



AYLESBURY VALE
DISTRICT COUNCIL

INTERNAL AUDIT MANAGER'S ANNUAL REPORT

APRIL 2007 – MARCH 2008

Aylesbury Vale District Council

Internal Audit Manager's Annual Report

April 2007 to March 2008

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's Opinion

Based on the Internal Audit work undertaken for the year 2007-2008 and the implementation by management of the recommendations made, Internal Audit has reached the opinion that the key financial systems are operating soundly. There is no fundamental breakdown of controls resulting in material weakness sufficient to qualify the overall audit opinion.

The key financial systems have been reviewed by the Internal Audit team, and the interim financial check undertaken by the External Auditors is currently in progress. To date no significant control weaknesses have been raised in the financial areas under review.

However the Internal Audit team has given a "Limited" or "No" Assurance opinion in a number of areas this year. A list of these is at paragraph 4 below. This compares with only one review resulting in a "Limited" opinion during 2006-2007. While these are not sufficient to affect the overall Audit opinion this year, the significant weaknesses raised must be addressed promptly if they are not to have an adverse affect on the Audit opinion and Use of Resources assessment for 2008-2009.

3. Overview of Audit Activity 2007-2008

The Audit Plan for 2007-2008 was written flexibly to enable the team to respond to emerging issues throughout the year. In a number of areas additional work was requested and delivered. In a few areas work which had been planned was no longer appropriate or could not be completed due to changes in the management arrangements or priorities in the Council.

Internal Audit presented a progress report to the Audit Committee in March 2008. This demonstrated good progress against the plan with many areas of audit work already completed. The team have completed a sufficient spread of work during the year to enable an audit opinion to be given.

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

The Audit Plan has to ensure that the team remains up to date in key corporate areas & developments, as well as performing sufficient formal Audit reviews to support the Annual Audit opinion.

4. Summary of Audit work in significant areas, including progress on items previously raised.

4.1 Corporate Governance

The Council's Audit Committee was formally created during the 2007/2008 financial year and is providing a robust and effective forum for scrutiny of Corporate Governance, internal control and management issues.

Further progress in the development of the revised Code of Conduct, including more explicit procedures for acceptance of gifts and hospitality and declarations of interest, has been limited and these have still not been communicated to staff. *This matter has now been outstanding for some considerable time and should be urgently addressed.*

4.2 Partnership Arrangements

Internal Audit had planned to do a full review of partnership management arrangements at AVDC during the current financial year. However, the secondment of a key member of corporate staff to the Pathfinder initiative meant that it was not possible to carry out this work. *Audit review work in this area has been scheduled for 2008-2009.*

The results of an Audit undertaken on the Local Area Agreement by Buckinghamshire County Council have been provided to Internal Audit and have been used to provide assurance over this specific partnership arrangement.

4.3 Performance Management

The Council's performance management and data quality arrangements have continued to improve. This year for the first time Internal Audit officers did not need to provide a checking mechanism and Heads of Service worked with the Policy and Performance team to ensure consistent quality of their submitted data. The Policy and Performance team's achievement has been recognised by the External Auditors' award of a level 3 opinion in their review of Data Quality.

4.4 Risk Management

During 2006-2007 Deloitte were commissioned to undertake an independent assessment of the Risk Management framework. Their report supported the requirement to create a dedicated Risk Management post to drive improvements forward and enable Internal Audit to provide a more objective role in the Risk Management framework.

This recommendation was implemented during 2007-2008 and AVDC now has a full time Risk Manager in post. She is working closely with Members, the Corporate Management team and Heads of Service *to improve Risk Management at AVDC.*

4.5 Financial Governance

AVDC is facing unprecedented pressure on financial resources. At the same time there are a number of large projects already in hand and the resources to complete them are not assured. Corporate Management team need to keep a careful control over all current projects to ensure that they are completed on time and to budget. Resources will not be available to allow costs or timescales to creep upwards.

