

Gloucester City Council

Meeting:	GLT	Date:	11th June 2013
	Audit & Governance Committee		24th June 2013
Subject:	Internal Audit Plan 2012/13 – Quarterly Monitoring Report		
Report Of:	Group Manager Audit & Assurance		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Group Manager Audit & Assurance		
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Appendices:	1. List of the final audits completed as part of the revised Internal Audit Plan 2012/13		

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 15th March 2012, Members approved the original Internal Audit Plan 2012/13, a revised and updated version of which was approved at the committee meeting on 26th November 2012. In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, this report details the outcomes of internal audit work carried out in accordance with the approved Plans.

- 3.2 This report includes the final audits completed as part of the revised Internal Audit Plan 2012/13. The performance monitoring information (for the revised Internal Audit Plan) is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the revised Internal Audit Plan is 86% (12 out of 14 planned audits completed) compared to a target of 90%. These figures do not include one audit that was substantially complete as at the end of the audit year.

This audit has subsequently been completed and a summary of the audit findings is included in this report.

- 3.3 Staff absence was the main reason for non-achievement of the 90% target. This has been mitigated to a certain extent by the use of an agency member of staff, although, the original intention was that this resource was to be in addition to, rather than a replacement for, the current level of resources.
- 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. It should be noted that as part of the Financial Services Improvement Plan, further measures have already been implemented against many of these areas. The Finance Change Manager will update Audit and Governance Committee members on the latest progress against this plan at the meeting. Compliance with these improved measures/controls will be reviewed by Internal Audit during 2013/14.
- 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 for reporting 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
Revised Internal Audit Plan 2012/13

APPENDIX A

List of the final audits completed as part of the revised Internal Audit Plan 2012/13.

Audit	Comments	Level of Assurance
Risk Management	<p><u>Audit Objective</u></p> <p>The objectives of this audit were to ensure that: -</p> <ul style="list-style-type: none"> • Responsibilities for risk management are allocated • There is adequate support and training for the development of risk management processes • The Authority has a Risk Management Policy and/or Strategy • Risk management processes are reviewed • Risk management processes are communicated to staff and members • Strategic and operational service risks are identified and recorded • Partnership risks are identified • Likelihood and impact are assessed and recorded • Controls and mitigating actions are recorded • Risk owners are identified • Risk registers are reviewed <p><u>Audit Opinion</u></p> <p>On the basis of the work carried out during this audit, and the level of error identified through audit testing, the audit opinion is that there is a satisfactory level of assurance over the operation of the key controls.</p> <p>The main areas of weakness identified related to:-</p> <ul style="list-style-type: none"> • Lack of risk management training for Members • Limited review of Strategic Risk register by Group Managers (NB This relates to the period covered by the audit. Since the completion of this audit the review of the Strategic Risk register has become a standard agenda item for the joint monthly meetings between GLT and Group Managers). 	Satisfactory
Benefits	<p><u>Audit Objective</u></p> <p>This audit has been undertaken as part of the joint working protocol with the Council's external auditor, with the scope of the audit limited to testing of the following key controls:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of benefits system to the general ledger • Periodic reconciliation of Council Tax Benefits 	Satisfactory

Audit	Comments	Level of Assurance
	<p>per the Council Tax system to Benefits system</p> <ul style="list-style-type: none"> • Periodic reconciliation of Rent Rebates as per the Rents system to Benefits system • Periodic reconciliation of Rent Allowances per the Creditors system to Benefits system • Exception reporting <p>In addition to testing the key controls the following testing was carried out:</p> <ul style="list-style-type: none"> • Testing of random sample of 20 overpayments to provide reasonable assurance that the overpayments have been categorised appropriately. <p><u>Audit Opinion</u> On the basis of the work carried out during this audit, and the level of error identified through audit testing, the audit opinion is that there is a satisfactory level of assurance over the operation of the key controls.</p> <p>The main areas of weakness identified related to:-</p> <ul style="list-style-type: none"> • The lack of documentary evidence of management review of reconciliations to ensure that the reconciliations are complete, accurate and agree to supporting system reports. • Payment 'exceeds' reports not being produced in accordance with the agreed payment run procedures. • A random sample of overpayment cases was selected from the Benefits system report of overpayments as at 1/2/13 identifying errors relating to classification and calculation issues. 	
Cash & Bank	<p><u>Audit Objective</u> This audit has been undertaken as part of the joint working protocol with the Council's external auditor, with the scope of the audit limited to testing of the following key controls:-</p> <ul style="list-style-type: none"> • Bank reconciliations • Reconciliations of the cash receipting system to General Ledger <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 good level of assurance over the cash receipting interfaces to the general ledger. There is limited assurance on the controls relating to bank reconciliations and clearance of cash suspense transactions.</p> <p>The main areas of weakness identified were:-</p> <ul style="list-style-type: none"> • Bank reconciliations were not being completed 	Good/Limited

Audit	Comments	Level of Assurance
	<p>by an independent officer and subject to supervisory review.</p> <ul style="list-style-type: none"> • Long standing differences and reconciling items remain on the Expenditure Account and Cahiers Account reconciliations were noted. <p>It should be noted however, that as part of the financial services improvement plan, further measures and controls have been implemented since the audit. Compliance with these improved arrangements will be reviewed during 2013/14.</p>	
General Ledger	<p><u>Audit Objective</u> This audit has been undertaken as part of the joint working protocol with the Council's external auditor with the scope of the audit limited to testing of the following key controls:-</p> <ul style="list-style-type: none"> • Periodic clearance of suspense and holding account balances, supported by evidenced management review. • Periodic production and independent review of journal exception reports i.e. journal entries >£10,000 • Adequate password based access restrictions for the General Ledger IT application. • Regular evidenced independent review of user access rights to the General Ledger IT application <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 good level of assurance over the key controls on password based access restrictions and the review of user access rights to the General Ledger. There is limited assurance on controls relating to the clearance of suspense accounts and the review of journals. It should be noted however, that as part of the financial services improvement plan, further controls have been implemented since the audit. Compliance with these improved arrangements will be reviewed during 2013/14.</p>	Good/Limited
Creditors	<p><u>Audit Objective</u> This audit has been undertaken as part of the joint working protocol with the Council's external auditor, with the scope of the audit limited to testing of the following key controls:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the creditors system to the General Ledger • Independent review of exceptions – e.g. payments to new suppliers, potentially 	Good/Limited

