

**BURY MBC INTERNAL AUDIT****ANNUAL REPORT AND OPINION FOR 2007/08****1.0 INTRODUCTION**

- 1.1 The Internal Audit Annual Report provides an opportunity to look at the performance of Audit over the whole financial year, and to take stock of the overall position with regard to systems and controls.
- 1.2 The Council has an obligation to issue a Governance Statement (under the provisions of the Accounts and Audit Regulations 2006) which must demonstrate that Members and Officers regularly review, and are satisfied with, the Council's control framework. This report (the Internal Audit Annual Report) will provide some of the assurances Members and others have to seek, in order to satisfy those requirements. They will also draw upon assurances gathered from a variety of other sources.
- 1.3 Members of the Audit Committee are actively involved in the planning and monitoring of the work of Internal Audit, which focuses on reviewing the corporate governance arrangements of the Council. They achieve this involvement through their approval of the annual plan, scrutiny of reports produced, and regular progress monitoring.
- 1.4 A comprehensive Internal Audit Annual Plan for the financial year 2007/08 was approved by the Audit Committee at their meeting on 20<sup>th</sup> February 2007.
- 1.5 Throughout the year Members have received regular progress reports which monitor performance and keep them informed of our day to day activities.
- 1.6 I have also circulated detailed reports of all the audit work carried out by the Section.
- 1.7 This annual report aims to assess overall performance against that original plan, giving additional information about the productivity and costs of the Section.
- 1.8 This report details the activities of Internal Audit during 2007/08, comparing the output of work against the approved Audit Plan for the year.
- 1.9 It is particularly concerned with the Authority's control framework, and its assessment, which forms the basis of the Audit Opinion.
- 1.10 The stated intention in the plan was that the emphasis of our work would be the examination, review and testing of systems and controls, paying particular attention to the fundamental systems.
- 1.11 This report gives an opinion of the adequacy and effectiveness of those systems and controls, based on our work throughout the year, and our accumulated knowledge of those systems and the control framework within the Authority.

## 2.0 KEY MESSAGES

- When planning our risk based approach for 2007/08, Internal Audit identified over 500 separate auditable areas within the Council's four Directorates (Chief Executive's/ Environment and Development Services/ Children's Services/ Adult Services), and Six Town Housing. We had selected 76 areas for attention during the year. This objective was fully achieved.
- We planned to undertake 1,553 rechargeable working days for the year – our actual output was 1,695. The increased output was mainly achieved through savings on non-rechargeable areas. Our non-rechargeable days were 701, against an original estimate of 799. The balance of 44 days is accounted for through the services of a Modern Day Apprentice who was seconded to Internal Audit for three months as part of his development.
- 150 reports (71 draft and 79 final) were issued and responded to during the course of the year. Just over a third of these reports were completed within the originally allocated time, and a little over a third issued within 14 days of the audit ending. Whilst we do try to cover additional issues arising during the course of an audit, we also have to ration the time allocated by making a measured judgement.
- In total, 454 recommendations were made in our reports and 96% of them were accepted for implementation, and there were no serious disputes arising.
- Satisfaction rating from our post audit questionnaires was 100%.
- The quality of our work is reviewed every three years by our external auditors and we are due to be reviewed during the coming financial year. At the last review, they concluded that "Internal Audit is an integral part of Bury MBC and contributes to the overall control arrangements". They listed a number of areas of good practice and assessed that Internal Audit had met 9 out of 10 standards, and partly met the remaining one. (N.B. Standards from the Chartered Institute of Public Accountancy Code of Practice for Internal Audit).
- 56 specialist audits were conducted.
- 116 key controls were examined, in 8 key control areas.
- 22 key performance indicators were examined in addition to those reviewed as part of planned audit work throughout the year.
- 18 investigations were successfully conducted.
- The cost of the Section was under budget (i.e. £348k compared to the budget of £365K excluding recharges), and equates to £205 per rechargeable day.
- Our colleagues in the Benefits Fraud Team received 631 referrals during the year and accepted 257 for investigation with a further 152 being referred to the DWP for them to investigate. The number of these cases that were proved to a criminal standard amounted to 71. These cases led to a demand for £120,000 to be recovered. If these cases had been allowed to continue, the potential loss to the taxpayer would be substantial.

