BABERGH DISTRICT COUNCIL and MIDSUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: **JAC2**
To: Joint Audit and Standards Committee	Date of meeting: **1 July 2013**

JOINT INTERNAL AUDIT ANNUAL REPORT 2012/13

1.   Purpose of Report

1.1   To summarise the work undertaken by Internal Audit during the year and the resulting annual audit opinion.

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2.   Recommendations

2.1   That the Committee notes the outcomes of internal audit work in 2012/13 and the conclusion of the Corporate Manager – Internal Audit that both Councils' overall internal audit 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 this Committee for approval later in the year.

         The Committee is able to resolve this matter.

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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   Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective and as a result the Councils may not be identifying significant weaknesses that could impact on the achievement of their priorities and/or lead to fraud, financial loss or inefficiency.	Unlikely	Bad	Members receive and approve the internal audit plan and receive reports throughout the year. The audit plan is based on an assessment of risk for each audit or operational area.

External Audit reviews and reports on the work of the Internal Audit section and the internal control arrangements. |

5. Consultations

5.1 This report has been agreed with both Councils' Section 151 Officers.

5.2 Consultation with key officers is also carried out during the audit process and in the production of individual internal audit reports and follow up work.

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 2012/13 has been delivered by Mid Suffolk Performance and Audit Services officers and by the 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.

8. Key Information

Background Information

8.1 Internal Audit is an independent, objective assurance and internal consultancy function designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

Joint Internal Audit Annual Report 2012/13

8.2 In accordance with the new Public Sector Internal Audit Standards (PSIAS) the Internal Audit Manager is required to provide an annual written report to those charged with governance, timed to support the Annual Governance Statement, which includes an opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, including the internal control environment. The attached Joint Internal Audit Annual Report 2012/13 (**Appendix A**) summarises the audit work carried out during the year, presenting an opinion based upon the work performed.

8.3 A range of reviews across each Council's operations were carried out during the year, ranging from main financial systems to corporate and governance reviews. Each was evaluated and where appropriate recommendations made to further improve the internal control environment, including good practice. Internal Audit follows up all high-risk recommendations to ensure that these are dealt with in a timely manner. It is management's responsibility to ensure that agreed recommendations are implemented.

8.4 With the exception of 2 audits, Dangerous Trees and Data Management, all reports issued during the year have been assessed as either 'Effective' or High Standard'. The two exceptions were assessed as 'Ineffective' and have been included in the Joint Internal Audit Plan 2013/14 to be followed up.

8.5   The table below provides 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.

Managing the Risk of Fraud and Corruption

8.6   Theft, fraud and corruption are an ever present threat to the resources available in the public sector. A separate report entitled, 'Managing the Risk of Fraud and Corruption – Annual Report 2012/13' was presented to Babergh's Overview and Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee on 19 and 28 March 2013 respectively.

8.7   The report explained the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and to create a culture where fraud and corruption will not be tolerated. The report also provided details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.

8.8   The report also included the Corporate Counter Fraud Business Plan 2013/14, produced by the Counter Fraud Manager at Ipswich Borough Council, which was to reassure Members of the three Local Authorities (Babergh and Mid Suffolk District Councils and Ipswich Borough Council) that robust processes exist to deal with any corrupt or fraudulent activity.

8.9   The Committee is also to receive, alongside this report, an updated report from that presented in March 2013 (refer to para 8.6 above) entitled 'Benefit Fraud Performance Activity – Update 2012/13'.

Annual Audit Opinion provided by the Corporate Manager – Internal Audit

8.10   Based on the work undertaken during the year, subject to assurances by other bodies, Internal Audit can provide reasonable assurance that systems of internal control within these areas of each Council are operating adequately and effectively. However, Members should note that assurance cannot be absolute.

8.11   Looking forward, as the public sector continues through a period of financial pressure, there will be a need to ensure that appropriate and efficient controls remain in place to maintain appropriate governance standards across both Councils.

9.   Appendices

Title	Location
A Joint Internal Audit Annual Report 2012/13	Attached

10.   Background Documents

10.1 None

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JOINT INTERNAL AUDIT ANNUAL REPORT 2012/13

1. BACKGROUND

1.1 The statutory basis for Internal Audit on local government is provided by the Accounts and Audit Regulations 2011, which requires a local authority to '*undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'. These '*proper practices*' are those now contained within the new Public Sector Internal Audit Standards (PSIAS), which came into effect from 1st April 2013. These Standards replace the CIPFA Code of Practice for Internal Audit in Local Government.

