

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
MONDAY 25TH JUNE 2007

ANNUAL REPORT FROM THE FINANCIAL SERVICES MANAGER- 2006/2007

OPEN	
COMMUNITY STRATEGY THEME	Internal Organisational Theme
CORPORATE THEME:	Improving Corporacy & Performance
KEY PRIORITY:	Organisational Performance
STRATEGY:	Corporate Governance – Internal Controls
CABINET MEMBER:	Councillor John Holden
RESPONSIBLE OFFICER:	Financial Services Manager
CONTACT OFFICER:	Joan Hill Extension No. 2102 Joan.hill@wyreforestdc.gov.uk
APPENDICES	Appendix 1 - Annual report from the Financial Services Manager - 2006/2007 Appendix 2 – Financial Services – Internal Audit Service Delivery Questionnaire – May 2007

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report from the Financial Services Manager for 2006/2007.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to NOTE and to RECOMMEND to Cabinet:**

The Annual Report from the Financial Services Manager for 2006/2007 attached as Appendix 1.

- 2.2 The Audit Committee is asked to NOTE:**

The improvement of 8.5% in the number of Full Assurance level conclusions arising from Internal Audit reviews on Key systems for 2006/2007 as shown in paragraph 4.6.

3. BACKGROUND

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective internal audit service is vital in helping management to meet these important duties, since it is an independent appraisal function for the review of the entire internal

control system.

- 3.2 A definition of Internal Audit given by The Chartered Institute of Public Finance and Accountancy (CIPFA) is:

“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources.”

- 3.3 The approved Terms of Reference for Internal Audit require that the Financial Services Manager prepare an Annual report to the Audit Committee. 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 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 is a personal opinion on the overall adequacy and effectiveness of the Council’s internal control environment and as last year the view has been taken that there are three categories which are:

- Satisfactory
- Satisfactory, with reservations
- Improvement required

4. **KEY ISSUES**

- 4.1 It is a statutory requirement that this Council has an Internal Audit service as part of its Corporate Governance framework.

- 4.2 In addition statute requires a Statement on Internal Control to be published with the Council’s Annual Statement of Accounts. This **Statement on Internal Control** is required to be signed by the Leader of the Council and the Chief Executive. The Annual Report from the Financial Services Manager as the Council’s Chief Auditor contributes to the evidence necessary in order for this statement to be prepared.

- 4.3 The same statute requires the Council to conduct a **review of the effectiveness of its system of internal audit**. The Annual Report from the Financial Services Manager again provides the necessary evidence in order to satisfy this requirement.

- 4.4 Internal audit make recommendations to management to improve the internal control environment of the system being reviewed. It is management's responsibility to take the necessary action to implement the recommendation made as agreed in the final internal audit report.
- 4.5 The approved Terms of Reference for Internal Audit require that an annual report is prepared by the Financial Services Manager covering the items detailed in paragraph 3.3 and this is attached as Appendix 1.
- 4.6 A comparison of the conclusions arising from internal audit reviews for 2006-7 compared to the previous year is as follows:

	KEY SYSTEMS			SUBSIDIARY SYSTEMS			TOTAL	
	Assurance Level			Assurance Level				
	Full	Some	Limited	Full	Some	Limited		
2006-7	No.	14	28	30	18	12	8	110
	%	12.7	25.5	27.3	16.4	10.9	7.2	100
2005-6	No.	3	19	31	4	13	2	72
	%	4.2	26.4	43.1	5.5	18.1	2.7	100

- 4.7 This analysis shows that there has been an increase in the number of Full Assurance level conclusions and a decrease of 15.8% in the number of Limited Assurance level conclusions on Key Systems from internal audit reviews for 2006-7 compared to the previous year.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 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 contributes to the preparation of the Statement on Internal Control which is considered elsewhere on the agenda of this committee.

- 6.2 The Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment) (England) Regulations 2006 section 6 (1) require that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.”

This is the statutory requirement that this Council has an Internal Audit service.

- 6.3 The Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment)(England) Regulations 2006 section 6(3) require that:

“The relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit”.

The attached annual report forms part of this review.

7. RISK MANAGEMENT

- 7.1 There are no risk management issues arising directly from this report.
- 7.2 In order to manage risks internal controls are used to mitigate and manage the identified risks to an acceptable level. Any weakness in the operation of internal controls therefore impacts directly on the management of risk.
- 7.3 However risk management issues could arise when weaknesses in internal controls are identified during the audit review process and management delay or defer implementation of the recommendations made.

8. CONCLUSIONS

- 8.1 The Annual Report from the Financial Services Manager - 2006/2007 provides an opinion from the Financial Services Manager, the 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 2006/2007. This report is presented to members in accordance with the Terms of Reference for the Internal Audit section approved by the Council.
- 8.3 A review of the effectiveness of internal audit for the financial year 2006/2007 has been undertaken in accordance with current guidelines.

9. CONSULTEES

- 9.1 Corporate Management Team

10. BACKGROUND PAPERS

- 10.1 21st March 2006: Audit Panel – Strategic Audit Plan 2006-2009
20th November 2006: Audit Committee – Report on Internal Audit – Terms of Reference - Update
26th April 2007 Cabinet – Corporate Governance Framework
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

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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 members of the Council's Corporate Management Team 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 2007 has been undertaken in accordance with the approved Audit plan 2006/2007 contained within the Strategic Audit Plan 2006-2009. 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 2006.

