

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
28TH JUNE 2010**Annual Report from the Section 151 Officer - 2009/2010**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME :	Internal Organisational Theme
CORPORATE PLAN AIM:	A well-run and responsive Council
CABINET MEMBER:	Councillor Nathan Desmond
RESPONSIBLE OFFICER:	Section 151 Officer
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APPENDICES	Appendix 1 - Annual report from the Section 151 Officer - 2009/2010

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report from the Section 151 Officer for 2009/2010.

2. RECOMMENDATIONS

- 2.1 **The Audit Committee is asked to APPROVE the Annual report from the Section 151 Officer for 2009/2010 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.

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.”

- 3.2 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:

- include an opinion on the overall adequacy and effectiveness of the Council's internal control environment
 - disclose any qualifications to that opinion, together with the reasons for the qualification
 - present a summary of the audit work undertaken to formulate the opinion
 - draw attention to any issues the Section 151 Officer judges particularly relevant to the preparation of the statement on internal control
 - compare the work actually undertaken with the work that was planned
 - 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.
- 3.3 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:

		KEY SYSTEMS <i>Assurance Level</i>			SUBSIDIARY SYSTEMS <i>Assurance Level</i>			TOTAL
		Full	Some	Limited	Full	Some	Limited	
2009-10	Number	11	22	1	9	5	3	51
	%	21.6	43.1	1.9	17.7	9.8	5.9	100
2008-9	Number	10	31	7	8	10	3	69
	%	14.5	45.0	10.1	11.6	14.5	4.3	100

- 4.7 The results of this table give an overall perspective only with the knowledge that 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 should not be taken in perspective.
- 4.8 During 2009/10 Internal Audit have sought to work with other Sections/Directorates to provide advice and assistance on the implementation of recommendations and action. As a result, measures have been put into place greatly improving systems and it is fair to conclude that there has been an improvement in control reflected in the reduction in the limited assurance conclusions for key systems.
- 4.9 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 compliance with this Code was given to the Audit committee on the 29th June 2009 .
- 4.10 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.
- 4.11 The review of Internal Audit effectiveness is not about process. The focus of the review is in respect of 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.
- 4.12 It is the opinion of the S151 Officer, that it is **satisfactory**; this is detailed within Appendix 1.

5. FINANCIAL IMPLICATIONS

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 2009/2010 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. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands

9. CONCLUSIONS

- 9.1 The Annual Report - 2009/2010 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.

- 9.2 This opinion is based on the work undertaken by the Internal Audit Section in accordance with the approved Annual Audit Plan for 2009/2010. This report is presented to members in accordance with the Terms of Reference for the Internal Audit section approved by the Council.

- 9.3 Overall it has been concluded that the internal control environment has seen improvement during 2009/10.

- 9.4 A review of the effectiveness of internal audit for the financial year 2009/2010 has been undertaken in accordance with current guidelines.

10. CONSULTEES

- 10.1 Corporate Management Team

11. BACKGROUND PAPERS

- 11.1 16th March 2009 ~ Audit Committee ~ Strategic Audit Plan 2009~2012
16th March 2009 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update
29th June 2009 ~ Audit Committee ~ Cipfa Code of Practice Checklist

APPENDIX 1WYRE FOREST DISTRICT COUNCILANNUAL REPORT FROM THE SECTION 151 OFFICER – 2009/2010Internal 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 2010 has been undertaken in accordance with the approved Audit plan 2009/2010. 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 2009; 9th November 2009; 16th March 2010; and 28th June 2010. 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 2009/2010 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 2010

	Plan Days	Actual Days	Actual as % of Plan %
System and Probity	450	495.50	110.11%
Computer Audit	40	21.50	53.75%
Bought in Computer Audit	50	50.00	100.00%
Contract Audit	40	12.00	30.00%
Consultancy and Advice	40	63.25	158.13%
Irregularity	40	13.00	32.50%
Specific Service Duties	15	15.00	100.00%
SUB TOTAL	675	670.25	99.30%

ANNUAL REPORT FROM THE SECTION 151 OFFICER –2009/2010 (CONTINUED)

Internal Control Environment (Continued)

From the work undertaken by internal audit for the 2009/2010 financial year overall the adequacy and effectiveness of the Council's internal control environment is considered to be:

Satisfactory

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. Of the recommendations arising from the reports issued in 2009/10 and subject to a 3 month follow up review, overall 77% of the recommendations had been implemented with immediate effect. From those where a Limited assurance had been given, 85% of the recommendations had been implemented. Those not implemented as at March 2010 arose from an audit of Hackney Carriage & Private Hire and are currently subject to the implementation of the Worcestershire Enhanced Two Tier Programme for this service.

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

- The review of the implementation of the Corporate Governance Framework reported to the Audit Committee on 16th March 2010;
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter reported to the Audit Committee 16th March 2010.

ANNUAL REPORT FROM THE SECTION 151 OFFICER –2009/2010 (CONTINUED)

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2009/2010 and 99.3 % 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 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 and procedures are continually reviewed and refined in order to ensure compliance.

The External Auditors review the files and reports of the Internal Audit Team. 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 2009/2010 it is assumed that the External Auditors have again been able 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 as users of the Internal Audit Service has been undertaken. This survey, was undertaken in March 2010. The questionnaire was distributed to 57 employees. A total of 21 responses were received of which 18 were from Employees whose Service Area had been subjected to an audit review during 2009/10. Feedback is also obtained at the conclusion of each audit review from the recipients of the internal audit service.

Overall the responses have been found to be constructive and the views will contribute to help continually improve the Internal Audit Service. An area of concern noted from the Annual Survey was in relation to the planning and timing of audit reviews to accommodate Service Division workloads throughout the year.

One area of positive feed back was in respect of the Internal Audit Team working well with their customers and being approachable and able to support employees with **86%** rating the provision of advice and assistance when required during 2009/10 as "Good".

In addition, **17** (81%) of those who responded considered that the overall assessment of the Internal Audit Service as good, **3** as overall satisfactory and **1** as overall adequate.

All considered that the contribution of the Audit Team in assisting the Council to achieve it's objectives as Satisfactory (**8**) to Good (**13**).

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
S151 Officer