

KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE
to be held on Tuesday 18th March 2008

Report by Venita King, Chief Internal Auditor

ANNUAL INTERNAL AUDIT REPORT 2007/08

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 2007/08.

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 2008. This is because the report needs to be issued to inform the annual Governance Statement, 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:

- Summary of Audit work undertaken and where reliance can be placed on systems;
- Executive summaries of all completed audits;
- Assessment of performance of the Internal Audit team;
- Follow up audit work and progress against recommendations;
- Summary of developments and progress in the Council's Risk Management arrangements.

6. Performance Measures

A number of performance measures are maintained for Internal Audit. The following targets were achieved during 2007/08 (Appendix A):

- The proportion of productive time as a % of total attendance time available was 72% (70% target);
- 98% 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 2008, a total 74% of the Audit Plan was completed. As a proportion of the total number of hours, the figure is 75%. 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 81%, with all high risk, critical systems audited.

Of the audits completed for 2007/08, 33% over ran on time and were not completed in the budgeted time allowed. Generally this has occurred when specific testing has had to be completed to support the audit opinion. When considering all of the audit work completed for the 2007/08 audit plan, the actual hours used have been 11% less than the budgeted hours, which shows an economic use of the audit resource.

Although the statistics show that only 50% of systems deemed Poor or Unsound have been followed up within 12 months, as there were only 2 audits in these criteria, only one audit is outstanding for follow-up. The follow up audit was due to be done in February 2008 and this will be carried forward and completed in the first quarter of the 2008/09 financial year.

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.

The Audit Plan for 2008/09 is year four of the five-year Audit Plan that 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.

The 2008/09 financial year is the final year for Kennet District Council, before it joins with other Wiltshire Councils to become Wiltshire Council. Due to the fact that this affects the risks faced by the Council the Audit Plan for 2008/09 has been adjusted to provide appropriate audit coverage of the high risk, critical audits required by the external auditor, and also to provide assurance for the closing down process of the Council. The Audit team is currently under resourced at 58% of the full requirement. As the establishment still stands at three Full Time Equivalent staff, there is the option to recruit agency audit staff if it is deemed necessary. The Audit Plan for 2008/09 is attached at Appendix B.

8. Audit Work

It is a requirement of the CIPFA Code of Practice for Internal Audit 2006 that Internal Audit provides an 'Opinion on the control environment and risk exposure' 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 2007/08 is attached as Appendix C.

During 2007/08, 100% of the systems audited were given an Audit Opinion of Satisfactory or better. Of these, 33% were issued with an excellent opinion. 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, no systems have been issued with an unsound audit opinion.

Follow up work on a system from the previous year that was rated unsound, identified significant improvements in controls following the completion of the audit, with the main areas of concern having been addressed and the overall opinion of the system showing improvement to a 'Satisfactory' level.

9. Annual Governance Statement

Regulation 4(2) of the Accounts and Audit Regulations (2003), as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires audited bodies to publish an Annual Governance Statement.

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 2007/08 (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.

10. 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 2007/08, the work completed allowed an opinion of Good to be given for the Internal Control Environment of the Authority.

The Internal Audit Section considers that the Internal Audit resources available to the Section 151 officer will need to be under ongoing review during 2008/09 to ensure an effective Internal Audit service to the Council.

11. Recommendations

It is **RECOMMENDED THAT:**

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

Internal Audit Performance Standards

| No. | Performance Indicator | Target | Actual 29/02/08 | Actual 28/02/07 | Actual 28/02/06 | Actual 31/03/05 | Actual 31/03/04 |
|-----|---|-----------|--|------------------------|--------------------|------------------------|--------------------|
| 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 Feb | 100% | 74% 75% 81% | 44% 55% 73% | 37% 54% | 71% | 100% |
| 2. | % of audits completed in time allowed | 80% | 68% | 71% | 85% | 70% | 54.5% |
| | % of overrun on audits not completed within planned time (avg.) | For info | 8% | Info. Not available | 6% | Info. Not available | 12.5% |
| 3. | Proportion of productive time as % of total attendance time available | 70% | 72% | 71% | 82% | - | - |
| 4. | 10% of all audits to be assessed for compliance with the CIPFA Code of Practice by CIA | 100% | 100% | 100% | 100% | 100% | - |
| 5. | All instances of high and medium term risk recommendations not being implemented will be reported | 100% | 100% | 100% | None identified | - | - |
| 6. | Percentage of systems deemed poor or unsound followed up within 12 months | 100% | 50% | 100% | 50% | 100% | - |
| 7. | Percentage of audits completed by target date agreed with client | 80% | 70% | 72% | 64% | - | - |
| 8. | Customer satisfaction survey responses are good or excellent | 90% | 98% | 90% | 96% | 96% | - |
| 9. | Opinion of External Auditor as the overall performance of Internal Audit | Excellent | Excellent | Excellent | Not Available | Excellent | Excellent |
| 10. | Training as % of Internal Audit's total gross days | 5% | 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% | 100% | None | 100% | - |

