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## INTERNAL AUDIT QUARTERLY UPDATE

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### 1.0 Summary of progress 2015/16

- 1.1 Due to publication requirements this report is compiled in early June and the Audit Manager will update members verbally on progress at the meeting.
- 1.2 5 of the 28 items on the original plan are currently in progress. This is approximately 18% and compares with 19% for the same period in 2014/15.

### 2.0 Internal Audit 2015/16 First Quarter Activity Update

<b>Title</b>	<b>Position</b>
Contract Procurement	In progress
National Fraud Initiative	In progress
Licensing	In progress
Icon cash receipting	In progress
Benefits	In progress

  

<b>Summary</b>	
Work complete	0
Work in progress	5
Work not yet commenced	23
<b>Total</b>	<b>28</b>

### 3.0 Significant issues

#### 3.1 Revenues reconciliations

The lack of reconciliations of NNDR and Council Tax to Icon postings and the General Ledger following the implementation of the Northgate revenues system has been the subject of previous reports to this committee.

The sources of the differences between the systems involved have now been identified and the practical mechanism for reconciliation of the systems has been agreed.

Reconciliations of the NNDR system to Icon and the Ledger have commenced.

Historical anomalies between the Council Tax fund, Icon and the General Ledger have now all been identified and the process of correcting them is underway. This is a complex process due to the number of transactions involved and adjustments need to be applied in a way that is reflected accurately in all the systems involved.

Satisfactory progress has been made on these reconciliations and it is now anticipated that the processes that are underway will work effectively in future.

### 3.2 Payroll – variations to pay

This update includes a summary of a report on the system for initiating payroll variations which has been included here as it provides only limited assurance. An action plan to address this has been agreed with management and is scheduled for completion by the end of July 2015. An update on progress against the action plan will be brought to the next meeting of this Committee.

## 4.0 Conclusion

4.1 Progress against the 2015/16 plan to date has been satisfactory and it is anticipated that internal audit coverage will be maintained at levels which will enable an adequate assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

## 5.0 Update on 2014/15 work

5.1 Below are summaries of 12 areas of activity from the 2014/15 Audit Plan. The remaining areas will be reported to the next meeting of this Committee.

## 6.0 Assurance rating system

6.1 This report records the level of assurance provided by internal audit work. The following categories are used to record the level of assurance.

### **Full assurance:**

there is a sound system of internal control designed to secure objectives and controls are being consistently applied.

### **Substantial assurance:**

there is a generally sound system of internal control in place designed to secure objectives and controls are generally being applied consistently. Some weaknesses in the design or operation of the controls put the achievement of particular objectives at risk.

### **Limited assurance:**

weaknesses in design or inconsistent application of controls put the achievement of objectives at risk.

### **No assurance:**

weak controls or significant non-compliance with controls could result (or have resulted) in failure to achieve objectives.

6.2 No system of internal control can eliminate every possible risk and increasing the level of control in a system frequently increases costs. Balancing risk appropriately against the costs of control is management's responsibility.

6.3 Internal audit's role is to evaluate and improve the effectiveness of risk management and control processes.

6.4 It is important to recognise that the scope of the work and the area examined define the limits of the assurance and for this reason some context will be provided for each piece of work in the form of summary reports as set out below

## 7.0 2014/15 assurance reports:

### 7.1 BENEFITS

#### 7.1.1 Objectives

Ensure quality control process incorporates a robust audit trail from sample selection to final outcome.

Retest a small sample of claims from a recent quality control check to verify accuracy of reported figures.

Where the original checks disclosed errors establish whether action has been taken to prevent re-occurrence

By reference to the results of quality check reports and independent testing determine whether measures implemented to reduce the raised error rates identified during previous audit work have been effective.

#### 7.1.2 Observations

The quality control check process incorporates a robust audit trail.

Re-examination of claims selected from the quality sample for March 2015 replicated the original results indicating that the quality control check was operating satisfactorily.

Errors disclosed during quality checks had been corrected and action taken proportionate to the nature of the errors to prevent re-occurrence

Measures implemented to reduce error rates have been effective.

#### 7.1.3 Assurance

The complexity of benefit regulations and the requirement for significant exercise of human judgement in assessment processes means that errors can never be completely eliminated however this Internal Audit work provides **substantial** assurance. There is a sound overall system in place to control the administration of Housing Benefit and the Council Tax Support Scheme.

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### 7.2 CONTRACT PROCUREMENT

#### 7.2.1 Objectives

To monitor the operation of Contract Procedure Rules and Financial Regulations by review of procurement for contracts identified by various means including analysis of expenditure across all services.

