



Meeting:	Audit & Governance Committee	Date:	01 July 2015
Subject:	Internal Audit Plan 2014/15 – Final Monitoring Report		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager		
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Appendices:	1. List of the remaining audits completed as part of the revised 2014/15 Internal Audit Plan		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the remaining audits completed as part of the revised Internal Audit Plan 2014/15.

2.1 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that 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 remaining audits completed as part of the revised Internal Audit Plan 2014/15. 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 3 month period January to March 2015 (period of the revised IA Plan) is 90% (9 out of 10 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.

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 None specific to this report.

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

9.0 Legal Implications

- 9.1 The Accounts and Audit (England) Regulations 2011 referred to in this report have been revoked by the Accounts and Audit Regulations 2015. However, the 2011 Regulations continue to have effect in relation to financial years ending on or before 31st March 2015 and thus apply to the period covered by this report.
- 9.2 Regulation 6(1) of the 2011 Regulations requires the Council to "undertake an adequate and effective internal audit of its accounting records and of its

system of internal control in accordance with the proper practices in relation to internal control.” The audit plan, assessment of its progress towards completion, and opinions stated in Appendix A are evidence of such audit.

- 9.3 Regulation 6(3) further requires the Council to, “at least once in each year, conduct a review of the effectiveness of its internal audit” and the findings of that review must be considered as part of the wider consideration of the system of internal control required by Regulation 4(3).
- 9.4 This report is not meant to constitute a review in accordance with paragraph 9.3 above, but it would be appropriate to consider its contents in such a review along, with any other pertinent evidence. The findings of that review would then be included in any wider consideration of the Council’s system of control per Regulation 4(3).

(One Legal 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:

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

Appendix 1: List of the remaining audits completed as part of the revised 2014/15 Internal Audit Plan

Audit	Comments	Level of Assurance
Budgetary Control	<p><u>Audit Objective</u> The objective of the audit was to ensure the following controls are in place and operating effectively:-</p> <ul style="list-style-type: none"> • Budget monitoring procedures and responsibilities are appropriately defined and communicated; • Delegated cost-centre managers are clearly identified; • Complete and accurate budget reports are produced and issued to cost-centre managers on a monthly basis; • High-level financial monitoring reports and management accounts are complete, accurate and circulated periodically to senior management and Members for review; and • All significant budget variances are identified and investigated (including obtaining supporting evidence for variances). <p><u>Audit Opinion</u> On the basis of the work carried out during this audit review, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place.</p>	Good
Council Tax	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls are in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the Council Tax system to the Valuation Office rateable value listing; • Periodic reconciliation of the Council Tax system to the cash receipting system; • Periodic reconciliation of the Council Tax system to the general ledger; • Periodic review of exceptions: e.g. rateable value changes, suppressed accounts, overpayments and refunds; • Periodic production and review of Council Tax arrears and collection reports; and • Access restrictions and review of access rights to the Council Tax system. 	Good/ Satisfactory

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u> On the basis of the work carried out during this audit review, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place for all areas covered by the audit except for the controls relating to the 'periodic review of exceptions' for which a Satisfactory level of assurance has been provided.</p> <p>The main area of weakness identified for which one Rank 2 'Medium Priority' recommendation has been made relates to:-</p> <ul style="list-style-type: none"> • Checks should be routinely carried out to confirm that Council Tax 'inhibit' reports are being tracked and actioned by the responsible staff with remedial action being taken where necessary. 	
National Non Domestic Rates (NNDR)	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls are 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 and review of NNDR arrears and collection reports; and • Access restrictions and review of access rights to the NNDR system. <p><u>Audit Opinion</u> On the basis of the work carried out during this audit review, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place for all areas covered by the audit except for controls relating to the 'periodic review of exceptions' for which a Satisfactory level of assurance has been provided.</p> <p>The main area of weakness identified for which a Rank 2 'Medium Priority' recommendation has been made</p>	Good/ Satisfactory

Audit	Comments	Level of Assurance
	<p>relates to:-</p> <ul style="list-style-type: none"> • Checks should be routinely carried out to confirm that NNDR 'inhibit' reports are being tracked and actioned by the responsible staff with remedial action being taken where necessary. 	
Sundry Debtors	<p><u>Audit Objective</u> The objective of the audit was to ensure the following controls are in place and operating effectively:-</p> <ul style="list-style-type: none"> • Reconciliations of the sundry debtor system to the general ledger are performed on a regular basis; • Reconciliations of the sundry debtors system to the cash receipting system are performed on a regular basis; • Sundry debtors arrears and credit reports are being produced and monitored on a regular basis with actions being taken to address reported issues; • Access to the Sundry Debtor system is restricted through adequate password-based access controls; and • User access rights to the Sundry Debtors system are being reviewed with amendments being effected as required. <p><u>Audit Opinion</u> On the basis of the work carried out during this audit review, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place for all areas covered by the audit except for the controls relating to the production and independent review of arrears for which a Satisfactory level of assurance has been provided.</p> <p>The main area of weakness identified for which one Rank 2 'Medium Priority' recommendation has been made relates to:-</p> <ul style="list-style-type: none"> • The Contractor should provide the Client with reports for all invoices where recovery actions are on hold, this should include invoices referred back to the service area and invoices awaiting write off. 	Good/ Satisfactory
Glos. Supports	<p><u>Audit Objective</u> The audit objectives were to ensure that the following</p>	Satisfactory

