

meeting papers

Audit and Standards Committee

Revised Report
Agenda Item 9 –Internal Audit Plan
Monitoring Report

Thursday, 26 September 2013
7.00 pm



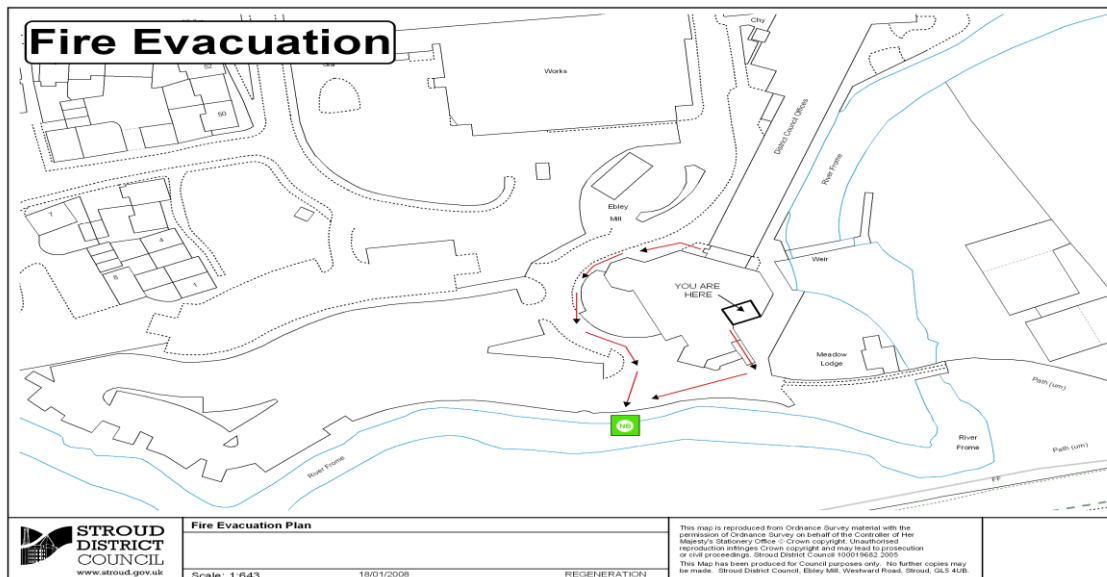
2002-2003
Crime Reduction in Rural Areas
2004-2005
Services for Older People
2007-2008
Emergency Planning



INVESTOR IN PEOPLE

FIRE EVACUATION PROCEDURES **FOR VISITORS AT EBLEY MILL**

- Upon hearing the fire alarm, visitors should immediately evacuate the building following the instructions given by the Chair at the start of each meeting.
- **DO NOT** stay, or return, to collect personal belongings.
- **DO NOT** use the lifts when the alarm is sounding.
- Upon evacuation, visitors should go to the NB assembly point. The assembly points are situated in the staff car park where a fire steward will be there to take a roll call.
- Visitors **must** remain at the assembly points until permission is given to leave.
- Visitors must **not** leave the site until instructed to do so.



STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

9

Report Title	INTERNAL AUDIT PLAN MONITORING REPORT
Purpose of Report	To inform Members of the audits completed as part of the 2013/14 Internal Audit Plan.
Decision(s)	The Committee RESOLVES to accept the report and the assurance given on the adequacy of internal controls operating in the systems audited.
Consultation and Feedback	Internal Audit findings are discussed with service managers, and management responses to audit recommendations are included in each assignment report.
Financial Implications and risk assessment	<p>There are no financial implications arising from this report.</p> <p>It is important that planned audits are carried out so that assurance can be given about the adequacy of the Council's control environment. If too few audits are undertaken, this limits the extent of assurance that can be given.</p> <p>Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p>
Legal Implications	<p>There are no significant legal implications arising directly from this report. The Accounts and Audit Regulations 2011, require public bodies to maintain an adequate and effective system of internal audit of their accounting records and of their system of internal control.</p> <p>Peter Woodcock, Locum Legal Services Manager Tel: 01453 754369 Email: peter.woodcock@stroud.gov.uk</p>
Report Author	Terry Rodway, Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk
Options	Not applicable
Performance Management Follow Up	This is the first report relating to the 2013-14 Plan. The Committee will receive regular monitoring reports on achievement against the 2013-14 Plan.

Background Papers	Public Sector Internal Audit Standards Internal Audit Annual Plan 2013/14
Appendices	Appendix A – List of Audits completed as part of the 2013/14 Plan.

