

BABERGH DISTRICT COUNCIL

FROM: Director Of Finance

REPORT NUMBER: J21

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

DATE OF MEETING: 19 May 2009

2008/09 ANNUAL REPORT – INTERNAL AUDIT

1. PURPOSE OF REPORT

- 1.1 To provide the Head of Audit's opinion on the overall adequacy and effectiveness of the Council's internal control environment, and a summary of audit work undertaken to formulate that opinion. Also, to report on the adequacy and effectiveness of internal audit for the financial year 2008/09.

2. RECOMMENDATIONS

- 2.1 That the position regarding internal audit and fraud work in 2008/09 and the conclusion that the Council's overall internal control arrangements provide an acceptable level of assurance be noted.

The Committee is able to resolve these matters.

3. FINANCIAL IMPLICATIONS

- 3.1 None.

4. RISK MANAGEMENT

- 4.1 This report is most closely linked with the Council's Significant Business Risk No. 7 – Financial, Performance & Risk Management. Key risks are set out below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Internal controls within the Council may not be efficient & effective and as a result the Council may not be identifying significant weaknesses that could impact on the achievement of Council aims and priorities and/or lead to financial loss or inefficiency.	Low	Critical (Potentially)	Members receive and approve the internal audit work programme together with other reports throughout the year. External Audit reviews the work of the section.

5. **KEY INFORMATION**

BACKGROUND

- 5.1 Internal audit provides Members and senior management with an independent and objective opinion on the Council's internal control environment; it examines, evaluates and reports on the adequacy of this.
- 5.2 A wide number of reviews of the Council's operations were carried out last year, critically evaluating fundamental systems and making recommendations for improvements to internal controls and the introduction of best practice.
- 5.3 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires that the Head of the Council's internal audit function produce an annual audit opinion to the Council. There is also a requirement to report the results of an annual review of the adequacy and effectiveness of the internal audit function to provide Members with a basis for determining the extent to which reliance can be placed on the work of internal audit.

ACHIEVEMENT AGAINST THE AUDIT WORK PROGRAMME

- 5.4 Members approved the 2008/09 internal audit work programme on 18th March 2008. Update reports have been submitted to the Committee throughout the year. In February 2009, the Audit Manager left to take up another appointment. As the Council had already contracted Suffolk County Council to support the delivery of the audit plan during 2008/09, the Director of Finance negotiated the extension of this arrangement to include the provision of the Head of Audit/Audit Manager role with responsibility for the management and delivery of the audit service from February 2009 to at least 31st March 2010.
- 5.5 Appendix A sets out achievement against the work programme. Members will note that the total number of actual days against planned Priority 1 work has increased resulting in a reduction of actual days against planned Priority 2 work. The main reason for this is that greater focus has been directed on ensuring that key controls are present in Priority 1 work, and also ensuring that key control weaknesses that have been identified are followed up promptly and satisfactorily resolved.

ANTI-FRAUD & CORRUPTION AND WHISTLEBLOWING

- 5.6 The Council is committed to ensuring that fraud and corruption is minimised. It adopts a culture in which all of its employees can help the organisation maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour.
- 5.7 Internal audit has responsibility for raising awareness of the Council's Anti-Fraud and Corruption and Whistleblowing Policy. This Committee approved the revised Anti-Fraud and Corruption and Whistleblowing Policy in January 2009 (Paper H177). Staff and Members were informed of the revised policy. Anti-Fraud and Corruption and Whistleblowing information is on the council's Website and an email address is provided so that the public can raise concerns easily.

- 5.8 The Standards Committee considered a report (Paper H219) from the Monitoring Officer identifying possible amendments to the Policy in the context of ensuring that it promotes high ethical standards and that it is compatible with the Members' Code of Conduct. This Committee is considering their recommendation as part of today's agenda.
- 5.9 To further promote anti-fraud and corruption Internal Audit are proposing to review existing arrangements further against the CIPFA's publication 'Managing the Risk of Fraud'. It is proposed to report back to this Committee in August 2009 if the Policy requires amending.
- 5.10 During 2008/09 the Audit and Fraud section was involved in 4 internal investigations, of which 2 arose as a result of a Whistleblowing allegation. Each investigation was satisfactorily concluded. This compares with 2 internal investigations last year.

