

## BABERGH DISTRICT COUNCIL & MID SUFFOLK DISTRICT COUNCIL

<b>From: Director of Finance</b>	<b>Report Number: M112</b>
<b>To: Overview and Scrutiny (Stewardship) Committee</b>	<b>Date of meeting: 13 November 2012</b>

### JOINT INTERIM INTERNAL AUDIT REPORT 2012/13

#### 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 1 April to 30 September 2012. The outcomes from completed audit reviews are detailed in Appendix A.

#### 2. Recommendations

- 2.1 That the content of the Joint Interim Internal Audit report for the first six months of 2012/13 be noted and endorsed.

The Committee is able to resolve this matter.

#### 3. Financial Implications

- 3.1 There are no direct financial implications arising from this report. All internal audit recommendations must be considered in terms of their cost effectiveness.

#### 4. Risk Management

- 4.1 This report is not linked with any of the Council's Significant Business Risks. 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.  The risk is further compounded with the need to increase savings and staff reductions.	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.  External Audit reviews the work of the section and internal control arrangements.

## **5. Consultations**

- 5.1 The Joint Internal Audit Plan 2012/13 was approved by Babergh's Overview and Scrutiny (Stewardship) Committee on 20<sup>th</sup> March 2012 (Paper L166) and by Mid Suffolk's Scrutiny Committee on 29<sup>th</sup> March 2012, having previously been endorsed by both S151 Officers and Management Board.

## **6. Equality Analysis**

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

## **7. Shared Service / Partnership Implications**

- 7.1 The Joint Internal Audit Plan continues to be delivered by Mid Suffolk Performance and Audit Services officers and by the joint authorities' Corporate Manager – Internal Audit.
- 7.2 Audits of the functions provided by Customer Services Direct (CSD) continue to be undertaken jointly between Mid Suffolk and Suffolk County Council (SCC) Auditors.
- 7.3 Discussions have been held with SCC auditors regarding the potential for further joint working on income generating opportunities.

## **8. Key Information**

### *Role of Internal Audit*

- 8.1 Management are responsible for the systems of internal control within each 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 both 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 and Mid Suffolk's Scrutiny Committee. Both Committees in their role as the Council's Audit Committee have a responsibility for reviewing their 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 effectively.

### **Review of the work undertaken by Internal Audit for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2012**

*Internal Audit work*

- 8.4 An overview of the work completed by Internal Audit relating to Babergh specific and joint audits with Mid Suffolk for the first six months of 2012/13 is set out in **Appendix A**.
- 8.5 A number of 2011/12 Mid Suffolk audits, including the joint work on the Shared Revenue Partnership (SRP) were carried over into 2012/13. This was due to unplanned staff absences, unavailability of auditees and slow responses from auditees to draft reports. Internal Audit are working with the auditees to improve the situation. As a result progress on this year's audit work has slipped. In addition, the amount of work spent on the audit plan by the Corporate Manager – Internal Audit has reduced due to his involvement in the Community Engagement 2012 exercise and the development of the Organisational Develop Teams (ODTs) which will continue for the rest of the current financial year.
- 8.6 As a result of the slippage that has occurred in the first half year the Joint Audit Plan has been reprioritised and the expected future progress for the remaining six months will ensure that Internal Audit will be able, as last year, to deliver a reliable audit opinion on the effectiveness of internal controls to this Committee in their Joint Annual Internal Audit Report.
- 8.7 The SRP work around revenues and benefits relating to Babergh transactions were assessed as being 'Effective' for the period April 2011 to November 2011, however, concerns were reported with regard to the data migration process. These have now been resolved to the satisfaction of both S151 Officers and each Council's external auditors.
- 8.8 For the remaining period of the year (December 2011 to March 2012), and in future years as the host authority for the SRP, the work on revenues and benefits will be undertaken by Ipswich Borough Auditors. Their audit opinion, again relating to Babergh transactions provided an overall assurance level of 'Good' – *All controls are being applied consistently and effectively*'.
- 8.9 The Corporate Manager – Internal Audit has removed two audits from the 2012/13 audit plan; Decision Making and Housing Repairs, as a result of separate pieces of work being undertaken in these areas. Consideration will be given to reinstating these audits next year.
- 8.10 Two joint audits, VAT and Dangerous Trees, have been completed from the 2012/13 audit plan. A further nine audits are being currently worked on. Of these, seven are near completion and are currently undergoing internal and report clearance quality review processes. These are listed below. The results of these audits will be included within the Annual Audit Report next year.

