

BABERGH DISTRICT COUNCIL

FROM: HEAD OF FINANCE

REPORT NUMBER **G46**

TO: OVERVIEW & SCRUTINY
(STEWARDSHIP)

DATE OF MEETING: 17 July 2007

2006/07 ANNUAL REPORT – INTERNAL AUDIT

1. **PURPOSE OF REPORT**

1.1 To detail the outcomes of internal audit work carried out during 2006/07, indicate whether key systems of internal control are operating soundly and report any areas where there are significant weaknesses. Also, to conclude whether there are satisfactory arrangements in place overall to ensure the effective, efficient and economic operation of the Council’s activities.

2. **RECOMMENDATIONS**

2.1 That the position regarding Internal Audit work in 2006/07 be noted.

The Committee is able to resolve the matter.

3. **FINANCIAL IMPLICATIONS**

3.1 None

4. **RISK MANAGEMENT**

4.1 The internal audit annual work programme is based on priority ratings of risk and importance and audits are undertaken on a risk-based approach and in line with Audit Commission requirements. This ensures that the highest risk areas are being addressed as a priority.

4.2 The key risks associated with internal audit work and its effectiveness are summarised below. These link to Significant Business Risk No. 7 – Financial, Performance & Risk Management:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Internal controls within the Council may not be efficient and effective and as a result the Council may not be identifying significant weaknesses that could lead to financial loss.	Low	Critical (Potentially)	<ul style="list-style-type: none">• Members approve the Internal Audit Work Plan and the Team’s work is reviewed by the External Auditors.• This report enables Members to form a view on internal audit coverage and effectiveness.

An inadequate internal audit service that does not provide sufficient assurance on the Council's main financial systems and the most significant risks, potentially resulting in additional external audit work	Low	Marginal	<ul style="list-style-type: none"> • External and internal auditors liaise and work to the same audit code of practice. • The Statement of Internal Control for 2006/07 has been produced and approved by Members.
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5. **KEY INFORMATION**

- 5.1 Internal audit provides Members and senior management with an independent and objective opinion on the Council's control environment; it objectively examines, evaluates and reports on the adequacy of this as a contribution to the proper, economic, efficient and effective use of resources.
- 5.2 Internal audit carried out a wide range of reviews of the Council's operations last year, critically evaluating the internal control systems and making recommendations for improvements to controls and the introduction of best practice. The 2006/07 work programme was approved by this Committee in March 2006.

Achievement Against The Work Programme

- 5.3 Due to changing circumstances during the year, the Internal Audit Work Programme for the year was revised. As a result of less time being required for Fundamental System and Process Mapping Reviews additional work was possible as follows:
- Audits of Security, Licensing and Document Retention and Joint Emergency Planning during the year.
 - Anti-Fraud Reviews undertaken.
 - A full application review of the IBS system, which had been in the 2005/06 plan but had been postponed, was subsequently carried out during 2006/07.
 - Additional testing of main financial systems to assist the external auditors.
- 5.4 The Internal Audit and the Benefit Fraud Investigation Teams were merged into a single section during the year. The Audit Manager assumed management responsibility for the group, resulting in time being required on day-to-day management and in reviewing cases being progressed to prosecution, caution or administrative penalties (previously done by Benefits management staff). The merger will result in increased audit capacity in 2007/08.
- 5.5 The initial audit programme was based on 564 days, which is after allowance has been made for holidays, induction, training, planning and administration etc. The revised and actual days were 535 and 520 respectively, the differences being mainly due to the absence of the Audit Manager on maternity leave (and back-filling this post using a part-time interim arrangement with a neighbouring public sector organisation).

Fundamental Reviews

- 5.6 These looked at the documentation, evaluation and testing of the effectiveness of systems of internal control within the Council's fundamental financial systems, including compliance with the Council's policies and procedures - classified as 'key' audit areas by the Audit Commission (the audits must be carried out on an annual basis).
- 5.7 The reviews 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 during the year were:
- Asset Register
 - Benefit Assessment & Benefit Fraud
 - Benefit Overpayments
 - Creditor Payments
 - Debtors
 - General Ledger
 - Housing Repairs
 - Legality of Financial Transactions
 - Local Taxation
 - Payroll
 - Rents
 - Treasury Management
- 5.8 The revised audit programme of work was substantially achieved by the end of financial year, with just a minimum amount of carry over to the new year.

Computer Audit

- 5.9 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. Four computer audits were carried out by the Computer Auditor during the year, although reports on the final two areas listed are still being finalised:
- IT Management Review
 - Mobile Working
 - DIP Audit
 - Licensing Software
- 5.10 The Computer Auditor also carried out preparatory work for the 2007 National Fraud Initiative and assisted internal audit staff with the IBS computer application review; as well as developing payroll interrogations to enable regular checks of staff pay; and providing advice and assistance on several smaller ad-hoc computer system issues.

