

BABERGH DISTRICT COUNCIL

<u>FROM:</u> Director of Finance	<u>REPORT NUMBER:</u> L25
<u>TO:</u> OVERVIEW AND SCRUTINY (STEWARDSHIP) COMMITTEE	<u>DATE OF MEETING:</u> 14 June 2011

INTERNAL AUDIT ANNUAL REPORT 2010/11

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.
- 1.2 To seek endorsement to this as part of the Committee's role as the Council's Audit Committee.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the outcomes of internal audit work in 2010/11 and the conclusion of the Head of Audit's opinion that the Council's overall internal control arrangements provide an acceptable level of assurance, as detailed in Appendix A.
- 2.2 That this is reflected in the Annual Governance Statement that is submitted to the Committee for approval at its next meeting in July 2011.
- 2.3 That the Committee endorses the recommendation to change the way Members receive future details on the summary of work carried out by Internal Audit, as detailed in paragraph 8.4.

The Committee is able to resolve this matter.

3. FINANCIAL IMPLICATIONS

- 3.1 As previously reported, last year's internal audit work was undertaken with less resources and with a saving of £10.5k on the budget.

4. RISK MANAGEMENT

- 4.1 This report is most closely linked with the Council's Significant Business Risk No. 6 – Performance & Cost Management. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
<p>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 the Council's aims and priorities and/or lead to fraud, financial loss or inefficiency.</p> <p>The risk is potentially increasing as a result of the ongoing savings and staff reductions.</p>	Low	Critical (Potentially)	<p>Members receive and approve the internal audit work programme and receive other reports throughout the year on internal controls. The work programme is based on an assessment of risk for each system or operational area.</p> <p>External Audit reviews and reports on the work of the Internal Audit section and the current internal control arrangements.</p>

5. **CONSULTATIONS**

5.1 None

6. **EQUALITY AND DIVERSITY IMPACT**

6.1 There are no equalities implications arising from this report.

7. **SHARED SERVICE/PARTNERSHIP IMPLICATIONS**

7.1 Following this Committees' approval of a joint Internal Audit Plan 2011/12, officers from Babergh and Mid Suffolk will look to produce a joint Mid Term and Annual Internal Audit report for both sets of Members.

8. **KEY INFORMATION**

8.1 The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective internal audit. The Code of Practice for Internal Audit in Local Government (UK) 2006 requires the Head of Internal Audit to provide a formal report and produce an annual audit opinion to Members on the overall adequacy and effectiveness of the Council's internal control environment, and a summary of audit work undertaken. That opinion is included within the Annual Internal Audit Report 2010/11, as detailed in Appendix A.

8.2 From Appendix A, Members will note that a large number of reviews of the Council's operations were undertaken during 2010/11, ranging from main financial systems to corporate and governance reviews. Each were critically evaluated and where appropriate recommendations made to further improve the internal control environment, including best practice.

- 8.3 There are a number of changes/differences in this report from last year's, namely:
- At the request of Members the audit opinions and corresponding definitions have been reviewed and changed to provide greater clarity and meaning. The audit opinions and definitions have been aligned with those used by Suffolk County Council and Mid Suffolk District Council. Refer to Appendix A, paragraph 4.5.
 - Again at the request of Members, the summary of Internal Audit's work, as detailed in Appendix A - section 8, includes the risks associated with the area of audit work undertaken.
 - In addition, the summary of work records areas of good internal control and areas where improvements are required.
 - There has been a steady improvement in the controls within the financial systems, most notably within Treasury Management and Receivables/Debtors, which have received a 'High Standard' audit opinion.
- 8.4 In terms of future reporting it is recommended that Members receive an electronic link to the full summary of the work, which is currently detailed in Appendix A - section 8, and that a much shortened summary version is included in future reports, which draws Members' attention to key issues arising.
- 8.5 It is important that this Committee challenge, in their role as the Audit Committee, the work and any progress reports undertaken by the Internal Audit and Fraud Team, and also indicate whether there are any areas where the Committee may want specific feedback on.

9. **APPENDICES**

Title	Location
(a) Appendix A – Annual Internal Audit Report 2010/11	Attached

10. **BACKGROUND DOCUMENTS**

1.1 None.

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ANNUAL INTERNAL AUDIT REPORT 2010/11

1. PURPOSE OF REPORT

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Head of Audit to provide an annual audit report and deliver an annual audit opinion to the Council.
- 1.2 This report also seeks to provide:
- Background information on the role of Internal Audit;
 - An overview of the work of Internal Audit and an opinion on the adequacy of the internal control environment;
 - Information on the performance of Internal Audit during the year; and
 - Details of all audits that have been undertaken during the year with the related audit opinion - see section 8.

