

# Gloucester City Council

<b>Meeting:</b>	<b>GLT Audit &amp; Governance Committee</b>	<b>Date:</b>	<b>11<sup>th</sup>September2012 24<sup>th</sup>September 2012</b>
<b>Subject:</b>	<b>Internal Audit Plan 2012/13 – Quarterly Monitoring Report</b>		
<b>Report Of:</b>	<b>Group Manager Audit &amp; Assurance</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
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<b>Appendices:</b>	<b>1. List of the audits completed as part of the Internal Audit Plan 2012/13 – April to August 2012</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

1.1 To inform Members of the audits completed as part of the approved Internal Audit Plan 2012/13.

### 2.0 Recommendations.

2.1 Audit & Governance Committee is asked to **RESOLVE** 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 15<sup>th</sup> March 2012, Members approved the Internal Audit Plan 2012/13. In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, this report details the outcomes of internal audit work carried out in accordance with the Plan.

3.2 This is the first report on compliance against the 2012/13 Plan and covers the period April to August 2012. 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 period covered by this report is 70% (7 out of 10 planned audits completed) compared to a target of 90%. It should be

noted that these figures do not take account of 1 audit that was substantially complete as at 31<sup>st</sup> August 2012.

- 3.3 The main reason for non-achievement of the 90% is due to staff sickness. As at 31<sup>st</sup> August 2012, there has been 38 days lost to staff sickness. Part of this loss has been mitigated through the use of our shared service staff based at Stroud District Council.
- 3.4 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.
- 3.5 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. There were none identified during the period covered by this report.

#### **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 Plan 2012/13

## APPENDIX A

List of the Audits Completed as part of the Internal Audit Plan 2012/13 – April to August 2012

Audit	Comments	Level of Assurance
Council Tax - Opening Debit	<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 objective of the audit was to verify that the following identified key control was in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Reconciliation of the Council Tax opening gross debit.</li> </ul> <p><u>Audit Opinion</u> A <b>Good</b> level of assurance has been obtained that Council Tax charges have been correctly applied and that properties have been appropriately billed for 2012/13.</p>	Good
Non Domestic Rates – Opening Debit	<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 objective of the audit was to verify that the following identified key control was in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• Reconciliation of the NDR opening gross debit.</li> </ul> <p><u>Audit Opinion</u> A <b>Good</b> level of assurance has been obtained that the NDR charges have been correctly applied and properties have been appropriately billed for 2012/13.</p>	Good
Cemetery & Crematorium	<p><u>Audit Objective</u> The objective of the audit was to ensure that controls are in place and operating effectively in the following areas of operation:-</p> <ul style="list-style-type: none"> <li>• Income.</li> <li>• Security of assets.</li> <li>• Creditors.</li> <li>• Debtors.</li> <li>• Fees and Charges.</li> <li>• Gifts and Hospitality.</li> </ul> <p><u>Audit Opinion</u> As a result of testing undertaken, controls in place over all audited areas were deemed to be appropriately designed and operating effectively. Therefore, a <b>Good</b> level of assurance has been obtained.</p>	Good

Audit	Comments	Level of Assurance
Housing & Council Tax Benefits – Parameter Testing	<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 objective of the audit was to verify that the following identified key control was in place and operating effectively:-</p> <ul style="list-style-type: none"> <li>• The parameters in the Department for Work and Pensions (DWP) HB/CTB circular A1/2012, had been correctly entered onto the Benefits system.</li> </ul> <p><u>Audit Opinion</u> A <b>Satisfactory</b> level of assurance has been obtained that the parameters have been input into the system correctly. A couple of errors were identified which were corrected as a result of the audit.</p>	Satisfactory
Grants to Voluntary Organisations	<p><u>Audit Objective</u> The objectives of this audit were to ensure that: -</p> <ul style="list-style-type: none"> <li>• The Council sets criteria for awarding grants.</li> <li>• There is an adequate process for assessment of applications.</li> <li>• Expected performance is defined.</li> <li>• Performance is monitored.</li> <li>• Correct amounts have been paid.</li> </ul> <p>The audit also included a review of recommendations made by KPMG in their report entitled ‘Working with the Third Sector’.</p> <p><u>Audit Opinion</u> A <b>Satisfactory</b> level of assurance has been obtained over the audit objective areas.</p> <p>With regard to the KPMG recommendations only one had not been addressed as at the date of the audit. This related to “formal, regular reporting to GLT and members to share information and outcomes with regard to the Authority’s work with the third sector”. There is no evidence of any such reports having been submitted to Members or GLT. However the Business Improvement &amp; Equalities Officer has stated that the first report of this nature will be issued shortly.</p>	Satisfactory
Capital Accounting	<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>	Limited

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> <li>• There is a five year rolling programme of revaluation for fixed assets held at current cost.</li> <li>• There is an annual impairment review of tangible and intangible fixed assets.</li> <li>• Capital expenditure is reviewed against the capital programme.</li> <li>• The asset register is reconciled to the general ledger periodically.</li> <li>• There is periodic physical verification of tangible fixed assets.</li> <li>• There are controls in place in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to the movement in the fixed asset balance.</li> </ul> <p><u>Audit Opinion</u>  There has been an improvement in the operation and controls over capital accounting from the previous year, particularly in the use of spreadsheets which has made the process more transparent. However, this has also had the affect of highlighting historic issues particularly relating to the depreciation approach. The audit also highlighted that a number of the audit recommendations made at the previous audit have not been implemented. Therefore the audit opinion is that only a <b>Limited</b> level of assurance can be provided over this area.</p> <p>The main weaknesses identified related to:-</p> <ul style="list-style-type: none"> <li>• The depreciation charged in the spreadsheet fixed asset register is not in accordance with the depreciation policy documented in the notes to the accounts.</li> <li>• The fixed asset register does not appear to have correctly reflected the value of all the assets included in the other land &amp; buildings class, disposal of 3 corporate leasehold properties and 6 Council dwelling sales during the 2011/12 financial year.</li> <li>• Two inaccuracies in the February 2012 capital budget monitoring spreadsheet, has resulted in incomplete information being provided to the budget owners and the GLT.</li> <li>• Previously agreed recommendations not implemented relating to:- <ul style="list-style-type: none"> <li>○ Documentary evidence of impairment review.</li> <li>○ Reconciliation of general ledger budget reports to approved budgets.</li> <li>○ Documentary evidence of monitoring of capital budgets.</li> <li>○ Management review of asset 'life' for all new assets.</li> </ul> </li> </ul>	

Audit	Comments	Level of Assurance
Year End Debtors & Creditors	<p><u>Audit Objective</u> The scope and objectives of this engagement were defined as follows:-</p> <ul style="list-style-type: none"> <li>• To ensure that debtor and creditor items comply with the definition included in the Final Accounts Year End Memo dated 9<sup>th</sup> March 2012: <ul style="list-style-type: none"> <li>○ Creditors - goods have been received, or works executed, on or before 31st March 2012.</li> <li>○ Debtors - goods have been supplied, or works executed to other organisations, on or before 31st March 2012.</li> </ul> </li> </ul> <p>The scope of the audit covered the period up to, and including, the 31<sup>st</sup> March 2012.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review and the level of error identified through audit testing, the audit opinion is that there is <b>Limited</b> assurance over this area.</p> <p>Testing performed upon the financial management system generated accruals, identified 10 invalid entries out of a sample size of 20 entries tested (50% error rate).</p> <p>Testing performed upon the manual debtor forms identified 1 invalid form out of a sample size of 3 forms tested (33% error rate).</p>	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:-

CONTROL LEVEL	DEFINITION
<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.