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CITY COUNCIL**



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AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 22 June 2010

Title: AUDIT SERVICES PROGRESS REPORT

Report of: Assistant Director (Resources)

Report reference: RD 19/10

Summary:

This report summarises the work carried out by Audit Services since the previous report to Committee on 9th April 2010.

Recommendations:

Members are requested to receive this report

Contact Officer: Interim Audit Manager
Nick Pearson

Ext:
7284

Audit Services Progress Report

1 Summary of Audit Work

As previously agreed by this Committee, members will be supplied, at each meeting, with the Management Summary and the Summary of Recommendations and Action Plan for each audit which has been completed since the previous meeting.

The following audit reports are attached -

Appendix A – Main Accounting and Budgetary Control Systems

Appendix B – Council Tax

Appendix C – Debtors

Appendix D – Cash Collection and Income

Appendix E – Creditors

Appendix F – NNDR

Appendix G – Treasury Management

Appendix H – Personnel and Development

Appendix I – Housing Benefit Fraud

Appendix J - Payroll

2 Follow-up Reviews

- 2.1 Follow -up reviews were undertaken where appropriate during the period covered by this report. There are no new issues arising to which Members' attention needs to be drawn.

3 Ongoing 2009/10 Audit Work Programme.

- 3.1 Work on a number of other reviews commenced/progressed during the period – the reports will be presented to Members in due course.

4 2010-11 Audit Plan

- 4.1 The 2010-11 audit plan was presented to Audit Committee on 9th April 2010 – report RD4/10 refers. At the meeting the District Auditor observed that the plan as presented would be difficult for the Audit Committee to monitor as days have not been assigned to planned audits. It was agreed that this would be done, and that outturn results would be issued on a regular basis.

- 4.2 The plan has been enhanced and was presented to Executive Committee on 4th June 2010 – report RD 4/10 refers, and will be presented to full Council on 13th July 2010. The revised audit plan is at **Appendix K**.
- 4.3 Specific days have been assigned to audits planned in the quarter ended June 2010. Progress against this quarterly plan will be fully reported at the Audit Committee of 16th August 2010.

5 Proposal to amend summary reports to Audit Committee

- 5.1 Currently Audit Committee Members receive full copies of audit reports completed in the quarter. The result is a significant volume of reports, and Members may wish to consider whether a summary of each report might represent a viable alternative.
- 5.2 A draft summary report has been prepared as a example, using the 'Main Accounting and Budgetary Control Systems' report as an example. The full report is at **Appendix A**. The summary report is attached as **Appendix L**.
- 5.3 The driver of the summary report is to provide further information on the impact of the audit, where possible identifying where value has been added. The adoption of a summary report will enable Members to identify key information, and provide assurance that audit recommendations are providing impact where required. The recommended exception to the revised procedure would be that a full report would always be presented if there was a grade 'A' recommendation made, or the overall level of assurance was at the 'restricted' level.

6 Recommendations

- 6.1 It is recommended that Members receive this report.
- 6.2 It is recommended that Members give consideration to the alternative reporting arrangements outlined in Section 5.

P.Mason
Assistant Director (Resources)
22nd June 2010

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Resources

Audit Services

Main Accounting and Budgetary Control Systems

Final Report

29 April 2010

Audit Contact	Diane Rippon	Extn No.	7528
Document Ref:	K:\2006-07 onwards\Material Systems\MAS MAT015\2009-10\Reports\2009.10 MAT015 - Main Accounting System and Budgetary Control Audit Report 2009-10.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Resources Financial Services	Assistant Director (Resources) Financial Services Manager Chief Accountant Principal Finance/Systems Officer	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Resources, which is attached as Appendix A. For Information For Information For Information

Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22 June 2010.

1. Reason for the Audit

- 1.1. The Main Accounting & Budgetary Control Systems are classed as 'material' audits which are reviewed annually.
- 1.2. The main accounting & budgetary control systems are crucial elements to attaining good corporate governance and stewardship in achieving accountability and transparency of public funds. The main accounting system should be maintained to ensure it is accurate and complete so that there is timely information available to aid efficient, effective and timely decision making and monitoring of set budgets. In addition, the main accounting system is the source for the compilation of the Council's financial statements.

2. Background Information / Summary of the Audit Area

- 2.1. The Radius Financials accountancy package incorporates the General Ledger along with three subsidiary systems (Debtors, Creditors and Purchasing). ICON Bank Reconciliation and Cash Receipting are also fundamental to the main accounting system and processes.
- 2.2. The administration is maintained and managed by Financial Services, which is now part of the Resources Directorate.
- 2.3. The Accountancy Section ensures that all financial information entered into the ledger on a daily basis is accurate and available at year-end in order to produce the annual accounts. The Accountancy Section management ensure that transactions are recognised, measured and presented in accordance with the 2009 SORP (Statement of Recommended of Practice). The Systems and Controls team ensure the system administration and controls are in place so that the financial system is able to produce the information required in the accounting format defined by BVACOP (Best Value Code of Practice).
- 2.4. This review was conducted substantially in line with the CIPFA Matrices for 'Audit Controls Testing'. The level of testing undertaken, took into account the 2008/09 results which provided a 'substantial' level of assurance. The 2008/09 final report, issued 28/05/09, contained 1 grade B and 5 grade C recommendations.
- 2.5. There were 3 areas that were not fully examined during the review. These were Bank Reconciliation, Capital Accounting and Final Accounts. The reasons are, respectively, the Audit Commission at the time of this review was undertaking the review of the bank reconciliation, capital accounting has been undertaken as part of the Fixed Assets review for 2009/10 and it is too early for the commencement of the final accounts preparation for 2009/10.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks incorporated into the table below. N.B. the risks from the Strategic Risk Register were last updated December 2009 and the Operational Risk Register was last updated January 2010.

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<u>Medium Term Financial Planning & Maintaining Asset Values</u> Description: There is a risk that the MTFP budget projections will not be met. Specific risks are: • Worsening of financial forecasts particularly due to impact of recession • Failure to deliver transformation savings assumptions	Strategic	M

approved as part of the budget • Failure to achieve balanced budget through the budgetary process • Failure to match future policy commitments and aspirations compared to the funding available Current Action Status/Control Strategy: (1) The Strategic Planning Group monitors all of these aspects regularly and proposes actions prior to reporting formally through the Committee process, and throughout the next budget process. (2) Work will continue to ensure resource allocation to corporate priorities is further developed. (3) The work of the Corporate Projects Board will support the improvements to financial and performance improvements regarding the capital programme. (4) The Efficiencies Working Group continues to progress the agreed efficiency programme. This will need to be revamped to consider the transformation programme. (5) Reports are considered by Executive and Overview & Scrutiny on recession planning measures.		
<u>Financial Management Information</u> Description: There is a risk that financial management information provided may not be accurate, robust & timely to enable Budget Holders to manage. Failure leading to: • Overspends against budget • Poor management decisions • Financial information not linked to performance management Current Action Status/Control Strategy: (1) The Council's Financial Management arrangements have been assessed as adequate in the Audit Commission's Use of Resources judgement. An action plan has been developed to tackle the areas that need improving to raise the score over the longer term against the new harder test. (2) Work is ongoing with the Policy and Performance and Finance Teams to further improve linkages between use of resources and performance. (3) A risk remains to the Council from the existing system utilised by the Community Services Directorate for ex DSO work and the ability to easily reconcile the system to the Council's core financial management system. A budget has been allocated and work is progressing to replace the Community Services Contractorplus System. (4) A significant financial training programme has been introduced to improve the financial management standards throughout the authority.	Strategic	M
<u>Financial Reporting</u> Description: There is a risk that financial reporting will drop below minimum standards. Failure will: • Lead to reputational damage • Have an impact on overall CPA/Use of Resources assessment Current Action Status/Control Strategy: (1) The Audit Commission has judged the Council's financial reporting standard for 2008/09 as part of the Use of Resources judgement to be adequate and an action plan exists to improve this. (2) An action plan for the	Strategic	M

implementation of International Reporting Standards and in particular the new requirement for the identification of assets has been prepared is being progressed.		
<u>Vacancy Management</u> Description: There is a risk that failure to meet the vacancy management target will generate substantial budget deficit in the 2009/10 financial year. Current Action Status/Control Strategy: The savings targets have all been consolidated into the Transformation Programme which is planning for delivery of the overall savings required. The discipline of vacancy management will remain – with posts being deleted where possible.	<i>Strategic</i>	<i>M</i>
<u>Protection of IT E-records and data and hard copy information</u> Description: There is a risk that IT E-records and data and hard copy information is not adequately backed up and protected: • Failure will have business/financial impact Current Action Status/Control Strategy: Work is ongoing as part of the shared service with Allerdale will, when implemented, result in a more robust and resilient service.	<i>Strategic</i>	<i>M</i>
<u>Financial Management information provided must be accurate, robust and flexible for budget holders to manage effectively</u> Description: There is a risk that financial management information may not be accurate, robust or timely to enable Budget Holders to effectively manage their budgets. Failure leading to: - Overspends or underspends against budget - Poor management decisions - Financial information not linked to performance management Current Action Status/Control Strategy: (1) Council's Financial Management arrangements have been assessed as adequate in the Audit Commission's Use of Resources judgement. An action plan has been developed to tackle the areas that need improving to raise the score over the longer term against the Commission's new harder test. (2) Work is ongoing with the Policy and Performance and Finance Teams to further improve linkages between use of resources and performance. (3) A risk remains to the Council from the existing system utilised by the old Community Services Directorate for ex DSO work and the ability to easily reconcile the system to the Council's core financial management system. A budget has been allocated and work is progressing to replace the Community Services Contractorplus system. (4) A significant financial training programme has now been launched to improve the financial management standards throughout the authority.	<i>Operational</i>	<i>M</i>
<u>The Council regularly fails to deliver the Capital Programme incorporated in its budget to the originally planned timescales</u> Description: There is a risk that the Council significantly over or under spends against the planned budget and/or that the scheme is not completed within the planned timescales.	<i>Operational</i>	<i>M</i>

Current Action Status/Control Strategy: Training to be provided to all staff dealing with capital. The financial system will be developed to provide more detailed spending information on spending schemes. Detailed exercises have been and will continue to be undertaken to challenge project manager's budget profiles and early carry forwards/savings/slippage in schemes will be identified from this process. A Project Assurance Group has been established to monitor all corporate projects including capital projects, led by the Deputy Chief Executive. Each scheme will be supported by a member of SMT who will also attend the Assurance Group.		
<u>Medium Term Financial Planning and maintaining asset values</u> Description: There is a risk that the medium term financial plan budget projections will not be met. Specific risks are: • Worsening of financial forecasts particularly due to the impact of the recession • Failure to deliver transformation savings approved as part of the budget • Failure to achieve balanced budget through the budgetary process • Failure to match future policy commitments and aspirations compared to funding available. Current Action Status/Control Strategy: (1) The Strategic Planning Group (SPG) monitors all of these aspects regularly and proposes actions prior to reporting formally through the Committee process, and throughout the next budget process. (2) Work will continue to ensure resource allocation to corporate priorities is further developed. (3) The work of SMT/Project Assurance Group will support the improvements to financial and performance improvements regarding the capital programme. (4) SPG continues to monitor progress against the Transformation agenda. (5) Reports are considered by Executive and Overview & Scrutiny on recession planning measures. (6) SPG and the Executive continue to receive regular monitoring information to ensure budgets are not overspent and income streams are maintained.	<i>Operational</i>	<i>M</i>
<u>Annual Statement of Accounts</u> Description: The risk is that the authority will receive a qualified opinion on Annual Statement of Accounts from the Audit Commission. Current Action Status/Control Strategy: The Annual Statement of Accounts will be reviewed to ensure compliance with the SORP/Code of Practices applicable to the year in question. Closure of Accounts Timetable updated annually and monitored at regular meetings. Training provided to all staff to enable activities to be effectively actioned. Experienced staff monitor quality of output.	<i>Operational</i>	<i>M</i>

The requirement to implement IFRS with effect from 2010/11 (with restatements required for 2008/09 and 2009/10), is being monitored via FMT and reports taken to the Audit Committee. Discussions are also taking place with the Audit Commission who will be reviewing progress against the project plan.		
<u>Reporting of Financial Implications of Council activities</u> Description: The risk is that financial implications of proposals are not accurately assessed or provided in a timely manner and/or not given due consideration. Current Action Status/Control Strategy: A timetable of report deadlines is maintained and staff are developed to build expertise. SMT consider reports before submission to the Executive. Comments on reports provided by FS staff and go through at least one other member of DMT before the response is given.		<i>M</i>
<u>Meeting requirements of existing and new legislation and guidance</u> Description: The risk is that new legislation and guidance is not complied with. Current Action Status/Control Strategy: New publications are circulated to key staff. Relevant training given and attendance at external courses. External advice sought where appropriate.	<i>Operational</i>	<i>M</i>
<u>Financial Reporting</u> Description: There is a risk that financial reporting standards will drop below minimum standards. Failure will: • Lead to reputational damage • Have an impact on overall CAA/Use of Resources assessment Current Action Status/Control Strategy: (1) The Audit Commission has judged the Council's financial reporting standard for 2008/09 as part of the Use of Resources judgement to be adequate and an action plan exists to improve this. (2) An action plan for the implementation of International Financial Reporting Standards and in particular the new requirement for the identification of assets is being progressed using existing resources. However the impact of any future staffing changes, to be reviewed as part of the Transformation agenda, will need to be managed to ensure that standards do not drop.	<i>Operational</i>	<i>M</i>

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Areas examined:
1	Follow up of 2008/09 Audit – findings included in relevant areas below
2	Policies and Procedures
3	Financial Systems
4	Budgetary Control
5	Coding Structure
6	Feeder Systems
7	Journals
8	Suspense and Holding Accounts
9	Bank Reconciliation
10	Capital Accounting – Covered as a separate 2009/10 review
11	Final Accounts (not covered, 2009/10 financial statements not produced at the time of this review)
12	Whole of Government Accounts
13	Data Security

5. Overall Conclusion of the Audit Review

- 5.1 Overall, good controls were found to be operating with the main accounting system and budgetary control processes. However, there were a small number of areas identified where improvements could be made to improve the systems in place and these have been covered by the recommendations made.
- 5.2 This report contains recommendations covering the following areas:
- Accessibility of current Financial Procedure Rules;
 - Updating of the office manual and new staff awareness of the manual;
 - Incorrect coding of expenditure; and
 - Completion of reconciliation monitoring spreadsheet.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation/financial etc).

- 6.2. There are 5 recommendations arising from this review, 3 at grade B and 2 grade C.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review it is considered that a **SUBSTANTIAL** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

1. Follow up of 2008/09 review

Method of Review:

The recommendations made following the 2008/09 audit review were followed up to ensure that all agreed actions had been progressed.

Summary of Findings:

- This area has been covered where relevant, in the proceeding sections of this report and highlighted accordingly.

2. Policies and Procedures

Method of Review:

- Confirmation that the Authority's financial regulations/rules detail the accounting procedures to be followed.
- Confirmation that procedures ensure:
 - Compliance to statutory requirements and relevant accounting practices; and
 - The required accounting records are maintained.
- Confirmation that there is a statement detailing the organisation's accounting policies published with the final accounts.

Summary of Findings:

1. The Council's Financial Procedure Rules (FPR's) are a component of the Council's Constitution. They provide the framework for managing the Council's financial affairs. It includes the various aspects of the Council and explains why each is important, the key controls and responsibilities.
2. A review of the Council's intranet through a search for "Constitution" found the Constitution and Councils Procedure Rules updated May 2009. A search for "Financial Procedure Rules" listed Financial Procedure Rules 2005 update. See Recommendation/Agreed Action A.2 below.
3. A review of the Council's website (carlisle.gov.uk) by undertaking a search for "Constitution" and "Financial Procedure Rules" both listed the Constitution 2009 (Amended November 2009). See Recommendation/Agreed Action A.2 below.
4. The Audit Committee Rules of Governance include the "responsibility to maintain an overview of the Council's Constitution in respect of the Financial Procedure Rules. The FPR's are reviewed on an annual basis and a report was submitted to the Audit Committee, dated 15 January 2010, to this effect incorporating proposed changes to the FRP's. The Audit Committee member's approved the report for recommendation to Council on 2 March 2010.
5. The former Head of Internal Audit Services, as part of the Use of Resources, circulated a memo during 2008/09 to the Heads of Service requesting that they

inform all their staff of the existence of the FPR's and other relevant documents and where they could be located. This also links into recommendation A.2 as details were provided within the memo for accessing the documents on the Council's intranet.

6. A sample of staff was selected and e-mailed requesting responses to the following:

- ~ Awareness and accessibility of FPR'S, accounting requirements and office manual; and
- ~ Receipt of adequate training in the system.

Testing revealed that for two components of the sample there were no issues to report. The third (a new staff member during 2009/10) highlighted minor issues. These were raised with the Chief Accountant who stated that training had already been considered and would be provided for the final accounts process for the member of the team. The lack of awareness of the office manual was raised and it was stated that the situation remained the same as the previous audit recommendation whereby the office manual still needs to be updated. The testing, however, did reveal that all staff had the necessary training and reference points to undertake the duties and responsibilities currently required of them. See Recommendation/Agreed Action A.1 and A.3 below.

7. Page 216 of the Constitution (updated November 2009), FPR's Section Annual Statement of Accounts (paragraph 1.4) states "The Assistant Director (Resources) is responsible for ensuring that the annual statement of accounts is prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice' (CIPFA/LASAAC)." The Audit Committee is responsible for considering the annual statement of accounts before they are approved by full Council and submitted for audit (by the External Auditors).

8. The former Director of Corporate Services included adherence to this code within the 2008/09 financial statements.

9. The Council's ledger system is structured around BVACOP (Best Value Code of Practice) so the accounts are formulated and reported in this format. The main contact for this is one of the two Finance/System Officer's who receives the updates. Amendments to the main ledger can be made in conjunction with the Principal Finance/Systems Officer. The BVACOP is reviewed for changes by the Finance/System Officer on an annual basis.

10. The financial statement 2008/09 makes reference to its accounting policies in Section 1 – Foreword and details them in Section 2 – Statement of Accounting Policies.

11. A review of the accounting policies for 2009/10 has been undertaken to reflect the changes in the 2009 SORP (Statement of Recommended Practice) and to provide further explanation of existing policies to provide the basis for the 2009/10 financial statements. These details are provided in the report to the Audit Committee dated 15 January 2010.

12. The financial guide and other procedures outline all the accounting control functions and the correct procedures to be followed. The year end procedures detail the individual responsibilities during the process. The financial guide requires updating as stated in note 6 above.

13. A report dated 15 January 2010 was submitted to the Audit Committee to update progress on the transition to IFRS (International Financial Reporting Standards).

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APPENDIX A
Action Plan

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Implementation Date</u>
A.1	<u>See summary of findings note 6.</u> There was some confusion amongst the sample of new staff tested as to the location, or existence of an office manual. <u>Previous 2008/09 recommendation found not to be implemented.</u>	Financial Services Manager	As part of the induction process, Management should ensure that new starters are aware of how to access relevant system procedures material.	C	April 2010
A.2	<u>See summary of findings note 2 & 3.</u> Inconsistency of available information and it is not clear which is the most up to date.	Financial Services Manager	The most up to date Constitution/Financial Procedure Rules should be available through all access mediums (e.g. Council website and Intranet). Old documents should be removed/or marked as such. <u>It has been established that since audit testing took place (evidence on internal audit review file to support this recommendation) action has been taken by Financial Services, thereby this recommendation has now been satisfactorily implemented.</u>	B	Implemented
A.3	<u>See summary of findings note 6.</u> There is no up to date description of systems in operation.	Financial Services Manager	The Financial Guide should be updated and/or reviewed the shorter time span of when changes occur or at least on an annual basis. <u>Financial Services Manager comment:</u> <u>The Financial Guide will be updated, resources permitting, and all staff within the authority will be notified and provided with guidance of how to access the document. This will continue to evolve throughout the transformation process.</u>	B	June 2010

3. Financial Information Systems

Method of Review:

- Confirmation that the Financial Information System provides the data required by users and accounting standard requirements;
- Confirmation that there are controls in place to ensure that transactions are correctly posted to the appropriate accounts; and
- Confirmation that there are controls established to ensure that closing balances are brought forward correctly.

Summary of Findings:

14. The ledgers are structured in line with BVACOP reporting requirements with the coding system being developed in accordance with the necessary accounting requirements i.e. SORP, CIPFA standard classifications and BVACOP.
15. Testing revealed that all 2007/08 carry forward balances had been correctly posted as 2008/09 brought forward balances. At the time of testing the 2008/09 carry forward balances were in the process of being posted as 2009/10 brought forward balances.
16. The previous 2008/09 audit review of main accounting and budgetary control systems contained a recommendation relating to users and their access levels. It can be confirmed that actions have been taken to satisfactorily implement this recommendation.

No areas were identified for improvement.

4. Budgetary Control

Method of Review:

- Discussions with staff;
- Inspection and examination of budgetary controls in place;
- Ensuring that all the required elements that were identified within the risk management framework were considered and prioritised as part of the budget setting process;
- Confirmation that the Council approved the budget;
- Confirmation that the budgets recorded on the system were accurate and bona fide; and
- Confirmation that the responsibilities involved with the budget setting process were allocated and identified.

Summary of Findings:

Annual Budget Cycle

17. There are satisfactory controls in place to ensure that the annual budget is prepared in accordance with the approved budget cycle. There is a written procedure that outlines the process for the setting of the budget and a detailed timetable outlines the process that is to be followed in order to build the budget.
18. The MTFP (Medium Term Financial Plan) outlines all of the factors that are to be considered in the budget setting process. A risk assessment is prepared as an Appendix to the MTFP.

Budget Alterations

19. The budget was formally approved by Full Council and can be evidenced through the meeting minutes dated 3 February 2009.

20. A sample of original budgets in the ledger was found to match the approved budget and there was no missing income or expenditure apparent to suggest the budget was inaccurate/complete.
21. No change was found since the previous audit with regard to the recording of adjustments made to the ledger. An audit trail still exists to link the change to the user.
22. It was confirmed that there has been no changes to the virement limits since the previous audit review for 2008/09. They continue to be (in summary, for greater detail reference should be made to the Council's Financial Procedure Rules):
- £70K+ requires Council approval;
 - Between £35K and £70K requires Executive approval;
 - Up to £35K requires portfolio holder, Head of Business Unit/Assistant Director approval.
23. Not all virements are required to be authorised by the Corporate Director/Assistant Director where they have been through committee or the Employment Panel where minutes state that a decision has been made and approved.
24. A sample of 10 consecutively numbered virement forms was reviewed. Discussion with the Chief Accountant revealed that the virement files contain virements and non virements. The non virements process is detailed in A16 of the Financial Procedure Rules. Testing found the sample to be in order.
25. The budget continues to be created on the main ledger by copying over the previous year budget figures. Inflationary groups are held against each revenue detail code and these are also factored into the budget.
26. Budgets are allocated to a specific named officer, known as a 'budget holder'. A list of authorised signatures is maintained in Finance. The budget holders receive monthly FIS reports to assist them to control and monitor their budgets.
27. Accountancy staff organise annual training sessions covering budgetary control and the final accounts process. The training sessions are undertaken as a PowerPoint presentation and copies of the presentation are issued to each officer attending the training session before commencement so that they are able to take notes (if deemed necessary). Budgetary control guidance is part of the 'Financial Guide' a system of procedures that were collated to cover the Council's fundamental or 'critical systems'. The financial management training programme was initially established between the Head of Financial Services and the Head of Personnel. However, a review of the document revealed that this may not have been reviewed and updated often during the current 2009/10 financial year.
28. Audit reviews undertaken during 2009/10 have revealed mis-codings within the ledger. These weaknesses have been highlighted accordingly within those reports. Examples include Supporting People and the Enterprise Centre. See Recommendation/Agreed Action A.4 Below.
29. Regular reports are presented to committee.
30. The documented roles and responsibilities are contained within the Financial Procedure Rules are clear and include coverage of budgetary control.

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APPENDIX A Action Plan

- 31 FIS reports are generated from the main ledger on a monthly basis and key issues are highlighted in the monitoring reports. These monthly FIS reports are also designed to provide budget holders with the necessary information required so that they can manage and control their assigned budgets.
- 32 In addition there are regular reports prepared to provide an overview of capital and revenue budget performance and these are presented to Executive.
- 33 Overspends and significant variances are clearly highlighted.
- 34 The Financial Procedure Rules and the MTFP both state the justifications to be used for the maintenance of reserves.
- 35 The MTFP also shows an analysis of reserves and incorporate policy guidelines and associated protocols along with the reserve balance projections.

Ref	Issue	Responsible Officer	Recommendation / Agreed Actions	Grade	Implementation Date
A.4	<u>See summary of findings note 28.</u> Mis-coding of transactions has been identified during non-material audit reviews during 2009/10. Therefore evidence still exists that this still happens. Senior Accountancy Assistants are well placed to identify consistent mis-codings where these should be logged and reported for corrective action to be taken by management. (N.B. similar to previous audit recommendation contained in the 2008/09 report).	Financial Services Manager	Where expenditure is consistently coded incorrectly following training sessions and discussions with the Senior Accountancy Assistants a list should be maintained of the Section's and relevant officer's which should be reported on a frequent (monthly/quarterly) basis to Assistant Director's. Financial Services Manager Comment: This has again been highlighted in the Budgetary Control training sessions held in March 2010. However the position will continue to be monitored and persistent offenders reported to the Assistant Director (Resources) on a regular basis.	B	April 2010

5. Coding Structure

Method of Review:

- Confirmation that there is a record of review of all the codes that have been established.
- Confirmation that the FIS ensures that every accounting item is routed to its appropriate head via a financial code.
- Confirmation that the procedures for creating, amending and deleting codes are appropriate.

Summary of Findings:

36. All codes can be accessed by a 'wild card' search facility built into the ledger. Access to view the ledger is less rigid than the actual access to ledger codes

that can be reviewed by users. This depends upon the privacy group to which the user is assigned.

37. Requests for the setting up of a 'new code' are to be made to the Senior Accountancy Assistants who are responsible for the specific cost centre. It is also only the Senior Accountancy Assistants who have the required authorisation to carry out this task. The decision was taken to restrict this task to keep control over the number and type of codes set up within the ledger. It also helps ensure that the coding structure is in line with BVACOP.

38 There is no invalid codes file. Errors are rare in practice due to the above restricted ability of users to be able to set up codes and also incorrect codes would be identified quickly and easily for rectification.

39 Feeder systems (e.g. Trent, Icon & Contractor+) that do not validate against live GL codes have been known to mispost. Any unidentified transactions go to a suspense code which is reviewed and cleared regularly.

No areas were identified for improvement.

6. Feeder Systems

Method of Review:

- Confirmation that there are controls in place to ensure that debit and credit transactions posted during the year to the FIS net to zero;
- Confirmation of controls in place to ensure that all data entered into the FIS is bona fide and authorised;
- Confirmation that processing controls ensure that the data entered into feeder systems is accurate; and
- Confirmation there is regular reconciliation's undertaken to ensure that all feeder systems have posted correctly to the FIS.

Summary of Findings:

40 A print generated from the main ledger system, on 21 January 2010, confirmed that the debit & credit transactions posted year to date did net to zero.

41 There are adequate procedures in place for the maintenance and administration of feeder systems and regular reconciliations are undertaken to ensure that the data being transferred balances. There was only one area identified where an improvement could be made as previously recommended. **See Recommendation/Agreed Action A.5 below.**

42 Feeder system controls were examined for the year to date and it can be confirmed that the amounts were correct and had been posted to the correct code.

Audit of Main Accounting & Budgetary Control Systems
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APPENDIX A
Action Plan

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Implementation Date</u>
A.5	<u>See summary of findings note 41.</u> There was limited evidence to prove that the reconciliations had been verified by an authorising officer.	Financial Services Manager	Officers must ensure that the completed reconciliations are verified by an authorising officer as soon as it is completed. Management, by query should check that this is performed regularly. Previous 2008/09 audit recommendation. In addition all cells should be completed i.e. responsible officer and verifier (or blanked out by shading if not relevant). <u>Financial Services Manager Comment:</u> More robust procedures will be put in place to ensure that control account reconciliations are verified by an authorising officer. This will be monitored regularly at the Financial Services Management Team Meetings.	C	April 2010

7. Journals & Internal Transactions

Method of Review:

- Confirm that controls ensure that posting errors are identified; and
- Confirmation that controls require journals and internal transfers to give details of the transaction to be authorised.

Summary of Findings:

43. A sample of 10 journals was tested and all were found to be in order. The testing undertaken also indicated that the 2008/09 audit recommendation had been implemented.

44. User access levels were found to be adequately restricted to perform the journal task. Authorisation of journals is independent of the officer who inputs the journal.

No areas were identified for improvement.

8. Suspense & Holding Accounts

Method of Review:

- Confirm that controls ensure that unidentified and miscoded items within each feeder system are posted to suspense accounts; and
- Confirm that procedures ensure that transfers from holding accounts are made regularly and/or at the year-end.

Summary of Findings:

45. Suspense accounts are reviewed and corrected regularly. There are separate suspense codes set up and used for different feeder systems and there are also separate codes used for items of income and expenditure.

46. All holding accounts were found to have been cleared at the 2008/09 year end in line with BVACOP. It was too early to look at the 2009/10 financial year.

47. User access levels were found to be adequately restricted to make transfers from these codes.

No areas were identified for improvement.

9. Bank Reconciliations

Method of Review:

- Confirm that there are controls to ensure that bank reconciliations are undertaken on a regular basis; and
- Confirm that procedures ensure that a statement is prepared at the year-end collating the entire organisations bank balances.

Summary of Findings:

48. A bank reconciliation (both an automatic system reconciliation and traditional bank reconciliation) is performed on a daily basis. Both reconciliation's are supported by adequate documentation. The bank reconciliation is to be tested as part of the annual Audit Commission review.

49. Due to the timing of the review it is not currently possible to confirm that a statement has been prepared at the year end collating all bank balances. No problems are however envisaged.

10. Capital Accounting

Method of Review:

50. Capital Accounting testing will be covered under the separate review of Fixed Assets 2009/10. Please refer to that report for further information and conclusion.

11. Final Accounts

Method of Review:

51. As the Audit Commission have already signed off the 2008/09 final statements and the 2009/10 final accounts process has not yet commenced at the time of this review, it is not timely to review the 2009/10 information. **This part of the matrix has not been included in this review.**

12. Whole of Government Accounts

Method of Review:

52. A brief overview was undertaken, in accordance to the CIPFA matrix over the administration of the Whole of Government Accounts for 2008/09.
No areas were identified for improvement.

13. Data Security

Method of Review:

53. A brief overview was undertaken, in accordance to the CIPFA matrix over data security.
No areas were identified for improvement.

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Resources Directorate

Audit Services

Audit of Council Tax

Final Report

22nd April 2010

Audit Contact	Debbie O'Brien	Extn No.	7283
Document Ref:	K:\2006-07 onwards\Material Systems\Council Tax MAT030\2009-10\Reports\Council Tax 09-10 Final Report.docx		

Directorate / Service Area	Recipients of Report	Action Required
Community Engagement	Assistant Director (Resources) Acting Head of Revenues and Benefits Revenues Manager	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Revenues and Benefits Services, which is attached as Appendix A

Please note: The Chief Executive, Deputy Chief Executive and the Strategic Director receive a copy of the full final report (management summary and appendices showing the matters arising and recommendations). The Audit Committee will also be presented with a full copy of the final report at the meeting to be held on 22nd June 2010

1. Reason for the Audit

- 1.1. The audit of Council Tax forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.
- 1.2. The audit process seeks to reduce risk to an acceptable level based on the efficient, economic and effective application of financial controls. Changes to controls suggested in audit recommendations are intended to achieve these benefits. This process reduces but does not wholly eliminate risk.

2. Background Information / Summary of the Audit Area

- 2.1. The collection of Council Tax is a statutory function delegated to the City Council by the County Council.
- 2.2. The Council Tax contributes to the cost of a number of authorities. The amount of Council Tax is established by Cumbria County Council, Carlisle City Council, the Police Authority and the Parish Councils who work out the cost of providing their respective services each year. Cumbria County Council sets the largest part of the bill, with Carlisle City Council and Cumbria Police setting a much smaller proportion. Parishes set their individual precepts on top of the basic Council Tax bill.
- 2.3. The Council Tax Section is currently part of the Revenues & Benefits Services, which for part of 2009/10 came under the responsibility of Corporate Services. Revenues and Benefits now comes under the overall supervision of the Community Engagement Directorate following the re-organisation of the Council in December 2009.
- 2.4. It should be noted that during 2010/11 Carlisle City Council, Allerdale Borough Council and Copeland Borough Council will be developing a shared Revenues and Benefits service arrangement with Carlisle as host Authority

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Revenues and Benefits Operational Risk Registers noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
Council Tax Administration Risk of significant interruption to Service e.g. disaster Special banking contingency in place. Disaster recovery plans in place. Rigorous use of test systems. Detailed manuals in place. Qualified management and robust training in place to reduce risk. Rigorous audit of all admin processes. Secure environment for cash payments. Contingency arrangements in place	<i>Operational</i>	<i>Medium</i>

3.2. Another risks identified by Internal Audit as part of this audit is considered to be:

- *Risk of fraud by members of staff.*

Please note that on conclusion of the audit, any critical risks outline at 3.2. should be assessed by the relevant Assistant Director for incorporation into the Directorate's Risk Register or, if considered to be a strategic risk, for discussion at the Risk Management Group.

4. Scope of the Audit

4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. The level of testing undertaken was determined on a risk basis taking account of the substantial level of assurance gained from previous audit reviews over the last two years. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Valuation
2.	Liability
3.	Billing
4.	Collection and Refund
5.	Recovery and Enforcement

5. Overall Conclusion of the Audit Review

5.1. The Council Tax system is effectively administered in accordance with legislative requirements with appropriate and secure procedures in operation. There are no major areas of weakness and the work carried out is accurate and thorough with all necessary timescales being met by an experienced team of staff.

6. Grading of Audit Recommendations

6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.
* A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).	

6.2. There are 1 minor recommendation arising from this review at grade C.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review it is considered that a **Substantial** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Community Engagement Directorate, Revenues and Benefits Service

APPENDIX A

1. Valuation

Method of Review:

By examination confirm that the current valuation list is readily accessible for inspection by the public

Select a property from the list and check

- To the relevant CT record that details of the banding group agree
- That the property has been allocated a unique reference number on the list and the CT system.

Select a recent new/amended property and confirm that where the new building or the amendment:

- Could reasonably have been expected to be completed within 3 months, that a completion notice was being issued to the owner.
- Was not expected to be completed within 3 months that the details were referred to a visiting officer to follow up.

Select a recent:

- New/amended property from building control and planning reports
- And by inspection check that it was promptly referred to the VO and were correctly recorded on the CT system.

Select a property from schedules sent to the VO of properties requiring amendments and check there is evidence that

- Action was being taken by the VO
- Where no action was taken, the case was satisfactorily followed up

Check a new property, a deletion and an amendment from the schedules and confirm that:

- The CT property history file was updated promptly
- All details, including effective dates and revised bandings, were input accurately

Select a case from the report sent to the benefits section advising them of changes to banding to properties where occupiers are in receipt of benefits, and check that the amount of the CT element payable was amended promptly on the benefits system

Summary of Findings:

The general public are referred to the Valuation Office (VO) website at www.voa.gov.uk to view the current valuation list. If the public are unable to utilise the website facility, staff in Council Tax are aware of their responsibilities to provide a printed copy

A random Carlisle property was selected from the Council Tax (CT) system and compared with the VO online list. Details of both the banding group and the unique allocated property reference agreed.