The following information on fraud work is provided, which is not part of the Internal Audit Plan in Appendix A:

- The Audit and Fraud team are currently working on the results of the National Fraud Initiative (NFI), a national data matching exercise carried out by the Audit Commission matching information nationally from public service databases. This exercise helps to provide assurance that the Council has effective procedures in place to prevent fraud, while at the same time identifying potential fraudulent matches where people may be receiving benefits, payments or services from more than one public body for which they might not have a valid entitlement.
- The number of benefit referrals in 2008-09 increased to 486 from 386 in 2007-08. The main contributing factor for this was the recommencement of HBMS Data Matches carried out by DWP in April 2008. These had ceased in November 2007, when DWP and other Government Agencies admitted to losing computer data in the public arena.
- The number of benefit fraud sanctions achieved in 2008-09 increased to 46, from 35 in 2007-08. The number of prosecutions remained the same at 20 however, the Council was able to utilise other sanctions such as, cautions and administrative penalties, which increased to 26 from 15.
- The Housing Benefit Matching Service (HBMS) data match referrals are received monthly. These are expected to increase during 2009-10 as more checks and data rules are matched. NFI data match referrals have also now been received and these will increase the number of referrals during 2009-10 as more checks and data was matched that in previous exercises. Referrals from other sources are also expected to increase during 2009-10 as a result of the ongoing economic downturn.

USE OF RESOURCES ASSESSMENT

- 5.11 The External Auditor's Use of Resources Assessment for 2007/8 on the 'Internal Control' theme, which is the key area that Internal Audit oversee, is shown below. It can be seen that there has been significant improvement between the years.

	<u>06/07</u>	<u>07/08</u>
Management of significant business risk	2	3
Maintaining a sound system of internal control	2	3
Arrangements to promote & secure probity & propriety	3	3
Overall score for the theme	2	3

- 1 = below minimum requirements – inadequate performance
- 2 = only at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly

5.12 Further work on strengthening and improving ‘Internal Control’ is being carried out as part of the Use of Resources Action Plan. However, it should be recognised that the Audit Commission’s expectations for 2008/09 have greatly increased since last year. The emphasis is around proactive fraud work, impacts and outcomes.

INTERNAL AUDIT OPINION

5.13 During the course of the year, internal audit completed reviews and reported on all of the major (fundamental) systems identified by the Audit Commission.

5.14 An Audit Opinion is given for each audit completed, taking into account current progress in implementing recommendations arising from those audits. This opinion is broadly classified into one of the following four categories:

High Standard	All key controls in place and working effectively – no exceptions
Acceptable	All key controls in place and working effectively – some exceptions
Not Fully Acceptable	Key controls are not working effectively or are not in place
Poor	No key controls in place or no key controls working effectively

5.15 The majority of the recommendations arising from the 2008/09 audits were assessed as being below the Council’s risk tolerance line, which means that key controls largely exist but there may be some inconsistency with compliance. However, in some audit areas there have been instances where key controls are not being applied and an audit opinion of ‘Not Fully Acceptable’ was given. These have been reported to this Committee during the year. In line with our follow up procedures, Members can be assured that these issues have now been fully resolved to audit’s satisfaction. A summary of the audit reports can be found in Appendix B.

5.16 In assessing the level of assurance given for 2008/09, the following have been taken into account:

- All audits undertaken;
- All audit testing undertaken;
- Audit recommendations made and remedial action consequently agreed (where applicable);
- Audit resources available;
- The audit risk assessment undertaken in preparing audit plans for the Committee; and
- External audit findings.

- 5.17 **Based on all of this, it is the opinion of the Head of Internal Audit that the Council's overall internal control arrangements provide an acceptable level of assurance and that there is satisfactory management of risk, although some elements of the control framework require attention. The Committee should note that the assurance given cannot be absolute.**
- 5.18 Looking forward, as the Council enters a period of financial restriction (and possible restructure not least as a result of local government review), Internal Audit will work with management to ensure that the internal control environment is appropriate to risk.

REVIEW OF THE ADEQUACY AND EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 5.19 The Council is required by statute (The Accounts & Audit Regulations (Amendment) (England) 2006) to perform an annual review of the adequacy and effectiveness of the system of internal audit. The Director of Finance and the Audit Manager have assessed Internal Audit's compliance with the CIPFA Code of Practice for Internal Audit. There are eleven standards against which the self-assessment was carried out and it was concluded that that Internal Audit were either fully or largely compliant. Four areas for development were identified, namely:

- Terms of Reference to be updated;
- Divisional risk registers to be reviewed;
- The audit opinion process to be strengthened; and
- Audit Manual to be updated.