To progress any issues identified at review with management through appropriate channels.

To improve controls on procurement and promote good practice by communication of findings of reviews corporately and contributing to reviews of procurement procedures.

#### 7.2.2 Observations

Internal Audit carried out reviews of procurement activity throughout the year. and were also involved with the work of the Procurement and Project Group.

#### 7.2.3 Assurance

Internal Audit work carried out in the year provides **substantial** assurance. The Council's has established a sound corporate framework of controls on procurement. Procurement activity at service level is based on sound procedures but the complex nature of procurement requires these continue to be monitored to ensure they are applied consistently in practice.

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### 7.3 HOME CARE LINK

#### 7.3.1 Objectives

Document the major operational components of the service.

Ascertain the position on the tender for the external contract.

Review arrangements for disaster recovery / business continuity.

Review control of data held by the section

Review arrangements for income collection and budgetary control

#### 7.3.2 Observations

The service's own procedural instructions were essentially up to date. The service is independently inspected each year against industry standards. The latest inspection recommended that clearer instructions be provided for staff and these are to be introduced in 2015.

The service had successfully retained a significant external contract through competitive tender.

Adequate Disaster Recovery / Business Continuity plans are in place.

Record retention procedures had recently been reviewed in the section and are generally sound although paper record management procedures require further review. The service's data handling procedures have historically been integrated into their general procedure manuals and have not yet been translated into the current standard corporate format. This will be addressed through the workings of the Data Protection Working Group.

Budget monitoring and income collection arrangements are sound and remodelling of budgets has taken place to provide clear management information on the unit's financial performance.

### 7.3.3 Assurance

Internal Audit work carried out in the year provides **substantial** assurance. There is a generally sound system of internal control in place designed to secure objectives and controls are being applied consistently. Controls on some areas of operation require refreshing to bring them into line with current corporate standards.

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## 7.4 Council Tax

### 7.4.1 Objectives

Select a sample of 60 accounts active in the current financial year:

Verify banding for the property to ensure the correct valuation has been applied.

Validate the opening balance to confirm that calculation routines are operating correctly.

For accounts in arrears in the sample ensure that appropriate recovery action has been taken and that the system adequately records the current position.

Determine whether discounts and exemptions applied to accounts in the sample are supported by adequate evidence.

Determine whether refunds issued to accounts in the sample are properly authorised and supported by valid documentation including a request for refund from the account holder.

Where any account in the sample has been subject to write off, ensure all reasonable steps have been taken to collect the debt and the write off is supported by valid documentation and is properly authorised.

Examine the Council Tax suspense account and confirm that the account has been reviewed on a regular basis

Establish whether the audit trail of movements to and from the suspense account is adequate and that balances arise from customer rather than system errors.

### 7.4.2 Observations

For the 60 accounts examined calculation routines in the Northgate system had operated effectively and properties had been correctly banded in accordance with the most recent Valuation Office assessments.

Appropriate recovery action was being taken on accounts in arrears. It was not possible to draw conclusions on the operation of recovery stage reset

procedures from the sample examined. This area will be incorporated into future audit work plans.

A number of issues were noted in relation to discounts and exemptions, e.g. changes to the information provided by educational establishments locally had degraded existing processes to confirm student status. As a result evidence was incomplete on a number of accounts in the sample. It was also noted that no proactive review process was in place for accounts granted Exemption F.

Council Tax Suspense is being pro-actively monitored and entries generally arise through customer error. Items moved out of Council Tax suspense were adequately recorded but in an inconsistent manner, in some cases this was achieved by entries on the system's notes facility, in others via a separate spread sheet.

#### 7.4.3 Assurance

Internal Audit work carried out in the year provides **substantial** assurance. System calculation and billing routines are operating effectively. Issues relating to a number of processes for "non cash" adjustments to accounts have been brought to management's attention.

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### 7.5 Debtors

#### 7.5.1 Objectives

Carry out transactional testing of a sample of debtor requests and corresponding invoices:

Review processes for reconciliation of the debtors system to the General Ledger to establish that reconciliation is accurate and complete, carried out with sufficient frequency and documentation held to record the exercise evidences a robust process.

Establish whether requests have been authorised appropriately.

Determine whether adequate details of the debtor are recorded on all invoices.

Check full descriptions of the services/functions for which charges were levied are provided.

Check amounts charged and appropriate VAT details were included on each invoice.

Establish invoices were despatched in a timely manner after receipt of debtor requests.