1.2 The new PSIAS are mandatory and underpin the internal audit arrangements across both Councils. The Corporate Manager – Internal Audit considers that we are likely to be already substantially complying with these Standards. A full assessment will be undertaken and a report on conformance with these will be presented to this Committee later in the year.

1.3 Similar to the CIPFA Code of Practice, the new Standards require the Corporate Manager – Internal Audit to report periodically to senior management and the Joint Audit and Standards Committee on the internal audit activity's purpose, authority and responsibility and performance relative to its Audit Plan. In addition, the Corporate Manager – Internal Audit continues to establish a risk based approach to developing the plan to determine the priorities of the internal audit activity consistent with each Council's priorities.

2. REPORTING TO SENIOR MANAGEMENT AND THE BOARD

2.1 Organisational Independence

2.1.1 The new Standards require internal audit to confirm to the Board, at least annually, the organisational independence of the audit activity. Internal Audit effectively achieves this through the Joint Audit and Standards Committee's involvement in the following:

- Approval of the risk based internal audit plan;
- Receiving communications from the Corporate Manager – Internal Audit on the internal audit activity relative to the audit plan and other matters; and
- Approval of the Internal Audit Charter as and when required, but not necessarily annually.

2.2 Performance against the 2012/13 Audit Plan

2.2.1 As reported in the Joint Interim Internal Audit report that was presented to Members in November 2012 a number of 2011/12 audits were carried over into 2012/13. This was due to unplanned staff absences, unavailability of auditees and slow responses from auditees to draft reports.

2.2.2 As a result progress on this year's audit plan has slipped. The position has been further compounded with corporate work and supporting the integration and transformation programme. The audit plan has therefore had to be reprioritised with some audits being carried over into the 2013/14 Audit Plan.

2.2.3 Internal Audit, along with other assurance processes, have a statutory obligation to provide assurance from the work undertaken in respect of the effectiveness of risk management, control and governance processes operating across the Councils.

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

2.2.5 As a result of reprioritising the audit work and ensuring that all the main financial systems have been completed the Corporate Manager – Internal Audit has been able to deliver a reliable audit opinion on the effectiveness of internal controls across both Councils to this Committee. A summary of the key findings is provided within the **Annex** attached to this Appendix.

2.2.6 Supporting the overall aims of the team Internal Audit is also involved in corporate work including advice and assistance. During 2012/13 this aspect of the team's work has included:

- Drafting the AGS;
- Attendance at Management Board/Team meetings and JMIB to brief senior managers and Members in relation to the outcomes of work undertaken by the team where corporate issues are covered, e.g. Risk Management;
- Membership of the Future Back Office Requirements (FBOR) working group in an independent review capacity;
- Continuing to provide advice to service areas on internal controls (e.g. cash handling; amendments to supplier details; use of portable digital devices and use of agency staff); and
- Grant work on the Dryport Project (Babergh is a 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 (FLC) responsible for verifying the accuracy of claims before submission.

2.3 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QA&IP)

2.3.1 Internal Audit operated a quality assurance programme under the previous Code of Practice. The new PSIAS, effective from 1st April 2013, requires under the QA&IP on-going internal assessments of all aspects of internal activity, as well as an external assessment at least once every five years. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement.

2.3.2 The internal assessments can be divided into two parts. The first will be monitoring the services activity, in much the same way as under current quality review procedures, refer to paragraph 2.3.6. The other will comprise of an annual self assessment carried out by the Corporate Manager – Internal Audit and reviewed by another officer(s) in the organisation who will have to have sufficient knowledge of internal audit practices.

2.3.3 In April 2013, CIPFA produced a Local Government Application note. A checklist has been developed within the Application note to satisfy the requirements of the PSIAS. Following its release, the Corporate Manager – Internal Audit will consider this guidance and review the service against the checklist to ensure compliance and identify any gaps which will drive a clear improvement plan to move to a position of full compliance, reporting any activity in this respect to this Committee later in the year.

2.3.4 With the new Application note in mind a 'light touch' review of the internal audit service was undertaken by the Corporate Manager – Internal Audit for 2012/13. This review confirmed substantial compliance with the standards contained in the CIPFA Code of Practice.

