

# **Audit and Corporate Governance Committee Report**



Report of Head of Finance

**AGENDA ITEM NO 6**

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To: Audit and Corporate Governance Committee

DATE: 11 April 2007

## **Annual Report on Internal Audit (2006/07)**

### **Purpose of Report**

1. The purpose of this report is:
  - To provide an opinion on the overall adequacy and effectiveness of the Council's control environment
  - To disclose any qualifications to that opinion, together with the reasons for the qualification
  - To present a summary of the audit work from which the opinion is derived
  - To draw attention to any issues that are relevant to the preparation of the Statement on Internal Control
  - To summarise the performance of Internal Audit in terms of both achievement of targets and the quality of the service provided to users

## **Background**

2. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the Head of Internal Audit or equivalent must provide a written report to those charged with governance timed to support the Statement on Internal Control.

## **Opinion of the Overall Adequacy and Effectiveness of the Council's Control Environment**

3. For most of the audits undertaken during 2006/07 where management have agreed to the recommendations, it appears that the overall adequacy and effectiveness of the internal control environment is satisfactory. This is obviously subject to all agreed recommendations being implemented.

## **Summary of the audit work from which the opinion is derived**

4. Between 1 April 2006 and 31 March 2007, Internal Audit carried out a total of 26 reviews. A full schedule of the completed audits and Internal Audit's opinion is set out in Appendix A.
5. The 26 reviews undertaken in 2006/07 resulted in a total of 171 recommendations being made.

## **Issues relevant to the preparation of the Statement on Internal Control**

6. During the course of the financial year, no reviews resulted in an opinion of poor being given. In two instances, the Internal Audit opinion was unsatisfactory. In both instances it is the view of Internal Audit that the recommendations made, upon being satisfactorily implemented by management, will mitigate any risks associated with the identified issues and concerns.

## **Summary of performance of Internal Audit in terms of both achievement of targets and the quality of the service**

7. The performance of Internal Audit is measured with reference to the number of audits completed. Audits are split between fundamental and other (see Appendix A). Fundamental audits are undertaken annually. Internal Audit completed the fieldwork and issued 100% of the draft reports for fundamental systems against a target of 87%. In addition, 94% of draft reports were issued for other audits against a target of 75%. A small number of audits have been carried forward to the following year.
8. This level of performance has been achieved despite an overall reduction in resources following the retirement of the previous Audit Manager and a significant amount of work being undertaken to ensure the smooth merger of the two audit teams.

9. As part of the procedures to monitor and improve the quality and value of the audit service provided, auditees (including contractors where applicable) are requested to complete a Post Audit Questionnaire requesting comments on Internal Audit's performance. Responses reflect a high level of satisfaction. Internal Audit received feedback via completed post audit questionnaires in respect of 4 audit reviews. Attached at Appendix B is a summary of the responses.
10. In addition, all audit work is scrutinised by the Head of Finance and presented to the Audit and Corporate Governance Committee where the work is reviewed and both the auditor and auditee are questioned.
11. Internal Audit's performance against the 2006/07 targets was as follows:

<b>Performance Target</b>	<b>% Achieved</b>
To complete the audit fieldwork and issue draft reports on <b>87%</b> of all significant systems audits within the Audit Plan	100%
To complete the audit fieldwork and issue draft reports on <b>75%</b> of all other systems audits within the Audit Plan	94%
To issue <b>90%</b> of audit notifications at least 10 working days before start of audit fieldwork	92%
To issue <b>90%</b> of draft audit reports within 10 working days of completion of audit fieldwork.	100%
To issue <b>90%</b> of final audit reports within 10 working days of receipt of the auditees final responses to draft report and recommendations (except for reports escalated to Heads of Service or Strategic Directors for resolution)	100%
To follow up <b>80%</b> of final reports within 6 months of completion of audit (i.e. date on which the action plan is agreed and signed off by relevant Head of Service) to ensure accepted recommendations have been implemented and to assess the state of play regarding other recommendations	100%
To issue <b>95%</b> of Post Audit Questionnaires within 1 month of issue of final report	100%

### **CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006**

12. CIPFA published a revised Code of Practice in late 2006. The new code incorporates many changes from the previous one. As a result, it is possible that there will be areas where the Council is not fully compliant. A specific review to ascertain whether the Council is operating in full compliance with the new Code will be carried out by the new Audit Manager when in post. Any significant implications for Internal Audit will be brought to the attention of this committee.

# AUDIT OPINION AND RECOMMENDATIONS

# Appendix A

SYSTEM	OPINION			
	Good	Satisfactory	Unsatisfactory	P
<b>Fundamental Systems Reviewed</b>				
Treasury Management (Follow up)		(No opinion)		
Treasury Management 06/07		✓		
Housing & Council Tax Benefits		✓		
Council Tax		✓		
Bank Reconciliation	✓			
NNDR		✓		
Sundry Debtors			✓	
Payroll		✓		
(Non Payroll matters arising)		(No opinion)		
Creditors Payments		✓		
<b>Other Systems Reviewed</b>				
Cash Office	✓			
Private Sector Housing Renewal Grants		✓		
Asset Management / Land and Property Transactions		✓		
Homelessness and Temporary Accommodation	✓			
Insurances		✓		
Grants – Revenue and Capital		✓		
Didcot Development		✓		

SYSTEM	OPINION				No. o High
	Good	Satisfactory	Unsatisfactory	Poor	
Members Allowances		✓			
Developers Contributions					✓
Risk Management		✓			
Procurement		✓			
Value Added Tax	✓				
Licensing		✓			
ICT					
Money Laundering		(NO OPINION)			
Training		✓			
Foxhall Manor Park		✓			

## RESPONSES TO POST AUDIT QUESTIONNAIRES FOR 2006/07 AUDITS

### Appendix B

	Training	Payroll	Homelessness & Temporary Acc
G = Good			
S = Satisfactory			
P = Poor			
VP = Very Poor			
N/A= Not Applicable			

#### Audit Planning/Scope of Work

Consultation on the scope and coverage of the audit

Relevance of the audit objectives

#### Timing

Timing and duration of the audit

Minimal disruption to daily activities

#### Quality of Audit Report

Clarity and conciseness of the audit report

Fulfilment of the audit scope and objectives

Accuracy, validity and significance of the audit findings

Audit recommendations - constructive, practical and logical

	<b>Training</b>	<b>Payroll</b>	<b>Homelessness &amp; Temporary Acc</b>
G = Good			
S = Satisfactory			
P = Poor			
VP = Very Poor			
N/A= Not Applicable			

**Communication**

Consultation during the audit
Communication of findings during the audit

**Professional Proficiency**

Professionalism of the auditor(s)
Advice given by the auditor(s)
Knowledge, ability and experience of the auditor(s)

**General**

Usefulness of the audit in improving operations and control
Overall evaluation of the quality of the audit service provided

	<b>Training</b>	<b>Payroll</b>	<b>Homelessness &amp; Temporary Acc</b>
G = Good			
S = Satisfactory			
P = Poor			
VP = Very Poor			

N/A= Not Applicable			
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Will the implementation of any changes recommended lead to improvements in performance of
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VG = Very Good