

Meeting:	Audit & Governance Committee	Date:	18 January 2016
Subject:	Internal Audit Plan 2015/16 – 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:	1. Appendix 1:- List of the audits completed as part of the 2015/16 Internal Audit Plan: September 2015 – December 2015.		
	2. Appendix 2:- List of Rank 1 ‘High Priority’ Recommendations not implemented by the agreed date.		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the audits completed as part of the agreed Internal Audit Plan 2015/16.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited be endorsed.

3.0 Background and Key Issues

- 3.1 At the Audit & Governance Committee meeting held on 16th March 2015, Members approved the Internal Audit Plan 2015/16. 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 September 2015 to December 2015. 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 9 month period April to December 2015 is 63% (15 out of 24 planned audits completed) compared to a target of 90% (21 out of 24 planned audits completed).

- 3.3 The above figures do not include one audit that was at draft report stage as at 31st December 2015.

3.4 The main reason for the non-achievement of the target number of completed audits is due to a vacancy in the Audit & Assurance team. Arrangements have been made to use contract staff during the 4th quarter of the financial year (January – March 2016) to help meet the 90% target by the end of the financial year.

3.5 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix 1**. 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. During the period covered by this report, there were two agreed recommendations identified that had not been implemented by the agreed date. Details have been provided in **Appendix 2**.

5.0 Other Audit Work Completed

5.1 Audit of Gloucester UK Parliamentary Election Fee Accounts for 2015

5.1.1 As requested by the Acting Returning Officer, an audit review was completed on the draft Gloucester UK Parliamentary election fee accounts for 2015, prior to sign off by the Acting Returning Officer and submission to the Election Claims Unit (ECU).

5.1.2 The audit review resulted in an increase of £6,673 to the total election fee claimed (from £91,569 to £98,242), due to the net impact of the identified individual adjustments made to the draft fee accounts.

6.0 Asset Based Community Development (ABCD) Considerations

6.1 there are no ABCD implications as a result of the recommendation made in this report.

7.0 Alternative Options Considered

7.1 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.

8.0 Reasons for Recommendations

8.1 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.

8.2 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.

9.0 Future Work and Conclusions

- 9.1 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.

10.0 Financial Implications

- 10.1 With the exception of the additional election fee claimed there are no specific financial implications arising from this report.

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

11.0 Legal Implications

- 11.1 None directly arising from this report

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

12.0 Risk & Opportunity Management Implications

- 12.1 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.

13.0 People Impact Assessment (PIA):

- 13.1 A requirement of the Accounts & Audit Regulations 2015 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.

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

14.0 Other Corporate Implications

Community Safety

- 14.1 There are no community safety implications arising out of the recommendations in this report.

Sustainability

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

Staffing & Trade Union

14.3 There are no staffing and Trade Union implications arising out of the recommendations in this report.

Background Documents: Internal Audit Plan 2015/16
Public Sector Internal Audit Standards

Appendix 1: List of the audits completed as part of the 2015/16 Internal Audit Plan

Audit	Comments	Level of Assurance
Contract Audit	<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"> • The contract was let in accordance with Contract Standing Orders with the key areas considered to be project initiation, invitation to tender, handling of tenders, and awarding the contract; • There is a signed in-date contract in place with the original being stored in a secure location and a copy being retained by the contract manager for ease of reference; • The contract provides clear guidance for any contract extensions and renewals, and if applicable this guidance has been followed; • The City Council Contract Register and the South West Portal have been populated with the correct information; • Contract management is being undertaken in line with the contract management arrangements detailed within the contract; • Relevant budgets to be reviewed to establish whether incurred costs are in line with contract values; • Orders are raised in line with constitutional requirements, invoiced works are reviewed to verify value and quality prior to authorisation for payment, and payments are not being unnecessarily delayed <p>The audit covered the following contracts:- Energy Supply contract; Kings Square Paving contract; Repairs & Maintenance contract</p> <p><u>Audit Opinion</u> On the basis of the 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 for all areas covered by the audit except for the adequacy and operating effectiveness of controls in place for the procurement process for which a Satisfactory level of assurance has been provided.</p> <p>The main areas of weakness identified, for which one Rank 1 'High Priority' recommendation has been made, relates to:-</p> <ul style="list-style-type: none"> • Non-compliance with a constitutional requirement for obtaining approval from the appropriate Cabinet 	Good/ Satisfactory