2. BACKGROUND

Role of Internal Audit

- 2.1 Management are responsible for the systems of internal control within the Council and should set in place policies and procedures to help ensure that systems function correctly.
- 2.2 It is the role of Internal Audit to review, appraise and report on the adequacy, effectiveness and efficiency of financial and other management controls, including risk management and corporate governance. This is achieved by undertaking audits across the full range of the Council's functions in accordance with a risk based Audit Plan, approved annually by this Committee, which outlines assignments to be carried out and the resources required to deliver the Plan.
- 2.3 Internal Audit carries out the work to satisfy this legislative requirement, reporting the outcome of its work to this Committee. This Committee in its role as the Council's Audit Committee has a responsibility for reviewing the Council's corporate governance arrangements, including internal control and for scrutinising the Annual Governance Statement. The audit work carried out is therefore a key source of assurance that the internal control environment is operating efficiently and effectively.

3. REPORTING AND CONSULTATION

- 3.1 Members approved the 2010/11 Internal Audit Plan in March 2010. An interim internal audit and fraud report was submitted to this Committee in November 2010.

- 3.2 A summary of the key findings of the audits carried out in 2010/11 is detailed in section 8 of this paper. Each audit assignment includes an opinion on the control environment within the system or process. An explanation of these is provided in section 9 of this paper.
- 3.3 A written report to management is provided at the completion of each audit review, containing a summary, findings, suggested actions and risk exposure, for management agreement and commitment to take necessary actions.
- 3.4 Auditees are given a written draft report at the end of the audit review, which gives more opportunity for consideration of matters arising, and their comments on the recommendations made are included in the final report to management.
- 3.5 As in previous years, Internal Audit would like to acknowledge the open and co-operative manner of staff that has enabled audit work to progress effectively and efficiency during the year.
- 3.6 During 2010/11, all audit reviews were assessed as 'Effective' (15 audits) or 'High Standard' (2 audits) – refer to paragraphs 4.4&5 for definitions. In line with Internal Audit's follow up procedure, subsequent follow up work was undertaken, allowing adequate time for the implementation of the recommendations but also taking into account the risk presented to the Council whilst the actions required remained open.
- 3.7 Internal Audit is committed to providing an excellent service to its customers. As part of our commitment to ensure that we maintain high professional standards and ensure that we continually improve the quality and usefulness of our work, we issue an annual customer satisfaction survey at year end. The questionnaire asks for the auditees' opinion on a range of issues and also seeks their views on how our service can be improved and developed. The questionnaire was sent to twelve officers covering Management Team, Heads of Services and their Managers. Eight of the questionnaires were returned. A summary of the results from customer satisfaction questionnaires completed is provided below:

Criteria	Very Good	Good	Fair	Poor
Audit performance	16% (44%)	75% (50%)	9% (3%)	0% (3%)
Audit staff attributes & knowledge	32% (49%)	64% (46%)	4% (5%)	0% (0%)
Customer service	25% (31%)	57% (62%)	18% (0%)	0% (7%)
Planning & conduct of audits	13% (10%)	85% (87%)	2% (3%)	0% (0%)
Reporting process	23% (5%)	77% (90%)	0% (5%)	0% (0%)
Overall Rating of Internal Audit	12% (29%)	88% (71%)	0% (0%)	0% (0%)

- 3.8 The results show that satisfaction with the Internal Audit service during 2010/11 remains high. The figures in brackets relate to the 2009/10 results and have been included for comparison purposes. As the overall rating is 100% either very good or good, it is clear that the Internal Audit service continues to operate effectively. Reasons for reductions in the 'very good' ratings and 'fair' responses are all being followed up to ascertain how the audit could be improved in future.

3.9 In future a customer satisfaction survey, similar to the annual version, will be sent at the same time as the final audit report is issued. This will replace the annual survey, and it is hoped that this approach will provide a more effective communication channel.

4. ASSURANCE AND AN OPINION ON THE SYSTEMS OF INTERNAL CONTROL

Internal Assurance

4.1 Internal Audit, along with other assurance processes, have a statutory obligation under the Accounts and Audit Regulations 2011 to provide assurance from the work they undertake in respect of the internal control systems operating within the Council.

4.2 The system of internal control should help the Council to manage the risks which could affect the achievement of the Council's objectives rather than eliminate them completely. Internal Audit and the other assurance processes can therefore only provide within the Annual Governance Statement reasonable and not absolute assurances of adequacy and effectiveness.

4.3 In assessing the level of assurance that can be given to the Council for 2010/11, the following have been taken onto account:

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

4.4 All reports with an audit opinion have been assessed as either 'Effective' – *controls and procedures operate effectively in most cases but show some non-compliance* or 'High Standard' – *evidence of consistent and effective control environment*.