A recent newly built property was selected from the Building/Development Control Completion report. The property appeared on the Completion Report on 01/06/2009 when the Building/Development control process was deemed to be fully complete. The Council Tax liability had actually started from 16/04/2009 as the new owner had notified the Authority on a change of address form of the date that they had occupied the property.

A property was selected and checked against the Valuation Office Notification Reports and the banding was reported back to the Authority on schedule 503. The details were correctly recorded on the CT system and notification to the VO was confirmed by checking the property on the VO website

The property selected was a new property and action was promptly taken by the Valuation Office. Procedures are in place to monitor outstanding properties to ensure that action is always taken

One new, one amended and one deleted property were selected from the VO schedules and compared against the information on the CT system. The CT property history files had been updated and all details, effective dates and revised bandings had been input correctly

A case was selected from notifications sent to the benefits section advising them of changes to the banding of a property where the occupiers are in receipt of benefits. These notifications are sent by memo. In the example chosen, the banding had reduced from band C to B as the benefit claimant had moved to a smaller property. Checks confirmed that the CT element payable had been adjusted and a new demand appropriately issued.

Controls in place are satisfactory and no areas of concern were noted during this review of Council Tax Valuation

2. Liability

Method of Review:

Select 1 current liability account and check that:-

- The recognised 'hierarchy of liability' approach was consistently used to identify the correct person as the liable person
- The owner was made liable for certain classes of dwelling
- The liability person was allocated a unique reference number linked to the chargeable property
- Liability for CT was determined on a daily basis
- A decision notice was issued to the liable person/s

Confirm by inspection that regular notifications are received from the benefits section of changes to claims that may affect CT liability status.

- Select an account off recent notifications and check that all changes were actioned on the CT system.

Review the recent death lists and select an account to confirm that:-

- CT regularly receives the lists.
- The relevant account was updated.
- Liability ceased on the day before the date of death.
- The executor or administrator was issued with a demand notice and made liable to pay any sum outstanding before the date of death.
- The amount outstanding was reclaimed from the estate of the deceased.

Select a case receiving a form of discount and confirm that:-

- The discount and the reasons for such are clearly shown on the taxpayer's account.
- The discount is supported by a formal signed application and relevant evidence (such as severely mentally impaired cases are supported by a certificate from a registered medical practitioner).
- Wherever possible, the discount was agreed with other records such as housing benefits and electoral registration.
- The liable person/s was issued with a demand notice that included a notification of the assumption made concerning entitlement to discount.
- Entitlement to the discount is periodically reviewed via, for example, by way of periodic property inspections for empty/unfurnished properties or completions of declarations issued in respect of one person discounts.

Select an exempt property and confirm that :-

- The exemption and reason is clearly shown on the taxpayer's account.
- A demand notice was issued to the otherwise liable person that records the above details.
- The exemption is supported by relevant evidence.
- Where applicable, the property exemption was agreed with other records such as housing benefits and electoral registration.

- The property was inspected and the status of the property was confirmed

Select a taxpayer in receipt of disablement (CT banding) reduction and confirm for each that:-

- A formal application was made requesting the reduction.
- A visit has been made to the property to confirm that the facilities were provided for, or used mainly by a disabled person.
- The current CT banding is only one band below that shown in the valuation list or on the case of band 'A' property, the reduction is no more than 5/9ths of band 'D'.
- Entitlement to the reduction is periodically reviewed via, for example annual surveys.

Select an empty property and confirm that:

- It appears on the void inspector's list of properties to be visited.
- The property has been visited regularly.
- A detailed record of all visits is kept.
- Where the property has been empty for less than six months, that the current debit is nil or void for more than six months, that it has been billed for the 90% charge.

Select an appeal letter received and confirm that it was:-

- Correctly recorded.
- Acknowledged within 5 days.
- Actioned within two months and decision notice issued.
- Dismissed where the aggrieved person did not initiate an appeal within two months of the billing authority's decision notice

Summary of Findings:

An account was selected for determination of liability. Evidence for the following was found:-

The 'hierarchy of liability' approach was used to identify the correct person as the liable person. In this case, the person liable was the freehold resident. Liability was determined following a telephone conversation with the information recorded on the appropriate written memorandum and then retained on the Images system. The liable person was issued with a unique 8 digit number. Liability was determined on a daily basis. A decision notice was issued (in the form of a bill) to the liable person

The recent death lists were reviewed. These are received weekly from the registrar and monthly from Bereavement Services. A case was selected from the Registrars' death list for testing. It was confirmed that :-

- The relevant account was updated and the taxpayer's spouse became the sole liability for the property. Single person discount was also issued.

- Liability ceased the day before the date of death. An adjusted demand was issued allowing for the single persons discount. The outstanding amount will continue to be paid under the existing direct debit arrangement.

A case receiving a discount was selected for testing to gain confirmation that

- The discount and reasons for such were shown on the taxpayer's account – Single Person
- The discount was initiated following a letter from the taxpayer
- The liable person was issued with an amended demand notice
- As the discount had been applied for several years and was reviewed annually via a survey mailed to the liable person. The last survey was carried out in February 2010

A case receiving a form of discount (Unoccupied and Unfurnished) was selected for testing The exemption and reasons for such were shown on the taxpayer's account. – Exempt Class C – Unoccupied and Unfurnished.

- A demand notice was issued to the otherwise liable person.
- The exemption was supported by a completed exemption claim form

No one visited the property. The Authority do not routinely visit all empty properties but do carry out spot checks as time allows

A case was selected where the taxpayer was in receipt of disablement (CT banding) reduction

- A formal application was made for the reduction on 12.2.2010
 - A visit on 17.3.2010 confirmed that disabled facilities has been provided in the property
 - The CT banding was adjusted in line with legislation. As the property was a Band A class the bill was allocated a 1/6 reduction
- The reduction was too recent to come under the last review of disablement which was undertaken on 15/02/2010

An empty property was selected for review. The property was empty for less than 6 months.

- The empty properties are not visited regularly by a visiting officer. This is a risk the management is prepared to accept
- The account balance was 'nil'
- The property was charged at full rate as soon as it was occupied

An appeal case was selected for review

- The appeal was correctly recorded
- It was acknowledged within 5 days
- It was actioned within two months and a decision issued along with the revised bill

3. Billing

Method of Review:

Select a chargeable property and check that:

- A demand notice was issued at least 14 days prior to the first instalment date or by mid-March for annual payments.
- The demand notice includes the names of as many liable persons as possible.
- The date on which the demand was raised and despatched was recorded on file.
- The amount and bill reference was recorded on file

Select a case exempt from CT and check that a notification of the assumption of the exemption was issued to the person who would otherwise be liable

Select a case where the liable person is receiving 100% CT benefit and confirm that the demand notices were sent showing the amount as 'Nil'

Select a case where a taxpayer pays by instalments and check that where the demand notice was:-

- Issued during the year but prior to 31st December, the number of instalments due is equal to the number of complete months remaining less one.
- Issued after the 1st of January, the whole amount due was payable as a lump sum.
- Issued after the end of the relevant financial year, the whole amount was payable as a lump sum

Summary of Findings:

A chargeable property was selected for testing:-

- A demand notice was issued at least 14 days prior to the first instalment date
- The demand notice included the names of as many liable persons as possible.
- The date on which the demand was raised and despatched was recorded on file.
- The amount and bill reference was recorded on file.

A case was selected which was exempt from Council Tax. It was Unfurnished and Unoccupied. The Notice of exemption was issued to the persons who would otherwise be liable. The current Band of the property was notified to the liable persons

A case was selected where the liable person was in receipt of 100% Council Tax benefit. The latest demand notice showed the amount as 'nil'

A case was selected where a taxpayer pays by instalments. The taxpayer paid by direct debit in 10 monthly instalments. This is the correct number of payments for direct debit instalments over a year

4. Collections and Refund

Method of Review:

Select a transaction from the suspense account and check that it was transferred to a bona fide account

Select an account with a large credit balance and check that the:

- The balance appears legitimate
- The taxpayer has other outstanding liabilities that the credit could be offset against

Select a case from the CT system and the FIS where a taxpayer has received a refund and check that:-

- A request for a refund was made in writing or there is adequate supporting documentation (e.g. solicitor's letter in case of deceased).
- A credit balance existed on the account before the refund was made.
- A refund docket showing the calculation and giving reasons for the refund was completed and checked by an independent employee.
- The refund was certified for payment by an appropriate authorised signatory

Summary of Findings:

A transaction was selected from the suspense account to check that it was transferred to a bona fide account. No issues were found.

An account was selected with a credit balance. The balance was legitimate. The taxpayer pays £25 per week by bank giro credit. It was reported in a previous audit that outstanding CT liability be offset where possible against any additional debts to the Authority. However due to the legalities regarding secondary use of Council Tax data, it would only be lawful to offset a Council Tax credit against a Council Tax debt. Therefore the credit was refunded to the liable person in 2009/2010.

An account was selected which had had a refund issued on 11/11/2009.

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DRAFT Matter Arising/Action Plan

- Refunds are processed by a daily batch job on Council Tax system which is then certified by the Revenues Manager and sent to Creditors for payment. Once the payment run has been processed, a balancing report is sent to the Revenues Officers for reconciliation to the Council Tax system.
- A request for the refund was made by Benefit Staff due to a claim being back dated and placing the account into credit. This was recorded against the account notes. Carlisle City Council does not insist on refund request to be made in writing. However, evidence of an overpayment has to be available and sufficient controls are in place to ensure that fraudulent refunds will not happen.
- A credit balance existed on the account before the refund was made. The creditor run from 11/11/09 was checked to ensure that the transaction had been paid. No problems were identified.

A previous audit highlighted that transfers of balances between accounts can be transacted by all members of Council Tax and Customer Services including cashiering staff. There are no restrictions and there is no authorisation necessary for such transactions or retrospective vetting arrangements. Management have decided to accept the risk. It raises concerns that all staff are in position to receive income (i.e. either directly within cashiers or indirectly via telephone payments in Council Tax) and have access levels to transfer income, or suspend and amend accounts without authorisation.

	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	Staff are in a position to take payments for accounts and are also able to suspend or amend accounts	Revenues Manager	Access levels should be reviewed for staff who are in a position to take payments and amend accounts with a view to greater separation of duties.	C	3 Months

5. Recovery and Enforcement

Method of Review:

Select a CT account in arrears, e.g. where there is a large debt or a case where payments have not been received for some time and confirm that:-

- A reminder was issued promptly that stated the consequences of failure to pay.
- Where payment was not received within 7 days of the reminder, the right to pay by instalments was lost and the full balance became due after a further 7 days.
- The recovery stages are clearly shown, including the dates and details of the actions taken.
- There were no undue delays between each stage of recovery.
- Adequate recovery action was taken

Select a taxpayer who made a 'special arrangement to pay' and confirm that:-

- Details of the arrangement were recorded on the taxpayer's account.
- The arrangement was confirmed to the taxpayer in writing.
- The arrangement was independently authorised.
- The arrangement ensures that the debt is to be cleared by the end of the financial year, unless authorised by a senior employee,
- Where the taxpayer's income varies, they were contacted at regular intervals to reassess their ability to pay.
- The agreed payments were maintained and any failures were dealt with effectively.
- Where the taxpayer made the arrangement as a result of being summonsed, that they remained on the list applying for a liability order

From the CT system, select a taxpayer who had attachments to earnings or income support and confirm that:

- Notification of the attachments was sent to the taxpayer's employer or to the DWP as appropriate.
- Regular payments were made

Select a recent debt written off and check that:-

- The write-off was clearly shown on the taxpayer's account.
 - There is adequate supporting documentary evidence.
 - Write-off was only approved once all reasonable avenues of recovery were exhausted or where it would prove uneconomic to pursue.
 - The action taken was in accordance with financial regulations and the write off was properly authorised.
- Procedures enable the written off debts to be re-instated should the taxpayer subsequently return to the area in 'gone away' cases.

Summary of Findings:

An account in arrears was selected and reviewed. The bill was issued on 04/03/2009. Reminders were issued on 22/05/2009 and again when the account returned into an arrears position on 20/11/2009. The final reminder was issued on 12/01/2010. On all reminders the consequences of failure to pay were stated. Once the accounts was in arrears the full balance became due. Recovery dates are clearly shown, account notes and correspondence detail actions taken. All correspondence is filled in Images.

Selected account with an arrangement in place.

- Details of the arrangement were recorded on the account.
- The arrangement was confirmed in writing to the liable person.
- Arrangements are not independently authorised. However, the majority of staff in the section are very experienced and the team leader occasionally does 'spot checks' to confirm that arrangements are reasonable and consistent with good judgement making.
- No the arrangement for debt collection allows for payments to be collected in future years. No authorisation was necessary by senior staff. A discussion was held with the Revenues Managers who confirmed that it would be unworkable to have to gain authorisation for debt collection in future years.
- Since payments were agreed they have been maintained

The Recovery team leader confirmed that if an arrangement were made following a summons, the taxpayer would remain on the list applying for a liability order

An account with an attachment to earnings was examined. Notification of the attachment was sent to the taxpayer's employer and was appropriately documented. Only one payment has been due so far, on the 1st March 2010, and this was met.

Write offs are made in accordance with the financial regulation. A write off from the current year was reviewed. The write-off is clearly shown on the account. There is adequate supporting documentary evidence on the Academy and Images files. The write off was only approved as it was uneconomical to pursue and the taxpayer was untraceable. The write off amount was under £50. Should the liable person reappear the debt can easily be written back on

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Resources Directorate

Audit Services

Audit of Sundry Debtors and Miscellaneous Income
(Material Review)

Final Report

28th April 2010

Audit Contact	Beverley Fisher	Extn No.	7293
Document Ref:	K:\2006-07 onwards\Material Systems\Debtors MAT035\2009-10\Reports\Debtors Final Report 09-10.docx		

Directorate / Service Area	Recipient(s) of Report	Action Required
Resources Directorate	Assistant Director (Resources) - (for action) Principal Finance/Systems Officer - (for action) Revenues Team Leader - (for information)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to Appendix A.
All Directorates	Assistant Director (Governance) - (for action) Assistant Director (Economic Development) - (for action) Assistant Director (Community Engagement) - (for action) Assistant Director (Local Environment) - (for action)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to Appendix A.

Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22nd June 2010.

1. Reason for the Audit

- 1.1. The audit of Debtors forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.

2. Background Information / Summary of the Audit Area

- 2.1. The audit process seeks to reduce risk to an acceptable level based on the efficient, economic and effective application of financials controls. Changes to controls suggested in audit recommendations are intended to achieve these benefits. This process reduces but does not wholly eliminate risk.

Debtors are now located within the Resources Directorate and the Assistant Director of Resources is responsible for the service.

The Debtors function currently sits within Financial Services but previously sat within Revenues & Benefits. The transfer took place during March 2010. Debtors were excluded from the Revenues & Benefits shared service proposal which is currently in its final stages of amalgamating Carlisle with Allerdale and Copeland. This has resulted in certain recommendations remaining outstanding from previous years due to the reorganisation of the staff structure. Similarly the Carlisle City Council transformation process resulted in the majority of Directors and Heads of Service leaving the authority. For those remaining issues some of the recommendations from the 2008/09 will be included and addressed once again in this years audit review.

Direct costs for Debtors include staffing, enforcement and running costs. Indirect costs include cashiers, IT, accommodation and other central charges.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

<u>Risk Description and Control Strategy</u>	<u>Type of Risk</u> <i>(strategic / operational)</i>	<u>Risk Score</u> <i>H/M/L</i>
<u>Failure of debtors Administration</u> The control strategy is: - Rigorous use of test systems. Detailed manuals. Qualified management and robust training methods.	Operational	Medium

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	<u>Area Examined</u>
1.	Follow up of previous audit recommendations
2.	Debtors General
3.	Raising Invoices
4.	Amendments to Invoices
5.	Payments
6.	Debt Recovery
7.	Write Offs
8.	Monitoring and Reporting

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified, these are shown in the appendix A and have been brought to the attention of the relevant Assistant Directors. There are no major issues to be raised.
- 5.2. The majority of recommendations made within this report concern all directorates and relate to issuing pre-payment invoices where possible and raising a debtors invoices within the 14 day guideline. This would enhance the Council's cash flow and reduce the risk of bad debts accumulating in the first instance.
- 5.3. It was noted through a benchmarking exercise that in order to develop a pre-payment facility, systems and procedures will need to be upgraded and revised to allow a wide selection of electronic payments without the reference to a debtor account. The benchmarking results indicated that, in terms of the number of invoices being paid analysed by payment methods, the Council is below average for receipting payments through electronic means i.e. automated telephone and internet payments. The Debtors IPF Benchmarking review also highlighted the Carlisle City Councils cost per invoice if above £15 in comparison to below £14 for other districts.
- 5.4. Consideration should be given to taking a more pro-active approach in dealing with persistent late payers through the use of interest charges.
- 5.5. It should be noted that during the Debtors review, 2 members of the Debtors team transferred into the Financial Services department and the team is now lead by the Principal Finance/Systems Officer. All documentation therefore need to be reviewed and amended to reflect the recent change in management throughout the authority.
- 5.6. Overall, it is concluded that Sundry Debtors and Miscellaneous Income is administered extremely well but this could be further enhanced with greater co-operation from all Directorates.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

<u>Grade</u>	<u>Level of Risk</u>
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

*** A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).**

- 6.2. There are 9 recommendations arising from this review. 4 at grade B, 4 at grade C and 1 at grade D.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **REASONABLE** level of assurance can be given in relation to the systems of control (see definition below).

<u>Level</u>	<u>Evaluation</u>
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

1. FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS

Method of Review:

Potential Risks:

That all agreed recommendations resulting from the previous review have not been actioned within the stated timescale resulting in there still being a risk posed to the Debtors system.

Review:

An e-mail and follow up template for completion was distributed to all staff informing them of the follow up recommendations outstanding from the audit review undertaken in 2008/09.

Summary of Findings:

- E-mails were sent out to 7 Heads of Directorates with a return of only 2. However, most of the Heads of Services left the Authority as part of the transformation process. Therefore the follow up recommendations remain outstanding for 2009/10. These have been incorporated within the main report.

2. DEBTORS GENERAL

Method of Review:

Potential Risks:

That Debtors procedures not comply with legislation and the organisations policies and procedures resulting in:

- Confusion over responsibilities
- Duties being duplicated or not undertaken
- Inconsistencies in treatment
- Financial viability adversely affected
- Adverse publicity for the Authority

Review:

- Discussions with the Revenues Team Leader (Bill & admin) to ascertain the procedures for Debtors general questions.
- Testing was carried out utilising the CIPFA Matrix for Sundry Debtors and Miscellaneous Income (ICQ 1 ref 1.1, 1.2 & 1.3).
- Testing was carried out on the following areas:

1. Carlisle City Council's Constitution
2. Sundry Debtors Procedure Manual
3. Sundry Debtors User List
4. Carlisle City Councils website

Summary of Findings:**Carlisle City Council's Constitution**

- Testing was carried out to ascertain the location of the Authority's Constitution and whether it held the correct procedures and responsibilities relating to Debtors.

The Constitution can be located on the Councils intranet and covers the Debtors procedures and responsibilities. The direct page link is as follows:

<http://intranet/yourcouncil/dirser/legal/demser/Document/COUNCIL%20CONSTITUTION%20AND%20FINANCIAL%20PROCEDURE%20RULES%20NOV%2009.pdf>

The Income and Expenditure rules can be located on pages 290 – 295 within the Constitution and examination of the document highlighted that amendments had been made to reflect recent changes in management. A hard copy extract relating to Debtors Income and Expenditure can be located within the Debtors working papers highlighting relevant points.

- Due to legal implications involved with the payment of leases, rents and wayleaves, there is no specified minimum amount stated for the raising of invoices. This is preferable for this Authority as with the accounts raised by 'users' it minimises the risk of a minimum limit rule being misunderstood.
- The system does not allow invoices to be amended. They may only be cancelled by sending a cancellation request to the debtors section. This must be authorised by a key signatory.
- Procedures were overseen in relation to the daily debtors run. The invoices are brought to the debtors section after the overnight run, the invoices are then checked against the Invoice and Credit Note Daybook summary to ensure that all invoices are present. A brief check of the invoices is undertaken for any errors, the invoices are then posted out to the Debtors.

Full payment instructions are given on the rear of the invoice. All types of payment are catered for:

- Cash
- Cheque
- Mastercard
- Visa

- Switch
- Delta
- Bank - Payments can be at any branch by cash or cheque
- Carlisle City Council website – www.carlisle.gov.uk – logging onto the payment fund list

Sundry Debtors Procedure Manual

- It was confirmed that the Sundry Debtors Procedure Manual exists, however no amendments have been made since the last review was undertaken in 2008/09. The Sundry Debtors Procedure Manual requires updating to reflect the new staffing structure and management,

A hard copy can be located within the working papers (ref WP 2/2) or via the following link:

<K:\2006-07 onwards\Material Systems\Debtors MAT035\2009-10\Lead Schedules\Lead Schedule 2 - Debtors General\New Debtors Procedure Manual.doc>

Please refer to recommendation A.1.

Authorised Debtors User List

- A Debtors User List was acquired from the Revenues Team Leader who previously maintained the spreadsheet before the transfer of responsibilities. This process will be carried out by the Principal Finance/Systems Officer in the future. This was then checked against the Outlook telephone address book and the internal telephone directory.

The Debtors User List details all users and the permission levels. Currently there are 206 users maintained on the list consisting of the following breakdown:

- 118 live users.
- 76 leavers (staff who have left the authority or have had their permissions revoked).
- 7 duplicate names (names with the number 4 behind).
- 2 users no longer working for the authority but have not been marked as leavers.
- 2 users who now work within a different directorate or the listed directorate do not match.
- 1 user shown under different name (name changed by deed poll).

Please refer to recommendation A.2.

- It was confirmed by the Principal Finance/Systems Officer that the duplicate names followed by the number 4 have been set up to allow the financials system to be accessed by these users via Citrix. Their other user name is to allow use of pc's with a direct connection.
- It was confirmed that there are no problems relating to access levels for users. An e-mail was received from the Principal Finance/Systems Officer advising that they are currently in the process of reviewing and updating the Debtor User permissions due to the transfer of responsibilities and management.
- Testing confirmed that there are 10 staff members with 'full access' to the debtors system.
 - 4 users located within Revenues & Benefits.
 - 4 users located within Finance.
 - 2 users located within IT.
- Only 2 members of the Debtors staff have the necessary authority to write off debts, though this function is left to one staff member to ensure consistency.
- A debt is not deleted until the recovery or write off process has been exhausted. This is monitored throughout. Any deletions are shown on the daily daybook summary which is checked daily by the Revenues Team Leader. The summary is used to compile the write off spreadsheet for the Bad Debt Write Offs for NNDR, Council Tax and Debtors Committee report, therefore the Revenues Team Leader would notice any unauthorised deletions via this report. The spreadsheet is also balanced to the system and sent to Finance to be balanced to the ledger. Any unauthorised deletions would be picked up via one of the methods.
- Previously the Revenues Team Leader reviewed the access list annually by forwarding a memo to each directorate asking them to inform of any leaver etc. Users who have left are marked throughout the list as a leaver. The Debtors User List memo was sent to all Directors on 23rd October 2009 and the Debtors User List was last updated at the end of November 2009. This would explain some of the errors found on the existing Debtors User list as detailed above as it was confirmed that some users had left the authority or moved directorate after this date. ***Please refer to recommendation A.3.***
- Leavers maintained on the list should have an authorisation level and limit of '0', testing confirmed that all levels and limits were correct.

Audit of Debtors

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<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The Sundry Debtor Procedure Manual requires updating to reflect new staffing structure and management arrangements.	Principal Finance/ Systems Officer	Amend Sundry Debtor Procedure Manual to reflect new staffing structure and management. <u>Comment from Financial Services Manager:</u> The Debtor team has recently transferred to Financial Services and as part of a review their activities, staff are in the process of updating the procedure manual.	C	June 2010
A.2	Data held on the Debtors User List in currently out of date.	Principal Finance/ Systems Officer	Update the users lists amending user details as listed below: • 2 users no longer work for the Authority. • 2 users now work within a different directorate. • 1 user shown under different name. <u>Comment from Financial Services Manager:</u> The Debtors section is unaware of these changes and would appreciate the details so that the changes can be made.	C	Immediately
A.3	The Debtors User List is currently only been reviewed annually. Note: It was noted from post audit discussions whilst carrying out the review during 2008/09 that this recommendation would be time consuming	Principal Finance/ Systems Officer & All	Consideration should be given to updating the Debtors User List more systematically and periodically for example every 6 months. Also, consideration should be given to highlighting the 'Leavers' on the spreadsheet for easier viewing.	D	June 2010

	and the onus should be on the directorates to inform Debtors of any changes.	Directorates	<u>Comment from Financial Services Manager:</u> <i>It is accepted that the user list could be reviewed more often, depending upon resources, but it needs to be made clear to Directorates and Personnel that any changed to the establishment should be circulated to relevant staff/system administrators more regularly to ensure that systems are kept up to date.</i>		
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3. RAISING INVOICES

Method of Review:

Potential Risks:

In addition to the general risks listed in lead schedule 2 there are other specific risks associated with the raising of invoice as follows:

a) That there is no documentary evidence to support transactions, resulting in:

- No documentation to refer to in case of query.
- Debtor records being created incorrectly.
- The Debtors masterfile being incorrect.

b) That Debtors invoices do not provide sufficient information of the debt, resulting in:

- Confusion over what the debts refer to.
- Difficulty in proving the debt.
- Delays in payment due to queries.

c) That amounts due are calculated incorrectly, resulting in:

- Over or undercharging.
- Confusion caused by different information held on the systems.
- Inability to establish debts or take the necessary recovery action.
- Adverse publicity.

d) That all relevant records and accounts are not updated, resulting in:

- Debtor balances do not agree to the General Ledger.

e) That transactions are not initiated and recorded promptly, resulting in:

- Invoices being delayed or not raised.
- Financial records not reflecting true levels of debt.
- Recovery action being taken unnecessarily.
- Adverse criticism and publicity.

Review:

- Discussions with the Revenues Team Leader (Bill & Admin) to ascertain the procedures for raising debtors invoices.
- Testing was carried out utilising the CIPFA matrix for Sundry Debtors and Miscellaneous Income (ICQ 2 ref 2.1 – 2.5).
- Testing was carried out on the following areas:
 1. Aged Debt Summary report (01/02/10)
 2. Outstanding Vouchers (01/02/10)

- Reports/spreadsheets produced using the above reports:

1. Bad debt analysis (Test 3.1)
2. Bad debt arrangements (Test 3.1d)
3. Number of days to raise an invoice (Test 3.2)
4. Debtors invoice accuracy (a) (Test 3.3)
5. Debtors invoice accuracy (b) (Test 3.4)
6. Periodical income masterfile (Test 3.6)

Summary of Findings:

- A weekly report is produced on debtors who still have not paid their invoices within 14 days of the reminder. A designated member of staff reviews each individual debt and then takes the decision to pursue with further action.
- Debtors name are not listed alphabetically, each debtor is allocated a unique debtor number. This may be used when locating a debtor.
- The date of entry is not recorded, instead, the date of payment due is used. The reason for this is because the active recovery process begins 14 days after this date. The initiating section can be identified by the 2nd, 3rd and 4th digit on the invoice number.

- The debtors report is circulated by the debtors section to each directorate monthly. However, it is not the Debtors sections responsibility to ensure that services utilise the report, Debtors can only rely on user co-operation. The responsibility remains with individual user sections to administer the information correctly. ***Please refer to recommendation A.4.***
- Testing was carried out on the Aged Debt summary report and revealed from a sample of 30 invoices that 23% of businesses/individuals were still being supplied with services and goods despite owing monies to Carlisle City Council.

From the sample tested one particular debtor was highlighted as owing Carlisle City Council **£15,284.13** including VAT (as of 01/02/10). An email was sent to the Principal Solicitor to ascertain the current situation with the Debtor, it was revealed that an interim payment of £35,000 was received leaving the remaining balance of £15,284.13. Carlisle City Council are now taking County Court proceedings to recover the remaining balance. ***Please refer to recommendation A.4.***

- Data from the Aged Debt summary report was analysed and as of 01/02/10 the Authority was owed (minus contract parking and car loans) **£1,160,196.63** from overdue debts. Monies not yet due amounted to **£1,032,470.72** resulting in a combined total of **£2,192,667.35**.

Although the outstanding balance is slightly less than the previous year it is still obvious that debtors are taking full advantage of the recovery process before settling their debts with the authority. With the current financial climate this situation is not envisaged to change within the forthcoming months. ***Please refer to recommendation A.4.***

- Debtor accounts are checked by a member of the Revenues staff to ensure the debtor does not already exist on the system and that the invoice amount looks reasonable. Although basic checks are in place, the debtors section is largely reliant on users inputting correct information onto the system. Apart from individual managers checking information that has been input onto the system, there is no real control against inaccurate charging. This issue was previously raised during the 2007/08 and 2008/09 audit review and advised budget holders to pay particular interest to their monthly FIS reports. This still remains the case. ***Please refer to recommendation A.5.***

- Testing was carried out on 30 invoices, resulting in the following:

- 26.67% (8) of invoices were raised without 'Date of Supply' date
- 10.00% (3) of invoices were raise before 'Date of Supply' date
- 33.33% (10) of invoices were raised within the 14 day guideline
- 30.00% (9) of invoices were raised after the 14 day guideline

Please refer to recommendation A.6 & A.7.

- The Revenues Team Leader is advised of any charging updates by the service department requiring a charge to be updated or changed. The system is then updated accordingly.
- From the 30 invoices tested approximately 80% of payment could have been collected in advance of the service or supply of goods. Examples of these are trade sacks, rents, car parking permits etc. *Please refer to recommendation A.8.*
- There is no minimum specified billing amount used by the authority as some services legally require billing i.e. rents, wayleaves etc.
- Council details are visible on each invoice i.e. address, VAT number etc and form part of the standard invoice template which are always shown on each individual invoice.
- It was confirmed that all invoices are sequentially numbered.
- The pay-in reference and remittance slip forms part of the invoice. This can be detached and returned with payment.
- It was confirmed that invoices show adequate details for billing information:
 - Debtors name and address
 - Reference number
 - Financial code to be credited
 - Nature or details of the debt (e.g. the service or goods provided)
 - Charge or fee payable
 - VAT payable and VAT rate
 - When the payment is due (e.g. upon receipt of the invoice)
 - Methods of payment available
 - Details of 'how and where' to pay the invoice
 - Making cheques payable only in the Councils name
 - Obtaining an official receipt for any cash payments
- The rear of the invoice also states that non-payment by the due date will incur additional debt recovery expenses that will be charged to the debtor.
- Testing was carried out on 30 invoices to check the accuracy of cost and income codes, debtor accuracy and backing documentation, also invoices were checked to the General Ledger.

It was clear from testing that various codes can be traced back to the financial plan 2009/10, these were tested and are in line with the plan and the General Ledger codes.

- Other fees are dependent upon various parameters e.g. pest control contracts depending on number/size of building etc, recycling credits are dependent on tonnage collected by a rate set by Carlisle City Council.
- Invoice numbers are sequential and issued automatically by the system. It is therefore not possible to miss any invoice numbers.
- The periodical income masterfile in respect of rents, leases, licences etc was examined to ascertain the following:
 - Access to the masterfile is adequately password protected and restricted to a small number of senior users.
 - It is regularly maintained
 - It shows adequate details for each entry, including debtors names, details of the charges, amounts due and due dates.
 - For a sample, the invoices were raised sufficiently prior to the dates when payments were due, the debtors paid on time or prompt recovery action was taken.

There are only 3 debtors staff that have access to amend periodical invoices, normal users have no access to this function. The periodical income masterfile is regularly maintained. All details are present with regarding to names, charges etc. From an examination of 10 invoices all were found to be correct.

- It was confirmed that Debtors financial stationery (Direct Debit Mandates) is controlled and stored securely within a locked filing cabinet in the Finance office. Bills/Reminders are printed onto blank paper.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.4	Businesses/individuals are still being supplied with services despite owing the authority money. This was also raised during the audit review undertaken in 2008/09.	All Directorates	All service providers that regularly initiate invoices to services used must refer to the Aged Debtors report provided before allowing further credit to bad debtors. Whilst statutory services must be supplied by the Authority, wherever possible, directorates should endeavour to ensure that no further credit is supplied to bad debtors until previous outstanding debt is cleared. <u>Comment from Financial Services Manager:</u> Awaiting reply from Legal Services to ascertain if this is possible.	B	June 2010
A.5	Income codes are being incorrectly raised against debtors accounts.	All Directorates	As per previous audits undertaken during 2007/08 and 2008/09, Budget Holders should continue to monitor income codes on the monthly FIS reports to ensure that the debtors accounts have been accurately raised. <u>Comment from Financial Services Manager:</u> The best way to tackle these issues in the medium term, would be through the Budgetary Control training course which is offered to all staff. However, perhaps an email from the Debtors section to users of the system (and their line managers) could be initiated.	C	June 2010

A.6	The 'actual' date of supply or commencement of work is not stated on data entry of the invoice.	All Directorates	All directorates must state the '<u>actual</u>' date of supply or commencement of work. In order to enforce recovery it is essential that the correct date is stated on the invoice. <u>Comment from Financial Services Manager:</u> The best way to tackle these issues in the medium term, would be through the Budgetary Control training course which is offered to all staff. However, perhaps an email from the Debtors section to users of the system (and their line managers) could be initiated.	B	Immediately
A.7	Invoices are being raised more than 14 days following supply.	All Directorates	During the 2009/10 audit review, 30% of invoices were raised after 14 days. All Directorates must ensure that invoices are raised within 14 days of supply. <u>Comment from Financial Services Manager:</u> The best way to tackle these issues in the medium term, would be through the Budgetary Control training course which is offered to all staff. However, perhaps an email from the Debtors section to users of the system (and their line managers) could be initiated.	B	Immediately

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A.8	Goods and services are not being charged and paid for in advance when possible.	All Directorates	Directorates should try and ensure where possible that goods and services should be paid for in advance. A more pro-active approach would enhance the Council's cash flow and reduce the risk of bad debts accumulating. <u>Comment from Financial Services Manager:</u> <i>The best way to tackle these issues in the medium term, would be through the Budgetary Control training course which is offered to all staff. However, perhaps an email from the Debtors section to users of the system (and their line managers) could be initiated.</i>	B	June 2010
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4. AMENDMENTS TO INVOICES

Method of Review:**Potential Risks:**

Refer to section 3 – Raising Invoices.

Review:

- Discussions with the Revenues Team Leader (Bill & Admin) to ascertain the procedures for amendments to invoices.
- Testing was carried out utilising the CIPFA matrix for Sundry Debtors and Miscellaneous Income (ICQ 3 ref 3.1 – 3.3).
- Testing was carried out on 10 debtor cancellation notices.
- Spreadsheets produced:
 1. Cancellations & Amendments to invoices (Test 4.1).

Summary of Findings:

- Invoices can only be cancelled or part cancelled (i.e. reduced) by the Debtors section but cannot be amended. Both processes require a Debtors Cancellation Notice (signed by an authorised signatory) to be submitted to the Debtors section.
- The Revenues Team Leader maintains a file for authorised signatories.
- The procedure for cancellations is documented in the Sundry Debtors Procedure Manual.
- Testing was carried out on 10 cancellation invoices, the results were as follows:

- All reasons for cancellations were sufficiently documented
- All cancellations were authorised by an authorised signatory
- The Revenues Team Leader and Revenues Officer are the only staff members who can amend and cancel debtors invoices.
- All debtors cancellation notices are kept on file within the debtors section for future reference.
- An invoice and cancellation day book is printed every time a transaction is entered onto the debtors system. They are then checked against the cancellations.
- Debtor cancellations are authorised by a key signatory and input by debtors staff.

