INTERNAL AUDIT QUARTERLY UPDATE

1.0 Summary of progress 2015/16

1.1 Due to publication requirements this report is compiled before the end of the quarter and the Audit Manager will update members verbally on the current position at the meeting.

1.2 10 of the 28 items on the original plan are currently in progress. This is approximately 36% and compares with 38% for the same period in 2014/15.

2.0 Internal Audit 2015/16 second quarter activity update

Title	Position
Contract Procurement	In progress
National Fraud Initiative	In progress
Licensing	In progress
Icon cash receipting	In progress
Benefits	In progress
Technical Services	In progress
Community Infrastructure Levy	In progress
Leisure	In progress
Council Tax	In progress
NNDR	In progress

Summary	
Work complete	0
Work in progress	10
Work not yet commenced	18
Total	**28**

3.0 Assurance rating system

3.1 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.

3.2   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.

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

3.4   It is important to recognise that the scope of the work in each area examined defines the limits of the assurance which can be provided and to give context to the assurance provided each piece of work is summarised in the reports set out below

4.0   Assurance reports:

4.1.1   <u>BACS</u>

BACS, (formerly Bankers' Automated Clearing Services) is a scheme for the electronic processing of financial transactions within the United Kingdom. The processes for initiating BACS runs in respect of outgoing payments and incoming payments via Direct Debit were examined and documented.

4.1.2   Objectives

To record and evaluate the internal controls used to regulate BACS processes.

4.1.3   Observations

- Appropriate checks are in place to ensure data accuracy and completeness throughout the processes.
- Two officers of appropriate status are required to approve and authorise BACS payment runs.
- Payments over agreed limits must be approved by an authorised officer within the Financial Services team.
- Appropriate records are maintained in respect of individual creditor transactions and payment transmissions.

4.1.4   Assurance

The Internal audit work carried out in the year provides **substantial** assurance. BACS transactions are controlled appropriately by checking input totals at the data processing stage, suitable segregation of duties, the presence of an effective audit trail, and robust authorisation procedures throughout.

4.2   Transport

Review of arrangements for the management of the Council's vehicle fleet through examination of the operation of the Transport contract and associated activities.

4.2.1 Objectives

Establish whether:

- Adequate arrangements are in place to monitor and manage the work completed under the contract

- Inspection and maintenance records comply with legal requirements

- Arrangements incorporate appropriate controls on expenditure

4.2.2 Observations

Appropriate arrangements are in place to liaise with the contractor at strategic and operational levels.

Vehicle inspection and maintenance records satisfy legal requirements.

The cost of regular maintenance and inspections is fixed by the contract.

Variable costs arise from changes to the makeup of the fleet itself or damage to vehicles (as opposed to normal wear and tear) which is not covered in the base contract price.

Changes to legislation and operational requirements have led to changes to the specification of the fleet over time. New vehicle prices are dependent on the individual specification and the base price of the fleet has therefore altered incrementally in line with these changes since the initial tender exercise.

Repairs for damage to vehicles on top of normal wear and tear e.g. caused by accident are checked and authorised by the Transport Manager on a case by case basis. With these being the only significant regular variable costs under the contract the transport manager scrutinises these individually before accepting or rejecting the cost of the works.

Overall, controls on costs arising from the contract were found to be adequate but some improvements to the administration of approval procedures were agreed during the course of the audit

4.2.3 Assurance

Inspection and maintenance records comply with legal requirements and arrangements incorporate appropriate controls on expenditure. The work carried out provides **substantial** assurance that adequate controls have been implemented to control work completed under the Transport contract.

4.3   Rents

The QL housing system is used for most aspects of the general management of the Council's Housing Stock. This exercise examined key controls relating to rental income

4.3.1   Objectives

- Review reconciliation of the QL Rents system to Icon cash receipting and the General Ledger.

- Trace a sample of payments through QL to the Ledger and test the quality of audit trail to individual rent accounts.

- Review recovery procedures within QL and test a sample of accounts in arrears to ensure appropriate recovery action is being taken.