4.5 Below are the four categories that the audit opinion is broadly based on:

Audit Opinion	Definition
High Standard	Evidence of consistent and effective control framework
Effective	Controls and procedures operate effectively in most cases but show some non-compliance
Ineffective	Controls in place are not being consistently applied – improvements are required
Poor	General control framework is weak

4.6 A summary of all the audit reports are detailed in section 8 of the report.

Examples of External Assurance

External Audit

4.7 The External Audit Annual Governance Report and Letter for the financial year 2009/10, issued September 2010, included an unqualified opinion on the Council's Accounts and an unqualified value for money conclusion.

4.8 Below is an extract from the External Auditors Annual Governance Report 2009/10 in which they acknowledge that the Council has made very significant improvements in the year in key areas:

Value for money key lines of enquiry conclusion criteria	Yes/No
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	Yes
7. Does the organisation manage its risks and maintain a sound system of internal control?	Yes
8. Is the organisation making effective use of natural resources?	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	Yes
10. Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Yes

4.9 In addition, External Audit were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

4.10 External Audit are currently reviewing the work undertaken by Internal Audit during 2010/11. Their findings will be reported within the Annual Governance Statement to be reported to this Committee in July 2011.

4.11 Internal Audit continue to work closely with External Audit by sharing systems documentation and feeding back any necessary amendments arising from Internal Audit work undertaken.

Department for Working Pensions (DWP)

- 4.12 Housing Benefit Reviews (HBR) are carried out by DWP staff on an annual basis in all Local Authorities, in order to measure and reduce losses in Housing Benefit due to fraud, claimant and official error.
- 4.13 A sample of cases is selected for review depending on the size of caseload. For Babergh this is usually in the region of 20 cases. The selection is a mixture of standard and passported (Claimant in receipt of Job Seekers Allowance or Income Support) cases.
- 4.14 The last review carried out at Babergh was during January and February 2011. Of the cases reviewed no discrepancies were found that affected the amount of benefit in payment.

IT Security Tests

- 4.15 The Council arrange a series of security tests to be undertaken by external consultations that access the Council's security provision and its effectiveness in repelling hackers and other external threats. This is based on a quarterly external port scan, annual internal infrastructure assessment and an annual Peripheral Component Interconnect (PCI) test. The results from these tests were assessed as 'Satisfactory' – *no action is required in this category. This evaluation signifies that current security practices adhere to Industry Best Practices*. Where improvements required were identified, e.g. ensuring all Windows servers have security patches to prevent viruses, management have an action plan to resolve these issues.
- 4.16 In addition, the Council is also subject to an annual assessment of GCSx Code of Connection Re-assessment. Babergh have been approved for another year. The Siemens Government Connect Team reported that Babergh had made a '*good submission*'.

AUDIT MANAGER'S ANNUAL AUDIT OPINION

- 4.17 This opinion relies on the key financial controls being in place and the corporate governance framework operating effectively. Based on the work undertaken during the year, as well as assurances by other bodies, Internal Audit can provide reasonable assurance that the systems of internal control within these areas of the Council are operating adequately and effectively. However, Members should note that assurance can not be absolute.
- 4.18 Looking forward, as the public sector continues through a period of severe financial constraint there will be a need to ensure that appropriate and efficient controls remain in place to maintain the governance standards within the Council, commensurate with the Council's risk appetite.

5. SUMMARY OF AUDIT WORK TO FORMULATE AUDIT OPINION

Corporate Work including Advice and Guidance

5.1 There continues to be a demand for Internal Audit involvement in corporate areas of work due to the section's skills and experience. During 2010/11 this aspect of the section's work included:

- Drafting the Annual Governance Statement (AGS) as presented to this Committee in July 2010;
- Attendance at Management Team meetings and other meetings to brief senior managers in relation to risk management and audit issues; and
- Continuing to provide advice to service areas on internal controls.

Financial Governance

5.2 This work is concerned with the documentation, evaluation and testing of the effectiveness of systems on internal control within the Council's financial systems. Annual reviews of the financial systems provide assurance to the Director of Finance and External Audit that controls are operating satisfactorily.

5.3 There has been a steady improvement in the controls within the financial systems, most notably within Treasury Management and Receivables/Debtors, which have received a 'High Standard' audit opinion.

5.4 An overview of the conclusions and main findings of each audit is provided in section 8 of this report.

Anti-Fraud and Corruption

5.5 The Council is committed to ensuring that any opportunity for fraud and corruption is minimised. It adopts a culture in which all of its Members and staff can help the Council maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour. This is supported by the Council's approved Anti-Fraud & Corruption and Whistleblowing Policy and other guidance available to all through the Council's website.

5.6 In November 2010, the Committee received an interim internal audit and fraud report. The report outlined the work undertaken by the Fraud Team in the first six months and advised Members that a report for the full year would be presented next year, which is being presented to this Committee alongside this report.

