

## **ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2008/09**

### **1. Introduction**

In accordance with the Council's adoption of the CIPFA Code of Practice on Internal Audit this report is submitted to the Audit Sub-Committee. The areas covered are objectives, resources, management, non-audit functions, planned audits, fraud and irregularity, contract audit, computer audit, the audit plan and special investigations / assignments.

### **2. Strategy and Objectives**

The strategy and objectives are detailed in the Internal Audit Service Strategy 2007-10, a supporting document of the Finance and Property Division's Service plan that is, in turn, submitted to committee as part of the Corporate and Service Planning process. The role and responsibilities are also included.

### **3. Resources**

The section comprises three auditors and has been fully staffed throughout the year. However there has been a period of extended sickness during the year which has affected the capacity of the team. The service has access to all systems and endeavours to undertake audits, with minimum disruption to services, by using computer resources and other technology.

### **4. Management**

A long-term strategic plan is produced, using risk assessment as an evaluator to determine audit coverage. The plan is reassessed every year and an annual work plan produced. These audit plans are prepared on assessed need and based on the audit establishment.

Internal Audit operates the Managed Audit concept in conjunction with our external auditors. Managed Audit primarily concentrates on the fundamental financial systems and those core financial control systems that form the basis of the Authority's accounts, these now being known as material systems. Each year joint working arrangements are agreed with the external auditors to enable them to rely on the work of Internal Audit. Our new external auditors are Grant Thornton and it is hoped we can continue with this approach as we did with the Audit Commission.

Our previous external auditors, the Audit Commission, undertook comprehensive annual reviews of Internal Audit and in the 2007/08 review adjudged the service to be satisfactory. Our current external auditors, Grant Thornton, have undertaken a review for 2008/09 and their assessment is also satisfactory. Price, Waterhouse Coopers have undertaken a review on the effectiveness of Internal Audit as part of the requirements of the Accounts and Audit regulations 2006.

## 5. Non-Audit Functions

The section undertakes a number of routine control and administrative functions. Some of these are primarily areas in which an audit presence is considered vital but there are others, in particular internal check functions, where there are operational difficulties in maintaining separation of duties. In addition the Audit Manager is involved in other managerial responsibilities including corporate governance, fraud awareness, security and public interest issues.

## 6. Planned Audits

Of the systems reviewed the following are worthy of specific note:-

### Fundamental Financial Systems

- a. **Debtors (value of transactions processed £4.4m)** The level of arrears has always been a concern to Internal Audit especially those debts over 12 months old. Over the years long term debt has been an issue and the level of debt over 12 months old as at March 2009 is over £400k. However the Corporate Recovery unit has been assigned responsibility for the collection of these debts and recovery is improving.
- b. **Creditors (value of transactions processed £28.5m)** – All key controls were operating in the Creditor system with no significant weaknesses encountered although issues with certification are again prevalent. The IDEA marketplace ordering system has been replaced with a bespoke system that links into the Agresso main accounting system. This is being assessed for the control aspects and its integration with invoice manager and the ledger.
- c. **Housing Benefits (value of transactions processed £16.1m)** – The Authority implemented the Academy Revenue system in January 2008. This package includes the housing benefits module which now administers all of the benefit payments. A number of issues have been raised in particular to do with separation of duties and administrator rights. Management is implementing some revisions to roles and responsibilities which should address these control issues. There is no backlog and there is now less downtime with the latest release of the system.
- d. **Housing Benefits Subsidy Claim (submission £14.6m)** - Internal Audit have spent time in confirming the subsidy totals from both the Reality (old) system and the Academy (new) system for 2007/08 which were both in use during this year. There were issues raised between ourselves and the external auditors in confirming the cell populations on the subsidy claim, this has now been resolved.
- e. **Council Tax (value of transactions processed £39.0m) – System Control**  
A full review of the system management controls has been undertaken and has confirmed that each individual control total verifies the integrity of the Academy system and this has been confirmed by the year end control totals for 2008/09.
- f. **NNDR (value of transactions processed £19.6m) – System Control**

During May/June 2008 the system control information was examined. The data conversion had been confirmed but problems arose with the overall system balancing. Work was undertaken, in conjunction with our Accountants, which enabled us to rebuild the data and produce the control information for the 2007/08 final accounts. During the year a full review of the system management controls has been undertaken in which each individual control has been verified.