Conclusion - Satisfactory no recommendations.

5. PAYMENTS

Method of Review:

Potential Risks:

That all transactions are not processed resulting in:

- Debts written off and paid receive reminders
- Unnecessary recovery action incurred
- Adverse publicity

Review:

- Discussions with the Revenues Team Leader (Bill & Admin) to ascertain the procedures for debtors payments.
- Testing was carried out utilising the CIPFA matrix for Sundry Debtors and Miscellaneous Income (ICQ 4 ref 4.1 – 4.3).
- Testing was carried out on the reconciliation between the debtors system and the FIS reports both daily and monthly.

Summary of Findings:

- By enquiry it was confirmed that staff involved in the debtors procedure have adequate separation of duties with regard to raising invoices, income collection and cancellation of invoices.
- It was confirmed that payment methods are provided on the rear of the invoice. Methods are detailed and clearly explained. Please refer to section 2 Debtors General for full listings.
- Regular reconciliations are undertaken on the debtors system and the FIS reports both on a daily and monthly basis. This duty is carried out by a Financial Services staff member. The daily and monthly reconciliations were examined and were found to be correct.

- The suspense account is administered by the Revenues Officer and the Revenues Team Leader in the debtors section.
- The balance of the suspense account was nil as of 10/03/10. It was noted that any balance is shown on the suspense notification report. This can be easily identified and cleared promptly.

Conclusion – Satisfactory no recommendations.

6. DEBT RECOVERY

Method of Review:

Potential Risks:

That transactions are posted to incorrect financial codes resulting in:

- Recovery actions being taken against the wrong debtors
- Debt recovery action not being taken
- Services appear to be unviable
- Recovery action is taken unnecessarily
- The likelihood of recovery is reduced

Review:

- Discussions with the Revenues Team Leader (Bill & Admin) to ascertain the procedures for debtors payments.
- Testing was carried out utilising the CIPFA matrix for Sundry Debtors and Miscellaneous Income (ICQ 5 ref 5.1 – 5.4).
- Testing was carried out on the following reports:
 - CC103 – County Court Summons
 - CC104 – Bailiff Letter
 - CC106 – Doorstep Debt Recovery
 - Sundry Debtors Account Issue & Recovery Flow-Chart

Summary of Findings:

- A debtor will be recommended to be 'wrote off' if they cannot be traced and recovery procedure has been exhausted. This action can also be reversed if required.
- Debtor reminders are automated by the system. When a new stage of debtor recovery is reached debtors staff are notified and the new recovery stage is authorised.
- Carlisle City Council only apply interest charges to commercial customers. As reported in the audit review undertaken in 2008/09, there are numerous occasions when interest may have been charged on outstanding sums for persistent late payers. Again, although this option is available the authority has chosen not to implement at present.

Refer to recommendation A.9.

- Periodic statements/reminders are issued promptly and the appropriate recovery stages are established.
- Debtors reminders/recovery suppression is maintained by the debtors Revenues Team Leader and Revenues Officer. It was clarified that at the time of examination (10/03/10) that there was one particular debtor owed £760,333.00 that was 'in dispute'. This is currently been dealt with by the Property Service Manager. As of 12th March 2010 the Debtors section received a cancellation notification from the Property Service Manager cancelling the outstanding debt due to there being no possibility of recovering the debt within the 2009/10 financial year. The invoice will be raised again during financial year 2010/11 following the resolution of various highways issues. This particular debt is to do with recognising the income in the accounts when the payment is due (which was several years ago). Although the invoice may be in 'dispute' the debtor has never disputed the fact that the sum is, in fact, due to us.
- It was confirmed that there are adequate and appropriate debt collection procedures in place which are regularly monitored and reviewed.
- An external recovery agent has been appointed by the authority as collection agents. Only cases of £15+ are referred. If the debtor pays in full the external recovery agent will currently take 18% commission or 33% commission if it is a doorstep collection. New rates have been agreed from 21st March 2010 these will be 17% for payment in full and 30% for doorstep collection.
- It was noted that currently these costs are not being charged to the debtor.

Please refer to recommendation A.9.

- Certain debtors may be referred straight to the County Court for debt recovery rather than the external recovery agents. These tend to be

high value amounts and are deemed unrecoverable by the standard debt recovery process.

- The following reports are maintained for each stage for the debt recovery process:

- CC103 – County Court Summons
- CC104 – Bailiff Letter
- CC108 – Doorstep Debt Recovery

- A sample of the above reports were scrutinised and were found to be correct. The appropriate debt recovery process has been taken against debtors.
- A debtor will be recommended to be 'wrote off' if they cannot be traced and recovery procedure has been exhausted. This action can also be reversed if required.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.9	Debtors are not being charged interest for recovery costs or being persistently late in settling their accounts. Charging interest would offset any costs paid to the collection agents and further enhance the authority's cash flow.	Assistant Director of Resources	Consideration should be given to the authority imposing interest charges on persistent late payers together with any recovery costs occurred. <u>Comment from Financial Services Manager:</u> <i>I am aware that under legislation, we can charge interest to late payers. However, I understand that this is for specific debts only and I would require legal advice on this issue before agreeing to implementing a charging system. Also consideration would need to be taken on the cost of administering such a system, if introduced. Balancing this with our Recession Planning policy would also need to be undertaken.</i>	C	June 2010

7. WRITE OFFS

Method of Review:

Potential Risks:

Please refer to section 6 – Debt Recovery.

Review:

- Discussions with the Revenues Team Leader (Bill & Admin) to ascertain the procedures for debtors payments.
- Testing was carried out utilising the CIPFA matrix for Sundry Debtors and Miscellaneous Income (ICQ 6 ref 6.1 – 6.3).
- Testing was carried out on 10 debtor write offs against the following reports:
 - General Ledger code X0212/5991 – Bad Debt Provision/Writes Offs
 - CC1W – Proposed Write Off report

Summary of Findings:

- External recovery agencies are contracted to Carlisle City Council. Methods to recover outstanding debts were scrutinised and deemed necessary and cost effective.
- It was noted that from 21st March 2010 the external recovery agents charges to the authority will be 17% for payment in full and 30% for doorstep collection this is lower than the previous contract which was 18% and 33%.
- It was confirmed that all write offs proposals are filed and stored within the debtors section. Proposals are checked and signed off by the Assistant Director of Resources.

- The Council Constitution (paragraph D.34) states:

“Assistant Directors shall ensure that charges for work done are billed promptly and substantiated as each contract or internal agreement specifies”.

Debtors performance could be improved if Debtors invoices are sent out within the 14 day guideline.

Refer to recommendation A.7.

- The Council Constitution (Paragraph D.20) states:

“It is preferable to obtain income in advance of supplying goods or services as this both improves the Council's cashflow and avoids the time and cost of administering debts”.

Debt collection for Debtors could be improved through the use of pre-payment wherever possible.

Refer to recommendation A.8.

- It was confirmed that the Revenues Team Leader collated the figures for the Debtors National Indicators. Copies are forwarded to the Assistant Director of Resources and previously the Revenues Manager for information and reporting. The performance is calculated by the use of the Aged Debt Summary.
- No monitoring exists to ensure that persistent bad debtors are prevented from obtaining further credit from the authority.

Refer to recommendation A.4.

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Resources Directorate

Audit Services

Audit of Cash Collection and Income Management.

Final Report

22nd April 2010

Audit Contact	Paula Norris	Extn No.	7014
Document Ref:	Cash Collection and Income Management Draft Audit report 2009-10.docx		

Directorate / Service Area	Recipient(s) of Report	Action Required
Community Engagement Customer Contact.	Assistant Director (Community Engagement) - for information. Customer Services Manager – for action.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for, which is attached as Appendix A.
Resources-Financial Services Development and Support.	Assistant Director (Resources) – For information. Financial Services Manager – For information. Development and Support Manager. – for action.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for, which is attached as Appendix A.

Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22nd June 2010.

1. Reason for the Audit

- 1.1. The audit of Cash Collection and Income Management forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.

2. Background Information / Summary of the Audit Area

- 2.1. The actual Cashiering function is separated from the Income Management function even as far as coming under two separate Directorates, Community Engagement (Customer Contact inc Cashiers) and Resources (Income Management).
- 2.2. The Customer Contact (Cashiering) function primarily offers a customer based service taking cash, credit card and cheque payments, dealing with petty cash and housing benefit cheque encashment. The Income Management Section deals with all the 'back office' requirements, ensuring that income is correctly allocated, balanced and reconciled to the bank account. They also administer the intranet and internet transactions.
- 2.3. There is a need for continuous development within the whole service with improvement consistently introduced to cope with potential fraud, credit card legislation, financial accounting of income and to help increase customer satisfaction. There will be further measures introduced in 2010/11 with the Contact Centre introducing a cashiering service for Social Services, the implementation of the Payment Card Industry (PCI) Data Security Standard Procedures and other internal reallocation of current duties to improve efficiency. All of these developments will be reviewed in more detail when the 2010/11 review of Cash Collection and Income Management is undertaken.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<u>Risk:-</u> The risk that new legislation and guidance is not being complied with. <u>Control Strategy:-</u> New publications are circulated to key staff. Relevant training is given and attendance at external courses. External advice is sought where appropriate.	Strategic	Medium
<u>Risk:-</u> Physical aggression/violence from a member of the public to a member of staff. <u>Control Strategy:-</u> Panic alarms in place together with other security measures for staff to respond. Amended policy in place since 2009 to allow for a zero tolerance of violence from customers.	Operational	Medium

<u>Risk:-</u> Losing personal data from customers. <u>Control Strategy:-</u> Only photocopies of forms are taken, with originals given back to customers. Data logs maintained.	Operational	Medium
<u>Risk:-</u> Complaints being escalated due to customers not agreeing with outcome of enquiry. <u>Control Strategy:-</u> For staff at all levels, customer enquiries are progressed to the fullest extent.	Operational	Medium
<u>Risk:-</u> Attempted robbery of the cash desk. <u>Control Strategy:-</u> The cash desk is situated behind a glass screen and has limited amounts of cash in the till although more significant sums are kept in the safe. If threatened with violence, staff are to avoid harm by acceding to the demands placed on them. CCTV covers the foyer area and panic alarms are in place.	Operational	Medium
<u>Risk:-</u> Software systems not working properly causing delays in customer service. <u>Control Strategy:-</u> Manual systems in place for if/when systems crash allowing continued service for customers.	Operational	High
<u>Risk:-</u> Major disaster causing one or all methods of usual customer contact to be unavailable.. <u>Control Strategy:-</u> Staff contacts regularly updated and kept on memory stick by CS Manager. Contingency plan constantly updated, e.g. phone calls can be taken from home or in Allerdale as same telephony system. Disaster recovery plan in place.	Operational	Medium

- There were no other specific operational risks identified by Internal Audit .

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Follow up of 08/09 Review.
2.	Policies and Procedures.
3.	Transactions.
4.	Postal Remittances.
5.	Income Reconciliation.
6.	Security and Banking.

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified, which are shown in Appendix A and which have been brought to the attention of the relevant Managers. In summary the key issues arising from this review are:
- 5.2. The controls surrounding Policies and Procedures are adequate.
- 5.3. The controls surrounding the handling of transactions are in the main secure. The benefit cheque encashment process does require strengthening to eliminate the unnecessary risks attached. The Council is also making some headway to comply with the Payment Card Industry Security Standards, therefore compliance with this code should be progressed as soon as possible.
- 5.4. The controls surrounding the handling of postal remittances are robust. The system is due to change in the near future whereby all cheques, whether postal or paid in directly at Cashiers will be scanned and processed by the one section, the Customer Contact Centre. It is anticipated at this point that the procedure will operate exactly the same as now, except it will be centralised. Therefore the present controls in place are sufficient.
- 5.5. A distinct audit trail complete with robust controls has been developed for the reconciliation of the income. No significant weaknesses were identified with it.
- 5.6. The present security arrangements are adequate. However some slight improvements could be introduced to strengthen these arrangements.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in Appendix A has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A *fundamental* weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputational, financial etc).

- 6.2. There are 7 recommendations arising from this review. 1 at grade A, 2 at grade B, 3 at grade C and 1 at grade D.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **REASONABLE** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Community and Engagement & Resources Directorates. Customer Contact & Financial Services APPENDIX A

1. Follow up of 08/09 Review.

Method of Review:

- Examination of the 2008/09 review of Cash Collection and Income Management.

Summary of Findings:

- 1.1. There were no recommendations or agreed actions made at the last review which was conducted as a light touch audit given the substantial level of assurance emanating from 2007/08.

2. Policies and Procedures.

Method of Review:

- Discussions with staff.
- Completion of the Cipfa Matrix for Cash and Bank internal Control Questionnaire regarding Policy and Procedures.
- Examination of Constitution and other written procedures.

Summary of Findings:

2.1. Constitution.

All staff have access to the constitution as it is now held on the intranet. The Financial Procedure Rules which relate to the income collection function are part of the constitution. Testing proved that all staff based in Cashiers have been supplied with the 2009 updated version.

Financial Procedure Rule D.21. states:-

- All income due to the Council is identified and allocated correctly, in accordance with an approved charging policy, which is regularly reviewed.
- All income is collected from the correct person, at the right time, using the correct procedures and the appropriate stationery.
- All money received by an employee on behalf of the Council is paid without delay to the Assistant Director (Resources) or, as he directs, to the Council's bank or National Giro account, and properly recorded. The responsibility for cash collection should be separated from that for identifying the amount due and for reconciling the amount due to the amount received.
- Effective action is taken to pursue non-payment within defined timescale.
- Formal approval for debt write-off is obtained.

- f) Appropriate write-off action is taken within defined timescales.
- g) Appropriate accounting adjustments are made following write off action.
- h) All appropriate income documents are retained and stored for the defined period in accordance with the document retention schedule.
- i) Money collected and deposited is reconciled to the bank account by a person who is not involved in the collection or banking processes.

Discussions confirmed that all the above issues are accommodated within existing procedures. These will be examined in further detail later on in this review.

2.2. Procedure Manual.

A copy of the Cashiers procedure manual was obtained. This is a step by step working document that outlines each stage of the cashiering procedure in detail. This manual was detailed and up to date.

2.3. Systems and Development Procedure Manual.

The Systems and Development part of the process is completely different, in parts, to that of the cashiering function (although there are some similar elements which will be discussed further in section 4). This document consists of not only operational instruction for the Systems and Development element (electronic payments, direct debits etc..) but also the distribution of the information once the transactions are processed so that each section is informed of these payments and can perform their own reconciliations.

2.4. System Access.

A list of system users was obtained. Users are each designated a specific access level.

- 1 being a defunct access level whereby the staff member no longer requires access, but needs to be retained on the system in order to provide an audit trail.
- 5 being cashiers and staff that utilise 'Webstaff'. (This is the non automated telephone card payment facility). This will be discussed in greater detail in section 3.
- 8 being staff that can input into ICON. For example the finance staff who have to process income returns for 'external' services like Tullie House, Talkin Tam, Car Parking, TIC's etc where money is paid into an income holding code and then has to be reallocated to its correct GL income code i.e Sale of Goods non vatable, sales of goods vatable.
- 20 being staff who are the 'System Administrators' - those with full access to the system.

The entire list was scrutinised to ensure that all of those staff granted access were entitled to have such access and at the appropriate level. There are 78 'live' users/passwords on the system and 71 have webstaff access. ICON Webstaff is used when a customer prefers to speak to someone in person over the phone rather than use the automated telephone payments system.

The webstaff users tend to be mostly Customer Contact Centre staff, Licensing staff, Revenues and Benefits Staff, Recovery and the system administrators. Normally payments are processed in this way following a general query. i.e, recovery agreeing a repayment plan. This ensures that the Authority complies with the requirements of the National Indicator NI14. - Avoidable contact:

The average number of customer contacts per resolved request (the rationale of this indicator being to encourage 'joining-up' parts of the public sector for the customer so that they do not need to make multiple contacts) The indicator seeks to drive these outcomes by demanding a reduction in the number of unnecessary contacts that customers need to make.

A Webstaff transaction walkthrough test was undertaken. No problems were located.

However it was evident during testing that one of the members of staff with Webstaff access had retired in 2009, but remained live on the system. Refer to recommendation A1.

2.5. It was confirmed that all staff are aware of and have access to copies of the organisations constitution, financial regulations/rules, written procedures and office manual.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	It was evident during testing that one of the members of staff with Webstaff access retired in 2009, but remained live on the system.	Development & Support Manager.	Support & Development staff should ensure that the member of staff that has retired is removed from the live system. A reminder should be sent to all supervisors that have access to the system of their responsibility to inform the Development and Support Section of relevant staff movements. <u>Comments from Finance Manager:-</u> <i>This will be raised with Personnel so that more robust procedures are put into place for system administrators to be informed of any leavers or other changes to the establishment.</i>	C	April 2010.

3. Transactions.

Method of Review:

- Discussions with staff.
- Observation test of cashiers payment processes.
- Completion of the Cipfa Matrix for Cash and Bank Internal Control Questionnaire regarding Transactions.
- Testing of a sample of 10 transactions, paid by a selection of methods, tracing from billing, to paying in, ultimately appearing in the bank account and being allocated to the general ledger.
- Testing of sample of 10 webstaff transactions to ensure that they have been allocated to the correct payment account.

Summary of Findings:

3.1. A sample of 10 paying in slips were traced back through from cashiers collection through to the bank statements. The findings of this test are detailed in full under section 5.

3.2. Paying customers are informed that they can make payment by a number of methods. These options are listed on the back of all sundry debtors, Council Tax bills and NNDR invoices further advice is also available either face to face or via the internet. Debit and credit card payments can be made over the web link, by telephone or in person. Cheques are specifically requested to be made out to 'City of Carlisle' and to be crossed, these can either be posted or paid over to cashiers. Cash is to be paid only in person and directly to the Civic Centre, a bank or the post office via payment slip or card.

Car Parking tickets also state all the various methods of payment, although current arrangements are due to be amended as a consequence of the recommendations made by the PCI DSS Payment Card Industry (PCI) Data Security Standard. This standard will insist that no credit card details are sent complete through the post, therefore minimising the risk of fraud. The previous tickets gave an option for payment via this method whereby the payer would give the complete details on the reverse of the ticket, post it back to the Car Parking Section and then the payment would be transacted using these details. Although the methods used and the retention policies were fairly secure, omitting these details will serve to further eliminate the risk of fraud. A new batch of tickets have been received and should be put into general use immediately as the Data Security Standard is already overdue. If the Authority fail to meet the requirements of this standard, they will be fined and prevented from taking any future card payments. – **Refer to recommendation A2.**

3.3. There were no problems found with the sample of transactions traced through the system. All could finally found to be attributable passed through the bank account and allocated to their correct cost centre areas. The Webstaff sample was also found to have been processed with no problems identified. All payments received from internal services and satellite sites (i.e. Bereavement Services/TIC's/Enterprise Centre etc) are paid into Cashiers on a regular basis

3.4. The full days transaction listing report for the 27/01/10 was examined and the following was established:-

- All transactions are recorded separately.

- A reference number is recorded against each transaction.
- Each transaction has its own unique transaction number.
- Transaction numbers run consecutively.
- A receipt reference is recorded against each transaction.
- VAT is dealt with automatically where appropriate.
- The system only allows valid income codes to be input.
- The date is recorded by the receipting equipment.
- The date is changed each day independently of the cashiers.
- The reference number of the cashier responsible for the transaction is recorded.
- The till used is identified by the computer report.
- All cash, cheques and direct credits are identified separately.
- The computer reports are retained and stored securely, in date order, independently by Systems and Development.
- The listing report shows the end of day totals, identifies cash, cheques and postal orders etc separately.

3.5. A payment analysis report (dated 15/01/10) showed that it:-

- Analysed payments into cash, cheques credit/debit cards, debit transactions (i.e Housing Benefit transactions and journal adjustments) resulting in a net amount collected.

3.6. By observation it was determined that all cheques are scanned and balanced, then placed in a secure sealed bag prior to be taken for deposit in the bank. All cheque details are traceable.

3.7. There were a couple of observations made during the audit whilst overseeing the cashiers daily operations. Firstly it was apparent that the card payment machine produces both an encrypted and an unencrypted receipt slip. The encrypted part of the receipt is passed to the payer and the unencrypted part retained by the cashier. As the machine requires automatic authorisation before the payment is accepted, there was no obvious practical reason why this should be necessary. Although the transaction slips are destroyed the next working day, there remains a slight risk in that the information in full is in the property of the Council and therefore the Council could be open to question. It was established that it is actually industry standard to produce the unencrypted copy which the software is automated to produce so altering the machine to produce only encrypted data is not an option. Current practice involves all copies being shredded and disposed of through confidential waste as soon as the reconciliation has taken place, which is usually the next morning. **Refer to Recommendation A3.**

3.8. The other issue was regarding the encashment of Housing Benefit cheques. This initiative was brought in as part of the Anti Poverty Initiative in the mid 1990's in response to meeting the needs of claimants that did not have access to bank accounts and would otherwise need to cash their cheques at establishments that charge an exorbitant fee. Since that time, the vast majority of benefit claimants are required to have bank or post office accounts where all other entitlements are paid. There is an argument to continue with this service however, namely those claimants that have found themselves in debt and therefore cannot pay their cheques into the bank as it will be 'swallowed up' and then they would be unable to pay their rent. Even so, there are obvious risks associated with cashing benefit cheques. Most importantly the possibility of fraud.

The current system requires 2 separate forms of the following ID before the benefit cheque is cashed:-
Benefit Payment Booklet. (now defunct)

- Letter from DSS/In Rev.
- Bank/Credit/Debit Card
- Bank Statement.
- Full Driving Licence.
- Utility/BT Bill
- Solicitor/Social/Probation Officer Letter
- Medical Card
- Passport
- Birth Certificate.

The main risk here is that a number of the above forms of ID may be obtained fraudulently. For instance, in a house of multiple occupation, the whole household would have access to at least four of the above type of ID if posted, alongside with the benefit cheque. As all but two are non photographic ID, there is no real way of disproving identity and this issue needs to be addressed.

Although there are some preventative systems in place within the Civic Centre, i.e, CCTV focussed on the Cashiers desk, a few unsuccessful attempts have been made to defraud the system, most being successful when fraudulently cashing cheques at specialised outlets. There was only one highlighted case at the Civic Centre which was unsuccessful due to the diligence of the staff and the CCTV system in place. This being said, the risk remains, however slight. Especially as the use of this facility is rising both in terms of the number of cheques presented and the amount of money involved.

Year	Amount	% inc yr on yr	No of chqs	% Inc yr on yr	Av £ per chq	% Inc
2007/08	£135,106.98		1,047		£129	
2008/09	£191,786.10	41.95%	1,266	20.92%	£151	17.05%
2009/10	£295,229.70(est)	53.94%	1,502	18.64%	£197	30.46%

As can be seen from the figures above, both the numbers of cheque encashments and the amounts per cheques are rising. The Cashiers only have a limited amount of float (£50.00) and encashment is only allowed if there is enough in the till at that precise time, otherwise the claimant is turned away, which, although rare, can sometimes cause a negative response from the claimant. In addition, the encashment process in a lengthy one, with forms to sign and ID to check which can cause a delay, especially at busy periods. If the usage of this facility continues to rise at such a pace, this could cause problems therefore consideration should be given to developing a different more efficient service specifically for the encashment of benefit cheques.

Refer to Recommendation A4 & A5.

3.9. A manual stock record for receipt books is maintained which includes the issue and receipt of stock along with a running balance and who received the information. The stock is held securely with restricted access.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.2	The 2009/10 PCN format does not comply with the PCI Security Standards.	Development & Support Manager.	That Development and Support instruct the Car Parking staff to begin using the new PCN's with immediate effect in order to comply with the relevant PCI Security Standard. Any spare original PCN stocks should be destroyed securely. <u>Comments from Finance Manager:-</u> <i>Guidelines were issued to staff in October 2009 and a meeting was held with the Parking Team on 7th October 2009 where it was agreed that no further stationery would be issued which requested card details. Upon further investigation, it transpires that although forms and other paperwork were amended, the new stock of PCN's (without card detail requests) were only introduced from the end of</i>	A	April 2010.
A.3	Both copies of the credit card receipts are not encrypted.	Development & Support Manager.	To ensure that staff integrity is maintained at all times, it should be paramount that the credit card payment details are only accessible to the minimum number of <u>essential</u> staff prior to them being destroyed. The current procedures should be strengthened whereby when the detail is in the possession of the Council it should be stored immediately in a secure location until it is needed for reconciliation and disposed of immediately. The actual reconciliation should take place as soon as possible.	C	April 2010.

A.4	The system for cashing housing benefit cheques requires strengthening.	Customer Services Manager.	The Customer Contact Centre Manager should:- Update the 'Encashment of Benefit Cheque Form -- The required 'Proofs of ID' should be strengthened to include that at least one should have photographic ID. Consider introducing photographs being taken of the person cashing the cheques (as per other cheque cashing establishments) Consider introducing 'security questions' that the cashier could access from the Housing Benefit Application form on Images. Consider working in conjunction with Benefits Advice Agency to introduce Benefit Encashment ID cards.	B	June 2010.
A5	The system for cashing housing benefit cheques requires strengthening.	Customer Services Manager.	Consideration should be given to establishing a stand alone facility, (using existing staffing and IT resources) specifically for the encashment of Housing Benefit cheques. (i.e open separate till with own 'float'). Of course a cost benefit evaluation should be performed.	D	September 2010.

4. Postal Remittances.

Method of Review:

- Discussions with staff.
- Observation test of post opening procedures (5th Jan 2010).
- Completion of the Cipfa Matrix for Cash and Bank Internal Control Questionnaire regarding Postal Remittances.
- Sample of 10 returned cheques traced through the system to ensure that the relevant systems had not been credited until a viable cheque had been provided.

Summary of Findings:

- 4.1. An office manual covering post opening procedures has been established and all the staff currently undertaking this duty has been suitably trained in all aspects of the job.

- 4.2. When the post is received, it is held securely pending opening in the locked keepers office, it is then collected by 9a.m and opened in the post room which is locked. Mail is always opened on the day it is received.
- 4.3. Procedures dictate that all post is date stamped immediately upon receipt. Recorded and registered post is logged in a register. There are procedures in place for dealing with post handed in at the counter and also for that mail marked 'private, confidential or personal'.
- 4.4. All valuable items (i.e including original documents) are immediately recorded on the valuables list, controls are in place to ensure that they are held securely and are all returned within the same day.
All cash and cheques received are delivered promptly to Systems and Development for scanning and paying in, As previously indicated, the Customer Contact Centre are soon to take over this role. The cheques are checked against any attached correspondence to ensure that all details are correct. i.e amounts, date, payee and signature.
- 4.5. It was confirmed that targets and procedures have been established for ensuring that post is dealt with promptly and that post awaiting delivery is held and delivered securely.
- 4.6. There are a small number of cheques received that have to be returned to the sender. Reasons include return to drawer cheques, stopped payments, and insufficient detail to enable encashment. In these incidences, the cheque is returned to the payee along with a letter explaining the problem. The 'payment' is then reversed from the relevant system so the 'income' is still outstanding. A spreadsheet is maintained by Systems and Development which details the index number, name, address, reference, fund, amount, original receipt number, return reason, date of reversal, new receipt number and the auctioning officer. A sample of 10 returned cheques were traced through the system. All of the returned cheques had been reversed from the relevant systems.
- 4.7. There is no set procedure for management to check or supervise the mail opening/distribution process, however, if there were any issues arising they would be highlighted and dealt with almost immediately due to all the other system controls and processes.

There were no matters arising regarding Postal Remittances.

5. Income Reconciliation.

Method of Review:

- Discussions with staff.
- Audit observation test of Cashiers midday cash-up procedures (18th Jan 2010).
- Completion of the Cipfa Matrix for Cash and Bank Internal Control Questionnaire regarding Income Reconciliation.
- Sample of 10 transactions traced from the paying in slips and bank statement totals to the ICON control report.
- Trace through of ICON and Bank file reconciliation to the General Ledger.

Summary of Findings:

5.1. Cashiers mid-day cash up procedures.

It can be confirmed that:-

- Floats are removed from the income collected and locked away prior to cashing up.
- Each cashier's takings are reconciled separately.
- Cashiers are aware that where takings do not agree, this must be immediately reported to a senior employee.
- Actual amounts collected are reconciled at least daily to the total collected per the till.
- The final cash up is done at the end of a working period when the Cashier closes down. ICON end of day cash up screen lists cash, cheque, card payments taken and any payments made (i.e, housing benefit encashment and petty cash reimbursement).

A system cash up was witnessed by Audit services. There were no problems identified.

5.2. Adjustments

Overs and Unders are shown on individual reports and on the collection and deposit (C&D) spreadsheet produced by the Systems and Development Section.

As per the Financial Procedure Rules, discrepancies over £100 are formally reported to the Assistant Director (Resources) and Audit Services.

5.3. Suspense Accounts.

There are 3 separate suspense accounts held within ICON. The suspense account report for the 04/03/10 was examined and showed the following data:-

Fund X1 – Suspense Fund Payments Account 3 entries £13,969.49.
Fund X2 – Suspense Fund Collection Account 21 entries £3,437.75
Fund X3 – Suspense Fund Collection Fund Account 7 entries - £3,765,644.44.(includes a -£3.783m precept)

These are cleared daily. At the time of the audit there were a small number of outstanding entries that were currently being investigated. The Systems and Development Team notify the obvious departments or even the suppliers themselves, this can on occasion require a certain degree of detective work which can take some time. However, until there is the sufficient detail to transfer these postings to their correct codes, they will have to remain in suspense. Evidence was presented to confirm that the older transactions had been investigated.

5.4. Transaction system test.

Ten transactions were traced through the system from payment into Cashiers, processing through ICON, physical cash and cheques balanced and paid into the bank and ultimately appearing on the bank statements. The 10 payments were traced through each stage of the process with no problems identified on any transaction, all of which proved to be accurate and timely.

5.5. Daily reconciliation to ledger.

ICON produces a 'Global Fund Analysis' Report which details all the income attributed to each fund. This is reconciled daily by Systems and Development. The reconciliation for 02/03/10 was witnessed and can be verified as true and accurate. Full process documentation is in place.

5.6. Bank file

The "banking" of monies is processed by Systems and Development the following day. The reason for this is that the ICON system does not close down until 6p.m the previous day. The 'banking process' effectively submits all figures made in ICON through to the bank reconciliation system. As there are different methods of payment, each taking differing lengths of time to be progressed through the system, it can be difficult to keep on top of all the payment for reconciliation purposes. For this reason, monitoring spreadsheets have been established that assist in identifying potential problems in a timelier basis. This is maintained daily and any corrective action immediately undertaken.

5.7. Bank reconciliation.

In addition to the automated bank reconciliation, Systems and Development also maintain a manual monthly bank reconciliation which is compliant with Audit Commission requirements for year end accounting. January 2010 manual bank rec was examined and found to be in order. February 2010's reconciliation was still underway at the time of this review.

There were no matters arising regarding Income Reconciliation.

6. Security and Banking.

Method of Review:

- Discussions with staff.
- Inspection of the cash office.
- Completion of the Cipfa Matrix for Cash and Bank Internal Control Questionnaire regarding Security and Banking.
- Observations of the cash income transfer to Loomis.
- Examination of the insurance provision.

Summary of Findings:

6.1. After examination, it can be confirmed that the cash office is:-

- Secure.
- Access is restricted to cashiers and authorised employees only.
- Security checks are undertaken to prevent unauthorised entry.
- Cashiers are protected by glass security screens.
- All the alarms are tested on a weekly basis.

6.2. The safe's combination has not been changed for a number of years as this requires enlisting an engineer which would incur a cost. The maximum amount held in the safe at any one time is £4,000, the insurance policy covers money to a limit of £25,000 for one safe and £1,000 for the other, which is more than sufficient. The policy makes no reference to regularly changing the safes combinations as a condition of the cover. However, as the combinations have not been changed for a number of years, and staff have left the Authority that have had access to this, then it should ideally be changed. – **Refer to recommendation A6.**

6.3. Due to the recent Transformation exercise, the majority of the posts listed on the Fidelity Guarantee insurance policy no longer exist. It is the intention to update these as part of the policy renewal exercise that is due in May 2010. Cashiers are not listed on the policy under the fidelity guarantee area but they are covered up to £1,000,000 elsewhere in the policy.

6.4. Loomis are the security firm employed to collect and deposit the money into the bank. A cash transfer was observed and it could be confirmed that:-

- The bank deposit bags are sealed prior to handing them over to Loomis.
- The seal number is recorded.
- An official receipt is obtained from Loomis
- The cash is collected the following day after receipt.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A6	The combination for the safe has not been changed for a considerable length of time.	Customer Services Manager.	Officers should investigate the possibility of changing the combination of the main safe to increase the security controls.	C	June 2010.
A7	The responsible officers listed on the Fidelity Guarantee Policy is out of date.	Financial Services Manager.	The Treasury and Insurance Manager should ensure that the list of employees declared on the Fidelity Guarantee policy is updated when submitting the May 2010 renewal. Comments from the Finance Manager:- <i>The Fidelity Guarantee Policy will be updated as part of the 2010 renewal.</i>	C	May 2010.



Final Report

22nd April 2010

Audit Contact	Paula Norris	Extn No.	7014
Document Ref:	Creditors draft Audit Report 2009-10.docx		

Directorate / Service Area	Recipient(s) of Report	Action Required
Resources Directorate	Assistant Director (Resources) - For information, Financial Services Manager – For action. Development Support Manager – For action.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for , which is attached as Appendix A.

Please note: The Chief Executive, Deputy Chief Executive and relevant Strategic Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22nd of June 2010

1. Reason for the Audit

- 1.1. The audit of Creditors forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.

2. Background Information / Summary of the Audit Area

- 2.1. The Creditors function is overseen by the Systems and Control team within Development and Support in Financial Services.
- 2.2. There is currently only one full time member of staff responsible for the daily procedures and weekly payments of Creditors, although there are full cover arrangements within the Development and Support team. The substantive post holder has been on maternity leave for the majority of this financial year and temporary cover has been provided by a member of staff that had creditor user experience but no prior experience of key responsibilities associated with authorisation of invoices and payment runs. To mitigate this situation, the substantive post-holder worked alongside the incoming temporary member of staff for the month prior to the start of her maternity leave. In addition, two days support was provided each week for a 6 month period by another more senior officer to help with the settling in process. Despite this initial lack of experience of the key elements of the responsibilities of the Finance Assistant (Creditor Payments), it was fully apparent during the audit review that the temporary post-holder had fully developed in the role fulfilling all requirements.
- 2.3. There are potentially going to be significant changes made to the functionality of the existing creditors system in 2010/11 and the next review will need to concentrate on any changes made in conjunction with those currently set out in the Cipfa Matrix.
- 2.4. The Council invested in an e-purchasing system, Civica Purchasing (formally known as Radius Orbit) back in 2002. Carlisle City Council was one of the first authorities to lead with the initial implementation of the system and it was heavily involved in its development.
- 2.5. To date, the use of this system has been restricted to raising e-requisition purchase orders from e-catalogues covering 4 main commodity areas (stationery, computer consumables, paper and envelopes) which are directly loaded into Civica Purchasing. System access is restricted to officers with purchasing responsibilities, who are locally referred to as gatekeepers. Purchasing requirements for all other goods and services continued to be acquired through the generic manual purchase order process.
- 2.6. During 2010, Civica Purchasing will be rolled out to cover all purchase order requisitions and expand the use of e-catalogues. The overall aim being to have a completely automated e-purchasing process which interacts with other key financial systems, i.e. Creditors and the General Ledger.
- 2.7. Discussions over the past year have focused on the potential to centralise the creditor payment function. This proposal is fully supported by recent IPF benchmarking on creditor payments that took place earlier in 2009/10.

