

AUDIT COMMITTEE

9 March 2010

Report of the Director of Governance and Procurement

ITEM 9 INTERNAL AUDIT PROGRESS REPORT

Purpose of the Report

The report summarises the progress against the 2009-10 Audit Plan, and outlines the key findings from final audit reports and follow-up work completed since the previous progress report considered by the Audit Committee at the meeting held 1 December 2009.

Appendix A summarizes progress against the 2009-10 Audit Plan (as at 19 February 2010).

Action Requested

The committee is asked to note the report.

Policy Context

The Accounts and Audit Regulations 2006 (as amended) require the Council to maintain an adequate and effective internal audit service.

Background

Final Audit Reports Issued

The following final audit reports have been issued since the last update report to the committee. As requested at that previous meeting, further detail in respect of each audit is attached in Appendix B, including a background section, the executive summary, and the agreed action plan listing recommendations made and the management responses.

Audit	Level of Assurance
Payroll	Substantial
Debtors	Substantial
Council Tax	Substantial
Treasury Management	Substantial
Capital Accounting	Substantial
Complaints Handling	Substantial
Development Control – Fee Income	Substantial
Contract Audit	Substantial
Achieve Forms	Substantial
CCTV	Moderate
NNDR (Business Rates)	Moderate
Strategic Risk 3: Economic Downturn	Moderate
Strategic Risk 5: Priority Neighbourhoods	Moderate
Charnwood Museum	Moderate

Follow-up of Recommendations

The table below summarises the follow-up status of recommendations which were due to be implemented since the last update report to the committee (ie. November 2009 to January 2010). Where it has been found that recommendations have not been implemented in accordance with the date agreed by management, further details are included in Appendix C. Where revised implementation dates have been agreed, these recommendations will be followed-up again in the relevant month.

Priority Level	Month Due for Implementation	Implemented	Not Implemented
High	November 2009	-	-
	December 2009	1	1
	January 2010	3	-
Medium	November 2009	-	-
	December 2009	2	5
	January 2010	5	5
Low	November 2009	1	1
	December 2009	1	1
	January 2010	2	1
Percentages		52%	48%

In particular, the Committee should be aware of the following recommendations which have not been implemented despite having been deferred on several occasions:

Income Collection:

A 'High' level recommendation relating to the re-tendering of the cash collection service has still not been fully implemented, due to delays with establishing an ESPO contract. This recommendation from the 2008/09 audit was initially agreed for implementation in May 2009, but was also raised in the 2007/08 audit with an original agreed implementation date of September 2008 (ie. 18 months ago). The service has been re-tendered as part of a joint procurement exercise through ESPO to maximise value for money and efficiency savings. To look to undertake this exercise on a standalone basis, rather than through ESPO, would not have been best value for the Council. The contract has not yet been finalised by ESPO, but preferred contractors have been selected as a result of the tendering process and the Council has confirmed its satisfaction with the final tender rankings. The tendering process has therefore been implemented and is nearing completion, but unfortunately due to the nature of the partnership tendering process the timings have been outside of this Council's direct control.

A 'Low' level recommendation relating to the production of an updated procedure manual for the receipting, handling and banking of income has still not been implemented. This recommendation from the 2008/09 audit was initially agreed for implementation in September 2009. A similar recommendation was raised in the 2007/08 audit with an original agreed implementation date of November 2008, but this was postponed pending changes to processes arising from the planned closure of the Cash Office at the end of April 2009. The recommendation is being raised again in the 2009/10 audit report which is at draft stage.

Debtors:

A 'Low' level recommendation relating to the updating of the Management of Sundry Debt & Miscellaneous Income procedure guide has still not been implemented. The recommendation was originally agreed for implementation in March 2009, and has been deferred on two occasions since then. This recommendation has therefore remained unresolved for nearly 12 months. The Head of Financial Services has stated that 'this work was due for completion in conjunction with the Systems Accountant. We have been without that post since mid-October and the new person does not start until 8 March 2010. This will be on their work schedule for 2010-11 and we would hope to have it finished by 31 March 2011'.

Special Investigations

An investigation was undertaken in response to a data match highlighted by the Audit Commission's National Fraud Initiative (NFI) between a private company from whom the Council purchases goods and services, and an employee. The investigation revealed two cases of employees who had verbally declared personal interests in private companies, but who had not followed this up with formal written declarations as required by the employee code of conduct. Written declarations have now been received from both officers and, whilst no evidence of any impropriety was discovered, recommendations have been made to ensure that procurement processes involving the company highlighted by the NFI match are robust and transparent.

Performance Indicators for Internal Audit

The following summary outlines the latest results against the local performance indicators for Internal Audit up to Quarter 3 of 2009/10.