### 3.0 OPINION

#### **Control Framework**

The effectiveness and security of local authority systems and controls are underpinned by the overall control framework. At Bury this is considered to be sound.

#### **Systems and Controls**

A major part of our function is to provide a continuous review and appraisal of systems and controls, to report our findings, and to make recommendations where appropriate. I am satisfied with the coverage that we have achieved, and I believe that systems and controls are generally sound. We have singled out weak systems and identified situations where existing systems have been allowed to lapse or fall behind, and where we believe that improvements can be made. We have continued to report on these issues to Directors, Chief Officers and Members, making appropriate recommendations. The Audit Committee has been instrumental in our approach to following up our recommendations.

I believe that we have achieved a good coverage of systems and controls, but as always, I must remind Members that we only ever examine a proportion of the Council's activities (hence the need to focus our attention on "significant" systems and key controls), and that our examination often only represents a "snapshot" in time. Internal Audit is only a part of the Council's control framework, and is not a substitute for management. For this reason we have tried to proactively encourage changes to the culture of the authority in promoting good corporate governance, an anti-fraud and corruption strategy and recognition of the need to build upon the Council's risk management and business continuity arrangements.

Two areas of concern have been uncovered during the year, both of which have been satisfactorily addressed, one relating to the feeder systems into the Main Accounting System and one relating to how the Authority deals with factoring arrangements entered into by our suppliers.

#### *Main Accounting System*

The interface between the CONFIRM (Highways & Transport system) and Agresso system was found not to be working properly. Differences were found in the figures showing against jobs in CONFIRM to those posted into Agresso. A follow-up audit three months later found that the issue had been successfully resolved and testing showed that the figures in the two systems reconciled.

#### *Factoring*

The Council experienced losses in respect of debt factoring during 2007/08 that was part of a much larger national fraud perpetrated against several Local Authorities. The matter is currently subject to police investigation and my auditors have been working with the Accounts Payable section in tightening the procedures to try to prevent the Council being subject to this type of fraud again.

#### **4.0 EVIDENCE - FRAMEWORK**

My opinion is based on the following:

- 4.1 The Council's Constitution has clear and unambiguous Standing Orders, Financial Regulations and Scheme of Delegated Powers which have been updated, and are subject to continual review.
- 4.2 The Council's Constitution also encompasses codes of conduct for both Members and employees, clearly linked to the appropriate Standing Orders, Financial Regulations etc. The National Code for Members has been adopted at Bury, and the National Code for Employees has been adopted.
- 4.3 The Council has an up to date Anti-Fraud and Corruption Strategy which has been widely publicised. The policy takes a strong line on fraud, which underlines the anti-fraud culture within the authority. Incorporated into the Strategy are its Confidential Reporting (Whistleblowing) Policy, Benefit Fraud Prosecution Policy, Members' Guidance (re outside bodies), and a Local Code of Corporate Governance. Standards of Conduct are also reiterated here. In addition, I have liaised with our Legal Section to produce an Anti-Money Laundering Guidance, which was presented to this Committee in February 2008 and this has also been incorporated into the Strategy.
- 4.4 The Council has a Standards Committee (supported by the Monitoring Officer), and an Audit Committee (supported by the Head of Internal Audit and the Council's external auditors) promoting the high standards expected. I see this as strengthening the control framework and helping to encourage an anti-fraud and corruption culture throughout the authority.
- 4.5 No limits have been placed on the scope of Internal Audit work, and as Head of Internal Audit I have direct access to the Chief Executive. I report directly to the Head of Strategic Finance, Directors, and to Members, and liaise regularly with the Council's external auditors.
- 4.6 The Accounts and Audit Regulations 2006 state in paragraph 6 (3) that "the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit". The regulations go on to state that the findings of this review be considered by a committee of the relevant body. The review is included in Appendix A to this report. Our approach is to divide the assurance framework into four categories (Audit Committee, Corporate Governance, Internal Audit, and Policies and Procedures) and look at the Controls in place, the purpose of this control, the evidence that this control exists, and the value of the control. I conclude that, in my professional opinion, the Council has a robust internal control framework and ethical governance arrangements.