The Internal Audit team has recently updated their assessment of AVDC's financial systems including following up on the outcomes of previous reviews. An external supplier, Deloitte, was used to audit the Payroll system. This Audit has been shared with those other Councils who use our Payroll Service. They were thus able to obtain an independent opinion on the Payroll Service for their own assurance purposes.

Another major review this year was conducted on the Council's compliance with procurement and contract regulations. *A number of recommendations were made to improve existing arrangements.*

4.6 Capital Projects

The Council is responsible for successfully managing a number of high profile projects, including the Waterside development, the new Theatre and the planned

growth in Aylesbury Vale. Costs and timescales will need to be tightly controlled throughout these projects. *Senior management must ensure that they do not enter into commitments which cannot be met and that the resources required do not have an adverse impact on other services provided by the Council.*

4.7 Fraud and Corruption

4.7.1 Benefit Fraud

The Audit Fraud Investigation Unit works closely with the Department for Work and Pensions to identify and investigate Benefit Fraud. 113 serious cases have been investigated by the Unit during the financial year 2007/2008, leading to the identification of over £195,000 in overpayments.

4.7.2 National Fraud Initiative

AVDC participates in this exercise which is co-ordinated by the Audit Commission. Cases arising from the data gathered in NFI 2006 are now reaching their end. Data gathering for the next NFI exercise is scheduled to start in the Autumn.

AVDC is able to use powers granted under the Regulation of Investigative Powers Act (RIPA) to carry out surveillance of individuals. Any such use has to be specifically authorised by one of 7 named senior staff at the Council all of whom have received training in their duties and responsibilities under the Act. During 2007-2008 two requests were approved for directed surveillance to be carried out. One of these related to fly tipping and the second to an investigation into anti-social behaviour and criminal damage.

4.7.3 IT Governance

This relates to maintaining the confidentiality, availability and integrity of information and includes physical and personnel security in addition to the security of data. An Information Governance Group has been created which has helped to clarify corporate responsibilities for all aspects of information security. This is chaired by a Corporate Director with representatives from various services. It is working to improve the handling of all information throughout the Council.

However, progress on the policy framework to support the management of Information Security has been slow during this financial year. Although further development work has been undertaken, the results have not yet been formally agreed and promulgated across the Council.

4.8 Assurance work on other systems

Work has been completed to review internal control systems across the Council. These include both financial and non-financial systems, for example a review of

the Council's arrangements for ensuring that staff driving for official purposes have the required licences and insurance.

4.9 Housing Stock Transfer

Internal Audit has reviewed the revised operating arrangements since the stock transfer. *This has raised a number of residual issues that the Council must address with VAHT.*

4.10 Value for Money work

Internal Audit completed two Value for Money reviews during 2007-8, one on the Council's charging policy and the second on use of Postal Services. Both reviews raised recommendations which were intended to assist the Council in making better use of its limited resources.

4.11 Reliance on work by other assurance bodies

Under the Strategic Partnership arrangements previously agreed with other Councils in Buckinghamshire, Internal Audit has been provided with copies of reports produced by the Buckinghamshire County Council Internal Audit Service which reviewed the Local Area Agreement and the Buckinghamshire Pension Fund. These reports have been relied upon to inform AVDC's opinion and give assurance in these areas.

5. Audit Reporting arrangements

The Audit Committee is provided with regular progress reports on work performed by the Internal Audit Section. They also receive reports on the implementation of recommendations made in Internal & External Audit reports, including exception reports which highlight those actions which have not been fully implemented within the expected timescale.

Each full Audit review results in a formal Audit report including an Audit opinion. This will range from "Full assurance" where no control weaknesses have been identified, to "No assurance" where suitable controls are not in place.

Internal Audit have given a 'Limited' or 'No' assurance opinion in several areas this year. These include:

Data Protection and Freedom of Information, Internet and Telephone Procedures, Compliance with Contract Procedures, Risk Management, Operational Road Risk.

