

<b>Meeting:</b>	<b>GLT</b>	<b>Date:</b>	<b>12<sup>th</sup> June 2012</b>
	<b>Audit &amp; Governance Committee</b>		<b>25<sup>th</sup> June 2012</b>
<b>Subject:</b>	<b>Internal Audit Plan 2011-12 Final Monitoring Report</b>		
<b>Report Of:</b>	<b>Group Manager Audit &amp; Assurance</b>		
<b>Wards Affected:</b>	<b>N/A</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Terry Rodway, Group Manager Audit &amp; Assurance</b>		
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<b>Appendices:</b>	<b>1. Appendix A – List of the remaining audits completed as part of the Annual Plan 2011-12</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To inform Members of the remaining audits completed as part of the Revised Internal Annual Plan 2011-12.

### 2.0 Recommendations

- 2.1 Audit Committee is asked to **RECOMMEND** that
- (1) Members endorse the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

### 3.0 Background and Key Issues

- 3.1 At the Audit Committee meeting held on 8<sup>th</sup> December 2011, Members approved a revised Internal Audit Plan 2011-12. In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code), this report details the outcomes of internal audit work carried out in accordance with this Plan.
- 3.2 This is the last report on compliance against the revised 2011/12 Plan, and includes details of the remaining audits completed as part of the 2011/12 Plan. The performance monitoring information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the 2011/12 Plan is 90% (26 out of 29 planned audits completed) which is in line with the target of 90%.

3.3 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix A**. This should provide Members with a view on the adequacy of the controls operating within each area audited.

3.4 It has previously been agreed that Members would be notified of all 'Rank 1 Fundamental' recommendations that have not been implemented within the agreed timescale. From the 'Rank 1' recommendations that were due to be reviewed during the period covered by this report, the following have been identified as not being fully implemented:-

- Cash to Bank – Reconciliation of credit card transactions (income) – partial implementation as reconciliation not carried out on a regular basis.
- Markets – Stall holder charges to be reviewed to ensure that full costs are being recovered – partial implementation as review of charges have been undertaken, but revised charges have not been implemented.

#### **4.0 Alternative Options Considered**

4.1 Not Applicable

#### **5.0 Reasons for Recommendations**

5.1 The CIPFA Code of Practice for Internal Audit states that the Head of Internal Audit should report on the outcomes of Internal Audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

#### **6.0 Future Work and Conclusions**

6.1 The role of Internal Audit is to examine, evaluate, and report upon, the adequacy of internal controls. Where weaknesses have been identified, recommendations have been made to improve the level of control.

#### **7.0 Financial Implications**

7.1 As detailed in this report.

(Financial Services have been consulted in the preparation this report.)

#### **8.0 Legal Implications**

8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report.)

#### **9.0 Risk & Opportunity Management Implications**

9.1 Delays in response to acceptance/implementation of audit recommendations lead to weaknesses continuing to exist in systems, which has the potential for fraud and error to occur.

## **10.0 People Impact Assessment (PIA):**

10.1 A requirement of the Accounts & Audit Regulations 2011 is for the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the council's equality policies.

