

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
23rd JUNE 2008

ANNUAL REPORT FROM THE FINANCIAL SERVICES MANAGER- 2007/2008

OPEN	
COMMUNITY STRATEGY THEME	Internal Organisational Theme
CORPORATE THEME:	Improving Corporacy & Performance
KEY PRIORITY:	Organisational Performance
STRATEGY:	Corporate Governance – Internal Controls
CABINET MEMBER:	Councillor Nathan Desmond
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 - 2007/2008 Appendix 2 – Financial Services – Internal Audit Service Delivery Questionnaire – March 2008

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report from the Financial Services Manager for 2007/2008.

2. RECOMMENDATIONS

- 2.1 **The Audit Committee is asked to APPROVE the Annual report from the Financial Services Manager for 2007/2008 attached as Appendix 1 and RECOMMEND Approval to Cabinet**

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 of the Financial Services Manager 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 An Annual Governance Statement is required to be published with the Council’s Annual Statement of Accounts which 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 Accounts and Audit (Amendment) (England) Regulations 2006 requires the Council to conduct a **review of the effectiveness of its system of internal audit**. The Annual Report from the Financial Services Manager provides evidence in respect of 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 agreed recommendations included in final internal audit reports.
- 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 The numbers of the conclusions arising from internal audit reviews for 2007-8 with those of the previous year is as follows:

		KEY SYSTEMS			SUBSIDIARY SYSTEMS			TOTAL
		Assurance Level			Assurance Level			
		Full	Some	Limited	Full	Some	Limited	
2007-8	Number	12	19	15	7	5	1	59
	%	20.3	32.2	25.4	11.9	8.5	1.7	100
2006-7	Number	14	28	30	18	12	8	110
	%	12.7	25.5	27.3	16.4	10.9	7.2	100

- 4.7 The results of this table give an overall perspective only as some audit reviews of both key and subsidiary systems can range from a very large and complicated system to a very straightforward one. Therefore direct comparison of numbers and related percentages is not meaningful. Some audits have been combined and reported as one report rather than as a report for each division as in previous years.
- 4.8 It is not therefore appropriate to conclude that there has been an improvement in control due to a reduction in the limited assurance conclusions for key systems.
- 4.9 Further it is noted that for Key Systems 33% of the reports (5 out of 15) giving rise to a limited assurance conclusion arose from computer audits and of the remainder 60% (6 out of 10) of the reports giving rise a limited assurance conclusion arose from reviews relating to the systems in operation in the Property & Operational Services Division.
- 4.10 The annual report in Appendix 1 also covers a Review of the effectiveness of Internal Audit required by the Accounts and Audit Regulations 2006. CIPFA guidance indicates that compliance with the CIPFA Code of Practice is a useful tool for assessing the effectiveness of Internal Audit. A report detailing full compliance with this Code was given to the Audit committee on the 17th March 2008.

- 4.11 The CIPFA code details that an effective internal audit section should aspire to:
- Understand the whole organisation
 - Understand its position with respect to the organisation's other sources of assurance and plan its work accordingly
 - Be seen as a catalyst for change at the heart of the organisation
 - Add value and assist the organisation in achieving its objectives
 - Be forward looking
 - Be innovative and challenging
 - Help to shape the ethics and standards of the organisation
 - Ensure the right resources are available in the section – recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly
 - Share best practice with other auditors
 - Seek opportunities for joint working with other organisation's auditors.
- 4.12 The review of internal audit effectiveness is not about process. The focus of the review is on the delivery of the internal audit service to the required standard in order to produce a reliable assurance on internal control in operation in the council's practices and procedures – in essence the need for the review is to ensure that the opinion given in Appendix 1 may be relied upon as a key source of evidence for the annual review of internal control.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising directly 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 Annual Governance Statement 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 annual report attached as an appendix to this report forms part of this review.

7. RISK MANAGEMENT

- 7.1 It is a statutory requirement that the Council maintains 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. Further it is a statutory requirement that the council shall at least once in each year conduct a review of the effectiveness of its system of internal audit.
- 7.2 The internal audit section operates in accordance with proper practice in line with the CIPFA Code of Practice in Local Government and its approved terms of reference.
- 7.3 This report summarises the work undertaken by the internal audit section for the 2007/2008 financial year, notes that external audit have been able to place reliance on this work and that the annual report from the Financial Services Manager has been provided in accordance with the Internal Audit section's approved Terms of reference.
- 7.4 Corporate Risk Management is now being embedded throughout the Council's processes as reported to this committee on the 22nd April 2008. This will assist the maintenance and development of the council's internal control environment.