Audit	Comments	Level of Assurance
Business Grants	<p>controls relating to the Business grants process are both in place and operating effectively:-</p> <ul style="list-style-type: none"> • Up to date policy and procedures are in place; • Documentation, and evidence of assessment and appropriate approval, exists in respect of each grant application; • Approval of annual grants budget and regular budget monitoring process in place; and • Performance data is reported to appropriate levels of management at appropriate frequencies and in an appropriate form. <p><u>Audit Opinion</u> On the basis of the work carried out during this audit review, the audit opinion is that there is a Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place for all areas covered by the audit.</p> <p>The main areas of weakness identified , for which three Rank 2 'Medium Priority' recommendations have been made, relate to:-</p> <ul style="list-style-type: none"> • Arrangements should be made for the drawing up a service risk register for the Economic Development function; • Reviewing the current arrangements for the operation of the Grant Review Panel process in terms of establishing its Terms of Reference and procedures; and • Business grants budgets should be subject to a more formal budget monitoring process. 	
General Ledger	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following general ledger controls are 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 	Satisfactory

Audit	Comments	Level of Assurance
	<p>journals;</p> <ul style="list-style-type: none"> • 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; and • Feeder system reconciliation to the general ledger. <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 Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place over the general ledger.</p> <p>The main areas of weakness identified, for which two Rank 2 'Medium Priority' recommendations have been made, relate to:-</p> <ul style="list-style-type: none"> • Journal segregation of duty is not present for all manual and upload journals; and • The suspense account reconciliation approach for the mortgages holding account requires update to ensure completeness and accuracy. 	
Payroll	<p><u>Audit Objective</u></p> <p>The objective of the audit was to ensure the following controls are in place and operating effectively:-</p> <ul style="list-style-type: none"> • The payroll system is reconciled to the general ledger; • Periodic reconciliation of the payroll system to personnel records; • Establishment lists are circulated to managers for verification of officer numbers in their respective areas; • Production and review of exception reports; • Appropriate documentation and authorisation exists for starters, leavers, contract amendments, overtime and expense claims. 	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> • Access to the Payroll system is restricted through adequate password-based access controls; and • Contract management and monitoring arrangements are in place. <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 the controls relating to 'reconciling the payroll system to the general ledger' and 'access restrictions to the payroll system' being considered to be Good, however, controls relating to 'verifying the establishment lists', 'the production and review of exception reports', leavers', "contractual amendments", 'overtime and expenses', 'client monitoring and the SLA' were only being considered to be Satisfactory with controls relating to 'new starters' being considered to be Limited.</p> <p>The main areas of weakness identified for which One Rank 1 'High Priority' recommendation and five Rank 2 'Medium Priority' recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • HR to produce documentation checklists as a guide to assist with ensuring that all relevant new starter documentation has been obtained and retained for reference; • Payroll verification lists should be being run and issued to all relevant managers for their review on a regular basis; • HR are to confirm with the payroll provider which exception reports they will be providing to the City; • Immediate actions are required to clear the backlog of all documentation waiting to be scanned onto the Anite system; • HR should ensure that the authorisation of all manual claim forms is provided by the appropriate Line / Service Manager; and • All invoices for payment are to be reviewed and processed in a timely manner. 	
IT	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls are in place and operating</p>	Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>effectively:-</p> <ul style="list-style-type: none"> • Maintenance and publication of a comprehensive IT security policy; • Adequate password-based access restrictions to the network; and • Maintenance, review and update of the IT risk register. <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 the controls relating to the 'IT Risk Register' are considered to be Satisfactory, however the controls relating to 'Maintenance and publication of a comprehensive IT security policy' and 'Adequate password-based access restrictions to the network' are only considered to be Limited.</p> <p>The main areas of weakness for which six Rank 1 'High Priority' recommendations have been made relate to the following:-</p> <ul style="list-style-type: none"> • The Council has a suite of IT policies - however these are not up to date or available for all officers and Members to review; • Sign up to the Council's IT security policy has not been completed for new starters within 2014/15, prior to access to the council network being enabled; • Implementation of key Active Directory network access controls and confirmation & completion of the IT deregistration process is required. • The Client Team should be informed of all significant proposed network access control changes; • The Client Team should ensure that all leavers with employment end dates prior to 31 March 2015 are deregistered from the network and council systems immediately; • The IT de-registration process should be reviewed and then implemented immediately. 	

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.