

Audit and Governance Committee

25 June 2007

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 2006/07 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 Statement on Internal Control.
- 3 The 2006/07 Audit and Fraud Plan was approved by the Audit and Governance Committee on 6 June 2006. The Plan included a programme of audit reviews based on a detailed risk assessment and five year strategic plan. The 2006/07 Plan also included details of planned counter fraud activities. The total number of planned audits days was 1,340, with a further 1,200 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.

2006/07 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 92% of the 2006/07 Plan (compared to 91.3% in 2005/06 and 90% in 2004/05). 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. Variations were also necessary to address a 90 day shortfall between the available resources in the Audit team and the original Plan. The variations were approved by the Assistant Director (Audit and Risk Management) in accordance with the scheme of delegation. Apart from one variation which was approved in March 2007, all the other variations were reported to this Committee on 31 January 2007. Details of all the approved variations are given in Annex 3.
- 7 One investigation into a suspected financial irregularity within Neighbourhood Services was completed in the year. However, further allegations have since been received relating to this investigation and further audit work is now underway. During the year, Internal Audit also investigated four minor thefts and frauds, and undertook two preliminary investigations following complaints received through the Council's Whistleblowing Policy. Annex 4 provides a summary of the audit findings for all the completed investigations.
- 8 In addition to the planned audit work, Internal Audit also worked in conjunction with Legal Services to strengthen the Council's arrangements for preventing, detecting and reporting suspected money laundering activities, and with Human Resources to strengthen the arrangements for recording officer declarations of interest and the Council's Whistleblowing Policy. Internal Audit also undertook an exercise to identify and recover duplicate creditor payments. Total duplicate payments of £33,196 were identified, of which £9,254 had been recovered by 31 March 2007. A further £13,618 has been recovered to date in 2007/08.

2006/07 Counter Fraud Activity Plan – Outturn

- 9 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 5 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 the internal fraud investigations detailed in paragraph 7 above. In addition, a number of other external fraud investigations have been conducted in the year, including the identification of fraudulent blue badge use and Council Tax single person discounts. Details of the investigations undertaken, and prosecutions and sanctions achieved in the year, are given in Annex 6.
- 10 The Fraud team participated in the Audit Commission's 2006/07 National Fraud Initiative data matching exercise. This is a national exercise which is undertaken every two years and is designed to detect fraud and error, particularly in respect of housing benefits, occupational pensions and student loans. Data from local authorities is matched

against data provided by central government, the NHS and a number of participating private sector pension bodies. The 2006/07 exercise included new datasets such as creditors and taxi driver licences, and a number of the existing datasets were also expanded to include new categories of data. The Audit Commission identified 919 data matches relating to York (excluding creditors), although responsibility for investigating many of these cases rested with other local authorities or public bodies. The data matches were made available on 29 January 2007. As in previous years, many of the initial data matches were found to be caused by erroneous data or simply timing differences. Work is ongoing to complete the review of the initial data matches. To date, 30 matches have required further detailed investigation. 18 of these investigations have been completed, resulting in £692 in fraudulent benefit overpayments being identified.

Review of the Effectiveness of Internal Audit

- 11 The Accounts and Audit Regulations 2003 were amended in 2006, with the changes coming into effect from 2006/07 onwards. As a result of these changes, Regulation 6 now requires each local authority to conduct an annual review of the effectiveness of its system of internal audit, and for an appropriate committee to consider the findings of this review. The process is intended to form part of the wider review of the effectiveness of the system of internal control (required to prepare the Statement on Internal Control). The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently preparing guidance on how such a review of Internal Audit should be conducted. This guidance is expected to be published shortly. In the meantime, it is considered appropriate to compare current internal audit practices against the CIPFA Code of Practice for Internal Audit in Local Government (2006), and for the results of the review to be reported to this Committee. The internal audit function has recently been reviewed by the external auditors. This review included an examination of compliance against the CIPFA Code of Practice. The draft report is still subject to management discussion, but concludes that the external auditors can rely on the work being carried out by Internal Audit. The final report will be presented to this Committee in the Autumn.

External Assessment of the Fraud Team

- 12 The last full inspection conducted by the Benefit Fraud Inspectorate (BFI) was in 2004, at which time they concluded that the quality of counter fraud work being undertaken was effective. Counter fraud activities form part of the 'security' assessment under the revised CPA process which was introduced by the BFI in 2005. The 2006 CPA self assessment process scored 'security' as a 4 (excellent), which in turn contributed to the overall Benefits Service CPA score of 3. The BFI concluded that the council demonstrated a clear commitment to detecting fraud and undertaking appropriate sanctions.

Opinion of the Chief Internal Auditor

- 13 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.
- 14 The reports detailed in Annex 2, together 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 actions plans agreed with the relevant parties aimed at remedying identified weaknesses in control. In addition, follow up reviews are conducted on a 6 monthly basis to track the progress made by managers in implementing agreed recommendations. Details of significant control weaknesses and any other issues of note identified through the audit process in 2006/07, together with the results of the follow up reviews, are shown in annex 2.
- 15 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 2006/07 Statement of Internal Control;
 - a) Continuing evidence of non-compliance and inconsistencies in observing EU procurement legislation and the Council's Financial Regulations across the Council when tendering for goods and services, as reported in the annual Breaches and Waivers report – presented to Audit and Governance Committee on 4 October 2006;
 - b) The levels of sickness across the Council remain higher than for comparable local authorities. Continuing weaknesses exist in the Council's procedures for monitoring and reporting sickness absence. Roles and responsibilities are not clearly defined and the timing and accuracy of sickness information is also not satisfactory. These weaknesses in control are hindering the effective management of staff absence. Although progress has been made during the year to address the underlying control weaknesses, there is still insufficient evidence that the improved arrangements are properly embedded;
 - c) The 2005/06 Statement of Accounts included a material misstatement. The misstatement was caused by a change in government guidance on the valuation of social housing. The change was however not being reflected in the Council's annual valuation exercise. Although this was a technical accounting issue, controls should have existed to identify the error before the final valuation figures were included in the approved Statement of

Accounts. Internal Audit has also made recommendations to strengthen reconciliation procedures for the main control accounts.

Consultation

16 Not relevant for the purpose of the report.

Options

17 Not relevant for the purpose of the report.

Analysis

18 Not relevant for the purpose of the report.

Corporate Objectives

19 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

20 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

Risk Management Assessment

21 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

22 Members are asked to;

- Note the results of the audit and fraud work undertaken in 2006/07.

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.

- Consider the significant control weaknesses identified during the year and their inclusion in the 2006/07 Statement of Internal Control.

Reason

To enable the annual Statement of Internal Control to be prepared.

Contact Details

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Report Approved



Date 6/6/07

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

2006/07 Audit Plan
2006/07 Counter Fraud Activity Plan

Annexes

- Annex 1 - Opinion of the Chief Internal Auditor
- Annex 2 - 2006/07 Audits Completed and Reports Issued
- Annex 3 - Variations to the Audit Plan
- Annex 4 - Completed Investigations into suspected financial irregularities
- Annex 5 - Counter Fraud Activity
- Annex 6 - Investigations, Prosecutions and Sanctions