The aim is to centralise the creditor payments process in the latter part of 2010, once Civica Purchasing is fully rolled out.

- 2.8 A paper is being presented to the Senior Management Team for consideration on 13th April 2010.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<u>Risk.</u> There is a risk that creditor invoices are not paid promptly and accurately. <u>Control Strategy.</u> There is a Creditors procedure in place. Monthly monitoring data is presented to Service Managers,	Operational	Low

- 3.2. Other risks identified by Internal Audit as part of this audit are considered to be:

- *Potential for internal and external fraud*
- *Potential division of duties conflict due to Development & Support controlling both the Creditors and the Debtors functions.*
- *Potential inadequate control mechanisms put in place when/if the Creditors function is centralised.*
- *Failure of the Civica Purchasing system.*
- *Conflict with HMRC in respect of failure to meet VAT regulations.*

Please note that on conclusion of the audit, any critical risks outline at 3.2. should be assessed by the relevant Assistant Director for incorporation into the Directorate's Risk Register or, if considered to be a strategic risk, for discussion at the Risk Management Group.

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Follow up of 2008/09 Audit Review.
2.	Creditors System General.
3.	Ordering of Supplies and Services.
4.	Receipt of Orders.
5.	Invoice Checks
6.	Payments.

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified, these are shown in Appendix A and have been brought to the attention of the relevant Assistant Directors and Service Managers. In summary the key issues arising from this review are:-

5.1.1. Follow up of 2008/09 Audit Review.

All the actions agreed had been actioned, or are in progress pending system developments. It should be noted that a number of recommendations made in this review echo those made in the 2008/09 review. This is due to system users not fully adhering to, being aware of or understanding the established procedure. This is, despite reminders and training sessions provided by the Financial Services staff. Although these procedures are likely to change with the implementation of Civica Purchasing, until, this is in place, Financial Procedures should still be enforced. Further attempts to inform the users of the correct system procedures is advised once more, however, the success of these reminders can only be evaluated at the next review.

5.1.2. Creditors System General

Recent developments surrounding the 'general' creditors systems are highlighting issues that need to be addressed. There is time and opportunity to consider these matters prior to implementing the centralisation of the creditors function and it is hoped that they will be incorporated to help minimise risk and support the new initiative.

5.1.3. Ordering of Supplies and Services.

There are structured procedures regarding ordering, which are both outlined in the Financial Procedure Rules and in the operational Purchase Ledger Manual. However, the service directorates are not fully abiding by these laid down procedures, most likely through lack of awareness. Although there were no major problems found during testing, not applying these controls could leave the system open to abuse.

5.1.4. Receipt of Orders.

There are constitutional rules that cover the controls required for receiving goods previously ordered. Of course in certain instances it is not possible to completely predict when goods will be delivered to ensure that the correct procedures are in place. In the main, however, provision has been made to minimise risk and these provisions are exercised to the best of endeavour by officers.

5.1.5. Invoice checks.

Users of the creditors system are on occasion, failing to ensure that all necessary detail and appropriate documentation is present when registering invoices.

5.1.6. Payments.

Further controls should be introduced to strengthen the BACS process and protect the integrity of the officers involved. There were a number of minor anomalies identified during testing, and users should be reminded of their responsibility to ensure that the invoices and all the information contained within are accurate and complete. Particular diligence should be paid to ensuring that VAT registration details are included in invoices and are present in all circumstances when VAT is charged, and

subsequently reclaimed. Again, this issue should be addressed after the centralisation of the creditors function.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

- 6.2. There are 8 recommendations arising from this review. 2 at grade B and 6 at grade C.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **REASONABLE** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Resources Directorate, Development & Support

APPENDIX A

1. Follow up of 2008/09 Review.

Method of Review:

- Examination of the 2008/09 review of Creditors and subsequent follow up.

Summary of Findings:

1.1. There were 11 recommendations made in the last review. Of these, 10 were actioned within the defined timescale. The remaining outstanding recommendation which related to dating the authorised signatory list will be completed following completion of the Council restructure.

1.2. The follow up identified the following actions:-

A1 – The Purchase Ledger Procedures should be made available to all necessary staff via the intranet.

Action – This was actioned prior to the Final Report being issued on the 20th November 2008.

A2 – A distribution list should be set up in Outlook for authorised signatories.

Action – The corporate signatories list is currently being revised by the Financial Services Manager following completion of the Council restructure. The format of the authorised signatories list is to be agreed by Resources DMT and circulated to the rest of the organisation.

A3 – Staff should be reminded of their responsibility to follow the purchase ledger procedures and attach purchase orders where applicable.

Action – A note was distributed to all appropriate staff by the Finance Assistant – Creditors. This has been re-emphasised as part of the training referred to in A4. Training sessions were held in March 2010 on general budgetary control.

A4 – Staff should be reminded of their responsibility to ensure that the correct VAT code is entered on the Creditor Certification Slip.

Action – Budgetary Control training courses are arranged each year and all staff are invited to participate. Managers are also advised to ensure that their staff participate. More specific training on VAT may be provided in 2010/11 as part of the Financial Management Training Programme.

A5 – Staff should be reminded of their responsibilities to ensure that appropriate ledger codes are used Certification/Authorisation Officers should be reminded of their responsibilities to ensure that the correct codes are always used. This should be one of the checks that are carried out prior to certifying the creditors slip.

Action – This was recognised as a fundamental issue for training and is included in the courses identified in A4.

A6 – The certifying officers should be reminded of their responsibility to ensure that appropriate codes should be used and not for the Finance staff to keep recoding.

Action – See A4.

A7 – All authorised signatories should be reminded to ensure that all specific expenditure should be coded correctly.

Action – See A4.

A8 – Financial Services staff should ensure that the relevant detail codes for consultancy are in place.

Action – As in A4. This issue has also been highlighted to the Resources Overview and Scrutiny Panel as part of their Task & Finish work on consultancy appointment and expenditure.

A9 – The day book should be corrected so it is not necessary to use the balancing figure each day.

Action – The invoices were lost in the 2005 flood so details are not available to identify the correct transaction type.

A10 – The Creditors and the General Ledger do not reconcile, a comment should always be entered on to the spreadsheet with the explanation.

Action – This was on one occasion only and the error was corrected on the same day.

A11 – The procedures for reconciling the controls should be reviewed and updated annually.

Action – The procedures were updated in January 2010.

There were no outstanding recommendations.

2. Creditors General

Method of Review:

- Discussions with staff.
- Review the organisation's constitution, financial regulations, procurement policies and procedures.
- Review the office procedures manual to check that all procedures relating to creditors are outlined.
- Examine the user lists to ensure that all of the users are current employees, their access levels are appropriate to their duties, and that separation of duties is assured.

Summary of Findings:

2.1. Constitution.

The constitution (revised November 2009) clearly outlines the key controls in place for the ordering and paying for work, goods and services. Appendix D, Financial Systems and Procedures D.47 – D.92 details the rules that apply to this area. These were examined and their requirements used as a basis for testing criteria for this review.

2.2. Office Procedures.

A purchase ledger procedures manual is maintained and is available to download from the Councils Intranet. The manual does require updating as it features staff that are no longer employed in the Authority. Management need to determine at what point during 2010/11 these new procedures should be updated as significant changes will take place after the roll-out of the purchasing system and its impact on the creditors system. (refer to management summary for more detail). – **Refer to recommendation A1.**

2.3. Authorised users.

The entire General Ledger User list was scrutinised for leavers with access to creditors for the purpose of identifying leavers that may have not been taken off the system. There were 9 instances where staff had actually left the Council and these individuals need to be removed from the system. A list of these staff has been supplied to the Finance/Systems Officer for actioning. There were 5 occasions where there has been an internal transfer of staff and their new locations had not been added. These details were also forwarded for action. Personnel do send notifications of 'leavers' to the Principal Finance & Systems Officer, which are actioned monthly. However, Personnel would not necessarily be made aware of Agency staff or casual workers as they are not paid via the automated Payroll system as part of the normal monthly run, and in turn, would then not then be in a position to inform the Principal Finance & Systems Officer.

Whilst this particular issue should be resolved with the centralisation of Creditors, however until this happens, a control should be put in place until this happens. – **Refer to recommendation A2.**

2.4. Debtors/Creditors relationship.

Recently, the central Debtors function was transferred from Revenues and Benefits to the Development and Support Section within the Resources Directorate. This decision was made predominantly as a result of the impending introduction of RBS shared service arrangements between Carlisle, Copeland and Allerdale but this also fits in with other proposals being considered under the Authority wide transformation process.

The Development and Support Section also have effective central control over the Creditors system and further centralisation of the input function is currently under consideration within "a service support pool" of staff which are also likely to be situated in Resources. Whilst both systems are completely separate in terms of tasks and systems access, potential conflicts in terms of separation of duties will need to be considered in general and there will be a requirement to implement strict controls in particular. At input level beyond basic data entry it is deemed imperative for example from an audit perspective, that those staff assigned to debtors have no access to creditors and vice versa. In terms of systems administrators, who must work outside the environment of any service support pool, it is recognised that there will be a need for these officers to have full access to both systems. However, the inherent risks must be duly considered and appropriate safeguards and system procedures introduced with periodic independent checks made on any operational transactions undertaken by system administrators.

.- **Refer to recommendation A3.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The Purchase Ledger Procedure Manual is out of date.	Development & Support Manager.	It is recommended a new Purchase Ledger procedure manual be written and circulated to users prior to the implementation of the new creditor payment arrangements. Comments from Finance Manager:- <i>This will be amended to reflect revisions to the staffing structure and will also be reviewed in the light of any future decision made as part of the Service Support initiative.</i>	C	Prior to Purchasing system roll out.
A.2	All 'leaver' information is not reaching the system administrators for them to update the live user master file.	Development & Support Manager.	A memorandum should be circulated to Service Managers requesting them to inform the Principal Finance/Systems Officer of any casual or agency staff with access to the ledgers that leave or transfer within the Council and any non casual and agency staff that transfer within the Council also to be included.	C	June 2010.

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Agreed Action Plan

A.3	The Creditors and the Debtors functions are both now coming under the same management of Development & Support.	Development & Support Manager.	<u>Comments from Finance Manager:-</u> <i>Procedures need to be agreed with Personnel regarding leavers as this issue flows through a few of the audit reports. It will be raised at the Resources DMT meeting. A memo regarding casual/agency staff is a useful recommendation and this proposal will be progressed.</i> Depending upon the future arrangements regarding debtors and creditors, systems procedures, safeguards will have to be reviewed. In the meantime, consideration should be given to the carrying out of independent checks on any operational transactions undertaken by systems administrators. <u>Comments from Finance Manager:-</u> <i>Procedures will be reviewed to ensure that the current control procedures are robust to ensure the integrity of the system and to ensure separation of duties.</i>	C	June 2010.

3. Ordering.

Method of Review:

- Discussions with staff.
- Select a sample of 20 invoices and check back to the original order to check that: a) an official order was used, b) the nature and quantity of the requirements were clear c) a quoted price was shown on the order, d) the name of the supplier was recorded on the order, e) the order specified delivery requirements, f) the order was certified by an authorised employee, g) the details on the order agree with those on the invoice, h) where the order is confirmation of a verbal order, the circumstances for making this decision were appropriate and necessary, i) the employees raising the orders did not authorise them and j) that the orders comply with the constitution, financial regulations, procurement policies and procedures.
- Physical check that all order books are held securely, are consecutively numbered, regularly reconciled and regulated.

Summary of Findings:

3.1. Purchasing Overspends.

Currently, on a monthly basis, all budget holders are issued with a Financial Information System (FIS) report which details all the income and expenditure for that financial period to date. In addition to this, the Senior Accountancy Assistants produce a monthly comprehensive Summary Monitoring Statement (SMS) which further highlights any overspends over £10,000 and then provides supplementary analysis. Meetings are held with the budget holder to discuss these overspends and attempts made to address them through transfer of incorrectly coded expenditure or virement. Although it would not be beneficial at this stage to introduce an automatic budgetary 'cap' on expenditure using the current ordering procedure, the Development and Support Manager confirmed that the new Purchasing System would have this facility where spending would be restricted if there was either no budget or insufficient budget, for the order. Of course, no system will be 100% infallible, and there will be the facility to overwrite the control which will be necessary to cater for every circumstance. The FIS monitoring arrangements however will still be part of the overall financial control procedure to identify any reasons for overspend.

3.2. Ordering procedures.

The invoices were selected from random from the creditors files. The procedures clearly state that a copy of the purchase order be attached to the invoice in order to show that the invoice is indeed bonafide, the goods were ordered in good faith, have purpose and have been received.

The financial procedure rules also outline the necessity of formalising the ordering procedures. Paragraph D.69. states that "The authoriser of the order should be satisfied that the goods and services ordered are appropriate and needed, that there is adequate budgetary provision, and that quotations or tenders have been obtained if necessary". The order should be documented to enable the delivery and invoice details to be verified. With no initial order, it is practically impossible to identify what the initial 'contract' was made with the supplier.

3.3. Testing of orders.

Audit testing of 20 invoices chosen at random identified the following anomalies:-

- 8 out of the 20 invoices did not have an order attached. No valid reason for its absence. (40% of sample).
- 2 out of the 12 orders did not state clear requirements as to the nature and quality of the order. (17% of sample).
- 5 out of the 12 orders did not state an order price. (42% of sample).
- 1 out of the 12 orders did not state the date of ordering. (8% of sample).
- 1 out of the 12 orders was not signed by an authorised employee.
- 1 out of the 12 orders was signed by the same officer who authorised the invoice. (8% of sample).

Not one of the orders/invoices selected for testing was processed 100% correctly. The ultimate responsibility for this lies with the authorised signatory that signed the invoice for payment, not the creditors staff. Financial Procedure Rule (FPR) D.70. states:- That it is the responsibility of the (relevant) Assistant Director to ensure that (their designates) "ensure that goods and services are checked on receipt to verify that they are in accordance with the order". Furthermore FPR D.72. clearly states that "Before certifying an account, the certifying officer shall, to the extent that the Director may otherwise determine, have satisfied himself that:- a) the work, goods or services, to which the account relates, have been properly ordered, received, carried out, examined and approved". Based on the sample examined, it is evident that this has not been happening. **Refer to recommendation A4.**

The new Purchasing system will again go some way towards eliminating this problem. However, until its implementation the Financial Procedure Rules must be followed.

3.4. Order books

The numbered order books are controlled centrally by the Procurement Officer who orders replacements on request and therefore does not have a 'store' as such. When the books are issued, the Procurement Officer 'logs' them out on a spreadsheet so it is known, which department/service has which books. After they have been issued, they are then controlled by the admin sections within the services. An e-mail was sent to 6 members of staff requesting how their stock of order books was controlled and where they were physically held. A response was received from 5 of them and all stipulated that the surplus books were stored securely, either in locked drawers or cupboards and the current order book was in their possession. At Bousteads Grassing Depot, where order books are issued to various sections, the relevant admin assistant also ensures that they are each signed out to the sections that are using the books. In Property, they only have one order book and although not kept in a locked place, its usage is strictly monitored.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.4	System users are not fully complying to the requirements outlined in the Financial Procedure Rules.	Development & Support Manager.	Authorising officers must again be reminded of their obligations under the financial procedure rules to ensure that a) funds are available prior to placing an order, b) orders are correctly placed for the correct amount and best possible value and c) goods are received and are appropriate for their use, prior to authorising payment of the invoice. Comments from Finance Manager:- <i>All of these issues continue to be incorporated into the Budgetary Control Training provided by Financial Services and offered to all staff. Reminders will be issued to staff reminding them of their responsibilities with regard to finance on a regular basis.</i>	B	June 2010.

4. Receipt of orders.

Method of Review:

- Discussions with staff. (Procurement and Council satellite staff responsible for procurement of goods).
- Examination of the Council Constitution.

Summary of Findings:

4.1. Constitution.

Paragraph FPR D.70. states that it is the responsibility of the (relevant) Assistant Director "to ensure that goods and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different officer from the person who authorised the order. Appropriate entries should then be made in inventories or stores records".

4.2. Goods receipting system.

The bulk of goods and services are procured through the central purchasing system and are of a relatively low value e.g. stationery, printing and safety equipment. IT and furniture purchases are the main exceptions to this. All IT equipment is stamped and referenced and listed on the IT asset register. Furniture is not subject to the same safeguards, but is unlikely to be stolen given its lack of portability and attractiveness and it actually gets delivered to the point of installation.

There is a division of duties between the ordering and receiving of goods for Civic Centre based staff as everything that is delivered is checked and signed for by the Keepers with all relevant documentation forwarded with the goods to the relevant section. Again, the only exceptions to this are IT and furniture orders where the staff from those sections check and sign for the goods received.

In respect of the Council's satellite sites at Tullie House, Talkin Tarn, Bousteads Grassing, Cemeteries, Hostels and Tourist Information, three replies have been received to date (Hostels, Cemeteries and Bousteads Grassing) informing that there is a division of duties between the ordering and receiving of goods and supplies. The outstanding replies will be followed up in due course.

There are no issues arising with regard to the receipt of orders.

5. Invoice checks.

Method of Review:

- Discussions with staff. (Development and Support)
- Examination of the Council Constitution.
- Detailed sample checks of 20 invoices (from test 2.3) to assure that a) the details on each invoice agree to the order (if available). b) that there is no duplication of payments, c) That each invoice is arithmetically correct, and d) and where VAT is charged, a VAT registration number is shown clearly on the invoice, and e) the copy order is marked to show that the invoice has been checked, agreed and passed for payment.
- An additional check of a further 8 invoices, concentrating on the VAT reversion from 15% back to 17.5% from 01/01/10. (to compensate for those in the previous test that were without orders).
- Obtain a computer audit interrogation report that would identify any potential duplicate payments and investigate those highlighted.
- Confirmation that the payment run of 24/03/10 was not physically sent until the necessary balancing was undertaken.

Summary of Findings:

5.1. Internal Control Questionnaire.

The Cipfa Matrix Internal Questionnaire document was completed. The previous sections of this review have already referred to those areas of the constitution that stipulates the controls that are to be followed when procuring goods and services.

5.2. Internal invoicing procedures.

Conversations took place with the Finance staff to establish current procedures, all of which are set out concisely in the purchase ledger manual and the Finance Officers personal Creditors Instruction Manual which can be found electronically on the Accountancy K drive.

5.3. Invoice sample testing.

Audit testing highlighted the same problems with invoice verification that were identified in section 3, 'Ordering of supplies and services'. There were three other issues identified however,

- a) It was unclear if goods had been received or checked as the blue invoice payment slip was not clearly filled out,
- b) The nominal sub-code 3430 (General Expenses) was used for an IT maintenance supply when there are other much more suitable and accountable codes available, and:-
- c) There were no GL codes supplied on the invoice. – Refer to recommendation A5.

5.4. Duplicate payments.

A report was commissioned from IT to identify any duplicate payments dating from 01/04/09 – 28/02/10. This report encompasses the following parameters:-

- Invoice paid.
- Supplier voucher number.
- Invoice date.
- Creditor Account Number.
- Gross Amount.
- Count higher than £1.

The report did not identify any duplicate payments.

5.5. Invoice balancing.

The payment run was balanced in full before any cheques were printed or BACS payments made.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.5	Invoices are not being processed accurately and completely in all cases.	Development & Support Manager.	There are a number of issues surrounding the accurate coding of invoices. Users should be reminded to complete the blue creditor slips accurately and clearly. Officers are still coding expenditure to the 3430 code when there are much more suitable codes available, despite repeated training supplied by Financial Services regarding budgetary control. These codes should be regularly monitored and expenditure transferred if necessary.	B	June 2010.

6. Payments.

Method of Review:

- Discussions with staff. (Development and Support)
- Examination of the Council Constitution.
- Sample testing of 20 invoices to ensure a) before processing the invoices are authorised properly, coding is correct and invoices are accurate. b) where errors are identified they are reported and corrected promptly, c) that a unique creditor number is allocated to each creditor and is recorded on the invoice, d) that the payment run does not commence until the cumulative computer batch totals are agreed to the cumulative batch header totals and the cumulative batch control book totals.
- Confirmation that each invoice appears bona fide and shows the details including the quantities of the works, goods or services, and that they appear to be appropriate purchases.
- Confirmation that each invoice clearly states the payee's name and address, has a proper VAT invoice where applicable and that the price is not unreasonable.
- Confirmation that payments were made promptly.
- Confirmation that each payment is genuine.
- Confirmation that all invoices are stored securely.
- Confirmation that the payment file is balanced prior to the batch run and then reconciled to the Main Accounting System.
- Examination of the organisations performance indicator in respect of Creditors and confirmation that monthly monitoring is undertaken independently and reports on performance are reported to the managing body. 11472 % of invoices paid on time.
- Confirmation that there is separation of duties in the cheque releasing process.
- Confirmation that the BACS process is strictly controlled and secure.
- Balancing of the March 24th BACS and cheque payment run.
- Confirmation that the creditors system is backed up adequately and a contingency is in place.

Summary of Findings:

6.1. Payment run.

The creditors batch run is processed on the Wednesday of each week. The relevant Finance Assistant sets off the payment run from within the Creditors system. The basic procedure is that then IT is notified of the imminent run and the number of cheques required which includes a percentage of spare cheques to allow for wastage/damage during processing. IT then collect and sign for the required number of cheques from Cashiers, print them and deposit them to the Admin section of Financial Services for despatch. All unused cheques are returned to Cashiers and signed back in. The Admin section again signs for them upon receipt and provides the Finance Assistant with the figures to balance against their original system output. Cheques will not be despatched unless the figures balance. It can be confirmed that there is adequate separation of duties in the cheque production process.

6.2. Balancing.

The batch run of 24/03/10 was examined and balanced through the system. Both cheque payments and BACS payments were trailed through the system and no problems were found. The creditor interface check, that posts into the General Ledger was observed (interface dated 26/03/10). Again, the system balanced with no problems identified.

6.3. Storage.

All invoices are either temporarily stored by the Finance Assistants desk (awaiting processing). These are never kept unprocessed for more than a week and are filed immediately. Older invoices are filed in financial year order and numerically in a cupboard specifically used for creditor invoices.

6.4. Payment testing.

The testing of the creditor payments highlighted the following anomalies:-

- Insufficient supplier information, details were presented on a scrap of paper in one instance.
 - No vat number stated yet charging 15% vat.
 - 2 out of 20 invoices that took 2 months to process
 - 8 out of 20 invoices not made out to Carlisle City Council as its main customer,
 - On one occasion payment was made on a fax (payment was not duplicated).
 - On one occasion the net amount was incorrectly stated on the blue payment slip, however the correct amount was registered on the system. =
- Refer to recommendations A.6 and A7.**

6.5. Performance.

The local performance indicator LI472 (% of invoices paid within 30 days) was examined. As the financial year was not complete at the time of this review Qtr 4 information was not completely up to date, so was not used for comparison. However, the 2009/10 performance to Qtr 3 shows a slight downturn each quarter compared to the 2008/09 results. This was reflected in the earlier invoice testing where it was identified that it had taken two months to process a payment. – **Refer to recommendation A.6.**

6.6. BACS.

Only system administrators with full system access can set up BACS accounts on Creditors by adding bank account details to offer payment by BACS. These officers are based within the section that deals with the payment of invoices and therefore are not "fully independent". In order to provide a full trail, a note is placed on the system when BACS payments are set up. However, if this is not placed, then the system will just allow the BACS payment to be raised regardless therefore this is a control weakness.

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Agreed Action Plan

6.7. BACS Payment Limit.

The limit for any one BACS file is £1,000,000. If the run exceeds this amount then the Treasury & Insurance Manager will inform the bank to sanction the payment.

6.8. IT Back up and Contingency.

Discussions with the IT section confirmed that the system is backed up each evening. The back ups are stored in a fireproof safe overnight and then are taken off-site to the Tourist Information Centre. A complete assessment of all back-up procedures has been undertaken by IT this March, therefore they are confident that the back up procedure is robust.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.6	Two invoices out of 20 had taken 2 calendar months to process.	Development & Support Manager.	Users should be reminded once more to ensure that invoices are processed within 10 working days if the supplier is local and 30 working days if the supplier is national.	C	June 2010.
A.7	VAT was paid on an invoice that did not have a valid VAT invoice attached.	Development & Support Manager.	Care must also be taken to ensure that if VAT is charged that a valid VAT registration number is available so that this VAT can be reclaimed. Comments from Finance Manager:- <i>All of these issues continue to be incorporated into the Budgetary Control Training provided by Financial Services and offered to all staff. Reminders will be issued to staff reminding them of their responsibilities with regard to finance on a regular basis.</i>	C	June 2010.
A.8	The controls regarding division of duties within the BACS registering process should be strengthened.	Development & Support Manager.	A stronger control mechanism should be implemented to ensure that when officers that can set up BACS accounts on the Creditors system actually authorise payments, that a monitoring report be produced from the system that shows all such newly created BACS accounts.	C	June 2010.

		This can then be checked by an independent person to ensure that the BACS accounts and that the payments are indeed genuine. <u>Comments from Finance Manager:-</u> <i>Procedures will be reviewed to ensure that the current control procedures are robust to ensure the integrity of the system and to ensure separation of duties.</i>		
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Final Report

12th April 2010

Audit Contact	Debbie O'Brien	Extn No	7283
Document Ref:	K:\2006-07 onwards\Material Systems\NNDR MAT025\2009-2010\NNDR 09-10 Final Report.docx		

Directorate / Service Area	Recipients of Report	Action Required
Community Engagement	Asst Director (Resources) Acting Head of Revenues and Benefits Revenues Manager Deputy Revenues Manager	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Revenues and Benefits Services, which is attached as Appendix A

Please note: The Chief Executive, Deputy Chief Executive and the Audit Committee receive a copy of the full final report (management summary and appendices showing the matters arising and recommendations).

1. Reason for the Audit

- 1.1. The audit of National Non Domestic Rates (NNDR) forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.

2. Background Information / Summary of the Audit Area

- 2.1. National Non-Domestic Rates (NNDR) are collected by Carlisle City Council from businesses and others who occupy non-domestic property within the area. The rates are pooled to Central Government and are then redistributed to local councils according to population.
- 2.2. With the exception of exempt properties, each non-domestic hereditament has a rateable value which is set by the Valuation Office Agency (VOA).
- 2.3. The NNDR Liability is calculated by multiplying the Rateable Value by the "poundage" set by Government. This usually varies annually as it increases in line with inflation.
- 2.4. The NNDR function operates as part of the Revenues and Benefits Services, within Corporate Services.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
NNDR Administration Risk of significant interruption to Service e.g. disaster Disaster recovery plans in place. Rigorous use of test systems. Detailed operational text in place. Qualified management and robust training in place to reduce risk. Rigorous audit of all admin processes. Secure environment for cash payments. Contingency arrangements in place	Operational	Low

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Valuation
2.	Liability
3.	Billing
4.	Collection and Refund
5.	Procedure Notes

5. Overall Conclusion of the Audit Review

- 5.1. The NNDR system is operated well in accordance with legislative requirements with secure procedures, and no apparent areas of weakness. The work carried out is accurate and thorough and all necessary timescales are met.
- 5.2. The controls and procedures surrounding Valuations, Billing and collection and refund are thorough and complete.
- 5.3. Procedure Notes are comprehensive and up to date and are available to all necessary staff.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

*** A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).**

- 6.2. There is only 1 minor grade C recommendation arising from this review.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review it is considered that a **Substantial** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Corporate Services Directorate, Revenues and Benefits Service Area

APPENDIX A

1. Valuation

Method of Review:

- Discussion with the Deputy Revenues Manager responsible for NNDR
- Completion of the CIPFA's internal Control Questionnaire relating to NNDR Valuation
- Ensure that there is effective liaison with Building control / planning
- Review any outstanding proposals to the VO
- Ensure that the NNDR property history file is updated and that all details were input correctly
- Confirm that regular reconciliations are undertaken of the number of composite properties on CT system to those recorded on the NNDR system
- Review the reconciliation of the property control totals to the VO schedules of alterations.

Summary of Findings:

The Current Valuation List is available to members of the public via the Valuation Offices Website. In addition the public can come in to the Authority and we have an obligation to produce a spreadsheet for their information. This can be provided from the VO website.

There is regular correspondence between Planning Services, Building Control and NNDR in an attempt to identify new, or change of use, hereditaments as early as possible. There was a problem identified during 2009/2010 in that a building had never passed Building Control completion so it had never flagged up that action needed to be taken by NNDR. However, the building was being occupied and was liable for NNDR from 2005. The Authority has a statutory duty to collect any NNDR due and therefore has the responsibility to meet the debt itself. The Deputy Revenues Manager has negotiated with the party liable who has agreed to meet the NNDR liability from 2008/2009. It should be noted that procedures have been reviewed and put in operation to make the system more robust to prevent any reoccurrence. A recommendation is not therefore required.

The Deputy Revenues Manager has produced a report for the Assistant Director (Resources) which has been taken to the Executive providing the background to the case, the liability agreed by the ratepayer and the residual cost that falls to be met by the Authority. The report details the further

work undertaken in respect of reviewing all the outstanding commencements since 2000 to ensure that there are not any additional properties being occupied which have not been served a NNDR Bill. Up to 15th February 2010 the alterations have resulted in an increase in Rateable Value totalling £105,225. The report highlights that none of the alterations to date will result in challenges against the validity of the demands served.

As previously indications procedures are now in place to actively monitor all building commencements and to investigate any relevant planning applications. In addition the NNDR Section also checks the local press on a daily basis for information relating to new businesses, which they might otherwise not be aware of. There is no obligation on the liable person or business to inform the Authority of a new property.

The information received from the Building Control and Planning Sections is received via a generic NNDR reports mailbox which ensures that all staff have access to the necessary information.

The reports are sent to NNDR promptly after the end of each month. The reports received are the Planning Applications / Decision Notices / Commencement Reports / Completion Notices. The relevant information is extracted and put on to a monitoring spreadsheet (Commencement Reports) which details the Completion Date and shows on which VO report the information was reported.

Reports are downloaded weekly from the Department of Communities and Local Government (DCLG) website. At the time of review the Deputy Revenues Manager confirmed all amendments from the Valuation Office were up to date as it is essential that they are prior to the Main Billing run. Additional staff have been trained to process the amendments which are all are now processed within one month.

A copy of a Completion Notice, which was issued during 2009/2010, was reviewed and it was found to include all the relevant information.

Information is shared between NNDR and Council Tax (CT) and is fed in both directions. It is not however possible to balance the CT system and the NNDR system. There are some differences in what CT class as composite and what NNDR class as composite. For example Agricultural and B&B (less than 6 guest bedrooms) will both show on CT but are both exempt on NNDR. The work load of attempting to balance the two systems would outweigh any advantage.

Controls ensure that the Valuation data is input correctly, with reconciliations are carried out at the end of each Schedule of adjustments from the VO. The Deputy Revenues Manager ensures, where possible, that the amendments are put through in order. If there is a reason to withhold an amendment, workings are always attached to ensure that the Academy System is always balanced with the VO Schedule.

2. Liability

Method of Review:

- Completion of the CIPFA's internal Control Questionnaire relating to NNDR Liability
- Ensure that the Parameter files are updated promptly and are confirmed as being correct by a third party
- Ensure that the Liability is calculated and issued correctly
- Ensure that amendments are actioned appropriately
- Review a sample of reliefs to ensure correct procedures are applied
- Ensure that reports are produced and are compared year on year

Summary of Findings:

There are controls in place to ensure that the liability system parameters are maintained correctly. The parameters are set prior to main billing and are checked by a third party. The main billing is run initially on a "read only" basis and checks are carried out to ensure that it is reconciled prior to its actual run in "update" mode.

The Current Parameters were reviewed and were all found to be correct

A discussion was held with the Deputy Revenues Manager to confirm how the liable person is ascertained. A form is used to determine the liable person prior to billing. The form is always applied to ensure a consistent approach always applied.

All liable accounts are readily identified by a unique nine digit account reference number which is issued to all accounts.

Amendments to Liability are actioned within one month of notification from the Valuation Office. At the time of the review all notifications up to and including the 25.02.2010 were actioned on the Academy System. The changes are made and the reconciliations are checked by the Deputy Revenues Manager

A discussion was held with the Deputy Revenues Manager to ensure that the appropriate reliefs and exemptions had been applied and verified prior to the NNDR liability being calculated.

The some of the reliefs offered include;

- Small Business Rates Relief,
- Transitional Rate Relief,
- Empty Properties,
- Relief for charities and other not for profit organisations,
- Hardship Relief.

Ratepayers are made aware that they are required to inform the Authority if a relief or exemption is incorrect or is no longer valid via the NNDR Guidance notes issued with the NNDR bills. It is the responsibility of the Authority to ascertain changes in Empty Properties as the Liable person has no legal requirement to inform the Authority.

A copy of the Small Business Rates Relief application letter was obtained and was found to be informative to the applicant and with their responsibilities fully outlined.

Reports are produced for Senior Management showing the current reliefs and compares current year to previous years. The spreadsheet "NNDR Performance" is produced monthly for Management.

3. Billing

Method of Review:

- Completion of the CIPFA's internal Control Questionnaire relating to NNDR Billing
- Review a copy of a printed demand to ensure that it contains all relevant information
- Ensure that convenient methods of payment are offered to ratepayers.
- Select a property and ensure that the demand notice was issued at least 14 days prior to the first instalment or by mid march for the opening bill
- Review the list of current suppressed bills. Review permissions for being able to suppress an account
- Review the reconciliation of the annual bill run. Ensure that the expected total agrees with the actual bill run and that the number of bills balances to the number of liable properties

Summary of Findings:

A copy of the printed demand was reviewed and found to contain all the relevant information;

- Name of person liable,
- Date of issue,
- Address of hereditament,
- Rateable value,
- Non domestic multiplier,
- Period of demand,
- Amount of NNDR payable,
- Property and bill reference,
- Contact address and telephone for enquiries can be made.

Ratepayers are able to pay NNDR debits via a range of methods;

- Direct Debit,
- Via the Internet Payments System,
- By post,
- At the Payment Office, by cash, cheque, debit/credit card and
- Telephone automated or through a member of staff.

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An opening bill for 2009/2010 was printed out to ensure that it was issued prior to the middle of March. It was actually issued on the 9th March 2009.

A List of the suppressed bills, as at the 5th of February was obtained and reviewed. Work was undertaken to ensure that the two identified accounts were appropriately suspended. Evidence was obtained from the Academy system after the date to ensure that the accounts were not still in suspension and to ensure that payment terms had been agreed. Both accounts were no longer suspended, one had been deferred and the other had agreed payment terms attached.

All NNDR staff who have access to update bills can suppress an account. However suppressed bills are reviewed by the Deputy Revenues Manager. A report can be run from Academy as required – NNDR Bill Production – Suppressed Bills. It is automatically run every time the Daily Bill run is carried out.

A discussion was held with the Deputy Revenues Manager regarding the 2009/2010 reconciliation. The full reconciliation was reviewed overall to verify that the expected total number of bills to be generated per the NNDR system reconciled to the actual number of bills processed which in turn reconciled to the number of properties recorded by the NNDR system. No problems were apparent within.