5.7 Other than Housing Benefit fraud and fraud identified through the National Fraud Initiative there were no other alleged irregularities or fraud reported to Internal Audit.

6. PARTNERSHIP WORKING

Suffolk County Council (SCC)/Mid Suffolk District Council (MSDC)

- 6.1 For the past two years the provision of the Internal Audit service was delivered under a joint agreement with SCC. This contract came to end on 31st March 2011.
- 6.2 In March 2011, this Committee received and approved a joint Audit Plan with MSDC from 1st April 2011. The decision recognises the future relationship between both Councils and supports a joint working arrangement to help reduce costs, increase capacity and enable both Councils to be in a position to improve service delivery.

Suffolk Working Audit Partnership (SWAP)

- 6.3 Internal Audit actively contributes to the SWAP. This partnership allows local authorities in Suffolk to share resources, knowledge, and experience regarding internal audit issues in order to identify and promote the adoption of best practice, primarily through an extranet facility. The partnership identifies common training needs and initiates joint training where necessary.

7. CURRENT AND FUTURE DEVELOPMENTS

Integration with MSDC

- 7.1 As referred to above, this Committee received and approved a joint Audit Plan with MSDC from 1st April 2011. Other benefits of this arrangement include:
 - To join up audit and risk management policies and procedures and reduce duplication;
 - To identify and share best practice learned from one Council to the other both in audit and risk management; and
 - Risk management is aligned to common priorities benefiting the audit and risk process.
- 7.2 Work has begun with MSDC to consider and put in place joint working arrangements to provide management with assurances over the adequacy of governance structures and jointly examine performance, risk and controls. Although the extent of this work is uncertain at this point in time, a number of days have been allocated to this within the joint Audit Plan for 2011/12.

Shared Revenues Partnership (SRP)

- 7.3 Babergh, Mid Suffolk and Ipswich Borough Council (IBC) have joined up their Revenues and Benefit Teams (this includes Housing Benefits, Council Tax and Non Domestic Rates) from 1st April 2011.
- 7.4 All support services, which include Internal Audit and Benefit Fraud, will be provided by the 'host authority', IBC.

- 7.5 Given that each authority will continue to operate their existing IT systems (Babergh and Mid Suffolk use CIVICA) until the SRP move to a single ICT platform it was agreed by the SRP Project Board that each authority would carry out their SRP audit work for their respective areas. This would include work around data migration. Work undertaken by Babergh and Mid Suffolk would be charged to the SRP.
- 7.6 It is anticipated that once the single ICT platform is in place IBC will be responsible for auditing each element of the SRP across the three authorities, having first agreed the scope and coverage of the work with all relevant parties.

Benefit Fraud Partnership

- 7.7 Similar to the SPR a Benefit Fraud Partnership has been formed, again effective from 1st April 2011. This partnership involves Benefit Fraud Team staff from Babergh, MSDC and IBC. Corporate counter fraud and corruption work previously undertaken by Babergh's Fraud Team will now be covered under the approved joint Internal Audit arrangement between Babergh and MSDC. Provision has been made within the Audit Plan to undertake joined up work in this area to include joining up of policies.
- 7.8 The National Fraud Initiative (NFI) organisational work and the Key Contact for NFI will also come under this audit arrangement. Again, provision has been made within the joint Audit Plan to coordinate NFI data uploads and any resultant investigations.

