
INTERNAL AUDIT QUARTERLY UPDATE

1.0 Summary of progress 2016/17

- 1.1 16 of the 26 items on the original plan are currently in progress. This is approximately 62% compared to 68% for the same period in 2015/16.
- 1.2 The main reason for the variance is a vacancy which arose during the previous financial year. This was held open to support the policy options process and has resulted in a shortfall in resources in the year to date. The Audit Manager will provide a verbal update on the latest position at the meeting.

2.0 Internal Audit 2016/17 third quarter activity update

Title	Position
Contract Audit	Work in progress
National Fraud Initiative	Work in progress
Debtors	Complete
Council Tax	Work in progress
Creditors	Work in progress
NNDR	Work in progress
Main Accounting	Work in progress
Treasury Management	Complete
Payroll (implementation of self-service module)	Work in progress
Rents	Work in progress
Benefits	Work in progress
Member Services	Work in progress
Communication and Consultation	Work in progress
CRM / digital inclusion	Work in progress
Economic Development	Work in progress
Data Protection	Work in progress

Summary	
Work complete	2
Work in progress	14
Work not yet commenced	10
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 Debtors

The Council's revenues and benefits service (provided by BTLS) is responsible for the operation of the Debtors System, which issues invoices for services provided by the Council, in response to requests received from the sections delivering those services.

4.1.1 Objectives

The exercise was designed to review the system and procedures in operation to ensure they are in accordance with best practice in general and in compliance with the Authority's Financial Regulations in particular. A sample of 30 debtor accounts was examined to test the key features of system processes.

4.1.2 Observations

- Debtor invoice requests were submitted by authorised officers.
- Charges had been calculated accurately and VAT, where appropriate, had been applied correctly.
- All transactions were readily traceable to the General Ledger (the Council's main accounting system).

4.1.3 Assurance

- This Internal Audit work provides **full assurance** that appropriate procedures are in place for the administration of the service and that the system is operating effectively.

4.2 Treasury Management

Treasury management policies, practices and procedures are an integral part of the Council's financial control framework and provide assurance to Members that this function is operating effectively. This work reviews arrangements in place to mitigate risks to the security of investments to ensure they are operating as intended.

4.2.1 Objectives

To examine documents, records and procedures relating to the Council's investments to ensure that:

- investments are confirmed in writing
- appropriate documentation exist to support the transactions.
- they comply with the current Treasury Management policy/strategy.
- regular reconciliation of investments is carried out and signed off independently.
- cash flow forecasts are up to date and confirm levels of investment are appropriate.
- entries on the risk register and service plans relating to the Treasury Management Strategy are relevant and up to date and provide effective measures to control risk.

4.2.2 Observations

- There was an appropriate audit trail in respect of investments examined.
- Investments were placed with approved counterparties.
- Investments did not exceed the time limit recommended in the CIPFA Treasury Management Code of Practice.
- The maximum limit invested at any one time had not been exceeded in respect of any single counterparty.
- Reconciliation of movements of investments is carried out with appropriate frequency and the exercise is up to date.
- The Borough Treasurer had signed each reconciliation as independent verification.
- The main means of determining whether there will be sufficient funds to cover expenditure and investments are the Bankline system, daily cash flow calculation sheet and cash flow debits fixed investments spreadsheet. These were current and the Estimated Cash Flow Profile spreadsheet was up to date and evidenced appropriate levels of investment.

The Service Action Plan requires the Treasury Management Strategy to be reviewed each year. The current review is due to be completed by 31st March 2017.

The broad definition of Treasury Management risk on Covalent remains accurate but it was agreed risk descriptions be refreshed to link more explicitly to current drivers of economic uncertainty.

The internal controls documented on Covalent, particularly in respect of the types of institutions used for investments are effective in terms of minimising risk to investments.

4.2.3 Assurance

There is a sound system of internal control embodied in the Treasury Management system which provides appropriate mitigation of risk in relation to the Council's investments and this work provides **full assurance** that the system is operating effectively as intended.

5.0 Resources

- 5.1 As noted in paragraph 1.2 progress against the plan in the year to date has fallen short of previous levels. The reasons for this are well understood and reflect a temporary reduction in resources planned as part of a managed process to facilitate a restructure of the section to meet operational requirements from financial year 2017/18 at reduced cost.
- 5.2 The new arrangements will be in place and operational by the end of this financial year.
- 5.3 Predictions based on linear projections of progress made to date would indicate a shortfall in coverage for practical completion of the programme set out in the 2016/17 annual plan.
- 5.4 In practise progress in the year is not following a linear path and the final phase of the restructure exercise increases resources temporarily above existing establishment levels until the end of the financial year. This increase is intended to enable a catch up to restore coverage to planned levels.
- 5.5 In order to ensure adequate audit coverage for the year is secured, key financial systems have been prioritised and work on these is on track to be completed as planned during the year.
- 5.6 The position on remaining audits will be closely monitored and if additional resources are required to complete coverage these can be funded from savings from budget in the year to date which are more than adequate to accomodate a further temporary increase.

6.0 Conclusion

- 6.1 In conclusion, while progress to date is below that typically achieved at this point, arrangements are in place to secure sufficient coverage to allow an adequate assessment of the adequacy and effectiveness of the Council's overall framework of governance, risk management and control for the year. The Audit Manager will provide and up to date summary of the position verbally at the meeting and a further update will be brought to the meeting in March.