

**AUDIT MANAGEMENT LETTER 2005-2006
AND ANNUAL STATEMENT OF ASSURANCE**

Head of Finance

1.0 Purpose

The Council's external auditors have issued the annual audit and inspection letter for their audit based upon the 2005 -2006 accounts. The report covers the Council accounts for the 2005/06 year together with the "direction of travel" assessment and the results of our "use of resources" assessment.

The Council is required to publish its Statement of Accounts for 2006 – 07 by the end on June. Included in that requirement is publication of the Annual Statement of Assurance on the management of the Council's affairs.

Although the Audit Panel has already undertaken some review of these matters this report formally reviews both documents.

2.0 Recommendation

The committee is requested to ;

- 2.1** Note the contents of the External Auditors Management Letter and draft audit plan for 2007-08.
- 2.2** Consider the Annual Statement of Assurance and any comments that it wishes to be taken into account when the statement is adopted as part of the Statement of Accounts.

3.0 The External Auditors report and the Assurance Framework

- 3.1** This committee's terms of reference include dealing with external and internal audit issues. The Audit Panel previously dealt with matters of a detailed nature and has considered the External Auditors annual report within the stipulated timeframe. This report allows formal recognition of our external auditors report by a committee of the Council.
- 3.2** The auditor's report together with their draft audit and inspection plan for 2007/08 will be issued to Members of the Committee separately. Copies will also be issued to the Cabinet and Group Leaders. The management letter has been placed on the Council's web site.
- 3.3** The Council is required to formally issue its draft Statement of Accounts (subject to Audit) by 30th June each year. That matter will be reported to Cabinet on 26th June 2007. Included in the statement of accounts is a statutory statement of assurance to be signed by the Leader and Chief Executive. This statement gives assurance that matters relating to the Council's operations are being properly managed and controlled.

- 3.4 The Statement of Assurance draws upon the management and internal control framework of the Council especially the work of Internal Audit and the Council's Risk Management framework.. In particular the independent report of the Council's Audit Manager is a significant factor in determining the position to be reported.
- 3.5 In January 2007 the Council's Audit Manager left the Council to take up another post. The new Audit Manager commenced employment with the Council at the start of this financial year. For the purposes of the 2006-07 statement we have to rely upon the independent report of the outgoing Audit Manager for the period to January 2007.
- 3.6 This year the assurance framework has been further extended to include individual statements from each Head of Service covering the Internal Control Framework for their service. This takes the form of a 16 page self assessment and assurance statement considering all aspects of service operation. In addition each service is required to maintain comprehensive risk registers for the management of corporate, generic and service risks.
- 3.7 Where matters are considered to be less than adequately covered by control procedures they should be identified together with the details of proposed remedial action. Whilst areas are identified for further action there are no significant issues of concern identified in the draft statement a copy of which is attached as an appendix.

4.0 Resource Implications

The external audit process is an independent review of the Council's operations and use of resources. Whilst there are no direct resource implications arising from this report the process is designed to be one aspect of ensuring proper management of the Council's resources of all types.

5.0 Response to Key Aims and Outcomes

The external audit review process underpins the Council's own performance management framework which is designed to ensure optimum delivery of the key aims and outcomes.

6.0 Reason for Recommendation

The reports are an integral part of the external independent audit process and the reporting of the Council's annual accounts and require formal reporting and consideration.

Internal Audit Manager's Annual Report Appendix A

2006 to end January 2007

1. Introduction

The purpose of Internal Audit is to provide the Council with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives. In order to provide this opinion, Internal Audit must annually review the risk management and governance processes of the organisation and undertake a regular review of the operation of the internal control systems.

2. Internal Audit Manager

Each year the Internal Audit Manager is required to formally report the audit opinion to those charged with governance. I am leaving the Council's employment at the end of January 2007 to take up a new position elsewhere and have therefore written this report on the basis of the work completed by the Internal Audit team for the year to date.

3. Overview of progress

Internal Audit presented a progress report to the Members Audit Panel in early January 2007. This demonstrated good progress against the plan with many areas of audit work already completed. As to be expected, a number of audit areas are still in progress and the Internal Audit team have a clear plan of work to be completed during the remainder of the year.

The Audit Plan was written flexibly to enable the team to respond to emerging issues through the year. The team will have completed a sufficient spread of work during the year to enable an audit opinion to be given. However, it is not anticipated that the Plan will be fully completed by end March 2007 for the following reasons:

- The team will be without an Internal Audit Manager for the two months to the end of the financial year. Whilst operational control of the team will be maintained in the interim period by the Head of Financial Services, some audit reviews that would have been carried out by the Internal Audit Manager will have be considered for the 2007/08 plan.
- The call off contract arranged with an external provider of internal audit services has been implemented later than anticipated during the year. This is now in place and will be fully available to the Service in 2007/08.

In practice, these issues do not put the service provision or the Council at risk.

