

**KENNET DISTRICT COUNCIL**

**RESOURCES EXECUTIVE COMMITTEE**  
**to be held on Tuesday 21<sup>st</sup> March 2006**

Report by Janet Ditte, Chief Accountant & Auditor

**INTERNAL AUDIT 2005/06**

**1. Purpose of Report**

The purpose of this report is to inform the Resources Executive Committee on the activities of the Internal Audit function during the past year.

In addition, the role of internal audit is to review the internal control framework which governs the operations of the Council and, in so doing, provide an independent opinion to both management and members of the Authority on the robustness of the Council's control environment. Therefore, this report will also provide Members with the audit opinion of all audits completed and an overall audit opinion for 2005/06.

**2. Financial and Staffing Implications**

The activities of Internal Audit have no implications for staffing or finance.

**3. Legal Implications**

The activities of Internal Audit have no legal implications for the Authority.

**4. Risk Implications**

The report is based on all audits and work completed to the end of February 2006. This is because the report needs to be issued to inform the Statement of Internal Control, which is subject to another report to this Committee. Therefore, there is a risk that an audit report may be issued between the issue of this report and the year end that will effect the overall audit opinion issued.

To mitigate this, the audit opinions for draft reports issued have been considered when preparing this report. In the event that an audit report is published that would change the overall audit opinion provided by Internal Audit, this will be reported to the Committee at the meeting.

## **5. Corporate Finance Scrutiny Sub-Committee**

In response to the requirements of the Use of Resources Key Lines of Enquiry, the Corporate Finance Scrutiny Sub-Committee was established with the responsibility to scrutinise the activities of Internal Audit. The sub-committee has replaced the Management Team Audit Board. The Audit Team now reports directly to the sub-committee on its performance, progress against recommendations and the executive summaries of all completed audits.

## **6. Performance Measures**

A number of performance measures are maintained for Internal Audit. The following targets were achieved during 2005/06 (Appendix A):

- 85% of audits completed in time allowed (target of 80%);
- The proportion of productive time as a % of total attendance time available was 82% (70% target);
- 96% of customer satisfaction survey responses were good or excellent;
- 100% of systems documented and control weaknesses identified;
- 100% of internal audits are subject to formal report

These targets are essentially concerned with the quality of work completed by the Internal Audit Section.

The main volume targets have, however, not been met. Up to the end of February 2006, a total 37% of the Audit Plan was completed. This was because of a considerable amount of staff turnover during the year, with the team having experienced a 100% staff turnover. This has meant that, throughout the year, the team has been at least 1 full time equivalent down on the amount of resource assumed when setting the audit plan. However, a number of audits are due to be completed by the end of the financial year, which, if completed, will bring the percentage of the plan completed upto 72%, with all high risk, critical systems audited.

The Authority attempted to recruit a replacement Audit Assistant in October 2005, however this was unsuccessful. The section will be looking to appoint an Audit Assistant and Senior Internal Auditor over the next couple of months in the hope of having a full complement of staff in the new financial year.

In the meantime, the section has employed temporary internal audit staff to ensure that the team completes the critical system audits before the end of the current financial year.

In summary, the Internal Audit performance measures have demonstrated that the Council has a high quality Internal Audit service, and once resources return to the planned level, will be adequate to complete the audit plan for 2006/07.

## **7. Internal Audit Plan**

The Internal Audit section complies with the Auditing Practices Board (APB) guidelines and the CIPFA Code of Practice for Internal Audit in the United Kingdom. These guidelines lay down the standards that should be followed to achieve best professional practice. It is a requirement of these professional standards that the audit plan and resource allocation is based on an assessment of risk. Every area of the Council's activities has been assessed under seven separate risk headings and scored. Those activities/systems with the highest scores are given the greatest priority within the plan. The available resources are therefore matched to meet the greatest perceived areas of risk within the context of a five-year audit plan.

