

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	26th June 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 remaining audits completed as part of the 2013/14 Internal Audit Plan		
	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 remaining 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 remaining audits completed as part of the 2013/14 Annual 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 2013/14 Annual Plan is 88% (29 out of 33 planned audits completed) compared to a target of 90%.
- 3.3 The audits that were not completed within the annual plan timeframe have subsequently been completed and the overall conclusion reached on each of these audits has been provided in **Appendix A**.

- 3.4 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 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.
- 3.5 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.
- 3.6 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 – see **Appendix B** for details.

4.0 Alternative Options Considered

- 4.1 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.

5.0 Reasons for Recommendations

- 5.1 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.

6.0 Future Work and Conclusions

- 6.1 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.

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 the recommendation in this report.

Sustainability

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

Staffing & Trade Union

- 11.3 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 remaining audits completed as part of the 2013/14 Internal Audit Plan

Audit	Comments	Level of Assurance
Debtors	<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"> • Reconciliation of the Sundry Debtor system to the General Ledger • Reconciliation of the Sundry Debtor system to the Cash Receipting system • Production and independent review of Sundry Debtor arrears reports • Adequate password-based access restrictions to the Sundry Debtor system • Reviews are performed upon user access rights to the Sundry Debtors system <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Good' level of assurance on the adequacy and operating effectiveness of controls in place over the Debtors system, except for the 'reviews performed upon access rights', for which a 'Satisfactory' level of assurance can be provided.</p> <p>One 'Rank 2 Medium Priority' recommendation has been made and agreed by the appropriate manager.</p>	Good/ Satisfactory
Cash & Bank	<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"> • Bank reconciliations • Reconciliations of the cash receipting system to General Ledger • Reviews performed upon the unallocated cash suspense account • Reconciliations of procurement card and credit card transactions <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of</p>	Good/ Satisfactory

Audit	Comments	Level of Assurance
	<p>recommendations identified through audit testing, there is a 'Good' level of assurance on the adequacy and operating effectiveness of controls in place over the 'cash & bank' system, except for the reconciliation between the Flex system and the general ledger for which a 'Satisfactory' level of assurance can be provided.</p> <p>Two 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager.</p>	
General Ledger	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Adequate password based access restrictions to the general ledger system • Regular evidenced independent review of user access rights • Regular evidenced independent review of the appropriateness of 'super users' (system administrator level access) • System restrictions to inputting one sided journals • Periodic production and independent review of journal exception reports (i.e. journal entries >£10,000); or independent preparation, authorisation and input of journals • Periodic clearance of suspense and holding account balances, supported by evidenced management review • Ledger mapping: annual update and review of the general ledger mapping to SERCOP headings • Feeder system reconciliation to the general ledger <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place over the general ledger.</p> <p>The main area of weakness identified, for which one 'Rank 2 Medium Priority' recommendation has been made and agreed by the appropriate manager, relates to the lack of segregation of duty between preparation, authorisation & input for all journal types or a lack of journal exception report review of journals e.g. ></p>	Satisfactory

Audit	Comments	Level of Assurance
	£10k).	
Creditors	<p><u>Audit Objective</u> The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Periodic reconciliation of the Creditors system to the general ledger • Adequate password-based access restrictions to the Creditors system • Periodic review of exception reports <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Satisfactory' level of assurance on the adequacy and operating effectiveness of controls in place over the creditors system.</p> <p>The main areas of weakness identified, for which two 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager, relate to:-</p> <ul style="list-style-type: none"> - Whilst reconciliation between the key creditors sub-ledgers and the relevant general ledger control accounts appear to be being undertaken, there is no physical evidence of review and sign-off - The ability to create new suppliers and amend the details of existing suppliers on the system is limited to staff in Financial Services, but there is no exception reporting of these actions 	Satisfactory
Risk 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"> • A risk management strategy is in place, approved by Members and kept under review • A strategic risk register is maintained, reviewed and updated on a regular basis, which assesses, scores and records risks in accordance with the methodology set out in the strategy • Identification of risks is taking place as required under the strategy at service level and the assessment, scoring and recording of risks (in risk registers) at service level is being carried out in accordance with the standardised methodology set out in the 	Satisfactory