8. SUMMARY OF INTERNAL AUDIT WORK AND AUDIT OPINIONS

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
Local Taxation	The objective of the audit is to ensure that the Local Taxation system operates in an efficient and effective manner. The audit reviewed the key internal controls within the system to ensure that the risk of financial loss to the Council is minimised and that legal requirements and Council regulations are complied with.	<ul style="list-style-type: none"> • Non compliance with statutory / legislative requirements. • Missed or incorrectly raised bills. • Errors or fraud may occur and go undetected. • Incorrect refunds may be made. • Liability may not be identified. • Loss of income to the council due to non collection or slow collection of amounts due. • Unauthorised discounts and exemptions may be awarded. • Changes in circumstance are not actioned. • Unauthorised write offs. 	<p>Areas of good internal control</p> <p>Local Taxation and NNDR Schedules of Alterations are processed on a timely basis and a regular reconciliation is undertaken afterwards to ensure that the values held by the Valuation Office agree to the Rateable Values and Bandings within the Civica system.</p> <p>There is documentary evidence that the new parameters for 2010/11 were entered and checked within the Civica system, and that reconciliations and live tests were carried out.</p> <p>There was evidence that the change to the SBR (Small Business Rate Relief), which was introduced from 1 October 2010, had been updated within the Civica system, and that testing had been undertaken by an appropriate officer.</p> <p>Council Tax benefits are reconciled regularly.</p> <p>Processes are in place for recovery of arrears and writing off bad debts.</p> <p>Areas where improvements are required</p> <p>Recommendations were made to improve the process for visiting empty properties and reviewing the entitlement to the Single Person Discount.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
General Ledger	The purpose of the audit is to ensure that adequate accountancy routines exist, and they are open and transparent so as to protect the integrity of the system.	<p>The key risks associated with general ledger processes are:</p> <ul style="list-style-type: none"> • Budget may be set up incorrectly and provide inaccurate or misleading management information; • Cash and bank postings may not agree back to the bank statement that may result in non payment or loss of income; • General ledger balances may be incorrect due to inaccurate transfer of data from the feeder systems; • Errors or irregular use of journals may occur; • Incomplete or inaccurate records may be maintained within the main financial systems; • Year-end accounts may be incorrect. 	<p>Areas of good internal control</p> <p>All direct journal inputs to the general ledger were found to be complete, accurate, and undertaken by an authorised officer;</p> <p>Transactions posted from the feeder systems are checked, validated and were found to be complete and accurate;</p> <p>Control Accounts are reconciled on a monthly basis, and checked by an independent officer;</p> <p>Unrecognised accounts or suspense accounts balances are reviewed and cleared on a timely basis.</p> <p>Areas where improvements are required</p> <p>A minor issue was raised around the location of evidence to support journals.</p>	Effective
Payroll/HR	This audit reviewed the key controls for payroll processing, including starters and leavers, amendments, verification, reconciliation and system updates.	<ul style="list-style-type: none"> • Payroll processes may not be operated in an efficient and effective manner; • The Council may pay its staff incorrectly; • Failure to comply with legislation or Council requirements; 	<p>Areas of good internal control</p> <p>The overall payroll controls in place with regard to starters, leavers, amendments, verification, reconciliations and system updates are effective.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
		<ul style="list-style-type: none"> • Unauthorised transactions; • Incorrect payroll parameters; • Errors in processing. 	<p>Areas where improvements are required</p> <p>The audit identified that relevant staff need to be reminded of the requirement to initial documents to provide a management trail of checks.</p>	
Treasury Management	The audit review covered controls relating to the management of the Council's investments and borrowing with approved financial institutions.	<p>The key risks associated with the treasury management processes are:</p> <ul style="list-style-type: none"> • Inappropriate investments or loans made • Non compliance with the Council's Treasury Management policy • Maintaining inadequate documentation • Unauthorised transactions made • Poor investment returns and/or loss of funds due to poor investment decisions 	<p>Areas of good internal control</p> <p>The 2010/11 Treasury Management Strategy reflects the continuing difficulties affecting the banking sector and other financial institutions. This has resulted in restricting new investments to a limited number of institutions. Only 14 investments occurred during the test period April to July. Of these, 3 were tested and it was noted that the Council had not lost any monies due to poor investments.</p> <p>The 2011/12 Treasury Management Strategy continues to focus on the effective management and control of risk, with security and liquidity a priority when investing funds. Investment returns are a secondary consideration.</p> <p>Treasury Management activity is now reported quarterly to Overview and Scrutiny (Stewardship) Committee; this includes the reporting of any breaches that are not in line with BDC strategy.</p>	High Standard

