



Bromsgrove
District Council
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Bromsgrove District Council

Internal Audit Section

**Annual Report of the
Audit Services Manager**

2006/07



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1. Introduction

The Account and Audit Regulations require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which sets out proper practice for Internal Audit, requires the Audit Services Manager to provide an annual report to those charged with governance. The report should include an opinion on the overall adequacies of the internal control environment in operation within the Council.

2. Responsibilities

Management are responsible for developing and maintaining the internal control framework and to ensure compliance. The Internal Audit section is responsible for forming an independent opinion on the adequacy of the system of internal control.

The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. This is a key part of the Authority's internal control system as it measures and evaluates the adequacy and effectiveness of controls so that:

- The Council can establish the extent to which they can rely on the whole system; and
- Individual managers can establish the extent to which they can rely on the systems and controls for which they are responsible.

3. Opinion on the Council's Internal Control Environment

The Audit Services Manager's opinion is that during 2006/07 progress has been made on improving the Council's internal control environment. However, for 2006/07, Bromsgrove District Council's system of internal control does not fully facilitate the effective exercise of the Council's functions and a number of weaknesses have been identified. Subsequently, only limited assurance can be provided that the Council's internal control system provides the effective, efficient and economic use of the Council's resources.

This opinion has been arrived at following full reviews of 22 of the Council's key financial and operational systems. From these 22 reviews, overall system opinions can be summarised as:

- Operating Effectively – one system.
- Basically Sound – nine systems.
- Identified Weaknesses – twelve systems.

The opinions above appear to show very little improvement since 2005/06. However, when comparing the ten areas reviewed in both 2005/06 and 2006/07, good progress has been made. The table below details the how the opinions of the Council's ten key financial systems reviews have changed during the last twelve months:

Opinion Category	2005/06	2006/07
Operating Effectively	0	1
Basically Sound	4	6
Identified Weaknesses	6	3
TOTAL	10	10

A summary of the work undertaken during 2006/07, which forms the basis of the audit opinion on the internal control environment, is shown in section 8.2.

4. Internal Control Framework

For 2005/06 there were a number of significant internal control weaknesses at Bromsgrove District Council. During 2006/07 work was ongoing to address these issues and improve the Council's internal control system. The improvements that have been made include:

- Adopting a Money Laundering Policy;
- Revising the Council's Financial Regulations;
- Revising the Council's Contract Procedure Rules;
- Introducing an Internal Control Framework;
- Revising the Council's Confidential Reporting Code;
- Introducing Purchase Order Processing;
- Updating the Business Planning process;
- Revising the Risk Management Strategy, process and documentation;
- Addressing issues raised as part of external inspections (Benefit Fraud Inspectorate, E-Government and Strategic Housing Services); and
- Ongoing work on the Information Management project.

However, during the course of our work, a number of internal control weaknesses have been identified. The main areas include:

- Although a significant amount of work has been completed on the Council's Internal Control framework, this is yet to be fully embedded throughout the organisation. Work will need to be continued during 2007/08 to ensure a fully robust internal control system is in place and is adhered to.
- The need to embed risk management within all aspects of the Council operations. A significant amount of work was completed during the end of 2006/07 to update the Council's Risk Management Strategy and process and this work needs to be completed during 2007/08.
- A number of recommendations have been reported as part of external inspections. The Council needs to ensure all issues included in these reports are addressed and recommendations implemented. Action plans have been created and a number of improvements have already been made following these inspections.
- A number of weaknesses within the Council's procurement processes were identified. Updated Contract Procedure Rules have been adopted and a Central Procurement Section has been established. However, there is still further work to

be done to embed a robust procurement culture throughout the organisation and to develop relevant officer and member financial and procurement procedural skills.

- The need to embed and monitor compliance with the Council's updated Financial Regulations. This will contribute to ensuring the Council's resources are used effectively and efficiently.
- A lack of standard procedure documents for certain key systems across the organisation. Procedure documents are key to the continuity of any Council service and need to be produced. Some work has been completed during 2006/07 and will continue during 2007/08.
- The need to improve budget monitoring procedures and processes across the organisation. The Council also needs to embed a budget ownership and accountability culture, which is linked to employees Performance Development Reviews and Job Descriptions.
- To ensure the aims and objectives of the Council's Spatial Project are delivered and overall service improvements are realised.
- The lack of a standard Council wide Records Management and Document Retention Policy (Electronic Document Management System). We acknowledge that work is ongoing with this project.