Audit	Comments	Level of Assurance
	Member for the proposed contract award procedures in instances where the procurement value is between £50k and the EU threshold.	
Non-Domestic Rates	<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"> • Periodic reconciliation of the NNDR system to the Valuation Office listings; • Periodic reconciliation of the NNDR system to the cash receipting system; • Periodic reconciliation of the NNDR system to the Financial Management System; • Periodic review of exceptions: e.g. rateable value changes, suppressed accounts, overpayments and refunds; • Periodic production and independent review of NNDR arrears and collection reports; • Adequate password-based access restrictions to the NNDR system; • Regular evidenced, independent review of user access rights to the NNDR system; • Recovery and enforcement procedures are carried out in accordance with statutory requirements and Council policy regulations; • Write-offs are bona fide and in accordance with Council policy; <p><u>Period of Audit</u> The period of the audit covered the period April 2015 to November 2015.</p> <p><u>Audit Opinion</u> On the basis of the 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 for controls in relation to 'Reconciliations', 'production and review of arrears and collection reports', 'recovery & enforcement procedures', and, 'write offs'; and a Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place for all other areas covered by this audit.</p> <p>The main areas of weakness identified, for which one Rank 1 'High Priority' recommendation has been made, relate to:-</p> <ul style="list-style-type: none"> • Actions are required to demonstrate that the City 	Good/ Satisfactory

Audit	Comments	Level of Assurance
	<p>Council is verifying the validity of the refund requests and providing authorisation for the refunds as per the requirement of the Managed Services contract.</p> <p>The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being March 2016.</p>	
Commercial Rents	<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"> • The Terrier system is up to date; • Lease renewals (Section 25's) are clearly identified, and the files contain adequate supporting documentation to determine actions to date; • The rent reviews (Mid-term) are completed within the agreed timescale and rents are invoiced promptly; • Void properties are effectively monitored and re-let as soon as reasonably possible; • Land and property sales are processed in accordance with the Council's disposal policy; • The title of ownership is registered in the Council's name with the deeds being securely stored; • Commercial properties are adequately insured; • Review of user access rights to the Terrier system; • Compliance with the Employee Code of Conduct relating to Declarations of Interest. <p><u>Period of Audit</u> The period of the audit covered the period April 2015 to October 2015.</p> <p><u>Audit Opinion</u> On the basis of the 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 for the 'security of assets' and, 'land & property sales'; there is a Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place for the 'terrier system', 'lease renewals', 'rent reviews', and, 'monitoring of voids'; and a Limited level of assurance on the adequacy and operating effectiveness of controls in place relating to 'Staff Declaration of Interests' .</p>	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>The main areas of weakness identified, for which one Rank 1 'High Priority' and five Rank 2 'Medium Priority' recommendations have been made, relate to:-</p> <ul style="list-style-type: none"> • The current approach of recording the land terrier data on 2 separate software applications should be reviewed; • Asset Management are to complete the set up and use of shared access email folders for each property / land asset from which the latest position relating to any negotiations can be readily established by any of the Surveyors; • Actions should be taken to reduce the amount of outstanding debts for nominal value invoices so that the report for outstanding debt clearly focusses upon debts of a more significant value; • Void Inspection Checklists are to be completed and retained with key information being transferred onto the vacant voids spreadsheet in order to demonstrate when the latest inspections have been performed and the condition of each site; • The intention for updating the Land and Property disposals Policy with a requirement to apply a fixed charge prior to any investigative actions pertaining to a purchase enquiry are to be seen through to completion; • Officers are to declare any financial and non-financial interests as per the requirement of the Employee Code of Conduct. <p>The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being March 2016.</p>	
Council Tax	<p><u>Audit Objective</u></p> <p>The objective of the audit was to ensure the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the C.Tax system to the Valuation Office listings; • Periodic reconciliation of the C.Tax system to the cash receipting system; • Periodic reconciliation of the C.Tax system to the Financial Management System; • Periodic review of exceptions: e.g. rateable value changes, suppressed accounts, overpayments and refunds; • Periodic production and independent review of C.Tax arrears and collection reports; 	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<ul style="list-style-type: none"> • Adequate password-based access restrictions to the C.Tax system; • Regular evidenced, independent review of user access rights to the C.Tax system; • Recovery and enforcement procedures are carried out in accordance with statutory requirements and Council policy regulations; • Write-offs are bona fide and in accordance with Council policy. <p><u>Period of Audit</u> The period of the audit covered the period April 2015 to November 2015.</p> <p><u>Audit Opinion</u> On the basis of the 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 for controls in relation to 'Reconciliations', 'production and review of arrears and collection reports', 'recovery & enforcement procedures', and, 'write offs'; a Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place for controls in relation to 'software access restrictions', 'software access reviews', and, 'security of data'; and a Limited level of assurance on the adequacy and operating effectiveness of controls in place for controls in relation to reviewing 'exception reports'.</p> <p>The main areas of weakness identified, for which one Rank 1 'High Priority' and two Rank 2 'Medium Priority' recommendations have been made, relate to:-</p> <ul style="list-style-type: none"> • Actions are required to ensure that reports such as the Recovery Inhibit Reports are only run in the relevant users' spool manager. • Actions are required to ensure that CTax recovery inhibit reports are reviewed and actioned in line with the reporting timeframe to ensure that recovery is not being unnecessarily inhibited. • Actions are required to demonstrate that the City Council is verifying the validity of the refund requests and providing authorisation for the refunds as per the requirement of the Managed Services contract. <p>The recommendations made as a result of this audit have been agreed by management with the latest</p>	

