

Gloucester City Council

Meeting:	SMT	Date:	3 rd March 2015
	Audit & Governance Committee		16 th March 2015
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		
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Appendices:	A: Audits completed as part of the original and revised Internal Audit Plan 2014/15 – January to February 2015		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the audits completed as part of the original and revised 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 19th January 2015, Members approved the Revised 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 audit work completed during the period January to February 2015, as part of the original, and revised, 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 Revised Plan for the 2 month period January to February 2015 is 50% (3 out of 6 planned audits completed) compared to a target of

90% (5 out of 6 planned audits completed). These figures do not include three audits that were substantially complete, as at 28th February 2015.

- 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.

4.0 Results from Follow-Up Audits

- 4.1 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. There were none identified during the period covered by this report.

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.
- 6.2 The Standards also require the Audit, Risk & Assurance Manager to communicate the impact of resource limitations on the Internal Audit Plan to senior management and the Audit & Governance Committee.

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 recommendations in this report.

Sustainability

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

Staffing & Trade Union

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

Background Documents:

Internal Audit Plan 2014/15
Revised Internal Audit Plan 2014/15
Public Sector Internal Audit Standards

Appendix A

Audits completed as part of the original, and revised, Internal Audit Plan 2014/15 – January to February 2015

Audit	Comments	Level of Assurance
Cash & Bank	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls are in place and operating effectively: -</p> <ul style="list-style-type: none"> • A regular bank reconciliation is performed and subject to management review and approval; • A reconciliations of the cash receipting system to General Ledger is regularly performed and subject to management review and approval; • Reviews performed upon the unallocated cash suspense account; • Reconciliations of procurement card and credit card transactions. <p><u>Period of Audit</u> The audit covered the testing of processes and controls in place for the 10 month period to January 2015.</p> <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 a Good level of assurance on the adequacy and operating effectiveness of controls in place over reconciling bank accounts to the general ledger, reviewing and actioning the unallocated cash suspense account, issuing procurement cards and reconciling card transactions. A Satisfactory level of assurance has been given on the adequacy and operating effectiveness of controls in place over the reconciliations of the cash receipting system to General Ledger.</p> <p>The main areas of weakness identified for which four Rank 2 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • Actions to resolve the identified issue of VAT recovered through VAT code 'I' within the Sundry Debtors system being interfaced to the ledger at 17.5% instead of the recovered rate 	Good/Satisfactory

Audit	Comments	Level of Assurance
	<p>of 20% are to be seen through to completion, with further actions being required to ensure that all related variances during the current year are journalled to the ledger as required;</p> <ul style="list-style-type: none"> • Variances between the notified and interfaced values between the Flex and General Ledger systems should be investigated at the time of interface in order to assess the accuracy of the interface and address the issues behind the variance; • Reasons for variances between the interface and Flex system report values should be recorded on the interface spreadsheets in order to highlight recurring reasons from which actions can be taken as appropriate to resolve; • Variances between the Sundry Debtors system cash postings and the values posted to the General Ledger system should be investigated to assess the reasons and address any issues behind the variance. 	
Creditors	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls are in place and operating effectively in relation to: -</p> <ul style="list-style-type: none"> • Reconciliation of the creditors system to the General Ledger; • Review of exceptions such as payments to new suppliers, potentially duplicated payments etc; • Review of orders for which invoices have not been received (open orders); • Access restrictions and review of access rights to the Creditors system; • Setting up new suppliers; • Creditor Control Accounts (purchase ledgers) are updated to general ledger when the payment batches are created and posted. <p><u>Period of Audit</u> The audit covered the testing of processes and controls in place for the 10 month period to January 2015.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit</p>	Good/ Satisfactory

Audit	Comments	Level of Assurance
	<p>review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place over all areas covered by this audit except for the adequacy and operating effectiveness of controls in place relating to Creditor system exception reporting for which a Satisfactory level of assurance has been given.</p> <p>The main area of weakness identified for which one Rank 2 'Medium Priority' recommendation has been made relates to the lack of exception reporting for new suppliers, or changes to supplier details.</p>	
Capital Accounting	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following capital accounting processes and controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Documented approach confirming method and content of data transfer from the spreadsheet based fixed asset register to the eFinancials fixed asset register module; • Reconciliation of the old to new fixed asset register – including total value, total property volume and split by asset categories; • Reconciliation of the new fixed asset register to the general ledger as at 1st April 2014 • Adequate password-based access restrictions to the Fixed Assets Register system; • Regular evidenced, independent review of user access rights to the Fixed Assets Register system; • Periodic review of capital expenditure against the capital programme • Periodic reconciliation of the fixed asset register to the general ledger. <p><u>Period of Audit</u> The audit covered the testing of processes and controls in place for the 10 month period to January 2015.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of</p>	Satisfactory