Throughout the year, all the control issues identified during audit reviews are subject to a formal report and agreed action plan to mitigate risk. Additionally, from April 2006, any significant control issues or areas where Internal Audit consider that risks are not receiving adequate management attention are reported to Members, through the Audit Board. Necessary action is then taken to ensure these risks are addressed and managed.

5. Basis of Audit Opinion

During 2006/07, a review of Internal Audit documentation was completed. Amendments were made where required and the updated documents were adopted by the section. The documents reviewed were the:

- CIPFA Internal Audit Manual;
- CIPFA Internal Audit Protocol;
- CIPFA Internal Audit Charter;
- Internal Audit Customer Care Charter;
- Service Quality Questionnaire;
- 13 Local Internal Audit Performance Indicators;
- CIPFA Fraud Approach;
- Fraud Newsletter;
- Internal Audit Fraud Risk Assessment Policy;
- Internal Audit Risk Model Policy; and
- Internal Audit Marketing Leaflet.

The above documents assist the Internal Audit section to fulfil their statutory duty and comply with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The Code of Practice requires the Internal Audit section to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of the Council's resources. The Council's external auditors (KPMG) undertake an annual assessment of the Council's Internal Audit section, as part of the annual external audit.

The Internal Audit section also completed a self assessment to establish the level of compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The assessment evaluates compliance against all of the Code's Standards, detailing either full, partial or no compliance. Where there is partial or no compliance, an Action Plan of improvements has been collated, which should be implemented during 2007/08. Detailed below is a table that summarises the results of the assessment before and after the improvements have been implemented.

Compliance Level	Pre-Action Plan Implementation	Post Action Plan Implementation
Full compliance with the Code's Standards	78%	95%
Partial compliance with the Code's Standards	12%	3%
No compliance with the Code's Standards	10%	2%
TOTAL	100%	100%

The main actions detailed in the improvement plan are to:

- Collate and adopt a three year Internal Audit Strategy;
- Update the Internal Audit Manual with references to Auditor conflicts of interest, disclosing information, rotation on audit reviews and partnership working; and
- Increase communication with the Council's external auditors.

The Council's Audit Board approved the 2006/07 Internal Audit Plan on the 28th March 2006. The Internal Audit Plan was developed using the adopted Internal Audit Risk Model Policy. The policy enables the Internal Audit section to score risk and prioritise all of the Council's key activities. The high risk areas were then included in the Internal Audit Plan, which enabled the section to focus specifically on financial management, corporate improvement agendas and processes. During 2006/07, the section was fully staffed and 100% of audit resources were available to ensure a comprehensive level of audit coverage was achieved.

The scope of the internal control environment, which comprises the whole network of systems and controls established to manage Bromsgrove District Council, exists to ensure that the Council's objectives are met, its resources are used efficiently and effectively and its activities provide value for money.

In providing our audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit section can provide to Members and officers is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a

comprehensive statement of all the weaknesses that may exist, or of all the improvements that may be required.

6. Anti-Fraud

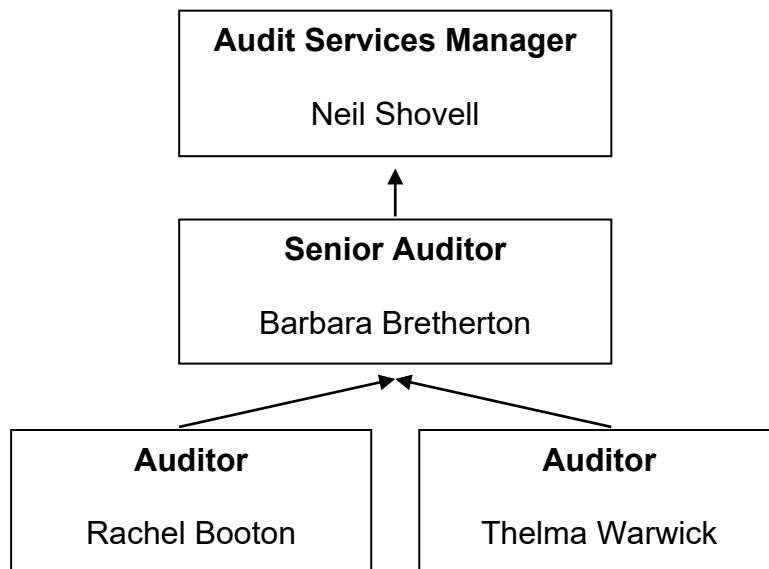
Details of our work in this area are reported on a quarterly basis to the Audit Board and on an ongoing basis to the Section 151 Officer (Head of Financial Services).