In several of these areas actions have already been taken to improve the control environment. Those still outstanding are from audit reports which have been issued more recently.

However, only one area was given a "Limited" Audit opinion in the 2006-2007 year. It appears that the pressure on services due to tighter budgets and limited resources may be leading to a lack of compliance with existing financial and operational controls. There is also difficulty in responding adequately to new requirements, e.g. those arising from the introduction of the Corporate Manslaughter Act. It is important that these areas are managed and appropriate controls put in place promptly. Continued lack of compliance will impact on the Audit Opinion for 2008-2009 and also have an adverse affect on the Use of Resources assessment.

The Audit Committee is presented with a regular Tracker report which is being developed further to show when audit recommendations are implemented and also to report on an exception basis where actions are not completed by the agreed dates. This reporting and review ensures that recommendations are implemented within an acceptable timescale.

6. Audit Resources

The Audit Section has four members of staff, one of whom is part time. I started as the Internal Audit Manager at Aylesbury Vale District Council at the start of the 2007/2008 financial year. Since then there have been no further changes in the staff of the Section.

As part of a strategic partnership arrangement with the other Councils in Buckinghamshire Internal Audit is able to call on additional resources from an external supplier at a preferential rate when required. Working relationships within the partnership also allow sharing of audit information and staff between the Councils involved.

The Pathfinder initiative is a major project to review many of AVDC's functions and explore options to improve performance and make savings by integrating and streamlining service provision across the whole of Buckinghamshire.

Internal Audit has been included within the Support Services stream of the Pathfinder project. This participation has required a significant input of time from the Internal Audit team during 2007-2008. Inevitably this has reduced the time available for planned assurance work.

While the projected savings claimed for Pathfinder look substantial it will be important not to underestimate the transition costs to the new arrangements. These will need careful management.

7. Performance Measures

The Financial Services Service Plan includes key performance measures for the Internal Audit Section. These are:

	Performance Assessment	Target	2007/8
1	Maintain "Managed Audit" status with External Audit. i.e. External Audit will rely on Internal Audit work where relevant.	Maintain	Achieved 2007/8. Confirmed by External Audit, March 2008.
2	Costs to be at or below benchmark average.	Below Average	Not achieved. £307 per day - average £299
3	Costs per £M of Gross Turnover	Below Average	Achieved £2,022 per £M – average £2,956
4	Deliver against Audit Plan	90%	94%
5	% of Productive time over period	67.5%	67.1%
6	Audit reports found helpful and recommendations agreed.	90% compliance with recommendations	Achieved - All agreed with management.

Each year Internal Audit participates in a Benchmarking Club run independently by CIPFA which allows our performance to be compared with other Councils across England. A number of the performance measures above are derived from information prepared for this exercise. A full report on the outcome of the Benchmarking was presented to the Audit Committee in November 2007, with the results of the Review of Effectiveness.

The Benchmarking service also offers an "Audit Customer Satisfaction Survey – Inter Authority Review". In September 2007 all AVDC's Directors and Heads of Service were asked to complete this survey and return it directly to CIPFA. They scored the Internal Audit Service between 1 (low) and 6 (excellent) in a number of areas. The overall rating for the AVDC Internal Audit Service was 5.13, higher than the group average performance score of 4.82.

8. Review of Effectiveness and Quality Assurance

The Accounts and Audit Regulations issued in 2006 require a "Review of the Effectiveness of Internal Audit" to be conducted annually. The results of this year's review were reported to the Audit Committee in November 2007.

Internal Audit operates to the standards set out in CIPFA's 2006 "Code of Practice for Internal Audit in Local Government in the United Kingdom". The Review of Effectiveness was conducted using the Checklist included in the Code.

An Action Plan has been developed to address areas identified for further review and improvement. This is being implemented.

Every three years the External Auditors conduct their own independent review of Internal Audit. This review has recently taken place and has confirmed that the Audit Section is meeting the expected standards.

Val Hinkins
Internal Audit Manager
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