2.3.5 The external five year assessment will require a qualified, independent assessor or assessment team outside the organisation to complete the assessment. Also, a further new requirement is that the Corporate Manager – Internal Audit must in future include a statement on the results of the quality assurance and improvement programme in an annual report to this Committee.

2.3.6 At the conclusion of each full audit undertaken the relevant auditee is asked to complete a customer satisfaction questionnaire and give their view of the quality and usefulness of the audit review undertaken. From an analysis of the returned customer satisfaction questionnaires during 2012/13 it is pleasing to report that satisfaction levels remain high and that Internal Audit continues to operate effectively.

3. Managing the Risk of Fraud and Corruption

3.1 Each Council spends a significant amount of public money each year on essential local services. It is essential that the Council protects and preserves its ability to provide these services by ensuring that its assets are protected against all risks and loss and damage.

3.2 Both Councils are committed to ensuring that any opportunity for fraud and corruption is minimised. Both adopt a culture in which all of its Members and staff can help the organisation maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour. This is supported by each Council's approved Anti-Fraud & Corruption and Whistleblowing Strategy/Policy and other guidance available to all through each Council's website and intranet sites.

3.3 Babergh's Overview and Scrutiny (Stewardship) and Mid Suffolk's Scrutiny Committee received a paper in March 2013 entitled 'Managing the Risk of Fraud and Corruption – Annual Report 2012/13'. The report explained the arrangements in place across both Councils to develop a culture where fraud and corruption is not acceptable. The report also gave details of the proactive work undertaken by Internal Audit to detect and prevent fraud and corruption. In addition, the report included the

Corporate Counter Fraud Business Plan 2013/14, produced by the Counter Fraud Manager at Ipswich Borough Council, to reassure members of the three Local Authorities that robust processes exist to deal with any corrupt or fraudulent activity.

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
Main Financial Systems – Finishing off 2011/12 work				
MSDC - General Ledger - (joint with SCC - carried out by MSDC)	The purpose of this audit was to ensure that adequate accountancy routines exist, they are open and transparent so as to protect the integrity of the system, and that those routines are implemented in practice.	Budgets may be set up incorrectly and provide inaccurate or misleading information. General ledger balances may be incorrect due to inaccurate transfer of data from the feeder systems. Error or irregular use of journals may occur. Incomplete or inaccurate records may be maintained within the main financial system. Year-end accounts may be incorrect.	**Areas of good internal control** Appropriate coding structures existed to provide consistent financial information. Regular reconciliations were carried out between the main financial system, bank accounts and feeder systems. Journal entries were authorised, coded and calculated accurately and input appropriately. The system provided complete and accurate data for the production and publication of the accounts. **Areas where improvement are required** No high risk findings.	High Standard
MSDC - Payables/Creditors - (joint with SCC - carried out by MSDC)	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.	The Council may be paying for goods and services that have not been received. The Council may be paying for goods and services that may	**Areas of good internal control** Payments by BACS were authorised properly, paid correctly and promptly. Procedures were in place to ensure	Effective

		not have been legitimately ordered. Fraudulent or duplicate payments could be made.	duplicate payments are not made and that all invoices approved were paid. Files transferred electronically for payment were controlled, authorised, verified and paid on time. **Areas where improvement are required** The bank mandate required updating. P2P orders were not always being raised although there was improvement compared with last year. Invoices on hold had not been dealt with promptly as there was no hold approver assigned.	
MSDC - Income Collection (including 2010/11 follow up)	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.	Loss or misappropriation of income. Breach of Standing Orders and Financial Regulations. Incomplete transaction trail. Incorrect banking.	**Areas of good internal control** Cashiers access permissions are set appropriately. Access to the safe room is controlled. Petty cash is controlled in accordance with guidance. **Areas where improvement are required** The authorised signatory list requires updating. This will be done after Tier 4 appointments. Variances in car park income reconciliations had not been fully investigated.	Effective
MSDC - 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.	Rent may not be collected for all relevant properties. Rent accounts not updated for increases and changes.	**Areas of good internal control** Reconciliations were undertaken between Gbiz (cash receipting system), CAPITA (Housing Rents system) and Oracle (main	High Standard

