

Body: AUDIT AND GOVERNANCE COMMITTEE

Date: 26TH SEPTEMBER 2012

Subject: Internal Audit Report to 30th June 2012

Report Of: Internal Audit Manager

Ward(s) All

Purpose To provide a summary of the activities of Internal Audit for the first quarter of the financial year 2012/13.

Recommendation(s): That the information in this report be noted and members identify any further information requirement and timescales.

That Members note the requirements of the Draft Local Audit Bill.

Contact: Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925.
E-mail address jackie.humphrey@eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2012/13 was agreed by the Audit Committee in March 2012.

2.0 Review of work in the first quarter of the financial year 2012/13.

- 2.1 Appendix A shows the work carried out against the plan for 2012/13. The following comments explain the main points to be noted from the table:
- 2.2 Annual audits for PKF – The number of days taken to carry out the work currently refers to work which relates to the last financial year but which was carried out in this year. This carry over of work occurs every year however this year the amount of work carried over has been reduced.
- 2.3 A list of all the audit reports issued in final from 1st April to 30th June 2012 is as follows:

NNDR (Annual 2011/12)	Performing Excellently
Cash and Bank (Annual 2011/12)	Performing Well

Payroll (Annual 2011/12)	Performing Excellently
Creditors (Annual 2011/12)	Performing Well
Council Tax (Annual 2011/12)	Performing Excellently
Benefits (Annual 2011/12)	Performing Excellently
Housing Rents (Annual 2011/12)	Performing Well
Claims work for PKF 2011/12	Performing Well
Housing	Performing Well
Health and Safety	Performing Well

Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

- 2.6 The annual reviews for the external auditors have now been completed and the focus of work has now shifted to carrying out the other audit reviews on the plan and to catching up with outstanding follow ups.
- 2.7 Appendix B shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.
- 2.8 There had been various recommendations relating to Procurement made in a number of previous audit reviews, one of which was Economic Development which had appeared in the previous Appendix B and C. The recommendations have been consolidated into one action plan which is now being considered. A report is going to Cabinet about the future of the Procurement function and the recommendations will be followed up in light of the Cabinet decision.
- 2.9 Where the column "priority" in Appendix B shows "High" the outstanding recommendations, and client comments from the report, have been listed at Appendix C. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.10 Appendix C has been taken to CMT and their comments have been requested on the outstanding recommendations and these have been added in the final column of the table.

3.0 Frauds over £10k

- 3.1 It is a requirement that frauds over £10k are reported to our external auditors. Usually such frauds are only found by the Benefit Fraud section.

- 3.2 The Benefit Fraud section now report these frauds to Internal Audit on a quarterly basis and these are passed on to the external auditors.
- 3.3 The list of benefit frauds over £10k for the first quarter of the financial year 2012-13 is therefore included here for information.

Overpayments over £10,000 between 01/04/12 and 30/06/12						
Suspected Fraud	Proven Fraud	Source of Info	DWP Involvement	Completed	Progress & Outcome	Over payment
UND Capital	Und Capital	DWP - FPA	With DWP Interest	11-Apr-12	Prosecution	24,184.68
UND Capital	Und Capital	DWP	With DWP Interest	08-May-12	Proven - WIB & OP claimed	29,904.61
Working	Claimant Working	DWP - FPA	With DWP Interest	19-Jun-12	Prosecution	45,737.59

All these Overpayments are being pursued for repayment despite formal or informal action being taken.

- 3.4 The "overpayment" figure is the amount of the fraud and not the amount that will necessarily be recovered.

4.0 Risk Management

- 4.1 The Strategic Risk Register is scheduled to be reviewed quarterly and any changes reported to this committee.
- 4.2 Corporate Management Team considers that the register requires a full review of all the risks currently listed to ensure that they are still relevant to the Council. This is scheduled to take place in September and the results of the review will be reported to the next meeting of this committee.
- 4.3 Operational and departmental risk registers have now been uploaded onto Covalent. With the new site licence for this software it is now possible for managers to review and update their risk registers directly. The system also allows for emails to be automatically sent out to managers to remind them when the next review is due.
- 4.4 Currently managers are being asked to review the risk registers so that any issues or training needs can be identified and addressed before this becomes a more automated process.

5.0 Draft Local Audit Bill

- 5.1 In July the Department for Communities and Local Government published the draft Local Audit Bill for a consultation period which closed on 31st August.

The bill has been formulated around four key principles:

Localism and decentralisation
Transparency

Lower audit fees
High standards of auditing

5.2 There has also been the commitment to disband the Audit Commission which can only be implemented by an Act of Parliament. The effect of the Local Audit Bill would be to close the Audit Commission and to establish new arrangements for the audit of local public bodies in England, whereby local bodies appoint their own auditors.

5.3 The main provisions of the bill are as follows:

Part 1 - The repeal of legislation setting up the Audit Commission with a new regime being put in place with no central body and with responsibility for appointing external auditors resting with the local authority.

Part 2 - A requirement for local public bodies in England to keep accounting records and prepare an annual statement of accounts, which must be audited. (N.B. This is already a requirement for local public bodies and is not a new requirement).

Part 3 - A requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel and to publish information about the appointment within 28 days of appointment. - This panel must consist of completely independent members. i.e must not have been a member or officer of a local body in the last 5 years nor have a relative or close friend who is a member or officer of that body.

Part 4 - Sets out the arrangements and requirements for the eligibility and regulation of auditors. The Financial Reporting Council will authorise professional accounting bodies as supervisory bodies. These supervisory bodies will be responsible for deciding which firms are eligible to undertake local public audit and for supervising their work.

Part 5 - The transfer of responsibility for setting the high level code of audit practice to the National Audit Office and provisions for how the code should be approved by Parliament.

Part 6 - The transfer of the Audit Commission's data matching powers for the purposes of preventing and assisting in the detection of fraud to the Secretary of State.

Part 7 - A power for the Secretary of State to commission an inspection of a Best Value authority, mirroring current powers in existing legislation. Powers for the National Audit Office to undertake studies of thematic value for money issues relating to local government, and to access information held by the latter where the National Audit Office needs it to fulfil its responsibilities.

5.4 The draft bill suggests that the new regime will come into existence over a period of ten years and that at the end of this period savings will be around £164 million per year.

5.5 As the bill is only at the draft stage it is to be expected that changes will be made before the bill finally attains royal assent. Any changes and progress of the bill

will be reported to future meetings of the Audit and Governance Committee.

6.0 Consultation

6.1 Respective Service Managers and Heads of Service as appropriate.

7.0 Resource Implications

7.1 Financial – Delivered within the approved budget for Internal Audit

7.2 Staffing – None directly as a result of this report.

8.0 Other Implications

8.1 None

9.0 Summary of Options

9.1 None

10.0 Recommendation

10.1 That the information in this report be noted and members identify any further information requirement and timescales.

10.2 That Members note the requirements of the Draft Local Audit Bill.

Jackie Humphrey
Internal Audit Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

None