

ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2001/02

1. Introduction

In accordance with the Council's adoption of the CIPFA Code of Practice on Internal Audit this report is submitted to the Finance and Management 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 service plan which is submitted to committee as part of the Corporate and Service Planning process. The role and responsibilities are also included.

3. Resources

The section comprises of 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, District Audit. Managed Audit primarily concentrates on the fundamental financial systems and those prime financial control systems which form the basis of the Authority's accounts. Every year joint working arrangements are agreed with the District Audit to enable them to rely on the work of Internal Audit.

The District Audit also undertakes a comprehensive annual review of Internal Audit. The review for 2001/2002 was satisfactory.

5. Non-Audit Functions

The section undertakes a small 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 that could be transferred to other sections.

6. Planned Audits

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

Fundamental Financial Systems

- a. Creditors (value of transactions processed £96.7m)** - This system was examined and found to be operating satisfactorily. The review included an examination of the controls exercised over the procurement process and the development of E-Purchasing processes. There is a need to improve our control over the level of business we undertake with individual suppliers. Our existing systems do not support e-purchasing processes, however the proposed replacement Financial Management Computer System has a creditor payment module which includes many e-procurement facilities.
- b. Payroll (value of transactions processed £6.2m)** - Managerial control has improved within the payroll function with increased involvement in the authorisation process by the Exchequer manager and greater involvement of the Personnel Function in the procedures including absence management data.
- c. Council Tax (value of transactions processed £24m)** - No major concerns arose.
- d. Sundry Debtors (value of transactions processed £2.2m)** - The level of arrears has always been a concern to Internal Audit but it is pleasing to report that the unrecoverable long-term debt is being systematically written-off against the provisions.
- e. Housing Benefits (value of transactions processed £11.1m)** - This system is well administered with no backlog in processing claims.
- f. Housing Rents (value of transactions processed £8.3m)** - The rent accounting system is operating well but the rent review is likely to mean individual changes in rentals from 1st April 2003. There may well be changes, as a result of the "Supporting People" initiative, which will have to be incorporated into the rent accounting computer system.
- g. Treasury Management (value of transactions processed, Loans £12m, Investments £19.2m)** - The Authority's borrowings have been administered in accordance with the Treasury Management Policy.

Core Financial Control Systems

This section covers the three main processes of the accounts audit namely, Main Accounting System, Budgeting and Budgetary Control System and the Final Accounts closedown. Internal Audit undertakes the first two audits and the District Auditor undertakes the Final Accounts audit. There are also some ancillary functions such as the Capital Accounting process which are integral to these major systems.

Main Accounting System - This was examined and all controls employed were working satisfactorily.

The Authority is at present looking to replace this system with an integrated suite of financial systems including a Ledger, Creditors, Debtors and Budgetary Control functions.

A number of important points that were raised in previous audits need to be considered as part of this process. If a new system is to have up-to-date information then data must be complete and accurate, therefore there will be a need to establish a costing and reconciliation infrastructure.

At present we rely extensively on the bank reconciliation process to verify the integrity of the ledger. In future there will be a need, within each costing period, to balance costs by source to the movements on the ledger.

Finally the financial and management accounts will need to be balanced regularly.

These control and reconciliation routines will be specified as part of the checks and balances needed to manage the system.

Budgetary Control - The budget setting and budgetary control system has been examined, all the tests undertaken proved to be satisfactory.

At the time of the financial crisis in 2000, the budgetary control process received some criticism because of its inability to identify impending disaster. Whilst it was clearly not a prime contributory factor there was concern that large amounts of expenditure were categorised "below the line". As a consequence this planned and/or predicted under-expenditure was not part of the budgetary control process. It is pleasing to report that more of this expenditure has been transferred above the line and we no longer budget for any "natural" underspend.

Local Systems

Improvement grants - The grants system has been audited and there are no major areas of concern. In order to ensure grants are given for appropriate need it is necessary to improve the control mechanisms over the housing repair assistance grants administered for us by our Home Improvement Agency partner. A new administrative control system is to be introduced to replace the Symonds system.

7. Fraud and Irregularity

Five operational areas (Benefits, Payments, Contracts, Payroll and Corruption) and the overall management arrangements were examined. A number of recommendations have been made but in general the Authority's anti-fraud and corruption record is good.

8. Contract Audit

Internal Audit has been designated a new strategic audit role in which constitutional items such as Financial Regulations and Procurement are administered. The time allocation for contract audit is used for this work. The service revised and implemented a new set of Financial Regulations and Procedure Rules.

9. Computer Audit

Key Control audit checklists were completed on the system network, network management, internet/e-mail monitoring and management and security in general. A firewall has been installed and our internet and virus software has been updated using improved products. A mail-sweeping facility has been installed to assess content and a programme established to update our servers some of which were creaking during this year. The air conditioning and anti-fire systems have also been updated.

One area where we still need to improve the level of control is the adoption of a BS 7799 security policy, this is being addressed.

10. Special Investigations

The level of work in this area, although not substantial during the year, showed a marked increase from March 2002. Investigations involving gypsy sites, cash payments, telephones, car allowances and expenses have been undertaken. A number of these cases are ongoing and many are in the Housing Department.