4. Collections and Refund

Method of Review:

Completion of the CIPFA's internal Control Questionnaire relating to NNDR Collection and Refunds

Review the Authority's calculation of its provisions contribution NNDR1

Ensure that the calculation is : Made prior to the start of the year

Independently checked

The evidence is documented

Submitted on time

Ensure that there is adequate separation of duties

Select a sample from the "return to drawer" and review

Select a sample from suspense to ensure that they are allocated appropriately

Review a sample from Creditors where ratepayers have had a cheque returned

Ensure reconciliation's are undertaken between the Main Accounting System and the NNDR System

Summary of Findings:

Calculation of the NNDR1 provisions contribution

This is independently checked by the Assistant Director (Resources). Year on year comparisons are carried out to ensure that there are no unusual discrepancies. The supporting evidence is filed with the claim and was reviewed to ensure that appropriate figures have been used. The form this year was sent on the 5th February 2009 by email, the deadline for completion was the 6th February 2009.

There are clear separation of duties between the creation of a debt and its collection
NNDR staff have no involvement with the collection processes.

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There is a clear separation of duties and NNDR staff have no involvement in the collection of debt process. An exception report is produced informing NNDR staff that a return to drawer transaction has taken place.

The suspense account was examined on two days; the account was empty on one occasion and had two outstanding amounts on the other day. On the 08/03/10 it was ascertained that one of the outstanding amounts had been in the suspense account since the 08/02/10. The Deputy Revenues Manager explained that the amount was from a business with multiple accounts and that there were discrepancies as to which account the amount related to. It was explained, in addition, that the clearing of the suspense account is given less priority in the month prior to Main Billing, and that the item has no impact on the Main Billing process. The 09/10 period up to the 25.01.10 was reviewed and all were cleared within a week, many of them were cleared the following day.

Five accounts were examined where an action had resulted in a cheque being issued.

In all cases the refund had been created by one person and authorised by another, The actions were followed through to the creditors system for the cheques to be produced. The creditors system maintains the Business Rate account number and uses it as the Creditor number.

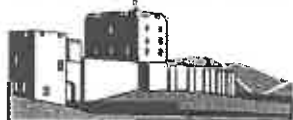
No problems were found and there is a clear separation of duties as the cheques are issued by Financial Services. They are authorised in creditors by the Finance Assistant and are produced by ICT Services and are dispatched by the Clerical/Admin Assistant.

Reconciliation between the NNDR system and the Main Accounting System take place monthly and is carried out by an Accountancy Assistant. The reconciliation from December (Period 9) was examined and found to be correct.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	An item remained in the suspense account for 1 month due to other work pressures.	Deputy Revenues Manager	Attempts should be made to try to clear the suspense account within a week in all cases	C	Immediate

5. Procedure Notes
Method of Review:
Review the internal procedure notes
Review the external system procedure notes
Summary of Findings:
The Academy user guide provides a thorough and complete guide to the Academy system. It is available to all relevant staff on the shared drive. The internal procedures notes are thorough and are complete. The notes are stored on a shared drive and are available to all necessary staff.

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Corporate Services

Audit Services

Audit of Treasury Management

Final Report

22nd April 2010

Audit Contact	Debbie O'Brien	Extn No.	7283
Document Ref:	K:\2006-07 onwards\Material Systems\Treasury Management MAT005\2009-10\Reports\Treasury Management Report 09-10 Final Report.doc		

Directorate / Service Area	Recipients of Report	Action Required
Resources Directorate / Financial Services	Assistant Director (Resources) Financial Services (for information) Treasury & Insurance Manager (for action)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Corporate Services, which is attached as Appendix A.

Please note: The Chief Executive, Deputy Chief Executive and the Strategic Director receive a copy of the full final report (management summary and appendices showing the matters arising and recommendations). The Audit Committee will also be presented with a full copy of the final report at the meeting to be held on 22nd June 2010

1. Reason for the Audit

- 1.1. The audit of Treasury Management forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts

2. Background Information / Summary of the Audit Area

- 2.1. The Treasury & Insurance Manager has been involved with Treasury Management for over 25 years and has gained extensive experience and knowledge of this area.
- 2.2. As there have been no changes to the system by which Treasury Management is controlled and processed, the basic key controls have been reviewed.
- 2.3. Treasury Management is located within Financial Services as part of the Resource Directorate.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

<u>Risk Description and Control Strategy</u>	<u>Type of Risk</u> <i>(strategic / operational)</i>	<u>Risk Score</u> <i>H/M/L</i>
The Treasury Management, and Investment Strategy and MRP Strategy are approved annually by Council. Procedures exist which include the separation of duties, with cover arrangements in place and passwords maintained. The Treasury Management Practices are used as a training tool with more officers being trained to ensure the continuity of the service to aid succession planning. Records are kept and documentation of actions taken. Regular internal and external audits are carried out. Banking controls are in place through the new HSBCnet internet site. CIPFA Code adopted with regular reports to Executive, and more recently to the Audit Committee in line with the revised guidance from CIPFA and the DCLG. Expert advice is sought from consultants where appropriate.	Operational	Medium

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Areas Examined
1.	Policies & Procedures
2.	Staffing
3.	Risk Management
4.	Cash Flow
5.	Lending – Loans Raised and Repaid
6.	Long & Short Term Borrowing
7.	Capital Investment
8.	Payments
9.	Fraud
10.	Records and Reconciliation
11.	Monitoring and reporting

5. Overall Conclusion of the Audit Review

- 5.1. Overall the procedures and controls in place for Treasury Management are fully documented, robust and operating effectively.
- 5.2. The senior staff involved with the Treasury Management process are all well qualified and are trained. Staff are all aware of the risks relating to the service and the controls in place to prevent fraud, and to safeguard the authority's assets.
- 5.3. The recommendations highlighted in this review relate to the need to update policies and procedures following Transformation. In addition there are recommendations to further tighten controls

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

*** A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).**

6.2. There are seven recommendations arising from this review. 1 grade B and 6 grade C

7. Statement of Assurance

7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **Reasonable** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Governance Directorate, Financial Services

APPENDIX A

1. POLICY AND PROCEDURES

Method of Review:

Examine the organisation's treasury management (TM) policy and confirm that it defines the policies and objectives of its TM activities in accordance with relevant (eg CIPFA) codes of practice

By examination confirm that the policy and the investment strategy were referred to and formally approved by the managing body

Review the organisation's standing orders and financial regulations and confirm that TM procedures and responsibilities are clearly stated

By examination confirm that, as part of its corporate governance procedures and compliance with anti-money laundering legislation, the necessary documents are available

By enquiry check that there is adequate separation of duties throughout the Treasury Management Process

Examine the office manual

By enquiry with the staff involved in the TM function confirm that they are aware of and have ready access to copies of the relevant documents

Summary of Findings:

Accountancy K-Drive, Treasury Management Strategy. A copy was obtained and reviewed. From the testing carried out it defines the policies and objectives of the Treasury Management objectives in line with the CIPFA Code of Practice.

The Strategy was referred and formally agreed by the Executive Committee in Dec 2008 and full council Feb 2009. It was formally in place before the commencement of the 2009/2010 financial year.

The role of Treasury Management is laid down in the Authority's Constitution. The Financial Procedure Rules form part of the Constitution and the Treasury Management roles and responsibility forms parts of this.

As part of the Authority's corporate governance procedures and compliance with anti-money laundering legislation, the Council has formally

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Matters Arising/Action Plan

adopted the principles and policies of the CIPFA Code of Practice on Treasury Management. There are established TM policies and procedures that are stored on a shared drive and are available to all staff. The Treasury and Insurance Manager formally monitors and reports on the effectiveness of its TM arrangements. The reports are sent to the relevant committee by the Assistant Director (Resources)

There is adequate separation of duties surrounding the Treasury Management Process. The Treasury Management Strategy Statement is agreed each year by full Council.

The Dealing is carried out in a morning by the Treasury and Insurance Manager or in his absence the Chief Accountant or Group Accountant. There is a three stage process for sending any money via HSBC Net. No person is able to carry out more than one stage of this process to ensure separation of duties. The final authorisation stage is performed by the Assistant Director (Resources), the Financial Services Manager or the Chief Accountant. The Chief Accountant never carries out both the dealing and the authorising for the same transaction. The Treasury and Insurance Manager carries out the monitoring

The Office manual (Treasury Management Practices) was reviewed. It details the Authority's strategy for borrowing and lending, the arrangement in place to support the Treasury Management practices, procedures for administering the system. The individual levels of responsibility are detailed but some of them relate to posts and individuals that are not all still employed by the Authority

All staff involved in the Treasury Management process are aware of the relevant policies and procedures and where they are located.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The Treasury Management Practices procedures referred to posts and individuals not longer employed at the Authority	Treasury and Insurance Manager	The Treasury Management Practices document needs to be updated.	C	3 Months

2. STAFFING

Method of Review:

By enquiry with the staff involved in the TM function confirm that they have appropriate knowledge and have received training in:

- money and capital markets
- sources of funds and investment opportunities
- risk management
- legal and regulatory requirements
- anti-money laundering legislation (including their responsibility to identify, recognise and report any suspicions of money laundering)
- are promptly notified of policy and/or procedural changes, and receive appropriate training where necessary

By enquiry with the TM manager confirm that staff receive regular training and guidance to comply with the TM Code and FSA Handbook

By examination confirm that satisfactory contingency arrangements are in place to cover for staff absences, both planned and unplanned

Summary of Findings:

All senior staff involved in the Treasury Management process are Cipta Qualified. All staff have received training from the Treasury Manager. Staff are all aware of the risks involved with the section and the controls in place to reduce the risks.

The Treasury Manager confirmed that staff receive regular training and guidance which complies with the Treasury Management Code and the FSA handbook

The Cash Management guide to procedure, appendix A of the Treasury Management Practices procedures was reviewed to ensure that staff levels are adequate to deal with staff absences both planned and unplanned. There are enough staff authorised at each level to be able to cover for staff leave. In addition the Treasury Manager always confirms that adequate cover is available before taking his own leave. The document refers however to some staff who are no longer employed by the Authority and should be updated to reflect the current structure.

See Recommendation A1

3. RISK MANAGEMENT

Method of Review:

Discussions with the Treasury & Insurance Manager.

Examination of the Risk Management documents to ascertain that the relevant risks are identified

Examine the organisation's risk register and check that:

- the risks identified during the risk assessment are clearly and accurately recorded
- adequate, appropriate and timely action has been, or is to be, taken to address the risks
- contingency/business continuity management procedures are or will be in place

Review the lending and borrowing procedures and check that:

- adequate controls are in place to achieve maximum possible returns without exposing the organisation to unacceptable risks or loss
- overseas borrowing and investments are required to be undertaken in sterling

Examine the organisation's list of approved investors and confirm that

- appropriate investment limits have been established for the institutions according to their credit rating or other financial criteria
- the financial standing of institutions on the list is reviewed regularly
- the list is referred to and approved by the managing body on at least an annual basis

Summary of Findings:

The Treasury Management Practices document was reviewed and all the risks were identified and considered except Market Risk. Market risk is identified in the Statement of Accounts so the Treasury Management Practices Document should be updated to reflect this too

The Authority's risk registers were reviewed. There were no risks relating to Treasury Management identified on the Corporate Risk register. There is one risk identified in the operational risk register. The current action status and the control strategy is appropriate to address the risk

A discussion with the Chief Accountant confirmed that there are adequate controls are in place to achieve optimum returns without exposing the organisation to unacceptable risks or loss

All treasury transactions are made with UK institutions only

The Authority's Schedule of Approved Investment Counterparties is updated in line with the Treasury Management Strategy. It is updated weekly as the new credit ratings are received. The list is not approved the Executive but the method for compiling the list is.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.2	The Treasury Management document does not address the Market Risk	Treasury and Insurance Manager	The Treasury Management Document should be amended to include a section include an additional risk management heading for Market Risk	B	6 Months

4. CASH FLOW – PAYMENTS, TRANSFER OF FUNDS

Method of Review:

By enquiry with the Chief Accountant confirm that cash-flow management procedures are adequate

Select a sample of recent cash-flow statements and check that:

- the statements were prepared on a daily basis
- the person who signed and dated the statement is a suitably qualified member of staff
- the projections are supported by relevant documentation such as bank balances
- there is proof that the statements were checked for correctness by an independent person (ie he/she has signed and dated the statement)
- the results were reviewed by a senior manager who recorded their decision and signed against it
- surplus funds were invested and deficit balances cleared promptly and appropriately

Summary of Findings:

Cash Procedures are in place and are in line with Cipfa guidelines

The cash flow statements are prepared daily. The Treasury Management – daily figures are received from the HSBC and are recorded on in the Cash Management Diary. The diary is manual record. The current month was reviewed no problems were highlighted. Procedures are thorough and there is clear separation of duties. See section 2 - staffing

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3	The Cash Management Diary is still being maintained on a manual system.	Treasury and Insurance Manager	The Cash Management Diary should be transferred to an electronic spreadsheet to prevent the potential loss of information.	C	6 Months

5. LENDING – LOANS RAISED AND REPAY

Method of Review:

Examine the lending and investment policy and procedures and check that:

- they adequately explain the procedures to be followed for undertaking investments
- they list the institutions that are appropriate to deal with
- they require that the credit standing of all institutions to be reviewed regularly
- the approved types of investments are detailed
- they stipulate the financial limits and timescales
- they require staff to monitor interest rates on a daily basis
- they enable current accounts to be accessed instantly in order to obtain favourable interest rates on temporary investments
- they avoid over-reliance being placed on a small number of financial institutions

Inspect the records relating to the investment institutions' credit standing and check that:

- the data sources are bona fide
- there is no indication that any of the institutions are suspect
- the review was undertaken in line with the organisation's approved policy

Inspect the daily interest rates record and check that it is up to date

Check that adequate controls exist to prevent investments interfering with required cash-flow and to ensure that adequate working funds are maintained

Select an investments and confirm that:

- they were made in institutions which the organisation defined as appropriate
- they are of the type defined in the policy document
- they have not exceeded the limits specified in the policy
- an assessment was made before investing to check that the rate of return achievable compared favourably to rates obtainable from other possible forms of investment

Using the above sample, check that all:

- are valid and were made by approved TM staff
- calculations were checked to supporting documentation by an independent employee who signed to show the information was agreed
- have been authorised in accordance with the organisation's agreed policy
- the approved terms were confirmed in writing

Select a sample of transactions from the financial information system (FIS), trace each back to the central investments record and check that all investments were confirmed in writing and were properly authorized

By examination confirm that there are adequate controls in place to ensure that monies lent are repaid by the due date

Check that the prompt on the TM (system alerting staff when monies are due to be repaid to the organisation) is set to activate sufficiently in advance of the due date

Summary of Findings:

The Treasury Management strategy is a thorough document and adequately details the parameters for planning investments on behalf of the Authority.

Investment institutions credit standings are sent weekly to the Treasury and Insurance Manager and the Chief Accountant who updates the Investment spreadsheet accordingly.

One update was selected and checked against the spreadsheet to ensure that it was the same. No problems were highlighted

The weekly reports are sent to the Assistant Director (Resources) for Authorisation

Daily interest rates are sent to all relevant staff from a variety of sources

Adequate controls exist to ensure that investments do not interfere with the daily cash flow. See section 4 – daily cash flow.

The Authority had twenty two investments outstanding at the time of the audit. One was reviewed in detail and it was with an appropriate organisation with an approved level of credit rating.

A full walk through test of one transaction was carried out. It was confirmed that there is clear separation of duties throughout the system. All transactions are verified and good controls are in operation. The Finance Assistant carries out the updating of the system and ensures that the reconciliations are correct. All information received from the third parties is checked back to the original instructions from the Treasury and Insurance Manager. The investments are traced and identifiable in the general ledgers. The transaction is traceable through the bank account. The investment reviewed was complete, however the Treasury and Insurance Manager had not initiated the document, it was however received from his email. To complete the audit trail all stages need to be signed.

The Finance Assistant monitors the spreadsheet to ensure that the all monies are repaid by the due date. Senior staff also refer daily to the spreadsheet as part of the daily cash flow. No problems were identified and all investment are repaid by the due date.

The investment spreadsheet calculates the interest receivable and is always checked against actual interest received and against the notification from the third party.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.4	The Treasury and Insurance Manager had not initiated the document.	Treasury and Insurance Manager	All officers with key roles in the treasury management process need to be reminded to ensure that all sections are completed	C	6 Months

6. LONG & SHORT TERM BORROWING

Method of Review:

Examine the borrowing policy and procedures and confirm that it adequately explains the procedures to be followed

Confirm that before borrowing decisions are made procedures are followed

Inspect the loans register and check that it records the relevant information for each loan

Confirm that all outstanding loans and all loans repaid are regularly reconciled to control accounts by an independent employee

Review the loans register and ensure that relevant checks have taken place.

By examination confirm that there are adequate controls in place to ensure that monies borrowed are repaid by the due date

Check that the prompt on the TM system (alerting staff when monies are due to be repaid by the organisation) is set to activate sufficiently in advance of the due date

From the loans register select a sample of loans repaid by the organisation and check that:

- the repayment calculations were signed by an independent employee and authorized
- the interest due to be paid per the calculations agrees to the sums recorded on the FIS

Summary of Findings:

The Treasury Management strategy is a thorough document and adequately details the procedures for undertaking any borrowing

The Treasury and Insurance Manager or in his absence his deputy make any borrowing decisions. The Council only currently borrows in the short term and often just overnight to assist with cash flow. Decisions are made in the morning when the daily cash flow procedure is carried out

The loans register shows the following records for each loan

- transaction details
- transaction dates
- interest and repayment terms
- maturity date

All outstanding loans and all loans repaid are regularly reconciled to control accounts by the Finance Assistant

When the loans register was reviewed it was confirmed that borrowing was within agreed limits and was authorised in accordance with the policy. The repayment and interest calculations are correct and were checked for correctness by an independent employee who signed the document to show the information was agreed. Confirmation was agreed to the organisation's records by an independent employee

A full walk through test of one transaction was carried out. It was confirmed that there is a clear separation of duties throughout the system. All transactions are verified and good controls are in operation. The Finance Assistant carries out the updating of the system and ensures that the reconciliations are correct. All information received from the third parties is checked back to the original instructions from the Treasury and Insurance Manager. The loans are traced and identifiable in the general ledgers. The transaction is traceable through the bank account. The loan reviewed was complete, however the Treasury and Insurance Manager had not initiated the document, it was however received from his email. To complete the audit trail all stages need to be signed. This was also highlighted under section 5 – See recommendation A.5

The Finance Assistant monitors the loans list to ensure that all loans are paid back due on the date

7. CAPITAL INVESTMENT	
Method of Review:	
By enquiry, confirm that the organisation has adopted the TM indicators required by <i>The Prudential Code for Capital Finance in Local Authorities</i>	
By enquiry and examination of procedures check that there are adequate controls in place	
Summary of Findings:	
A discussion with the Financial Services Manager confirmed that the Authority had not needed to borrow to fund the capital programme in 2009/2010	
The Treasury Management Strategy includes Prudential Indicators set each year by the Council to ensure that the capital investment plans are prudent, affordable and sustainable.	
Appendix A in the strategy states that the "City Council is not anticipating the need to undertake any borrowing for capital purposes in the period under review".	

8. PAYMENTS

Method of Review:

By enquiry and examination check that access to the Clearing House Automated Payments System (CHAPS) is adequate

Select a sample of recent payment forms and check that:

- They provide adequate details of the payments made
- They were signed by the employee authorising the transaction
- They are held securely with restricted access

Review the general account bank statements and confirm that:

- statements are received regularly
- all loans raised and loan repayments were made directly to and from the organisation's bank and that cheques were not raised
- each transaction was traced to the statement by an employee independent of the loans assistant who signed the document as checked and agreed

Trace a sample of transactions to the FIS and check that the transactions were recorded promptly and coded correctly

Summary of Findings:

The Finance/Systems Officer confirmed that the authorisation levels with regards to the BACS/CHAPS payments were secure and restricted to a limited number of authorised staff for each process

- Input
- Verify
- Authorise
- System Administrators

It was noted from the list above that there is no cross over on being able to input, verify and authorise. The system requires two separate users to input and authorise any financial transactions.

Carlisle City Council has 15 security devices each with their own unique PIN number, of which, 4 are currently spare and unallocated as of 29/12/09. The spare devices are kept retained in stock. The Principal Finance/Systems Officer holds the security devices within a secure place. Each user has a unique user name and PIN number for their device. The HSBC system logs all transactions.

It was confirmed that the authorisation levels were amended accordingly after the recent staff restructure

Payment forms were reviewed as part of section 5, borrowing. They provide adequate details of the payments made. They were signed by the employee authorising the transaction. They are held securely with restricted access

All payments are supported by working papers and evidence and are filed. All transactions are reconciled to the loans and investments registers

It was confirmed that bank statements are received and filed accordingly by the Finance Assistant. Treasury Management payments are checked electronically to ensure accuracy as the hard copy bank statements tend to take a few weeks to arrive via the post.

It was confirmed by the Finance Assistant that all loans raised and loan repayments are made directly to and from the Authority's bank and cheques are not raised.

It was confirmed that there is a division of duties in place with regards to the raising of the payment transfer and the reconciliation of the bank statements. Payments are raised by the Treasury & Insurance Manager and confirming paperwork is checked by the Finance Assistant.

Transactions were reviewed as part of section 5 and 6 and it confirmed that all tested were promptly coded and allocated

9. FRAUD

Method of Review:

Inspect the anti-fraud and anti-corruption policy and confirm that it clearly states the organisation's commitment to prevent and detect fraud and corruption.

Review the organisation's:

Employees' code of conduct and check that the expected standards are clearly defined

Anti-money laundering procedures and check that it is adequate and a money laundering reporting officer (MLRO) has been appointed

By enquiry with TM staff check that they are aware of and have access to a copy of the above

Examine the list of employees authorised to negotiate transactions on behalf of the organisation and confirm that:

- it is up to date
- a copy was provided to each approved investment institution, broker, etc

Inspect the organisation's fidelity guarantee insurance cover and confirm that:

- all relevant staff are covered
- the amount of cover provided is satisfactory

Summary of Findings:

The Counter Fraud and Corruption policy was reviewed. It clearly shows the necessary sections to show the Authority's commitment to prevent and detect fraud. The document was updated on the 1st March 2010 to reflect the new structure of the Council. The policy is available to all staff via the Intranet.

The Authority does not have Employees' code of conduct. There is a proposed version out for consultation at the moment.

The Anti-Money Laundering Policy is complete and available to staff via the intranet. The policy has been updated to reflect the new structure of the Council.

Development and Support Services are aware of the need to ensure that all staff are trained and are currently working on an e-learning package for anti-fraud and corruption for all staff to complete. There is a recognised lack of training currently available to staff and although we have the policies all staff are not aware of the full implications. It is hoped that training will be provided during 2010/2011.

The Assistant Director (Resources) has been given the responsibility of the duties of the Money Laundering Reporting Officer.

All Treasury management staff are aware of the documents and where to locate them.

The Treasury and Insurance Manager deals with the brokers in most instances. In his absence, other staff deal with the brokers. Over a period of time the brokers have got to know the other staff at the Authority, however there is no formal agreement with them as to who is authorised by the Council to deal with them.

Due to the recent Transformation exercise, some of the posts listed on the Fidelity Guarantee insurance policy no longer exist. It is the intention to update these as part of the policy renewal exercise that is due in May 2010.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.5	There is no formal agreement in place with the brokers as to who can deal with them from Carlisle City Council	Treasury and Insurance Manager	The brokers should be sent formal notification as to who is authorised by the Council to deal with them	C	6 Months
A.6	The Fidelity Guarantee schedule needs to be revised	Treasury and Insurance Manager	The Treasury and Insurance Manager should ensure that the list of employees stated on the Fidelity Guarantee policy is updated when submitting the May 2010 renewal	C	1 Month

10. RECORDS AND RECONCILIATIONS

Method of Review:

Examine the regular reconciliations of the central TM record to the control accounts on the FIS and check that they were:

- undertaken regularly by staff independent of the process
- signed and dated by the employee who undertook the reconciliation
- signed and dated by the independent employee who checked them for correctness

Review the working papers for the year-end reconciliation and check that:

- all manual records were reconciled to the loans system
- the loans system was agreed to the FIS

Summary of Findings:

Thorough reconciliations are carried out monthly by the Finance Assistant.

The Treasury Management records are reconciled to the General Ledger.

There is no evidence on who completed the reconciliation. The document should be signed and dated by the Finance Assistant and the senior member of staff who checks the reconciliation

The year end procedures for 2009/10 were check for completeness. In addition the work carried out by the Senior Accountancy Assistant responsible for Treasury Manager was examined and found to be complete.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.7	The staff carrying out the reconciliation do not sign the reconciliation sheet	Treasury and Insurance Manager	The staff completing and checking the reconciliation should sign and date the copy for file	C	Immediate

11. MONITORING AND REPORTING

Method of Review:

Inspect the TM policies and strategies and confirm that the organisation's commitment to pursue best practice in its TM objectives and practices is clearly stated

By enquiry and inspection confirm that:

the TM function is subject to ongoing analysis and assessment to ensure that it adds to and supports corporate business and service objectives

Examine the annual TM strategy report and confirm that it:

- details the strategy and TM plan for the coming year
- includes a statement by the head of finance detailing the organisation's proposed TM indicators of prudence
- was referred to and approved by the managing body before it was implemented

Summary of Findings:

The Treasury Management policy clearly shows the Authority's commitment to pursue best practice with its Treasury Management objectives and practices

The Treasury and Insurance Manager monitors the performance daily and produces quarterly reports for the Assistant Director (Resources) and the Audit Committee

The 2008/09 Treasury Management Outturn was reviewed. The report is circulated to the Executive and to the Audit Committee before being passed to full Council for approval.



Audit Services

Audit of Personnel & Development

Final Report

10th June 2010

Author	Paula Norris	Form No.	7014
Document	K:\2006-07 onwards\People Policy & Performance\PPP005 - Personnel & Development - General\Reports\Audit of Personnel Services -Final Audit Report.docx		

Resources/ Personnel	Assistant Director (Resources) – for information. Personnel Manager – for action.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan which is attached as Appendix A.
Chief Executives Team/ Organisational Development.	Organisational Development Manager – for action.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan which is attached as Appendix A.

Please note: The Chief Executive, Deputy Chief Executive and relevant Strategic Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22nd June 2010.

1. Reason for the Audit

- 1.1. As part of the audit planning process, Personnel Services was identified as a medium to high risk area of activity that had not been visited by Internal audit for a number of years. It was therefore selected for review as part of the agreed Audit Plan for 2010/11 although some work was initiated in the previous financial year.

2. Background Information / Summary of the Audit Area

- 2.1. Carlisle City Council is currently going through major transformational change and has set about creating a structure and management arrangements that are both fit for purpose and aligned to the Council's priorities. During the course of this audit review of Personnel & Development, there have already been significant changes whereby Health and Safety, Personnel, and the Training and Development elements, which were formerly under one Section and the same Head of Service within the People, Policy and Performance Department, have now been split. Training and workforce management is now undertaken within 'Organisational Development' which is part of the Chief Executive's Team. The Health and Safety function has also been removed and now sits in the Governance Directorate.
- 2.2. The Personnel Section is now part of the Resources Directorate and is responsible for Human Resources (HR) advice on all issues relating to employment excluding Training & Development. This review has concentrated on core Personnel activities and certain areas of work which were deemed to be of high risk. The initial audit brief did include some work within the Organisational Development domain and there was some overlap between Training and Personnel issues. For these reasons, it was decided to incorporate the Organisational Development findings within the report as a few issues were raised. It should be noted that Health and Safety and Payroll are now stand alone audits and do not form part of this review.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<u>Risk Description.</u> Staff not accepting aspects of the new pay policy resulting in service disruption. <u>Current Action Status/Control Strategy.</u> Involvement of SMT in Future Focus module: Corporate Staff Development Group, Consultation.	Operational	Low
<u>Risk Description.</u> Market supplements, Pay Policy and e-advertising. <u>Current Action Status/Control Strategy.</u> Recruitment and Retention Framework; provision of turnover statistics, e-recruitment.	Operational	Low

<u>Risk Description.</u> Loss of key people during a time of difficulty/change. <u>Current Action Status/Control Strategy.</u> Written procedures; more than one member of staff able to carry out key tasks. Multifunctional staff.	Operational	Medium
<u>Risk Description.</u> Exposure to employment related litigation. <u>Current Action Status/Control Strategy.</u> Procedures; training; advice; trade union consultation arrangements. Employee communications.	Operational	Medium
<u>Risk Description.</u> Breakdown of relations with trades unions. <u>Current Action Status/Control Strategy.</u> Consultation, Transformation, partnership.	Operational	Low
<u>Risk Description.</u> Increase in sickness absence during a time of difficulty/change. <u>Current Action Status/Control Strategy.</u> Occupational Health; Directorate stress audits and actions; wellbeing strategy; early intervention by managers.	Operational	Medium
<u>Risk Description.</u> Information system dysfunction. <u>Current Action Status/Control Strategy.</u> Addressed during implementation of Trent. (NOTE, refer to section 3 – Training).	Operational	Low
<u>Risk Description.</u> Inadequate resources (due to Service Reviews and Transformation) to deliver our full range of services. <u>Current Action Status/Control Strategy.</u> Reorganisation: prioritisation; workload dropped/re-allocated; Moves towards a Service Support Team which will provide a wider pool of resource if required..	Operational	Medium
<u>Risk Description.</u> There is a risk of inconsistency with consultancy types of casuals. <u>Current Action Status/Control Strategy.</u> Casuals being JE'd. Casual packs cover Safeguarding issues; Casuals receive some training in Safeguarding if relevant to the job.	Operational	Low

<u>Risk Description.</u> <i>Potential Service Disruption. Managers not understanding the impact of the pay policy.</i> <u>Current Action Status/Control Strategy.</u> <i>Any deviation/non-standard interpretation to be made by SMT.</i>	Operational	Low.
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3.2. Other risks identified by Internal Audit as part of this audit are considered to be:

- *Loopholes/misadministration of the recruitment process/security/retention of data etc..*
- *Training Management System, potential system failure.*
- *Potential problems with current procedures relating to the administrative process of obtaining pension cost estimates from Capita for staff having their contracts terminated and control arrangements for subsequent payments*

Please note that on conclusion of the audit, any critical risks outlined at 3.2. should be assessed by the relevant Director for incorporation into the Directorate's Risk Register or, if considered to be a strategic risk, for discussion at the Risk Management Group.

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Recruitment System.
2.	Temporary/Fixed Term Contracts.
3.	Training.
4.	Redundancy/Flexible Retirement Pension Calculations
5.	TRENT Payroll and Personnel System (referred to 2009/10 Payroll Audit)

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified; these are shown in Appendix A and have been brought to the attention of the relevant Managers. In summary the key issues arising from this review are:
- 5.1.1. It is recognised that there was previously a weakness with controls surrounding the recruitment of Agency staff. Constructive steps outlined in this report have already been taken to improve the control procedure and the system weaknesses have been eradicated. A revised protocol has been developed and the managers responsible for recruitment have been made aware of these protocols and should be conscious of the importance of applying these measures in each case.
- 5.1.2. Regarding the recruitment process in general, there are a number of issues that need to be addressed. The majority of these issues have been attributed to either lack of administrative resources within Personnel or elements that are the responsibility of other managers throughout the Authority, and are therefore out-with Personnel's direct control. The main concern is the verification and retention of application information. It is imperative that a sound audit trail is established to protect both the employer and the employee. The suggested controls outlined in this report should come somehow in assisting with this.
- 5.1.3. Once the minor adjustments are made to the temporary/fixed term contract monitoring system, this will result in a workable, effective system. The existing information should be reconciled to Trent as soon as possible to ensure that all existing effective dates have been actioned.
- 5.1.4. Personnel and Training have now split into two separate functions which will mean significant changes to systems and procedures. The main one being the centralisation of the training budget which will enable more control and consistency in its allocation.
- 5.1.5. The progression of the Trent Training Module should be given serious priority as valuable information could be lost (see A12).
- 5.1.6. The review and improvement of the current appraisal system is deemed to be crucial particularly in light of the separation of the Training and Personnel functions.

5.1.7. The proposed system for the calculation and payment of Pension Strain Liabilities should be considered as soon as possible and revised arrangements implemented.

5.1.8. A more detailed review of the Personnel element of the Trent Payroll and Personnel system will be undertaken at a later date.

6. Grading of Audit Recommendations

6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A fundamental weakness indicates a situation where the system is so flawed that it is either unnecessary or impossible to ensure that the system is operating as intended (etc).

6.2. There are 18 recommendations arising from this review. 9 at grade B and 9 at grade C.

7. Statement of Assurance

7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **Reasonable** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Resources Directorate, Personnel Services

APPENDIX A

1. RECRUITMENT

Method of Review:

- Discussions with staff.
- Sample test of 10 recent recruitments to ensure that a) there is an appropriate system in situ, b) that the system is being adhered to and c) appropriate documentation is retained to enable the process to be traced from start to finish.

The range of tests undertaken on the recruitment process were as follows:

- a) Ensure that any changes to the establishment are authorised through recognised procedures i.e. Staffing Forum/Vacancy Management.
- b) Ensure that there are adequate controls for the recruitment of staffing resources outside of the permanent establishment i.e Temporary Contracts, Casuals and Consultants.
- c) Confirmation that staff are documenting applicant information accurately (including initial enquiry, returned application forms, interview letters, letters of appointment etc..) and that the process has been completed within defined/laid down timescales.
- d) Ensure consistency between manual and electronic application forms.
- e) Ensure that Personnel are using suitable recruitment sources (i.e agencies) and that they are capable of furnishing qualified applicants at competitive rates for the necessary posts. Ensure that existing resources could not have been used prior to appointing the agency staff.
- f) Ensuring that all managers associated with the interview process are fully trained in recruitment and interviewing techniques to ensure that interviews are conducted on an even and balanced basis and have the necessary knowledge on employment law and equality issues to ensure that appropriate applicants are short-listed, appropriate tests are conducted where required and that discriminatory or illegal questions are not asked.
- g) Qualifications are proven. Identify whose responsibility it is to assess qualification requirements and what corporate guidelines exist. Identify what measures are taken to verify qualifications, what records are kept and by whom.
- h) Criminal Records Bureau checks are retained and disposed of securely. Identify procedures.
- i) Exit interviews are conducted and by whom.

Summary of Findings:

1.1. Vacancy Management

In 2008 a decision was taken by Senior Management to implement a 'Vacancy Management' initiative in the attempt to generate cumulative savings over 3 years (initially) by attempting to only fill an estimated 1 in 4 vacancies. The savings targets set at the start of each financial year, revised targets and actual savings for 2008/09 and 2009/10 and position to date for 2010/11 are shown below.

	2009/09	2009/10	2010/11
Vacancy/Turnover Target(as revised)*	£1,092,000	£ 977,100	£994,600
Total Revised Target	£ 632,900	£ 803,700	£ 0
Total Actual	£ 651,400	£1,034,000	£260,800
Total Variance	£ 18,500	£ 230,300	£260,800

*includes flexible retirement savings.

To facilitate the working arrangements for this initiative, a systematic procedure needs to be followed in all cases where a post becomes vacant and all normal staff resignations and retirements are covered in this definition. Flexible retirements, maternity leave, long term sick leave cover, secondments and existing temporary appointments are not covered. SMT is to continue vacancy management by incorporating control into delegated responsibilities.

1.2. Initiation of the Recruitment Process

When vacancy is to be advertised there are clear instructions on how to do so. This document, called the 'Recruitment Procedure Workbook' is available from the Training Coordinator, Operational Development, and covers the whole procedure from advertising through to monitoring. This document was updated in Sept 2009 and includes the new legislative requirements regarding the safeguarding of children - see point 1.9.

1.3. Recruitment of Agency/Casual/Consulting Resources.

In April 2010, a report was presented to the Audit Committee outlining the results of an audit review which highlighted some deficiencies associated with the engagement of a temporary employee introduced to the Council through an Agency. A number of weaknesses were identified in the system in operation including undue reliance being placed on relevant checks being undertaken by Agencies.