The Council's Anti-Fraud and Corruption Strategy was updated during October 2006 to take into consideration the Council's new structure. The Council's Confidential Reporting Code was also updated during March 2007, as it had not been reviewed since 2004. The new Confidential Reporting Code is more robust than the previous version and ensures that the Council and its staff are fully protected when allegations are disclosed. The Confidential Reporting Code was approved by the Executive Cabinet on the 7th March 2007. The Internal Audit section also produces quarterly Fraud Newsletters, which are distributed to staff to raise fraud awareness across the organisation.

Internal Audit assisted in seven fraud and irregularity investigations during 2006/07, which resulted in action being taken where appropriate. However, none of the investigation outcomes presented a significant risk to the Council. The outcome of each review has contributed to the overall audit opinion detailed in section 3. Internal Audit adopts a proactive approach to combating fraud and promoting an anti-fraud culture across the organisation.

7. Internal Audit Section

The Internal Audit section works to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom and approved internal policies and procedures. The section consists of four members of staff, with a good mixture of qualifications and experience, and is structured as follows:



Following a period of significant change, 2006/07 was an opportunity for the section to consolidate the previous years work and look forward to a period of stability. However,

during 2006/07 the pace of change continued and the section has achieved the following:

- A fully staffed Internal Audit section;
- Reviewed and updated standard manuals, charters, protocols, procedures and working papers;
- Developed a fully risk focused Internal Audit Plan;
- Expanded the consultancy service offered by the team;
- Embedded a customer focused audit service approach;
- Completed Internal Audit awareness training;
- Introduced audit marketing leaflets and fraud newsletters;
- Reviewed the Council's Anti-Fraud and Corruption Strategy;
- Delivered all of the section's 13 Internal Audit Local Performance Indicators within target;
- Updated the Council's Local Code of Corporate Governance and producing the annual Statement of Assurance;
- Supported the Council's Audit Board;
- Contributed to the Council obtaining a Level 2 on the Use of Resources assessment.

2006/07 proved a challenging year for the Internal Audit section. However, with the work that has already been completed and the positive feedback received from the Council's external auditors (KPMG), the section intend to implement further improvements during 2007/08.

Neil Shovell

Audit Services Manager

June 2007

8. Summary of Internal Audit Delivery and Performance for 2006/07

8.1 2006/07 Internal Audit Plan Delivery

Detailed below is a high level summary on the delivery of the 2006/07 Internal Audit Plan.

Audit Area	Planned Days	Actual Days	Difference	Comments
Key Financial Systems	250	260	+ 10	All the planned Key Financial System reviews were completed and good coverage was achieved.
Operational Audit Reviews	285	308	+ 23	Good coverage of the operational audit reviews was achieved. Additional time spend on facilitating the implementation of the Council's updated Risk Management Strategy.
Projects, Consultancy and Ad-hoc Requests	100	83	- 17	Assistance was provided on several corporate initiatives, including procurement processes, equalities and diversity agenda and money laundering.
Fraud Investigations and Awareness	50	37	- 13	A number of allegations were investigated during 2005/06 which required additional time being allocated from contingency. Work was also done on raising fraud awareness and updating corporate fraud policies.
Administration	20	23.5	+ 3.5	Planned administrative time was utilised.
Management, Training and Performance	133.5	156.5	+ 23	Additional unplanned time was spend on general audit meetings and training.
Annual Leave, Bank Holidays and Sickness	175.5	144	- 31.5	Planned annual leave and bank holiday allocations were used. Overall under spent due to a low sickness rate.
TOTAL	1014	1012	-2	

8.2 2006/07 Internal Audit Review Methodology and Opinion

Internal Audit's approach to completing a review is to establish the main operational areas and detail the control objective for each area. Once the review is completed, Internal Audit comment on each control objective and detail whether they are delivering the desired results. Internal Audit then arrives at an overall opinion on the adequacy of controls in place, based on each control objective and the Auditors professional judgment.

