

ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2002/03

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 2002/2003 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. Payroll (value of transactions processed £6.2m) - No major concerns arose.

b. Council Tax (value of transactions processed £27.5m) - All key controls were operating in the Council Tax system with only a minor issue concerning suspense items.

c. Sundry Debtors (value of transactions processed £2.2m) - The level of arrears has always been a concern to Internal Audit but the majority of unrecoverable long-term debt has now been written-off against the provisions.

e. Housing Benefits (value of transactions processed £11.1m) - This system continues to operate with a high degree of efficiency. Technology plays a big part in this function particularly within the processing routines for application assessment. The impending introduction of verification framework will require changes to the method and manner of such processing. Management are placing reliance on the new Revenue and Benefits computer system to enable this to take place. A change in working practices will be required including the creation of a secure environment. The control aspects of this will be examined as we implement the framework.

f. Housing Rents (value of transactions processed £8.8m) - The rent accounting system is operating well and the rent restructuring was completed satisfactorily. "Supporting People" changes have been integrated into the system.

g. Treasury Management (value of transactions processed, Investments £48.2.m) - The Authority's borrowings have been administered in accordance with the Treasury Management Policy with no major weaknesses identified. The Authority invested a total of £48.2 M during the financial year with an average investment of £4.9M at any one time. The investment activity realised a total of £183,000 in interest. The Authority did not undertake any borrowing during 2002/03.

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 close down. 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 to replace this system with an integrated suite of financial systems including a Ledger, Creditors, Debtors and Budgetary Control functions provided by the software supplier Agresso.

The intention is to provide the Authority with a system that undertakes the majority of existing processes but offers easily accessible management information and in particular is web-enabled.

In previous audits the importance of maintaining up-to-date information has been highlighted. The need to establish a costing and reconciliation infrastructure to ensure data is complete and accurate cannot be over-emphasized.

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.

These control and reconciliation routines should exist in the new system as part of the checks and balances needed to manage the system and instill confidence in the integrity of the management information.

Internal Audit will review the implementation of the Agresso system and examine the level of controls adopted by management.

Budgetary Control - The budget setting and budgetary control system has been examined, all controls proved to be operating satisfactorily.

The Authority no longer budgets for an annual underspend but when operating a full budgeting process an underspend will naturally occur to some degree. Whilst it is prudent not to rely on this there is a tendency to use this as an annual windfall. Care must be taken that its use is controlled and any expenditure does not lead to unforeseen service cost implications affecting the ongoing base budget.

In a rapidly developing area, as South Derbyshire is becoming, the service demand is increasing. Whilst the Ctax base will provide additional income, there is a need to ensure operational budgets are sufficient to meet the increased service costs.

Local Systems

Etwell Leisure Centre - The financial systems at the centre were well administered with only a few minor concerns over trading accounts.

Cash - A cash audit was undertaken examining all aspects of the Authority's income posting system. Testing established that this vital area of operation was well administered. The only concern for the future is how the Authority intends to facilitate income management with regard to the replacement systems, a decision yet to be made.

7. Fraud and Irregularity

Five operational areas (Benefits, Renovation Grants, Cash Collection, Credit Income, Cheques and Expense Claims) and the overall management arrangements were examined. A number of recommendations have been made but in general the Authority's anti-fraud and corruption controls are sound. Contract and Corruption has been re-examined as a follow up to last year's audit.

8. Contract Audit

The service implemented a new set of Financial Regulations and Procedure Rules including training and interpretation. The financial aspects of the Contract Procedure rules were also updated. Partnering arrangements were examined and advice was requested from many managers about procurement in general.

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. The two major areas of concern raised were the IT Strategy and the security policy.

The IT Strategy was last produced for the period 2001-2004 and is in need of updating. The IEG statements have somewhat overshadowed the strategy. However it has been agreed that the strategy is to be revised incorporating the IEG statements.

The Authority is to implement a BS 7799 security policy as soon as possible.

Internal Audit assisted in the production of a new electronic communications policy.

10. Special Investigations

A large amount of investigation work was undertaken during the early part of the year mainly in the Housing Department. Other investigations, of a more minor nature, were carried out including cash payments, wages, security, expenses, contracts and car payments.

11. Current Year Plan (2003/04)

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

- a. continue bringing forward more Managed Audit work into the year of audit.
- b. minimal local systems audit during the next 24 months
- c. a. and b. above are to enable the Internal Audit service, during the period 2003-05, to understand, document and evaluate the substantial number of new financial systems being introduced in the next 24 months.

