Gloucester City Council

Meeting:	Audit and Governance Committee **Date:** 20th June 2016
Subject:	Internal Audit Plan 2015/16 – Final Monitoring Report
Report Of:	Head of Audit Risk Assurance (Chief Internal Auditor)
Wards Affected:	Not applicable
Key Decision:	No **Budget/Policy Framework:** No
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Appendices:	**1: List of the remaining audits completed as part of the 2015/16 Internal Audit Plan** **2: Details of Internal Audit 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 remaining audits completed as part of the agreed Internal Audit Plan 2015/16.

2.0 Recommendations

2.1 Audit and 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 and 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 2013, this final monitoring report details the outcomes of internal audit work carried out in accordance with the approved Plan.

3.2 Regular Internal Audit Plan 2015/16 monitoring reports have been submitted to Audit and Governance Committee within the 2015/16 Civic Year, to confirm progress against the approved Plan. The last report was presented at the 14th March 2016 Committee meeting.

3.3 This final monitoring report includes details of the remaining audits completed as part of the Internal Audit Plan 2015/16. The performance monitoring information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The final position for the 2015/16 Plan is 90.6% (29 out of 32 planned audits completed) compared to a target of 90%.

3.4 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.

3.5 Members can take assurance that where Limited or Unsatisfactory levels of assurance have been allocated, Internal Audit will undertake a follow up review on the area to confirm whether the management agreed recommendations have been implemented within the agreed timescale. See report section 4.1 for the approach regards non implemented High Priority audit recommendations.

4.0 Results from Follow-Up Audits

4.1 It has previously been agreed that Members would be notified of all 'Rank 1 High Priority' recommendations that have not been fully implemented within the agreed timescale. See **Appendix B** for details.

5.0 Asset Based Community Development (ABCD) Considerations

5.1 There are no ABCD implications as a result of the recommendation made in this report.

6.0 Alternative Options Considered

6.1 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 and processes audited.

7.0 Reasons for Recommendations

7.1 The Public Sector Internal Audit Standards 2013 state that the Chief Internal Auditor 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.

7.2 Consideration of reports from the Chief Internal Auditor on internal audit's performance during the year, including updates on the work of internal audit, is also a requirement of the Audit and Governance Committee's terms of reference (part of the Council Constitution).

8.0 Future Work and Conclusions

8.1 The role of the Audit, Risk and Assurance service is to examine, evaluate and provide an independent, objective opinion on the adequacy and effectiveness of the internal control environment, comprising risk management, control and governance. Where weaknesses have been identified, recommendations have been made to improve the control environment.

9.0 Financial Implications

9.1 There are no financial implications arising out of this report.

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

10.0 Legal Implications

10.1 There are no direct legal implications arising out of this report.

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

11.0 Risk and Opportunity Management Implications

11.1 Delays in acceptance and implementation of audit recommendations may lead to a weakened control environment, which potentially impacts on the achievement of the Council's strategic/operational objectives, financial irregularity and/or fraud, reputation and safeguarding the well-being of the Council's stakeholders.

12.0 People Impact Assessment (PIA):

12.1 A requirement of the Accounts and Audit Regulations 2015 is for the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance. The internal audit service is delivered by Audit, Risk, Assurance which is an internal audit and risk management shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

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

13.0 Other Corporate Implications

Community Safety

13.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

13.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

13.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents: Public Sector Internal Audit Standards (PSIAS) 2013
CIPFA Local Government Application Note for the UK PSIAS
Internal Audit Plan 2015/16
Internal Audit monitoring reports 2015/2016

List of the remaining audits completed as part of the 2015/16 Internal Audit Plan

Audit	Comments	Level of Assurance

Rugby World Cup	<u>Audit Objective</u>
	The objective of the audit was to ensure the following controls were in place and operating effectively:
	• Objective(s) and budget have been appropriately defined and approved.
	• Risks have been identified and appropriately managed at all project stages.
	• Project governance & delivery responsibility has been assigned, and satisfactory performance monitoring exercised.
	• Budgetary responsibility has been assigned (budget monitoring and expenditure approval) and satisfactory budgetary control exercised.
	• Income and expenditure items:
	   - Actuals: are in line with the approved project objectives and budget; are compliant with the Council's Constitution and financial procedures (e.g. order through to payment); have adequate audit trail; and have been coded correctly and appropriately treated for VAT.
	   - Estimates: are in line with the approved project objectives and budget; and are reasonable based on appropriate supporting documentation and business cases (where relevant).
	• RWC15 tickets purchased and distributed to the Council have been appropriately logged and allocated in line with defined terms and conditions
	• Review of the project outcome is planned to confirm whether the Council objective(s) and budget have been achieved.
	