10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

## **11.0 Other Corporate Implications**

### Community Safety

11.1 There are no community safety implications arising out of this report.

### Sustainability

11.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

11.3 There are no staffing and Trade Union implications arising out of this report.

**Background Documents:** Internal Audit Annual Plan 2011/12

## APPENDIX A

List of the Remaining Audits Completed as part of the Annual Plan 2011-12

Audit	Comments	Level of Assurance
Council Tax	<p><u>Audit Objective</u></p> <p>The audit has been undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify that the following identified key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Periodic reconciliation of Council Tax system to Valuation Office listings</li> <li>• Periodic reconciliation of Council Tax system to the Cash Receipting system</li> <li>• Independent review of exceptions e.g. banding changes, suppressed accounts, overpayments and refunds</li> <li>• Periodic reconciliation of Council Tax system to the General Ledger</li> <li>• Reconciliation of the gross Council Tax debit to the number of properties</li> <li>• Periodic production and independent review of Council Tax arrears and credit reports.</li> <li>• There are adequate password-based access restrictions to the Council Tax system</li> <li>• There are reviews performed upon user access rights to the Council Tax system</li> </ul> <p><u>Audit Opinion</u></p> <p>The results of the testing have provided a <b>good</b> level of assurance that the controls are robust and effective.</p>	Good
Sundry Debtors	<p><u>Audit Objective</u></p> <p>The audit has been undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify that the following identified key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Periodic reconciliation of the Sundry Debtor system to the General Ledger</li> <li>• Periodic reconciliation of the Sundry Debtor system to the Cash Receipting system</li> <li>• Periodic production and independent review of Sundry Debtor arrears reports</li> <li>• There are adequate password-based access restrictions to the Sundry Debtors</li> </ul>	Good

Audit	Comments	Level of Assurance
	<p>system</p> <ul style="list-style-type: none"> <li>• Reviews are performed upon user access rights to the Sundry Debtors system.</li> </ul> <p><u>Audit Opinion</u></p> <p>The results of the testing have provided a <b>Good</b> level of assurance that the controls are robust and effective.</p>	
Budgetary Control	<p><u>Audit Objective</u></p> <p>The audit has been undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify that the following identified key control was in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Management review of revenue income and expenditure against budget.</li> </ul> <p>Within the identified high-level control, the audit objectives were to ensure that the following general controls over budget monitoring and reporting were in place and operating effectively:</p> <ul style="list-style-type: none"> <li>– Budget monitoring procedures and responsibilities are defined and communicated</li> <li>– Delegated cost-centre managers are sufficiently identified</li> <li>– Budget reports are produced and issued to cost-centre managers on a monthly basis</li> <li>– High-level financial monitoring reports / management accounts are produced and circulated periodically</li> <li>– Significant budget variances are investigated / explained</li> </ul> <p><u>Audit Opinion</u></p> <p>Testing of the high level financial monitoring reports has resulted in a <b>Good</b> level of assurance.</p> <p>Testing on the remaining areas covered by this audit has resulted in an assurance level of <b>Satisfactory</b>.</p> <p>The main areas of weakness identified relate to:-</p> <ul style="list-style-type: none"> <li>• the complete list of cost centre managers and budget heads requires updating and maintained on an ongoing basis</li> <li>• the absence of an agreed timetable for the roll-out of Collaborative Planning, in order that it is fully operational during 2012/13.</li> <li>• The lack of documentary evidence of cost centre managers receiving or accessing budget information.</li> </ul>	Good/Satisfactory

Audit	Comments	Level of Assurance
Creditors	<p><u>Audit Objective</u> The audit has been undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify that the following identified key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Periodic reconciliation of the creditors system to the general ledger</li> <li>• Independent review of exceptions – e.g. payments to new suppliers, potentially duplicated payments</li> <li>• Review of orders for which invoices have not been received (open orders)</li> <li>• Adequate password based access restrictions for the General Ledger system</li> <li>• Regular evidenced independent review of user access rights to the General Ledger system.</li> </ul> <p><u>Audit Opinion</u> Controls tested in relation to the key controls of reconciling the Creditor system to the General Ledger, password based access restrictions for the Creditors system, and, the review of user access rights to the Creditors system, has provided a <b>Good</b> level of assurance that expected controls were in place and that they are effective.</p> <p>Only a <b>Limited</b> level of assurance can be provided in relation to Exception reporting for new suppliers, or changes to supplier details, and, the review of open orders.</p> <p>The main weaknesses identified were:-</p> <ul style="list-style-type: none"> <li>• The lack of exception reporting for new suppliers, or changes to supplier details has been identified in previous audits. The weakness was to be addressed by writing a report that shows changes to the PL master file. It was established that an exception report had been adopted from another authority but that there were technical issues with making the report work on the live system.</li> <li>• The Internal Audit testing of the Year End Creditors for 2011/12 identified 50% of the sampled auto accruals (open orders) as being deemed as invalid entries. There is no documentary evidence to demonstrate that any recent/ regular review of open orders has been undertaken.</li> </ul>	Good/Limited
Payroll	<u>Audit Objective</u>	Good/Limited