Initial delays with implementation of these systems have necessitated a more flexible plan. A limited local programme has been re-introduced.

12. Conclusion

The service had a good year but plans were amended to accommodate the unusually high level of investigation work in the early part of the year. The service achieved 100% of the Managed Audit (completed audits to the District Auditor's satisfaction) with 78% of the planned audits and 90% of the overall plan (chargeable audit days).

The Authority's ambitious programme of system replacement will have a considerable effect on the service. All the major systems are scheduled to be replaced over the next two years and this will affect the volume of managed audit work. The joint working arrangements with our external auditors will reflect this as there is a need to verify the level of internal control for the 2004/05 final accounts process without which we will receive a qualified opinion. As the level of internal control is unknown for these new systems their risk level in the 2004/05 plan will initially be classed as high.

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

Audit Manager

**OPERATIONAL AUDIT PLAN
2003/04**

Appendix A

AUDIT CATEGORY					%
Total available days less leave etc				610	
PLANNED AUDITS/ AUDIT WORK					
Systems	210				
Regular	85				
V.F.M	0	295	295		48.36%
CONTINUOUS AUDIT					
a. Routine Checks	15				
b. Small Systems Review	5	20	20		3.28%
SPECIALIST AREAS					
a. Computer					
i. Development	30				
ii. Audit	8	38	38		6.23%
b. Contract					
i. Final Account	32				
ii. Current Audit	17	49	49		8.03%
MANAGEMENT					
Audit		55	55		9.02%
OTHER					
Special Investigations	25				
Contingency	12	37	37		6.07%
TRAINING, FURTHER EDUCATION ETC					
Seminars and Meetings	20	20			
Training -C.P.E	10				
Further Education	0				
In-House	16	26	46		7.54%
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		11.48%
TOTAL			610		100.00%

AUDIT CATEGORY	Risk Level	SYSTEM WORK	REGULAR & ADHOC AUDIT
CHIEF EXECUTIVE			
<u>ELECTIONS</u>			
Register of Electors	Low		
Elections	Low		
<u>LEGAL</u>			
Land Charges	Low		
Members Allowances	Low		
<u>ECONOMIC DEVELOPMENT</u>			
Industrial estates	Low		
DEVELOPMENT SERVICES			
<u>TECHNICAL SERVICES</u>			
Facilities and Development			
Recreation Services - Client	Medium		5
Grounds Maintenance	Low		
Leisure Centre - Client	Low		
Cemeteries	Low		5
Allotments	Low		
Markets - Client	Low		
Civic Halls - Swadlincote Town Hall	Low		
Etwall pool	Low	8	
Direct Services			
Trade Refuse and Recycling	Low		
Refuse collection	Low		
Transport and Vehicle Workshop	Low		
Depot - General (Stores, Security etc)	Medium		5
<u>PLANNING</u>			
Building Control	Low		
Planning Fees	Low		
Planning general	Low		
COMMUNITY SERVICES			
<u>COMMUNITY AND LDM</u>			
National Forest Centre	Low		4
Single Regeneration Budget (ending	Low		

AUDIT CATEGORY	Risk Level	SYSTEM WORK	REGULAR & ADHOC AUDIT
ENVIRONMENTAL HEALTH			
Improvement Grants	Low	10	
Lullington Gypsy Site	Low		
General (pest control)	Low		
HOUSING			
Rent accounting	Medium	22	
Housing Administration	Low		
Foston Gypsy Site	Low		
Warden Controlled Schemes (Incl Piper)	Low		
Housing Repairs	Medium		
Sale of Council Houses	Low		
FINANCE			
REVENUE			
Recovery - C.Charge, Council Tax & N.N.D.R	Low		5
Sundry Debtors	Low	15	
Cash	Low	18	
Housing Benefits	Medium		5
Bus Passes	Medium	40	
Council tax	Low		
FINANCIAL SERVICES			
Expenditure:			
Payroll (Salaries)	Low		12
Payroll (Wages)	Low		15
Creditors	Medium	24	
H.A.A.	Low		
Car Allowances	Low		10
Subsistence	Low		8
Car Leasing	Low		
Car Loans	Low		4

AUDIT CATEGORY	Risk Lev	SYSTEM WORK	REGULAR & ADHOC AUDIT
General:			
Treasury Management	Low	10	
Inventories	Low		6
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	5	
Special Areas:			
Contract -			6
Telecommunications			10
TOTALS System		210	
Regular			85
Management (vfm etc.)		0	
GRAND TOTAL			295