8. CONCLUSIONS

- 8.1 The Annual Report from the Financial Services Manager - 2007/2008 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 2007/2008. This report is presented to members in accordance with the Terms of Reference for the Internal Audit section approved by the Council.
- 8.3 Overall it has been concluded that the internal control environment has remained as in the previous year. However it is of concern that a quarter of the reviews on key systems give rise to only a limited assurance conclusion based on the internal controls in operation. In addition it is of concern that these broadly fall into 2 categories: those arising from computer audit reviews and the number arising from reviews of systems within the Property & Operational Services Division.
- 8.4 A review of the effectiveness of internal audit for the financial year 2007/2008 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
27th March 2007 – Audit Committee – Internal Audit – Annual Plan for 2007/8
20th November 2006: Audit Committee – Report on Internal Audit – Terms of Reference
17th March 2008 Audit Committee – Corporate Governance Framework

WYRE FOREST DISTRICT COUNCIL**ANNUAL REPORT FROM THE FINANCIAL SERVICES MANAGER – 2007/2008****Internal Control Environment**

The Council's Financial Procedure Rules (Financial Regulations) No. 1.3 and the Council's Contract Procedure Rules (Standing Orders relating to Contracts) No. 25 state that it is the responsibility of Chief Officers (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 2008 has been undertaken in accordance with the approved Audit plan 2007/2008. The work undertaken has met the requirements of the Council's external auditors. 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 17th September 2007; 19th November 2007; 17th March 2008; and the 23rd June 2008. 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 2007/2008 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 2008

	Plan Days	Actual Days	Actual as % of Plan %
System and Probity	670.00	523.50	78.13
Computer Audit	50.00	40.50	81.00
Bought in Computer Audit	50.00	50.00	100.00
Contract Audit	40.00	2.75	6.88
Consultancy and Advice	50.00	72.75	145.50
Irregularity	50.00	41.50	83.00
Specific Service Duties	10.00	20.75	207.50
SUB TOTAL	920.00	751.75	81.71

ANNUAL REPORT FROM THE FINANCIAL SERVICES MANAGER –2007/2008
(CONTINUED)

Internal Control Environment (Continued)

From the work undertaken by internal audit for the 2007/2008 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 2007/2008, 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 adoption of an updated Corporate Governance Framework with effect from 1st April 2008 reported to the Audit Committee on the 17th March 2008 and approved by Council on the 14th May 2008; and
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter reported to the Audit Committee 22nd April 2008.

ANNUAL REPORT FROM THE FINANCIAL SERVICES MANAGER –2007/2008
(CONTINUED)

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2007/2008 and 82% of this plan has been completed. Internal audit reports have been reported to members of the Council's Corporate Management Team and the Audit Committee.

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. For 2007/2008 external auditors have been able again to place full reliance on the internal audit work to support their conclusions.

In accordance with guidance on the requirements of the Accounts and Audit Regulations 2006 on the review of the effectiveness of the system of internal audit a survey of senior employee users of the internal audit service has been undertaken. This survey, attached as Appendix 2 was undertaken in March 2008. The questionnaire was forwarded to 49 employees and there were 21 responses.

Of these responses 20 (95%) 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.

Of these responses 18 responded that they considered that the overall assessment of the internal audit service as good, 2 as overall satisfactory and one as overall adequate.

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.

The matters reported here indicate that my report given in Appendix 1 may be relied upon as a key source of evidence in the annual review of internal control.

Joan Hill
Financial Services Manager
19th May 2008

FINANCIAL SERVICES - INTERNAL AUDIT – SERVICE DELIVERY QUESTIONNAIRE – MARCH 2008

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 2007/08 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 purpose of this questionnaire is to determine your overall level of satisfaction with the Internal Audit service 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 4th April 2008 would be appreciated.

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 - Do you consider that the level of knowledge and skills that employees of the Internal Audit Section have is?

- | | |
|----------------|--------------------------|
| Good | <input type="checkbox"/> |
| Satisfactory | <input type="checkbox"/> |
| Adequate | <input type="checkbox"/> |
| Unsatisfactory | <input type="checkbox"/> |

Comments:-

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

- 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 elements of the Internal Audit Service 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. What areas do you consider that the Internal Audit Service performs 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 sections 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:-

Unsatisfactory

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 | <input type="checkbox"/> |
| Satisfactory | <input type="checkbox"/> |
| Adequate | <input type="checkbox"/> |
| Unsatisfactory | <input type="checkbox"/> |

15. **Name:** _____

16. **Division:** _____