1.0 BACKGROUND

1.1 At the Audit and Standards Committee meeting held on 26th March 2013, Members approved the Internal Audit Annual Plan 2013 -14. In accordance with the Public Sector Internal Audit Standards (the Standards), this report details the outcomes of Internal Audit work.

2.0 PROGRESS

2.1 This is the first report on compliance against the 2013/14 Plan and includes details of the audits completed during the period April 2013 to August 2013. The performance information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the period covered by this report is 78% (7 out of 9 planned audits completed), against a target of 90%. This figure does not include 1 audit that was substantially complete as at the 31st August 2013.

2.2 The main reason for non achievement of the target figure of 90% is the work undertaken on special investigations – see paragraph 5.0 below.

2.3 Details of the audits completed during the period are given in **Appendix A**. The Audit Opinion reached on each audit has been provided which should provide Members with a view on the adequacy of the controls operating within each area audited.

2.4 It has previously been agreed that Members would be notified of any agreed Rank 1 'High Priority' and Rank 2 'Medium Priority' audit recommendations that had not been implemented by the agreed date. There were none identified during the period covered by this report.

3.0 FINAL ACCOUNT AUDIT

3.1 The Council's Financial Regulations (D3.18 (iv)) state that "where the final value of a contract exceeds £100,000, Internal Audit shall be notified at practical completion stage, and they shall undertake such checks on the contract as they consider necessary before a final account is agreed with the contractor."

3.2 A 'Final Account' audit has been undertaken on the Gas Central Heating Replacement and Fuel Switch Installations contract, dated December 2011. A check instigated by the Housing Services Manager and performed by the Housing Business Support Officer on the financial account of the Contract identified a number of issues, which included over charging by the contractor and a duplicate payment for work on a property. These issues were corrected after the end of the

Contract and the overpayments have been accounted for in the final account calculated by the Business Support Officer

3.3 The audit identified the following additional issues:-

- The Certificate of Practical Completion, which indicates a completion date of 1st December 2012, was not produced until the 13th June 2013, and as at 8th August 2013, had not been issued to the Contractor.
- The Final Account sum was approximately £229,000, against an original contract value of £450,000. The main reason for the difference is the cost of heating works to properties which were deleted from the contract, but then were 'awarded' to the contractor outside of the contract.
- Documentary evidence was not readily available to substantiate additional costs of approximately £1000 for 1 property.
- Documentary evidence was not readily available to support the decision not to apply liquidated damages to those properties that were not completed by the contract specified date.
- Reliance was placed on the contractor to inspect the properties and determine the type of heating required. The appropriate Contract Administrator Instruction was then issued to the contractor after they had advised that the works had been completed and invoiced.

4.0 National Fraud Initiative

4.1 On a cyclical basis the Audit Commission undertakes a data-matching exercise known as the National Fraud Initiative (NFI). Data from a wide range of public sector organisations is matched, with the primary intention of discovering cases of fraud. Organisations from which data is collected for matching purposes include:

- Local authorities
- NHS bodies
- Police authorities
- Central Government departments and agencies

4.2 Data types used in the matching exercise include:

- Housing Benefit
- Payroll
- Creditor payments
- Housing rents
- Licensing
- Insurance claims

4.3 The latest NFI exercise produced a total of 45 reports for SDC. 26 of these related solely to Housing Benefit matches, 18 related solely to non-Housing Benefit matches, and one related to both areas. The Audit Commission identified 10 "Key" reports to which, they state, Authorities should give priority. Within each report, Key or otherwise, the Audit Commission recommended a number of matches for investigation;

these were where data matches were of a 'high quality' e.g. matching date of birth; matching NINO.

4.4 In total there were 2044 individual data matches, and of these 262 were recommended for investigation. Of the 262 matches recommended for investigation:-

- 98 related to Housing Benefit – examples of matches included claimants who are also on the payroll of different organisations; claimants in receipt of benefits from more than one authority; and claimants who may be ineligible for Housing Benefit as they are in receipt of a student loan. These matches are being investigated by the Housing Benefit Fraud Team. As at the date of writing this report one case of fraud has been identified totalling £9,155. This related to a non declaration of a pension.
- 3 related to Housing Tenancies – the matches included individuals who appeared to be resident at two different addresses. The cases were investigated by Internal Audit and no evidence of fraud identified.
- 17 related to Payroll – the matches included individuals paid by SDC via the payroll and the creditors system, and, individuals paid by two organisations. All cases were investigated by Internal Audit and no evidence of fraud identified. .
- 142 related to Creditors – the matches included possible duplicate payments to the same creditor for the same goods/services, and, possible VAT overpayments. The investigation of the cases did not identify any instances of duplicate payments, and confirmed that all the VAT payments were correct.
- 1 related to Insurance claims – the match identified a potential serial claimant within the same authority. Details of this case were sent to the Council's insurers who have confirmed that there is no evidence of fraud.
- 1 related to UK residence status – the match included a check on behalf of the Home Office to ensure that specified persons have the right to reside in the UK. The UK Borders Agency confirmed that the person in question was entitled to live in the UK.