4.3.2   Observations

A reconciliation spreadsheet is updated with debits, adjustments and receipts each week using a 'Balance Summary' report from QL. Entries are also included for rent refunds, housing benefit payments and VAT chargeable on garages. The spreadsheet is reconciled to the relevant GL cost centre and cash transaction listings.

A sample of payments selected at random from a cash transaction listing were traced to the relevant tenant's account within QL and the total for the day agreed to the General Ledger.

Arrears recovery is progressed through the QL rents module. While there is a set recovery path programmed into QL officers have the ability to override this for example if arrangements are made to make payment, benefit is pending or there are vulnerability factors to consider. Five accounts were selected at random from a system report of all accounts in arrears and a case history obtained for each one. The audit trail of activity for these accounts was compared to agreed arrears recovery procedures and process maps.

New working methods are currently being introduced for arrears monitoring and Internal Audit will revisit these areas at the next scheduled audit to provide assurance that they are working effectively.

4.3.3   Assurance

The Internal audit work carried out in the year provides **substantial** assurance. The audit trail from payment through to the QL and GL systems was satisfactory. Reconciliation of rent payments to the QL Housing Management System and the General Ledger was effective and up to date. Arrears cases were following approved recovery procedures appropriately.

4.4   Property Management (non HRA)

Review of property management for corporate buildings (non HRA)

4.4.1   Objectives

To review the administration of "non HRA" property services and to document and review significant systems in use

4.4.2   Observations

The section is responsible for general maintenance and cleaning of corporate buildings including sheltered accommodation. In addition to the fabric of the buildings the service covers maintenance of services such as air conditioning, heating, fire alarms, emergency lighting, door entry controls and Intruder alarms etc.

Cleaning is provided by an in-house team. Servicing and repair works are carried out under contract.

The Facilities Manager and Public Buildings Maintenance Officer are responsible for determining specifications, contract renewal frequencies and for preparation of tender documentation.

The Property Maintenance budget is £1.3m. Analysis evidenced satisfactory budgetary control overall in 2014/15 although some overspends were apparent, particularly in relation to cleaning consumables. Controls have recently been improved to reduce stock held with the objective of reducing future spending in this area.

Planned works are programmed through the year but some miscellaneous tasks undertaken by the section are not incorporated into existing schedules. Examples include duties relating to Elections, Mayoral engagements, Scout patrols, Remembrance Day and power washing of Derby St and Robert Hodge Centre 3 times a year.

The section raise orders for response works under the contract and these are coded to the appropriate building through the QL system. An estimate is entered for each job and the order emailed to the contractor. Invoices are processed through Housing's D100 creditor batch payment process. Any items not covered under existing contracts are raised through the Radius purchasing system as are miscellaneous items such as Utility bills.

4.4.3   Assurance

Internal audit's work provides **substantial** assurance that "Non HRA" Property Services is meeting its overall objectives with QL being used effectively to administer reactive and planned works.

5.0   Update on significant issues from previous reports

5.1   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 have been the subject of previous reports to this committee.

        Regular reconciliations of the NNDR and Council Tax system to Icon and the General Ledger are now taking place.

        The new reconciliation process will be examined as part of internal audit's work in revenues and benefits this year and the results will be reported to this Committee in due course

5.2   Payroll – variations to pay

        The 2014/15 payroll audit provided only limited assurance in relation to the system for initiating payroll variations. An action plan was agreed with management to improve controls. The agreed actions are being progressed and the revised system is due to be rolled out corporately in the next few weeks following final approval at DSH. The new system will be reviewed as part of the 2015/16 payroll audit.

6.0   Conclusion

6.1   The 2014/15 plan was completed with all work carried out as planned and with this update it has now all been reported to this committee. Progress against the 2015/16 plan to date is satisfactory and it is anticipated that internal audit coverage in the year will be sufficient to enable an adequate assessment of the adequacy and effectiveness of the Council's overall framework of governance, risk management and control.