

KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE
to be held on Tuesday 17th March 2009

Report by Graham Brown,
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ANNUAL INTERNAL AUDIT REPORT 2008/09

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 2008/09.

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 2009. 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 and these targets for 2008/09 are outlined in Appendix A. They are essentially concerned with the quality of work completed by the Internal Audit Section.

The Internal Audit team has been seriously under resourced throughout the financial year, with the Acting Chief Internal Auditor having moved to a position with the new Council's BMP team from 1st May 2008. The remaining Auditor has been engaged in performing other roles within the Corporate Finance team as well as assisting in planning for the transition to Wiltshire Council and as a consequence the time available to complete audit work has been reduced.

In order to mitigate the effects of this reduction in available hours, Wiltshire County Council have provided audit resources, including supervision, and this should ensure that all high risk critical systems will be the subject of audit review before the end of the financial year and the annual audit plan for 2008/09 is completed.

7. 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 2008/09 is attached as Appendix B.

During 2008/09, 100% of the systems audited were given an Audit Opinion of Satisfactory or better. Of these, 25% 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 or poor audit opinion. Follow up work on a system from the previous year that was rated poor

identified significant improvements with the main areas of concern having been addressed and the overall opinion of the system showing improvement to a 'Good' level.

8. 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 2008/09 (Appendix B), 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.

9. Conclusions

Officers are able to report to the Resources Executive Committee that the quality of Internal Audit work has been maintained. The work completed allows an opinion of Good to be given for the Internal Control Environment of the Authority.

10. Recommendations

It is **RECOMMENDED THAT**:

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

Internal Audit Performance Standards

No.	Performance Indicator	Target	Actual 28/02/09	Actual 29/02/08	Actual 28/02/07	Actual 28/02/06	Actual 31/03/05
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%	43%* 40%* 43%*	74% 75% 81%	44% 55% 73%	37% 54%	71%
2.	% of audits completed in time allowed	80%	100%	68%	71%	85%	70%
	% of overrun on audits not completed within planned time (avg.)	For info	N/A	8%	Info. Not available	6%	Info. Not available
3.	10% of all audits to be assessed for compliance with the CIPFA Code of Practice by CIA	100%	100%	100%	100%	100%	100%
4.	All instances of high and medium term risk recommendations not being implemented will be reported	100%	100%	100%	100%	None identified	-
5.	Percentage of audits completed by target date agreed with client	80%	67%	70%	72%	64%	-
6.	Customer satisfaction survey responses are good or excellent	90%	87.5%	98%	90%	96%	96%
7.	% of systems documented and control weaknesses identified	100%	100%	100%	100%	100%	100%
8.	All Internal Audits to be subject to a formal report	100%	100%	100%	100%	100%	100%

* Excludes audits carried out by Wiltshire County Council audit resource.

Summary of the Audit Work Completed 2008/09:

Audit Title	Number of Recommendations			Audit Opinion
	High Risk	Medium Risk	Low risk	
Budgetary Preparation	0	0	0	Excellent
Cashbook	0	0	1	Excellent
Penalty Charge Notices (Parking)	0	1	0	Good
Housing Benefit Fraud Investigation	0	3	4	Satisfactory
Payroll	0	5	3	Satisfactory
Devizes Leisure Centre	0	5	2	Good
Marlborough Leisure Centre	0	4	3	Good
Tidworth Leisure Centre	0	3	3	Good
Leisure FLEX Cash Handling	0	2	3	Good
Non-Domestic Rates Probity (Draft)	0	0	1	Excellent
Data Security (IT)	0	6	1	Limited Assurance
Audits due to be reported before end March 2009				
Council Tax				
Housing Benefit Payments				
Treasury Management (WCC)				
Accounts Receivable (WCC)				
Accounts Payable (WCC)				
Main Accounting System				
Car Park Income				

Opinion	Number of Audits 2008/09	Percentage of Audits 2008/09	Percentage of Audits 2007/08
Excellent	3	25%	33%
Good	5	50%	56%
Satisfactory	3	25%	11%
Poor	0	0%	0%
Unsound	0	0%	0%

Please refer to the Glossary of terms overleaf.

Note: in the case of the Data Security audit carried out by the Council's appointed IT Auditors, the opinion of Limited Assurance is considered to be the equivalent of Satisfactory.

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.