

KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE
to be held on Tuesday 21st March 2006

Report by Janet Ditte, Chief Accountant & Auditor
on behalf of Corporate Finance Scrutiny Sub-Committee

ANNUAL INTERNAL AUDIT REPORT 2006/07

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.

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 2006/07.

In addition, the Accounts and Audit Regulations 2006 introduced a new requirement for all local authorities to conduct an annual review of the effectiveness of their systems of internal audit. This report will also present to Members the results of this review. The results of this review were reported to the Corporate Finance Scrutiny Sub-Committee at their meeting on 13th March 2007.

2. Financial and Staffing Implications

There are no staffing or finance implications for this report.

3. Legal Implications

The presentation of this report ensures that the requirements of the Accounts and Audit Regulations 2003, as amended, are met by the Council.

4. Risk Implications

The report is based on all audits and work completed to the end of February 2007. 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 affect 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

The Corporate Finance Scrutiny Sub-Committee was established with the responsibility to scrutinise the activities of Internal Audit. The Audit Team reports directly to the sub-committee on its performance, progress against recommendations and the executive summaries of all completed audits.

In addition, the Sub-Committee have received and considered reports on the Annual Audit opinion issued by Internal Audit, the review of the System of Internal Control and the Statement of Internal Control.

6. Performance Measures

A number of performance measures are maintained for Internal Audit. The following targets were achieved during 2006/07 (Appendix A):

- The proportion of productive time as a % of total attendance time available was 70% (70% target);
- 90% 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 however, have not been met. Up to the end of February 2007, a total 44% of the Audit Plan was completed. As proportion of total number of hours, the figure is 55%. This was because of staff turnover during the year. This has meant that, throughout the year, there have been periods when the team has been under resourced. 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 up to 73%, with all high risk, critical systems audited.

The Council did successfully manage to appoint two new audit assistants to the team in June 2006, however one of these staff has since left the Council. A further attempt will be made to appoint a new Audit Assistant following the results of the Pay and Grading Review. In the meantime, two temporary members of staff have been appointed.

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 2007/08.

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 was 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.

Details of the Annual Audit Plan for 2007/08 are attached as Appendix B.

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 risks identified and the audit opinions for audits completed in 2006/07, is attached as Appendix C.

During 2006/07, 89% of the systems audited were given an Audit Opinion of Satisfactory or better (100% in 2005/06). Of these, 33.5% were issued with an excellent opinion (7% in 2005/06). 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.

During the year, one system was issued with an unsound audit opinion. As a result, officers were requested to attend a meeting of the Corporate Finance Scrutiny Sub-Committee to directly report to them the progress that had been made on the recommendations made through the audit. Good progress had been made on implementing these recommendations and a follow-up audit will continue to keep the system under review.

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. Review of the System of Internal Audit

Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006, requires that a local authority reviews the effectiveness of its system of internal audit and also that the findings of that review be considered by Members, as part of the system of internal control.

In essence, this review is to ensure that the opinion issued in the Annual Audit Opinion report may be relied upon as a key source of evidence in the Statement of Internal Control. The focus of the review should be on the delivery of the internal audit service to the required standard in order to produce a reliable assurance on internal control and the management of risks.

There is no specific definition of what constitutes the System of Internal Audit and it will certainly differ between local authorities. However, the guidance does state that the system is broader than just the internal audit department and would also include the committee acting as an audit committee, in Kennet's case the Corporate Finance Scrutiny Sub-Committee. Therefore, the review has considered both the effectiveness of the internal audit department and also the sub-committee.

The review of the effectiveness of the system of internal audit has been conducted in line with the guidance issued by CIPFA's Financial Advisory Network. In conducting the review, the following areas have been considered:

1. a review of the Internal Audit department against the standards published in the CIPFA Code of Practice for Internal Audit in Local Government 2006 (The Code);
2. a review of the Internal Audit department against the "Characteristics of Effectiveness" published in The Code;
3. a review of the Corporate Finance Scrutiny Sub-Committee as the committee fulfilling the functions of an audit committee, against the measurements of effectiveness published in CIPFA's "Audit Committees: Practical Guidance for Local Authorities".

In completing the above review, it has been found that the Council's System of Internal Audit is functioning effectively. However, there are a limited number of developments that could be made that would improve the System of Internal Audit. These are largely as a result of the fact that the review has been conducted against the standards published in The Code that was only issued in December 2006. As a result, the section has not yet had the chance to fully review its existing arrangements against the standards in the new code. Therefore, it is recommended that this is reflected as a required action in the Statement of Internal Control.

The following is a summary of the areas of development that should be implemented:

1. **Scope of Internal Audit** – the Terms of Reference for Internal Audit should be reviewed to ensure ongoing compliance with the 2006 Code of Practice.
2. **Staffing, training & development** – a skills gap should be completed for all staff to fully inform training and development programmes.
3. **Audit Strategy & Planning** – the Audit Strategy should be reviewed to ensure ongoing compliance with the 2006 Code of Practice.
4. **Audit Strategy & Planning** – greater use should be made of the Corporate Risk Register to inform the development of the audit plan.
5. **Effectiveness** – More consideration could be given the external inspection reports for relevant audits (e.g. Housing Benefits); the audit plan should be extended to include cross-referencing to the Corporate Strategy; managers should have greater input into the development of recommendations in audit reports;
6. **Audit Committee** – other inspection reports should be considered for reporting to the sub-committee.

10. 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 2006/07 (Appendix C), Internal Audit rates the Internal Control Environment for Kennet as **Good**. This is based on the average opinion issued on all the audits for the year and that the majority are either good or excellent. With regard to the one unsound opinion issued, Members of the Corporate Finance Scrutiny Sub-Committee have met with officers to ensure that the audit recommendations are being implemented.