Audit Name	Status
SRP Reconciliations	Near completion
BDC Rents	Near completion
BDC Debtors	Near completion
BDC Payroll	Near completion
BDC Income Collection	Near completion
BDC Treasury Management	Near completion
MSDC/BDC Data Management	Near completion
BDC General Ledger	Testing in progress
BDC Creditors	Planning commenced

8.11 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*

8.12 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 approved by this Committee on 17<sup>th</sup> July 2012 (Paper M54) and Mid Suffolk’s Scrutiny Committee on 18<sup>th</sup> July 2012 (Paper Y/58/12). 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 both sets of 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 both Council’s governance arrangements are fundamentally sound.
- Attendance at Management Board/Team meetings and JMIB 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.
- Grant Work on the Dryport Project (Babergh is a key partner in the EU funded Dryport Project which is helping to support port capacity by improving hinterland distribution hubs and looking at the potential of ‘inland ports’). The Corporate Manager – Internal Audit is Babergh’s First Level Controller responsible for verifying the accuracy of claims before submission.

*Probity*

8.13 Councils are 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 across both Councils and with the 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.

- 8.14 Discussion with system owners have taken place to prepare for the NFI data extract in October 2012. The anticipated date for the release of matches is 29<sup>th</sup> January 2013, upon which match investigations will be performed on a risk based approach.
- 8.15 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 in line with best practice. For ease of reference it is intended to incorporate the Money Laundering Regulations and Bribery Act polices into this document, thus forming a comprehensive Anti-Fraud and Corruption document. This will be available on the Council's website and intranet.
- 8.16 To help ensure there is a pro-active approach to fraud prevention, detection and investigation and promote a Council wide anti-fraud culture across both organisations Internal Audit have produced and issued a guide for Corporate Managers on Fraud Awareness. The purpose of this guide is to outline both Council's commitment to the protection of public funds and the necessity for harnessing resources in order to minimise losses arising from fraudulent conduct.

**9. Appendices**

Title	Location
(a) Summary of Internal Audit reports issued in 2012/13	Attached

**10. Background Documents**

10.1 None

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**Appendix A**

**SUMMARY OF INTERNAL AUDIT REPORTS ISSUED & IN PROGRESS DURING 2012/13**

**1. AUDIT REPORTS ISSUED**

1.1 The following section contains a brief summary of the contents of the internal audit reports issued during financial year 2012/13. 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 in section 2.

AUDIT	PURPOSE OF AUDIT	RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
<b>Main Financial Systems</b>				
<p>MSDC and BDC - Council Tax - 2011/12 Audit</p> <p>Note 1: Audit only related to period up to Nov 21st 2011. Assurance over control adequacy has been provided by Ipswich Borough Council auditors for remaining part of the 2011/12 year and this will continue in future years.</p>	<p>The purpose of this audit was to ensure that all domestic properties were billed correctly and the correct amount of Council Tax was received.</p>	<p>Council Tax may not be collected for all relevant properties.</p> <p>Inadequate records maintained for arrears monitoring and recovery.</p> <p>Inappropriate recovery action.</p>	<p><b>MSDC</b></p> <p><b>Areas of good internal control:</b></p> <p>Parameters, precepts and bands set correctly;</p> <p>Checks undertaken to ensure bills produced for each property; and</p> <p>Payments requested promptly, monitored and reconciled to other systems.</p> <p><b>Areas where improvement are required:</b></p> <p>All evidence to support 2nd home discounts should be retained.</p>	<p>Effective</p>
			<p><b>BDC</b></p> <p><b>Areas of good internal control</b></p> <p>Regular reconciliations of Civica to Valuation Office (VO) reports; and</p> <p>Regular reconciliations of Civica to cash received and Agresso.</p>	<p>Effective</p>

