

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
29TH June 2009**ANNUAL REPORT FROM THE SECTION 151 OFFICER - 2008/2009**

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:	Section 151 Officer
Contact Officer:	David Buckland Extension No 2100 david.buckland@wyreforestdc.gov.uk
Appendices	Appendix 1 - Annual report from the Section 151 Officer - 2008/2009

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report from the Section 151 Officer for 2008/2009.

2. RECOMMENDATIONS

- 2.1 **The Audit Committee is asked to APPROVE the Annual report from the Section 151 Officer for 2008/2009 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 Section 151 Officer 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 Section 151 Officer 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 Section 151 Officer 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 Section 151 Officer 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 Section 151 Officer 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 Section 151 Officer 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 2008-9 with those of the previous year is as follows:

4.7

KEY SYSTEMS				SUBSIDIARY SYSTEMS				TOTAL
<u>Assurance Level</u>				<u>Assurance Level</u>				
Full	Some	Limited	Full	Some	Limited	Limited		

2008-9	Number	10	31	7	8	10	3	69
	%	14.5	45.0	10.1	11.6	14.5	4.3	100
2007-8	Number	12	19	15	7	5	1	59
	%	20.3	32.2	25.4	11.9	8.5	1.7	100

- 4.8 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.
- 4.9 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.
- 4.10 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.
- 4.13 It is the opinion of the S151 Officer, that it is satisfactory with reservations; this is detailed within Appendix 1.

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 2008/2009 financial year, it is assumed that External Audit have been able to place reliance on this work and that the annual report 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 - 2008/2009 provides an opinion from the Section 151 Officer, 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 2008/2009. 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.
- 8.4 A review of the effectiveness of internal audit for the financial year 2008/2009 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
17th March 2008 – Audit Committee – Internal Audit – Annual Plan for 2008/9
17th March 2008 Audit Committee – Corporate Governance Framework

WYRE FOREST DISTRICT COUNCIL**ANNUAL REPORT FROM THE SECTION 151 OFFICER – 2008/2009****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 2009 has been undertaken in accordance with the approved Audit plan 2008/2009. 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 29th September 2008; 10th November 2008; 16th March 2009; and 29th June 2009. 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 2008/2009 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 2009

	Plan Days	Actual Days	Actual as % of Plan %
System and Probity	670	635.25	94.81
Computer Audit	60	29.75	49.58
Bought in Computer Audit	50	50.00	100.00
Contract Audit	40	22.00	55.00
Consultancy and Advice	50	57.50	115.00
Irregularity	50	56.25	112.50
Specific Service Duties	10	8.00	80.00
SUB TOTAL	930	858.75	92.33

ANNUAL REPORT FROM THE SECTION 151 OFFICER –2008/2009 (CONTINUED)

Internal Control Environment (Continued)

From the work undertaken by internal audit for the 2008/2009 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 2008/2009, 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 reviewed on this agenda;
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter reported to the Audit Committee 16th March 2009.

Finally, the opinion is also based upon the recent Senior Management Restructure which is likely to have a temporary impact.

ANNUAL REPORT FROM THE SECTION 151 OFFICER –2008/2009 (CONTINUED)

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2008/2009 and 92% 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 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 2008/2009 it is assumed that the 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 was undertaken in March 2009. The questionnaire was forwarded to 63 employees and there were 28 responses.

Of these responses **26 (92.8%)** 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 **24** responded that they considered that the overall assessment of the internal audit service as good, **2** as overall satisfactory and **2** 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.

David Buckland
Section 151 Officer