Audit	Comments	Level of Assurance
	<p>recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place over capital accounting.</p> <p>The main areas of weakness for which two Rank 2 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • All capital monitoring reports are reviewed for accuracy and completeness prior to issue to officers and/or Members; • A specific capital monitoring recommendation should be included within the quarterly financial monitoring reports to Committee, to prompt Member review and discussion on the Council's capital budget position. 	
Guildhall	<p><u>Audit Objective</u> The objective of this audit was to verify that the following controls are in place and operating effectively:-</p> <ul style="list-style-type: none"> • All income is properly accounted for and has been promptly banked. • Goods and services have been ordered, received and paid for in accordance with Contract Standing Orders and Financial Regulations. • Reconciliation of tickets sales and payments for performances and events. • Sundry Debtor invoices have been raised promptly and accurately and that staff responsible for collecting payments have no involvement in the issuing, administration or recovery of debts. • An inventory of equipment is maintained in accordance with Financial Regulations. • Floats and petty cash are maintained at the authorised level • A Gifts and Hospitality register is held and is correctly utilised. <p><u>Period of Audit</u> The audit covered the testing of processes and controls in place for the 9 month period to December 2014.</p>	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u></p> <p>On the basis of the work carried out during this audit a Good level of assurance can be provided on the adequacy and operating effectiveness of controls in place for the controls relating to the control and banking of income and gifts & hospitality; a Satisfactory level of assurance is provided on the adequacy and operating effectiveness of controls in place for controls relating to the reconciliation of tickets sales and payments for performances & events, and security & control of assets. However, only a Limited level of assurance can be provided over the controls relating to creditors and sundry debtors.</p> <p>The main areas of weakness identified for which two Rank 1 'High Priority' and nine Rank 2 'Medium Priority' recommendations have been made are as follows:-</p> <ul style="list-style-type: none"> • Official orders for the purchase of goods or services should be raised in advance of the provision of the goods / services, in line with the requirements of the Councils Financial Regulations; • The aged commitments (outstanding orders) should be reviewed within the Financial Management System on a regular basis; • Review the appropriateness of the current user who has 2 login ID's for the Sundry Debtor system; • Review individual user authorisations within the Sundry Debtor system to ensure that there are adequate separation of duties within the roles of raising invoices and raising credits / write offs; • All sundry debtor invoices should contain the full legal entity (debtor name) in order to reduce the potential for invoices being challenged and debt recovery being adversely affected; • Sundry Debtor invoices should be raised in line with current service targets, which is currently either within 14 days of the event for individual bookings or the start of the following month for regular multiple bookings; • Consideration should be given to ensure that payment is fully receipted prior to the hire date 	

Audit	Comments	Level of Assurance
	<p>in instances where the booking could be considered to be a one off hire, and / or there is no trading history with the hirer;</p> <ul style="list-style-type: none"> • The Sundry Debtor Team should be contacted to arrange for the provision of regular debtor reports and for meetings to be set up to aid with reviewing and addressing ongoing recovery and removing irrecoverable debt and aged credits from the system; • The spreadsheet used for calculating charges for events hosted by Guildhall requires amendment to ensure that VAT is accounted for at the appropriate rate. • All previous events recorded on the spreadsheet should be reviewed to assess whether the correct payments have been made to promoters / acts and to the PRS, with actions being taken as appropriate to address any incorrect payments; • The Guildhall inventory spreadsheet requires an overhaul in to ensure that all appropriate assets are recorded. 	
Benefits	<p><u>Audit Objective</u> The objective of the internal audit was to review the following areas, to ensure Benefits processes and controls are in place and operating effectively:</p> <ul style="list-style-type: none"> • Adequate password-based access restrictions to the Benefits system in place; • Regular evidenced, independent review of user access rights to the Benefits system; • Spot checks: including new claims, change of circumstances and risk areas (backdating/modified schemes/overpayments etc); • Overpayments: identification, calculation, categorisation, recovery, write off and reporting; • Exception reporting: e.g. overpayment write offs; • Periodic reconciliation of the Benefits system to the appropriate feeder systems. <p><u>Period of Audit</u> The audit covered the testing of processes and controls in place for the 10 month period to January 2015.</p>	Good/ Limited

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u></p> <p>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 a Good level of assurance on the adequacy and operating effectiveness of controls in place over 'Reconciliations', however, only a Limited level of assurance can be provided on the adequacy and operating effectiveness of controls in place over the remaining areas covered within this audit.</p> <p>The main areas of weakness for which four Rank 1 'High Priority' and three Rank 2 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • The Client Team should ensure that action is taken by Civica to complete the rectification of errors backlog from May 2014 to September 2014 by year end 2014/15. This should include review of both the customer and subsidy impact caused by the backlog. • Actions are required to ensure the Civica rectification of errors, identified by the Client Team 10% spot check of benefits assessment decisions, is completed on a timely basis and in line with the contract service standards on an ongoing basis. • The write off for approval cases identified with no action since 2012 should have write off completed, in line with the approved write off procedure. • Appropriate action should be taken to update the identified overpayment cases which have inappropriate overpayment categories. • Independent review of user access rights to the Benefits system should be completed on a regular basis to ensure that user access is appropriate and up to date. • System access should be immediately disabled for the 4 leaver cases identified within the audit sample • Action should be taken to enable Client Team review and scrutiny of the benefits overpayment position, support identification of issue areas (including recovery delay) and confirm actions to be taken. 	

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 or two 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 in-efficiencies.