

ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2007/08**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 Financial and Property Services 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. 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 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 awaited.

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. **Creditors (value of transactions processed £25.0m)** – All key controls were operating in the Creditor system with no significant weaknesses encountered. However the procedure for invoice submission is still not being consistently applied; this is being addressed. *Agresso* Invoice Manager software is being introduced in 2008/09 and it will be necessary to examine the controls involved in automatic order/invoice matching process.
- b. **Payroll (value of transactions processed £10.6m)** – The Payroll function operates with a high degree of internal control with no major weaknesses found. The updated *Chris 21* payroll software is operating well.
- c. **Council Tax (value of transactions processed £37.0m)** – When the Council Tax function was audited during 2007 the system in use was *Reality*. All key controls were operating well and there were no significant weaknesses found. The Authority had previously agreed to use the *Academy* system from 2008/09. Data cleansing and conversion took place in December and January and in the case of Council Tax this was retrospective. Therefore the *Academy* system would hold all the data for the 2007/08 year and this should be reflected in the control totals.

During May/June 2008 the conversion and system control information was examined. Although some issues have arisen, the data conversion has been confirmed and the overall system balancing has been reconciled after some teething problems. Work is continuing to test the individual elements of the control information.

- d. **NNDR (value of transactions processed £18.0m)** – As with Council Tax, when the NNDR function was audited during 2007 the system in use was *Reality*. All key controls were operating well and there were no significant weaknesses found. The Authority had previously agreed to use the *Academy* system from 2008/09. Conversion took place in December and January and as with Council Tax this was retrospective. The *Academy* system would hold all the data for the 2007/08 year and this should be reflected in the control totals.

During May/June 2008 the conversion and system control information was examined. The data conversion has been confirmed but problems arose with the overall system balancing. Work has been undertaken, in conjunction with our Accountants, which has enabled us to rebuild the data and produce the control information. This work is continuing to test the individual elements of the control information.

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. Recommendations made in previous audits, including monthly reconciliations of the cash book to the ledger, have been successfully implemented. In addition considerable progress has been made in developing the *Agresso New World* financial system, which includes Ledger, Creditors, Debtors and Budgetary Control modules, in particular the reporting capabilities of the system.

Budgetary Control - The budget setting and budgetary control system has been examined; in general all controls proved to be operating satisfactorily. Improved management information has been developed for budget monitoring replacing the old reporting process.

Bank Reconciliation – The financial year 2007/08 has seen further improvements in the ledger/cash book reconciliation process and the bank to cash book reconciliation is up to date. Monthly verification between the ledger and the cash book is now a regular control feature.

Local Systems

Land Charges – An audit was undertaken to examine the controls, administration and collection of income associated with the Authority's Land Search enquiry service. There were no major weaknesses found and minor administrative findings were dealt with during the course of the audit. The overall administration of the system was found to be satisfactory.

Members' Allowances – The system was reviewed and was found to be operating well with no weaknesses. All previous recommendations have been implemented. A combination of committee restructuring and a limitation on eligibility achieved, in 2007/08, an overall reduction on Special Responsibility Allowances in excess of £31,000.

Transport - An audit of the Authority's transport system was undertaken to examine the controls associated with fuel, vehicle servicing, repairs, insurance, inventories, Road Fund licensing and MOT certification. Plant and machinery used by the Grounds Maintenance workforce was also examined during the course of the audit.

Several recommendations were made as a result of Audit's findings and these were discussed and agreed with the Waste & Cleansing Management. The recommendations centred on administrative procedures and controls concerning fuel stocks and inventories.

Rosliston Forestry Centre – In 2007/08 the progress against the business plan has been monitored and the finances of the centre are looking much healthier. One issue that has caused considerable problems over the last 10-12 years is periodic losses of water on the site. This occurred again in the year and Internal Audit investigated the problem. A three-stage solution was recommended to control and monitor the site's water supply and those adjoining properties that were also fed from the supply network.

The network, known as a private supply network by the Utilities supplier, needed additional meters and supply control valves to ensure that any losses occasioned by leaks, open taps or water being drawn without consent could be detected, located and isolated quickly. The network is the responsibility of the Council or its nominated agent even though it passes over land it does not own. It is pleasing to report that the first stage has been completed.

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. In addition this year the Waste Performance Efficiency Grant previously administered by DEFRA was also part of the LAA Sustainable Communities element. All expenditure incurred accorded with the grant conditions both in use and eligibility requirements.

Climate Challenge Fund (CCF) – The financial and control aspects of the "Everybody's Talking about Climate Change" Partnership were examined and the claim to the accountable body verified. Apart from a few minor control issues this partnership has been managed very well.

7. Fraud and Irregularity

Four operational areas (Council Tax, NNDR, Cash Collection and Creditors) 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

Financial Regulations and Procedure Rules including the Purchasing Code of Practice have been reviewed to accommodate procurement process changes for the implementation of Agresso Invoice Manager software in 2008/09. Changes to the Contract Procedure rules are to be introduced during 2008/09.

9. Computer Audit

Specialist computer audit work was commissioned during the latter part of the year, this included Network and Website vulnerability testing. The recommended actions including patching, an IT technical term, are being assessed and implemented.

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 cash payments, security, expenses, improvement grants, contracts and credit card 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. Prior to 2003 all fundamental financial systems audits, affecting the accounts, were undertaken in the year following the year of account (May-October). There has been a move, over recent years, to undertake these in the latter part of the year of account and the early part of the current Year. Therefore these audits have been progressively brought forward to enable this to occur. The final accounts closure date has also been 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 2007/08 year has to be produced in June and will include work undertaken in April and May 2007 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 2007/08 can be found in Annexe A to this report.

12. Conclusion

The service has performed well during 2007/08 achieving 100% of the Managed Audit (completed audits to the External auditor's satisfaction) and 78% of the planned audits, making overall 90% of the plan completed, against a target of 90%.

The Authority's ambitious programme of system replacement has shaped recent audit plans over the period 2004-2008. The last four years has seen the introduction of a main accounting system (including creditors and debtors), a housing system (rent, maintenance and administration) and a revenue system (Council Tax, NNDR and Benefits) plus all the associated interfaces. This has placed considerable demands on the service to document and evaluate these systems at a time when the service is moving more to Corporate Governance issues and partnership auditing.

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

Audit Manager