of RBC management for action.
IT Controls	20	22	(2)	-	-	Audit fieldwork on the application systems review around revenues and benefits has been completed and a draft report issued for management response. A meeting has been arranged with relevant management to discuss the findings and following agreement of recommendations and responses a final report will be issued.
2006/07 audits carried forward						
Creditors	0	3.5	(3.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Debtors – Raising of Debt	0	1	(1)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		
Debtors – Debt Management	0	1.5	(1.5)	x	x	The time relates to the finalisation of work on this area.
				The system in place has inadequate controls to fully achieve its control objectives and was found not to be operating effectively		
Payroll	0	2	(2)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		
Council Tax	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to achieve its control objectives.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Performance Management	0	1	(1)	✓	✓	The time relates to the finalisation of work on this area.
				The controls and procedures in place with regards to performance management were found to be adequate, however testing did identify a number of areas where further improvements could be made		
Cash Collection and Banking	0	0.5	(0.5)	x	x	The time relates to the finalisation of work on this area.
				The system in place has inadequate controls which are operating ineffectively to achieve its control objectives		
Client Side Management Arrangements	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to achieve its controls objectives.		
General Ledger and Budget Monitoring	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls, which are operating effectively, towards achievement of the control objectives.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Other areas						
Follow up reviews	15	3	12	-	-	Audit fieldwork in respect of this review is in progress.
Risk assessment and strategic planning	5	9	(4)	-	-	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	10	(4)	-	-	This time covers Audit Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	9	1	-	-	This allocation covers the time required for the Committee reporting process as well as preparing the monitoring reports for the Head of Financial Services.
Liaison with senior management	14	14	0	-	-	This time covers the monthly update meetings with the Head of Financial Services as well as meetings with the Executive Director of Resources and all Heads of Service.
Liaison with Audit Commission	3	3	0	-	-	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	3	3	-	-	This allocation covers ad hoc advice and assistance to the Authority. Time to date relates to advice regarding the Statement on Internal Control, and the Money Laundering Regulations.
Total Days	290	303	(13)			

1. Scope, responsibilities and assurance

Approach

- 1.1 In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Authority's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 1.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- 1.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 1.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 1.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- 1.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- 1.7 No limitations have been placed on the scope or extent of the work we carried out during the year by the management or staff of the Resources Directorate.

Limitations on the assurance that internal audit can provide

- 1.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 1.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.