

BABERGH DISTRICT COUNCIL

**FROM: Head of Finance and Performance
Review**

REPORT NUMBER E54

TO: Overview & Scrutiny (Stewardship)

DATE OF MEETING 5 July 2005

2004/05 Annual Report – Internal Audit

1. **SUMMARY**

The report sets out the internal audit work carried out during the 2004/05 financial year, achievement against the Audit Plan, and details any major control weaknesses in the Council's systems and procedures that were found.

2. **RECOMMENDATIONS**

2.1 That the position regarding the 2004/05 internal audit work be noted.

3. **FINANCIAL IMPLICATIONS**

3.1 None

4. **KEY INFORMATION**

4.1 Internal audit provides Members and Senior Managers with an independent and objective opinion on the control environment; it objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4.2 Internal audit carried out a wide range of reviews of the Council's operations, critically evaluating the internal control systems and, where necessary, making recommendations for improvements to controls and the introduction of best practice. The 2004/05 work programme was approved by this Committee in May 2004 (Report C271).

Achievement Against The Plan

4.3 At the start of the financial year the staffing establishment for internal audit was three FTE's managed by the Performance Review and Audit Manager, with an additional 40 days computer audit work being provided under an agency agreement with Ipswich Borough Council. The Principal Auditor was absent on maternity leave from June 2005 until December, when she returned on a part-time basis for the remainder of the financial year. The Performance Review and Audit Manager left the section in August 2005 to manage the Corporate Support Team. Some management support was provided by the Chief Internal Auditor of Suffolk Coastal District Council during the Principal Auditor's absence.

4.4 The internal audit programme was based on 475 audit days, which is the number of days remaining after allowance has been made for maternity leave, holidays, training, planning and administration etc. The actual audit days available were 459, the difference being due to the Principal Auditor working on a part-time basis for slightly longer than originally planned.

4.5 **Fundamental Reviews** – Reviews of the Council's fundamental systems are classified as 'key' audit areas by the Audit Commission and must be carried out on an annual basis. These reviews are programmed according to the CIPFA Internal Audit Control Matrices and provide an assurance

of the adequacy of the systems and enable the Audit Commission auditors to rely on the work carried out. The fundamental financial systems covered in the 2004/05 work programme were:-

- Asset Register
- Benefit Assessment
- Benefit Fraud
- Benefit Overpayments
- Creditor Payments
- Debtors
- General Ledger
- Housing Repairs
- Local Taxation
- Payroll
- Rents
- Treasury Management

Two of the fundamental reviews were in progress at the year-end and these have now been completed.

- 4.6 **Corporate Governance and Risk Management** –Internal Audit carried out the initial review of the effectiveness of the system of internal control and provided sufficient, relevant and reliable assurance and published a Statement of Internal Control with the financial statements, as required by the Accounts and Audit Regulations 2003.
- 4.7 The Accounts and Audit Regulations also require sound arrangements for the management of risk to be in place. The Council had made good progress in mitigating the highest rated strategic risks, which had been identified by officers and Members in December 2002. A risk identification exercise must be carried out on a regular basis to ensure that all the strategic and major operational risks facing the Council have been identified. It had been planned to carry out the risk identification exercise during the financial year, but due to the Principal Auditor's maternity leave this work is now being progressed with Members and officers in the first half of the current financial year.
- 4.8 **Computer Audit** – The Council has an agency arrangement with Ipswich Borough Council for the provision of a computer auditor to carry out 40 days computer audit work per year. Five computer audits had been planned, of which: two were completed, two were in progress at the year-end and have since been completed and one small 2 day review of policies was not carried out as the policies have not yet been formulated. The internal audit staff carried out a computer application review for the first time assisted by the computer auditor.
- 4.9 **Anti-Fraud & Corruption and Whistleblowing** – Internal Audit has responsibility for raising awareness of the Council's Anti-Fraud & Corruption Policy and Whistleblowing Procedure. Regular articles are placed in Talking Shop, contractors are informed of the policy on an annual basis and the information is on the Council's Intranet. Anti-Fraud and Corruption and Whistleblowing information will be put on the Council's Website shortly including an e-form so that concerns can be raised electronically.
- 4.10 During 2004/05 no concerns were raised.
- 4.11 **Money Laundering** – Internal Audit has responsibility for raising awareness of Money Laundering and the Proceeds of Crime Act. The Principal Auditor is the Council's Money Laundering Reporting Officer. A briefing note was published in the March 2005 edition of Talking Shop. As the full implications for Councils are not yet known, the Principal Auditor will keep a watching brief and further information and advice will be published as appropriate.
- 4.12 **Audit Recommendations and Follow-ups** – Recommendations arising from the internal audit work are graded according to the significance of any weaknesses:

Priority 1 – action that is considered essential to ensure that the Council is not exposed to high risks;

Priority 2 – action that is considered necessary to avoid exposure to significant risk:

Priority 3 – action that merits attention and may result in enhanced control, quality or better value for money.