Clearly, this process directs audit resources to the areas of highest risk. Part of the reason for doing this is that one has to assume that there will never be enough resources to audit every Council activity each year, and whilst this plan involves the highest risk areas being audited annually, some services will only be audited once or twice in the five-year period, and some not at all.

A new five-year Audit Plan has been approved by the Management Team Audit Board and the External Auditor, covering the period 2005/06 to 2009/10, with all services provided by the Council being audited at least once in the five-year cycle.

The new Audit Plan differs from previous plans in that more emphasis is being placed on the Statement of Internal Control. Large service based audits will be undertaken on Corporate Governance with a view to providing a more robust opinion of the Internal Control environment. More emphasis will also be placed on probity (anti-fraud) audits and also Capital projects being undertaken during the year. These changes represent a large step away from the traditional systems based audit work that was previously completed.

## **8. Audit Work**

It is a requirement of the CIPFA Code of Practice for Internal Audit, 2003 that Internal Audit provide an 'Audit Opinion' for each service audited. The Audit Opinion should reflect the risk identified to both the service and Council as a whole, based on the weaknesses identified and recommendations made. A summary of the risk identified and the audit opinions is attached as Appendix B.

During 2005/06, 100% of the systems audited were given an Audit Opinion of Satisfactory or better. These opinions are based solely on the internal controls within a service and are not indicators of the quality of service or quality of outputs from officers.

Follow up work on systems previously rated poor identified significant improvements in controls following the completion of the audit, with the main areas of concern having been addressed.

## **9. Statement of Internal Control**

Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies to conduct an annual review of the effectiveness of its system of internal control and to publish a Statement of Internal Control (SIC) as part of the Statement of Accounts.

There are various sources from which assurances can be gained, for example performance information, External Audit, assurances by Managers etc. By the nature of their work, Internal Audit also represents an importance source of assurance.

Although Internal Audit does not assess all service areas within a year, they are able to provide an independent opinion of Internal Control on all 'high risk' services each year, as these services are audited annually. Previous audit work and knowledge and experience of the remaining services allow Internal Audit to provide some opinion of the Internal Control Environment, which can be used to support other judgements received (e.g. assurances from managers).

Based on the work completed in 2005/06 (Appendix B) and the fact that there were no audits with a poor or unsound opinion, Internal Audit rates the Internal Control Environment for Kennet as **Good**.

## **10. Conclusions**

Internal Audit is able to report to the Resources Executive Committee that the quality of Internal Audit work has been maintained. Although resourcing prevented the completion of the Audit Plan in 2005/06, the work completed allowed an opinion of Good to be given for the Internal Control Environment of the Authority.

The Internal Audit Section believes that the Internal Audit resources available to the Director of Resources will be adequate, once the vacant posts have been filled, to ensure an effective Internal Audit service to the Council.

## **11. Recommendations**

It is **RECOMMENDED THAT**:

1. Members note the contents of the report and Appendices A and B.

## Internal Audit Performance Measures

No.	Performance Indicator	Target	Actual 28/02/06	Actual 31/03/05	Actual 31/03/04	Actual 31/03/03	Actual 31/03/02
1.	% of annual plan completed: as a proportion of total number of audits as a proportion of total hours	100%	<b>37%</b> <b>54%</b>	71%	100%	100%	100%
2.	% of audits completed in time allowed	80%	<b>85%</b>	70%	54.5%	54.5%	56.0%
	% of overrun on audits not completed within planned time (avg.)	For info	<b>6%</b>	Info. Not available	12.5%	17.6%	24.55%
3.	Proportion of productive time as % of total attendance time available	70%	<b>82%</b>	-	-	-	-
4.	10% of all audits to be assessed for compliance with the CIPFA Code of Practice by CAA	100%	<b>100%</b>	100%	-	-	-
5.	All instances of high and medium term risk recommendations not being implemented will be reported	100%	<b>None identified</b>	-	-	-	-
6.	Percentage of systems deemed poor or unsound followed up within 12 months	100%	<b>50%</b>	100%	-	-	-
7.	Percentage of audits completed by target date agreed with client	80%	<b>64%</b>	-	-	-	-
8.	Customer satisfaction survey responses are good or excellent	90%	<b>96%</b>	96%	-	-	-
9.	Opinion of External Auditor as the overall performance of Internal Audit	Excellent	<b>Not Available</b>	Excellent	Excellent	Excellent	Excellent
10.	Training as % of Internal Audit's total gross days	5%	<b>12%</b>	7%	-	-	-
11.	% of systems documented and control weaknesses identified	100%	<b>100%</b>	100%	100%	100%	100%
12.	All Internal Audits to be subject to a formal report	100%	<b>100%</b>	100%	100%	100%	100%
13.	All internal audits to be subject to follow up promptly	100%	<b>None</b>	100%	-	-	-

