



AUDIT COMMITTEE REPORT

Report Title	Internal audit progress report and draft internal audit 2010/11 operational audit plan
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	22 March 2010
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Councillor David Perkins

1. Purpose

1.1 To provide the Audit Committee with a report summarising progress made against the approved internal audit plan.

1.2 To provide the Audit Committee with the draft operational audit plan for 2010/11.

2. Recommendations

2.1 Receive the report.

3. Issues and Choices

3.1 Report Background

3.1.1 Introduction

The report is produced to inform the Committee on internal audit activity in the current year up to the date of the Committee meeting. The report will give an update on reports issued and recommendations made as well as highlighting any issues that are considered appropriate to bring to the attention of the Committee.

The report also includes the draft 2010/11 operational audit plan for consideration.

3.1.2 2009/10 Plan Outturn

We have undertaken work in accordance with the 2009/10 Internal Audit Plan which was presented to and approved by the Audit Committee at its meeting in February 2009.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. This shows that we have delivered nearly 90% of the agreed plan and have either planned or are in the process of scoping work for the remaining few reviews.

At the request of management we have removed the International Financial Reporting Standards (IFRS) review from the planned audit work as management has identified that work carried out by the Audit Commission means that work we could carry out will duplicate this.

We have also removed the contracts closedown review as our discussions with management have revealed that there have not been any significant contracts which have been finalised in year

The planned contracts review has also been deferred following discussion with management who felt that this review would be more beneficial next year when the PFI scheme has progressed further.

3.1.3 Reporting and activity progress

Final reports

The following audit reports have been issued as final since the January Audit Committee:

- **09_10 NBC 13 Creditors** – This review focussed on both the Agresso and Uniclass systems. We have provided two separate opinions for this review. For Agresso we have provided a **moderate assurance** opinion as the controls are operating relatively well in this area. However we have been unable to provide any assurance over the Uniclass system. **No assurance** has been given based upon current year findings along with the poor response in addressing the issues raised in the prior year report. In total 12 of the 16 findings from the prior year had not been implemented. In previous years the planned implementation of IBS has been given as a response to the weaknesses within the Uniclass system. However this implementation has been delayed repeatedly and as such we would expect that appropriate alternative controls would have been put in place in the intervening period.
- **09_10 NBC 15 Treasury Management** – This review focussed on the controls around compliance with Council policy in respect of cash flow management, investments and borrowings. All 8 recommendations from the prior year audit had been implemented and no further recommendations were made for 2009/10. The excellent progress made indicates that management has fully bought into the audit process and has recognised and addressed the weaknesses in place. Overall we were able to give a **High** level of assurance.

- **09_10 NBC 17 Council Tax** – Our review focussed upon the arrangements in place at the Authority in order ensure that properties are identified, correctly valued and billed so that Council Tax income is maximised and income is accurately reflected in the Authority’s accounts. Overall we were able to give a **Moderate** level of assurance. There were 5 issues in total but all of these were either medium or low risk.
- **09_10 NBC 18 Budgetary Control** – The review focussed upon the budget setting process to ensure that it is robust and that budgets are monitored and reported to ensure effective management information. As was the case for Treasury Management all 4 recommendations from the prior year had been implemented and no further recommendations were made for 2009/10. Therefore following the excellent progress made we were able to give a **High** level of assurance.
- **09_10 NBC 19 Partnerships** – The review focussed upon the governance and management arrangements for key partnerships. Partnership working is an increasingly important part of Local Government. The Comprehensive Area Assessment (CAA) focuses on partnership working across a number of the Key Lines of Enquiry and demonstrating successful outcomes from partnership working can have a significant impact on the Councils CAA result. Overall we identified 7 weaknesses, with 1 being assessed as high risk. As such we gave **Limited** assurance over the systems and controls in place. The high risk issue is outlined below:
 - ◆ There is currently no requirement for key partnership arrangements to have an entry on the Authorities’ risk register. In addition not all partnership arrangements have a specific risk register in place for the partnership. An example of this is the Local Strategic Partnership where no reference is made to it on the Authorities risk register and no partnership risk register is in place for this partnership.

The following audit report is to be issued in final shortly and will be distributed to members of the Audit Committee once finalised. Management responses have been received in relation to this report, however a few minor amendments and changes have been requested prior to us being able to issue as a final report.

- **09_10 NBC 12 Debtors** – The review focussed upon the controls around verifying that invoices are raised in a timely manner, cash received is correctly allocated, outstanding debts are recovered and the ledger is updated to reflect the debtors system. Overall we identified 10 control weaknesses, 4 of which are high risk. The number of issues raised was considerably less than in 2009/10 when we identified 20 control weaknesses, however due to the number of high risk issues we gave a **No assurance** opinion on the system and controls. Details of the 4 High Risk issues identified are shown below:
 - ◆ For some classes of debt on the IBS system no new cases have been put into recovery in 2009-10 because the Pay Point cash paying function is incapable of producing bar-coded invoices for old

rents debtors. IT is working to resolve the problem but there is no definite timescale for resolution of this issue.

- ◆ There is no consistent procedure for checking or authorising an invoice before it is input to IRAS across the authority. While some departments have authorisation procedures in place, some do not. In 10 out of 20 invoices tested there was no authorisation for the invoice being raised.
- ◆ It was noted from examination of the bad debt provision that the IRAS percentage provisions have not been changed for a number of years. Though they have been considered and deemed reasonable by the Authority they appear less stringent than is ideal in the current economic climate, with a debt not being fully provided for until it is almost 6 years old.
- ◆ It was noted during testing that 14 out of 30 cases in recovery were not being pursued according to the timetables set out by the Authority. It is also noted that 64.9% of the Authority's debt is over 90 days old. This is a similar position to the prior year.

2009/10 Draft reports:

We have issued the following reports in draft format and we are now awaiting management responses.

- 09_10 NBC 05 Freedom of Information and Data Protection (Follow up)
- 09_10 NBC 06 VAT (Follow up)
- 09_10 NBC 10 General Ledger - Initial responses received
- 09_10 NBC 11 Cash Collection -Initial responses received
- 09_10 NBC 14 Housing Rents
- 09_10 NBC 16 Payroll
- 09_10 NBC 20 Bank reconciliations - Initial responses received
- 09_10 NBC 21 Housing Benefits
- 09_10 NBC 22 Human Resources

2009/10 Fieldwork completed

We have also recently completed our fieldwork in the following areas:-

- Citizen Engagement

3.1.4 2010/11 Draft Operational Audit Plan

Included in Appendix 4 is the 2010/11 draft operational audit plan. This is presented for consideration by the Audit Committee.

3.2 Issues

3.2.1 As detailed in the report

3.3 Choices (Options)

3.3.1 N/a

4. Implications (including financial implications)

4.1 Policy

4.1.1 No implications other than enabling monitoring of internal audit reporting performance.

4.2 Resources and Risk

4.2.1 Risks may be highlighted as a result of audit issues being reported.

4.3 Legal

4.3.1 N/a

4.4 Equality

4.4.1 N/a

4.5 Consultees (Internal and External)

4.5.1 Director of Finance and Support and Head of Finance

4.6 Other Implications

4.6.1 N/a

5. Background Papers

5.1 Appendices to the report

- Appendix 1 – Progress against approved plan
- Appendix 2 – Summary of recommendations made
- Appendix 3 – TeamCentral report extracts
- Appendix 4 – Draft 2010/11 operational audit plan

Other individual internal audit reports are available if required.

Chris Dickens
Senior Manager
PricewaterhouseCoopers LLP
01509 604041