Check debtor number and invoice references are included on each invoice together with appropriate ancillary information such as contact details for the appropriate officer and acceptable payment methods.

Review process for maintaining records of officers authorised to request debtor invoices.

Examine the debtors suspense account. Confirm it is reviewed on a frequent basis, adequate records of movements to and from the account are maintained and balances are a result of customer error rather than system failings.

### 7.5.2 Observations

The process for reconciliation between the debtor system and General Ledger is robust, up to date, accurate and complete and carried out with sufficient frequency.

A review of a sample of 60 debtor request forms and corresponding invoices evidenced that:

- debtor requests were properly authorised, contained adequate debtor details, full descriptions of the services/functions for which charges were levied.
- Officers to contact in case of queries were present in all but one instance.
- Amounts charged and appropriate VAT details were included on each invoice and debtor and invoice references were present for all the sample.
- Details of acceptable payment methods are standard features on the reverse of all debtor invoices.

All invoices within the sample had been despatched in a timely manner after receipt of the debtor request.

While authorised signatory lists had been amended in relation to recent changes there was no evidence of systematic review by the client sections.

A review of the suspense account evidenced that it is checked on a frequent basis, movements into and out of the account are recorded appropriately and postings to the account arose as a result of incorrectly quoted reference numbers on the part of customers, as opposed to system shortcomings or staff errors. The balance on the account was zero.

### 7.5.3 Assurance

Internal Audit work carried out in the year provides **full** assurance. The corporate system for administration of debtors requested by services is operating effectively. (Note - this review did not include a detailed examination of the various systems in the user services which feed into and receive income through the debtors system.)

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## 7.6 Creditors

### 7.6.1 Objectives

To review the procedure for processing batches of invoices through the creditor system and the controls in place to verify payments made to invoices submitted.

To examine a sample of recent creditor invoices/payments encompassing all directorates within the authority to confirm the transactions were:

- traceable to the general ledger
- coded appropriately for the nature of the expenditure type and originating service
- arithmetically correct,
- approved in accordance with authorised signatory lists.

#### 7.6.2 Observations

The system automatically compares expected batch totals to those actually processed cumulatively, identifying variances if these totals do not reconcile.

Payment of invoices in excess of £20,000 are automatically blocked and require authorisation by the Principal Officer or Senior Officer Miscellaneous Income and Expenditure.

There is an effective audit trail in respect of user data input and payment authorisation.

Batch numbers and unique references in respect of individual invoices are automatically assigned, thereby enabling identification of transactions.

Where applicable, purchase order numbers relating to invoices automatically link transactions to the relevant expenditure codes and post to the general ledger, thereby minimising manual intervention.

Transactional testing indicated that invoices are being authorised appropriately and the system is operating effectively.

#### 7.6.3 Assurance

Internal Audit work carried out in the year provides **full** assurance. The corporate system for administration of creditor payments on behalf of services is operating effectively. (Note - this review did not include a detailed examination of the various services' processes for purchasing prior to input to the corporate creditor system.)

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### 7.7 Payroll

Previous audits concluded that computerised processing systems provided by Wigan MBC work effectively with adequate controls on payroll authorisation, calculation, recording and payment. The current review concentrated on original source documentation for variations to payroll (e.g. overtime, standby, additional duties) prior to input to the system for processing.

#### 7.7.1 Objectives

Establish if systems ensure that:

- source documentation has been adequately completed and signed by the employee



- payments have been made in accordance with the source documentation and manual calculations are correct
- variations are properly authorised in accordance with authorised signatory lists
- variations comply with appropriate terms and conditions and are in accordance with the Harmonisation Agreement
- there is an appropriate budget for each type of variation in each Service and that it has not been exceeded

#### 7.7.2 Observations

There is a lack of control over variations to payroll due to insufficiently detailed prime documentation in some service areas and inadequate authorisation procedures prior to input to the system.

Processing of claims in some service areas did not provide an adequate audit trail from work claimed to payments processed.

Due to these factors it was not possible to confirm that payments are being made in accordance with appropriate terms and conditions and the Harmonisation agreement.

The system does not adequately control the risk of inaccurate claims being processed or support subsequent checking and correction.

Retention of documents is inconsistent across services.

Given the overall lack of consistent processes and poor retention of information the remainder of the work programme was deferred and the report issued.

While there is insufficient evidence to support variations, no evidence was found of incorrect variations being processed however controls to prevent this are inadequate.

