

AUDIT COMMITTEE – 24 APRIL 2008

ITEM 9 – APPENDIX

**AUDIT & INTERNAL CONTROL –
INTERNAL AUDIT ANNUAL REPORT 2007/2008**

Three Rivers District Council

Annual Internal Audit Report

April 2007 – March 2008

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This report has been prepared on the basis of the limitations set out on page 5.

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THREE RIVERS DISTRICT COUNCIL

INTERNAL AUDIT ANNUAL REPORT FOR 2007/2008

1. Introduction

The purpose of this report is to inform the Council of the internal audit programme undertaken in the period from 1st April 2007 to 31st March 2008. The report also summarises our achievements against the annual internal audit plan.

2. Background

The Internal Audit Service has been carried out by Deloitte and Touche Public Sector Internal Audit Ltd. since April 2005, following a competitive tendering exercise. The service has been provided in accordance with the requirements of the detailed service specification.

3. Audit Plan and Progress

The key objectives of the plan were to:

- Contribute to the attainment of the Council's service objectives by making recommendations to improve the control over resources and achieve value for money;
- Assist the Chief Finance Officer in fulfilling his statutory duties arising from s151 of the Local Government Act 1972 and the Council's responsibilities outlined in the Accounts and Audit Regulations 2003;
- Provide a quality professional service to the Council in accordance with best practice and to meet the requirements of the service specification;
- Achieve audit standards and coverage in accordance with the professional guidelines published by the Auditing Practices Board of the Consultative Council of Accountancy Bodies (CCAB); and
- Provide assurance to the external auditors that fundamental financial controls were operating effectively throughout the year.

The approved Internal Audit plan totalled 300 days against which 300 days had been input at the year-end.

4. Results and Outcomes

We have carried out sufficient and relevant testing aimed at evaluating the internal control system in order to give our opinion as to whether it is meeting its objectives. The main objective of the control system is defined by CIPFA as:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;

- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

We can confirm that on the basis of our audit work carried out in 2007/08, there are generally robust systems of control in place within Three Rivers District Council and that controls are largely being complied with. Thirty-four audits were carried out during the year, the details of these are summarised in a table at Appendix A.

We have made recommendations where necessary in order to improve controls or to improve compliance with existing controls. To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

Essential - Major issues that we consider need to be brought to the attention of senior management.

Important - Important issues that should be addressed by management in their areas of responsibility.

Minor - Detailed issues of a minor nature.

Within the current financial year, the following number of recommendations have been raised:

Essential- 3 Recommendations

Important- 96 Recommendations

Minor- 25 Recommendations

5. Relationship with External Audit

There has been ongoing co-operation between internal audit and the Council's external auditors for the financial year 2007/08 and their request for internal audit files to be provided for review has been fully complied with.

The external auditors are currently undertaking a detailed review of Internal Audit's work and their comments on the work produced by Internal Audit for the 2007/08 audit plan are awaited.

6. Quality of Service and Management Reaction

Internal Audit conducted its assignments in accordance with the Annual Plan, as amended in agreement with the Council.

There has been a positive response by management to those issues raised by Internal Audit and universal acceptance of recommendations made in principle.

A system of quality questionnaires is in place whereby, following completion of an audit, the main auditee is requested to complete a questionnaire in order to provide feedback on their level of satisfaction with the audit process. We are pleased to report that the majority of questionnaires returned to date have found that auditees were "satisfied" in general with their audits. Where unsatisfactory comments have been

provided, these issues have been followed up and the appropriate action has been taken.

7. Opinion on the adequacy and effectiveness of the Council's internal control system

In our opinion the Council currently has an adequate and effective internal control environment.

This opinion is based on the work completed by Internal Audit during this year and previous years. Although the 2007/08 work has highlighted some weaknesses in control during the year, our follow up work has shown that action has been or is being taken to strengthen the internal control framework.

8. Conclusion

The Internal Audit Plan for 2007/08 has been completed within budget and accommodated the requirements of Council staff, the external auditors and our professional guidelines. There were no areas, from which, Internal Audit were prevented or restricted, for the purpose of carrying out our audit work. The recommendations detailed in our reports have been accepted or agreed in principle, and action has been agreed with Council staff to implement the recommendations contained within our reports.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte & Touche Public Sector Internal Audit Ltd. South West Sector, April 2008

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Appendix A- Summary of Audit Plan 2007/08

Audit Title	Allocated Days	Days Completed
Post Opening Arrangements	6	6
Pensions	8	8
Performance Monitoring Arrangements	10	10
Business Continuity Plans	10	10
Sir James Altham Pool	5	5
Watersmeet Theatre	5	5
Risk Management & Corporate Governance	12	12
Housing Needs	8	8
Environmental Protection	5	5
Purchasing Card Procedures	8	8
Training	5	5
IT Audit- Finance Application	10	10
IT Audit- IT Security	9	9
IT Audit- Data Security	11	11
William Penn Leisure Centre	5	5
Croxley Green Skate Park	5	5
External Funding/ Grant Claims	5	5
Sheltered Housing & Supporting People	10	10
Environmental Health- Licensing	5	5
Treasury Management	8	8
Cash	12	12
Central Accounting/ Budgetary Control	8	8
Housing & Council Tax Benefits	10	10
Housing Rents	7	7
Council Tax	10	10
NNDR	10	10
Creditors	10	10
Debtors	10	10
Payroll	8	8
VAT	8	8
Capital Accounting	8	8
Elections	5	5
Waste Management	8	8
Anti-Fraud & Corruption	5	5
Other Work		
Planning Application Work	8	8
Tenant Account Work	2	2
ICT Controls	5	5
Stock Condition Survey	4	4
2006/07 Follow Up Work	10	10
Audit Management	5	5
	303	303
Contingency Carry Forward from 2006/07	-3	-3
Total	300	300