5.0 SPECIAL INVESTIGATIONS

5.1 During the period covered by this report, members of the Internal Audit team have been involved in a number of special investigations.

5.2 Two cases related to possible money laundering cases (Council Tax refund and Right to Buy application) have been satisfactorily resolved.

5.3 Two cases, one relating to alleged falsification of flexi-time records, and, one relating to the financial management of the scheme funds are, as at the date of writing this report, still being investigated. The outcome of these investigations will be reported to a future meeting of this Committee.

6.0 CONCLUSIONS

- 6.1 The role of Internal Audit is to examine, evaluate, and report on the adequacy of internal controls. The audit work that has been completed has either identified that controls are operating as intended, or, where weaknesses have been identified, made recommendations to improve the level of control.

List of the audits completed 2013/14 Audit Plan - April 2013 to August 2013

Audit	Comments	Level of Assurance
Council Tax – Opening Debit	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Reconciliation of the number of properties in the District as per data held on the Council Tax computer system, to the number of properties as per the Valuation Office List. • The Council Tax Base has been correctly calculated. • Charges have been accurately transferred to the billing system. <p><u>Audit Opinion</u> All testing was satisfactory and no recommendations were required from the work carried out. On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
NNDR – Opening Debit	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • The NNDR system rateable value for all premises agreed to the Schedule received from the Valuation Office at the appropriate date. • The correct Multipliers had been used in the calculations and reconciliation. • The data used in the reconciliation in respect of transitional relief, void charges and allowances, small business rate relief and supplements etc matched the figures from the computer system financial control report summary, and the relevant detailed computer reports. <p><u>Audit Opinion</u> All testing was satisfactory and no recommendations were required from the work carried out. On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
Capital Accounting	<p><u>Audit Objective</u> The objectives of this audit were to ensure that the following key controls were in place and operating effectively:-:</p> <ul style="list-style-type: none"> • Five year rolling programme of revaluation for 	Good/ Satisfactory

	<p>fixed assets</p> <ul style="list-style-type: none"> • Annual impairment review of tangible and intangible fixed assets • Review of capital expenditure against the capital programme • Periodic reconciliation of the fixed asset register to the general ledger • Periodic physical verification of tangible fixed assets • Controls in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to movement in fixed asset balance. <p>We also followed up implementation of recommendations arising from the previous audit report.</p> <p><u>Audit Opinion</u> On the basis of the audit work we carried out, our opinion is that a Good level of assurance may be taken generally, and a Satisfactory level of assurance may be taken as regards the specific issue of reconciliation of the asset register to the general ledger.</p> <p>The reconciliation of the fixed asset register to the general ledger occurred only at the end of 2012/2013. There was no in-year reconciliation in 2012/2013.</p>	
Flexi-Time	<p><u>Audit Objective</u> The objectives of this audit were to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • examine the Stroud District Council Scheme as detailed in the SDC Employee Handbook to determine whether the Scheme is up to date and fit for purpose • verify compliance with the Scheme by staff <p><u>Audit Opinion</u> On the basis of the audit work we carried out, our opinion is that a Satisfactory level of assurance may be taken.</p> <p>Two Rank 2, 'Medium Priority' recommendations have been made, and agreed. These related to Heads of Service being instructed that only the 'standard' flexi timesheet should be used'; and, that Heads of Service should be reminded of the Scheme requirements relating to the checking of timesheets, the amount of credit time that may be carried forward, and, flexi leave arrangements.</p>	Satisfactory

