

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
29th JUNE 2011**ANNUAL REPORT FROM THE SECTION 151 OFFICER - 2010/2011**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN PRIORITY	Delivering Together with Less
CABINET MEMBER	Councillor Nathan Desmond
DIRECTOR	Section 151 Officer
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APPENDICES	Appendix 1 - Annual report from the Section 151 Officer - 2010/2011

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report from the Section 151 Officer for 2010/2011.

2. RECOMMENDATIONS

- 2.1 **The Audit Committee is asked to APPROVE the Annual report from the Section 151 Officer for 2010/2011 attached as Appendix 1.**

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 (England) Regulations 2011 requires the Council to conduct a **review of the effectiveness 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 2010~11 with those of the previous year is as follows:

		KEY SYSTEMS Assurance Level			SUBSIDIARY SYSTEMS Assurance Level			TOTAL
		Full	Some	Limited	Full	Some	Limited	
2010-11	Number	10	26	1	2	1	1	41
	%	24.3	63.4	2.5	4.8	2.5	2.5	100
2009-10	Number	11	22	1	9	5	3	51
	%	21.6	43.1	1.9	17.7	9.8	5.9	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 2010/11 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 (England) Regulations 2011. 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 presented 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 (England) Regulations 2011 section 4 (2) require that:

“The relevant body (the Council) must 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 (England) Regulations 2011 section 6 (1) require that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the 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 (England) Regulations 2011 section 6(3) require that:

“The relevant body must, at least once in each year, conduct a review of the effectiveness of its 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 undertakes an adequate and effective 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 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 2010/2011 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 - 2010/2011 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 2010/2011. 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 2010/11.

9.4 A review of the effectiveness of internal audit for the financial year 2010/2011 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
Accounts and Audit (England) Regulations 2011 (SI 817)

WYRE FOREST DISTRICT COUNCIL**ANNUAL REPORT FROM THE SECTION 151 OFFICER – 2010/2011****Internal Control Environment**

The Council's Financial Procedure Rules (Financial Regulations) No. 1.3 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 2011 has been undertaken in accordance with the approved Audit plan 2010/2011. 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 27th September 2010; 17th January 2011, 14th March 2011; and 29th June 2011. 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 2010/2011 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 2011

	Plan Days	Actual Days	Actual as % of Plan %
System and Probity	395	468.25	118.54%
Computer Audit	40	12.50	31.25%
Bought in Computer Audit	50	50.00	100.00%
Contract Audit	40	15.50	38.75%
Consultancy and Advice	40	39.00	97.50%
Irregularity	40	15.00	37.50%
Specific Service Duties	15	16.25	108.33%
SUB TOTAL	620	616.50	99.44%

From the work undertaken by internal audit for the 2010/2011 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

2010/11 and subject to a 3 month follow up review, overall 93% of the recommendations had been implemented with immediate effect.

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

- The Council adopted the CIPFA/SOLACE Corporate Governance Framework in March 2008. Subsequently the implementation has been subject to reviews the latest of which was considered by the Audit Committee on 14th March 2011, where it was identified that the implementation was substantially complete.
- The findings and recommendations of the External Audit's Annual Audit Letter reported to the Audit Committee 17th January 2011. Their main findings include:
 - The Council needs to reflect the risks which surround its capital programme in its risk register and consider its response. Along with comments surrounding the current Risk Management arrangements;
 - Members should ensure that they continue to be kept up to date on the position on these Icelandic investments in particular and understand the assumptions made for their return in the financial strategy.
 - Members should be briefed at each audit committee about the progress towards implementation of IFRS and be assured that enough resources are being dedicated to the issue.
 - Members should ensure that the recommendations in the VFM conclusion report are considered and addressed.

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2010/2011 and 99.4 % of this plan has been completed by June 2011. 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 2010/2011 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 (England) Regulations 2011 on the review of the effectiveness of Internal Audit a survey of Employees as users of the Internal Audit Service has been undertaken. This survey was

undertaken in March 2011. The questionnaire was distributed to all employees. A total of 48 responses were received which included Employees whose Service Area had been subjected to an audit review during 2010/11. 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 for continuing improvement from the Annual Survey was noted in relation to the planning and timing of audit reviews to accommodate Service Division workloads throughout the year.

As in previous years, the survey highlighted that the Internal Audit Team is continuing to work well with their customers, being approachable and able to support employees with **74%** rating the provision of advice and assistance when required during 2010/11 as "Good".

Following the survey last year Customers did request more written feed back during the audit reviews. In order to meet our Customers needs action plans have been introduced as part of the audit process. The aim of these plans is to advise Managers of any matters arising during the review in order that they can be addressed promptly and remedial action taken. These have proved successful and Managers have been able to put any recommended controls in place.

In addition, 76% of those who responded considered that the overall assessment of the Internal Audit Service as good, **7%** as overall satisfactory and 10 % as overall adequate.

With 66% considering that the contribution of the Audit Team in assisting the Council to achieve it's objectives as Good.

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