

Audit and Governance Committee

26 June 2008

Report of the Assistant Director (Audit and Risk Management)

Annual Report of the Chief Internal Auditor

Summary

- 1 This report details the outcome of audit and fraud work undertaken in 2007/08 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

Background

- 2 The work of Internal Audit is governed by the Accounts and Audit Regulations 2003 (as amended) and the CIPFA Code of Practice for Internal Audit in Local Government (issued in 2006). In accordance with the Code of Practice, the Chief Internal Auditor is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 3 The 2007/08 Audit and Fraud Plan was approved by the Audit and Governance Committee on 3 April 2007. The Plan included a programme of audit reviews based on a detailed risk assessment and five year strategic plan. The 2007/08 Plan also included details of planned counter fraud activities. The total number of planned audit days was 1,340 with a further 1,100 days allocated to counter fraud activities. As in previous years, there were insufficient resources in the Audit Team to allow all the systems or areas identified through the strategic planning process to be audited. Priority was therefore given to 'high' and 'medium' risk areas. The counter fraud activity plan was based on the resources available to the Fraud Team.

2007/08 Internal Audit Plan – Outturn

- 4 Two of the priorities for the service are to deliver at least 90% of the Audit Plan and to ensure that Internal Audit continues to retain its 'managed audit' status with the Audit Commission. These are the minimum requirements necessary to achieve a good score for internal control as part of the Comprehensive Performance Assessment (CPA) - Use of Resources evaluation.

- 5 Internal Audit successfully delivered 91.6% of the 2007/08 Plan (compared to 92% in 2006/07 and 91.3% in 2005/06). Details of the audits completed and the reports issued are given in Annex 2.
- 6 Variations were made to the Audit Plan through the year as a result of new and changed priorities or as new risks were identified. The variations were approved by the Assistant Director (Audit and Risk Management) in accordance with the scheme of delegation. All of the variations approved for the year were reported to this Committee on 15 January 2008 (no further formal variations have been sought since that report).

2007/08 Counter Fraud Activity Plan – Outturn

- 7 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 3 provides a summary of the work completed. The majority of the work undertaken by the Fraud Team during the year related to the identification and investigation of suspected fraudulent Housing and Council Tax Benefit claims. However, the team has also worked closely with Internal Audit on a number of internal fraud investigations. In addition, the team has been involved in investigating increasing numbers of referrals relating to the fraudulent use of disabled blue badges. Details of the investigations undertaken, and prosecutions and sanctions achieved in the year, are given in Annex 4.

Opinion of the Chief Internal Auditor

- 8 The audit and fraud work undertaken during the year is designed to provide assurance to members and officers on the adequacy of the control environment as an essential part of the Council's corporate governance framework. Audit testing has also been undertaken so as to provide assurance to the S151 Officer, to help him discharge his responsibility for ensuring that proper arrangements exist for the administration of the Council's financial affairs.
- 9 The reports detailed in Annex 2, together with the results of investigations into suspected fraud and corruption, have been sent to the relevant directors, service managers, and where necessary to the S151 Officer. All audit reports include recommendations and action plans agreed with the relevant parties aimed at remedying identified weaknesses in control. In addition, follow up reviews are conducted on an ongoing basis to track the progress made by managers in implementing agreed recommendations.
- 10 The opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment is given in Annex 1. The opinion is based on the results of the audit and fraud work completed during the year. In giving this opinion attention is drawn to the following significant control weaknesses which are considered relevant to the preparation of the 2007/08 Annual Governance Statement;
 - a) The Council has had high levels of sickness absence for a number of years. Action has been taken to put in place measures to control

levels of sickness, for example the new corporate Attendance Management Policy introduced in October 2007, and there is some evidence of improvement. However, Internal Audit work has identified that the new procedures are not yet fully embedded across the Council. In addition, systems for ensuring that accurate management information on sickness is available still need improving.

- b) Both the 2005/06 and 2006/07 Statements of Accounts contained significant misstatements. Although these were technical accounting issues, controls should have existed to identify the errors before the final figures were included in the approved Statement of Accounts. Action is required to put in place procedures to ensure that similar errors do not recur in future.

Consultation

- 11 Not relevant for the purpose of the report.

Options

- 12 Not relevant for the purpose of the report.

Analysis

- 13 Not relevant for the purpose of the report.

Corporate Objectives

- 14 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

- 15 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 16 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported and the annual statement and opinion of the CIA is not considered by those charged with governance. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score.

Recommendations

- 17 Members are asked to;

- Note the results of the audit and fraud work undertaken in 2007/08.

Reason

To enable Members to consider the implications of audit and fraud findings.

- Accept the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment;

Reason

To enable Members to consider the opinion of the Chief Internal Auditor.

- Note the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement.

Reason

To enable the Annual Governance Statement to be prepared.

Contact Details

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Report Approved



Date 13/6/08

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Internal Audit Risk Assessment and Strategic Audit Plan
2007/08 Audit Plan
2007/08 Counter Fraud Activity Plan

Annexes

Annex 1 - Opinion of the Chief Internal Auditor
Annex 2 - 2007/08 Audits Completed and Reports Issued
Annex 3 - Counter Fraud Activity
Annex 4 - Investigations, Prosecutions and Sanctions