Dursley Pool & Sports Centre	<p><u>Audit Objective</u></p> <p>The objectives for this audit were to verify that the following were in place and operating:</p> <ul style="list-style-type: none"> • All income is properly accounted for, is stored in a secure area prior to being banked, and is promptly banked; • There is adequate separation of duties for the ordering, receipt and payment of goods and services; • Sales stock is effectively accounted for and stored securely; • An inventory of equipment is maintained in accordance with Financial Regulations; • Non salaried staff are correctly paid for hours worked; • Sundry debtor invoices are raised promptly and accurately and appropriate recovery action taken for outstanding debts; • The petty cash and till floats are maintained at the authorised level and that all petty cash transactions are authorised in accordance with the “Guidelines for claiming and checking petty cash”. <p>The audit also incorporated a review of the progress being made to implement the recommendations raised in the previous Dursley Pool & Sports Centre Internal Audit review.</p> <p><u>Audit Opinion</u></p> <p>Five Medium and seven Low Priority recommendations have been made to improve the control environment and processes. The findings relating to the Medium Priority recommendations are as follows:</p> <ul style="list-style-type: none"> • Price discrepancies for sales stock items were found between the Sales Stock spreadsheet, till register, Dursley Pool website and supplier invoices ; • A regular reconciliation of the Fees and Charges general ledger account (i.e. banked income), to the appropriate general ledger income account is not performed. As at 31st March 13 unidentified differences of £1,149.68 (Dursley Pool) and £123.66 (Sports Centre) were reflected in the account ; • Sales stock counts were not being performed by staff independent of daily stock handling or ordering, as per the Council’s Financial Regulations and insurance policy conditions. In addition there were found to be differences relating to the stock purchased on the Sales 	Satisfactory
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	<p>Stock spreadsheet against supplier invoices ;</p> <ul style="list-style-type: none"> • Discrepancies were identified in the equipment Inventory i.e. items purchased not on the Inventory and items removed from the schedule that where still held ; • The Payroll Claims for the months of November 2012 and February 2013 selected by Internal Audit for review were found to be incorrectly completed. The hours claimed by staff on their timesheets had been incorrectly calculated for some by the Duty Manager resulting in under and over claims. For 1 member of staff the timesheet was misplaced resulting in them still being owed 33.5 hours; <p>The assessment of the operations and controls over the management of Dursley Pool & Sports Centre has been performed and the audit opinion is that overall there is a Satisfactory level of assurance over this area.</p>	
Museum in the Park	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following were in place and operating:</p> <ul style="list-style-type: none"> • All income is properly accounted for, is stored in a secure area prior to banking and is promptly banked; • There is adequate separation of duties for the ordering, receipt and payment of goods and services; • Sales stock is effectively accounted for and stored securely; • An inventory of equipment is maintained in accordance with Financial Regulations; • The Museum collection of artefacts is securely held, accounted for and adequately insured; • Non salaried staff working at Museum are correctly paid for hours worked; • Sundry debtor invoices are raised promptly and accurately and appropriate recovery action taken for outstanding debts; • The petty cash and till floats are maintained at the authorised level and that all petty cash transactions are authorised in accordance with the “Guidelines for claiming and checking petty cash”. <p><u>Audit Opinion</u> One High, 5 Medium and 8 Low Priority recommendations have been made to improve the control environment and processes. The findings</p>	Satisfactory/ Limited

	<p>relating to the High and Medium Priority recommendations are as follows:</p> <p>High</p> <ul style="list-style-type: none"> • The retention period and storage arrangements for the merchant's copy of the debit and credit card receipts retained by the Authority were not in accordance with industry standards. <p>Medium</p> <ul style="list-style-type: none"> • A regular reconciliation of the Fees and Charges general ledger account (i.e. banked income), to the appropriate general ledger income account is not performed; • Cash differences from the cafe and shop takings are not recorded on the Cash Analysis spreadsheet and therefore processed to the appropriate general ledger account. Therefore management may not be fully aware of the level of difference and whether there are any training issues or inappropriate activity. In addition there was no evidence that the Museum Development Manager performed regular independent cash counts or review of the Cash Analysis spreadsheet; • Instances of non compliance with Financial Regulations were identified, e.g. independent sales stock counts and artefacts checks, write off of sales stock and equipment by the Head of Cultural Services; • Written confirmation for 2013 was not obtained from the appropriate organisations that that they still hold the artefacts loaned to them, and that they continue to meet all the requirements specified in the terms of the loan.; • There is no documentary evidence to confirm the current status of the security review findings for the Museum in the Park premises reported in December 2012. <p>A Limited assurance level is provided over the retention period and storage arrangements for debit and credit card receipt slips.</p> <p>The assessment of the operations and controls of the remaining areas maintained by the Museum in the Park has been performed and the audit opinion is that overall there is a Satisfactory level of assurance over this area.</p>	
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The report includes an 'opinion' on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority)
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority)
Limited	Some lapses in framework of controls – provides limited assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations
Unsatisfactory	Significant breakdown in framework of controls – provides unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Internal Audit recommendations are graded as follows:-

RANK		DEFINITION	IMPLEMENTATION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit identified key control.	Immediate action required – should be pursued immediately.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.	Should be pursued in the short term, ideally within the next 6 months.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.	Action should be taken over the next 6 to 12 months.