There are a number of areas in the plan that are considered as 'ongoing'. These are areas of work where the team have ongoing involvement rather than a set project or review to be completed. The work undertaken in these areas add significantly to the Audit team's understanding and knowledge of the council's operations, which again contribute to the annual audit opinion.

4. Opinion on the overall adequacy and effectiveness of the Council's "financial" internal environment and any qualification to that opinion together with reasons for the qualification.

Based on the Internal Audit work undertaken for the year to date and the implementation by management of the recommendations made, Internal Audit has reached the opinion that the key systems are operating soundly. There is no fundamental breakdown of controls resulting in material weakness sufficient to qualify the overall audit opinion.

At the time of writing, the key financial systems are under review by the Audit team, prior to interim financial check to be undertaken by the External Auditors in February and March 2007. To date no significant control weaknesses have been raised in these areas under review.

5. Significant issues the Internal Audit Manager judges particularly relevant to the preparation of the statement on internal control, including progress on items previously raised.

Corporate Governance – Actions outstanding to strengthen the Council's Corporate Governance framework continue to be monitored through the Corporate Improvement Plan. Although some progress has been made in the development of the revised Code of Conduct, including more explicit procedures for acceptance of gifts and hospitality and declarations of interest, these have still not been communicated to staff. This matter has now been outstanding for some considerable time and should be urgently addressed.

The revised CIPFA Code of Governance is still awaited and currently due for publication by end of March 2007. I recommended that the Council's position is reviewed against this document when it becomes available in 2007/08.

Performance Management – The Council's performance management arrangements continue to improve. However, too much reliance continues to be placed on Internal Audit officers providing a checking mechanism, in some instances, rather than Heads of Service taking responsibility for ensuring consistent quality of their submitted data. The Policy and Performance team have worked hard to ensure sufficient clarity of requirements is available to line managers but these processes need to continue to be strengthened.

Risk Management - Internal Audit have continued to be a primary facilitator of risk management so Deloitte were commissioned to undertake an independent assessment of the framework. At the time of writing their report has not been finalised. Their draft report supports the view that the processes are in place but linkages need to be strengthened to properly embed the arrangements. Their outcome also supports the requirement to appoint a Risk Management post to fully drive the improvements forward and enable Internal Audit to more correctly provide an objective role.

Financial Governance – Work is currently underway by the Audit team to update our assessment of the financial systems including following up on the outcomes of the

fuller reviews completed last year. The Payroll system will be audited by Deloitte to not only give assurance to Aylesbury, but to the other Councils whose Payroll our Exchequer Service manage.

Internal Audit have previously raised concerns over the operational responsibilities of the Council's Asset Management arrangements including the recording of its 'Fixed Assets'. Improvements have been made in this area and work is ongoing to ensure the issues previously identified continue to be resolved.

IT Governance – Internal Audit have worked closely with IT and other services and an external specialist to develop a policy framework to support the management of Information Security. This relates to maintaining the confidentiality, availability and integrity of information and includes physical and personnel security in addition to the security of data. This work is being completed by a business project manager and should be promulgated across the Council during 2007/08. The work has highlighted the need for the Council to clarify its corporate responsibilities for all aspects of security as the reporting structure and accountability is currently unclear.

Capital Projects – The Council have now appointed a project officer who is working to strengthen the Council's approach to project management. The Council is entering into a period of major change and will be responsible for successfully managing a range of high profile projects. It is vital that senior management take into account the 'lessons learned' from previous projects.

Housing Stock Transfer - Internal Audit reviewed key issues relating to the stock transfer based on an Audit brief provided by our External Auditors, the Audit Commission. The Commission produced a summary report reaffirming the residual issues that the Council must address.

Assurance work on other systems – Work has been completed to review various internal control systems including those for Licences and Grants. To date the control systems to manage the risks in employing casual workers is the only area where Internal Audit have given a 'limited' assurance opinion this year. Personnel Services agree they will strengthen the procedures and work with Services to ensure that practices compliant with legal requirements are consistency applied.

Cathy Durham
Internal Audit Manager
24 January 2007

1. Scope of Responsibility

Aylesbury Vale District Council is responsible for ensuring that: -

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for; and
- public money is used economically, efficiently and effectively.

In discharging this accountability, Members and senior management are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risks to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process:

- to identify and prioritise the risks to the achievement of Aylesbury Vale District Council's policies, aims and objectives;
- to evaluate the likelihood and impact of those risks being realised; and
- to manage them efficiently, effectively and economically.

The system of internal control has been in operation at Aylesbury Vale District Council for the year ending 31 March 2007 and remains in operation up to the date of the approval of the annual report and accounts.

3. Internal Audit Opinion

Each year the Internal Audit Manager is required to report formally on the audit opinion to those charged with governance of the Council. The Internal Audit Manager left the Council at the end of January 2007. Before leaving, she prepared an interim Annual Report which is attached at Appendix A.