#### 7.7.3 Assurance

##### **Limited assurance:**

Internal audit work identified weaknesses in the design of controls on preparation, authorisation and retention of prime records prior to input to payroll which risk compromising system objectives.

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### 7.8 Treasury Management

#### 7.8.1 Objectives

Identify a sample of investment transactions for the financial year to date, examine the relevant records and ensure that the transactions were confirmed in writing and that there are appropriate documents, held securely supporting the transactions.

Ensure that all investments in the sample comply with the current Treasury Management Strategy.

Confirm that a regular reconciliation of investments has been carried out and that it has been signed off independently.

Examine the cashflow forecast spreadsheet to ensure it is up to date and provides adequate evidence to support appropriate levels of investment

#### 7.8.2 Observations

Transactions examined demonstrated satisfactory control on authorisation and recording of investments and complete compliance with the Council's Treasury Management strategy.

Adequate controls and procedures are in place to secure effective monitoring of cash flow and Investments made and repaid.

Weekly reconciliations of external investments, along with monthly interest received reconciliations, help ensure levels of investment meet vital output dates and major influxes are utilised most effectively.

#### 7.8.3 Assurance

Internal Audit work provides **substantial** assurance. The Treasury Management function is subject to effective control and investments had been made in accordance with the Treasury Management Strategy..

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### 7.9 Business Continuity

#### 7.9.1 Objectives

Time was included in the plan for internal audit attendance at "Exercise Lucifer", an exercise which was designed to test the business continuity plan by applying it in a simulated emergency situation.

#### 7.9.2 Observations

As this was not an audit of an operational area no formal audit report was produced although written feedback was provided to the Emergency Planning Officer.

#### 7.9.3 Assurance

Regular testing of business continuity arrangements by simulation provides a practical way of ensuring plans are kept up to date. Although this was not a regular assurance audit the exercise provided concrete evidence that key components of the Council's plans to control risks arising from threats to business continuity remain viable.

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## 7.10 ICON cash receipting

### 7.10.1 Objectives

This exercise was originally included in the plan to provide assurance on the overall management and operation of the ICON cash receipting system. Due to significant issues with reconciliations between Icon cash postings, Council Tax and NNDR systems and the General Ledger previously reported to this Committee the work actually undertaken focused specifically on this issue.

### 7.10.2 Observations

The detailed work undertaken with staff from Accountancy and BTLS Revenues and Benefits identified a number of technical issues giving rise to the apparent variances between the systems. With these resolved internal audit are no longer significantly involved in the on-going work to set up sustainable reconciliation routines which is reported elsewhere in this update.

### 7.10.3 Assurance

Although this work will ultimately contribute to improvements to controls in the systems involved, no assurance can be derived from involvement in this project. The assurance elements of the exercise originally planned have been included on the 2015/16 Audit Plan. Reconciliations will be tested as part of internal audits 2015/16 work on council tax and NNDR.

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## 7.11 ICT

### 7.11.1 Objectives

Review operation of relevant applications.

Provide input to corporate initiatives to improve ICT governance and manage risks in the wider ICT environment.

Attend the Lancashire Districts Computer Audit Group.

Provide internal audit input to the WLBC ICT user group

### 7.11.2 Observations

ICT is an integral part of the majority of the Council's operations. From 2014 the Council's ICT requirements have been provided by Lancashire County Council / BT Lancashire Services. Internal audit review of the operation and security of specific applications (e.g. Council Tax) has continued as part of individual service audits.

### 7.11.3 Assurance

During the year service reviews incorporating examinations of the operation of associated applications have all resulted in ratings of Substantial or Full assurance.

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## 7.12 Data Protection / SIRO

### 7.12.1 Objectives

Internal audit are represented on the Data Protection Working Group and through this channel maintain an overview of corporate arrangements to secure data security.

During the year as part of regular audit work a number of areas were reviewed against corporate standards for data security. In this way data protection arrangements are kept under continuous review. Issues are addressed directly with the Service under review. Matters disclosed could be escalated corporately where appropriate.

### 7.12.2 Observations

Through the working of the Data Protection Working Group improvements to procedures have continued to be made corporately and at service level. Elsewhere on this agenda is the Annual Governance Statement, the process for preparing this includes certification by the Borough Solicitor in his role as Senior Information Risk Owner that the Council has established an effective system of internal control in relation to the data it holds.

### 7.12.3 Assurance

Reviews of controls at service level provide assurance to the SIRO that the systems of control implemented at service level are operating in accordance with corporate standards. No issues significant enough to require noting in the SIRO's certification have been disclosed.

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