11. Current Year Plan (2002/03)

The current work plan (see appendix 1) has been developed from the long term plan but has taken into consideration three factors:

- a. the considerable amount of investigation work undertaken in the housing division during the period April to July 2002.
- b. the desire to bring forward the Managed Audit programme, and
- c. in conjunction with b. above the need to enable the Internal Audit service, during the 2003/04 year, to understand, document and evaluate the substantial number of new financial systems being introduced in the next 24 months.

12. Conclusion

The service had a reasonable year but indications of impending investigation work towards the end of the year proved correct. The service achieved 100% of the managed audit (completed audits to the District Auditor's satisfaction) with 75% of the planned audits and 87% of the overall plan (chargeable audit days).

The Authority is embarking on an ambitious programme of system replacement to meet the 2005 government targets and this will place considerable strain on the service with some eight major systems scheduled to be replaced over the next two years.

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

Audit Manager

OPERATIONAL AUDIT PLAN
2002/03 Revised

Appendix 1

AUDIT CATEGORY				%
Total available days less leave etc			612	
PLANNED AUDITS/ AUDIT WORK				
Systems	185			
Regular	65			
V.F.M	0	250	250	40.85%
CONTINUOUS AUDIT				
a. Routine Checks	5			
b. Small Systems Review	5	10	10	1.63%
SPECIALIST AREAS				
a. Computer				
i. Development	20			
ii. Audit	17	37	37	6.05%
b. Contract				
i. Final Account	32			
ii. Current Audit	22	54	54	8.82%
MANAGEMENT				
Audit		55	55	8.99%
OTHER				
Special Investigations	80			
Contingency	10	90	90	14.71%
TRAINING, FURTHER EDUCATION ETC				
Seminars and Meetings	20	20		
Training -C.P.E	10			
Further Education	0			
In-House	16	26	46	7.52%
ROUTINE DUTIES				
External Audit		12		
General Office Duties		15		
Internal Check-Payroll		4		
Cash Office Duties		5		
Procurement		3		
Paid Cheque enquiries		3		
Security		10		
Other		18	70	11.44%
TOTAL			612	100.00%

AUDIT CATEGORY	Risk Level	SYSTEM WORK	REGULAR & ADHOC AUDIT WORK
CHIEF EXECUTIVE			
ELECTIONS			
Register of Electors	Low		
Elections	Low		
LEGAL			
Land Charges	Low		
Members Allowances	Low		
ECONOMIC DEVELOPMENT			
Industrial estates	Low		
DEVELOPMENT SERVICES			
TECHNICAL SERVICES			
Facilities and Development			
Recreation Services - Client	Medium		
Grounds Maintenance	Low		
Leisure Centre - Client	Low		
Cemeteries	Low		
Allotments	Low		
Markets - Client	Low		
Civic Halls - Swadlincote Town Hall	Low		
Etwall pool	Low	7	
Direct Services			
Trade Refuse and Recycling	Low		
Refuse collection	Low		
Transport and Vehicle Workshop	Low		
Depot - General (Stores, Security etc)	Medium		
PLANNING			
Building Control	Low		
Planning Fees	Low		
Planning general	Low		
COMMUNITY SERVICES			
COMMUNITY AND LDM			
National Forest Centre	Low		
Single Regeneration Budget (ending 2002)	Low	16	

AUDIT CATEGORY	Risk Level	SYSTEM WORK	REGULAR & ADHOC AUDIT WORK
<u>ENVIRONMENTAL HEALTH</u>			
Improvement Grants	Low		
Lullington Gypsy Site	Low		
General (pest control)	Low		
<u>HOUSING</u>			
Rent accounting	Medium	20	
Housing Administration	Low		
Foston Gypsy Site	Low		
Warden Controlled Schemes (Incl Piper HAS)	Low		
Housing Repairs	Medium	10	
Sale of Council Houses	Low		2
<u>FINANCE</u>			
<u>REVENUE</u>			
Recovery - C.Charge, Council Tax & NNDR	Low		5
N.N.D.R	Low	14	
Sundry Debtors	Low		18
Cash	Medium	12	
Housing Benefits	Medium	22	
Bus Passes	Low		
Council tax	Medium	20	
<u>FINANCIAL SERVICES</u>			
Expenditure:			
Payroll (Salaries)	Low		12
Payroll (Wages)	Low		15
Creditors	Medium	20	
H.A.A.	Low		
Car Allowances	Low		6
Subsistence	Low		
Car Leasing	Low		
Car Loans	Low		

AUDIT CATEGORY	Risk Level	SYSTEM WORK	REGULAR & ADHOC AUDIT WORK
General:			
Treasury Management	Low	8	
Inventories	Low		3
Leasing - general	Low		
Bank Reconciliation & Bank Charges	Low	2	
Insurance's	Low		
Grant Claims	Low		
Capital Accounting	Medium	2	
Budgetary Control	Medium	12	
Accounting System	Medium	18	
VAT.	Medium	2	
Special Areas:			
Contract - Telecommunications			4
TOTALS System		185	
Regular			65
Management (vfm etc.)		0	
GRAND TOTAL			250