	<u>Period of Audit</u>
	Internal audit scope was to review the processes and controls in place for the term of the project i.e. 2013/14 (initiation and bid) to end delivery September and October 2015. The audit work was completed in September 2015 and February 2016.
	
	<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 majority of the areas covered by the audit
		Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	except for the adequacy and operating effectiveness of controls in place for 'Budget responsibility and control' for which a **Satisfactory** level of assurance has been provided; and the adequacy and operating effectiveness of controls in place for 'Income and expenditure testing – including Constitution Contract Standing Order compliance and RWC ticket allocation' for which a **Limited** level of assurance has been provided. The main area of weakness identified, for which four Rank 1 'High Priority' recommendations and one Rank 2 'Medium Priority' recommendation has been made (ranking definitions are confirmed within the subsequent two tables), relate to: • The recovery of two income items was identified as outstanding at the point of audit and required resolution by the Council before determination of the final project costs and comparison against budget. • Audit review of a sample of expenditure of non-payroll items identified the procedures followed were not compliant with the Council's Constitution Contract Standing Orders. • Audit testing identified a few areas where action was required to ensure the RWC15 cost centre contained RWC15 costs and income only. • The audit confirmed the Council had a defined approach (including allocation criteria) and supporting audit trail for allocation of 3 pots of RWC15 tickets. However audit testing identified that allocation audit trail was incomplete and that allocation criterion was not met in all cases. • The request for exemption from tendering/quotation procedures form should be reviewed and updated to ensure that the form is in line with the requirements of the Council Constitution Contract Standing Orders. The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being Quarters 1 & 2 2016/17.	
Benefits	<u>Audit Objective</u> The objective of the audit was to ensure the following controls were in place and operating effectively: • Periodic reconciliation of the Benefits system to the appropriate feeder systems. • Periodic review of Exception Reports. • Identification and recovery of Housing Benefit Overpayments. • Receipt and approval of claims for Discretionary Housing Payments.	Satisfactory

Audit	Comments	Level of Assurance
	• Housing Benefit Claims - Quality Assurance Checks. Period of Audit The audit covered the period April 2015 to February 2016. Audit Opinion 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. The main area of weakness identified, for which two Rank 2 'Medium Priority' recommendations have been made, relate to: • Formal approval for the 'local' weekly income disregards to be obtained from the Cabinet Member for Performance and Resources. • Regular meetings with Civica Housing Benefit managers should be introduced to ensure that the recovery process for outstanding debtors is being optimised and actioned appropriately. The recommendations made as a result of this audit have been agreed by management with the implementation targeted for within 2016/17.	
Payroll	Audit Objective The objective of the audit was to ensure the following controls were in place and operating effectively: • The payroll system is reconciled to the general ledger. • Establishment lists are circulated to managers for verification of officer numbers in their respective areas. • Production and review of exception reports. • Access restrictions payroll system. • Contracts are in place to define both parties' obligations. • Client Monitoring arrangements are working effectively. • Payments to the 'supplier' are made in line with the formal agreement/SLA. Period of Audit The period of the audit covered the ten month period from April 2015 to January 2016. Audit Opinion On the basis of the work carried out during this audit review, and the number and classification of	Satisfactory