Internal Audit's opinion on the overall effectiveness of the controls in place fall into three categories:

- Operating Effectively: Overall, the controls that are in place provide a level of assurance that the system's objectives will be met.
- Basically Sound: The basic acceptable level of controls are in place, although improvements to ensure the system fully meets its objectives.
- Identified Weaknesses: The controls in place do not provide an acceptable level of assurance that the system's objectives will be met.

Following each review, a final report is issued which includes an action plan of recommendations. A timescale for implementing the recommendations is agreed with the Service Manager. Internal Audit recommendations fall under three priorities:

- Priority 1: Recommendations that are **fundamental** to improving the controls within the system.
- Priority 2: Recommendations that are **important** to improving the controls within the system.
- Priority 3: Recommendations that are **desirable** to improving the controls within the system.

8.2.1 Internal Audit Review Summary

Detailed below is a summary of the overall audit opinion and number of recommendations relating to each review completed during 2006/07.

No.	Review	2005/06 Overall Audit Opinion	2006/07 Overall Audit Opinion	Recommendations			
				Priority 1	Priority 2	Priority 3	Total
1	Asset Management	Basically Sound	Basically Sound	13	5	0	18
2	Benefits	Basically Sound	Basically Sound	4	10	3	17
3	Budgetary Control & Strategy	Identified Weaknesses	Basically Sound	2	11	2	15
4	CCTV – System (incl. Control Room)	N/A	Basically Sound	6	22	7	35
5	Council Tax	Identified Weaknesses	Basically Sound	11	17	0	28
6	Creditors	Basically Sound	Identified Weaknesses	12	6	3	21
7	Customer Service Centre	Identified Weaknesses	Basically Sound	9	16	2	27
8	Data Protection	N/A	Identified Weaknesses	4	7	2	13
9	Debtors	Basically Sound	Identified Weaknesses	8	8	1	17
10	Development Control	N/A	Identified Weaknesses	9	15	1	25
11	General Ledger & Bank Reconciliations	Identified Weaknesses	Operating Effectively	5	4	0	9
12	Haybridge Sports Centre	N/A	Identified Weaknesses	14	20	2	36
13	Housing Enabling	N/A	Identified	5	4	2	11

No.	Review	2005/06 Overall Audit Opinion	2006/07 Overall Audit Opinion	Recommendations			
				Priority 1	Priority 2	Priority 3	Total
			Weaknesses				
14	Museum & TIC	N/A	Basically Sound	2	14	1	17
15	NNDR	Identified Weaknesses	Identified Weaknesses	18	16	2	36
16	Parks & Open Spaces	N/A	Identified Weaknesses	13	17	1	31
17	Payroll	Identified Weaknesses	Basically Sound	3	6	3	12
18	Section 106 Monies	N/A	Basically Sound	9	5	1	15
19	Sports Development	N/A	Identified Weaknesses	7	8	0	15
20	Travel Concessions	N/A	Identified Weaknesses	8	8	4	20
21	Treasury Management	N/A – high level checks completed	Identified Weaknesses	7	12	0	19
22	Woodrush Dual Use Centre – Wythall	N/A	Identified Weaknesses	11	16	4	31
TOTAL				180	247	41	468

8.2.2 Other Internal Audit Work

Detailed below is a summary of the additional audit work completed during 2006/07.

