

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	8th September 2014
Subject:	Internal Audit Plan 2014/15 – 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		
	Email: Terry.Rodway@gloucester.gov.uk		Tel: 396430
Appendices:	A: List of audits completed as part of the 2014/15 Internal Audit Plan – April to August 2014		

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 2014/15.

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 17th March 2014, Members approved the Internal Audit Plan 2014/15. 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 April to August 2014, as part of the 2014/15 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 5 month period to August 2014 is 89% (8 out of 9 planned audits completed) compared to a 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 fully implemented within the agreed timescale. Subject to the comments in paragraph 4.3.2.2 below, there were none identified during the period covered by this report.

4.0 Results from Follow-up Audits

- 4.1 At the previous meeting of the Audit & Governance Committee, Members requested Internal Audit to carry out follow-up audits relating to the Guildhall, Catering, and to provide an update on an outstanding recommendation relating to the client monitoring of the Revenues and Benefits contract.

4.2 Guildhall

- 4.2.1 An outstanding issue relating to the Guildhall is the purchase of software with a modern stock control facility. At the June 2014 meeting of this Committee, Members requested an audit of current bar stock controls to be carried out. This audit has identified that the bar stock controls are operating satisfactorily. A review of the Guildhall operations, including IT requirements, is currently being undertaken by Consultants and a cross party working group of Members. A decision on whether to purchase new software has been put on hold pending the results of the consultants' review, the findings from which are due to be reported in November 2014.

4.3 Catering

4.3.1 The Arbor

- 4.3.1.1 As a result of the original audit, 3 'High Priority' and 6 'Medium Priority' recommendations were made which resulted in a limited assurance opinion being provided. The follow-up audit has identified that of the 9 recommendations agreed, 8 have been implemented with 1 'Medium Priority' recommendation only being partially implemented.

4.3.1.2 The area of weakness that remains is:-

- Outstanding order commitments are not being cleared on a monthly basis (Medium Priority – Partial)

4.3.2 The Docks

- 4.3.2.1 As a result of the original audit, 3 'High Priority' and 3 'Medium Priority' recommendations were made which resulted in a limited assurance opinion being provided. The follow-up audit has identified that of the 6 recommendations agreed, 2 have been implemented, 1 'High Priority' and 1

'Medium Priority' have not been implemented and 2 'Medium Priority' recommendations have only been partially implemented.

4.3.2.2 The areas of weakness that remain are:-

- Incorrect VAT coding of catering cash income (High Priority)
- Lack of formal daily till reconciliations (Medium Priority)
- Lack of independent review of monthly stock take report (Medium Priority – Partial)
- Sundry Debtor invoices not raised on a timely basis (Medium Priority – Partial)

4.4 Client Monitoring of the Revenues and Benefits Contract

4.4.1 At the previous meeting of this Committee, Members were notified of a Rank 1 'High Priority' recommendation, relating to the above audit, that had not been implemented by the agreed implementation date. The recommendation made was as follows:-

"Actions are required to ensure that the '10% checks' required to be performed upon benefit assessments are to be completed on a timely basis".

4.4.2 The agreed management action at the time of making the recommendation was that the Financial Projects Supervisor was working with the council's contractor to review the process.

4.4.3 The Financial Projects Supervisor has confirmed that an additional resource has been brought in, and that the backlog has been reduced to approximately 3 weeks.

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

8.1 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 2014/15

Public Sector Internal Audit Standards

Appendix A

List of audits completed as part of the 2014/15 Internal Audit Plan – April to August 2014

Audit	Comments	Level of Assurance
Council Tax – Opening Debit	<p><u>Audit Objective</u> The objectives of this audit were to ensure that:-</p> <ul style="list-style-type: none"> • The Council Tax Base has been correctly calculated. • Charges for each band have been correctly apportioned. • Charges have been appropriately authorised. • Approved charges have been accurately transferred to the billing system. <p><u>Audit Opinion</u> A good level of assurance has been obtained that Council Tax charges have been appropriately set, approved, and properties have been appropriately billed for 2014/15.</p>	Good
NNDR – Opening Debit	<p><u>Audit Objective</u> The objectives of this audit were to ensure that:-</p> <ul style="list-style-type: none"> • Appropriate notifications have been received advising of the NDR multipliers and transitional relief rates for the current financial year. • The advised NDR multipliers and transitional relief rates have been accurately transferred to the billing system. <p><u>Audit Opinion</u> A good level of assurance has been obtained that the NNDR charges for 2014/15 have been accurately applied and that businesses have been billed appropriately.</p>	Good
NNDR Rate Relief	<p><u>Audit Objective</u> The objectives of this audit were to ensure that:-</p> <ul style="list-style-type: none"> • Documentation is readily available to support the granting of relief • Appropriate approval has been given to award relief. • Continuance of the relief is reviewed in line with requisite timeframes. • Charge payers are made aware of their requirement to provide notification if relief is incorrectly applied or no longer valid. • The granting of relief has been in accordance with legislative requirements and / or Council policy. • Potential fraudulent claims are identified and investigated. 	Satisfactory