			<p><b>Areas where improvement are required</b></p> <p>A review of rate relief and discounts should be carried out.</p>	
<p>MSDC and BDC - NNDR - 2011/12 Audit</p> <p>See Note 1 above</p>	<p>The purpose of this audit was to ensure that all relevant business properties were billed correctly and the correct amount of NNDR was received.</p>	<p>NNDR may not be collected for all relevant properties.</p> <p>Inadequate records maintained for arrears monitoring and recovery.</p> <p>Inappropriate recovery action.</p>	<p><b>MSDC</b></p> <p><b>Areas of good internal control:</b></p> <p>Parameters set correctly;</p> <p>Checks undertaken to ensure bills produced for each property; and</p> <p>Payments requested promptly, monitored and reconciled to other systems.</p> <p><b>Areas where improvement are required:</b></p> <p>A programme for checking rate relief and void properties should be implemented.</p>	Effective
			<p><b>BDC</b></p> <p><b>Areas of good internal control</b></p> <p>Parameters set correctly;</p> <p>The system reconciled to VO schedules regularly and at time of billing; and</p> <p>Regular reconciliations of Civica to cash received and Agresso.</p> <p><b>Areas where improvement are required</b></p> <p>A review of rate relief and discounts should be carried out.</p>	Effective

<p>MSDC and BDC - Housing Benefits - 2011/12 Audit</p> <p>See Note 1 above</p>	<p>The purpose of this audit was to ensure that benefits are correctly administered in line with guidelines and legislation.</p>	<p>Benefits may not be administered in line with legislation.</p> <p>Supporting evidence may not be obtained, resulting in potentially false claims.</p> <p>Benefit overpayments may not be collected.</p>	<p><b>MSDC</b></p> <p><b>Areas of good internal control:</b></p> <p>Adequate management checking of benefit assessments;</p> <p>Adequate controls on payments made by BACS;</p> <p>Reconciliations were carried out between the Benefits system, Council Tax, Rents and the main financial system; and</p> <p>System parameters updated accurately.</p> <p><b>Areas where improvement are required:</b></p> <p>All supporting information for claims should be retained;</p> <p>Documentation to support write offs should be retained; and</p> <p>Authorisation should be sought prior to write off within the system.</p>	<p>Effective</p>
			<p><b>BDC</b></p> <p><b>Areas of good internal control</b></p> <p>Monthly reconciliations carried out between feeder systems and with Agresso including subsidy figures;</p> <p>Accuracy checks of benefit claims performed; and</p> <p>System parameters updated accurately.</p>	<p>Effective</p>

			<p><b>Areas where improvement are required</b></p> <p>Evidence to support levels of clawback should be maintained where lower than maximum level is applied.</p>	
<p>MSDC and BDC Local Taxation and Benefits audit undertaken by Ipswich Borough Auditors for the period Dec 2011 to Mar 2012</p>	<p>To provide assurance that the systems and processes in place for Local Taxation and Benefits are operating effectively under the SRP.</p>	<p>The same risks apply as described above.</p>	<p><b>MSDC</b></p> <p><b>Areas of good internal control</b></p> <p>All system parameters tested input correctly; and</p> <p>Valuation Office schedules updated accurately.</p> <p><b>Areas where improvement are required</b></p> <p>Monthly Council Tax and NNDR reconciliations between Icon (Cash Receipting System), Northgate and Oracle were not being undertaken.</p>	<p>Adequate – Controls exist but there is some inconsistency in their application</p>
			<p><b>BDC</b></p> <p><b>Areas of good internal control</b></p> <p>All system parameters tested input correctly;</p> <p>VO schedules updated accurately; and</p> <p>Reconciliations undertaken in a timely manner.</p> <p><b>Areas where improvement are required</b></p> <p>No areas of concern.</p>	<p>Good – All controls are being applied consistently and effectively.</p>

