

BABERGH DISTRICT COUNCIL

From: Director of Finance	Report Number: L102
To: Overview and Scrutiny (Stewardship) Committee	Date of Meeting: 15 November 2011

INTERIM INTERNAL AUDIT REPORT 2011/12

1. Purpose of Report

- 1.1 The purpose of this report is to inform Members of the work undertaken by Internal Audit for the period 1st April to 30th September 2011. It also provides the results from Internal Audit reviews completed for the year.
- 1.2 All reports issued for the first six months were assessed as 'Effective' (paragraph 8.6 provides a definition of each audit opinion).

2. Recommendations

- 2.1 That the content of the Interim Internal Audit report for the first 6 months of 2011/12 be noted and endorsed.
- 2.2 That Members note and accept the position of the officer expenses review as reported to this Committee last year and again to Members in July 2011, and notes any issues arising from the procurement card review to be carried out later this year and reported at year end (paragraphs 8.13 to 8.17 refer).

The Committee is able to resolve these matters.

3. Financial Implications

- 3.1 Subject to procuring up to an additional 50 days, approved by Members of this Committee back in March 2011, the Internal Audit Plan for 2011/12 will be delivered with expected savings being achieved compared to last year.

4. Risk Management

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

Risk Description	Likelihood	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 impact on the achievement of the Council's aims and/or lead to fraud, financial loss or inefficiency.	Low	Critical (Potentially)	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.

Risk Description	Likelihood	Impact	Mitigation Measures
The risk is further compounded with the need to increase savings and staff reductions.			External Audit reviews the work of the section and internal control arrangements.

5. Consultations

- 5.1 The nature of the report is such that consultation has not been required.

6. Equality Analysis

- 6.1 There are no equalities implications arising from this report.

7. Shared Service / Partnership Implications

- 7.1 Following this Committee's approval of a joint Internal Audit Plan for 2011/12, officers from Babergh and Mid Suffolk will, where possible, produce a combined Annual Internal Audit report for both sets of Members in future.

8. Key Information

Role of Internal Audit

- 8.1 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. It is the role of internal audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, corporate governance, and arrangements for providing value for money. This is achieved by undertaking audits across the full range of the Council's functions in accordance with a risk based audit plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.

Requirement for Internal Audit

- 8.2 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit.
- 8.3 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 prior to its approval by the Strategy Committee. The audit work carried out is therefore a key source of assurance that the internal control environment is operating effectively.

Review of the work undertaken by Internal Audit for the period 1st April to 30th September 2011

Internal Audit work

- 8.4 An overview of the work of Internal Audit for the first six months of 2011/12 is set out in Appendix A.

- 8.5 A number of audits are currently work in progress. Several of these are near completion and are currently undergoing internal and report clearance quality review processes. These are listed under point 1.3 of Appendix A. The results of these audits will be included within the Annual Audit Report to this Committee next year.
- 8.6 All reports issued in the first half of the year have been assessed as ‘Effective’. Below are the audit opinions and their definitions:

Audit Opinions	
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.

Corporate Work including Advice and Assistance

- 8.7 Internal Audit continues to be actively involved in the Council’s corporate work. During the first six months this aspect of the section’s work has included the following:
- Internal Audit drafted the Annual Governance Statement (AGS) that was presented to this Committee on 12th July 2011 (Paper L49). To support the production of the AGS, Internal Audit carried out a detailed review of the assurance framework. The production of the AGS is a significant piece of work and was well received by both officers and by PKF, the Council’s external auditors. The AGS recognised the significant work between Babergh and Mid Suffolk to plan and deliver ways of integrating services and the workforce together as a way of achieving savings and improving capacity and resilience and support for frontline services in an era of public sector cuts. Again, as in previous years, the message to be taken from the work undertaken on the AGS is that Babergh’s governance arrangements are fundamentally sound.
 - In addition, Members were asked to recommend a revised Local Code of Corporate Governance which brought it up to date with the recent Chartered Institute of Public Finance and Accountancy’s ‘Statement on the Role of the Chief Financial Officer in Public Service Organisations’ for approval at the Strategy Committee in August 2011.
 - Attendance at Management Team meetings to brief senior managers in relation to the outcomes of work undertaken by the section where corporate issues are covered, e.g. Risk Management.
 - Continuing to provide advice to service areas on internal controls.

Probity

- 8.8 The Council is required to participate in the biennial National Fraud Initiative (NFI), the Audit Commission led exercise involving data matching of records nationally from public service databases. Internal Audit takes a leading role in co-ordinating this exercise within the Council and with the Shared Revenues Partnership (SRP) and the Benefit Fraud Partnership working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 8.9 Internal Audit have been working with key contacts from the Benefit Fraud Partnership to ensure that investigations into NFI matched benefits claims continue as required. Internal Audit have also provided information to the SRP in relation to the October 2011 data matching exercise which matches council tax information with the December 2011 electoral register in order to verify single person discounts.
- 8.10 Later in the year Babergh and Mid Suffolk's Anti Fraud and Corruption Policy will be reviewed with the aim of producing one aligned document. The document will make reference to the Bribery Act 2010 which modernises the law on bribery and which came into force on 1st July 2011. Internal Audit has already met with the Council's Legal team for their advice and guidance and will respond to this legislation in the following way:
- Undertake a focussed review to determine current adherence to the requirements of the Act;
 - Raise awareness of the Act via the internal staff and Member bulletins and the Council's website;
 - Ensure the Council's documents in relation to procurement are amended accordingly.