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems			<p>Areas where improvements are required</p> <p>Audit identified that whilst discussions regarding investments are documented, a similar documentation process is not in place for borrowing.</p> <p>In addition, recommendations were made to strengthen controls with regard to the placement and return of investments.</p> <p>Year-end testing shows that the above areas for improvements had been implemented resulting in the audit opinion changing from 'Effective' to 'High Standard'.</p>	
Information Technology	<p>The purpose of the audit is to determine whether there are adequate controls in place to ensure that:</p> <ul style="list-style-type: none"> • IT access security arrangements are adequate • Data is held securely • Software updates and change controls are properly managed • Adequate Business Continuity Plans are in place 	<ul style="list-style-type: none"> • Access risk – the impact of unauthorised access on the Council's assets, customer information, computer hardware and software • Business disruption – function or activity rendered inoperable due to system failure or disaster situation and the impact on Council operations and customers • Customer service risk – impact on customers if a control should fail. • Data integrity – the impact of using incorrect data 	<p>Areas of good internal control</p> <p>There is evidence of good ICT user access control and the ICT change management process on system upgrades and patches.</p> <p>Areas where improvements are required</p> <p>Guidance for the protection of information when exchanging data with 3rd parties needs to be simplified to ensure all staff understand its contents.</p> <p>The draft ICT Disaster Recovery Action Plan requires publishing following formal approval.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
		<ul style="list-style-type: none"> • Fraud risk – internal fraud whereby staff manipulate or destroy records. External fraud perpetrated by tapping into communication lines and obtaining information, misdirecting assets etc. 		
Cash and Bank	<p>The purpose of this audit was to review the effectiveness of controls over cash collection and banking arrangements to ensure that all income due or held by the Council is identified, collected receipted and banked properly and promptly.</p>	<ul style="list-style-type: none"> • Loss or misappropriation of income. • Breach of Standing Orders and Financial Regulations. • Incomplete transaction trail • Incorrect banking 	<p>Areas of good internal control</p> <p>Key controls were found to be operating effectively in the following areas:</p> <ul style="list-style-type: none"> • All remittances received were properly recorded; • All income was properly accounted for and banked in full; • Payments were properly authorised; • Cash balances were accurate and agreed to recorded cash transactions; and • There is adequate segregation in the cash receipting, recording and authorising process. <p>Areas where improvements are required</p> <p>Declarations signed by staff with knowledge of the digi code need to be updated on an annual basis and the digi code itself should be changed when a member of staff leaves.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
			Periodical checks of the bank mandates need to be undertaken to ensure they are current and up to date.	
Creditors Payables -	The purpose of this audit was to review the controls around the accounts payable system which is designed to record payments and report expenditure made on behalf of the Council.	<p>The key risks associated with the creditors processes are:</p> <ul style="list-style-type: none"> • The Council may be paying for goods and services that have never been received. • The Council may be paying for goods and services that may not have been legitimately ordered. • Goods could be ordered for employees own personal benefit • Goods could be purchased without authorisation • Goods delivered may not conform to the order • Goods may be stolen • Fraudulent or duplicate payments could be made 	<p>Areas of good internal control</p> <p>The review of Creditor Payments found that the key internal controls in place are, in general, operating effectively with regard to correct authorisations; expenditure incurred is accurately recorded; and payments are made only in respect of approved invoices.</p> <p>Areas where improvements are required</p> <p>A number of actions have been agreed within the report to further enhance control procedures with regard to evidence of receipt of goods and services and retrospective purchase orders. All actions were assessed as being below the risk tolerance line.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
Benefit Assessments and Benefit Overpayments	<p><i>Assessments</i></p> <p>The purpose of this audit is to ensure that benefit awarded is correctly calculated and supported by a valid claim.</p> <p><i>Overpayments</i></p> <p>The purpose of this audit was to ensure that the Council's key Housing and Council Tax Benefit overpayment processes were operating in an efficient and effective manner so that the Council is identifying, billing and recovering all benefit overpayments due.</p>	<p><i>Assessments</i></p> <p>The key risks associated with benefit payments include:</p> <ul style="list-style-type: none"> • Non compliance with statutory regulations • Unauthorised, Fraudulent or misappropriate payments made • Overpayments made, which may be difficult to recover • Potential loss of Subsidy <p><i>Overpayments</i></p> <p>The key risks associated with benefit overpayments include:</p> <ul style="list-style-type: none"> • Council's policies and procedures or benefit regulations may not be complied with • Opportunities to maximise income may be lost • Overpayments may not be collected as quickly as possible • Delays may make an overpayment difficult to collect <p>Performance may not be maximised</p>	<p>Areas of good internal control</p> <p><i>Assessments</i></p> <p>Sample testing concluded that:</p> <ul style="list-style-type: none"> • All benefit claims were captured and recorded in the system for processing; • Benefit awarded was supported by a valid claim; • Benefit awarded was correctly calculated; • Payments were made only in respect of awarded benefits; and • Expenditure and payments were properly recorded <p>Areas where improvements are required</p> <p>Staff to be reminded of the need to fully complete the 'Testing Checklist' as part of management trail.</p> <p>Areas of good internal control</p> <p><i>Overpayments</i></p> <p>The audit concluded that all key controls with regard to benefit overpayments were in place.</p> <p>Areas where improvements are required</p> <p>None</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
Housing Rents	The purpose of this audit was to review the systems and procedures in place relating to the administration and management of housing rents.	<p>The key risks associated with the housing rents process are:</p> <ul style="list-style-type: none"> • Rent may not be collected for all relevant properties • Rent accounts not updated for increases and changes • Lack of documentary evidence to support calculations • Inadequate records retained for rent arrears monitoring and recovery • Inappropriate recovery action • Records not appropriately updated on termination or transfer • Void period calculations may not be correct 	<p>Areas of good internal control</p> <p>The audit concluded that systems and procedures were operating effectively, in particular a robust debt chasing process was in place.</p> <p>Areas where improvements are required</p> <p>Staff restructuring proposals are now being considered as part of a review of the voids process.</p>	Effective
Receivables/ Debtors	The purpose of the audit was to review the controls around the accounts receivable system to record, collect and report on income received by the Council for chargeable services provided.	<p>The key risks associated with the receivables/debtors process are:</p> <ul style="list-style-type: none"> • Non compliance with financial regulations and procedures. • Inadequate segregation of duties. 	<p>Areas of good internal control</p> <p>The audit concluded that the key internal controls were working and operating to a high standard. Namely, that all income due is promptly invoiced and correctly recorded, and that adequate segregation in the invoicing and receipting functions were present.</p>	High Standard