Indicator	Target	Result	Notes
Percentage of clients satisfied or very satisfied with the service provided by Internal Audit	90%	100%	
Percentage of the agreed Internal Audit plan delivered up to 31/12/09	60% (pro rata)	58%	81.8% as at 19 February 2010. The audit team is now fully staffed, and together with using external support, it is anticipated that the year end target of 90% will be achieved.
Percentage of recommendations arising from internal audit reviews implemented by the agreed date	80%	55%	

Background Papers:

Internal Audit reports held by the Performance & Audit team

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PROGRESS AGAINST THE 2009/10 AUDIT PLAN

Audit	Plan Days	Days Spent	Status	Assurance Opinion
Key Financial Systems				
Payroll	10	8.6	Final Report	Substantial
Debtors	10	9.4	Final Report	Substantial
Creditors	10	10.8	In Progress	
Income Collection	10	23.4	Draft Report	
Council Tax	10	8.3	Final Report	Substantial
NNDR	10	6.3	Final Report	Moderate
Hsg & Council Tax Benefits	15	10.0	In Progress	
Treasury Management	10	10.0	Final Report	Substantial
Accountancy & Budgetary Control	10	10.4	Draft Report	
Capital Programme	8	6.6	Final Report	Substantial
Strategic & Service Risk Audits				
Agency & Temporary Staff	8	8.1	In Progress	
Data Quality	15	25.0	Final Report	Moderate
Complaints Handling	8	4.2	Final Report	Substantial
Development Control	10	7.4	Final Report	Substantial
Charnwood Museum	8	6.7	Final Report	Moderate
Housing Allocations	10	1.0	In Progress	
ALMO Monitoring	10		Feb/March 2010	
Client Management – Major Contracts	15	5.5	In Progress	
Procurement	10	16.6	In Progress	
Anti-fraud & Corruption / NFI	10	9.3	Final Report	Substantial
Licensing	10	11.5	Draft Report	
Risk Management:				
SR3: Economic Downturn	15	16.6	Final Report	Moderate
SR4: Decent & Affordable Hsg	10	12.8	Final Report	Substantial
SR5: Priority Neighbourhoods	10	11.5	Final Report	Moderate
SR6: Partnerships	10	3.9	In Progress	
Contract Audit	10	5.2	Final Report	Substantial
Information Mgmt & Security	10		March 2010	
Achieve Forms	10	8.2	Final Report	Substantial
CCTV	5	5.0	Final Report	Moderate
RIPA	5	2.8	Draft Report	
Sustainability / Climate Change	8	1.2	In Progress	
Other Work				
Recommendation Follow-ups	25	11.9	Ongoing	
Contingency	38	39.4	Ongoing	
Allowance to complete 2008/09 Audits	20	22.0	Complete	
TOTAL	393	321.3*	81.8%	

* Including work in progress, and the planned number of days when an audit reaches the final report stage.

SUMMARY OF AUDIT REPORTS ISSUED

Payroll

Background: The Payroll system is one of the identified key financial systems which are required to be audited on an annual basis. The Payroll system is administered within the Financial Services Division of the Deputy Chief Executives Team and provides a centralised service for the payment of salaries and wages to employees of the Council.

Executive Summary

SUBSTANTIAL ASSURANCE

Internal Audit can give substantial assurance to those charged with governance. The internal control environment within the areas reviewed is adequate and effective, and appropriate actions are being taken to manage risks.

Key Findings

We were pleased to report that the procedures in place incorporate the following examples of good practice:

- There are adequate arrangements in place to ensure that there are appropriate segregations of duties.
- There are procedures in place to ensure that the payments are made accurately and timely and that the payments have been appropriately authorised.
- Regular reconciliations are undertaken between the payroll system and the general ledger and bank accounts.
- There are adequate controls in place to ensure that temporary and permanent variations to Payroll are appropriately authorised, including overtime processing.

However, from the work undertaken during the audit, we also identified the following areas where there is scope for improvement to ensure that the systems are operating correctly and efficiently:

- Payroll procedure notes are not version controlled and there is no evidence to show that procedure notes have been reviewed and updated.
- Bank details submitted by new starters are not signed and dated by the new starter.
- There are no procedure notes for making emergency payments as part of the Payroll procedure manual.