- 4.13 Details of the internal audit and computer audit reviews and the number of recommendations made in 2004/05 on each of these priorities are shown in appendix 1.
- 4.14 All of the Priority 1 and the majority of the Priority 2 and 3 recommendations made during the year were accepted by the appropriate heads of service and managers. A formal follow-up procedure is in place and all audits are followed-up within six months to ensure that the agreed action has, or is, in the process of being implemented. All recommendations are being implemented in accordance with the agreed Action Plans.
- 4.15 Appendix 2 provides an update on the implementation of the 2001/02, 2002/03 and 2003/04 fundamental audit recommendations.
- 4.16 The percentages of previous years' recommendations being fully implemented are as follows:
- | | |
|---------|-----|
| 2001/02 | 93% |
| 2002/03 | 86% |
| 2003/04 | 68% |

It must be borne in mind that some recommendations have long timescales and that others may rely on input from external sources. The Principal Auditor will review all outstanding recommendations from 2001/02, 2002/03 and 2003/04 during the current financial year and ensure that the agreed recommendations are implemented. If it is not possible to implement the recommendation, alternative methods of reducing the risk will be considered.

Overall Opinion

- 4.17 It can be concluded that generally the systems reviewed contained a satisfactory level of internal control, achieved their desired objectives and complied with the requirements of the Council's financial regulations.
- 4.18 Internal audit did identify areas where the financial control of operational efficiency could be improved and other situations where systems were not followed. Recommendations for change and improvement have been agreed with appropriate managers and corrective action has or will be taken.
- 4.19 Satisfactory progress is also being made on the implementation of recommendations agreed through this year's and previous year's audits.
- 4.20 On the basis of the internal audit work carried out, there appear to be no major control weaknesses in respect of the Council's fundamental financial systems.

5. APPENDICES AND BACKGROUND PAPERS REFERRED TO:

(a) Appendix 1 – Internal Audit Plan 2004/05

(b) Appendix 2 – Implementation of Key Audit Recommendations 2001/02, 2002/03 and 2003/04

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Appendix 1

Internal Audit Plan 2004-2005

Audit Area	Priority		
	1	2	3
Asset Register	0	0	0
Benefit Assessment	0	2	3
Benefit Fraud	0	7	4
Benefit Overpayments	0	9	9
Cash Receipting System & Internet Payments	9	11	2
Creditor Payments	0	5	0
Debtors	2	4	8
e-Government – IEG4 Statement	3	15	0
General Ledger	0	2	0
Housing Repairs	4	1	2
IT Management Review	9	9	1
Land Charges Post Implementation	6	5	2
Local Taxation	1	14	11
Payroll	2	7	6
Performance Indicators	0	3	0
Rents	0	3	4
Treasury Management	0	1	0
Website Post Implementation	0	11	1
Totals	36	109	53

Appendix 2

Implementation of Fundamental Audit Recommendations 2001/02, 2002/03 & 2003/04

2001/02	Recommendations Made			Recommendations Implemented		
	1	2	3	1	2	3
Priority	7	6	1	7	6	1
Creditors*	3	4	2	1	3	1
Debtors	15	6	0	15	6	0
Payroll*	0	6	1	0	6	1
Treasury Management*	2	3	0	2	3	0
Council Tax*	1	9	0	1	9	0
NNDR*	21	6	4	19	5	4
Responsive Repairs	11	2	0	11	2	0
Rents*	2	0	0	1	0	0
Asset Register	62	42	8	57	40	7
Totals						

2002/03	Recommendations Made			Recommendations Implemented		
	1	2	3	1	2	3
Priority	4	2	0	3	2	0
Asset Register	12	12	4	12	12	4
Benefit Assessment*	10	2	0	10	2	0
Benefit Fraud*	12	11	0	11	10	0
Benefit Overpayment	1	3	0	1	2	0
Creditors	4	7	0	2	1	0
Debtors	11	7	3	11	7	3
Local Taxation*	4	3	0	4	2	0
Main Accounting System	10	8	0	9	5	0
Payroll	11	5	0	7	5	0
Rents	2	1	0	2	1	0
Treasury Management*	81	61	7	72	49	7
Totals						

* All recommendations made have been fully implemented.

2003/2004	Recommendations Made			Recommendations Completed		
	1	2	3	1	2	3
Asset Register	0	4	1	0	1	0
Benefit Assessment	0	11	19	0	7	15
Benefit Overpayment*	0	3	1	0	3	1
Creditors	1	3	4	0	3	4
Debtors	0	4	1	0	1	0
Legality of Financial Transactions	3	4	0	2	4	0
Local Taxation	0	0	3	0	0	1
Main Accounting	0	0	0	0	0	0
Payroll	3	0	0	2	0	0
Rents*	0	0	3	0	0	3
Responsive Repairs	4	9	7	3	5	4
Treasury Management*	0	3	0	0	3	0
Totals	11	41	39	7	27	28

All recommendations made have been fully implemented.