## Summary of the Audit Work Completed 2005/06:

Audit Title	Number of Recommendations			Audit Opinion
	High Risk	Medium Risk	Low Risk	
Recycling	-	3	5	Satisfactory
Local Land Charges	-	-	2	Good
Special Collections	-	1	1	Good
Local Plans	-	-	3	Good
Health & safety Follow Up	-	-	2	Good
Air Pollution	-	-	5	Good
Cheque Control	1	2	7	Satisfactory
Market Service	-	5	4	Satisfactory
Members' Allowances	-	5	2	Satisfactory
Travel & Subsistence	-	8	9	Satisfactory
Salaries	-	2	1	Good
NNDR	-	-	1	Excellent
Car Parks	2	5	2	Satisfactory
Recruitment	4	3	12	Satisfactory
Sundry Debtors	3	7	10	Satisfactory
<u>Ad Hoc Probity &amp; Investigation Work</u>				
Wages Probity	1	1	2	N/A
Petty Cash	N/A	N/A	N/A	N/A
Misc. Security Contract Report	N/A	N/A	N/A	N/A
<u>Due To be Completed by End March 2006</u>				
Elections				
Capital Budget Programme				
Refuse Collection				
Budget Preparation				
Council Tax				
Housing Benefits				
Creditors Payments				
Leisure/Flex Computer System				

Opinion	Number of Audits	Percentage of Audits
Excellent	1	7%
Good	6	40%
Satisfactory	8	53%
Poor	0	0%
Unsound	0	0%

Please refer to the Glossary of terms overleaf.

## **Audit Opinion**

Definitions of the Audit Opinion:

### **Unsound:**

Unacceptable risks have been identified and a significant number of 'High' risk recommendations made. There is a significant risk of material loss to the Authority.

### **Poor:**

Significant risks to the system have been identified and some 'High' risk and 'Medium' risk recommendations made. There is a risk of loss to the Authority resulting from the weaknesses identified.

### **Satisfactory:**

Some risks to the system have been identified and a number of 'Medium' risk recommendations made. There is little risk of material financial loss to the Authority.

### **Good:**

A low level of risk identified with a number of 'low' risk recommendations or a small number of 'medium' risk recommendations made. There is no risk of material financial loss to the Authority.

### **Excellent:**

Minimal risk identified and no recommendations or a small number of 'low' risk recommendations made.

Risk in this context is defined as the opportunity of fraud or error to occur within the service and to not be detected by existing controls or for financial loss.

*Low Risk – A recommendation is deemed to be Low Risk where a control weakness has been identified, but the weakness does not fundamentally put the system at risk of fraud or error or financial loss.*

*Medium Risk – A recommendation is deemed to be Medium Risk where a control weakness has been identified and the weakness increases the risk of fraud or error occurring and not being detected and financial loss.*

*High Risk – A recommendation is deemed to be High Risk where a control weakness has been identified and results in a significant risk of fraud or error occurring and not being detected or financial loss to the Authority.*

*A rating of "Unsound" or "poor" requires immediate management attention and arrangements will be made for a further review as part of the following years audit plan.*