

**BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER:** **H208**

**TO:** **OVERVIEW & SCRUTINY  
(STEWARDSHIP) COMMITTEE**

**DATE OF MEETING:** 24 March 2009

**INTERNAL AUDIT FOLLOW UP OF 'NOT ACCEPTABLE' REPORTS**

1. **PURPOSE OF REPORT**

- 1.1 To update Members with the results of the follow up work undertaken by internal audit with regard to two 'Not Acceptable' reports, reported to this Committee on 27 January 2009. These related to Creditor Payments and the Open Spaces Contract Tendering Process.

2. **RECOMMENDATIONS**

- 2.1 That the significant progress made on the two 'Not Acceptable' reports and the further reinforcement of the arrangements for dealing with future internal audit reports be noted.

The Committee is able to resolve this matter.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications as a result of this report.

4. **RISK MANAGEMENT**

- 4.1 This report is most closely linked with the Council's Significant Business Risk No. 7 – Financial, Performance & Risk Management: The key risks associated with internal audit work and its effectiveness are summarised below.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Identified internal control weaknesses are not addressed in a timely way	Low	Marginal	The current internal audit follow up arrangements ensure that management address weaknesses and these are being further strengthened.

5. **KEY INFORMATION**

**Background**

- 5.1 The interim Internal Audit Report, (Paper H177 refers) presented to this Committee on 27 January 2009, reported that internal audit reviews of Creditor Payments and the Open Spaces Contract Tendering Process received 'Not Acceptable' audit opinions. It was further reported that these two audits were not, at that time, due for formal follow up, however, it was known that good progress had been made in implementing the recommendations.

- 5.2 The follow up work has now been completed and Internal Audit can report the following:

**Creditor Payments** All recommendations have been substantially completed. However, further testing highlighted that some invoices are still being received and paid without a valid purchase order being raised. In addition, further recommendations have been made to strengthen the monitoring control controls over open orders.

Specifically, and with immediate effect, an instruction has been issued to all staff that no payments will be made in future without an official order being raised. This will place responsibility firmly on all officers to adhere to that requirement, which is set out in the Council's Financial Procedure Rules.

There will be a zero tolerance policy and the Head of Contract and Asset Management will enforce and monitor the position, reporting on failure/return levels on a monthly basis to internal audit, who will undertake further testing and follow up work in 2009/10.

On this basis, Internal Audit are satisfied, subject to that further testing, that the decisive action management have taken will address the weaknesses identified resulting in an 'Acceptable' audit opinion. Further testing will be carried out in April/May 2009 and the results will be reported in the Annual Audit Report to be presented to this Committee.

### **Open Spaces Contract – Tendering Process**

The main issue raised by Internal Audit was that the Contract and Bond had not been signed at the time of the planned commencement date of the contract. It was clear from discussions with senior management that they were already aware of the issue and had taken mitigating steps to protect the Council. In addition, all related recommendations raised have been agreed by management and positively acted upon. The audit opinion is now assessed as 'Acceptable'.

5.3 Further discussions with senior management in terms of ensuring that the process for addressing weaknesses raised by internal audit findings have resulted in the following conclusions and further action:

- Current Internal Audit arrangements for follow up and management action to address findings are generally sound but some improvements are necessary.
- All 'Not fully Acceptable' and 'Poor' reports, together with clear officer responsibility for ensuring actions are properly followed through, will be brought to the attention of the Chief Executive and the Deputy Chief Executive.
- Internal Audit will be reviewing, strengthening and reinforcing the overall process and arrangements and communicating this to management in early April 2009.

### 6. **APPENDICES**

None.

### 7. **BACKGROUND PAPERS REFERRED TO**

None.

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