#### **5.0 EVIDENCE – SYSTEMS AND CONTROLS**

My opinion is based on the following which relate to last year's work:

- 5.1 Throughout the year we have conducted a rigorous examination of the Council's fundamental systems and key controls. This has included work on Debtors, Creditors, Cash Collection, Information Services, Contracts, Housing Rents, Income Control, Payroll, Benefits, Council Tax and NNDR. Many other systems have also been examined.
- 5.2 We have continued to work closely with the Council's external auditors enabling us to co-ordinate our efforts and achieve maximum coverage in our systems audit work.

- 5.3 In addition to formal examination of systems, we have also carried out a series of random tests throughout the course of the year. For example we regularly check invoices, payroll variations and suchlike, making sure that systems are working in practice and are being adhered to. We have also continued to offer support to inter-departmental working groups, providing advice on new or revised systems, e.g. Procurement, Payroll and Purchasing Cards. Requests for our advice and involvement at the early stages of schemes have noticeably increased.
- 5.4 I have been encouraged, once again, by the general acceptance of audit recommendations, and by the support of Members. We have continued to develop our follow-up procedures under the auspices of the Audit Committee, which has led to an improved ratio of implementation. This, in turn, has helped to improve confidence in our systems.
- 5.5 Significant progress has been made with risk management. The Authority now has comprehensive risk registers updated on a quarterly basis, a Member level Group, quarterly reports to Management Board and a full training programme for Members and staff.
- 5.6 Controls often weaken when change has taken place, necessitating a revision of procedures. The authority has been, and still is, undergoing a period of change and innovation. Throughout this period I have continued to constantly remind management and Members of the need to maintain adequate controls in such circumstances.
- 5.7 We have again been directly involved in a number of special investigations, and I have reported individually on these in as much detail as is permissible. The lessons learned from some of these should help us to improve controls and remind us to remain alert.
- 5.8 Last year was the second year that my Audit Team have been assessing schools against the Department of Children, Schools and Families' Financial Management Standard in Schools Framework (FMSIS). In total we were required to assess 26 Primary Schools last year and the results will be reported to this Committee in due course.
- 5.9 During 2007/08 we, along with colleagues in Research & Consultation, produced an Ethical Governance questionnaire based upon an Audit Commission model and asked 1,000 officers in the Authority for their views. The response rate of 37% is very pleasing and it is our intention to bring the results of the forthcoming analysis along with an action plan to the September Audit Committee meeting.

## **6.0 ABOUT THE INTERNAL AUDIT SECTION**

### **6.1 Audit Objectives**

The Internal Audit Section is the Council's own directly employed in-house Internal Audit Service, and provides a continuous review in accordance with the Council's obligations under the Local Government Act 1972, and the Accounts and Audit Regulations 2006. It operates under the APB (Auditing Practices Board) Guidelines and CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government, as approved by the Council. Its objectives are:

- independently review and appraise systems of control throughout the authority and its activities
- ascertain the extent of compliance with procedures, policies, regulations and legislation

- provide reassurance to management that their agreed policies are being carried out effectively
- facilitate good practice in managing risks
- recommend improvements in control, performance and productivity in achieving corporate objectives
- review the value for money processes, Best Value arrangements, systems, and units within the authority
- work in partnership with the external auditors
- identify fraud as a consequence of its reviews and to deter crime.

### 6.2 Audit Staff

- Internal Audit has a staffing establishment of nine. This includes five Auditors, two Seniors and an Audit Manager in addition to myself.

