

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
15TH JUNE 2006

Annual Report on The Council's Internal Control Environment – Internal Audit - 2005/2006

OPEN	
COMMUNITY STRATEGY THEME	
CORPORATE THEME:	Improving Corporacy & Performance
KEY PRIORITY:	Organisational Performance
STRATEGY:	Corporate Governance – Internal Controls
CABINET MEMBER:	Councillor John-Paul Campion
RESPONSIBLE OFFICER:	Financial Services Manager (Audit & Benefits)
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APPENDIX	Annual report on the Council's Internal Control Environment – Internal Audit - 2005/2006

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report on the Council's Internal Control Environment – Internal Audit for 2005/2006 from the Financial Services Manager (Audit & Benefits).

2. RECOMMENDATION

The Audit Committee is asked to NOTE and to RECOMMEND to Cabinet:

The Annual Report on the Council's Internal Control Environment – Internal Audit for 2005/2006 from the Financial Services Manager (Audit & Benefits), attached as Appendix 1 to the report, be approved.

3. BACKGROUND

- 3.1 Internal Audit is defined by CIPFA as “an assurance function that primarily provides an independent and objective opinion to the authority on the degree to which the internal control environment supports and promotes the achievement of the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.”

- 3.2 The requirement for an internal audit function is included within the relevant local government legislation, Section 151 of the Local Government Act 1972 which requires that authorities “make arrangements for the proper administration of their financial affairs”.
- 3.3 There are more specific requirements in the Accounts and Audit Regulations 2003 in that authorities shall “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 practices in relation to internal control”. The provision of internal audit is included in the Council’s constitution in the Financial Procedure Rules (Financial Regulations).
- 3.4 The guidance accompanying the legislation states that proper internal audit practices are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003. This Code defines standards on the way in which the internal audit service should be established and undertakes its functions.
- 3.5 Council approved Terms of Reference for Internal Audit in accordance with the CIPFA Code of Practice on the 3rd December 2003.
- 3.6 These Terms of Reference state:
The Financial Services Manager (Audit & Benefits) will prepare an Annual report to the Executive. This report should:
- a) include an opinion on the overall adequacy and effectiveness of the Council’s internal control environment;
 - b) disclose any qualifications to that opinion, together with the reasons for the qualification;
 - c) present a summary of the audit work undertaken to formulate the opinion;
 - d) draw attention to any issues the Financial Services Manager (Audit & Benefits) judges particularly relevant to the preparation of the statement on internal control;
 - e) compare the work actually undertaken with the work that was planned;
 - f) comment on compliance with the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as appropriate.
- 3.7 The opinion on the overall adequacy and effectiveness of the Council’s internal control environment can be classified into three categories. These categories are:
- Adequate
 - Adequate, with reservations
 - Inadequate

4. KEY ISSUES

- 4.1 The approved Terms of Reference for Internal Audit require that an annual report is prepared by the Financial Services Manager (Audit & Benefits) covering the items detailed in paragraph 3.6.

5. FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising from this report.

6. LEGAL AND POLICY IMPLICATIONS

6.1 It is a statutory requirement that this authority has an Internal Audit service. The authority has delegated these powers to the Head of Financial Services (Section 151 Officer) as provided in Financial Regulations.

6.2 The Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment) (England) Regulations 2006 section 4 (2) require that:
“The relevant body (the Council) shall conduct a review at least once in a year of the effectiveness of its system of internal control.”
This report forms part of this review.

7. RISK MANAGEMENT

7.1 There are no risk management issues arising directly from this report.

7.2 However risk management issues do arise when internal control weaknesses are identified during the audit review process.

7.3 In order to manage the risks of service provision internal controls are used. The aim of this is to mitigate and thereby reduce the identified risks to a level acceptable to the Council’s management. Any weakness in the operation of the planned internal controls therefore impacts directly on the management of risk of the service provision.

8. CONCLUSION

8.1 The Annual Report on the Council’s Internal Control Environment – Internal Audit - 2005/2006 provides an opinion from the Financial Services Manager (Audit & Benefits) – Council’s Chief Auditor, on the adequacy and effectiveness of the Council’s internal control environment arising from the completion of internal audit reviews.

8.2 This opinion is based on the work undertaken by the Internal Audit section in accordance with the approved Annual Audit Plan for 2005/6. This report is presented to members in accordance with the Terms of Reference for the Internal Audit section approved by the Council.

9. CONSULTEES

9.1 Corporate Management Team

10. Background Papers

10.1 17th August 2004 Audit Panel Operating Arrangements and Terms of Reference
1st March 2005 Audit Panel - Annual Audit Plan 2005-2006
20th March 2003 Executive - Strategic Audit Plan 2003-2006
30th October 2003 Executive – Internal Audit – Terms of Reference
30th March 2006 Cabinet – Corporate Governance Framework

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The Council's Financial Procedure Rules (Financial Regulations) No. 1.3 and the Council's Contract Procedure Rules (Standing Orders relating to Contracts) No. 20 state that it is the responsibility of Chief Officers to ensure that adequate internal controls are in place in their areas of responsibility. These internal controls include those to prevent and detect fraud.

The work of the Internal Audit section relating to the financial year ended 31st March 2006 has been undertaken in accordance with the approved Annual Audit plan 2005/6. The work undertaken has met the requirements of the Council's external auditors to ensure that the audit resource, both internal and external available to the Council was used effectively. This work has been undertaken in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 including compliance and substantive testing.

The results of this work have been reported to the Audit Panel in quarterly reports on the 13th September 2005; 29th November 2005; and 21st March 2006; and to this Audit Committee on the 15th June 2006. These reports include a summary of the work done in each quarter.

The internal control weaknesses identified from final and draft reports relating to the 2005/6 financial year have been considered in the preparation of this annual report.

A comparison of the work actually undertaken with the work that was planned by audit type is as follows:

Year ended 31st March 2006

	Annual Plan Days	Year Actual Days	Year Actual As a % of Plan %
System and Probity	598.00	542.24	90.68
Computer Audit	80.00	36.90	46.13
Bought in Computer Audit	50.00	50.00	100.00
Contract Audit	60.00	33.76	56.27
Consultancy and Advice	50.00	56.30	112.60
Irregularity	50.00	48.91	97.82
Specific Service Duties	50.00	26.61	53.22
SUB TOTAL	938.00	794.72	84.72

Overall it has been concluded that the adequacy and effectiveness of the Council's internal control environment – internal audit for the 2005/6 financial year is:

Adequate, with reservations.

The reservations are those arising from the conclusions of the internal audit reviews undertaken in accordance with the approved internal audit plan for 2005/6, as reported to the Audit Panel and the Audit Committee. The conclusion on each internal audit review is based on the weaknesses identified together with the recommendations made to improve the operation of the internal controls of the system under review.

It is drawn to the Audit Committee's attention that the following reports also provide information on the council's internal control environment:

- the findings and planned actions contained and arising from the annual review of the Corporate Governance Framework reported to the Cabinet on the 30th March 2006;
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter 2004/5 reported to the Cabinet 27th April 2006;
- as part of the Comprehensive Performance Assessment process the Audit Commission in conjunction with the Council's external auditors prepared an Improvement Plan. Progress against this plan was reported to the Cabinet Scrutiny committee 18th January 2006.

Joan Hill
Financial Services Manager (Audit & Benefits)