		Inadequate records retained for rent arrears monitoring and recovery. Inappropriate recovery action. Void period calculations may not be correct.	financial system). The correct rent was charged and rent levels were reviewed. Arrears were monitored and dealt with promptly in line with policy. Adjustments and refunds were appropriate and authorised. Performance indicators/benchmarking are appropriate and reported on. **Areas where improvement are required** No high risk findings.	
MSDC and BDC - Council Tax 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.	The purpose of this audit was to ensure that all domestic properties were billed correctly and the correct amount of Council Tax was received.	Council Tax may not be collected for all relevant properties. Inadequate records maintained for arrears monitoring and recovery. Inappropriate recovery action.	**MSDC** **Areas of good internal control:** Parameters, precepts and bands were set correctly. Bills were produced for each property. Payments were requested promptly, monitored and reconciled to other systems. **Areas where improvement are required** Evidence to support 2nd home discounts could not always be found.	Effective
			BDC **Areas of good internal control** Regular reconciliations of Civica to VO reports.	Effective

| | | | Regular reconciliations of Civica to cash received and Agresso.

Areas where improvement are required

Reviews of reliefs and discounts should be carried out. | |
|---|---|---|---|---|
| MSDC and BDC - NNDR

See Note 1 above | The purpose of this audit was to ensure that all relevant business properties were billed correctly and the correct amount of NNDR was received. | NNDR may not be collected for all relevant properties.

Inadequate records maintained for arrears monitoring and recovery.

Inappropriate recovery action. | **MSDC**

Areas of good internal control

Parameters were set correctly.

Bills are produced for each property.

Payments are requested promptly, monitored and reconciled to other systems.

Areas where improvement are required

There was no schedule for rate relief checking.

Void properties had not been visited in the period June - October 2011. | Effective |
| | | | **BDC**

Areas of good internal control

Parameters were set correctly.

The system was reconciled to Valuation Orders schedules regularly and at time of billing.

Regular reconciliations of Civica to cash received and Agresso.

Areas where improvement are required

Reviews of reliefs and discounts should be | Effective |

			carried out.	
MSDC and BDC - Housing Benefits - See Note 1 above	The purpose of this audit was to ensure that benefits are correctly administered in line with guidelines and legislation.	Benefits may not be administered in line with legislation. Supporting evidence may not be obtained, resulting in potentially false claims. Benefit overpayments may not be collected.	**MSDC** **Areas of good internal control** Adequate management checking of benefit assessments. Adequate controls on payments made by BACS. Reconciliations were carried out between the Benefits system, Council Tax, Rents and the main financial system. System parameters were updated accurately. **Areas where improvement are required** Not all supporting information for claims could be found. There was also a backlog in scanning which has since been dealt with. Since the Northgate system has gone live all documentation is scanned prior to the assessment using a workflow system which should ensure all documentation can be found electronically. Documentation to support write offs could not be found in all cases. Also one write off had been carried out on the system prior to authorisation being obtained.	Effective
			BDC **Areas of good internal control** Monthly reconciliations between feeder systems and with Agresso including subsidy figures.	Effective

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

MSDC & BDC Data Migration	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.	Failure to reconcile opening balances could lead to errors not being identified resulting in incorrect accounting. Failure to resolve outstanding issues could lead to inaccurate information resulting in incorrect billing or payments.	**Areas of good internal control** A project team was established and adequate plans made for the data transfer. Reconciliations were undertaken to identify items not migrated successfully. **Areas where improvement are required** 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. Reconciliations of opening balances to closing balances were not completed on a timely basis. There were unresolved opening balance differences for Council Tax Benefit which also had to be adjusted for in the main accounts. Reconciliation work identified that even where overall balances agreed there were differences in transaction totals such as payments and refunds. A project closure report dated July 2012 identified that there were still issues outstanding.	Planning (Effective); User Acceptance Testing (Ineffective); Reconciliations (Ineffective) Note – A number of issues had been experienced with the migration process. These have now been resolved to the satisfaction of both S151 Officers and the external auditors.
Departmental Systems Reviews – Finishing off 2011/12 work				
MSDC - IT	The purpose of this audit was to ensure that IT is used appropriately and that secure data is appropriately handled.	Confidential data could be lost resulting in bad publicity for the Council and fines from the Information Commissioner.	**Areas of good internal control** Adequate arrangements were in place for the transfer of the MSDC website away from the One Suffolk platform.	Effective