No.	Review	Comments
1	Corporate Governance & Recovery Plan	Internal Audit reviewed the Council's Local Code of Corporate Governance and prepared the 2006/07 Statement of Assurance. These documents were formally adopted by the Council during August 2006.
2	E-Gov - Projects	Internal Audit attended the initial E-Government Steering Group meetings and offered ad-hoc advice and guidance.
3	Financial Regulations	Internal Audit was involved in updating the Council's Financial Regulations and collating the Internal Control framework. These documents were formally adopted by the Council during September 2006.
4	ICT Infrastructure Project	Internal Audit was involved with the Infrastructure Project on an ad-hoc basis. This included overseeing ICT disposals, document scanning, e-mail firewall approvals and ICT Security Policy.
5	Information & Knowledge Management	Internal Audit attended the Information Management Steering Group meetings and offered ad-hoc advice and guidance.
6	Risk Management	Internal Audit was responsible for facilitating the implementation of the Council's updated Risk Management Strategy. This included redesigning the process, documentation and attending Risk Management Steering Group meetings.

8.2.3 Planned Reviews Not Completed

Detailed below is a summary of the planned reviews not completed during 2006/07.

No.	Review	Comments
1	Agency & Casual Staff	A new process for procuring agency staff was introduced during the beginning of 2006/07. It was decided that an audit review would not add any value to the process. The Audit Board approved the removal of this audit assignment on 19 th February 2007.
2	IT Security (Software / Hardware / Back Up)	The ICT section are currently working on their policies and procedures, therefore it was decided not to complete the review. Following the 2007/08 audit planning process, high priority ICT audit reviews were identified. The Audit Board approved the removal of this audit assignment on 19 th February 2007.
3	Staff Leave (incl. Flexi & TOIL)	The Council's new flexible working arrangements were introduced at the beginning of 2006/07. It was decided that an audit review would not add any value to the process. The Audit Board approved the removal of this audit assignment on 19 th February 2007.

8.3 2006/07 Internal Audit Performance Indicators

Detailed below is a summary of Internal Audit's performance for 2006/07, against their adopted Performance Indicators targets.

No.	Performance Indicator	Details	2005/06 Actual	2006/07 Target	2006/07 Actual	Comments
1	Delivery of Audit Plan (Jobs Finished)	Number of jobs planned for the year actually finished	77%	85%	90%	90% of the planned audit coverage was completed for 2006/07
2	Delivery of Audit Plan (Resources)	Planned total time for month compared to actual time booked for month	87%	95%	100%	100% of planned resources have been available during 2006/07
3	Productive audit time	Actual time booked for the month that is classed as productive	69%	67%	68%	68% of internal audit time for 2006/07 was classed as productive
4	Assignments completed within budget	Number of finished jobs completed within budget	72%	85%	93%	Two audit assignments were completed outside budget
5	Response time to fraud/allegations	Amount of time taken to respond to an allegation	1 day	5 days	2 days	All allegations and investigations have been responded to within 5 days for 2006/07
6	Pre-audit meetings held for each audit	A pre-audit meeting held for each audit	100%	100%	100%	Pre-audit meetings have been held for all 2006/07 audit reviews
7	Post audit meetings held for each audit	A post audit meeting held for each audit	100%	100%	100%	Post audit meetings have been held for all 2006/07 audit reviews
8	Draft report turnaround	Time taken to issue the draft report, following the	1 day	5 days	4 days	All draft reports have been issued within 5 days for 2006/07

No.	Performance Indicator	Details	2005/06 Actual	2006/07 Target	2006/07 Actual	Comments
		post audit meeting				
9	Final report turnaround	Time taken to issue the final report, following receipt of the draft report action plan	14 days	10 days	6 days	All final reports have been issued within 10 days for 2006/07
10	Number of recommendations accepted	Number of recommendations reported that were accepted / implemented	98%	90%	99%	99% of recommendations have been accepted for 2006/07
11	Post Audit Questionnaires returned	Number of post audit questionnaires returned	92%	85%	100%	100% of post audit questionnaires have been returned 2006/07
12	Customer feedback rating	Number of customer surveys returned that scored the service as good	84%	90%	100%	100% positive feedback has been received from post audit questionnaires returned during 2006//07
13	Attendance	Sick days taken per member of staff	2 days	8 days	3 days	Staff sick days were within target for 2006/07