Corporate Governance

- 5.11 The Accounts and Audit Regulations require the publication of a Statement on Internal Control (SIC) within the Statement of Accounts. The statement is a key aspect of the Council's risk management and internal assurance framework and requires a review of the Council's whole system of internal control including corporate governance and risk management.
- 5.12 The purpose of the SIC process is to provide a continuous review of the Council's internal control and risk management systems, so as to give assurance on their effectiveness and to produce an action plan to address identified weaknesses. Work on producing the 2006/07 SIC, including the

documentation and evaluation of the Council's key systems of internal control, was co-ordinated by Internal Audit

- 5.13 A small Member group from this Committee reviewed the SIC and supporting evidence before publication as part of the Statement of Accounts for 2006/07.

Anti-Fraud & Corruption and Whistleblowing

- 5.14 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, and contractors, staff and Members are informed of the policy on an annual basis. Anti-Fraud & Corruption and Whistleblowing information is on the Council's Intranet and the Website, where an email address is available so that the public can raise concerns easily.
- 5.15 The Council participates in the biennial National Fraud Initiative (the data matching of records such as benefits, payroll, pensions, student awards and housing rents), which is co-ordinated by the Audit Commission. The Audit and Fraud Team takes a leading role in co-ordinating this exercise within the authority. The 2007 NFI exercise has recently been commenced and should provide assurance that the Council has effective procedures in place to prevent benefit fraud, while at the same time identifying potential fraud cases based on information held by other authorities.

Review of Internal Audit Work in 2006/07

- 5.16 Recommendations arising from internal audit work are graded according to the risk levels of the weaknesses identified, with recommended action as follows:

High – Statutory obligation/legal requirements, policy compliance or major risk of loss/damage

Medium – Necessary to achieve sound internal control and confidence in the system

Low – Beneficial to the efficient operation of the system

- 5.17 A summary of the internal audit and computer audit reviews and the number of recommendations made in 2006/07 on each risk category are shown in Appendix 1.
- 5.18 All of the high and the majority of the medium/low risk recommendations made during the year were accepted by the appropriate Heads of Service and managers. The formal follow-up procedure ensures that the agreed action has been, or is in the process of being, implemented.
- 5.19 The Terms of Reference for this Committee require the Committee to review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- 5.20 Appendix 2 provides an overview of the audits finalised since April 2006, summarising the weaknesses in internal control for the area under review.

Audit Recommendations & Follow-ups

- 5.21 The Audit Manager has carried out a review of the outstanding recommendations for the fundamental financial systems from 2003/04 – 2005/06 during the year. A summary of the latest position was included in the Overview and Scrutiny (Stewardship) Committee report of 27th March 2007. In addition, officers were asked to update Members on progress in relation to the key areas of weaknesses identified in 2005/06.
- 5.22 This has been completed and all areas have been addressed. Further follow-up work is taking place on those recommendations relating to earlier years.

Use of Resources Assessment

5.23 The Audit Commission's Use of Resources (UoR) Assessment for 2006 on the "Internal Control" theme, which is the key area that Internal Audit oversee, was as follows:

Management of significant business risk	2
Maintenance of a sound system of internal control	2
Promotion of probity and good conduct of business	3
Overall score for the theme	2

1 = below minimum requirements – inadequate performance

2 = at only minimum requirements – adequate performance

3 = consistently above minimum requirements – performing well

4 = well above minimum requirements – performing strongly

5.24 This is an improvement on the previous year, when the management of significant business risk scored 1 – inadequate performance, due to work on embedding risk management. Further work to on this and improving Internal Control generally is being carried out as part of the Use of Resources Action Plan.

Opinion 2006/07

5.25 No system of control can provide absolute assurance against material misstatement or loss, nor can internal audit give that assurance. This statement is intended to provide reasonable assurance regarding the operation of the Council's internal control environment.

5.26 Subject to the above and, based on the work undertaken during 2006/07 by Internal Audit, it can be concluded that council's key systems of internal control are operating soundly and there have been no fundamental breakdown of controls. It can also be concluded that satisfactory arrangements are in place to ensure the effective, efficient and economic operation of the Council's financial affairs.

6. **APPENDICES**

Appendix 1 – Internal Audit Reviews - Recommendations made 2006/07

Appendix 2 – Summary of Internal Audit Reports for 2006/07

7. **BACKGROUND PAPERS REFERRED TO**

None

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Appendix 1

Internal Audit Reviews - Recommendations made 2006-2007

Audit Area	Risk			Total
	High	Medium	Low	
Asset Register	0	0	0	0
Benefit Fraud	0	1	1	2
Benefit Overpayment	0	2	1	3
Benefit Subsidy	0	2	1	3
BPR (Information not yet available)				
Citrix for Home Working	0	11	1	12
Corporate Governance	0	5	1	6
Creditors	0	2	0	2
Debtors	0	3	1	4
General Ledger	0	1	0	1
Gershon Efficiency Review	0	2	0	2
IBS Business Rates & Benefits Application Review	0	8	0	8
ICT Management Review III	0	13	4	17
Licensing	0	0	2	2
Local Taxation	0	0	0	0
Payroll	0	5	2	7
Performance Indicators	0	10	0	10
Planned Maintenance	0	6	0	6
Rents	0	1	2	3
Responsive Repairs Orders (*reported to March Committee – Document Retention issue)	3	1	0	4
Section 106 Agreements	0	0	0	0
Security	0	7	4	11
Treasury Management	0	0	1	1
Void Housing Works	3	5	0	8
Totals	6	85	21	112