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
		<ul style="list-style-type: none"> • Accounts not raised or raised incorrectly. • Accounts amended or cancelled without proper control and approval. • Payments receipt process may not ensure that payments are allocated to the correct debt. • Outstanding amounts not effectively monitored to maximise collection. • Outstanding debts not processed promptly for further recovery action or write off. • Write-offs progressed without proper and thorough and authorisation. 	<p>Areas where improvements are required</p> <p>Two minor issues were raised with regard to improving the Debt Management Policy and filing system to locate supporting documentation.</p>	
Housing Repairs	<p>The purpose of the audit was to review the overall repairs process with regard to policies and procedures; to ensure suitable documented evidence is held to support all repairs carried out; all rechargeable work is identified and recharged; and there are controls in place which ensure that work is properly monitored and prioritised.</p>	<ul style="list-style-type: none"> • Breach of Financial Regulations • Poor value for money • Payments for repairs, which have not been carried out • Failure to meet statutory response times 	<p>Areas of good internal control</p> <ul style="list-style-type: none"> • Tenants can easily access information via the Babergh District Council web site; this includes the Right to Repair Regulations, priorities and responsibilities. • Post inspections are completed for all works with a value of over £500; a 5% sample is automatically selected from the system for works under £500. • Elements of performance monitoring is undertaken with the main contractors. 	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems			<ul style="list-style-type: none"> • Main contractors are able to interface with the Capita system, providing live details of job completion. • Schedule of rates prices are built into the Capita system. <p>Areas where improvements are required</p> <ul style="list-style-type: none"> • Data Protection Act principles are not referred to within the contracts; BDC as the Data Controller are required to clarify contractor's responsibilities for personal information. • Some elements of the information available through the web site require reviewing; clear ownership of the pages relating to Housing Repairs is needed. 	
Corporate Audits				
Procurement & Contract Audit Review	<p>A selection of payments made to suppliers were reviewed to determine that:</p> <ul style="list-style-type: none"> • Purchases were made in accordance with the Council's Procurement and Contracts Procedure Rules; • Best value is being obtained; and • Arrangements are in place to ensure that the new Local Transparency requirements (to publish payments and contract details exceeding £500) will be in place within the prescribed timescale. 	<p>Breach of the Council's Procurement and Contracts Procedure Rules.</p> <p>Failure to achieve value for money.</p>	<p>Areas of good internal control</p> <p>From the small sample of purchases tested, it can be confirmed that, in general, the Procurement and Contracts Procedure Rules are being adhered to.</p> <p>The Procurement Manager is seeking opportunities for obtaining best value through collaborative work with other local authorities, including joint tenders with Mid-Suffolk District Council.</p>	Effective