Audit	Comments	Level of Assurance
	<p>The audit has been undertaken as part of the Joint Working Protocol agreed with the Council's External Auditor. The objectives of the audit were to verify that the following identified key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Periodic reconciliation of payroll system to the general ledger</li> <li>• Periodic circulation of establishment lists to Group Managers</li> <li>• Production and independent review of exception reports</li> <li>• Adequate password-based access restrictions for IT applications in place</li> <li>• Regular evidenced, independent review of user access rights to key systems</li> </ul> <p><u>Audit Opinion</u> Controls tested in relation to the reconciliation of the Payroll system to the General Ledger and the review of software access controls, were considered to be <b>Good</b>.</p> <p>Only a <b>Limited</b> level of assurance can be provided in relation to the production and independent review of exception reports, and, the periodic circulation of establishment lists.</p> <p>The main weaknesses identified were:-</p> <ul style="list-style-type: none"> <li>• Testing performed upon the exception reports produced for the pay runs in November and December 2011 has demonstrated that Payroll Officers continue to evaluate reports but that it could not be evidenced that all of these reports are being reviewed independently of Payroll staff.</li> <li>• The lack of a periodic circulation of establishment lists (the last exercise was run in July 2010), and, some previous verification exercises have not been concluded due to issues with obtaining completed lists.</li> </ul>	
Treasury Management	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> <li>• The organisation has establish a Treasury Management policy and investment strategy that has been approved;</li> <li>• An up to date procedures manual has been produced;</li> <li>• Clear and concise records are maintained</li> </ul>	Satisfactory/Limited

Audit	Comments	Level of Assurance
	<p>to support all borrowing and lending decisions and transactions;</p> <ul style="list-style-type: none"> <li>• Systems access to the CHAPS payment system is limited to approved current members of staff;</li> <li>• Regular reconciliation of investment/borrowing records to the general ledger.</li> </ul> <p><u>Audit Opinion</u> The assessment of the operations and controls over Treasury Management has been performed and the audit opinion is that there is a <b>Satisfactory</b> level of assurance over the deal processing and the reconciliation of investment/borrowing records, but <b>Limited</b> assurance over the management of investment counterparty positions to approved limits and user maintenance of user access and privileges.</p> <p>The main weaknesses identified relate to:-</p> <ul style="list-style-type: none"> <li>• Positive assurance is provided to the Audit Committee in relation to compliance with Treasury and Prudential Limits, however, positive assurance is not provided that investments have been made to approved counterparties and within approved limits during the quarter.</li> <li>• This is due to the Treasury Management Strategy Statement for 2011/12 appearing to be unclear in a number of places resulting leading to the potential for misinterpretation – for example, exceeding the investment limits for approved counterparties.</li> <li>• Two members of staff who had left the Council (and whose access to the council networks had been disabled), were still enabled users on the web-based CHAPS payment system. Assurance could not be gained that their Secure Token devices, used to access the system and to process transactions, had been returned. In addition one member of staff had been incorrectly set-up twice and both user ids were enabled.</li> </ul>	
Choice Based Lettings	<p><u>Audit Objective</u> The scope of the audit was to undertake testing on a sample of Homeseeker applications received, during the 2011/12 financial year.</p> <p>The audit objectives were to ensure that the following controls were in place and operating</p>	Limited