Performance

- 8.11 The Audit Manager is supported by members of the Performance and Audit Services Team from Mid Suffolk as part of the approved joint integrated working arrangement. As with the previous working arrangement with Suffolk County Council this internal audit arrangement allows greater flexibility of staff and the opportunity to share in best practice across both authorities.
- 8.12 Taking into account expected future progress against the Audit Plan, Internal Audit consider they will be able, as last year, to deliver a reliable audit opinion on the effectiveness of internal controls to this Committee in their Annual Internal Audit Report.

Member Request

- 8.13 A recent request has been made from a Member of this Committee to see expenses details submitted by senior management (i.e. Heads of Service and above) for this calendar year. In addition, the Member also wished to have sight of the procurement statements detailing expenses paid for by procurement cards, again for this calendar year.

- 8.14 In summary, for the 8 month period January to August 2011, senior management claimed expenses through the e-claim system totalling £2,074.27 at an average of about £259 per month for all 7 officers including the previous Chief Executive. This excludes the new joint Chief Executive who has only just submitted her first claim.
- 8.15 With regard to procurement cards, no expenses go through this method of payment as all expenses to be reimbursed must be claimed through the e-claim system. Cards are only used by those involved in procurement activity and their use is strictly controlled.
- 8.16 Procurement cards are, however, used to pay for such items as advanced online purchase of travel tickets and for hotel bookings.
- 8.17 Members are advised that Internal Audit will review the use of procurement cards as part of their audit of the Creditors system, the results of which will be reported at the end of the year.

9. Appendices

Title	Location
(a) Summary of Internal Audit reports issued in 2011/12	Attached

10. Background Documents

10.1 None

Authorship:

Name John Snell
Job Title Audit Manager

Tel. 01473 825822
Email:
john.snell@abergh.gov.uk

Appendix A

SUMMARY OF INTERNAL AUDIT REPORTS ISSUED AS AT 30TH SEPTEMBER 2011

1. Introduction

- 1.1 The following sections contain a brief summary of the contents of the internal audit reports issued during the first half of the financial year. Each summary provides the auditors opinion, associated risks and key findings arising from the reviews. A key to these opinions, with their definitions, can be found at the end of this Appendix, Section 2.
- 1.2 It should be noted that a significant amount of work on other areas has also been undertaken during the period which does not reflect in the issue of an audit report, including corporate and risk management work as outlined in the body of this committee report.
- 1.3 It should be noted that work on a number of other audits is substantially complete and are currently undergoing an internal quality review. These reports, listed below, will be summarised within the Annual Internal Audit Report to this Committee next year.
 - Treasury Management
 - Income Collection/Cash & Bank
 - Housing Rents
 - Payables/Creditors
 - Receivables/Debtors
 - General Ledger
 - SRP audit
 - Serco Contract audit (joint audit with Mid Suffolk)

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Main Financial Systems				
Payroll/HR	Ensure that the Payroll and HR processes are operated in an efficient and effective manner so that the Council pays its staff correctly and that the recruitment process is suitable and being followed correctly.	The Council may pay its staff incorrectly. Unsuitable candidates are employed by the Council.	<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> <p>Areas where improvements are required</p> <p>HR data cleansing exercises should occur more frequently.</p> <p>HR to work with Community & Leisure Services to improve their recruitment processes.</p>	Effective
Asset 4000	Review controls and management trail to ensure that data transferred to Asset 4000 is robust and consistent with that held in the previous version of the Asset Register.	Information transferred between systems is not complete leading to a risk of material misstatement in the accounts.	<p>Areas of good internal control</p> <p>A planned and systematic approach was applied during the transfer of asset data to the new Asset 4000 module.</p> <p>Evidence exists to support the reconciliation of closing balances by asset category per the 2009/10 Accounts to Asset 4000 performed and agreed by the Corporate Accountant.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
			<p>Areas where improvements are required</p> <p>All evidence to support the individual asset checks should be retained.</p> <p>The facility to enforce regular password changes should be activated.</p>	
Corporate Audits				
Procurement & Contract Audit Review	A selection of payments made to suppliers were reviewed to determine that purchases were made in accordance with the Council's Procurement and Contracts Procedure Rules and that value for money is achieved.	Breach of the Council's Procurement and Contracts Procedure Rules. Failure to achieve value for money.	<p>Areas of good internal control</p> <p>Progress is being made on Procurement integration with Mid Suffolk District Council and a joint procurement action plan has been developed. This includes good practice guidance and training and awareness workshops.</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> <p>Areas where improvements are required</p> <p>All evidence to fully support actions/ decisions taken should be retained.</p>	Effective

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Departmental Systems Reviews				
Renovation Grants	To ensure grants are awarded, or paid, in accordance with relevant approved criteria.	<p>Eligibility for receipt of grants may not be checked.</p> <p>Grants may not be spent in accordance with the purpose/conditions of the grant.</p>	<p>Areas of good internal control</p> <p>Testing undertaken of the grants awarded and paid, were found to be in accordance with relevant approved criteria, and verifying eligibility did not highlight any concerns.</p> <p>Easy to use checklists and diary notes are maintained making it simple to ascertain the status of an application and progress to date.</p> <p>Areas where improvements are required</p> <p>Policy and guidelines require updating.</p>	

2. Audit Opinion

2.1 Internal Audit reaches an overall audit opinion as part of the reporting process.
When determining the opinion the following is taken into account:-

1. The risk assessment,
2. The controls over the system, and
3. The results of the testing of the controls over the system.

The audit opinion is broadly classified into one of the following four categories:

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

John Snell
Audit Manager
November 2011