Lessons have been learned however, and work has been undertaken, involving Procurement and Personnel to tighten procedures.

A full review was undertaken which involved identifying all current employees employed on an agency basis. Once identified, their duties were examined to identify if further checks (i.e. Criminal Records Bureau (CRB) and Independent Safeguarding Authority (ISA)) were necessary for agency staff currently, and in the future (i.e. the ISA (Vetting and Barring Scheme) requirement does not come into force until July 2010 but preparations are in place)

It was agreed that a framework agreement would be set up with the agencies that are currently used, specifying that they will:

- CRB check staff they supply to occupy positions working with children.
- ISA register them (when available).
- Will submit the CRB clearance document (or some other verified statement or giving details of any information shown) to the Authority when supplying that person.
- Inform the individual that they must allow the Authority to do their own ISA checks.

This is a work in progress and it is envisaged that the task in hand will be completed this year.

To cover all eventualities, i.e., to include not only agency staff, but casual workers and self employed consultants, a document has been circulated by the Personnel Manager to all senior and middle management, which outlines the new approach to take when recruiting staff of this nature.

The new procedures which are now in place were outlined as follows:-

"In order to close a loophole in the Councils recruitment processes (and therefore reduce any potential risks) we need to check references for staff we engage through agencies, and those we bring in as casuals or self employed in any of the following circumstances:

- Person has access to Council files (manual and/or computerised).
- Person uses Council equipment (other than sitting in a Council vehicle with other staff).
- Person has access to money or other Council assets (e.g stocks)
- Person will order or pay for goods.

You should seek the references that you would normally obtain for staff that we employ directly on contract, i.e, two in all cases (one to be their last employer) and any additional checks you make in your particular service.

You can ask to see copies of the references the agency has or seek your own.

Please keep references in a secure, confidential file. If you do not use that person again for six months or more, the references should be shredded".

From an audit perspective, these procedures if properly followed are deemed to significantly reduce the risk of making inappropriate appointments. – Refer to Recommendation A1.

1.4. Manual Personnel Files.

Two of the 10 manual files relating to the recent appointees could not be traced for audit checking purposes. The surrounding area was searched in case of localised misfiling but to no avail. Of the 8 files that could be traced, the records were in order and the relevant necessary documentation present. – Refer to Recommendation A2.

1.5. Time taken to appoint staff.

The length of time between application form submission deadlines and date of appointment ranged between 17 and 52 working days to formally appoint. 60% of those appointments tested took over 30 working days between submission deadline and offer of appointment which is not satisfactory. – Refer to Recommendation A3.

1.6. Signing of applications and contracts.

All applications for employment should be properly signed by the applicant to verify that they believe that the information contained within that form is accurate and honest. There was one incidence within the sample where the application form was not signed; the applicant had merely typed their name.

There was also one incident of the employment contract not being signed. – Refer to Recommendation A4 & A5.

1.7. Advertising.

It is generally considered to be good practice to ensure that vacancies of a professional or technical nature be advertised in professional publications, and not just the local press so that a wider field can be targeted and suitably qualified people attracted to apply. This is not happening in all cases. However, if suitably qualified people can be found locally, it is prudent to attempt to recruit locally in the first instance, especially in the current financial climate as it reduces expenses in both advertising and relocation. If suitable candidates cannot be found, then it can be advertised to a wider audience.

Senior officers were contacted to ascertain how and when they would advertise for professional posts. Responses were limited due to staff absences and the time restraints on completing, this review however the consensus was that if the job was of a professional nature i.e. Environmental Health Officer, then this would be advertised locally and nationally in the relevant professional journal. If the post was for a support role, it is thought that there are sufficiently qualified people in the local area to get a response to a local advert only.

The cost of advertising in a professional journal has also to be considered, especially in the current financial climate as each advert can cost upwards of £1,500 - £2,000 and a large advert in the Cumberland News can now cost over £300.

The recruitment procedure workbook previously referred to does give some guidance about giving consideration to the high cost of advertising and making as much use of Electronic advertising. At the present time, a decision has been made that no advertising of jobs will be made within Job Centre's which of course would be free and may be well suited to certain vacancies for frontline services. It is suggested that consideration is given to advertising in job centres for appropriate vacancies – Refer to recommendation A6.

1.8. Management Recruitment Training.

In respect of the sample of new appointments examined, the managers who conducted/chaired the interviews for the positions were ascertained. It was then determined whether or not that these managers had been undertaken the compulsory training – 'Recruitment and Promoting Staff' which all managers are required to take prior to conducting/chairing the interview. This course gives those that participate in the process of recruitment and selection of employees a thorough grounding in its procedures, the law, and the Council's policy on equality of opportunity.

Of those sampled there were four managers that had conducted interviews without having undertaken this training although two of them are booked in for training later this year.

It was noted that some of the training was undertaken over 15 years ago and ideally an updated training session should be given to ensure that all

relevant and current laws and legislation are abided by. It is understood that some managers have shown an interest in 'refresher' sessions but as yet, this is not compulsory. There was also a suggestion that this unit may be developed as an e-learning package at a future date so this will be more convenient for managers to keep updated. – Refer to recommendation A7.

1.9. Qualifications.

From testing it was established that qualifications had been requested and supplied in six out of the ten occasions, although copies of these qualifications had not been made in all instances and retained on file. Two of the four instances that qualifications were not supplied, qualifications were not required.

Qualifications were required however, for the other two positions and these were not requested by the interviewers nor supplied. – Refer to recommendation A8.

1.10. Criminal Records Bureau Checks etc..

CRB checks are carried out for staff working with children/vulnerable adults and also those working in statutory posts e.g. Civil Enforcement Officers and CCTV Operators.

The CRB form is sent to the successful applicant with their appointment letter. Once documents have been verified, the Personnel Systems Support Officer then sends off the completed CRB form and is able to track the status of the check online via the CRB's online tracking service. The Personnel Systems Support Officer then contacts the manager once the 'hard copy' Disclosure Certificate, which states whether the search is clear or if there are any convictions/warnings etc.. is received.

The CRB currently estimate a timescale of six weeks for the turnaround of a CRB check. This timescale depends on if the applicant has moved addressed or not, has changes in surname etc..

It is the responsibility of the manager to assess the risk whether to allow employment to commence prior to receiving the completed CRB check, however, it has been stipulated that they must not leave any member of unchecked staff with unsupervised access to children. NB: this will change with introduction of Independent safeguarding checks (due Nov 2010) when those without a check will not be able to start.

From 26th July 2010, all new entrants to regulated activity or those changing to a new regulated activity provider in positions working with children or vulnerable adults can become ISA (Independent Safeguarding Authority) registered. Although the legal requirement to register is not effective until 1st November 2010, individuals will be able to apply for ISA-registration and/or a CRB check on a new application form. The timescale is estimated at seven working days for the ISA to carry out their checks.

When a person becomes ISA-registered, they will be continuously monitored and their status reassessed against any new information which becomes available. The Council can also 'subscribe to' an individual's ISA-registration status and be informed if that status changes. A CRB check will still also need to be carried out as this will reveal if a person has a criminal record and any relevant non-conviction information.

From the sample taken, only one position required a CRB check. This was undertaken, and the reply received prior to recruitment.

1.11. Interview techniques.

Testing established that the majority of the professional and technical posts did necessitate a test and or/presentation. It became obvious that the additional tests were only conducted when necessary and not in all cases, which is both appropriate and acceptable. Any record of this will be on the vacancy file which is shredded after six months in line with good practice and data protection legislation. Test results are not valid after a period of time. Challenges to the recruitment process must be made within three months so records after this date do not present a risk.

It was noted however that there is no record of any tests undertaken on the personnel file. To provide evidence that the testing was fair and relevant, a copy of the test questions should be forwarded to Personnel for their records. -- Refer to Recommendation A9.

1.12. Application form integrity checks.

Testing proved that there were no unexplained gaps of unemployment evident within the selected sample of forms. There was however a discrepancy in the employment history section submitted by an internal applicant. This turned out to be merely an error and could be easily justified, however, it also emphasises the importance of scrutinising the application forms carefully to identify any anomalies that may actually be fraudulent statements. -- Refer to Recommendation A10.

1.13. Proof of eligibility to work in the UK.

Identification had been provided and retained in all of those files that were found and inspected (8 out of 10).

1.14. Exit interviews.

Exit interviews are an integral part of the overall employment process. Staff who are leaving the employment of the Authority should be given the opportunity to discuss issues with an independent party and this can serve to identify reasons for high levels of staff turnover, ascertain problems and seek remedies if necessary if conducted properly. (Evidently controls must be put in place to distinguish between real staff issues and 'sour grapes'). At present, these are not conducted, however, these should be at least offered to those staff that are leaving, but not enforced. -- Refer to Recommendation A11.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
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**Audit of Personnel & Development
Audit Report 2010/11**

Agreed Action Plan

A.1	New procedures have been developed regarding the recruitment of agency, consulting and casual resources.	SMT to filter down.	All Managers responsible for recruitment must adhere, <u>in all cases</u> , to the revised procedures outlined in this report.	B	Immediate.
A.2	Personnel files could not be found.	Personnel Manager	The manual employee files should be checked to ensure that they are all in order and identify if any are missing. This should be done by comparing a 'current employee' report from Trent to those files and 'balancing' them to see if they agree. Manual employee files should not be allowed out of the Personnel office apart from instances of audit or disciplinary investigative matters and then they should be signed in and out. . <u>Personnel Managers Comments:-</u> <i>The files are not allowed to leave the office. If a manager wants to see a member of their staff's file they must view it in Personnel. If an employee wishes to see their own file, they must do so in the Personnel office.</i>	C	Jan 2011.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
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**Audit of Personnel & Development
Audit Report 2010/11**

Agreed Action Plan

Ref	Issue	Responsible Officer	Recommendation / Agreed Actions	Grade	Suggested Timescale for Completion
A.3	The average length of time to conduct the recruitment process is unsatisfactory.	Personnel Manager	Consideration should be given to provide an appropriate local indicator to assess performance based on criteria set by Personnel Services. <u>Personnel Managers Comments:-</u> The time lapse from request for advert to appointment depends on many factors some of which are outside the Authority's control and includes the media advertised in managers availability to short list and interview, whether or not a CRB check is required and how long this takes to arrive, December time for reference to arrive, notice period of the individual. Some vacancies are advertised well in advance of the date of appointment required. E.g. seasonal staff. However, Personnel will give this issue consideration and in the meantime relevant data will continue be logged for management reporting purposes.	C	November 2010.
A.4	An application form was 'signed' electronically. (Name typed).	Personnel Manager	Personnel should remind all Managers that it is imperative that they obtain a physical signature on an electronically submitted application form so that the applicant is effectively signing that all details submitted are true.	B	July 2010.

Ref	Issue	Responsible Officer	Recommendation / Agreed Actions	Grade	Suggested Timescale for Completion
A.5	The employee's statement of particulars was not signed.	Personnel Manager	Personnel staff should ensure that a signed copy of the statement of particulars is returned and held on file. <u>Response from Personnel Manager:-</u> Refer to 2009/10 Payroll Audit.	B	To be agreed.

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A.6.	At present, Carlisle City Council does not advertise vacancies at the Job Centre. This facility would be free of charge and would be ideally suited to recruiting for jobs of a front line nature. i.e. Refuse Collectors, Cleaners etc..	Personnel Manager	Consideration should be given to advertising certain vacancies in the Job Centre as opposed/as well as placing adverts in the local press. <u>Response from Personnel Manager.</u> <i>We do advertise on our website and shared e-advertising portal (shared with District Authority's) Consideration has been given in the past and Job Centre advertising caused more work than it saved money due to the information they demand in relation to each appointment. Despite past experience, the situation will be re-visited this year</i>	C	December 2010.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.7.	Not all managers who are involved in the recruitment and selection process have undertaken the required training.	Personnel Manager/ Training Coordinator.	Managers who haven't undertaken the Recruitment and Promoting Staff Training should do so as soon as possible and refrain from the interview process (if practicable) until the training is completed. The Training Coordinator should circulate a list of all those managers 'qualified' to conduct interviews to Senior Management for their reference, including the	B	December 2010.

			dates that this training was given to ensure its relevancy. Consideration should be given to introducing 'refresher' courses as matter of course. <u>Operational Development Managers Comments:-</u> <i>Senior Managers appear keen to progress this issue, and refresher courses have been discussed. There has been much work done in developing 'e-learning' of which Recruiting and Promoting staff will be a module. This will be implemented by Autumn 2010.</i>		
A.8.	Not all managers are requesting proof of qualifications.	Personnel Manager.	Personnel should remind management that all specified qualifications should be proven. Copies of qualifications should be made and retained on file. Any qualifications that are disputable should be investigated. If membership of a professional body is a requisite of the post, this should always be verified. <u>Response from Personnel Manager.</u> <i>Refer to 2009/10 Payroll Audit.</i>	B	July 2010.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.9.	There is no Personnel record of tests conducted during the interview process.	Personnel Manager to inform all managers.	If a test is part of the interview process, a blank copy of the questions should be forwarded to Personnel prior to the interviews so that they can be checked for fairness if there is any dispute over the interview process. <u>Response from Personnel Manager.</u> <i>Refer to comments at point 1.11.</i>	C	To be agreed.

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A.10	All details on the application forms should be scrutinised to highlight anomalies that may indicate that the information provided is not bona fide.	Personnel Manager to inform all managers	When application forms are received they should be checked for the following:- • Unexplained periods of unemployment. • Qualification dates (GCSE's/A Levels, Degree qualification eg..) • Dates of qualification v's Dates of Employment.	C	August 2010.
A.11	Exit meetings are not offered as a matter of course.	Personnel Manager	An exit meeting process should be agreed and offered to staff when they are leaving the Authority. <u>Personnel Managers Comments:-</u> This requires resources to a) carry out the interviews and b) develop a system to collect, collate and analyse the information gathered. Manager (at a specified level) could be asked to carry out the interviews. The Policy and Performance Team could provide a system to deal with the information, therefore the council would determine whether or not it wished to commit these resources. If they are a suggested date of 01/04/11 should suffice.	C	April 2011.

2. TEMPORARY/FIXED TERM CONTRACTS.

Method of Review:

- Discussions with staff monitoring the temporary/fixed term contracts.
- Scrutiny of system in place.
- Sample test of 4 temporary members of staff to ensure that the system will successfully highlight when their contract is due to expire.

Summary of Findings:

2.1. Current system.

The temporary contracts are recorded in the electronic diary (held on the shared drive) and dated to be followed up six weeks before the expiry date (10 weeks if they have to give two months notice). Operational support then e-mails the relevant manager asking if they wish to extend the contract. For the majority, the answer will be yes. In this instance an extension letter is then sent to the employee with the new expiry date. This is again diarised six weeks (or 10) before the expiry date. Prior to this system, the information was held in a manual diary, the constant alterations made the process messy and hard to keep track of, therefore computerising the system was a significant improvement.

On the Trent system, the end date will be amended and a note put on to say 'further extended to...'

Although in theory the system should work efficiently, a small number of weaknesses were found during testing. A number of staff in Personnel updates the diary, which is fine in theory but it also results in no-one really knowing what it outstanding, what has been completed etc, if they haven't actually progressed the case themselves.

A few minor alterations to the existing system is all that is needed to ensure that the information retained is consistent and ensure that no temporary contracts 'slip through the net'. – **Refer to Recommendation A11.**

Fixed term contracts are dealt with in the same way. Except for the wording in the Statement of Particulars. They are not treat any differently on Trent, except of course, they will be classed as temporary and not permanent.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested timescale for completion</u>
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A.12	The current system for highlighting the end dates for temporary and fixed term contracts requires some tightening up and additional monitoring.	Personnel Manager.	To improve the system in place it is recommended that:- - There is only one key member of staff that all the temporary contracts go through for logging in to the diary, this will ensure that none are missed in error. Cover of course should be provided in their absence. The diary should be updated at least weekly. Response from Personnel Manager. <i>It is not agreed that only one person should be fully responsible as this could cause difficulties operationally. It is however agreed that the diary mechanism needs to be clearer so that others can pick it up as required more easily. We will seek to make such improvements and the situation can be reviewed in time for the follow up audit early next year</i> <i>The progress status on each case would be better understood if there were two columns on the end of the electronic diary as opposed to one. One to state 'manager contacted' and one to say 'status updated' when the decision has been received and the Trent system has been updated. The actual date the status was updated should be inserted into this column.</i> - The existing information should be reconciled to the Trent system as soon as possible and the regular reconciliations should be undertaken to ensure that the necessary amendments have been made. <i>If the contract has not been extended, and notice of such has been given by the manager. This should also be marked on the diary and the date the termination letter was sent out also entered in the status completed column.</i>	B	Jan 2011.
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3. TRAINING.

Method of Review:

- Discussions with staff responsible for co-ordinating Authority education and training.
- Establish and test procedures surrounding:
 - a) Mandatory Training.
 - b) 'Other' Training – Examine study leave/support policy. Identify and appraise common denominator in the allocation of support.
 - c) Appraisals – Identify the link between appraisals and training programmes.
 - d) Cost/Benefit analysis – Examine that the level of training is appropriate for the position held, especially for professional courses
 - e) Examine the system for post entry training cost repayments in the event of staff leaving the Authority within 2 years.

Summary of Findings:

3.1. Mandatory Training.

When there is a new starter, the administrative assistant sends a memorandum to the manager which stipulates the mandatory courses that must be arranged. These include:

- Informal Induction.
- Core IT Skills Analysis.
- Appraisal – Staff Briefing.
- Manual Handling.
- Future Focus.
- Basic General Safety.

The Training Coordinator and/or their support will have already booked the new employee onto the first available course; however the date can be amended if inconvenient.

The new employee will then be entered on the Training Management System – Training Controller, so a history of their training can be compiled. This package was only meant to be an interim measure until the training module in Trent could be initialised and the technical support for Training Controller (which cost £700 p.a.) was withdrawn in 2009/10. Training Controller is now completely full of current and historical data and if 'crashes', with no technical support, all of this information will be lost. – **Refer to Recommendation A12.**

3.2. 'Other' Training.

The procedure for granting qualification study is due to be revised as the budgets will be transferred under the direct control of Organisational Development. Previously, the budget was split between Directorates and agreement for training was up to the discretion of management. This approach was far from consistent and the training budget was not being used to its optimum advantage.

Now that the entire budget is under the control of Organisational Development, consistent requirements will apply, which will make the process more open, accountable and fair. – Refer to Recommendation A13.

3.3. Appraisals.

Personnel intended to review the Appraisal process in 2009/10. However, due to the first phase of transformation and other strains on the Section, it was put on hold and it is intended to be completed in 2010/11.

The current 'appraisal' is not strictly an appraisal at all. The appraisal 'template' guides both the appraiser and the appraisee to only concentrate on the training element of their role, not performance, and appeared to be more of a 'Training Needs Analysis'. Both areas are as important as each other, and responsibility and control for both should be defined with evaluating and monitoring systems put in place. – Refer Recommendation A14

NB. Personnel Manager disagrees with this statement.

3.4. Cost/Benefit Analysis.

Examination of the records of current staff undergoing qualification training reflected that the subject areas were either relevant to their current jobs or would assist them to progress within the Authority. – No problems were located.

It was noted however that no records were held on a member of staff that had been supported part way through their qualification – i.e. they had self funded until they joined the Authority. It can be presumed that this information had not been passed down to the Training Coordinator for their records and the invoice was paid directly out of the Directorates training budget. The fact that the budgets are now all to be held centrally will eliminate this problem in the future.

This however, highlights a risk that there may be more members of staff with study support that the training Coordinator may not have been made aware of (i.e. employed part way through a qualification). – Refer to Recommendation A15.

3.5. Repayment of fees.

Current policy intends to imply that if a member of staff leaves the Authority within two years of completing the course, they must repay the fees. This does not apply however when a member of staff moves within Local Authority circles. The intention of this was to ensure that the Authority did not incur a large cost (which can run into £1,000's to professionally qualify) and then get no benefit of that expertise if they left soon after completion.

Staff have to sign an agreement prior to the study being granted which quotes:-

"If the Council grants me support to enable me to undertake the course, I agree to:

- Satisfactorily complete the course, or any part of it
- Remain within the Council's employment (or another local authority) for two years after the date of my qualification or end of the course (whichever is the latter).

If I do not comply with these conditions, I agree that I shall repay to the Council any money paid by the Council in respect of my course, and that it may be deducted from my salary or other monies owing to me"

The problem with this is that the second condition is weak. It is assuming that every course will be completed. Some courses can be 3 years + long, especially professional qualifications and come at a considerable cost. An example of this would be an Accountancy Finalist – Total cost to date to the Authority £4,000 (if successful first time), this is without including study time and accommodation and related expenses. If they decide to leave before taking their final exam and join a private accountancy practice, under the current agreement, it would be very difficult for the Authority to reclaim this money. – **Refer to Recommendation A16.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.13	The current Training Management System – Training Controller, is now full to capacity and the lack of any technical support means that there is a significant risk that all this information could be lost.	Organisational Development Manager.	The Training module held within Trent must be established as a matter of urgency. <u>Organisational Development Manager</u> <u>comments:-</u> This has been discussed and a solution sought. Personnel have stipulated that they will not have the post transformational structure in Trent until Jan 2011. There is no point in transferring the data across until the structure is correct as then reporting will be useless for management purposes, or at least require a lot of manipulation to make it meaningful. In the meantime, the Training Coordinator will obtain costings to restore technical support for the existing Training Controller, and tailor the reports so that they present the information required. Audit appreciate that under the circumstances that this is the most suitable solution for the short term, however, progress should still be made on developing the Trent training package for the long term practicalities and it should not be ignored.	B	Immediate.

Agreed Action Plan

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.14	As the training budgets have been centralised, the procedures for applying for Qualification study will have changed. Therefore the policy will require amendment.	Organisational Development Manager.	Management should ensure that the procedures for applying for Qualification study are reflected in the revised Qualification Study Policy and Guidance. <u>Organisational Development Managers</u> <u>Comments:-</u> The Qualification Study Policy will be revised during 2010.	C	July 2010.
A.15	The current Appraisal system is in need of review.. This is more significant as a result of the separation of the Personnel and Training functions.	Organisational Development Manager.	As it is important both to measure performance and to establish training needs to continuously improve performance it may be more effective to split the current 'appraisal' in two, especially now as the training and personnel functions have been separated. New procedures should be established, renamed, and managers and staff retrained. <u>Organisational Development Managers</u> <u>Comments:-</u> The Appraisal system is also to be revised this year and will concentrate on both performance and training needs.	C	November 2010.
A.16	The Corporate Training records should be reconciled.	Organisational Development Manager.	The Training Coordinator should circulate a memorandum requesting that managers inform them of everyone in their section that is currently undertaking training. A reconciliation can then be made against the Training Coordinators records.	C	July 2010.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A17	The current 'Qualification Support Staff Agreement' does not cover all eventualities for recouping study fees when necessary.	Personnel Manager/ Organisational Development Manager.	The Qualification Support Staff Agreement needs to be strengthened to encompass all possible scenarios if a considerable financial loss to the Authority could occur if a member of staff leaves. The agreement should be amended after seeking advice from Legal Services to ensure it is bona fide. <u>Organisational Development Managers</u> <u>Comments:-</u> The training fees repayment element of the policy will be amended when the policy is rewritten this year. After ascertaining criteria defined by other authorities via NWEO (North West Employers Organisation), all application forms for training and their implications will be reviewed.	B	July 2010.

4. STAFF REDUNDANCIES AND FLEXIBLE RETIREMENT PENSION CALCULATIONS.

Method of Review:

- Discussions with Finance and Personnel staff.
- Identify procedures for obtaining pension strain costs and augmented costs from Capita and the control arrangements for subsequent payment. Establish responsibilities for varying parts of the system.

Summary of Findings:

4.1. Previous calculations/billing arrangements.

During 2009/10 significant staffing changes within the Authority and the development of shared services initiatives have led to a large increase in the number of requests made to Capita for personal pension estimates and calculations for augmentation and pension strain costs payable by the Authority in the event of the redundancy of personnel over 55 years of age.

A number of discrepancies had been highlighted over the last 12 months or so in relation to cost estimates emanating from incorrect superannuable pay figures issued by the Authority to Capita and from incorrect calculations returned from Capita. There has also been a number of errors in respect of final cost calculations for people who actually left the Authority, and also an instance of poor invoice administration on the part of the part of the County Council which led to a £57,000 discrepancy on a single invoice that was authorised but subsequently amended to reflect the appropriate amount.

4.2. The way forward.

It was therefore decided that a more robust procedure needed to be developed, to minimise these risks and to ensure that the information being produced is accurate. As the Authority is due to commence phase 2 of the transformation, the requests for these calculations will increase in both volume and complexity, so it is vital that a workable secure system is implemented as soon as possible.

Discussions have taken place between the Auditor, Chief Accountant and Personnel Officer where it was agreed that it would be conducive to revise the process to be effective from 01/04/10 when augmented years were no longer applicable in the calculation. Therefore, a more pragmatic process could be implemented that would apply to all situations.

A skeleton system has been agreed between Finance, Audit and Personnel and it is recommended that this system is adopted until resources allow further work on the process.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A18.	The current pension calculation system is inadequate.	Personnel Manager.	Personnel and Audit Services should agree a process whereby Personnel pass an estimate of Pension and/or redundancy costs to Finance to enable estimates of redundancy/flexible retirement costs to be as accurate as possible.	B	Immediate.

5. TRENT PERSONNEL AND PAYROLL SYSTEM.

Method of Review:

- Review of the 2009/10 Payroll Audit.

Summary of Findings:

5.1. Audit and Personnel resource restrictions

This review intended to examine the following areas, however, due to problems associated with staff sickness/year end procedures etc. Audit were reluctant to make call on the resources needed. However, the 2009/10 Payroll Audit covered the controls and segregation issues between Personnel and Payroll, and this aspect has reported accordingly. The findings can be found in Appendix A points 9 and 10 of the 2009/10 Payroll Audit.

The areas that would have been reviewed are as follows and will be picked up later in the current financial year when the system reflects the transformational changes to the establishment

- Establishment – Ensure that the current establishment is reflected within the system.
- Sickness – Identify how this is recorded and ensure that all Directorates report in a consistent manner.



Audit Services

**Audit of Housing and Council Tax Benefits Fraud
Administration**

Final Report

4th June 2010

	Mike Thompson	7284
	Housing and Council Tax Benefits Fraud Audit 2009-10 - Final Report.docx	

Community Engagement.	Assistant Director (Community Engagement) for information Shared Services Partnership Manager Revenues and Benefits9for action) Revenues and Benefits (for action) Fraud Investigation Officer s (for information)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan, which is attached as Appendix A.
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Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22nd June 2010.

1. Reason for the Audit

- 1.1. The audit of Housing & Council Tax forms part of the programme of annual material reviews which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.
- 1.2. In respect of the 2009/10 audit programme, a review was undertaken on Housing and Council tax benefit covering administration, post opening, assessment and payments. The results of this audit review were the subject of a final report issued to relevant managers in February 2010 and this report was subsequently presented to the Audit Committee on 9th April 2010.
- 1.3. A more specific separate review has also been completed on the Fraud Prevention and Detection side of Housing Benefits which also incorporated work undertaken as part of the National Fraud Initiative.

2. Background Information / Summary of the Audit Area

- 2.1. The provision of the Housing and Council Tax Benefits scheme for the tenants and residents of Carlisle is a statutory function that is carried out in house by the City through recently introduced shared service arrangements.
- 2.2. The Council has a responsibility to ensure that the right benefit is paid to the right people at the right time and that payments of Housing and Council Tax benefits are only made to those who are entitled to receive them. For this purpose, the Housing and Revenues Section based at Carlisle has a dedicated Fraud Section for the purpose of detecting and preventing fraudulent claims.
- 2.3. The main types of fraud dealt with by the specialist team of three Benefits Investigation Officers (i.e. 2.5 FTE's) currently deployed at the Carlisle office are "working and claiming" which usually involves claimants who are in receipt of Housing Benefit on the basis of entitlement to Job Seekers allowance or income support but are in fact working. Any cases that arise in these circumstances will usually involve a joint investigation involving the Council and the Department of Work and Pensions. Other types of fraud include non-disclosure of property, capital or income, non disclosure of partner, non-dependents or sub-tenants, false claims by homeowners, failure to declare change of address, registration of false addresses and also Landlord Fraud whereby a landlord continues to receive benefit paid directly to him or her for a claimant that has vacated the premises.
- 2.4. The approach to the audit was to review the key control requirements identified in the sub-system for fraud prevention and detection within the Housing and Council Tax CIPFA Matrix Internal Control Questionnaire (ICQ's). Joint working was also undertaken between Internal Audit and the Fraud Section in respect of data received from the National Fraud Initiative.

3. Associated Risks of Providing this Service/Function

3.1. Examination of the Risk Registers noted the following risks:

<u>Risk</u>	<u>Operational</u>	<u>Low</u>
<i>Benefit Probity – Risk of Internal Fraud within the Benefits Software and System</i> <u>Control Strategy</u> • <i>Rigorous use of test systems.</i> • <i>Detailed manuals exist.</i> • <i>Qualified management and robust training in place to reduce risk.</i> • <i>Rigorous audit of all admin processes.</i> • <i>Secure environment for cash payments.</i>		

4. Scope of the Audit

4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Policies and Procedures
2.	Vetting and Training of Employees
3.	Fraud Referrals
4.	Data Matching.
5.	Undertaking and Managing Investigations
6.	Security of Data

5. Overall Conclusion of the Audit Review

5.1. The Housing and Council Tax Benefit Fraud team are greatly experienced and this particular function of the Revenues and Benefits Section is operating very well. However, a number of opportunities to further enhance controls have been identified, these are shown in Appendix A and have been brought to the attention of the Assistant Director (Community Engagement) and relevant Benefits Managers. In summary the key issues arising from this review are:

5.2. Within the Benefits Fraud arena, some of the Strategy, policy and operational documents are not up to date and are in need of review or do not exist due to the slow implementation of shared service arrangements. Now that shared service arrangements have been introduced with effect from June 2010, there is going to be much change and systems/procedural development. This is a good time therefore to undertake such a review which should serve to ensure some uniformity over the working arrangements in each of the three Council's in the partnership.

- 5.3. Audit findings also indicate that some improvements can be made in respect of vetting and training employees, conducting data matching exercises, undertaking and managing investigations and data security.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

*A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

- 6.2. There are 13 recommendations arising from this review. 8 at Grade C and 5 at Grade B.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a REASONABLE level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/weaknesses have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Community Engagement Directorate, Revenues & Benefits

APPENDIX A

1. Policies and Procedures

Method of Review:

- Discussions with Fraud Investigation Officers and Revenues and Benefits Manager
- Completion of the sub system for Fraud Prevention and Detection within the CIPFA Matrix for Housing and Council Tax Benefits - Internal Control Questionnaire.
- Testing undertaken when answers received were not adequate to ensure control.
- Examination of Policies in circulation.

Summary of Findings:

- 1.1. All hard copies of current benefits regulations and guidance documents are maintained in the main office of the Benefits Section.. There are also 'user friendly' guides held. The Council subscribes to "The Benefits Directory" which holds all the Benefits circulars issued by the DWP and explains all the regulations etc. Updates are circulated to all staff as and when they are received from the Department of Works and Pensions (DWP). Copies of these are available from the Benefits Manager.
- 1.2. The City Council has a general Counter Fraud & Corruption Policy which is held on the City Council's Intranet. This policy has been updated to include the new management structure of the Authority. More specifically, there is a "Housing and Council Tax Benefit Counter Fraud Strategy in terms of benefits prosecutions, there is a " Housing and Council Tax Benefit Sanction Policy" . The Benefit Counter-Fraud Strategy sets out the Council's mission statement relating to the prevention, detection and deterrence of Benefit Fraud and provides outline details of how the Council seeks to address these issues. The Sanctions Policy identifies the forms of action that can be taken and the key factors that are to be taken into consideration when favouring the prosecution sanction or not and conditions applying when considering an administrative penalty or a formal caution. In terms of current procedures ensuring that statutory and regulatory requirements are complied with, the Benefits Manager has to sign off any sanctions proposed by Fraud Officers and carries out appropriate Quality Assurance checks. Both the Benefit Counter Fraud Strategy and Sanctions Policy are in need of up-dating.(Refer to Recommendation A1)
- 1.3. In house procedures have been developed in conjunction with the NAFN(National Anti Fraud Net-work) site documents which the Authority subscribes to and the DWP Guide. The Benefits Manager makes the point that that the relevant officers at Carlisle are greatly experienced and do not need formalised procedures. It is however deemed to be best practice and always recommended by Internal Audit and the Audit Commission that a local ised documented operational manual should be developed and maintained for various reasons in general but within a benefit fraud environment in particular where there needs to be strict and consistent adherence to policies and defined standards. This will be even more necessary under shared service arrangements to ensure that all the Council's involved are working to the same procedures and standards.(Refer to Recommendation A2)

1.4. It was noted during the audit process that the City Council participates in the "do not redirect" (DNR) post scheme. This is a nationally used procedure whereby special envelopes are utilised for benefits communication and in the event that attempts are made to re-direct these envelopes, the Royal Mail ensures that the envelope is sent back to the sender instead. The Royal Mail does not always follow this procedure despite the very clear instructions on the customised envelopes which also have distinctive green chevrons to alert workers. When such instances come to light and mail has been inappropriately redirected, the Royal Mail are alerted and assurances are received that further training will be given to relevant postal staff.

1.5. It is apparent however that when such envelopes are returned to the City Council in accordance with the procedure, envelopes are scanned together with the documentation and the return sticker and GPO mark and this is picked up in the system by assessment officers. Fraud officers need to be informed if there are re-direction instructions on the envelope and this should be facilitated by a referral from assessment staff. However there are no controls to ensure that such returned mail is referred to benefits fraud staff for investigation (Refer to Recommendation A3)

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for completion</u>
A1.	The Carlisle City Councils Housing and Council Tax Counter Fraud Strategy and Benefits Sanction Policy need to be updated.	Revenues and Benefits Manager	All policies will be updated for the shared service.	C	October 2010
A2.	The RBS Shared Service requires a fully documented operational manual to be developed.	Revenues and Benefits Manager	This will be considered in light of the current arrangements within the 3 Authorities.	C	October 2010
A3.	A procedure needs to be formulated to ensure that any relevant post returned under the DNR post scheme is forwarded to the Fraud Section	Revenues and Benefits Manager	The procedure will be reviewed	B	October 2010

2. Vetting and Training of Employees

Method of Review:

- Discussions with Revenues and Benefits Manager and Personnel Manager.
- Completion of the CIPFA Matrix for Housing and Council Tax Benefits - Internal Control Questionnaire.