		Inconsistencies and inefficiencies in data management lead to poor reputation and lost resources.	Adequate monitoring arrangements were in place for e-mail traffic and website use.	
			IT Policies were up to date and available to staff.	
			Areas where improvement are required	
			Controls on data security to be improved in the areas of ensuring all laptops have anti-viral software updated monthly, virus checking of memory sticks and staff awareness of how to send encrypted e-mails.	
			There is no data management policy and no proactive approach to corporate data management (raised in previous audit report).	
			There is no register of sensitive data held and no identified data set owner for data sets held by MSDC.	
			Staff to be reminded of the Protective Marking Policy to ensure awareness and its consistent appliance.	
Main Financial Systems 2012/13				
MSDC – Council Tax; National Non Domestic Rates; and Housing Benefits Note 1: Assurance over control adequacy has been	To provide assurance that the systems and processes in place for Housing Benefits, Council Tax and NNDR are operating effectively and efficiently under the Shared Revenues Partnership.	*Council Tax* Council Tax may not be collected for all relevant properties. Inadequate records maintained for arrears monitoring and recovery. Inappropriate recovery action.	**Areas of good internal control** The updated rating records in NRB are reconciled to the VO rating list to ensure that changes in rateable value are updated correctly. Monthly reconciliations are completed to agree the NRB and Oracle systems for total payments received and debts. Checks are regularly carried out by Quality	Adequate – definition = Controls exist but there is some inconsistency in their application

provided by Ipswich Borough Council auditors as host authority for the SRP.		*NNDR* NNDR may not be collected for all relevant properties. Inadequate records maintained for arrears monitoring and recovery. Inappropriate recovery action. *Housing Benefits* Benefits may not be administered in line with legislation. Supporting evidence may not be obtained, resulting in potentially false claims. Benefit overpayments may not be collected.	Control (QC) on calculations of benefit entitlements. The use of cheques within Customer Services Direct is well controlled. Parameters are accurately entered into the NRB system and independently checked. **Areas where improvement are required** Controls have been suggested to further strengthen the billing run checks. Further visits on empty properties should be undertaken. Enhancement to the daily reconciliation should be made to aid the reconciliation process. Controls over high payments have been suggested to further strengthen the authorisation process.	
BDC – Council Tax; National Non Domestic Rates; and Housing Benefits See Note 1 above	To provide assurance that the systems and processes in place for Housing Benefits, Council Tax and NNDR are operating effectively and efficiently under the Shared Revenues Partnership.	*Council Tax* Council Tax may not be collected for all relevant properties. Inadequate records maintained for arrears monitoring and recovery. Inappropriate recovery action. *NNDR* NNDR may not be collected for all relevant properties. Inadequate records maintained for arrears monitoring and	**Areas of good internal control** Amendments to standing billing data is restricted to appropriate staff. The segregation controls between charging and receipting, and credit refunds and write-offs are strong. Council Tax refunds have been approved and authorised for repayment. Write-offs for Council Tax and NNDR are authorised at appropriate delegated limits as documented in the standing orders. Benefit is only paid where valid claims exit.	Adequate – definition = Controls exist but there is some inconsistency in their application

		recovery. Inappropriate recovery action. *Housing Benefits* Benefits may not be administered in line with legislation. Supporting evidence may not be obtained, resulting in potentially false claims. Benefit overpayments may not be collected.	The segregation controls between assessment and payment are strong. **Areas where improvement are required** Reconciliations need to be completed in a timely manner. All documentation to support empty property relief needs to be maintained. Regular inspection checks need to be undertaken to confirm relief entitlement. The updated SRP delegation and authorisation document needs to be formally ratified.	
MSDC & BDC - Payroll/HR	To provide assurance that only bona fide, authorised and accurate payments are made in a timely manner; to ensure that all payroll transactions are accurately reflected in the accounting system.	The Council may pay its staff incorrectly. Financial losses arising from fraud or error, inefficient processing or inappropriate activity.	**MSDC** **Areas of good internal control** The overall payroll controls in place with regard to starters, leavers, amendments, verification, reconciliations and system updates are effective. **Areas where improvement are required** IT permissions within the system need to be reviewed to ensure separation of duties exist. **BDC** **Areas good internal control:** The overall payroll controls in place with regard to starters, leavers, amendments, verification, reconciliations and system updates are effective.	Effective High Standard