Kennet DC Internal Audit Plan 2008/09

| System | Hours |
|--|---------------------------|
| Budgetary Preparation & Control | 25 |
| Car Parks | 70 |
| Cashbook | 40 |
| Council Tax | 100 |
| Accounts Payable | 80 |
| Housing Benefit Fraud | 50 |
| Housing Benefit Payments | 80 |
| Leisure/Flex Cash Ups | 40 |
| Leisure Centres | 150 |
| National Non Domestic Rates | 85 |
| Accounts Receivable | 50 |
| Treasury Management | 50 |
| Payroll | 100 |
| Asset Management | 75 |
| Main Accounting System | 50 |
| Petty Cash / Floats / Stocks | 100 |
| Preparing for KDC Closedown | 125 |
| Computer Room (Kennet House) | 75 |
| Sub total | <u>1,345</u> |
| Ad Hoc Probity Testing as Required | 180 |
| 2007/08 Total Audit hours (Excluding Computer Audit Work) | <u>1,525 hours</u> |
| Computer Audit Work | Days |
| To be confirmed | 15 |
| | <u>15 days</u> |

Summary of the Audit Work Completed 2007/08:

| Audit Title | Number of Recommendations | | | Audit Opinion |
|---|---------------------------|-------------|----------|-----------------------|
| | High Risk | Medium Risk | Low risk | |
| Risk Management | - | 2 | 2 | Good |
| Payroll, Probity | - | - | 1 | N/A |
| Commercial Waste Collection | - | 1 | 7 | Good |
| Improvement Grants | - | 1 | 2 | Good |
| General Licensing | - | - | 1 | Excellent |
| Kennet House Income | 1 | 3 | - | Satisfactory |
| Liquor Licensing | - | - | 4 | Excellent |
| Recruitment | 1 | 3 | 7 | Good |
| Transport, Concessionary Fares | - | 1 | 4 | Good |
| Procurement | - | 5 | 5 | Good |
| Accounts Payable | - | 4 | 2 | Good |
| Budgetary Preparation & Control | - | - | 2 | Excellent |
| CHAPS Payments | - | - | 2 | Excellent |
| Council Tax | - | - | - | Excellent |
| Public Conveniences | Weaknesses Identified | | | |
| Leisure Flex Cash Ups | - | 2 | 4 | Good |
| Tidworth Leisure Centre | 1 | 5 | 3 | Satisfactory |
| Building Control, Probity | - | 1 | 3 | Good |
| National Non Domestic Rates, Probity | - | - | 1 | Excellent |
| Housing Benefit Payments, Probity (Draft) | - | - | 3 | Good |
| Software Licensing (IT) | - | 2 | 2 | Substantial Assurance |
| Network Security (IT) (Draft) | - | 5 | 3 | Substantial Assurance |
| AUDITS DUE TO BE COMPLETED BEFORE END MARCH 2008 | | | | |
| Accounts Receivable | | | | |
| Car Parks | | | | |

| Opinion | Number of Audits 2007/08 | Percentage of Audits 2007/08 | Percentage of Audits 2006/07 |
|--------------|--------------------------|------------------------------|------------------------------|
| Excellent | 6 | 33% | 33% |
| Good | 10 | 56% | 44% |
| Satisfactory | 2 | 11% | 11% |
| Poor | 0 | 0% | 6% |
| Unsound | 0 | 0% | 6% |

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.