SUMMARY OF AUDIT REPORTS ISSUED

Action Plan

Observation	Risk	Recommendation	Priority Rating	Agreed Action	Officer Responsible	Action Date
1. Audit found that procedures for the processing of new starters, leavers, amendments and payments are in place. However, there is no evidence to show that they are version controlled or when the procedure notes were last updated.	There a risk that if procedure notes are not updated regularly, staff members may use out of date procedure notes to process payroll transactions.	Any changes to the Payroll Procedure manual should be evidenced by issue of a new document version reference or details of documentation of review/update date, including brief details of the changes.	Low	Response: Recommendation Agreed. Agreed Action: Review and update of Payroll procedures will be documented.	Payroll Officer	April 2010
2. A review of the Payroll procedures found that there are is no evidence of a procedure to be followed when making emergency payments to staff members	There is a risk that members of staff process emergency payments non-compliant with the Council's Financial Regulations.	Payroll should draft a procedure for making emergency payments to employees.	Med	Response: Recommendation Agreed. Agreed Action: Payroll procedure notes will be updated to include processing of Emergency Payments to members of staff.	Payroll Officer	April 2010
3. For a sample of 20 new starter bank forms tested, in 11 instances the Bank details form submitted by new starters had not been signed or dated by the new starter. Audit noted that submission of a bank detail form has been re-designed for new starters, which are now in use.	There is a risk that incorrect employee bank details are submitted to payroll.	Payroll should ensure that all bank details submitted by new starters have been signed and dated.	Med	Response: Recommendation Agreed. Agreed Action: HR have been advised to distribute amended form as part of the starter pack. New forms include a line for new starter signature.	Payroll Officer	January 2010

SUMMARY OF AUDIT REPORTS ISSUED

Debtors

Background: The sundry debtors system is one of the identified key financial systems, which are required to be audited on an annual basis. The debtors function within Charnwood Borough Council is located within the Financial Services Division of the Deputy Chief Executive's Team and provides a centralised service for the collection of sundry income due to the Council. There are three members of staff within the team, the Senior Income Officer and two Income Officers. At the beginning of November 2009 the total value of outstanding debtor's accounts was £1.27m; this represents an increase of £409.5k over the amount of debt outstanding at the same time last year. Of the £1.27m outstanding, £530k related to monies owed to the Council by Charnwood Neighbourhood Housing. The age and respective values of the debts are as shown below, debt recovery procedures are commenced if the debt remains unpaid at 29 days:

Age	Total Number of Debts	Total Value	Number of CNH Debts	Total Value of CNH debts
Under 28 days	124	£592,890	36	£190,147
29-180 days	508	£569,432	61	£340,075
181-365	448	£64,339		
1-3 years	47	£27,252		
3-5 years	1	£448		
5+ years	12	£16,803		
Total	1086	£1,271,164	97	£530,222

Executive Summary

SUBSTANTIAL ASSURANCE

Internal Audit can give substantial assurance to those charged with governance. The internal control environment within the areas reviewed is adequate and effective, and appropriate actions are being taken to manage risks.

SUMMARY OF AUDIT REPORTS ISSUED

Key Findings

We were pleased to report that generally the procedures in place incorporate the following examples of good practice:

- There is appropriate segregation of duties in place between officers involved in the collection and recording of income and those raising invoices;
- Invoices were raised accurately and in a timely manner;
- All invoices were seen to be supported by appropriate backing documentation;
- Cash received for sundry debts is updated to the accounts receivable ledger by batch on a daily basis;
- Where recovery had been suppressed, supporting documentation was held on the customer file;
- Procedure notes were in place for all daily tasks carried out by the Income team;
- The suspense and unallocated cash reports are produced, reviewed and cleared on a monthly basis;
- The debtors control account reconciliation is carried out on a monthly basis and signed by the completing officer and the officer reviewing the reconciliation. Supporting paperwork was also seen to be retained for the reconciliation.

From the work carried out during the review we have identified the following areas where there is scope for improving procedures to ensure that the systems are operating effectively:

- Not every department is notified of their outstanding debts. Thus, ownership of the debt is impaired and recovery may be reduced;
- Cancellations were not always backed up with supporting documentation;
- Although the Council takes part in the CIPFA benchmarking exercise, there is no benchmarking exercise with either other Leicestershire authorities or a similar family of authorities.

SUMMARY OF AUDIT REPORTS ISSUED

Action Plan

Observation	Risk	Recommendation	Priority Rating	Agreed Action	Officer Responsible	Action Date
1. Of eight credit note / cancellations examined only five had a copy of the request from the department.	Income due is not received by the Council.	All credit note / cancellations must be supported by the relevant documentation.	Low	All credit notes/cancellations processed by staff currently working in the section are supported by the necessary documentation. The errors in question were made by a member of staff who has left.	N/A	N/A
2. Not all departments receive notification of their debts.	Lack of ownership leads to debts not being collected.	All departments should be notified of their outstanding debts on a monthly basis.	Med	Arrangements are in place for monthly reports to be sent to service departments if required. It would be both time consuming and an inefficient use of resources to produce reports for all departments regardless of whether they are required. In addition, if an invoice remains unpaid following system generated reminders, the income section will consult with service departments on a case by case basis to determine the next best course of action. It should also be noted that some departments use Agresso Web to monitor the status	N/A	N/A