Each of the areas have either been completed or are nearing completion with the exception of the Audit Manual which will be completed later this year.

- 5.20 Areas for development that were identified from the review carried out last year, together with an updated status position were reported to the Members Governance Group (Tony Roberts and David Grutchfield) on 30th March 2009. Members were happy with the assessment and the planned actions to ensure full compliance with the Code of Practice. In addition, Internal Audit agreed to look at ways in which they could further develop their effectiveness and impact.
- 5.21 Satisfaction with the Internal Audit service during 2008/09 remains high and has improved from last year figures (in brackets), as can be evidenced by the results of the second Annual Audit Customer Satisfaction Survey.

Criteria	Very Good	Good	Fair	Poor
Audit performance	30% (8)	59% (72)	11% (20)	0%
Audit staff attributes & knowledge	31% (21)	58% (68)	11% (11)	0%
Customer service	0% (17)	100% (57)	0% (26)	0%
Planning & conduct of audits	29% (27)	67% (65)	4% (8)	0%
Reporting process	20% (15)	70% (83)	10% (2)	0%
Overall Rating of Internal Audit	20% (8)	80% (84)	0% (8)	0%

- 5.22 Based on the review and satisfaction ratings, it is concluded that the Internal Audit service is operating effectively.

FUTURE DEVELOPMENTS

- 5.23 Suffolk County Council (SCC) are currently developing and upgrading their Galileo Audit Document and Management Software, to a web enabled version.
- 5.24 SCC Audit Services have agreed to provide this facility to Babergh, which will allow the audit plan, audit reports and recommendations to be recorded and monitored/tracked more effectively. In addition, the software will allow customers access to view their audit reports, respond to recommendations and update action plans.
- 5.25 Improvements and actions relating to the Audit Commission's Use of Resources Assessment requirements will be fully considered as part of the improvement planning process and implemented as appropriate. Members will be kept updated on these during the year.

6. APPENDICES

- A Achievement Against the 2008/09 Audit Work Programme
B Summary of Internal Audit Reports for 2008/09

7. BACKGROUND PAPERS REFERRED TO:

None.

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Achievement Against the 2008/09 Audit Work Programme (excluding the Fraud Team)
Appendix A

Audit Area	2008/09 Initial Days	2008/09 Actual Days	Comments
Audit Programme Days	493.0		
Contingency	35.0		
Remaining Audit Programme Days	458.0		
Priority 1 Assignments			
Work-in-Progress	15.0	16.0	
Fundamental Reviews & Walkthrough			
Asset Register	8.0	2.0	<i>Carried forward into 2009/10</i>
Benefit Assessment	16.0	18.0	
Benefit Overpayment	21.0	9.0	<i>Additional consultation work planned has been deferred to 09/10.</i>
Cash and Bank	9.0	10.0	
Creditor Payments	11.0	13.0	
Debtors	10.0	9.0	
General Ledger	21.0	22.0	
Housing Repairs	21.0	24.0	<i>IA attended workshop – more time needed to agree final report.</i>
Information Technology	8.0	6.0	
Local Taxation	10.0	15.0	<i>Additional time needed to carry out testing.</i>
Payroll	8.0	8.0	
Rents	8.0	14.0	<i>Additional work required following review being undertaken by contracted auditor</i>
Treasury Management	21.0	15.0	<i>Audit completed in less than allotted time</i>
Total Fundamental	172.0	165.0	
Governance			
Annual Governance Statement	20.0	24.0	<i>Additional time as new format/requirements</i>
Reports to Members	10.0	12.0	
Risk Management	10.0	14.0	<i>Increased focus – Use of Resources/embedding</i>
Use of Resources Assessment	15.0	17.0	
Total	55.0	67.0	
Fraud Prevention & Investigation			
Anti-Fraud & Corruption	4.0	8.0	<i>Time allocated insufficient – more pro-active approach.</i>
NFI – Co-ordination & Investigation	5.0	2.0	<i>Most work undertaken by Fraud Team</i>
Assist with Interviews Under Caution	2.0	1.0	
Total	11.0	11.0	