MSDC & BDC Data Migration - 2011/12	The purpose of this audit was to ensure that adequate plans and controls were in place to ensure that data from the previous Local Taxation and Benefits systems were correctly transferred to the new Northgate system.	<p>Failure to reconcile opening balances could lead to errors not being identified resulting in incorrect accounting.</p> <p>Failure to resolve outstanding issues could lead to inaccurate information resulting in incorrect billing or payments.</p>	<p><b>Areas of good internal control:</b></p> <p>A project team was established and adequate plans made for the data transfer;</p> <p><b>Issues identified:</b></p> <p>Not all testing from the comprehensive plan of user testing was completed and not all issues were resolved at the time of the Go Live decision;</p> <p>Reconciliations of opening balances to closing balances were not completed in a timely basis;</p> <p>There were unresolved opening balance differences for Council Tax Benefit which also had to be adjusted for in the main accounts; and</p> <p>Reconciliation work identified that even where overall balances agreed there were differences in transaction totals such as payments and refunds.</p>	<p>Planning (Effective); User Acceptance Testing (Ineffective); Reconciliations (Ineffective)</p> <p>Note 2 – A number of issues had been experienced with the migration process. Since the issue of the report these have now been resolved to the satisfaction of both S151 Officers and the external auditors.</p>
<b>Corporate Audits</b>				
MSDC & BDC - VAT 12/13	The purpose of this audit was to ensure that input and output VAT is correctly accounted for in line with legislation.	<p>Incorrect accounting of VAT leading to penalties from HM Revenue and Customs.</p> <p>Missed opportunities to reduce VAT payments.</p>	<p><b>Areas of good internal control:</b></p> <p>VAT registration is up to date and it appears on the necessary council documents;</p> <p>All input &amp; output VAT is accurately identified, accounted for and reported;</p> <p>Errors in the calculation of input and output VAT are detected and corrected; and</p> <p>The accounting system adequately caters for zero rated and exempt items.</p>	Effective

			<p><b>Areas where improvement are required:</b></p> <p>MSDC &amp; BDC - Treatment of reclaiming VAT on fuel receipts should be reviewed across both councils to ensure the same approach is applied; and</p> <p>BDC – Handover arrangements should be put in place when the VAT specialist retires in September 2012.</p>	
<b>Departmental Systems Reviews</b>				
MSDC & BDC - Dangerous Trees 2012/13	The purpose of the audit is to ensure that each Council maintains an accurate record of the number and condition of its trees, supported by a programme of work that ensures the safety of people and property.	<p>Risks with poorly maintained trees:</p> <ul style="list-style-type: none"> <li>• Physical obstruction to both vehicles and pedestrians;</li> <li>• Root damage to roads and properties; and</li> <li>• Claims against the Council.</li> </ul>	<p><b>MSDC</b></p> <p><b>Areas of good internal control</b></p> <p>Improvements have been made since the previous audit in 2008/09 with regard to mapping of Council land and trees.</p> <p><b>Areas where improvement are required</b></p> <p>The continual problems with the interface between Trimble and TOMS (database) need to be resolved;</p> <p>Procedures for recording inspections and re-inspections should be implemented;</p> <p>The backlog of inspections carried out to be recorded on TOMS to ensure accuracy of the database; and</p> <p>Thornham Walks – tree inspection records to be maintained.</p>	Ineffective

			<p><b>BDC</b></p> <p><b>Areas of good internal control</b></p> <p>Efficient use of the TOMS system is in place; and</p> <p>An effective inspection and monitoring programme is in place.</p> <p><b>Areas where improvement are required</b></p> <p>No issues of concern.</p> <p><b>Joint Working</b> – discussions with regards to a more integrated approach to joint working are taking place between the two teams. Further joint working will benefit MSDC in practical terms of overcoming some technical issues should BDC's Trimble and TOMS version be adopted.</p>	High Standard
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1.2 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

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