Audit	Comments	Level of Assurance
	<p>strategy</p> <ul style="list-style-type: none"> • Service level risk management is aligned with the revised organisational structure • There is a clear two way linkage of highly rated risks from the service level risk registers to the strategic risk register when risk ownership is defined at the service level • Risk management activities are taking place in respect of partnerships and aligned with the risk management strategy • Responsibilities under the risk management strategy at member and committee level, corporate leadership level and service management level are allocated to individuals and being discharged <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Satisfactory' level of assurance over the risk management process within the Council.</p> <p>The main areas of weakness identified, for which three 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager, were:-</p> <ul style="list-style-type: none"> - There are a small number of gaps in the production of individual service risk registers - The linkage between the strategic risk register and service risk registers to reinforce the ownership of strategic risks by services where appropriate - The strategic risk register has not been reviewed by Members 	
Payroll	<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"> • Regular and evidenced review of payroll system reconciliation to the General Ledger • Establishment lists are circulated to managers for verification • Management review of exception reports • Adequate password-based access restrictions to the Payroll system 	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the budgetary control audit opinion has been split as follows:</p> <p>A ‘Good’ level of assurance can be provided in relation to the reconciliation of the payroll system and the password based access restrictions to the system. A ‘Satisfactory’ level of assurance can be provided in relation to the verification of the establishment list by managers. However, only a ‘Limited’ level of assurance can be provided in relation to the management review of exception reports.</p> <p>One ‘Rank 1 High Priority’ and one ‘Rank 2 Medium Priority’ recommendation has been made and agreed by the appropriate manager.</p>	
Budgetary Control	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following controls were in place and operating effectively:</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 • Budget reports are produced and issued to cost-centre managers on a monthly basis • High-level financial monitoring reports / management accounts are produced and circulated periodically to senior management/Members • Significant budget variances are investigated / explained <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the budgetary control audit opinion has been split as follows:</p> <p>A ‘Good’ level of assurance can be provided in relation to budget monitoring procedures and responsibilities, and Identification of delegated cost-centre manager. A ‘Satisfactory’ level of assurance can be provided in relation to budget monitoring (cost</p>	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>centre managers and SMT). However, only a 'Limited' level of assurance can be provided in relation to budget monitoring (Members), and budget virements.</p> <p>The main areas of weakness identified, for which two 'Rank 1 High Priority' and one 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager were:</p> <ul style="list-style-type: none"> - Lack of an audit trail to confirm complete or consistent cost centre manager (service level) budget monitoring for April to October 2013 - As at the date of the audit only two budget monitoring reports (year end forecast) have been presented to Members during the year; - Lack of supporting documents with authorisation for all budget virements completed within 2013/14 	
Capital Accounting	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • A five year rolling programme of revaluation for fixed assets held at current cost • Annual impairment review of tangible and intangible fixed assets • Periodic review of capital expenditure against the capital programme • Periodic reconciliation of the fixed asset register to the general ledger • Periodic physical verification of tangible fixed assets • Controls in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to movement in fixed asset balance • Contract review – maintenance of a central contracts register and review of significant new contracts to identify service concession arrangements and embedded leases <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the capital accounting audit opinion has been split as follows:</p> <p>A 'Good' level of assurance can be provided in relation to the Revaluation programme; impairment</p>	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>review; and physical verification of fixed assets. A 'Satisfactory' level of assurance can be provided in relation to the reconciliation of the fixed asset register to the general ledger, and depreciation controls. However, only a 'Limited' level of assurance can be provided in relation to Capital programme setting and monitoring .</p> <p>The main areas of weakness identified, for which two 'Rank 1 High Priority' recommendations have been made and agreed by the appropriate manager were:-</p> <ul style="list-style-type: none"> - The capital programme setting reports to Members were not in accordance with Constitution requirements - The lack of regular capital monitoring reports issued to Members for review and scrutiny in 2013/14 	
Catering - Arbor	<p><u>Audit Objective</u> The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Cash income • Gifts and hospitality • Stock and waste • Debtor income • Petty cash • Timesheets • Creditor payments • Security <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Limited' level of assurance on the adequacy and operating effectiveness of controls in place over catering.</p> <p>The main areas of weakness identified, for which three 'Rank 1 High Priority' and six 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager relate to:-</p> <ul style="list-style-type: none"> - Till reconciliations are not always signed-off by both the officer undertaking the process and someone to perform an independent check - Multiple minor inaccuracies over the expected contents of the till were noted - Stock and waste levels are not recorded or monitored - Petty cash is not being certified by a manager, and 	Limited

Audit	Comments	Level of Assurance
	<p>is often not reimbursed by someone independent of the transaction</p> <ul style="list-style-type: none"> - Timesheets for zero hours staff are not being authorised by an approved manager - Creditor invoices do not appear always to have been preceded by an approved purchase order - Purchase orders have not always been fully goods receipted, resulting in an outstanding commitment at year-end - Some creditor payments were inappropriately coded - Security arrangements regarding storage of the safe key and the amount of cash held are currently insufficient 	
Catering - Docks	<p><u>Audit Objective</u> The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Cash income • Gifts and hospitality • Stock and waste • Debtor income • Petty cash • Creditor payments <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing there is a 'Limited' level of assurance on the adequacy and operating effectiveness of controls in place over catering.</p> <p>The main areas of weakness identified, for which three 'Rank 1 High Priority' and three 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager relate to:-</p> <ul style="list-style-type: none"> - The service does not currently use a till, and does not cash-up on a daily basis - therefore there is no daily reconciliation of takings to expected income - VAT is not being treated consistently when cash income is posted to the relevant general ledger code - Offers of gifts and hospitality are not being recorded in accordance with Council policy - Stock and waste levels are not recorded or monitored - Sundry debtor invoices for external catering and room hire are not being raised promptly - Cash income is occasionally being used in lieu of petty cash, as the catering facility has no petty 	Limited

Audit	Comments	Level of Assurance
	cash float or purchasing card	

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	Revised Implementation Date
Client Monitoring - Revenues & Benefits Contract	July 2013	Actions are required to ensure that the '10% checks' required to be performed upon benefit assessments are to be completed on a timely basis.	These are now being done on a daily basis. The Financial Projects Supervisor is working with the council's contractor to review the process.	Financial Projects Supervisor	31 st July 2013	An additional resource was bought in to resolve the checking backlog. Whilst this did address the original issue, a new backlog has arisen. The new client partnership arrangement with FDDC should provide additional resources to assist with this issue.	31 st August 2014
Client Monitoring – Payroll Contract	July 2013	The service level agreement (SLA) detailing the payroll service to be provided requires formal agreement by both parties.	HR is working with the contractor to agree the SLA. Legal Services will need to be involved once the revised draft is received from the contractor.	HR & OD Manager	31 st August 2013	Both the HR & OD Manager and the Director of Resources have been in discussions with the contractor to agree a revised draft SLA.	To be confirmed.