The results of this work have been reported to the Audit Committee in quarterly reports on the 26th September 2006; 20th November 2006; 29th January 2007; and the 25th June 2007. 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 2006/2007 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 2007

	Annual Plan Days	Year Actual Days	Year Actual As a % of Plan %
System and Probity	675.00	508.24	75.29
Computer Audit	50.00	30.15	60.30
Bought in Computer Audit	50.00	50.00	100.00
Contract Audit	60.00	23.79	39.65
Consultancy and Advice	50.00	39.77	79.54
Irregularity	50.00	64.53	129.06
Specific Service Duties	50.00	11.28	28.20
SUB TOTAL	975.00	727.76	74.64

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(CONTINUED)

From the work undertaken by internal audit for the 2006/2007 financial year overall the adequacy and effectiveness of the Council's internal control environment is considered to be:

Satisfactory, 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 2006/2007, as reported to 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 26th April 2007;
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter reported to the Audit Committee 24th April 2007;
- 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 will be reported to Cabinet 28th June 2007.

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(CONTINUED)

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2006/2007 and 75% of this plan has been completed. Final audit reports have been reported to members of the Council's Corporate Management Team and members.

The approved Audit plan is a statement of intent and has been subject to monitoring throughout the year. Those audits considered to be of highest priority for example those relating to Key Financial systems have been completed and reported upon.

The work of the Internal Audit section is undertaken in accordance with the CIPFA Code of Practice. Procedures are reviewed by the Financial Services Manager and refined in order to ensure compliance.

The external auditors review the files and reports of the Internal audit section. An assessment is made by the external auditors as to the extent that **reliance** can be placed on the work of internal audit each year as part of their audit of the council's annual financial statements. The external audit work relating to 2006/2007 is not yet complete however early indications are that they will again be placing full reliance on the internal audit work to support their conclusions.

Informal guidance on the requirements of the Accounts and Audit Regulations 2006 indicate that a survey of senior employee users of the internal audit service should be undertaken. Therefore a survey, attached as Appendix 2 was undertaken in May 2007. The questionnaire was forwarded to 36 employees and there were 12 responses.

Of these 10 responded that they considered that the contribution of the Internal Audit service in assisting the Council to achieve its objectives to be good or satisfactory.

11 responded that they considered that the overall assessment of the internal audit service as good.

Feedback is also obtained at the conclusion of each audit review from the recipients of the internal audit service.

The responses have been found to be constructive overall and the views will contribute to continually improve the service.

Joan Hill
Financial Services Manager
21st May 2007

FINANCIAL SERVICES - INTERNAL AUDIT – SERVICE DELIVERY QUESTIONNAIRE – MAY 2007

Introduction

As the Council's Chief Auditor, I am keen to ensure that you are satisfied with the service that has been provided over the past financial year 2006/07 by the Internal Audit Section. It is important that you as a customer can comment on the value of audit and how the auditors approached and undertook their work. Also for us to know that we are providing a professional and appropriate service, which meets both the statutory requirements and customer needs.

The aim of this questionnaire has a different emphasis to those questionnaires completed by the auditee at the close of an audit. Its purpose is to determine your overall level of satisfaction with the Internal Audit service provided to you and to gauge your understanding of the role of the Service and its functions. It also gives you the opportunity to contribute to the Service's plans for continuous improvement. More specifically, the output will assist Internal Audit in:

- understanding and improving its relationships with Divisions/Sections;
- targeting specific areas of audit process for improvement;
- developing services in line with your expectations;
- providing targeted training/facilitation sessions.

The details of the service provided by Internal Audit are currently described on the intranet in the Financial Services Division section.

To ensure continuous improvement and achieve "Best Value" for you, please spare a few moments to answer the questions. A response by the 18th May 2007 would be appreciated to enable collation for reporting to the Audit Committee.

This questionnaire is also available on the intranet.

All comments will be kept confidential.

If you wish to discuss the services provided by Internal Audit please contact me.

Thank you.

Joan Hill, Financial Services Manager on extension 2102, via groupwise, or email joan.hill@wyreforestdc.gov.uk or post to Duke House, Kidderminster, DY10 2JX.

1. Service Delivery

Internal Audit Staff - What level of knowledge and skills do you think Internal Audit staff have?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

Comments:-

2. Accessibility – To what level of satisfaction were your queries or requests for advice dealt with by Internal Audit staff?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

Comments:-

3. Audit Planning

To what level of satisfaction do you consider the scope and objectives of audit reviews appropriate to your service delivery?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

Comments:-

4. To what extent are you satisfied that the areas of audit review cover your service risks?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

Comments:-

5. Internal Audit Reports

Have you any suggestions on how Internal Audit reports may be improved, including presentation style and timeliness? (maximum 255 characters)

6. In the following areas should we seek to improve the service offered?

- Consultation (including scope of audit objectives)
- Planning of Audits (including timeliness/convenience)
- Performance of the audit process
- Provision of advice

7. Areas in the delivery of the Internal Audit Service that are considered to be done well?

- Please enter any suggestions here (maximum 255 characters)

8. Areas for Change/Improvement in the delivery of the Internal Audit Service?

- Please enter any suggestions here. (maximum 255 characters)

9. Do you consider the contribution of the Internal Audit Service in assisting the Council to achieve its objectives to be?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

Comments:-

10. Do you consider that you and your staff understand the role of Internal Audit and its functions/services?

- You Yes
 No

Comments:-

- Your Yes
Managers No

Comments:-

- Others Yes
 No

Comments:-

11. For answers of No to all – which method do you consider would provide you with more information on the role and services of Internal Audit? Please select any of the following:-

- Information Leaflet/brochure
- Attendance at DMT's
- Formal training
- Intranet
- Other

Comments:-

12. Do you consider the provision of computer audits by auditors from the City of Worcester Council contracted by the Internal Audit action to be?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

Comments:-

13. Do you have any comments on how we can improve the service?

14. **Overall Assessment**

What is your overall assessment of the Internal Audit Service?

- Good
- Satisfactory
- Adequate
- Unsatisfactory

15. **Name:** _____

16. **Division:** _____