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 satisfactory level of assurance over this area. The main area of weakness identified related to:-</p> <ul style="list-style-type: none"> • Potential fraudulent claims are identified and investigated. 	
Council Tax – Relief	<p><u>Audit Objective</u> The objectives of the audit were to obtain assurance that: -</p> <ul style="list-style-type: none"> • Documentation is readily available to support the granting of relief. • Appropriate approval has been given to award relief. • Continuance of the relief is reviewed in line with requisite timeframes. • Charge payers are made aware of their requirement to provide notification if relief is incorrectly applied or no longer valid. • The granting of relief has been in accordance with legislative requirements and / or Council policy. • Potential fraudulent claims are identified and investigated. <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 this area. The main areas of weakness identified related to:-</p> <ul style="list-style-type: none"> • Potential fraudulent claims are identified and investigated. • Each of the entries within the Audit Commission's data matching exercise produced in March 2014 should be reviewed in order to determine continuance of Single Person Discount on a case by case basis. 	Satisfactory
Creditors & Debtors (Year End)	<p><u>Audit Objective</u> The audit objectives were to ascertain, through testing, that controls are in place and operating effectively towards ensuring that:</p> <ul style="list-style-type: none"> • Auto accruals for 2013/14 are valid, by obtaining evidence to support that the relevant goods or service were provided prior to 1 April 2014. • Manual creditors, debtors, payments in advance and receipts in advance are valid and supported by appropriate evidence. <p><u>Audit Opinion</u> Testing performed upon a sample of 22 of the 2013/14</p>	Satisfactory

Audit	Comments	Level of Assurance
	<p>accruals revealed 7 entries with a combined value of £16,329.36 that required rectification.</p> <p>These findings represented a 31.82% error rate across the sample size and 23.63% across the sample value. A comparison of these error rates was made to previous year's audits where it was apparent that the identified error rate is an improvement on the 2012/13 figures. Assurance has therefore been obtained that action to remove erroneous entries prior to running the accruals list have improved since last year's audit.</p> <p>As a result of testing undertaken, satisfactory assurance can be given that the risk of invalid auto accruals and manual creditors and debtors appearing in the Council's end of year accounts is being mitigated to an acceptable level.</p>	
Performance Management	<p><u>Audit Objective</u> The objectives of the audit were to ensure that:-</p> <ul style="list-style-type: none"> • Responsibilities for performance management have been set. • The Council has set corporate objectives which have been approved at an appropriate level and are realistic targets. • Service objectives are set which link to corporate objectives. • SMART principles are used to measure progress against objectives. • Performance measures are based on realistic, measurable targets. • Performance Indicator factual data is collected and reported. • Performance data is reported to appropriate levels of management (including SMT, Members) at appropriate frequencies and in appropriate form. <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 this area. The main areas of weakness identified related to:-</p> <p>Lack of formal reporting of Performance Indicators to Members.</p> <ul style="list-style-type: none"> • A small number of service units have not submitted their business plans to the Business Improvement team. • The Corporate Plan 2014-2017 should be uploaded on to the Council's website immediately following approval by Cabinet, to allow access to members of the public. 	Satisfactory

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> The monthly and quarterly Performance Monitoring reports should also be uploaded on to the Council's website to promote transparency of reporting against the targets and performance indicators contained within the Council Plan. 	
Financial Services Improvement Plan	<p>The 2014–15 Audit of the FSIP assessed the latest position for 5 External Audit (KPMG) and 20 Internal Audit (IA) recommendations outstanding from the 2013/14 FSIP audit, and 3 KMPG recommendations added from the ISA 260 report relating to the audit of the 2012/13 statement of accounts.</p> <p>At the time of the audit, internal audit agree with the RAG ratings for 7 of the 8 external audit recommendations and 17 of the 20 IA recommendations. The instances where IA disagrees with the RAG rating were: -</p> <ul style="list-style-type: none"> 2 instances where the blue (complete) rating could not be substantiated due to there being insufficient data available at the time of testing to demonstrate that required actions are being completed on a regular and consistent basis:- <ul style="list-style-type: none"> KPMG recommendation 1 relating to budget monitoring reporting to Members. IA recommendation 7 relating to budget monitoring reporting to Members. 1 instance where the blue (complete) rating was considered inaccurate because the second part of the recommendation, for the completion of the Reconciliations Control Sheet, was not being enacted - IA recommendation 23. 1 instance where the green (on time) rating was considered inaccurate because testing conducted for the 2013/14 Cash to Bank Audit revealed that the interface values were now in agreement with the notified values, therefore, the rating should be blue (complete) - IA recommendation 14. 	Satisfactory
Members Allowances	<p><u>Audit Objective</u></p> <p>The objective of the internal audit was to ensure that the following Members' Allowances controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> The Members' Allowances scheme (the Scheme) is appropriately updated and approved. Payments to Members are in line with the current Scheme, in correct amounts and at the proper frequencies. Travelling and subsistence claim payments are made only for proper duties, for correct amounts and in a timely manner. Members' Allowances are published on the 	Limited

Audit	Comments	Level of Assurance
	<p>Council website and the published data is up to date.</p> <ul style="list-style-type: none"> Budgetary responsibility is assigned for Members' Allowances and satisfactory budgetary control is exercised. <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 limited assurance on the adequacy and operating effectiveness of controls in place over Members' Allowances.</p> <p>The main areas of weakness identified were:-</p> <ul style="list-style-type: none"> A small number of incorrect payments made to Members identified by internal audit testing should be corrected. Formal confirmation should be obtained as to whether the 2014/15 Allowances should be updated to include the 1% 2013/14 staff pay award. The Democratic & Electoral Services Manager should ensure that claimed expenses are supported by receipts, prior to authorisation of Member expense claims. The Council website should be updated to ensure that the Members' Allowances Schemes for 2013/14 and 2014/15 are available for public viewing. The 2012/13 and the 2013/14 Scheme payments should be published on the Council website and through a local newspaper public notice as soon as reasonably practicable. Regular budget monitoring meetings (including a split of payments to individual Members) should be held between Financial Services & the Democratic & Electoral Services Manager. 	

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.