			Areas where improvement are required None	
MSDC & BDC - Cash and Bank	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.	Loss or misappropriation of income. Incomplete transaction trail. Incorrect banking.	**MSDC** **Areas of good internal control** Controls around income collection, specifically, those relating to the safe custody of monies, creating clear management trails, performing regular reconciliations and having separation of duties in place were found to be sound. **Areas where improvement are required** Petty cash controls can be improved.	Effective
			BDC **Areas good internal control** Controls around income collection, specifically, those relating to the safe custody of monies, creating clear management trails, performing regular reconciliations and having separation of duties in place were found to be sound. **Areas where improvement are required** None	High Standard
MSDC & BDC – 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.	Rents may not be collected for all relevant properties. Rent accounts not updated for increases and changes. Inadequate records retained	**MSDC** **Areas of good internal control** Sound controls were present covering the administration and management of housing rents.	High Standard

		for rent arrears monitoring and recovery. Inappropriate recovery action. Void period calculations may not be correct.	**Areas where improvement are required** Some polices require updating – minor point. **BDC** **Areas of good internal control** Sound controls exist with regard to billing and processing new and ceased tenancies. **Areas where improvement are required** Improvements were suggested to improve the reconciliation process between the rents system and the asset register.	Effective
MSDC & BDC - Receivables/Debtors	To provide assurance that income generating activities are identified and accurately invoiced; that all invoices are paid and income is accounted for and reflected in the authority's accounts; the extent of debt is minimised and overdue accounts are promptly followed up.	Lack of a separation of duties across the system. Accounts not raised or raised incorrectly. Accounts amended or cancelled without proper approval. Outstanding debts not processed promptly for further recovery action or write-off. Write-offs progressed without proper authorisation.	**MSDC** **Areas of good internal control** Controls for raising invoices and debt recovery were sound. **Areas where improvement are required** Awareness of how to run and use aged debt recovery reports needs to be improved. This can be achieved through refresher training. **BDC** **Areas of good internal control** Controls for raising invoices and debt recovery were sound.	Effective Effective

			Areas where improvement are required The arrangements for who can write off debts requires reviewing following staff changes.	
MSDC (Note 2: Assurance over control adequacy has been provided by Suffolk County Council auditors as part of a shared working relationship) & BDC – Payables/Creditors	To provide assurance that creditor payments are valid, authorised, accurate and timely and in respect of goods and services ordered and received by the organisation (including transactions through P2P)	The Council may be paying for goods and services that have not been received. The Council may be paying for goods and services that may not have been legitimately ordered. Fraudulent or duplicate payments could be made.	**MSDC** **Areas of good internal control** Creditor payments were found to be valid and properly authorised in respect of goods and services ordered and received. **Areas where improvement are required** Staff to be reminded of: - The need to raise orders within P2P; and - That as far as possible orders need to be raised prior to an invoice being received.	Effective
			BDC **Areas of good internal control** Creditor payments were found to be valid and properly authorised in respect of goods and services ordered and received. **Areas where improvement are required** Permissions within the Web Requisitioning module of Agresso need to be reviewed following staff changes.	Effective
MSDC (see Note 2 above) & BDC – Treasury Management	This audit review covered controls relating to the management of the Council's investments with approved financial institutions.	Non compliance with the Council's Treasury Management Policy. Unauthorised transactions	**MSDC** **Areas of good internal control** Investments had all been made with	Effective

			made.	approved organisations.	
			Poor investment returns and/or loss of funds due to poor investment decisions.	Procedures for making investments and their return are robust.	
			Maintaining inadequate documentation.	Records of investments made and their return were accurate.	
				Areas where improvement are required	
				The self assessment template, issued by CIPFA, should be completed to determine the Audit Committee's understanding of Treasury Management and identifying any areas for improvement.	
				Care should be taken to ensure that security of bank cards is robust.	High Standard
				BDC	
				Areas of good internal control	
				Investments are made in accordance with the investment strategy and the counterparty limit within the approved organisation list.	
				All investments are approved by authorised members of staff.	
				The Broker confirmation report is agreed back to the approved investment register, including the principal amount, period, interest rate and interest amount and this check is recorded in the investment register.	
				Areas where improvement are required	
				None	

| MSDC (see Note 2 above) & BDC – General Leader | To provide assurance that all financial transactions of the organisation are recorded, including ensuring their completeness and integrity with the aim of providing the data from which management accounts, final accounts and statutory returns can be prepared. | Budgets may be set up incorrectly and provide inaccurate or misleading information.

General ledger balances may be incorrect due to inaccurate transfer of data from the feeder systems.

