

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	17th March 2014
Subject:	Internal Audit Plan 2013/14 – Monitoring Report		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager		
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Appendices:	A: List of the audits completed – November 2013 to February 2014		
	B: Rank 1 ‘High Priority’ Recommendations Not Implemented by Agreed Date		

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 2013/14.

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 & Governance Committee meeting held on 18th March 2013, Members approved the Internal Audit Plan 2013/14. In accordance with the Public Sector Internal Audit Standards, this report details the outcomes of internal audit work carried out in accordance with the approved Plan.
- 3.2 This report includes details of the audits completed during the period November 2013 to February 2014. 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 11 month period ending 28th February 2014 is 78% (21 out of 27 planned audits completed) compared to a

target of 90%. These figures do not include two audits that were at Final Report stage, and one audit that was substantially complete, as at the end of February 2014.

- 3.3 The main reasons for the non-achievement of the audit target are: (a) a number of audits taking longer to complete than originally planned, and (b) a member of the team recently carrying out duties as a recognised union representative, the time for which is allowed for in the appropriate council policy, but this time was not included in the original agreed Audit Plan.
- 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. Subject to the comments below in para. 4.0, re the Markets Audit, one other Rank 1 recommendation has been identified as not being implemented by the agreed date – see Appendix B for details.

4.0 Markets Audit – Follow up to Audit Recommendations

- 4.1 At the previous meeting of the Audit & Governance Committee, Members requested that the Follow-Up audit to the Markets Audit be undertaken. It was agreed by the Audit, Risk and Assurance Manager that this audit would be undertaken in January 2014.
- 4.3 There were two Rank 1 'High Priority' recommendations that were subject to review, with one, relating to the calculation of gross costs, only being partially implemented by the agreed date. Details have been provided in **Appendix B**.

5.0 Alternative Options Considered

- 5.1 No other options have been considered as the purpose of the report is to inform the Committee of the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

6.0 Reasons for Recommendations

- 6.1 The Public Sector Internal Audit Standards state that the Audit, Risk & Assurance Manager 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.

7.0 Future Work and Conclusions

- 7.1 The role of the Audit & Assurance service 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.

8.0 Financial Implications

- 8.1 As detailed in this report.

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

9.0 Legal Implications

- 9.1 None specific to this report.

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

10.0 Risk & Opportunity Management Implications

- 10.1 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.

11.0 People Impact Assessment (PIA):

- 11.1 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.

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

12.0 Other Corporate Implications

Community Safety

- 12.1 There are no community safety implications arising out of the recommendation in this report.

Sustainability

- 12.2 There are no sustainability implications arising out of the recommendation in this report.

Staffing & Trade Union

12.3 There are no staffing and trade union implications arising out of the recommendation in this report.

Background Documents:

Internal Audit Plan 2013/14

Public Sector Internal Audit Standards

APPENDIX A

List of the audits completed – November 2013 to February 2014

Audit	Comments	Level of Assurance
FMS Upgrade	<p><u>Audit Objective</u></p> <p>The Financial Management System was identified as requiring an upgrade. Internal Audit were invited to partake in the project from commencement of implementation with the aim of reviewing activities and progress.</p> <p><u>Audit Opinion</u></p> <p>A good level of assurance has been provided that the project for upgrading the Financial Management System to e-Financials V4.1 has been completed and that the transfer of data has been successfully reconciled.</p>	Good
BT&T	<p><u>Audit Objective</u></p> <p>The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Network Controls • Disaster recovery and business continuity • Application controls i.e. inventory; interfaces; insurance. <p>NB An assurance level has not been provided as part of this audit for controls around application security, user privileges, logical access, parameters / functionality testing, and reporting and monitoring, as these areas are covered by individual audits in the various service areas.</p> <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 Good level of assurance in relation to Application Controls, and a Satisfactory level of assurance in relation to Network Controls.</p> <p>There is a Limited level of assurance in relation to Business Continuity. The main area of weakness identified, for which one 'High' priority recommendation has been made relates to the BT&T Business Continuity Plan (BCP) being out-of date.</p> <p>As this BCP is considered to be the primary document for the Council's Disaster Recovery arrangements, there is also a Limited level of assurance in relation to Disaster Recovery.</p>	Good/Satisfactory/ Limited

Audit	Comments	Level of Assurance
Social Media Policy	<p><u>Audit Objective</u></p> <p>The audit was carried out in order to provide management with a level of assurance that controls are both in place and operating effectively towards mitigating risks associated with the Council's use of social media.</p> <p>The audit objective was to ensure that controls are in place and operating effectively over :</p> <ul style="list-style-type: none"> • Social media policy and guidance • Social media users and security • Social media effectiveness and use <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 Good level of assurance in relation to 'Effectiveness and Use', and a Satisfactory level of assurance in relation to 'Policy & Guidance', that the risk of reputational damage to the Council, through misuse of social media, is being mitigated to an acceptable level.</p> <p>There is a Limited level of assurance in relation to 'Users and Security'. The main area of weakness identified, for which one Rank 1 'High Priority' and one Rank 2 'Medium Priority' recommendations have been made relate to the lack of a periodic review of users, or regular password changes, nor any formal controls or procedures around leavers that have had access to the Council's social media accounts.</p>	Good/Satisfactory/ Limited
Council Tax	<p><u>Audit Objective</u></p> <p>The objective of the audit was to ensure the following key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of Council Tax system to Valuation Office listings; • Periodic reconciliation of Council Tax system to the Cash Receipting system; • Periodic reconciliation of Council Tax system to the General Ledger; • Independent review of exceptions e.g. banding changes, suppressed accounts, overpayments and refunds; • Periodic production and independent review of Council Tax arrears and collection reports 	Good/Limited