Audit	Comments	Level of Assurance
	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. The main area of weakness identified, for which one Rank 2 'Medium Priority' recommendation has been made, relates to: • The signed and dated shared service level (SLA) agreement should be located and held securely. If one cannot be located an additional SLA should be produced. The recommendation made as a result of this audit has been agreed by management with the implementation targeted for within 2016/17.	
VAT	<u>Audit Objective</u> The objective of the audit was to ensure the following controls were in place and operating effectively: • VAT returns are completed each and every month. • The Fees and charges booklet details the correct VAT status for each source of income. • All Income is correctly recorded with the VAT status and calculations. • That all Invoices processed by the Council, whether direct or through grant-aided bodies, are correctly coded to allow the recovery of VAT <u>Period of Audit</u> The period of the audit covered the transactions within the 2015/16 financial year. <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. No Rank 2 'Medium Priority' or Rank 1 'High Priority' recommendations were raised within the VAT internal audit report. VAT relevant Rank 2 'Medium Priority' recommendations have been made as part of the Cash to Bank internal audit (see below).	Satisfactory
Cash and Bank	<u>Audit Objective</u> The objective of the audit was to ensure the following controls were in place and operating effectively: ▪ A regular bank reconciliation is performed and subject to management review and approval.	Good/ Satisfactory

Audit	Comments	Level of Assurance
	▪ Reconciliation(s) of the cash receipting system to General Ledger. • Reviews performed upon the unallocated cash suspense account. • Issuing corporate procurement cards and reconciling the monthly transactions. • Setting up and reviewing Direct Debits to suppliers. <u>Period of Audit</u> The period of the audit covered the eleven month period from April 2015 to February 2016. <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 reconciling the cash receipting system to the general ledger for which a **Satisfactory** level of assurance has been provided. The main area of weakness identified, for which four Rank 2 'Medium Priority' recommendations have been made, relate to: • Actions are required to identify and resolve the reasons why there are still instances where a VAT rate of 17.5% is being accounted for at some point within the interface of the Sundry Debtor income to the General Ledger. • Actions are required to identify and resolve the reasons why when posting income from the Cash Receipting system to the General Ledger that the VAT values are not being fully transferred. • Actions are required to identify and resolve the reasons why more gross income is posted to the General Ledger than is advised through the Cash Receipting system fund analysis reports. • Reasons for variances between the Flex to General Ledger interface and the flex report values should be investigated and addressed at the point of interface, with the details being recorded on the interface spreadsheets to highlight recurring reasons from which actions can be taken as appropriate. The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being	

Audit	Comments	Level of Assurance
	December 2016.	
Creditors	<u>Audit Objective</u> The objective of the audit was to ensure the following controls were in place and operating effectively: • 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 relevant software. <u>Period of Audit</u> The period of the audit covered the 2015/16 financial year to February 2016. <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 review of user access for which a **Satisfactory** level of assurance has been provided. The main area of weakness identified, for which one Rank 2 'Medium Priority' recommendation has been made, relates to: • Actions are to be taken to ensure that the 'new user' and 'role changes' reports are run and reviewed on a quarterly basis in order to provide assurance that user access rights within the Creditors system have been appropriately approved and actioned. The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being June 2016. The Creditors audit also identified issues with system administrators not receiving notification of leavers and changes of officer roles. This area has been raised within the IT internal audit report 2014/15 (issued 12th June 2015) and the subsequent follow up review report (issued 11th April 2016). See **Appendix B** for the current position.	Good/ Satisfactory
Garden Waste	<u>Audit Objective</u> The objective of the audit was to ensure the following controls were in place and operating effectively:	Good/ Satisfactory

Audit	Comments	Level of Assurance
	• The Garden Waste collection charge has been appropriately set and applied. • Actions are in place to review the effectiveness of the scheme in meeting its objectives. • Income streams are appropriately controlled with the income being allocated to the correct budgets. • All related expenditure items are accounted for. • Only paying customers' waste is being collected Period of Audit The period of the audit covered the start of the 'revised' scheme (October 2015) to February 2016. Audit Opinion 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 approval of the Garden Waste scheme's initial implementation, changes applied for 2015-16, measuring and reporting of the scheme's targets, and relaying the scheme details to the general public; and a **Satisfactory** level of assurance on the adequacy and operating effectiveness of controls in place for income, expenditure, and waste collection. The main area of weakness identified, for which three Rank 2 'Medium Priority' recommendations have been made, relate to: • There have been issues with the online Direct Debit (DD) registration. A recommendation has been made to ensure that all internet links for signing up to, and paying for, the garden waste service are working as intended. • The City Council's Business Rates liability for the storage of garden waste bins to be reviewed and appropriate action taken. • Actions are required to ensure that the Debtor system correctly interfaces with the Customer Management System so that required information is relayed in a timely manner to all relevant parties. The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being October 2016.	
Sundry Debtors	Audit Objective The objective of the audit was to ensure the following controls were in place and operating effectively:	Good/ Satisfactory