Audit	Comments	Level of Assurance
	<p>effectively:</p> <ol style="list-style-type: none"> <li>1. Duplicate applications are detected and cancelled.</li> <li>2. Applicants are correctly assessed and banded in accordance with formal policy.</li> <li>3. Suspended applications are monitored and appropriate action taken.</li> <li>4. Applications requiring specialist assessment are allocated to the relevant officers, and this is monitored.</li> <li>5. Access and privilege rights to the IT system are appropriately restricted and designated in accordance with users' job roles.</li> </ol> <p><u>Audit Opinion</u>  The number and classification of recommendations made has resulted in an overall assurance level of <b>Limited</b>.  The main areas of weakness identified related to:-</p> <ul style="list-style-type: none"> <li>• Whilst an effective daily process is in place for the detection of duplicate applications and ensuring that the Council only deals with its own applications, the controls within are of a predominantly manual nature and require a high degree of human intervention. This represents a potential risk that the methods employed are inefficient.</li> <li>• Guidance and process flows are used to aid the assessment of applications, and the more complex applications are passed on to specialist teams for further assessment. However, it is still the down to the judgement of one relatively inexperienced officer whether or not to pass on an application, and there is no monitoring in place that would mitigate the risk of an incorrect assessment being made.</li> <li>• Due to the way CBL IT system privileges are set up, one of the Registered Providers, is currently able to approve their own property advertisements, even though there is a requirement in place that all adverts must be approved by the Council's Housing Services team.</li> <li>• In one instance, the local banding assessment was overridden. However, this was not shown on the CBL IT system, and required further investigation and examination of documents before the reason could be ascertained. For transparency and efficiency, the reason for an override in an assessment of an application should be immediately apparent upon examining it on the CBL IT system.</li> <li>• The Council receives little or no assurance that Registered Providers actually offer their</li> </ul>	

Audit	Comments	Level of Assurance
	properties to those applicants at the top of the shortlist.	
ICT	<p><u>Audit Objective</u> The objective of the audit was to ensure that controls are in place and operating effectively in relation to the following areas.</p> <ol style="list-style-type: none"> <li>1 PC controls ( standards and procedures; security; acquisitions; back ups; disposal)</li> <li>2 IT procurement ( policies and procedures; central records of assets; planned implementation of installation of new hardware or software)</li> <li>3 Physical and environmental controls ( standards and procedures; security; risk assessments)</li> </ol> <p>The scope was to test the operation of these controls during the 2011/12 financial year.</p> <p><u>Audit Opinion</u></p> <p>The number and classification of recommendations made has resulted in a <b>Limited</b> level of assurance for each area reviewed. The main areas of weakness identified were:-</p> <ul style="list-style-type: none"> <li>• The business impact and priority of critical systems need to be agreed corporately</li> <li>• Non BT&amp;T and non council staff should not have uncontrolled access to secure areas</li> <li>• The current insurance sum for loss of data and information will need to be re-assessed in line with disaster recovery plan/business continuity plan to check that the level and scope of cover is adequate</li> <li>• Council Contract Standing Orders to be followed for all procurement to ensure best value is achieved</li> <li>• The process for reporting and monitoring incidents and faults needs to be put into action to ensure the confidentiality, integrity or availability of GCC's ICT systems or data.</li> <li>• The asset register to be checked and amended as necessary to ensure its accuracy.</li> </ul>	Limited

The report includes an 'opinion' on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

<b>CONTROL LEVEL</b>	<b>DEFINITION</b>
<b>Good</b>	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority)
<b>Satisfactory</b>	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority)
<b>Limited</b>	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations
<b>Unsatisfactory</b>	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

### Ranking of Recommendations

<b>RANK</b>		<b>DEFINITION</b>	<b>IMPLEMENTATION</b>
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit key control.	Immediate action required – should be pursued immediately.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.	Should be pursued in the short term, ideally within the next 6 months.
3	Low Priority	Current procedure is not best practice and could lead to minor in-efficiencies.	Action should be taken over the next 6 to 12 months.