Summary of Findings:

- 2.1. Carlisle City Council has established a specific vetting policy as part of its external recruitment procedures for Housing Benefit staff whereby employment references are sought for an individual's last five years of employment. This is not however the case if an appointment is made internally from another Section or Directorate. Personnel have now agreed that checks will be undertaken in such circumstances.
- 2.2. Under new shared service arrangements which were initiated on 1st June 2010, approximately 70 Benefits and Revenue officers have been transferred from Allerdale and Copeland to Carlisle which is acting as the "host authority". The Partnership Manager needs to evaluate what if any additional checks were carried out in the recruitment process for these staff at their previous respective Authorities (who are now the responsibility of the City Council) to gauge whether any further checks need to be undertaken. (Refer to Recommendation A4)
- 2.3. Staff within Revenues and Benefits at Carlisle are required to sign a declaration registering any benefit related interests and answering questions on fraud related matters. They also need to undertake not to carry out work for another body giving advice on benefits either on a paid or voluntary basis. At the time of audit, not everyone had signed such a declaration and the last batch of forms were signed back in 2008. Shared service arrangements under which Carlisle City Council will be working on behalf of other Authorities means that declaration forms need to be revised and these revised forms need to be completed and signed up by all Revenues and Benefits staff. (Refer to Recommendation A5)
- 2.4. Specific anti-fraud training has been periodically provided by a Full time Benefits Investigation Officer to all staff at Carlisle involved in the Benefits System. However no such training has taken place over the last two years due to the demand of the additional work associated with the shared service fraud package of work. A new training programme needs to be established and rolled out to all relevant staff transferred from Allerdale and Copeland and the existing Carlisle Benefits team (Refer to Recommendation A6)
- 2.5. It should be noted that a training log is held within Benefits and details of professional development recorded. The current register was reviewed and it was confirmed that the log was up to date. Test checking revealed and that the last two employees recruited in Carlisle within Benefits had been incorporated onto the training log and had actually had training recorded.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A4.	Recruitment control checks initiated on transferring staff from Allerdale and Copeland should be evaluated and a decision made on whether further checks are required.	Partnership Manager.	Checks will be undertaken as deemed to be required.	B	August 2010
A5.	The interests declaration form for Revenues and Benefit Staff needs to be amended and all staff within the shared service need to complete and sign the revised form.	Partnership Manager.	This exercise will be carried out in due course as soon as possible.	B	July 2010
A6.	A new anti fraud training programme needs to be formulated and rolled out to all Benefit staff within the new shared service.	Revenues and Benefits Manager	This programme will be set up and initiated	C	October 2010

3. Fraud Referrals

Method of Review:

- Discussions with Fraud Investigation Officers..
- Completion of the CIPFA Matrix for Housing and Council Tax Benefits -- Internal Control Questionnaire.
- Testing undertaken when answers were not adequate to assure control.

Summary of Findings:

- 3.1. Staff involved in the Benefits process need to have guidance on how to identify and refer possible benefit fraud. This is a major part of the Fraud Awareness Training referred to above which has not been undertaken for some time (**Refer to Recommendation A6 above**)
- 3.2. A standard form is utilised by assessment officers to refer possible fraudulent claims to Fraud Investigation Officers. This form has been approved by the Benefit Fraud Inspectorate as being best practice. The form contains the claimant's personal information which filters directly from the Benefits system together with details of the reasons for suspecting fraud and any other relevant information. During 2009/10, 226 such referrals were made and all were investigated including five such referrals which were examined by audit 4 of which had been investigated and the other still under investigation.
- 3.3. The Fraud Section previously put relevant information into the "Incase" system matrix based schedule which provided a risk rating. Incase has gone and the Fraud Section awaits a similar facility on the Academy System. At the present time this is not crucial as subject, to a common sense approach from highly experienced staff in eliminating less than meaningful cases, all referrals are checked out. Not surprisingly priority is given to investigating the more serious and high value frauds first. In line with good practice, feedback is given where appropriate by Fraud Officers to Team Leaders or the Benefits Manager over the quality and effectiveness of referrals.
- 3.4. Also in line with good practice, the Benefits Section in general and the Fraud Team in particular have established good working relationships with the DWP and other Agencies as confirmed by the ongoing dialogue which the Benefits Managers have with these external agencies.
- 3.5. The main Benefits Office has a dedicated Hotline which is advertised on the Council's Website. The number was telephoned outside of working hours and a voicemail message left to contact a number in connection with a suspected fraud. After 6 days of waiting, no return call had been received. It is therefore recommended that procedures are reviewed(**Refer to Recommendation A7**)

<u>Team</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A7	Procedures for dealing with hotline queries are to be reviewed.	Revenues and Benefits Manager	Revised procedures will be introduced	C	July 2010

4. Data Matching

Method of Review:

- Discussions with Fraud Investigations Officers
- Completion of the CIPF A Matrix for Housing and Council Tax Benefits – Internal Control Questionnaire.
- Testing undertaken when answers were not adequate to assure control.

Summary of Findings:

4.1 Carlisle City Council participates in the Housing Benefits Matching Service (HBMS) on a monthly basis and the National Fraud Initiative (NFI) data matching exercise on an annual basis. The results of the HBMS exercises are reported back to the HBMS and the data matching data is greatly valued by the Fraud Investigation Team given its relevance. The NFI exercise is less valued but nevertheless all data matches are checked despite the large numbers involved and the lack of relevance of the majority of matches. Feedback has been given to The Audit Commission on the lack of effectiveness of the current interrogation process which is laborious, extremely consuming involving an exercise trawling through literally hundreds of matches where income identified is properly and fully declared and known to the Authority. There is also a major problem with matches that have been checked in NFI reports from previous years being repeated. However the Fraud Officer has stated that the exercise is of some value to the Benefits Section as the results of overpayment recoveries can testify, but there needs to be a "slimming down" and "weeding out" of the information about which the Authority is aware of.

4.2 Given the large amount of work currently undertaken on the annual NFI data matching exercise it is recommended that resource allocation on this exercise is re-evaluated to make better use of limited resources. (Refer to Recommendation A8)

4.3 Whilst the 2008/09 NFI process was being undertaken, issues arose over a number of claims associated with addresses that Council employees lived at or had lived at. In the event DWP prosecutions were taken out against the benefit claimant but not the Council employee who the claimant had failed to register at the property. It was decided that that alongside the NFI checking process, comprehensive checks would be undertaken on benefit claims involving the addresses of employees. The investigative process can be drawn out and time consuming and the exercise was recently completed with the result that no evidence of any fraud was located. The Audit Commission have confirmed that there is no expectation that every match is followed up, only those that look to be fruitful.

<u>Team</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A8	A more targeted approach is required to undertaking checks on the Annual National Fraud Initiative	Revenues and Benefits	The approach will be considered when the next Annual exercise comes up	C	Prior to the start of the next exercise

5. Undertaking and Managing Investigations

Method of Review:

- Discussions with Fraud Investigation Officers
- Completion of the CIPF A Matrix for Housing and Council Tax Benefits – Internal Control Questionnaire.
- Testing undertaken when answers were not adequate to assure control.

Summary of Findings:

- 5.1. There is a full separation of duties that ensures that fraud investigators are independent of the benefit assessment function. The Fraud Team have no involvement whatsoever in the assessment process and should they make any recommendations they refer these directly to Team Leaders.
- 5.2. A code of conduct and practice for fraud investigators has been established and is held on the City Council's intranet. This document outlines the minimum standards of conduct and professionalism required by Investigators and provides general principles. The treatment and questioning of people being investigated, PACE, cautions, Use of Interpreters, written statements, the use of Audio tapes etc. Officers work fully in conjunction with the code of conduct and all investigations and interviews conducted in accordance with PACE. The document is comprehensive but there are gaps (eg no apparent reference of RIPA and despite it having its own policy on the intranet a mention of this policy would help with the overall completeness of the document) and it is not up to date (**Refer to Recommendation A9**)
- 5.3. In terms of procedures ensuring that all types of fraud reported are investigated, this is the case in respect of any undisclosed income or household make up leading to Housing Benefit. Single occupancy deception in respect of single person discount on Council Tax are actually dealt with and this is not currently an offence that the Council chooses to prosecute upon. This may be a course of action worthy of consideration to provide a deterrent (**Refer to Recommendation A10**)
- 5.4. In terms of managing investigations, procedures ensure that all investigations comply with statutory regulations and guidance the acid test being that the case will fall apart when reaching the sanctions stage. If Fraud Investigators find any problems with the systems that may impair the investigation process then these are reported to Team Leaders or the Benefits Manager. Any proposed sanctions have to be signed off by the Benefits Manager who makes Quality Assurance checks. All relevant information pertaining to cases where cautions or penalties occur, all details are sent to the DWP. For deterrent purposes successful prosecutions are periodically publicised both in the press and on the Council Intranet.
- 5.5. It was noted that whilst there are some general procedures/controls that are utilised to protect the safety of benefits fraud investigators (e.g. Lone Working Policy) and GPS telephones are available with panic buttons for outside visits, there is nothing specific in terms of procedures and controls to reduce the potential for harm to this high risk team of workers. (**Refer to Recommendation A11**)

Ref	Issue	Responsible Officer	Recommendation / Agreed Actions	Grade	Suggested Timescale for Completion
A9.	The current Code of Conduct for Fraud Investigation needs to be reviewed.	Revenues and Benefits	All policies will be updated under shared service arrangements	C	October

A10	Consideration should be given to prosecuting fraudulent claims for single person discount.	Manager Revenues and Benefits Manager	Whilst this is not under the jurisdiction of the Fraud Team, test cases will be considered.	C	2010 October 2010
A11	Specific procedures and controls should be considered for the protection of Fraud Investigators	Revenues and Benefits Manager	Health and Safety arrangements will be reviewed for all at risk staff in the shared service.	C	October 2010

6. Security of Data

Method of Review:

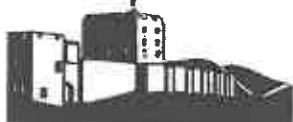
- Discussions with Fraud Investigation Officers.
- Completion of the CIPF A Matrix for Housing and Council Tax Benefits – Internal Control Questionnaire.
- Testing undertaken when answers were not adequate to assure control.
- Physical Inspection

Summary of Findings:

- 6.1. All of the work undertaken within the Benefits System and the data subjects are registered with the Information Commissioner for data protection purposes under Registration Z5918467 (Purpose 7) which expires on 22/10/10.
- 6.2. During the audit process some data was identified on a spreadsheet which was 10 years old and consideration needs to be given if the holding of this data is in accordance with the organisation's information classification and data retention policies(Refer to Recommendation A12)
- 6.3. Paper based records are held in a room within the Civic Centre that is locked when unattended by a member of staff in the Fraud Team. The records are however kept in old filing cabinets that cannot be locked. As cleaning staff, keepers and some other facilities staff have keys and therefore access to the Fraud office, it is recommended that the current filing cabinets are replaced (Refer to Recommendation A13)

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A12	Computerised data is being held which may breach the Data Protection Act or fall outside of the data retention policy.	Revenues and Benefits Manager.	The relevant information held will be reviewed and the necessary action taken to ensure that there is no breach of either policy or regulations.	B	As soon as possible
A13.	Confidential data is not being held as securely as necessary	Revenues and Benefits Manager	Existing filing cabinets will be replaced.	B	August 2010

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Resources

Audit Services

Audit of Payroll

Final Report

10 June 2010

Diane Rippon

Bin No. 7528

K:\2006-07 onwards\Material Systems\Payroll MAT060\2009.10\Reports\Payroll Draft Audit Report 09-10.docx

Resources	Personnel Manager	For Action There are matters arising/recommendations from this review which require your attention. Please refer to the indicated areas of the action plan for personnel.
Resources	Pay & Rewards Manager	For Action There are matters arising/recommendations from this review which require your attention. Please refer to the indicated areas of the action plan for payroll.
Resources	Senior Personnel Officer	For Information
Resources	Assistant Pay & Rewards Manager	For Information
Resources	Financial Services Manager	For Information

Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 22 June 2010.

1. Reason for the Audit

- 1.1. The audit was undertaken in accordance to the 2009/10 risk based audit plan. The payroll audit is classed as a 'material review' whereby it is considered a fundamental financial system of the Council. The review has therefore been carried out on an annual basis for many years.

2. Background Information / Summary of the Audit Area

- 2.1. Carlisle City Council payroll is administered by Operational Support and is a Personnel and Payroll function. There are five and half full time members of staff with directly linked roles to the production of the payroll although in addition some Personnel staff, administration staff and IT staff have a role in the operations. There is no segregation of duties and responsibilities between the operational administration of Personnel and Payroll systems.
- 2.2. The service is responsible for all the pay of contracted and casual staff, community centres' staff salaries and members' expenses. The service relies on the Trent IT System which interfaces with the Council's main accounting system.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following risks:

Risk Description and Control Strategy (Risks obtained from Operational Risk Register) Last updated October 2010		
Risk: <u>Loss of key people.</u> Description: Loss of key people during a time of difficulty/change. Current Action Status/Control Strategy: Written procedures; more than one able to carry out key tasks.	Operational	M
Risk: <u>Increase in sickness absence.</u> Description: Increase in sickness absence during a time of difficulty/change. Current Action Status/Control Strategy: Action Plan; Occupational Health; Directorate stress audits and actions; stress report to SMT; Wellbeing Strategy; early intervention by managers; briefing/update for managers.	Operational	M
Risk: <u>Information System's Dysfunction.</u> Description: Information system's dysfunction. Current Action Status/Control Strategy: Addressed during implementation of Trent.	Operational	L
Risk: <u>Inadequate resources (due to vacancy management etc) to deliver our full range of services.</u> Description: Inadequate resources (due to vacancy management etc) to deliver our full range of services. Current Action Status/Control Strategy: Reorganisation; prioritisation; workload dropped/re-allocated; budget bids.	Operational	M
Risk: <u>Payment to 'bogus individuals'.</u> Description: Payment to 'bogus individuals'. Current Action Status/Control Strategy: Ensure that staff involved in setting up employees and Members are not involved in the distribution of payslips.	Operational	L
Risk: <u>Failure of IT system leading to non payment of staff.</u> Description: There is a risk that staff and Members will not get paid in the event of failure of IT systems.	Operational	M

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

1.	Follow Up
2.	Starters
3.	Deductions
4.	Variations
5.	Leavers
6.	Payments
7.	Reconciliation and Security of Data

5. Overall Conclusion of the Audit Review

- 5.1. There were some good internal controls found to be in operation within the administration of payroll. However, there were numerous areas where improvements should be made to ensure that there are robust controls in operation. The main grade B areas identified include:
- Monitoring of CRB checks assigned to posts to ensure appropriate checks are carried out;
 - Follow up of new starter contracts of employment that have not been signed;
 - Eligibility checks should be carried out with evidence placed on file each;
 - There should either be full completion of New Entrant Documentation List as it is with the boxes crossed out when not relevant or a review of the list should be performed so that only essential checks are listed for completion;
 - Two references should be received and evidence on file with explanation if this is not possible;
 - Retention of copies of qualifications on file, or a clear note of the qualifications that have been checked as evidence;
 - Independent review of data input to Trent;
 - Segregation of duties and responsibilities between personnel and payroll administrative functions;
 - Personnel spot checks of individual files for completeness and accuracy and compliance with personnel policies and procedures;
 - Inclusion of the lack of segregation of duties and responsibilities as a risk within the operational risk register for monitoring;
 - Reminder and awareness of service managers of their duties and responsibilities within the recruitment process and prompt filing of personal information by Operational Support staff;
 - There should be ownership of the Payroll Processing Checklist i.e. it should be signed and dated by the member of staff when action have been taken; and
 - Verification of the payroll independently of the Payroll Section to ensure the completeness and accuracy of Trent

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Description
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A fundamental weakness involves a failure to implement a key control, or an unnecessary exposure of risk to the Authority, which could be considered as a significant weakness.

- 6.2. There are 15 recommendations arising from this review. 13 at grade B, 2 at grade C.
- 6.3. The previous audit reported 11 recommendations, 5 at grade B and 6 at grade C, of which 5 were found not to be effectively implemented.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review it is considered that a restricted level of assurance can only be given in relation to the systems of control (see definition below).

Level	Explanation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

1. Follow up 2008/09 audit recommendations

Method of Review:

Follow up of previous 2008/09 audit recommendations:

- A follow up proforma to be issued to the Head of Service for completion confirming the arrangements that have been put in place to ensure the effective implementation of the required actions and signed by the Director that they have been assured and satisfied that they have been effectively implemented; and
- The implementation and non implementation of recommendations have been highlighted below (based on the completed schedule received back).

Summary of Findings:

Head of Personnel & Development Recommendations (Heading per 2008/09 audit report)

1. Recommendation/Agreed Action (two previous audit recommendations combined as one for reporting purposes):

Personnel should be proactive in determining whether or not posts require CRB disclosures. These should be held in the form of a central register and/or details held within an illuminated field within Trent which can be easily identified.

Response received to follow up: There is a spreadsheet of posts requiring CRB checks and safeguarding children (sometimes these differ). Still considering the practicalities of recording on Trent. Managers have to specify if a CRB check is required at advertising space. They know their business best so a combination of this plus the spreadsheet plus common sense minimises the opportunity for error.

The Personnel Manager (Acting Head of Personnel & Development at the time of follow up) stated that recoding on Trent would be ideal but the spreadsheet is adequate and there is no less of a risk of being missed that if the record were to be held on Trent.

Audit note:

Personnel still does not appear to be pro-active in this area nor does there appear to be a solid and seamless linkage between Personnel and the service managers (in order to recruit staff). Personnel should monitor the requirement for CRB checks and make necessary enquiries with service managers where queries arise, before posts are advertised, to ensure that the necessary checks are undertaken and that they are undertaken in a timely manner. It should not be a pure management responsibility.

See Recommendation/Agreed Action 1.

2. Recommendation/Agreed Action:

Evidence of qualifications have been seen and verified should be recorded on the personnel file.

Response received to follow up:

Remind managers and amend Post Interview Checklist to request managers sign to say qualifications have been checked. May 2010.

Audit note:

Testing revealed inadequate/non implementation of this recommendation.

See Recommendation/Agreed Action 7.

3. Recommendation/Agreed Action:
Ensure that instructions to withdraw non statutory payments from payroll are always retained.

Response received to follow up:
No action required, continue with normal procedure.

4. Recommendation/Agreed Action:
When completing the narrative on transfer invoices requests, the relevant period should be detailed.

Response received to follow up:
Actioned.

5. Recommendation/Agreed Action:
To remind all authorised signatories of their responsibility to ensure that the (ref casual forms) are completed appropriately.

Response received to follow up:
Whole process for employing casuals is under review due to job evaluation implications.
See Recommendation/Agreed Action 2.

6. Recommendation/Agreed Action:
To ensure that the overtime notes on the completion of claim form are amended to be in-line with Authority working time regulations.

Response received to follow up:
New forms now in operation which point to appropriate areas within pay policy – Actioned.

7. Recommendation/Agreed Action:
To ensure that all honorarium forms are appropriately completed and are signed and dated when input.

Response received to follow up:
A process has been set up to review honoraria every three months. This commenced 01.03.10 - Actioned

8. Recommendation/Agreed Action:
Verification of the payroll to be carried out (independently of the Payroll Section to ensure completeness and accuracy).

Response received to follow up:

This is to be undertaken as part of the work being carried out to implement transformation, so will cover next six months.
See Recommendation/Agreed Action 16.

Head of Finance Recommendations (Heading per 2008/09 audit report)

9. Recommendation/Agreed Action:

The payroll reconciliation should be verified by a senior officer.

Response received to follow up:

The reconciliation has changed and is now verified by the Principal/Systems Officer – Actioned.

10. Recommendation/Agreed Action:

Advances need to be balanced monthly and all outstanding amounts must be investigated.

Response received to follow up:

The matter was initially discovered by the Finance section and notified to Payroll suggesting recovery. Finance subsequently discovered a further unrecovered advance in February 2009 and also advised Payroll who have since recovered some of the sums but advise that the two employees who received the original advances have since left our employment. We have subsequently advised Payroll that because of the value an attempt should be made to recover the sums – Actioned.

Audit note:

Finance comments noted. It is not their responsibility to recover the cost, just to ensure that payroll is advised of the outstanding amount.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
1	<u>Summary of Findings Note 1.</u> Previous audit recommendation has not been effectively implemented.	Personnel Manager	Personnel should be proactive in determining whether or not posts require CRB disclosures. These should be held in the form of a central register and/or details held within an illuminated field within Trent which can be easily identified.	B	End August 2010
2	<u>Summary of Findings Note 5.</u> Previous audit recommendation has not been implemented.	Personnel Manager	To remind all authorised signatories of their responsibility to ensure that the (ref casual forms) are completed appropriately.	C	End July 2010

2. Starters

Method of Review:

Check that the documentary proofs required to be provided by a new employee include:

- An 'original' birth certificate;
- A National insurance number; and
- Proof of qualifications (including where appropriate evidence of driving licence).

Check that the managers are required to obtain satisfactory references from previous employers:

- The person is suitably qualified/skilled and honest;
- The number of sickness absences is correct; and
- Confirm that vetting is required to be undertaken for all "high risk" posts.

Select a sample of New Starters and trace each to their personal files and evaluate:

- Copy letter of appointment is held;
- A starter's form exists which was signed by the employee and an authorised signatory;
- Details shown on each form agree to the record created on the payroll system; and
- Details shown on the payroll system agree to those on the personnel system.

Examine the above starter forms and check that they record:

- A Birth Certificate, NI Number, References and qualifications were produced and examined;
- That a P45 or P46 was sent to the Inland revenue;
- Whether or not the employee elected to join the pension scheme;
- The name of the payroll employee who input the data; and
- The name of the independent employee who checked the input for correctness.

Summary of Findings:

Discussion and testing of the above revealed the following:

11. Discussion with the Senior Personnel Officer identified that there is no 'starter form'. Authorisation for Payroll staff to input a new starter into Trent is provided by the contract of employment. It was stated that the contract should be signed by the relevant individual taking up the post although this was found not always to be the case. Where a contract is not signed, it was deemed to be signed if the individual turned up for work. The sample tested highlighted that only 2 of the 3 files examined (a sample of 10% rounded down of all starters for the period 1 April – 27 November 2009) had a signed contract on file. See Recommendation/Agreed Action 3. Discussion with the Personnel Manager following the issue of the draft report revealed that the 'Post Interview Checklist' sent from the service manager to Personnel acts as the trigger to Personnel to start the offer and appointment process including adding them on to the Council's establishment and payroll when the offer formalities have been concluded.
12. The closest document to a 'new starter form' found was the 'Post Interview Checklist' (this form is part of the Council's 'Recruitment/Appointment Procedure') from which details were checked and agreed to the contract of employment and Trent.
13. Discussion with the Senior Personnel Officer established that there are no specific requirements for the checking of birth certificates. Copies of birth certificates may be used as one form of evidence of eligibility to work in the UK, which is verified before employment takes place. Testing of the manual files, however, revealed that evidence of eligibility checks undertaken were generally found to be robust, however 1 of the 3 files did not clearly demonstrate evidence of eligibility on file. See Recommendation/Agreed Action 4.
14. Stapled on the inside cover of the manual files is a 'New Entrant Documentation List' to record various checks and information. This was reviewed for each of the 3 files and was found to have been completed in a haphazard manner. The NI number part of the form was only completed for 1 of the 3 files. However the Assistant Pay & Reward Manager stated that a report is produced each month from Trent that would show any NI number field omissions which would be followed up and actioned. See Recommendation/Agreed Action 5.
15. Discussion with the Senior Personnel Officer established that there should be two references requested and retained. Under certain circumstances there may be fewer references obtained. The sample tested revealed that 2 of the 3 files contained evidence of two references and the other file contained one reference. No details were supplied on file why only one reference had only been requested or alternatively why only one reference could only be evidenced on file. See Recommendation/Agreed Action 6.
16. Discussion with the Treasury & Insurance Manager confirmed that there is no insurance requirement stated over the number of references required or for a period of time the references are needed to cover (e.g. the last 3 years of employment).
17. Testing of the manual files revealed that only 1 of the 3 files demonstrated that there had been checks undertaken on the qualifications stated in the application form. The checking of all qualifications stated on an application form (whether relevant or not to the post) can confirm the honesty and integrity of an applicant and ensures equality and diversity as through verification the decision to appoint a certain candidate over another could be very close and a false representation could make a substantial difference to the outcome. The Assistant Pay & Reward Manager stated that this is the responsibility of service managers at the interview stage of the recruitment and selection process. See Summary of Findings Note 2 & Recommendation/Agreed Action 7.

18. There was no evidence (e.g. a note) on any of the manual files of P45 or completion of P46 having been sent to HMRC. It was established through discussion with the Assistant Pay & Reward Manager that these are retained but in a separate file. This albeit is noted on Trent. See Recommendation/Agreed Action 8.
19. No evidence was seen on the manual files of opting in/out of the pension scheme. Again it was established that these are retained in a separate file. Albeit it is recorded within Trent.
20. It was clearly evidenced by way of initial and date written on the new starter contract of employment by the Operational Support employee who input the starter into the Trent system.
21. There was no evidence that the information input into Trent from the manual files had been independently checked for completeness and accuracy. See Recommendation/Agreed Action 9.
22. The manual files are maintained by both Personnel & Payroll staff. See Recommendation/Agreed Action 10.
23. Recent files have been divided into section's although information was often found to be slotted in without any checks having been taken to ensure completeness and accuracy of all information required. See Recommendation/Agreed Action 11.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested timescale for completion</u>
3	<u>Summary of Findings Note 11.</u> Incomplete and inaccurate records held. Lack of monitoring and follow up action taken.	Personnel Manager	All contracts of employment should be signed and retained on file. Where contracts have not been signed Personnel should request that the new staff member should be asked to sign the contract by their line-manager/manager on their first day at work and passed to Personnel without delay.	B	End December 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
4	Summary of Findings Note 13. No evidence that legal requirements are fulfilled and risk that cannot identify where errors or ineligibility to work in the UK occur.	Personnel Manager	There should be evidence of eligibility checks having been undertaken to work in the UK these should be retained on file i.e. photocopies of original documents that have been checked and agreed should be initialled and dated by the verifier and placed on file as evidence. This should be undertaken before the new member of staff commences employment.	B	End July 2010
5	Summary of Findings Note 14 & 34. Incomplete audit trail exists. Lack of recording information received and the detail of the information. This impacts upon verifying the accuracy of the Trent system by which all insertions/amendments made to the system should be able to be independently verified and/or authorised.	Personnel Manager	The 'New Entrant Documentation List' /Post Interview Checklist should be fully completed and where section's are not relevant they should be marked as such.	B	End July 2010
6	Summary of Findings Note 15. Lack of recording actions and decisions within the recruitment/selection process. Information may be missed that is crucial in making an appointment to a post.	Personnel Manager	Two references should be requested, received back, reviewed and placed on file, as a minimum. These should be reviewed (signed and dated as evidence) before an offer letter is issued to the successful candidate. Where two references have not been received/requested then a note should be placed on file (signed and dated) to state the reason why this is not possible. Other actions should be considered and where possible undertaken to ensure that risk is minimised in case of the applicant trying to conceal information. These other actions/considerations should also be noted on file (signed and dated).	B	End July 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
7	Summary of Findings Note 2 & 17. There are no checks upon the honesty and integrity of an individual. It also dismisses an opportunity to establish information that would be available had the check been undertaken. A risk of not undertaking the check is that an unfair advantage is received by one applicant over another from the supply (intentional or otherwise) of information provided by an applicant.	Personnel Manager	The highest level of qualification stated on the application form & job specification qualifications should be verified by reviewing the original and a photocopy/or clear note placed on file. The file copy should be signed and dated by the reviewer.	B	End August 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
8	Summary of Findings Note 18. Lack of audit trail and missed opportunity to easily check information supplied in the application form.	Personnel Manager / Pay & Reward Manager	The P45 received should be checked to the application form /reference to verify that the salary the applicant/referee declared agrees. Discrepancies should be investigated. This check should be noted on file. Discussion with the Assistant Pay & Reward Manager revealed that this may not be possible due to other (unknown) components being included within the gross taxable figure on the P45. It may also not be possible to obtain these unknown components. <u>Alternative Recommendation/Agreed Action</u> As a substitute to the above, it may be more appropriate for the reference form to include the request for the current basic salary of the applicant so that cross checks could be undertaken to the application form. Personnel Manager Comment: General Council policy is to appoint at the bottom of the salary scale. However, on an exception basis and with the approval of the Strategic Director or Assistant Director, an employee can be placed higher on the scale. In these exceptional cases, a check on previous to claimed earnings will be made by Managers checking salary on reference form to application form. If not possible Personnel will try to make further checks.	C	End July 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
9	Summary of Findings Note 21. Due to a lack of segregation of duties there are insufficient independence checks being carried out over the data held in Trent. Albeit infrequent checks were being made with Heads of Service, but with the transformation underway it is considered that there is a greater risk in this area for errors to occur/not be detected promptly.	Personnel Manager	Data input into Trent should be independently reviewed. This could be undertaken by sample checking, say on a quarterly basis, a number of new starters for that quarter to ensure that the details input into Trent are complete and accurate and agree to the employee file. A note should be retained of the checks that have been undertaken.	B	End Oct 2010
10	Summary of Findings Note 22 & 34. The security of data is not as robust as it ought to be and the line of demarcation between the role of the Personnel Section and the Payroll Section are hazy. There is a lack of segregation of duties and control in place within the system in operation.	Personnel Manager / Pay & Reward Manager	Operational Support staff should be split between administering 'payroll' and 'personnel' functions to enable a segregation of duties and responsibilities and to provide evidence of greater accountability and demarcation of the two systems. <u>Personnel Manager and Assistant Pay & Rewards Manager Comment:</u> Duties are split and no one individual will set up an employee and attach to payroll. In exceptional circumstances where the split is not possible, the Assistant Pay and Reward Manager checks all details. To totally segregate duties to named individuals goes contrary to what the Council is trying to do to achieve efficiency and flexibility. RECOMMENDATION NOT AGREED AND NO ACTION AGREED TO BE TAKEN. Internal Audit believes, with the absence of this 'key control', a significant control weakness remains within the system.	B	

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
11	Summary of Findings Note 23 & 34. There is no routine monitoring and review of the process in operation by management and therefore there is no opportunity for corrective action to be taken in a timely manner.	Personnel Manager	Management should routinely undertake spot checks of a sample of manual files, say on a quarterly basis, to ensure that there is compliance and consistency in the application of the Council's Personnel policies and procedures and that the files are complete and accurate. Spot checks should be noted, to include the files reviewed and any actions taken.	B	End November 2010

3. Deductions

Method of Review:

Using computer enquiry techniques identify any cases on the payroll system where:

- A tax code;
- An NI number; and
- NI code.

is not shown and investigate the case/s concerned.

Where a temporary NI number (i.e. TN) has been used, other than in the short term, investigate any case/s concerned.

Select a sample of employees having non statutory deduction/s taken from their pay to ensure:

- An instruction is held on file which was signed by either the employee or an authorised employee;
- There is documentary evidence that the instruction was input by one employee and checked by another;
- The deductions are clearly shown on the employee's payslip;
- A holding account or financial code was set up for each type of deduction; and
- Adequate records are maintained that satisfy the Inland Revenue in respect of all tax and national NI contributions deducted.

Using computer enquiries identify any additions appearing in the deductions field and ensure that the reasons are bona fide.

Select a sample of financial codes in respect of both statutory and non-statutory deductions payable to external bodies and check that the full amount of the sums deducted were paid promptly and in full

For each of the above trace to the payment request forms and ensure that:

- They show the payees and amounts payable;
- They clearly show the periods to which the payments relate; and
- They were signed by authorised employees.

Summary of Findings:

24. The Trent system will not allow an employee to be attached to the system without the specific fields being completed with a tax code or NI code respectively. A walkthrough test was undertaken during the 2008/09 audit review to confirm that this was the case. It was confirmed with the Assistant Pay & Reward Manager that there have been no system changes since the previous audit review in this respect.
25. A report was generated from the Trent system to show employees with a missing NI number. Only one employee was listed. The employee commenced employment with the Council on 21 November 2009 but had not been attached to the Payroll element of Trent. It was also established that the employee was listed on a report of new starters generated from Trent for the period 1 April 2009 to 27 November 2009 where it had recorded the employee start date as 23 November 2009.
26. There are no temporary NI numbers in use – HMRC rules do not allow this practice any longer.
27. A sample of 5 employees who have car lease payments deducted from their pay were tested. Testing revealed:
- An instruction was held on file which had been signed by the employee and authorised signatory;
 - There was documentary evidence that the instruction was input by one employee and checked by another;
 - The deductions were clearly shown on the employees payslip/s;
 - A financial code was set up specifically for the deduction (X0406/8422 – Car Lease);
 - There were adequate records maintained to satisfy the HMRC in respect of all tax and national NI contributions deducted;
 - The payments request forms clearly displayed the payees and amounts payable; and
 - The period was clearly displayed to which the payment related and was signed by an authorised signatory.
28. A report of all sums in the deductions field, covering the period of January 2010, was requested from the Assistant Pay & Reward Manager. The report did not highlight any additions for further investigation.

No areas of improvement identified. No recommendations made.

4. Variations

Method of Review:

Select a sample of casual employees paid via timesheets from the latest pay run and check that:

- A valid timesheet exists for each; and
- Where a valid timesheet does not exist, that the payment is for basic pay only and that relevant documentary evidence is obtained that the person exists.

Review the completed timesheets and ensure that:

- Details of the work undertaken and hours worked are shown daily;
- Signed by the employee and an Authorising signatory; and
- Signed and dated when input into the computer system.

Select a sample of salaried employees in receipt of overtime from the latest monthly pay run and check that:

- Claims are on official forms;
- Additional hours are clearly detailed;
- Forms were signed by the employee and certified correct by an authorised signatory; and
- The overtime forms were signed and dated when input into the computer system.

Select a sample of employees receiving sick pay and trace to the relevant sickness return and ensure that:

- The nature of the illness and the number of days absent are stated;
- Details on the sickness returns match those held on the computer system; and
- The forms were signed by the employees and authorised signatories.

Check that where employees:

- Were absent, self certification notes were completed and sent to the payroll section; and
- Have been on long term sickness, a doctor's sick note has been submitted.

Fixed Temporary Adjustments

- Select a sample of employees receiving fixed temporary adjustments, for example honorariums, and confirm that copies of the payment requests are held on file and were certified by authorised signatories.

Select a sample of salaried employees who received pay rises and check that:

- Their pay points match the relevant national pay rates;
- Where the payment was backdated, the calculations are correct;
- Where back-payments involve other items such as standby payments, these were calculated correctly; and
- There is evidence that all calculations were checked and agreed by an independent employee.

Summary of Findings:

29. A sample of 4 casual employees (10% of January report generated from Trent) was selected and tested. All timesheets tested were found to be in order.
30. A walkthrough test of a sample of 2 salaried and waged employees in receipt of overtime from the January monthly pay run was tested. Testing of overtime was found to be in order.
31. A sample of 4 staff was selected from a sickness report generated from Trent for the month of January 2010. Testing revealed the sample to be in order. There were no areas for improvement identified.
32. There were 29 honoraria payments made in January 2010. A sample of 3 was selected. Testing revealed that all 3 had a 'Request to Pay Honorarium' form (Form SF3) on each of the staff members file. All forms had also been appropriately authorised.
33. The Assistant Pay & Rewards Manager was selected to test the pay rise cost (cost of living increase which was also back dated to 1 April 2009) which was administered as part of October 2009 salary payroll. The administration of the pay rise was found to be in order.

No areas of improvement identified. No recommendations made.

5. Leavers

Method of Review:

By enquiry and examination check that there are satisfactory procedures in place to ensure that, prior to an employee leaving, relevant sections are notified so that:

- Computer and physical access rights can be deleted; and
- Any outstanding sums, equipment, keys, security passes and uniforms are reclaimed.

From the payroll system select a sample of leavers from 2009/10 and by examination check that:

- A leaver's form was submitted in each case and that the leavers' notification procedure had been effectively applied in each case.

Review each leaver's form and check that it shows:

- The leaver's full name, post number and description, termination date and items and sums to be recovered;
- The termination date shown on the form agrees with the date recorded on the computer system;
- The form was submitted sufficiently in advance of the leaver's termination date;
- The form was signed by the leaver and an authorised signatory;

- Where the form was not signed by the leaver, the reason is stated and reasonable; and
- The leaver's form recorded the date when the record was updated.