## **Core Financial Control Systems**

This section covers the three main processes of the Accounts audit namely, the Main Accounting System, the Budgeting and Budgetary Control System and the Final Accounts closedown. Internal Audit undertakes the first two audits and External Audit undertakes the Final Accounts audit. There are also some ancillary functions such as the Capital Accounting process that are integral to these major systems. Bank reconciliation plays a major part in verifying the integrity of the main accounting system and is also included in this section.

**Main Accounting System** - This was examined and all controls employed were reviewed. During the year the trial balance facility has been implemented and many presentational aspects of the final accounts have been automated reducing the need for journal entries. The ledger/cash book reconciliation and the bank reconciliation processes have improved. No major control weaknesses have been found and it is pleasing to report that progress is being made in developing the potential of the Agresso system.

**Budgetary Control** - The budget setting and budgetary control system has been examined; in general all controls proved to be operating satisfactorily. The assurance level for this system is generally high and no major weaknesses have been found. An issue raised by our accountancy unit regarding accountability of multi-funded schemes was included within the audit. Whilst the issue was examined it indirectly identified a potential control weakness involving partnership arrangements where funds are conditionally provided by external bodies. There is a risk that if a condition is not met the funds become repayable. Many of these arrangements receive funds from more than one source and by nature the accountable bodies all have differing conditions and approaches. As part of our partnership audit process funding streams will be examined during 2009/10 with a view to recommending a control.

**Bank Reconciliation** – The financial year 2008/09 has seen further improvements in the ledger/cash book reconciliation process and the bank to cash book reconciliation is up to date. In addition to the monthly verification between the ledger and the cash book, the payments account is also now agreed on a monthly basis.

## **Local Systems**

**Capital Schemes** - A number of capital schemes are being examined primarily in the leisure area. These large schemes are funded from various sources and to date there are no major control issues. Further work is being undertaken.

**Travel and Subsistence** – all payments made to staff and Members have been examined. These cover expenses for travelling by air, rail, public transport, taxi and car-related such as parking. Subsistence includes meal allowances, hospitality and some entertaining. No problems were found and part of this work was in response to a Freedom of Information request.

**Local Area Agreement (LAA)** – The financial and control aspects of the Safer South Derbyshire Partnership were examined and the claim to the accountable body verified as in previous years.

### **7. Fraud and Irregularity**

Four operational areas (Benefits, Cheques, Improvement Grants and Payroll) were examined. There were no major issues raised and the Authority's anti-fraud and corruption controls in these areas are sound.

### **8. Contract Audit**

There has been an increase in the number of services being subject to tendering arrangements. Financial Regulations and Procedure Rules including the Purchasing Code of Practice are to be reviewed during 2009/10 in line with CIPFA guidance.

### **9. Computer Audit**

Annual Key Control audit checklists were completed on the system network, network management, internet/e-mail monitoring and management and security in general.

### **10. Special Investigations**

A number of investigations have been undertaken during the year. These included Capital schemes, security, expenses, grants, cash and internal thefts.

### **11. Annual Governance Statement - Internal Audit Assurance Statement**

The Annual Report has traditionally covered the work undertaken by the service in a particular financial year i.e. April to March. The final accounts closure date has been progressively brought forward and there is now a requirement to produce an Annual Audit Assurance Statement to support the Governance Statement.

The Annual Audit Assurance Statement required for the 2008/09 year has to be produced in June 2009 and will include work undertaken in April and May 2009 relevant to the year-end core financial systems (Main Accounting, Budget setting and control, bank and feeder system reconciliations).

The Internal Audit Assurance Statement for 2008/09 can be found in Annexe A to this report.

### **12. Conclusion**

## Appendix 1

The service has not performed quite as well during 2008/09 primarily due to sick leave. However the majority of the Managed Audit has been completed to the satisfaction of External Audit. The service has completed 87% of the plan against a target of 90%.

The Authority's programme of system replacement has shaped recent audit plans. The last five years has seen the introduction of seven major systems including all the associated interfaces. These systems are primarily finance-based and indeed there are plans to replace the cash receipting and posting systems in the near future. This has placed considerable demands on the service to audit and evaluate these systems at a time when the service is endeavouring to move more to corporate governance and operational control auditing.

The service received the co-operation of all departments throughout the year.

Audit Manager