11. Conclusions

The Corporate Finance Scrutiny Sub-Committee 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 2006/07, 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.

12. Recommendations

It is **RECOMMENDED THAT**:

1. Members note and consider the contents of the report and Appendices A, B and C.
2. That the requirement to review the Council's existing Internal Audit arrangements against the new CIPFA Code of Practice for Internal Audit in Local Government 2006, be included as a required action in the Statement of Internal Control for 2006/07.

Internal Audit Performance Standards

No.	Performance Indicator	Target	Actual 28/02/07	Actual 28/02/06	Actual 31/03/05	Actual 31/03/04	Actual 31/03/03
1.	% of annual plan completed: as a proportion of total number of audits as a proportion of total hours as a proportion of total hours to end Mar	100%	44% 55% 73%	37% 54%	71%	100%	100%
2.	% of audits completed in time allowed	80%	71%	85%	70%	54.5%	54.5%
	% of overrun on audits not completed within planned time (avg.)	For info	Info. Not available	6%	Info. Not available	12.5%	17.6%
3.	Proportion of productive time as % of total attendance time available	70%	71%	82%	-	-	-
4.	10% of all audits to be assessed for compliance with the CIPFA Code of Practice by CAA	100%	100%	100%	100%	-	-
5.	All instances of high and medium term risk recommendations not being implemented will be reported	100%	100%	None identified	-	-	-
6.	Percentage of systems deemed poor or unsound followed up within 12 months	100%	100%	50%	100%	-	-
7.	Percentage of audits completed by target date agreed with client	80%	72%	64%	-	-	-
8.	Customer satisfaction survey responses are good or excellent	90%	90%	96%	96%	-	-
9.	Opinion of External Auditor as the overall performance of Internal Audit	Excellent	Excellent	Not Available	Excellent	Excellent	Excellent
10.	Training as % of Internal Audit's total gross days	5%	10%	12%	7%	-	-
11.	% of systems documented and control weaknesses identified	100%	100%	100%	100%	100%	100%
12.	All Internal Audits to be subject to a formal report	100%	100%	100%	100%	100%	100%
13.	All internal audits to be subject to follow up promptly	100%	100%	None	100%	-	-

Kennet DC Internal Audit Plan 2007 / 08

System	Hours
Asset / Property Management	45
Budgetary Preparation & Control	50
Capital Programme	75
Car Parks	70
Central Purchasing	55
CHAPS Payments	35
Committee (Democratic) Process	50
Community Partnerships / Planning	30
Council Tax	150
Creditor Payments	75
Development Control	50
Devizes Leisure Centre	70
Elections	50
Hackney Carriage Licensing	35
Housing Benefit Payments	150
Improvement Grants	50
Income Tax / National Insurance	50
Insurances	50
Leisure Development	45
Leisure FLEX / Cash Ups	40
Licensing - Environmental Health	40
Liquor Licensing	50
Main Accounting System	30
Marlborough Leisure Centre	40
National Non Domestic Rates	50
Partnerships	50
Pest Control	45
Post Entry Training	35
Recruitment	60
Risk Management	60
Salary Payments	100
Sundry Debtors	100
Tidworth Leisure Centre	70
Tourism Development	50
Trade Refuse Collection	50
Transport (Concessionary Fares)	40
Wages Payments	50
Sub total	2,145
Ad Hoc Probity Work	
Civil Contingencies Act	40
Public Conveniences Income	25
Kennet House Health & Safety	55
Other tbc	130
Sub total	250
Ad Hoc Work	
Grants work	100
Contract Audit	100
Corporate Governance	250
Sub total	450
Computer Audit Work	Days
To be confirmed	15
	15
2007/08 Total Audit hours (Excluding Computer Audit Work)	2,845

Summary of the Audit Work Completed 2006/07:

Audit Title	Number of Recommendations			Audit Opinion
	High Risk	Medium Risk	Low risk	
Homelessness	-	-	5	Good
House Waiting List Management	-	4	6	Good
Development control	-	-	2	Good
Accounts Payable	-	1	13	Good
Legal Section 106	-	3	2	Satisfactory
Parish Precepts	-	-	1	Excellent
Housing Benefit Fraud	-	1	7	Good
Collection fund	-	-	3	Excellent
Government Grants	-	-	1	Excellent
Abandoned Vehicles	-	2	4	Good
Cashbook	-	-	-	Excellent
Freedom of Information	-	-	7	Good
Kennet House Income	8	9	5	Unsound
Community Safety	-	2	-	Good
National Non Domestic Rates	-	-	5	Excellent
Miscellaneous Asset Management	4	3	1	Poor
Treasury Management (Draft)	-	4	2	Satisfactory/ Good
Council Tax (Draft)				Excellent
Wireless Network Security (IT)	-	2	-	Substantial Assurance
IT Change Control (IT)	1	-	1	Limited Assurance
AUDITS DUE TO BE COMPLETED BEFORE END MARCH 2007				
Car Parks				
Marlborough Leisure Centre				
Devizes Leisure Centre				
Housing Benefits				
Main Accounting System				
Recycling				
Tourist Information Centres				
Central Purchasing				
Elections/Electoral Registration				
Markets				

Opinion	Number of Audits 2006/07	Percentage of Audits 2006/07	Percentage of Audits 2005/06
Excellent	6	33.5%	7%
Good	8	44.5%	40%
Satisfactory	2	11%	53%
Poor	1	5.5%	0%
Unsound	1	5.5%	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.