INTERNAL AUDIT QUARTERLY UPDATE

1.0 Summary of progress 2016/17

1.1 9 of the 26 items on the original plan are currently in progress. This is approximately 34% compared to 36% for the same period in 2015/16.

1.2 The main reason for variance is a vacancy which has now been filled temporarily using an agency placement pending a permanent appointment following a phased restructure. The Audit Manager will provide a verbal update on the latest position at the meeting.

2.0 Internal Audit 2016/17 second quarter activity update

Title	Position
Contract Audit	Work in progress
National Fraud Initiative	Work in progress
Debtors	Work in progress
Council Tax	Work in progress
Creditors	Work in progress
NNDR	Work in progress
Main Accounting	Work in progress
Treasury Management	Work in progress
Payroll (implementation of self-service module)	Work in progress

Summary	
Work complete	0
Work in progress	9
Work not yet commenced	17
Total	**26**

3.0 Assurance rating system

3.1 This report records the level of assurance provided by Internal Audit's 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   CUSTOMER SERVICES

        Customer Services is the first point of contact for Council enquiries and deal with around 20,000 calls a month.

4.1.1   Objectives

        Establish current position in relation the Service's actions plans, risks and performance indicators. Examine controls on receipt of monies by telephone. Review spending against budget and undertake observations of Customer Service Advisors at work.

4.1.2   Observations

   •   Adequate controls for the risks identified for the service were documented on the Covalent system.

   •   Performance against the indicators in use was found to be satisfactory.

   •   A robust Business Continuity plan is in place in the event of service failure.

   •   Adequate controls were found to be in place for the receipt of monies by Customer Advisors over the telephone with a high level of compliance noted in a Payment Card Industry Data Security Standard assessment.

   •   No issues were highlighted in the review of the Service's expenditure against budget.

   •   Advisor observations established there were no significant variations to existing documented working practices and that web services are being promoted in line with the digital by preference agenda.

4.1.3   Assurance

This Internal audit work provides **substantial** assurance that the systems in place to secure customer services' business objectives are operating satisfactorily.

4.2   TECHNICAL SERVICES

At the time this work was undertaken Technical services' work included a wide variety of tasks including project based work, for example:

- commissioning and quality inspection roles in general engineering works such as the maintenance of car parks
- providing advice e.g. in relation to drainage during planning consultations
- collaborative work with partner organisations e.g. contributing to the authority's role as a member of the Lancashire Resilience Forum.
- maintenance of street name plates
- liaising with local businesses in relation to the management of Ormskirk Town Centre.

It also administered Ormskirk Market and Parking Enforcement which are examined separately and so were excluded from this review.

4.2.1 Objectives

To review activity in Technical Services.

4.2.2 Observations

Technical services operate in areas where the risks involved are complex and often responsibility for their management is shared between a number of organisations with the section acting as a conduit for communication with relevant partner organisations rather than being "owners" of the risk.

While staff are proactive in identifying, assessing and addressing emerging risks documentation was not refreshed frequently.

Since completion of the review and the departure of the Principal Engineer - Priv. Dev./Schemes and reduction in hours of the Technical Services Manager the opportunity has been taken to restructure the service with responsibility for the operations excluding out of hours work transferring to Development and Regeneration Services.

4.2.3 Assurance

This review provides **substantial** assurance that risks are being adequately managed but also concluded that performance relies heavily on the professional expertise of staff involved.

4.3   CREDITORS

The creditors system is administered by the BTLS Revenues and Benefits service but responsibility for administration and authorisation of orders and invoices remains with the commissioning services.

4.3.1 Objectives

To examine a random sample of 60 recent creditor payments to confirm that each transaction was traceable to the General Ledger, had been allocated an appropriate code, had VAT calculated correctly and coded appropriately, was reflected by an arithmetically correct invoice and was authorised in accordance with approved procedures.

To review the use of payments made via BACS.

To review procedures for processing changes to the creditor master file and controls on amendments to data.

To review the process for maintaining user access to the creditor system.

To examine calculation of the performance indicator for speed of processing invoices and review performance against it.

4.3.2 Observations

All transactions examined were readily traceable to the General Ledger, coded appropriately, and arithmetically correct.

On one occasion the VAT element of the invoice had not been input. In every other instance VAT (where chargeable) had been processed and coded correctly.

In four instances payments had not been appropriately authorised.

With these exceptions all transactions had been processed and authorised in accordance with approved procedures.

The percentage of cheque payments as a proportion of total transactions appears reasonable and likely to reduce in the future.

The controls in place regarding amendments to creditor details, e.g. bank account details, are appropriate.

Performance for each of the first three quarters of 2015/16 exceeded the target of 98.24%.

Monthly performance exceeded target in nine of the eleven months for which data was available. This was an improvement on 2014/15, where the target was exceeded in seven months over the corresponding period.

4.3.3 Assurance

While there were issues with authorisation on a small number of invoices these were minor technical infringements relating to the payment of valid invoices. This review provides **substantial** assurance that the systems in place to control creditor payments are operating satisfactorily.

4.4   PAYROLL – VARIATIONS TO PAY (Supplementary exercise)

Members will recall that 2014/15 audit work on payroll provided only limited assurance in relation to the system for initiating payroll variations. An action plan to address this was agreed with management and implemented.

The system is due to be substantially amended again with the commencement of "payroll self-service" which will migrate the submission and authorisation of many forms to an electronic system.

Internal Audit are currently reviewing the implementation of the new "self-service" system and rather than review a system with a limited lifespan in depth this supplementary exercise was commissioned to ensure that the issues identified during the previous audit had been addressed and had not in fact led to significant inaccurate payment of variations.

4.4.1 Objectives

4.4.2 To examine source documents relating to 30 variations in payroll payments in order to establish whether they adequately support variations claimed and are produced in accordance with appropriate authorisation procedures.

4.4.3 Observations

There is an effective audit trail and claim authorisation can be readily traced to line managers.

In all cases examined no errors were detected regarding the transfer of claim details from the officers' claims forms to the electronic forms used by line managers to transmit the information to HR.

One underpayment of a standby payment was identified which occurred as a result of confusion over the format of a claim form. This was corrected in the next salary run and revised forms are now in use throughout the authority.

4.4.4 Assurance

While this review was not intended to be a comprehensive assurance review as a future report will provide assurance on the operation of the Self-Serve process once this has been implemented it concluded that the temporary procedures put in place for the authorisation and processing of claims pending the implementation of Payroll Self-Serve now provide an effective audit trail for claims authorisation and found no evidence to suggest claims generally are being processed incorrectly.

5.0   Conclusion

5.1   Progress against the 2016/17 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.