### 6.3 Audit Skills

- We employ qualified staff (Accountant or Technician). Additionally, four of our team are also graduates, and some hold additional qualifications, e.g. Chartered Public Financial Accountant (CIPFA), Chartered Institute of Management Accountants (CIMA), Member of the Institute of Internal Auditors (IIA), Qualification in Computer Audit (QiCA).
- We have continued to supplement professional training with on-the-job training, specialist courses and seminars. These are identified mainly through the employee review system and help us to maintain a highly trained team. Two members of the Section have undergone the Senior Management Breakthrough training.
- We also support the activities of professional bodies such as CIPFA (Chartered Institute of Public Finance and Accountancy) and working groups such as the Greater Manchester (G.M.) Chief Internal Auditors Group, the G.M. Computer Audit Group, the G.M. Fraud Group and the G.M. Contract Audit Group. We have supported the National and Greater Manchester Fraud Initiatives from the outset and have maintained our participation in the ground breaking data matching exercises, which have produced such impressive savings over the years.
- Our broad spread of skills and experience in the section is constantly under review. This year we have purchased additional computer audit expertise, from the Greater Manchester Computer Audit Consortium, to supplement our own. Specialist staff from the Consortium (operated on our behalf by Salford City Council) have worked alongside our own, in-house staff, whilst we continue to develop our in-house capability.
- Appendix D reports the performance management data for Internal Audit for the 2007/08 financial year. This document represents a collation of the regular performance management updates brought before Members throughout the year.

## 7.0 THE PLAN - INPUTS

- We planned to provide 1,553 days of directly rechargeable work. Our actual output was 1,695.
- An analysis of time planned and worked can be seen at Appendix C.

## 8.0 THE PLAN – OUTPUTS

- The analysis at Appendix C shows that targets were generally achieved, at least in terms of inputs. It reflects the fact that some re-scheduling of time has taken place to effect changes in priority and allow for the involvement of auditors on working groups and in conducting investigations.
- Members have been made aware of these changes through regular updates throughout the year.
- We have ensured that the core systems work has been carried out, and any reductions have been limited to the lower risk areas, which we have been able to defer in the short term.

## 9.0 THE COSTS

- The cost of the Section ( including recharges) for the year was £402,300 (against a budget of £420,100). This has been recharged to our clients on an hourly recharge basis in accordance with our Service Level Agreement.
- Average cost per auditor was £44,700 (inclusive of overheads).
- Our recharge rate was £37.70 per hour.
- Our costs/charges have remained amongst the lowest in Greater Manchester for several years. This was confirmed in the 2006/07 CIPFA Benchmarking Club results that revealed the average cost per Auditor in England is £281 per day. Bury's costs amounted to £231 placing us in the top performing quartile.
- Our rates compare very favourably with firms in the profession.

## 10.0 LOOKING AHEAD

10.1 We are now delivering our plan for 2008/09 (approved 26<sup>th</sup> February 2008). I will continue to inform Members of progress throughout the year, and will again present an annual report at the year end. The following issues will also impact upon the performance of Internal Audit and its measurement, and are shown for the information of Members:

- Audit Planning – Internal Audit will continue to develop a risk based approach to its planning process.
- Intranet – The Section will continue to develop its entry on the Authority intranet site as a means of promotion.
- Best Value/CPA – Internal Audit will continue to play its part in the process. We have already worked extensively on Best Value Performance Indicators, and have again been asked to continue this work. We have also supported our colleagues in the Performance Management Team by actively taking part in Reviews. Our involvement has been largely consultative to preserve our independence.

- Performance Indicators – Internal Audit will continue producing their own key indicators as part of a Performance Management Framework developed by the Director of Finance and E-Government.
- Benchmarking – We took the decision a couple of years ago to join the CIPFA Benchmarking Club which currently includes almost 100 Local Authorities. We will continue to contribute to this process, submitting data, and then analysing and reviewing the outputs. The result of the 2005/06 exercise was reported to the Audit Committee at the meeting of 19<sup>th</sup> April 2007. The exercise covering 2007/08 has not yet been reported to Committee due to full agenda's for both the December and February meetings. The exercise for 2007/08 began in April 2008 and will be reported to Committee at the earliest opportunity.
- Anti-Fraud and Corruption – further updates are planned to our policy/strategy.
- FMSIS – We will be assessing another 27 Primary Schools against the Department for Children, Schools and Families' Standard.

10.2 In accordance with the Council's requirement to produce a Governance Statement annually (Accounts and Audit Regulations 2006), it is hoped that this report, and the work of Internal Audit, will provide some of the assurance needed in supporting the Statement.

**BARRIE STROTHERS**

**HEAD OF INTERNAL AUDIT**

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***Background documents:***

Internal Audit Plan 2007/08

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