4. Updated information on items covered in the Internal Audit Manager's report.

- **Overview of Progress.** As expected, some work planned for 2006/7 has been carried forward and completed in the new financial year.
- **Opinion on the overall adequacy and effectiveness of the Council's financial internal environment...** Further work undertaken by Internal Audit has confirmed the interim opinion that the key systems are operating soundly. There is no fundamental breakdown of controls resulting in material weakness sufficient to qualify the overall audit opinion.

In March 2007 the Council's External Auditors issued the Annual Audit and Inspection Letter for 2006. The main messages contained within this year's letter

can be summarised as:

- The growth planned for the district will have a major impact on people and services;
- The financial position is strong, but there are challenges ahead;
- Performance management is improving;
- The way in which resources are used has now been assessed as “Good”.
- **Risk Management** – the Audit report has now been finalised in line with the expectations in the interim report.
- **Financial Governance** – The Payroll report has now been finalised and shared with the other District Councils whose Payrolls are managed by AVDC Exchequer Services.

5. Internal Control

Internal control is an important element of the Council’s overall governance arrangements. The Council acknowledges responsibility for maintaining a sound system of internal control, and for ensuring that the system is regularly reviewed to verify its effectiveness.

The system of internal control is designed to manage rather than eliminate the risk of failure. It can provide only reasonable and not absolute assurance that the Council’s objectives will be met.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council and is reviewed by external and internal audit. In particular the system includes:

- comprehensive budget planning (Revenue and Capital) developed for 5 years ahead;
- periodic and annual financial reports which indicate financial performance against the forecasts;
- regular reviews of financial activity and future requirements as part of budget planning and;
- capital income and expenditure planning and reporting.

The Council has responded well to the Gershon Efficiency Agenda and delivered savings to meet the targets set. There is however an emerging need for greater efficiencies to respond to budget pressures and organisational change. A management framework to address these matters has been created and is progressing.

6. Assurance Framework

The Council has developed an assurance framework to support the preparation of the Annual Statement on Internal Control. This is underpinned by the Corporate Risk

Management procedures and governance arrangements. In addition to the Internal Audit Manager's Annual Audit Opinion and assurance work by the External Auditors; Directors, Heads of Service and Project Leaders are required to sign Statements of Assurance confirming:

- That they have identified and are managing the risks relating to their areas of responsibility;
- Appropriate internal control is in operation and further action to address issues is planned and;
- Recommendations arising from independent external review are being acted upon

The Council has continued to embed these processes, which has included the further development of the Risk Management framework. Future activity will also be informed by the Use of Resources review where an action plan has been developed and implemented. This has already seen the development of the assurance framework at service manager level to ensure awareness and assess compliance.

From the sources of assurance received for 2006/07 the following additional significant control issues have been raised:

- Additional work is required on collecting and managing Key Performance Indicators in certain departments;
- Controls over the use and management of casual staff could be improved;
- Improved management of variation orders on the Horticultural Contract is necessary;
- Marketing 2031 partnership is not a formal partnership and needs regularising;
- Information sharing of all risks identified needs improving so that professional areas, eg Performance Review can be aware and involved as appropriate.
- Data Protection – some weaknesses were identified during an Internal Audit. A programme has been put in place to remedy these by September 2007;
- Data Protection – Sensitive document storage arrangements in some areas could be improved;
- Requirements for regular updates to Service Risk Register need to be adhered to;
- Updating of procedure notes for financial sub systems need to be done;
- Reconciliation of service based information to corporate financial systems could be better managed;
- Strategic Medium Term Work Plan objectives and targets need to be more clearly defined to allow for progress to be measured;
- Risk Management – a need to improve reporting and liaison between some Departmental Management Teams and the Risk Management Steering Group;

The above matters if properly managed are not considered to represent any immediate threat to the Council's operation. They do however need to be addressed now to demonstrate a proper level of internal control.

7. Internal Audit

The internal audit arrangements are as outlined below:

- The service operates under regulation 6 of the Accounts and Audit Regulations 2003 and in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government*.
- The Council's Financial Regulations, endorsed by the Internal Audit Charter gives the Internal Audit Manager unrestricted access to all Council records and property, and the organisational independence to form an objective opinion on the adequacy and effectiveness on the whole system of internal control.
- The Internal Audit Manager reports to the Head of Finance and if required can report directly to the Directors, the Chief Executive or Leader of the Council.
- The work of the service is planned on a risk assessment basis with an increasing application of risk based auditing as the corporate risk management procedures are embedded across the Council. Strategic and annual plans are formulated and approved by the Members Audit Panel.
- The work of the service includes not only reviews of financial control, but also of corporate governance and risk management arrangements, control over the achievement of organisational policies and objectives, and compliance with laws and standards.
- The outcomes of audit reviews are reported to the appropriate Director and the Head of Finance who is the Council's statutory Chief Financial Officer.

The review of the effectiveness of the system of internal control is informed by: the work of managers within the Council; the work of internal audit as described above; and the external auditors in their annual audit letter and other reports. The overall opinion is that, except for the matters identified above, the internal control system is adequate. We are not aware of any material weaknesses in the system that needs to be highlighted.

Date

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Leader of the Council

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Date

Chief Executive