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Main Financial Systems			<p>Work has commenced to ensure that Babergh meet the Local Transparency requirements proposed by Central Government. Although the guidelines have yet to be published, Central Government are keen that councils publish these details as soon as possible. Further discussions will be required as to determine how contract information will be collected, managed, and published, and this will require a review of the current procurement regulations.</p> <p>N.B. Payments to suppliers over £500 are now reported on the Council's website. Contract information is to follow shortly.</p> <p>Areas where improvements are required</p> <p>The Procurement Regulations need to be reviewed once further discussions have been held to determine the administrative arrangements, and the guidelines regarding Local Transparency have been issued. The review should also include clarification as to how continuous spend with the same supplier should be dealt with.</p>	
Corporate Review of Financial Management	The purpose of the audit review was to provide an assurance on the budget management process and understanding of budget management within the Council.	<p>The Council is unaware of the current financial position.</p> <p>Inaccurate budget reporting leading to poor decision making.</p> <p>Inability to produce up to date financial information.</p>	<p>Areas of good internal control</p> <ul style="list-style-type: none"> • Training is being delivered with a more systematic approach being introduced to provide this in a structured manner with the needs of the budget holders being considered. • Comments and feedback from training is being actioned from the trainees to provide them with the tools to monitor and manage budgets. 	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
		<p>Impropriety / fraud – through exploitation of e.g. inaccuracy, incompleteness of records.</p>	<ul style="list-style-type: none"> Quarterly budget monitoring which includes obtaining feedback on key risk areas and meetings between key personnel. <p>Areas where improvements are required</p> <p>There are opportunities to use audit findings proactively to increase control in some areas, (e.g. around management and responsibility, and training), to further promote the effective control and management of budgets.</p> <p>It is acknowledged that since the audit work started, a positive approach is being taken by the Finance Team to address a number of the issues raised within the report.</p>	
Business Continuity	<p>The purpose of the audit was to review the framework arrangements in place to support the Council in the event of a significant business interruption.</p>	<ul style="list-style-type: none"> Key services may not be delivered to vulnerable customers. Services may not be restored in reasonable timescales that may affect the infra-structure of the Council. 	<p>Areas of good internal control</p> <p>Business continuity planning and arrangements are in place that meet legal requirements.</p> <p>Areas where improvements are required</p> <p>Improvements are required in relation to business continuity arrangements with regard to Sheltered Housing Schemes.</p> <p>Recommendations to improve access to emergency phone numbers and the documentation held within the Business Continuity Plan have been made.</p> <p>The two issues reported above were assessed by Internal Audit as being below the risk tolerance line and therefore the overall audit opinion was deemed 'Effective'.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
Data Quality – Performance Indicators	<p>This audit was undertaken to provide assurance on controls relating to a number of specified performance indicators, namely:</p> <ul style="list-style-type: none"> ▪ The source data was consistent with the Audit Commissions data quality characteristics; (Accurate, valid, reliable, timely, relevant and complete. ▪ There was a clear audit trail. ▪ The indicator was calculated correctly in line with the Audit Commission’s definition. 	<ul style="list-style-type: none"> • Failure to compile performance information would result in authority not meeting its statutory obligation; • Failure to compile performance information accurately, correctly, clearly and to a high quality may have an effect on the authority’s performance assessed and reported by the Audit Commission. 	<p>Areas of good internal control</p> <p>The process of the production of Performance indicators is well documented and there is a clear evidential trail enabling independent verification of the data.</p> <p>Policies and plans relating to data quality were in place and available to all staff.</p> <p>Calculations and reporting of the performance indicators were found to be fairly stated.</p> <p>Areas where improvements are required</p> <p>With the Government indicating that National Indicators are to be discontinued in the near future it is an ideal opportunity to review/re-assess the use and validity of maintaining such performance data for operational reasons.</p>	Effective
Section 106	<p>The purpose of the audit was to undertake a full review including testing of Section 106 Agreements to ensure compliance with the new processes introduced earlier in the year, and which Internal Audit were heavily involved in identifying expected internal controls.</p> <p>There is evidence that work is being actively undertaken on populating the new system (Accolaid) with both new and historical Section 106 Agreements. The working group are reporting any delays or slippage to the Project Board. Reasons for the delays are stated and new target dates are being revised. A new deadline for ensuring that the Accolaid system is fully populated with the historical data has now been set for March 2011. Internal Audit has been informed that extra staff resource hours are being discussed. Due to the delay in populating the new system no work has been undertaken to introduce the new administrative system and controls agreed by the working group and Internal Audit in December 2009. In light of this Internal Audit will not be undertaking any testing in this area during this financial year 2010/11. The testing of the new administrative system, controls and the Accolaid system will be included within the 2011/12 Audit Plan. However, it is recommended that prior to March 2011 all staff involved in the administration, decision making and reporting of Section 106 Agreements should be trained/made aware of the new administrative systems and controls. This will ensure that the new administrative system can take immediate effect when the Accolaid system is fully populated.</p>			Advice and guidance

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
Governance audits				
Member and Officer Expense Claims	The area of expenses and allowances has recently come under considerable scrutiny. The purpose of the audit was to ensure the expenses and allowances paid to officers and Members are properly authorised in accordance with approved and appropriate policies.	Travel and expense claims fail to comply with the Council's policy and procedures and Inland Revenue requirements. Incomplete and unauthorised claim forms are processed.	<p>Areas of good internal control</p> <p>The e-claim system is now embedded with all Members and officers having access to the system and training provided to Members to enable accurate use.</p> <p>Claims tested and reviewed were found to be correct with an improvement in authorisations received from responsible Managers clearly evident during the test period.</p> <p>Areas where improvements are required</p> <p>Minor recommendations have been made to further enhance the claim process.</p>	Effective
Members declaration of Interests, gifts and hospitality	To identify the risks and associated controls, evaluate their effectiveness and test the operation, within the following Member systems - <ul style="list-style-type: none"> • Gifts and Hospitality • Interests 	<ul style="list-style-type: none"> • Lack of transparency • Loss of reputation resulting in loss of public confidence • Members fail to declare interests • Members fail to declare gifts and hospitality 	<p>Areas of good internal control</p> <p>A register of Gifts and Hospitality exists and has been appropriately compiled. There have been very few occasions when a gift or hospitality have been accepted. A declaration of Interest has been completed by every Councillor and there is evidence that changes in interests are reported. Monitoring of all declarations made by members is undertaken on a quarterly basis by the Standards Committee.</p> <p>Areas where improvements are required</p> <p>A minor point was raised regarding the completion of some forms.</p>	Effective