

BABERGH DISTRICT COUNCIL

FROM: Head of Finance

REPORT NUMBER **F204**

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

DATE OF MEETING: 20 March 2007

INTERNAL AUDIT WORK PROGRAMME 2007/08

1. **PURPOSE OF REPORT**

 This report details the proposed Internal Audit work programme for the next financial year.

2. **RECOMMENDATION**

2.1 That the 2007/08 Internal Audit work programme (Appendix 2) be approved.

 The Committee is able to resolve this matter.

3. **FINANCIAL IMPLICATIONS**

3.1 There are no financial implications as the programme will be funded from approved budgets.

4. **RISK MANAGEMENT**

4.1 The Audit programme is based on priority ratings of risk and importance and includes certain audits that have been included on a risk-based approach and Audit Commission requirements. This ensures that only the highest risk areas are examined.

4.2 The key risks associated with the work covered by the audit programme are summarised below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Internal Control weaknesses and potential for Fraud exists	Low	Critical (Potentially)	Work programme that focuses on key areas, including fundamental systems
Inefficient processes or systems in place	Low/Significant	Marginal	Audit work specifically looks at efficiency issues and appropriate recommendations are made. There are other mechanisms in the council that address efficiencies

5. KEY INFORMATION

Corporate Restructure

- 5.1 As a result of the corporate restructure of the Council the internal audit and benefit fraud sections have been combined. The responsibilities of the combined section are set out in Appendix 1:

Work programme 2007/08

- 5.2 The 2007/08 proposed internal audit work programme (excluding benefit fraud and investigations) is summarised in Appendix 2 and focuses on the areas that are most important to the Council and categorises these into priority areas using a risk assessment approach. Corporate Directors and service heads have been consulted on its content. The key areas are:

- **Fundamental Financial Systems** – The most significant area relates to financial systems (Priority 1), audit work in this area includes auditing each financial system and ensuring that the system documentation and walk-through tests remain up-to-date. Where fundamental changes have occurred due to the structural review, as a result of business process re-engineering, customer access changes or the use of new technology such as document image processing (DIP) it will be necessary to check and re-document the whole system and time has been allowed for this in the programme. In other areas a walk-through test will be sufficient to identify any changes to the documented system.
- **Corporate Work** – Approximately 59% of this is regarded as priority 1 work, covering a number of key issues such as the Statement on Internal Control, Use of Resources Assessment, National Fraud Initiative (NFI) Co-ordination and Investigation. The remaining corporate work is classified as priority 2.
- **Risk Management** – Is also regarded as priority 1 work and includes embedding risk management into the culture of the Council and risk based internal auditing. Responsibility for risk management will transfer to the Policy and Communications section during 2007/08.
- **Benefit Fraud** (Priority 2) - Management of the Benefit Fraud Team, review of benefit fraud investigations resulting in a sanction, determine whether proposed sanction is in the public interest.
- **Risk Based Reviews** – As a part of the Council's risk management process, divisional risks have been identified; these are risks specific to each function of the Council. The risks were identified during a training and development exercise carried out during June and July 2006. Internal audit will carry out reviews of the highest rated risks to ensure that there are adequate controls in place to manage the risk.
- **Anti-Fraud Reviews** – Internal audit looks to undertake proactive counter fraud and corruption work. During 2006/07 a Council-wide fraud risk assessment was carried out, which identified the fraud risks of each specific service, and profiled them according to likelihood and impact. Corporate fraud risks, which are frauds that could affect any aspect of the Council's responsibilities, were also identified. Internal audit will undertake a programme of fraud reviews based on the risk assessment. During 2007/08 these reviews will include bi-monthly payroll checks and the corporate fraud risks.
- **Follow-up** – This is time set aside to monitor whether recommendations agreed with internal audit have been implemented.
- **Other Areas** (Priority 3) – In addition to the above, internal audit will also undertake final account audits in respect of planned maintenance of Council Houses; audit final contract payments, carry out financial appraisals of potential contractors and monitor and control the Council's controlled stationery. Although regarded as priority 3, these are still important areas of work.

- 5.3 The work programme and staffing resources available in terms of numbers of days reflects the fact that the Audit Manager is absent on maternity leave from mid-January until mid-July 2007. During her absence, managerial responsibilities are being covered by a Senior Auditor from the Suffolk Audit Consortium (NHS) working 2 days per week and the Head of Finance.
- 5.4 The Work Programme includes a contingency for unallocated time to accommodate assignments that cannot reasonably be foreseen, provide general support and advice or to carry out special investigations that may arise.

Annual Internal Audit Report

- 5.5 The Annual Internal Audit Report for 2006/07, setting out progress against the current year's work programme will be brought to this Committee following completion of this year's programme. Members are asked to note the following:
- As indicated above, the Audit Manager is absent on maternity leave from mid-January until mid-July 2007. This is having no impact on the work programme
 - In fact, Internal Audit staff have been able to undertake additional work during the year and complete all planned assignments due to working more efficiently –some assignments have been completed in less days than indicated by the risk assessment and the structural review having less impact on the fundamental financial systems than expected
 - Initial feedback from the Audit Commission on the Council's annual Use of Resources Assessment has indicated a positive direction of travel in relation to embedding Risk Management and Internal control, which is very encouraging
- 5.6 Fuller details will be reported to Members in June or July.

Document Retention Review

- 5.7 The Audit Commission reported to Strategy Committee in September 2006 as follows:-

“Our audit identified the following weakness in systems of accounting and financial control, which we should report to you. In testing the housing repairs systems we found that documentation, which identifies and authorises responsive repair work undertaken in 2005/06 had been disposed of in accordance with the Authority's disposal policies. Therefore we were unable to check whether the controls for this area of the system are operating effectively.”

- 5.8 Internal audit were asked to review the effectiveness and application of the document retention policy and to report the findings to the January 2007 Overview and Scrutiny Committee. The audit found that in the majority of areas documentation is being retained for the minimum periods that the document retention policy recommends. However, two areas were found where that was not the case - that paper copies of purchase orders and authorised signatory lists were not being kept for the recommended time period. Internal audit have contacted the responsible officers to ensure that this position is corrected for the future. Additionally, an exercise is being carried out to raise awareness of the document retention policy throughout the Council.

Implementation of previous Recommendations

- 5.9 Recommendations arising from internal audit work are graded according to the significance of any weaknesses:

High – Necessary due to statutory obligation, legal requirements, Council policy or major risk of loss or damage.

Medium – Necessary in order for sound internal control and confidence in the system.

Low – Of benefit to the efficient operation of the system.

5.10 There were insufficient resources to carry out a review of outstanding recommendations during 2005/06. It was agreed by this Committee in July 2006 that the review would take place during the current financial year. The review has now been completed and the results are as follows:

Year	Number of recommendations implemented	Number In progress	Number outstanding
2003/04	115	6	2
2004/05	132	9	15
2005/06	61	-	9
Total	308	15	26

5.11 Internal Audit will undertake a further re-assessment of those areas in progress or outstanding and report details of these in the Annual Report. None of the outstanding recommendations are high priority.

6. **APPENDICES**

Appendix 1 Roles of Combined Audit and Fraud Team

Appendix 2 Internal Audit Work Programme 2007/08

7. **BACKGROUND PAPERS REFERRED TO:**

None.

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