Audit	Comments	Level of Assurance
	• Reconciliations of the sundry debtor system to the general ledger are performed on a regular basis and to a zero variance. • Reconciliations of the sundry debtors system to the cash receipting system are performed on a regular basis and to a zero variance. • 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 each key software application is restricted through adequate password-based access controls. • User access rights to key systems are being reviewed with amendments being effected as required. Period of Audit The period of the audit covered the period April 2015 to February 2016. Audit Opinion 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 'review of user access rights to key systems' for which a **Satisfactory** level of assurance has been provided. The main area of weakness identified relates to issues with system administrators not receiving notification of leavers and changes of officer roles. This area has been raised within the IT internal audit report 2014/15 (issued 12th June 2015) and the subsequent follow up review report (issued 11th April 2016). See **Appendix B** for the current position.	

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:

OPINION ON 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).

OPINION ON CONTROL LEVEL	DESCRIPTION
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 or lack of 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.

Details of Internal Audit Rank 1 High Priority Recommendations not implemented by the agreed date

The below recommendations were originally raised within the IT internal audit 2014/15 (audit report issued 12th June 2015) and agreed by management. An IT follow up internal audit was completed in quarter 4 2015/16 and identified that two rank 1 recommendations from the IT internal audit 2014/15 had not been implemented.

The below table confirms the original recommendation and management response, as well as the follow up audit findings with updated management response and agreed timings for recommendation implementation.

Date	Audit	Original Recommendation and Management Response	Imp. Date	Follow-Up Audit Findings/Management Response	Revised Imp. Date
June 2015	IT	**Original Recommendation** The Client Team should ensure that all Council leavers with employment end dates up to 31/03/15 are deregistered from the Council network and all Council systems immediately. **Management Response** Accepted. This work has already been done. Validation of this will be undertaken by the Client Team.	June 2015	**Follow-Up Audit Findings** Verbal assurance was provided by the Business Analyst that as at October 2015 a piece of work was completed between himself and Civica to disable Council leavers with a leave date of October 2013 to October 2015. However audit trail of this exercise could not be provided. Audit sample testing of 2015/16 leavers and review of 2014/15 leavers identified a number of network user accounts (1/6 2014/15 cases and 5/8 2015/16 cases) which had not been appropriately disabled. **Management Response** Accepted. Review completed with HR for employees of City Council. Communications have been sent to all managers reminding them to deregister all leavers – work will have to be done to ensure that contract staff are captured as part of this.	March 2016

Date	Audit	Original Recommendation and Management Response	Imp. Date	Follow-Up Audit Findings/Management Response	Revised Imp. Date
June 2015	IT	**Original Recommendation** The IT deregistration process should be redefined and agreed by the Council immediately. The approach should consider and include: • Regular reminders to Managers of the mandatory process to be completed for all Council leavers to ensure that IT access is appropriately disabled • Notification to system administrators of Council leavers on a regular and timely basis, to enable software system user access rights to be appropriately disabled or deleted and support regular, independent review of user access rights to key systems. • Review of the Council leavers report (HR – SAP) on a quarterly basis by the Client Team, to ensure that network access has been removed for all leavers (this is a secondary control). It is noted that this control will not capture agency staff not paid through SAP payroll. **Management Response** Accepted. This work has already been completed and agreed. This will now form part of the paper to SMT to ensure management are fully aware of the manager's responsibilities. The Client team will then review on a quarterly basis moving forward.	July-August 2015 and On-going	**Follow-Up Audit Findings** The Business Analyst confirmed that the IT deregistration process has not been updated within 2015/16 and reminders to Managers of the current approach has not been completed. **Management Response** Accepted. Communications to go out to all managers to remind them to deregister staff, via the Business Bulletin. Electronic form still available via intranomic and city net. Original recommendation to be done.	Quarter 1 2016/17