Audit	Comments	Level of Assurance
	implementation date for the recommendations being March 2016.	
Capital Accounting	<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"> • Five year rolling programme of revaluation for fixed assets held; • 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 reconciliation of corporate property (asset management system) and the fixed asset register; • Periodic physical verification of fixed assets; • Controls in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to movement in fixed asset balances. <p><u>Period of Audit</u> The period of the audit covered the 2015/16 financial year up to the point of audit (December 2015).</p> <p><u>Audit Opinion</u> On the basis of the 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 for all areas covered by the audit.</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"> • The Council should consider reconciliation of the complete fixed asset register to the asset management system on an annual basis, to ensure completeness and accuracy of both systems • The Constitution's Financial Regulations capital programme content should be reviewed and updated (where applicable) to ensure a consistent approach is detailed for new capital project review and approval. <p>The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being</p>	Satisfactory

Audit	Comments	Level of Assurance
	January 2017.	

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.

Appendix 2: List of Rank 1 'High Priority' Recommendations not implemented by the agreed date

Audit	Date	Recommendation	Agreed Action	Responsible Officer	Agreed Implementation Date	Management Comment	Revised Implementation Date
Guildhall	Jan 2015	Officers are required to raise orders for the purchase of goods or services in advance of the provision of the goods / services, in line with the requirements of the Councils Financial Regulations.	Procurement and Finance officers to run refresher course with staff and to clarify any 'grey' areas.	Guildhall Service Manager (GSM)	ASAP, but to be fully actioned by 1st April 2015	Finance have already done a review of process with staff in October. GSM to reinforce process and push for compliance.	Immediate
Guildhall	Jan 2015	Actions are required to review and address aged commitments within the Financial Management System on a regular basis	Regular review of commitments – monthly when lists are sent round.	Guildhall Service Manager (GSM)	Already begun in January 2015	GSM to go through list of commitments and remove outstanding or defunct orders	End of January 2016