Audit	Comments	Level of Assurance
	<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 Good level of assurance in all areas covered by the audit except for the testing in relation to suppressed accounts, for which a Limited level of assurance has been provided.</p> <p>The main areas of weakness, for which two 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • The lack of documentary evidence that CTAX inhibits identified within the Batch Billing Exception Reports are being reviewed on a regular basis. • The lack of documentary evidence that CTAX inhibits are being reviewed in line with the reporting timeframe. 	
NNDR	<p><u>Audit Objective</u> The objective of the audit was to ensure the following key controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the NNDR system to the Valuation Office rateable value listing; • Periodic reconciliation of the NNDR system to the cash receipting system; • Periodic reconciliation of the NNDR system to the general ledger; • Periodic review of exceptions: e.g. rateable value changes, suppressed accounts, overpayments and refunds; • Periodic production of NNDR arrears and collection reports and independent review <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 Good level of assurance in all areas covered by the audit except for the testing in relation to suppressed accounts for which a Limited level of assurance has been provided.</p> <p>The main areas of weakness, for which two 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • The lack of documentary evidence that CTAX inhibits identified within the Batch Billing Exception Reports are being reviewed on a regular basis. • The lack of documentary evidence that CTAX inhibits are being reviewed in line with the reporting timeframe. 	Good/Limited

Audit	Comments	Level of Assurance
Parking	<p><u>Audit Objective</u> The objective of the audit was to ensure the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Payments to the Contractor / partner can be substantiated to supporting documentation; • Key performance data is monitored and profit share amended as necessary. • Income from contractor / partner can be substantiated to supporting documentation. • Penalty Charge Notices are appropriately processed, income received is adequately controlled, and, cases taken to court comply with the enforcement timetable. • Pay & Display meters are regularly emptied and the takings verified. • Permits are adequately controlled. <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 Good level of assurance in all areas covered by the audit except for income for which a Limited level of assurance has been provided.</p> <p>The main areas of weakness for which three Rank 2 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • The lack of checking of current staff/member parking permits to ensure the correct payments are being made; • Software interface issues with the system software that has resulted in bailiff payments having not been updated on the system since April / May 13, and have also resulted in the council not being able to issue any new cases to the bailiff for the same period. 	Good/Limited

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

CONTROL LEVEL	DESCRIPTION
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		DESCRIPTION
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.
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.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.

Appendix B

Rank 1 'High Priority' Recommendations Not Implemented by Agreed Date

Audit	Date	Recommendation	Agreed Action	Responsible Officer	Agreed Implementation Date	Management comment
Procurement	July 2013	The use of supplier lists is to be fully assessed to ensure that the process is legal and that it does not infringe upon other Procurement Strategy objectives such as competition and access, best value, and ethics	Procurement Officer will raise with the Legal & Democratic Services Manager at next procurement update meeting in July.	Legal & Democratic Services Manager & Procurement Officer	July 2013	<p>The Head of Legal & Policy Development has advised that the issue of supplier lists is one of many items to be assessed under the planned revision of the contract procedure rules. Whilst supplier lists have historically drifted in and out of favour it is accepted that actions are required to assess whether they infringe upon other Procurement Strategy objectives such as competition and access, best value, and ethics or if such lists are even legal under EU procurement rules.</p> <p>Consideration should also be given to the fact that a revision to the EU procurement rules is anticipated to come into effect circa 2014/15 and that any revision of GCC's contract procedure rules will require having to take account of any changes coming into effect during the 2014/15 financial year.</p> <p>Revised implementation date -</p>

Audit	Date	Recommendation	Agreed Action	Responsible Officer	Agreed Implementation Date	Management comment
						March 2014.
Markets	July 2013	Each of the gross costs being used to calculate the stallholder charges are to be revisited with actions being taken to ensure that the costs incurred by the City Council are being fully accounted for.	The service charge costs are to be reviewed. The service charge costs are to be loaded onto the costing spreadsheet. Stallholder invoices for 2013/14 are to be reviewed to ensure that they are in line with the values calculated from the costing spreadsheet	Markets Manager	September 2013	Food, Licensing & Markets Manager – Partially implemented. Once the Asset Management Team determine the new licence fees, each stall holder will be given 3 months written notice of new fees taking effect – Revised implementation date - March 2014.
Markets	July 2013	Actions are to be taken to ensure that the ongoing issue of stallholders being charged an incorrect monthly proportion of their annual charge is addressed and rectified.	Decision will have to be made upon how far to take back any under or over charges, with actions being taken as required. All stallholder invoices to be reviewed and actioned as required dependant upon the decision.	Markets Manager	September 2013	Food, Licensing & Markets Manager -Once fees are determined, write to each stall licence holder to inform them changes to their fees allowing 3 months notice to take effect. Ensure effective dates reflect a Monday in accordance with their licence and also in line with Sundry Debtors billing timescales – Revised implementation date April 2014.