Error or irregular use of journals may occur.

Year-end accounts may be incorrect. | **MSDC**

Areas of good internal control

Appropriate coding structures exist to provide consistent financial Information.

All transactions tested in the main financial system were found to be accurate and appropriate.

Areas where improvement are required

Sufficient back up documentation should be kept to support journals.

Improvements have been suggested to improve trend analysis with regard to error suspense journals. | Effective |
| | | | **BDC**

Areas of good internal control

The ability to input journals to the general ledger are restricted to authorised officers. Agresso controls ensure that journals are complete.

Transactions posted from the feeder systems are checked, validated and were found to be complete and accurate.

Areas where improvement are required

Although not material in their value suspense accounts need to be cleared promptly. | Effective |

			All reconciliations need to be completed promptly.	
Corporate Audits 2012/13				
MSDC & BDC - VAT	The purpose of this audit was to ensure that input and output VAT is correctly accounted for in line with legislation.	Incorrect accounting of VAT leading to penalties from HMRC. Missed opportunities to reduce VAT payments.	**MSDC & BDC** **Areas of good internal control** VAT registration is up to date and it appears on the necessary council documents. All input & output VAT is accurately identified, accounted for and reported. Errors in the calculation of input and output VAT are detected and corrected. The accounting system adequately caters for zero rated and exempt items. **Areas where improvement are required** MSDC & BDC – BDC have taken the view that only essential users are required to obtain fuel receipts and therefore only VAT is reclaimed for essential users. At MSDC casual users have been obtaining fuel receipts, but the VAT Specialist was not aware of this and had therefore not been reclaiming VAT on this expenditure. BDC – It is unclear who will be responsible for VAT once the current VAT Specialist retires.	Effective
MSDC & BDC - Data Management	To provide assurance that the Councils manage their data in an appropriate, efficient and secure manner, particularly around accessibility, usability and accountability.	Compliance and legal failures – fines imposed, criminal and civil prosecutions. Adverse publicity / loss of reputation for the council. Confidentiality, integrity and availability of information not	**MSDC & BDC** It is acknowledged that during testing many of the areas where it was found that controls required strengthening these had been identified and were planned to be addressed as part of the ongoing work on integrating services.	Ineffective

		protected. Reputational damage to the Council - Lack of trust with the council. Inconsistencies in treatment and attitudes. Discrepancies and inaccuracies arise; Strategic and critical decisions wrongly made. Operational tasks incorrectly performed.	**Areas where improvement are required** *Accessibility* • Timetables need to be put in place for the implementation of systems to allow for the sharing of information across both councils. • Common data standards need to be agreed by all services and files should be saved using standard formats. *Usability* • Procedures should be in place to regularly assess user and customer needs as they relate to the information provided. *Accountability* • A list of the data set owners needs to be compiled for each council.	
MSDC & BDC – Electoral Registration Canvassing	To provide assurance that canvassing procedures, covering recruitment and training are robust and expenses are legitimately claimed.	Incomplete and inaccurate electoral registration records. The integrity of the registration process being challenged. Submission and payment of fraudulent expense claims.	**MSDC and BDC** **Areas of good internal control** Training is provided to ensure canvassers are able to effectively perform their duties. Submitted expense claims appeared reasonable and properly authorised. **Areas where improvement are required** The success of different canvassing methods should be analysed to establish best value for both Councils.	Effective

Departmental Systems Reviews 2012/13				
Dangerous Trees	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.	Physical obstruction to both vehicles and pedestrians. Root damage to roads and properties. Claims against the Council.	**MSDC** **Areas of good internal control** Improvements have been made since the previous audit in 2008/09 with regard to mapping of council land and trees. **Areas where improvement are required** Problems with the interface between Trimble and TOMS (database) remain. Procedures for recording inspections and re-inspections need to be implemented. The backlog of inspections carried needs to be recorded on TOMS to ensure accuracy of the database. Thornham Walks – tree inspection records need to be maintained. **Updated position –** The Corporate Manager – Public Realm presented a progress report to Scrutiny Members on 28th February 2013. It was reported that good progress was being made against the audit recommendations. A follow up audit will be undertaken during 2013/14.	Ineffective

			BDC	High Standard
			Areas of good internal control	
			Efficient use of the TOMS system is in place. An effective inspection programme is in place.	
			Joint Working – 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.	

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