Audit Area	2008/09 Initial Days	2008/09 Actual Days	Comments
Other			
Advice	10.0	11.0	
External Audit Liaison	5.0	13.0	<i>Extra time required to assist new External Auditors</i>
Total	15.0	26.0	
Total Priority 1 Work	268.0	285.0	<i>More work undertaken, refer to main body of report</i>
Remaining Audit Days	190.0	173.0	
Priority 2 Assignments			
Governance			
Data Quality	11.0	17.0	<i>Increased focus in Use of Resources Assessment</i>
Risk based reviews	33.0	5.0	<i>More focus on Priority 1 work</i>
Total	44.0	22.0	
Fraud Prevention & Investigation			
Anti-Fraud Work	10.00	11.0	
Total	10.0	11.0	
Contract and Procurement			
Contract Audit Reviews	15.0	11.0)	
E-procurement	19.0	25.0)	
Partnerships	22.0	7.0)	Times adjusted to place more focus on Priority 1 work
Purchasing Cards	3.0	7.0)	
Strategic Procurement Framework	10.0	00.0)	
Total	69.0	50.0	
Other			
Capital	15.0	0.0	More focus on Priority 1 work – Planned work in 09/10
CAST	10.0	1.0	More focus on Priority 1 work – will review if time available in 09/10
Follow-up	15.0	31.0	Significantly increased emphasis by Members/Officers
Job Evaluation Panel	5.0	7.0	
Local Area Agreements	5.0	5.0	
Total Other	50.0	44.0	

Audit Area	2008/09 Initial Days	2008/09 Actual Days	Comments
Total Priority 2 Work	173.0	127.0	
Remaining Audit Days	17.0	46.0	
Priority 3 Assignments			
Fraud Prevention & Investigation			
Money Laundering	1.0	1.0	
Total	1.0	1.0	
Contract and Procurement			
Contract Final Accounts	4.0	9.0	<i>Training of auditor to undertake contract audits</i>
Financial Vetting	5.0	6.0	
Total	9.0	15.0	
Other			
Business Development Loans	2.0	0.0	
Cheque Control	0.0	1.0	
Leisure Grants	3.0	3.0	
Review Computer Audit Work	2.0	3.0	
Total	7.0	7.0	
Remaining Audit Days	00.0	23.0	
Unplanned Work			
Investigations	0.0	48.0	<i>Various investigations – see main body of report</i>
Members Allowances	00.0	10.0	<i>Review of claim process</i>
Total	00.0	58.0	
Balance		-35.0	
Contingency Sum		35.0	
Overall Balance		00.0	

**7 General Ledger Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

No significant weaknesses were found

**8 Housing Repairs Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

No significant weaknesses were found

**9 Information Management Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

No significant weaknesses were found

**10 Local Taxation Auditors Opinion – Acceptable
Summary of best practice and weaknesses in internal control**

No significant weaknesses were found.

**11 Payroll Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

No significant weaknesses were found.

**12 Rents Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

No significant weaknesses were found Best practice and good control

- Income collection rates are consistently high.
- Monitoring and collection of arrears is seen to be extremely pro-active.
- Direct Debit take-up is high and has increased steadily over recent years leading to a current Direct Debit take-up of nearly 60%.

**13 Treasury Management Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

The Treasury Management Strategy was updated in line with audit recommendations and was approved by the Strategy Committee in April 2009 (Paper H231).

**14 Data Quality Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control**

A report was presented to this Committee in March 2009, (Paper H213), that set out the results of audits carried out by Internal Audit and PKF into this area. The Committee reviewed the findings of these audits and approved an action plan. In April 2009, the Strategy Committee, (Paper H230), approved one of the key findings within the plan – the adoption of a Data Quality Policy. In summary, good progress is being made in this area.

15 E-Procurement System Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control

The initial audit identified the following control weaknesses:

- Fin. Reg. 4.62 requires that “Two authorised members of staff are involved in the ordering, receiving and payment process.” However, when the invoice value matches the order value only one authorised officer is involved in the process.
- Implementation of the system has not followed project management best practice.

Follow up audit

A follow up audit has confirmed that these recommendations are now in place.

16 Purchasing Cards Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control

None of the weaknesses detailed below were found to be above the tolerance line. However, an initial opinion of Not Acceptable was given in light of the number of recommendations made around the ‘Purchasing card Usage and Administration’ guidance.

Follow up audit

A follow up audit has confirmed that these recommendations are now in place.

17 Contracts Auditors Opinion – Acceptable
Summary of good practice and weaknesses in internal control

Concerns were raised over compliance with Contract Procedure Rules in terms of procuring repair works when the appointed contractor was not fully conforming to the contract. The volume of work was such that a further contractual arrangement should have been considered. This was recognised, discussed at an open event involving audit and surveying staff, and proper controls and processes were identified and implemented.