Summary of Internal Audit Reports for 2006/07

FUNDAMENTAL SYSTEMS

1 Asset Register

There were no recommendations for improvement

2 Benefit Fraud

There were no recommendations for improvement

3 Housing Benefit Overpayments

There were no recommendations for improvement

4 Benefit Subsidy Claim

Summary of Weaknesses in Internal Control

In most areas, controls and processes are working well. The Auditors found some issues with backdated claims when they tested to ensure that the backdating rules were being applied correctly. An action plan is in place to deal with the weaknesses identified.

5 BPR

Audit still to be completed.

6 Corporate Governance

Summary of Weaknesses in Internal Control

Some minor recommendations for improvement were made. This audit included a questionnaire to staff, the results of which suggested that improvements could also be made in respect of staff awareness and these have been passed to management for consideration.

7 Creditors

Summary of Weaknesses in Internal Control

The authorised signatory list was found to not be fully up to date because of the organisational restructure. The Contracts and Purchasing Officer is liaising with departments to up date their lists. It was also found that official orders are not always being raised prior to the Council receiving invoices from suppliers. This systems weakness has been pointed out in a reminder that was sent to all staff.

8 Debtors

Summary of Weaknesses in Internal Control

It was discovered that access rights, in some cases, are out of date for the computer system for debtors. It was also recommended that the system's ability to produce reports from the data held should be explored with a view to improving the reporting and control system.

9 General Ledger

Summary of Weaknesses in Internal Control

The 'List of Authorised Signatories' able to sign for loans, cheques and inter-account transfers is not up to date. An action plan is in place to correct this situation.

10 Gershon Efficiencies

There were no recommendations for improvement

11 Licensing

There were no recommendations for improvement

12 Local Taxation

There were no recommendations for improvement

13 Payroll

Summary of Weaknesses in Internal Control

Some weaknesses were found and brought to management's attention. These included; further checking the input of staff pay awards, clarifying responsibilities for the authorisation of overtime and strengthening the checking of timesheets.

14 Planned Maintenance

There were no recommendations for improvement

15 Void Housing Works

Summary of Weaknesses in Internal Control

The Auditors found some issues with demonstrating that proper authorisation processes were always followed for orders for void works. It was also found that in some cases reviewed by Audit during sample checking, the work carried out appeared to be the responsibility of the tenant but had not been recharged. An action plan has been agreed with management to deal with the issues identified.

16 Rents

Summary of Weaknesses in Internal Control

It was found that the policies and procedures document needed updating and also there was an issue from a previous audit report, which needed to be followed up.

17 Security

Summary of Weaknesses in Internal Control

Audit found several issues relating to the security of the Council Offices that needed to be addressed. These included the need for better signage (to restrict access), changing keypad entry codes, and reminding staff about early and late working arrangements and displaying name badges.

18 Treasury Management

There were no recommendations for improvement

19 Performance Indicators

Summary of Weaknesses in Internal Control

The quality of data was found to have improved from previous years. Some minor issues were raised for management to consider, mainly relating to the trail between the calculation of the indicator and the supporting documentation.

20 Repairs Orders Authorisation and Document Retention

Summary of Weaknesses in Internal Control

There were some variances in the arrangements for the authorisation and retention of repairs orders compared to the Council's formal requirements. This issue has already been discussed at the Overview and Scrutiny (Stewardship) Committee on 20th March 2007.

21 Section 106 Agreements

This audit only looked at the new arrangements for leisure contributions arising from developments of less than 5 hectares and the new database system for chasing up income due from outstanding agreements. There were no significant weaknesses arising.

COMPUTER AUDIT REVIEWS – INTERNAL AUDIT STAFF

22 Business Rates & Benefits Application Review

Summary of Weaknesses in Internal Control

Password access to the system was found to be in need of updating.

COMPUTER AUDIT REVIEWS – COMPUTER AUDITOR

23 ICT Management Part 3

Summary of Weaknesses in Internal Control

In general good controls have been adopted and the most important threats to the network have been adequately covered. However, this audit has revealed some weaknesses that could lead to network security being compromised or to delays in data processing.

24 Citrix for Home Working

Summary of Weaknesses in Internal Control

In general, the deployment of Citrix has provided a secure managed process to enable home working. However, it is still in its early stages of use and no services are using it other than for occasional home working to supplement their office work.