Audit	Comments	Level of Assurance
	<p style="text-align: center;">duplicated payments</p> <ul style="list-style-type: none"> • Review of orders for which invoices have not been received • Adequate password based access restrictions for the General Ledger system • Regular evidenced independent review of user access rights to the General Ledger system. <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 good level of assurance over the key controls on setting up new suppliers, processing invoices and making payments to suppliers. There is limited assurance in respect of monitoring payment times to suppliers. Recommendations were also made to ensure that the publication of invoice information in accordance with transparency requirements is updated regularly throughout the year.</p>	
Budgetary Control	<p><u>Audit Objective</u> This audit has been undertaken as part of the joint working protocol with the Council's external auditor, with the scope of the audit limited to testing of the following controls:</p> <ul style="list-style-type: none"> • Management review of revenue income and expenditure against budget. • Budget monitoring procedures and responsibilities are appropriately defined and communicated. • Delegated cost-centre managers are clearly identified • The annual budget is approved by Council. • The agreed budget is loaded into the general ledger • Budget reports are produced and issued to cost-centre managers • Significant budget variances are investigated/ explained. • High-level financial monitoring reports/ management accounts are produced and circulated periodically to senior management/ members. <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 a satisfactory level of assurance over all areas tested except for the control relating to budget reports being produced and issued to cost centre managers, for which a limited level of assurance is given.</p>	Satisfactory/Limited

Audit	Comments	Level of Assurance
	<p>It should be noted however, that as part of the Financial Services Improvement Plan, further measures/controls have been implemented since the audit. Compliance with these improved arrangements will be reviewed during 2013/14.</p>	
<p>Payroll Audit and Client Monitoring of the County Council SAP contract</p>	<p><u>Audit Objective</u> This audit has been undertaken as part of the joint working protocol with the Council's external auditor, with the scope of the audit limited to testing of the following key controls:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of payroll system to the general ledger. • Periodic reconciliation of the payroll system to personnel records • Periodic circularisation of establishment lists to Group Managers • Production and independent review of exception reports. • Adequate password-based access restrictions for IT applications in place • Regular evidenced, independent review of user access rights to key systems. <p>The controls tested in relation to the SAP client role with the County Council payroll provider included:</p> <ul style="list-style-type: none"> ▪ Signed contracts are in place to define both parties' obligations. • Performance Managements arrangements are operating effectively • Risk Management procedures are operating effectively • Client Monitoring Arrangements are working effectively • Payments to the 'supplier' are made in line with pre-set conditions and the values can be substantiated <p><u>Audit Opinion</u> On the basis of work carried out during the audit reviews and the level of error identified through audit testing, the audit opinion is that there is a satisfactory level of assurance over the key controls on reconciliation of the payroll system to the general ledger and personnel records, SAP password access restrictions and SAP system access rights. There is an unsatisfactory level of assurance on the confirmation of the establishment by Group Managers, review of exception reports and reconciliation of the payroll to actual payments made. Client team issues included checking of contract conditions and assurance from the county council on adequacy of controls within their payroll system.</p>	<p>Satisfactory/ Unsatisfactory</p>

Audit	Comments	Level of Assurance
Procurement	<p><u>Audit Objective</u></p> <p>The procurement audit has focussed upon the key areas of the council procurement strategy, contracts register, procurement process, tender documentation, and the use of agency employees and consultants.</p> <p><u>Audit Opinion</u></p> <p>As a result of these findings the controls mitigating risks in relation to the tender documentation are considered to be good with controls relating to the contracts register and the procurement process being considered to be satisfactory. However, some elements of the controls in relation to the procurement strategy and the use of agency employees were considered to be limited - including lack of formal procurement training, in favour of advice given on a more ad-hoc basis at the time queries arise; and a lack of a preferred supplier list/central register of employment agencies.</p> <p>Recommendations were also made on documenting guidance to help validate sustainability issues within low and intermediate value procurement.</p>	Good/Satisfactory/ Limited
Revenues & Benefits Contract	<p><u>Audit Objective</u></p> <p>The scope and objectives of this audit were agreed as follows: -</p> <ul style="list-style-type: none"> ▪ Signed contracts are in place to define both parties' obligations. • Performance Managements arrangements are operating effectively • Risk Management procedures are operating effectively • Client Monitoring Arrangements are working effectively • Payments to the 'supplier' are made in line with pre-set conditions and the values can be substantiated <p><u>Audit Opinion</u></p> <p>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 limited level of assurance. The main area of weakness identified relates to either non-compliance, or lack of evidence to support compliance, with some contract conditions including payment of service charges and accommodation fees. Recommendations were also made in relation to improvements in the 10% sample check process.</p> <p>It should be noted however, that as part of the financial services improvement plan, further measures/controls</p>	Limited

Audit	Comments	Level of Assurance
	have been implemented since the audit. Compliance with these improved arrangements will be reviewed during 2013/14.	

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
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
Satisfactory	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).
Limited	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.
Unsatisfactory	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:-

RANK		DEFINITION	IMPLEMENTATION
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.