Review a sample of final payslips for each leaver and confirm:

- Pay ceased on the last day of service;
- All outstanding financial sums reported are deducted;
- P45 notifications were issued promptly to HMRC; and
- There is evidence on file of the action taken in respect of superannuation and that the fund administrators were advised accordingly.

Review a sample of employees who have transferred between posts within the Council and trace to the official internal transfer forms. In respect to each form check that:

- They were submitted in a timely manner; and
- The details on the form agree to those on the payroll and personnel systems.

Trace and agree each leaver and transfer case, for sample above, to the list of leavers and transfers held by personnel and check that the listing was signed and agreed by an independent employee.

Summary of Findings:

34. A report was generated covering the period 1 April 2009 to 27 November 2009. There were 70 leavers during this period. A sample of 7 leavers was selected, starting at the 3rd leaver on the list and selecting every 10th leaver on the list thereafter.

Discussion and testing revealed the following:

- A standard leaver's form had been completed and inserted into each file of the sample with the exception of one where there were no details of the person having left the Authority. There was no leaving details on this file; See Recommendation/Agreed Action 13.
- The full name and employee reference had been completed on all the forms reviewed;
- The standard forms do not request the post title to be stated so these were not written on the forms. However, the Directorate/Service was included on the form and completed;
- All forms stated the last work day date and the final day of paid service;
- The forms request details of items and sums to be recovered on the 'Notification of Employee Leaving Form' and 'Employee Leaving Checklist';
- The Employee Leaving Form for the sample tested was found to have been submitted before the leaver departure date with the exception of one, where there had been a slight delay by the Head of Service (identified by the date next to the Head of Service signature);
- All forms were signed by the leaver and their manager with the exception of one form, however the reason was satisfactorily stated on the form as to why there was no employee signature;
- Operational Support staff had signed the forms indicating that the necessary amendments had been made to Trent;
- The informing of relevant section's regarding computer and physical access rights to be deleted and security passes returned, is included within the

'Employee Leaving Checklist'. It was found that only 2 individual's files (out of the 7) had a completed checklist. Generally there was no evidence of contact having been made to the relevant section/s to inform them that the individual was leaving;

- A discussion was held with a Service Desk Technician (ICT Section) where it was established that e-mails of leavers sent from the Trent system are received;
- The pay was found to have been ceased on the last working day of service for 6 of the 7 leavers. It was ascertained that the exception arose due to the manager having not passed the leaver information to Operation Support staff in a timely manner for processing. Following further investigation it was found that the overpayment of salary has been satisfactorily recovered;
- It was not clear for two leavers within the sample, whether all outstanding financial sums reported had been deducted from final salary. Both related to post entry training. Recovery for one of the leavers may not have been applicable (again there was no note on file) as it was due to a redundancy situation. However, there is concern over the other financial sum, that there is inconsistency of decision making, as there was evidence on file to say that an agreement had been reached between the Head of Service and the leaver to waive the amount. Further notes (e-mail) identified that this should be discussed with the Head of Personnel & Development and the Personnel Manager. There was no outcome noted on file. It can be confirmed that the amount was not covered via payroll. However, the sum can and is most likely to be recovered by Debtors. If a debtors account is set up it would allow greater flexibility to make a payment arrangement. A review of Debtors revealed that neither of the leavers had an invoice raised on the debtors system for recovery of the outstanding amounts; See Recommendation/Agreed Action 11.
- The New Entrant Documentation List (stapled on the inside cover of each employee file) includes the recording of the date the individual leaves the Council and the reason for leaving. Testing revealed one file had recorded the date of leaving a day later than actual and three files where there was no reason for leaving stated. Discussion with the Assistant Pay & Reward Manager revealed that there is no requirement to record this information as the information should already be included on file (Leavers Form!). The Internal Audit response was that either the request box was completed or the form was reviewed for the information required to checked/recorded and if necessary removed or blacked out as not being required; See Recommendation/Agreed Action 5.
- Testing of the personnel record has not been undertaken as it was stated by the Assistant Pay & Reward Manager that personnel and payroll are one and the same system. This, however, does raise concerns over the segregation of duties and responsibilities as there is no clear divide between personnel and payroll functions. It is understood that there is a move to integrate the personnel and payroll systems which is also currently happening at other Council's, however there should still be a segregation of duties. This would be achieved through implementing user accesses and access levels so that there is a clear division between personnel and a payroll duty and responsibility; and See Recommendation/Agreed Action 10.
- It has been recognised that there is a lack of segregation of duties and responsibilities between personnel and payroll for some time and it is understood that the risk has been accepted. However, a review of the risk registers identified that there is no log of such a risk. See Recommendation/Agreed Action 12.

35. A report of internal transfers was obtained covering the period 1 April 2009 to 27 November 2009. There were 52 internal transfers during this period. A sample of 5 transfers was selected, starting at the 6th transfer on the list and selecting the every 10th transfer thereafter.

Discussion and testing revealed:

- There is no standardised official 'Transfer Form'. The information available on the employee file was used for testing purposes. The New Entrant Documentation List was also not completed. By its nature it is generally not designed for this purpose; There appears to be no standard process adopted for the treatment of internal transfers. Testing revealed a mix of evidence: A note on file (which was not signed or dated), A new statement of particulars

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**APPENDIX A
Matter Arising/Action Plan**

which had been signed and dated by a member of Operational Support staff on input to Trent, and A letter; and <u>See Recommendation/Agreed Action 13.</u>					
The sample (with the exception of the unsigned note) suggests that the information had been submitted in a timely manner. The unsigned note referred to a post title change than a salary change.					
<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
12	<u>Summary of Findings Note 34.</u> There is currently no clear and defined roles between the personnel and payroll functions. Operational Support staff are involved in undertaking duties and responsibilities in the administration of both systems thus there is no segregation of duties and responsibilities in operation. There is also no risk identified within the operational risk register and therefore there is no monitoring of this risk taking place.	Personnel Manager / Pay & Reward Manager	If there is not to be a segregation of duties and responsibilities between the personnel and payroll functions then the risk posed should be assessed and included within the operational risk register.	B	End June 2010
13	<u>Summary of Findings Note 34 & 35.</u> Testing has highlighted that service managers are not aware/properly discharging their duties and responsibilities in relation to personnel/payroll matters.	Personnel Manager	Personnel should remind service managers of their duties and responsibilities for recruitment purposes to ensure that the information received by personnel is complete, accurate and in accordance with Personnel policies and procedures. When information is to be filed this should be promptly undertaken so that all files are complete and accurate.	B	End July 2010

6. Payments

Method of Review:

Confirm by enquiry/observation that the payroll system prevents payment to an employee unless their record shows a tax code and NI number.

By enquiry confirm that there is adequate separation of duties in place i.e. covering the distribution of payslips and returned payroll post is dealt with independently of the payroll section.

By inspection check that:

- The most recent HMRC annual return detailing payments made was submitted within the required timescale; and
- Payslips and P60 forms were issued promptly to employees.

By enquiry confirm all new employees are required to receive payments via BACS and by detailed examination, check that there are adequate controls in place to ensure that BACS payments are:

- Despatched in time to meet the BACS processing deadline;
- Agreed to the BACS transmission file before and after releasing the payments;
- Securely transmitted;
- The BACS limit is regularly reviewed to ensure that it is not too excessive;
- Appropriate senior manager/s independent from payroll, are responsible for setting the BACS transmission limit;
- The fidelity guarantee insurance maintained by the Council includes all relevant employees involved in the procedure and that the financial cover is reasonable;
- BACS transmissions are carried out independently of payroll;
- Controlled through the use of passwords;
- Only carried out after the number of records on the transmission file has been agreed back to the control totals; and
- Subject to BACS 'audit' software routines.

Check that the current BACS transmission limit is reasonable by reference to the total amounts paid in respect of recent payroll runs.

Examine the latest months salaries BACS input reports and:

- Where they highlight a random number of records, check that each was compared by staff to computer printouts, payslips and the computer system to confirm correctness;
- Ensure that the amount of the transmission was within the Council's specified limit;
- Compare the input report produced by the BACS with the transmission print out and the computer control totals and check that all details agree;
- Investigate the audit report cases, tracing back to the transmission print out and computer master record to confirm that all details agree;
- Select any rejected records;

~ Confirm that all payments were re-credited to the salaries bank account; and

- ~ Check that the payment due was made by an alternative method and recorded on the computer records of the employee concerned.
- Trace the BACS total to the Council's bank account and agree the amount debited.

From the BACS report select a sample of the employees and trace them to the system to check that the net pay shown agreed to that on their copy payslips.

Select a sample of employees receiving cheque payments from recent cheque payment print outs and confirm:

- Where cheques are distributed to employees that the:
 - ~ Staff who undertook this duty were independent of the payroll function;
 - ~ Employees concerned signed to acknowledge receipt of the cheques; and
 - ~ Signatures match the specimen signatures held on file.
- Where cheques are posted to employees, a record is maintained of when the cheques were despatched and the system records the relevant cheque numbers used.

By enquiry identify any cheques returned or undelivered (unpresented cheques etc) and check that:

- The cheques were sent directly to and dealt with by a section independent of the one that issued the cheques ;
- The reasons for their return and/or not being presented were promptly and effectively investigated, and appropriate action was taken (e.g. cheques cancelled and further payments stopped);
- A record is maintained of:
 - ~ All cheques returned;
 - ~ The results of the investigations; and
 - ~ Actions taken.
- There is documentary evidence that the 'returns' record is regularly reviewed by an independent person to ensure all cheques have been dealt with satisfactorily.

It was confirmed by the Assistant Pay & Rewards Manager that there are no salaries paid by cash.

Obtain and examine the emergency payments procedure and check:

- It is clearly defined;
- Transactions are satisfactorily controlled, recorded and authorised; and
- Adequate control measures have been established.

Summary of Findings:

36. It was confirmed by enquiry that the payroll system prevents payment to an employee unless their record shows a tax code, NI number and code.
37. By enquiry with the Assistant Pay & Rewards Manager it was confirmed that there are adequate separation of duties in place i.e. covering the distribution of payslips and returned payroll post is dealt with independently of the payroll section.

38. It was confirmed with the Assistant Pay & Reward Manager that P60's were handed out prior to the 19 May 2009 deadline for 2008/09 (2009/10 are to be completed shortly once all year end reports and balances are completed).
39. Regarding the HMRC Annual Return, there is a timetable showing when the return should be submitted. The previous return (2008/09) was electronically transmitted to the Inland Revenue and the return passed their quality check on 6 May 2009. The deadline for submission was 19 May 2009, which was met.
40. Discussion with the Audit Commission revealed that there is a payroll processing checklist in operation which is a good control, however there are just ticks indicating that the actions have been taken. It would be more effective if there was ownership through initialling and dating when actions had been undertaken rather than just ticks. See Recommendation/Agreed Action 14.
41. A meeting was held with the Assistant Pay Services Manager and she advised that most employees are now paid by BACS. Occasionally, they are a few cheque payments; these are usually to casual staff or one off payments for work done for the Authority.
42. There is a timetable which the Payroll staff adhere to when transferring BACS payments to ensure timely despatch. Before each BACS transmission the files are checked by a pre-run and then before the actual BACS run to ensure accuracy. Payroll informs ICT that the BACS file is ready for transmission and ICT transmit the file securely. This gives complete segregation of duties as the payroll and ICT functions of the process demand separate passwords to undertake the work. The transmission file is checked and signed by an Authorised Manager before releasing of the BACS payment.
43. The BACS limit to date (29 April 2010) is set at £1.1M. The Bank was contacted for the October payroll salaries (due to Job Evaluation back pay) to temporarily raise the BACS limit to ensure that the payments were processed. It is the responsibility of the Treasury and Insurance Manager to set the BACS transmission limit.
44. Tests were carried out to review the total BACS payroll payments:
- | | |
|------------|--|
| • November | £1,002,318.80 |
| • December | £1,004,204.75 |
| • January | £ 942,578.92 (Salary reduction stated as being a combination of factors, e.g. reduction in senior managers and fewer casual staff) |
45. By reference to the total amounts paid in respect of recent payroll runs, the BACS transmission limit is reasonable.
46. The fidelity guarantee insurance maintained by the Council includes all relevant employees involved in the procedure and that the financial cover is reasonable. This area was covered in the Treasury Management review 2009/10 where a recommendation has been made in the report of the aforementioned review area. Per the Treasury Management Report - due to the recent Transformation exercise, the majority of the posts listed on the Fidelity Guarantee insurance policy no longer exist. It is the intention to update these as part of the policy renewal exercise that is due in May 2010. Recommendation: The brokers should be sent formal notification as to who is authorised by the Council to deal with them.
47. It was confirmed by the Assistant Pay & Rewards Manager that there are no salaries paid by cash.

48. January BACS input reports and relevant documentation was obtained for January and found to be in order. There were no details of any rejected records found.
49. April 2010 salary payments were paid a day late due to a BACS administrative error. The error related to the bank processing date being incorrectly inserted (the 15th of the month rather than the 14th). A review of the process was undertaken by the Assistant Director (Resources) in conjunction with Payroll and ICT. This resulted in additional controls being included within the system to prevent the error occurring again.
50. One employee was selected from the BACS report and traced to Trent to check that the net pay shown agreed to that on their copy payslips. No area of concern was highlighted.
51. Cheque payments have not been tested during this review. These are seen to be of lower risk and covered by other systems (e.g. creditors) for which material audit reviews have been carried out covering these areas.
52. Discussion with the Assistant Pay & Reward Manager revealed (regarding the emergency payments procedure) there is a BACS contingency file along with 2 memory sticks and a hard copy retained of the payroll rollover from the old month to the new month. So the maximum loss of data would be from the commencement of the rollover to the point in time during the new month.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
14	Summary of Findings Note 40. There is no ownership of the 'Payroll Processing Checklist' and there is a lack of evidence of an independent review being undertaken to verify that all appropriate actions have been made.	Pay & Rewards Manager	The 'Payroll Processing Checklist' should be signed and dated by the person who undertakes the required actions.	B	End June 2010

7. Reconciliation and Security of Data

Method of Review:

By enquiry and examination check that reports are produced on a regular (e.g. half-yearly) basis, independently of the payroll section, which:

- Lists by unit the name of each employee who is charged to the cost code/centre;
- Shows for each employee their:
 - ~ Post number;
 - ~ Salary and or grade; and
 - ~ Status (for example, full or part-time, permanent or casual).
- Are sent out direct to each Head of Service, independently of the payroll:
 - ~ For each Head of Service to confirm in writing that the data shown for their unit is correct; and
 - ~ They are advised to refer any queries to internal audit for investigation.

Reconciliations are regularly undertaken independently of payroll of:

- The gross pay control account in the ledger/payroll data to the main accounting system;
- Payroll suspense accounts (and that they are promptly cleared);
- Payroll holding accounts; and
- Payroll data to the main accounting system.

Confirm data security by:

- Checking the Information Commissioner's website that the system is registered.

Through examination:

- Review the Council's information classification and data retention policies and note any references to the system's data and documents;
- Check the relevant documents and data are held in accordance with the policies; and
- Check that there are satisfactory business continuity plans in place.

Select a sample of staff involved in the system and confirm that they are aware of, understand and have received training in:

- Data Protection;
- Information classification (including 'clear desk' policy); and
- Data retention.

Electronic data – Trent system – By enquiry and review confirm:

- User and access levels are applied and regularly reviewed for appropriateness;
- System parameters are set by senior level officers and there is restricted access to this part of the system; and
- Regular back-up of data is performed.

Paper based – Files and records – By enquiry and physical examination confirm:

- Personal/classified files and records are held in secure filing cabinets (or equivalent) that are locked when not in use;
- Adequate controls are in place to prevent unauthorised persons from accessing the files and records;
- The room or area/s where they are held is:
 - ~ Secure; and
 - ~ Environmentally satisfactory (e.g. to protect against dampness).
- The files are satisfactorily marked and filed to enable them to be easily located.

Summary of Findings:

53. By enquiry (follow up of previous audit Recommendation/Agreed Action) it was established that currently reports are not produced on a regular (e.g. half-yearly) basis, independently of the payroll section, which:

- Lists by unit the name of each employee who is charged to the cost code/centre;
- Shows for each employee their:
 - ~ Post Number;
 - ~ Salary and-or grade; and
 - ~ Status (For example, full or part-time, permanent or casual).
- Are sent out direct to each Head of Service, independently of payroll:
 - ~ For each Head of Service to confirm in writing that the data shown for their unit is correct; and
 - ~ They are advised to refer any queries to internal audit for investigation.

See Recommendation/Agreed Action 15.

54. Payroll reconciliation's are independently performed (by Accountancy) on a monthly basis.

55. Discussion revealed that the Administration Assistant in Policy & Performance is currently responsible for the Council's Data Protection registration requirements. The Data Protection information supplied by Carlisle City Council was obtained from the Information Commissioner's Data Protection Register on the internet. A review of the register revealed that Carlisle City Council is registered to 22 October 2010 and covers Payroll and Personnel data.

56. Discussion with the Administration Assistant in Policy and Performance revealed that there are currently no specific 'information classification' and 'data retention' policies in place. However, regarding data retention this is covered in the Council's Constitution although it is not comprehensive. It does cover financial records for the purposes of this audit. Through observation it can be confirmed that the relevant documents and data were found to be in accordance with the Constitution requirements.

57. Discussion with the Audit Commission – Payroll reconciliation of monthly pay to budget (manual spreadsheet) good control in place which is effective however improvement could be made if the reconciliation was undertaken electronically rather than manually. The Assistant Pay & Reward Manager was not of the same view and preferred that it remained manual with the supporting documentation held in the same file.

58. A business continuity plan is in place (however, it will need to be updated at the end of the Council's Transformation process to reflect the changes made).
59. A sample of staff involved in the system confirm that they are aware of, understand and have received training in:
- Data protection; and
 - Data retention.
60. User and access levels are applied and regularly reviewed. System parameters are set by the Pay & Rewards Manager and the Assistant Pay & Rewards Manager has access for cover in the absence of the Pay & Reward Manager. Data is regularly backed up by ICT on a nightly basis.
61. The Personnel & Payroll office is located on the 2nd floor of the Civic. Entry into the Personnel & Payroll office is by electronic door pass entry. Personnel files and records are held in filing cabinets which are protected for unauthorised access by lock and key. The filing cabinets are locked when not in use. Files are marked up and are easily located.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
15	Summary of Findings Note 53. Previous Recommendation/Agreed Action not implemented.	Assistant Director (Resources) – SMT? (All Assistant Directors)	Verification of the payroll to be carried out (independently of the Payroll Section to ensure completeness and accuracy). Personnel Manager Comment: The intention is to implement this recommendation, however it is subject to the timing and speed of the transformation process. Personnel is closely involved with the structures and transformation so any risk associated to change is not considered high. If any anomalies were identified they would be raised.	B	End Jan 2011

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REPORT TO EXECUTIVE

PORTFOLIO AREA: Governance and Resources

Date of Meeting: 4 June 2010

Public

Key Decision: No

Recorded in Forward Plan: No

Title: STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2010/11

Report of: Assistant Director (Resources)

Report reference: RD 4/10

Summary:

This report gives details of the updated Strategic Audit Plan and the proposed Audit Plan for 2010/11. The report was initially reviewed by the Audit Committee on 9th April 2010 and agreed subject to the plan being amended to more clearly identify certain audit areas and to provide further information detailing resource utilisation. These changes have been endorsed by the Chair of the Audit Committee and duly incorporated into this report.

Recommendations:

Members are requested to: -

- Consider the revised Audit Risk Assessment (Strategic Risk Based Plan), which is attached at APPENDIX A prior to submission to Council for approval.
- Approve the Internal Audit Plan for 2010/11, attached as APPENDIX B.
- Note the Risk-Assessment Model attached as APPENDIX C

Contact Officer: N. Pearson— Interim Audit Manager Ext: 7292

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

STRATEGIC AUDIT PLAN AND AUDIT PLAN 2010/11

1 INTRODUCTION

- 1.1 Under Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988, the Assistant Director (Resources) is statutorily responsible for the proper administration of the Council's financial affairs. In addition, the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment)(England) Regulations 2006, require the Council to *"maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control"*.
- 1.2 Internal Audit Services are an important resource in enabling the Assistant Director (Resources), the Audit Committee and the Council to fulfil their duties and it is important to ensure that the work of Audit Services is effective so as to give assurance of the probity of the Council's financial affairs. This applies whether these audit services are undertaken fully in-house, via a bought in or managed service or through shared service arrangements. In 2010/11, Carlisle City Council, Cumbria County Council and Copeland Borough Council will at some point during the financial year adopt a formal shared audit service to help facilitate an effective system of internal control. The audit plan has been formulated on the basis of the direct audit days available under revised arrangements.
- 1.3 It is appropriate that the annual Audit Plan should be presented to and approved by the Council's Audit Committee at the start of each financial year. This gives Members the opportunity to question the Assistant Director (Resources) who carries Section 151 responsibility and the Head of the Audit on the proposed programme of Internal Audit work for the forthcoming year. It is also appropriate for Members of the Audit Committee to consider the "Audit Risk Assessment (Strategic Plan)" - prior to submission to the Council for approval. The plan reflects amendments discussed at the Audit Committee of 9th April, which will assist the Audit Committee to better monitor progress against the plan.
- 1.4 Members should note that performance against the 2010/11 Audit Plan, together with any issues arising, will be reported to Committee on a quarterly basis.

2 STRATEGIC PLAN

- 2.1 In accordance with the provisions of the Accounts and Audit Regulations outlined in paragraph 1.1 above, the Authority is required to comply with the "CIPFA Code of

Practice for Internal Audit in Local Government in the United Kingdom". This Code states that *"Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy which is approved by the organisation, taking into account the organisation's risk - management process"*.

- 2.2 This Authority follows the above approach - which accords with current thinking in the Audit Profession - and plans only for one year ahead, based on the perceived and changing risks that the Authority is facing at any given time. The agreed method is to use a risk-assessment model to calculate the relative risk related to each area of the Authority's activities subject to audit review.
- 2.3 The County Council's Audit Manager who will be assuming responsibility for the City Council has reviewed the plan, and confirms it has been prepared in line with best audit practice.

3 RISK ASSESSMENT MODEL

- 3.1 The Strategic Plan (entitled "Audit Risk Assessment – Strategic Risk Based Plan"), outlined as **Appendix A**, has been updated based on known changes to procedures, findings arising from Audit reviews etc. The Corporate and Operational Risk Registers have been used in the risk-assessment process as appropriate. Reference has also been made to those systems that have been identified by the Directorates as being "business critical". Whilst still in effect an Audit Plan, this approach does **not** envisage coverage of all audit areas over any pre-determined period. Instead, this model should be reviewed alongside the summary audit plan for 2010/11 at **Appendix B** which sets out those audits scheduled for completion in the year. Successful completion of the plan is dependent on the number of Audit staff available, ad-hoc demands etc. Where possible, audit reviews have been grouped together to develop the "theme-based" approach.
- 3.2 The Risk Assessment Model is attached for Members' information as **Appendix C**. The model itself is in line with a version that has been endorsed by CIPFA and by the Institute of Internal Auditors.
- 3.3 The model excludes "material reviews" which are fundamental to attaining good corporate governance and stewardship in achieving accountability and transparency. These systems have a high impact on the main financial system and therefore on the Authority's accounts. These reviews are undertaken regardless of their "risk-score" on

an annual basis as required by the Audit Commission. In 2010/11 there are 12 specific material audits (see Appendix B) which will receive varying levels of coverage dependent upon the scope of the review and level of assurance attained from the 2009/10 audit process. Including carry forwards from the 2009/10 programme of work, the overall allocation to material audit work is 200 days which also includes a contingency of 15 days.

4 OPERATION OF THE REVISED RISK-BASED ASSESSMENT

- 4.1 As will be seen from the "Audit Risk Assessment – Strategic Risk Based Plan" attached as **Appendix A**, which covers in all some 84 potential areas for review, the "Calculated Risk Indicator" ranges from 3 to 90. This gives a range of 88 "risk-points" between the highest and lowest risks, from which the "high", "medium" and "low" risks have been calculated as follows:-

RISK	POINTS RANGE	NUMBER OF REVIEWS	%
HIGH	From 66 to 90	15	18
MEDIUM	From 33 to 65	38	45
LOW	From 3 to 32	31	37
TOTAL	From 3 to 90	84	100

- 4.2 This method of calculating the risk is of course dynamic and, necessarily, to some extent subjective. Once an audit review has been completed, a decision is made as to whether or not, based on the findings of the review and management action taken on the recommendations made, any of the element/s in the calculation need to be changed.
- 4.3 A contingency of 39 audit days has been set aside for any significant extra demands on audit time, which will be recorded and reported to members in the quarterly Audit Services progress reports and any significant variances will be authorised by the Assistant Director (Resources) as necessary.
- 4.4 To enable the Audit Committee to monitor progress against the plan, the summary audit plan at **Appendix B** shows the estimated number of days for the completion of each audit. The allocation of days is a best estimate of the time required to complete an audit, which will be reflected in audit scopes. If it becomes apparent that the number of days will be insufficient to complete the work, the Audit Manager / Principal Auditor will be responsible for either authorising additional time or reducing the scope. Significant

variations to the plan will be reported to the Audit Committee. Other than the material systems reviews and 40 days for low risk work (see 4.7), the summary audit plan 2010/11 predominantly comprises audits identified as high risk at **Appendix A**.

- 4.5 If requests for any new areas of work arise during the year which are likely to take more than five days, a Variation Form will be completed for signature by the appropriate Director and the Assistant Director (Resources). On occasions, situations may arise which requires an instant response – e.g. fraud investigation – hence the incorporation of the contingency previously identified. Under this revised approach, the plan is therefore “self-determining” in terms of the work required. Any significant changes to the Plan will be reported to Members periodically.
- 4.6 At the commencement of each review, an Audit Brief will be prepared and subsequently agreed with/by the Audit Manager or Principal Auditor based on the system/s in operation, perceived risks, changes since previous review etc. It is the responsibility of the Audit Manager/Principal Auditor to ensure that time taken on each review is reasonable.
- 4.7 It can be seen from the above approach that a significant number (31) of the areas listed on the Strategic Plan as “low-risk” would be extremely unlikely ever to rank highly enough to warrant an audit review based on their current risk indicator. A revised approach to “low-risk” reviews was agreed by Members at the meeting of this Committee in April 2008. An allowance of 40 days is now included in the Annual Plan to review a small number of low-risk areas in order to gain assurance that the risk-model is operation accurately at both “ends of the scale”.
- 4.8 This also provides the facility to have a number of smaller, quicker reviews to fall back on when – inevitably – an audit is delayed through staff absence, unexpected events etc. together with a means of “basic training” for new/inexperienced audit staff.
- 4.9 In terms of overall coverage, Appendix B reflects that the minimum number of direct audit days available under the revised shared service arrangements is 519. The figure reflects that the total time to be utilised during 2010/11 will facilitate the completion of all material reviews and follow up work leaving over 300 days to be allocated to mainly high but also a number of medium and low risk system based audits.

5 RECOMMENDATIONS

5.1 Members are requested to:-

- Consider the “Audit Risk Assessment – Carlisle City Council Strategic Risk Based Plan 2010/11” that is attached at **APPENDIX A** prior to submission to Council for approval.
- Approve the Internal Audit Plan for 2010/11, attached as **APPENDIX B**.
- Note the revised Risk-Assessment Model attached as **APPENDIX C**

6. REASONS FOR RECOMMENDATIONS

6.1 In order to meet the requirements of the CIPFA Code of Practice for Internal Audit and to facilitate the Audit Committee’s rules of governance.

7. IMPLICATIONS

- **Staffing/Resources** – Serves to ensure the appropriate use of Internal Audit resources.
- **Financial** – The revised shared service arrangements facilitate financial savings
- **Legal** – Not applicable
- **Corporate** – Not applicable
- **Risk Management** – The Strategic and Annual Audit plans are formulated in accordance with a full evaluation of Authority wide risk.
- **Environmental** – None
- **Crime and Disorder** – None
- **Impact on Customers** – None
- **Equality and Diversity** – None

Impact assessments

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?		
Age	No	n/a
Disability	No	n/a
Race	No	n/a
Gender/ Transgender	No	n/a
Sexual Orientation	No	n/a
Religion or belief	No	n/a
Human Rights	No	n/a
Social exclusion	No	n/a
Health inequalities	No	n/a
Rurality	No	n/a

If you consider there is either no impact or no negative impact, please give reasons:

The Audit Plan as proposed does not have any impact on any of the identified equality issues.

If an equality Impact is necessary, please contact the P&P team.

Assistant Director (Resources)

April 2010.

AUDIT RISK ASSESSMENT**Carlisle City Council Strategic Risk Based Plan**

Directorate	Audit Type	Audit Area	Total Risk Calculated Score	Risk Category
Resources	RISK BASED	External Funding / Grant Monitoring	90	High
Community Engagement	RISK BASED	Customer Contact Centre	89	High
Local Environment	RISK BASED	Grounds Maintenance, Parks and Open Spaces (inc Park Wardens, Arboriculture & Landscape Services)	86	High
Resources	CORPORATE	GIS	79	High
Local Environment	RISK BASED	Recycling	77	High
Economic Development	RISK BASED	Carlisle Tourism Partnership (inc marketing, TICs and Conference Group)	77	High
Resources	RISK BASED	Facilities Management / Building Maintenance	72	High
Resources	RISK BASED	Property Portfolio (AMP, management arrangements, acquisitions, disposals)	70	High
Local Environment	RISK BASED	Street Cleaning / area maintenance	70	High
Community Engagement	RISK BASED	Tullie House - arts and museums inc Guildhall	69	High
Local Environment	RISK BASED	Community Wardens (Eco / Dog Wardens)	69	High
Community Engagement	CORPORATE	Partnerships	68	High
Carlisle Renaissance	CORPORATE	Carlisle Renaissance	68	High
Economic Development	RISK BASED	Local land and Conservation	66	High
Local Environment / Resources	RISK BASED	Insurance - including coverage of Playground Maintenance	66	High
Resources	CORPORATE	Recharges	65	Medium
Community Engagement	RISK BASED	Community Events	61	Medium
Local Environment	RISK BASED	Food Standards inc H and S inspections	58	Medium
Resources	RISK BASED	Procurement	57	Medium

Chief Executive's Office	CORPORATE	Sickness Monitoring	56	Medium
Local Environment	RISK BASED	Pest Control	55	Medium
Community Engagement	RISK BASED	Children & Young People	54	Medium
Resources	RISK BASED	Garage	54	Medium
Resources	RISK BASED	VAT	53	Medium
Chief Executive's Office	RISK BASED	Media relations, PR, Corporate Identity & Marketing	49	Medium
Resources	CORPORATE	Flexitime	48	Medium
Local Environment	RISK BASED	Public / Street Lighting	48	Medium
Governance	CORPORATE	Tendering / Contracting	46	Medium
Local Environment	RISK BASED	Highways Maintenance (inc Claimed Rights)	46	Medium
Chief Executive's Office	CORPORATE	Business Continuity Planning (Inc IT Recovery)	44	Medium
Resources	RISK BASED	Transport and Plant- Repairs & Renewals / Asset Register	44	Medium
Community Engagement	RISK BASED	Community Engagement	44	Medium
Community Engagement	RISK BASED	Supporting People (Homelessness/Hostels/Housing Assoc)	43	Medium
Resources	CORPORATE	Risk Management	43	Medium
Community Engagement	RISK BASED	Community Safety & Anti Social Behaviour - CDRP	43	Medium
Governance	CORPORATE	Quality Management / Accreditations/ Standards	43	Medium
Local Environment	RISK BASED	Talkin Tarn	43	Medium
Chief Executive's Office	RISK BASED	Training and Development (employees & Members)	42	Medium
Community Engagement	CONTRACT	Monitoring service delivery of CHA	42	Medium
Governance	RISK BASED	Electoral Registration and inc. Fees and Expenses	42	Medium
Community Engagement	RISK BASED	Bereavement Services	42	Medium
Chief Executive's Office	CORPORATE	Emergency Planning	41	Medium
Chief Executive's Office	RISK BASED	Information Management (FOI/DP/Records management)	41	Medium
Economic Development	RISK BASED	Building Control	40	Medium
Economic Development	RISK BASED	Development Control inc. Access Grants	39	Medium
Governance	CORPORATE	Committee Reporting Arrangements	38	Medium
Governance	RISK BASED	Land Charges	37	Medium
Governance	CORPORATE	Health & Safety	36	Medium
Local Environment	RISK BASED	Pollution Control & Contaminated Land)	36	Medium
Economic Development	RISK BASED	Industrial Estates - lettings	35	Medium

Resources	RISK BASED	Concessionary Fares	34	Medium
Resources	RISK BASED	Telephones	34	Medium
Community Engagement	RISK BASED	Health Promotion & Partnerships	33	Medium
Chief Executive's Office	CORPORATE	Equality and Diversity	32	Low
Resources	RISK BASED	Corporate Properties - lettings	32	Low
Local Environment	RISK BASED	Refuse Collection	31	Low
Resources	CORPORATE	Compliance to Codes of Conduct	29	Low
Local Environment	RISK BASED	Highways Insurance Claims	27	Low
Resources	RISK BASED	PAYE & NI	27	Low
Resources	RISK BASED	Non Standard Payments to Employees	26	Low
Governance	RISK BASED	Gifts and Hospitality	23	Low
Resources	RISK BASED	Early Retirement & Redundancy	23	Low
Resources	RISK BASED	Building Resources / Cleaning	22	Low
Resources	RISK BASED	Stores	21	Low
Economic Development	RISK BASED	Covered Market	21	Low
Economic Development	RISK BASED	Business Development	19	Low
Community Engagement	RISK BASED	Sports Development	18	Low
Community Engagement	RISK BASED	Advice Agencies (inc Benefits Advice, Law Centre, CAB)	17	Low
Resources	CORPORATE	Council Complaints Procedure inc LG Ombudsman	16	Low
Local Environment	RISK BASED	Land Drainage	16	Low
Resources	RISK BASED	Grants to Parish Councils	16	Low
Local Environment	RISK BASED	Allotments	14	Low
Governance	RISK BASED	Town Twinning/Youth Exchange	14	Low
Economic Development	RISK BASED	Enterprise Centre	13	Low
Resources	RISK BASED	Building Security (inc Keepers)	13	Low
Governance	RISK BASED	Licensing	12	Low
Resources	RISK BASED	Payments to Members	12	Low
Governance	CORPORATE	Mayor & Civic Services	12	Low
Resources	CORPORATE	Corporate Charge Card	10	Low
Community Engagement	CONTRACT	Leisuretime/Carlisle Leisure (client)	10	Low
Economic Development	RISK BASED	Shopmobility	5	Low
Resources	RISK BASED	Public Conveniences	5	Low
Resources	RISK BASED	Car Leasing/Car loans	4	Low
Local Environment	RISK BASED	CCTV	3	Low

CARLISLE CITY COUNCIL**RESOURCES DIRECTORATE****SUMMARY AUDIT PLAN 2010/11****Chargeable time – estimated available 519 "audit-days"**

The following are anticipated: -

Estimated Days

Material System c/f	20
Material Systems Reviews (*)	180
Follow up reviews	10
Low Risk reviews(**)	40
Total	250

(*) The material Systems Reviews comprise: -

• Main Accounting and Budgetary Control	20
• Sundry Debtors	15
• Creditor Payments	15
• Treasury Management (Loans/Investments)	10
• Housing Benefits	15
• Payroll	15
• Council Tax	15
• NNDR	15
• Cash Collection	10
• Fixed Assets/Capital Accounting	15
• Improvement Grants	10
• Car Parking Income	10
• Contingency	15
Total	180

(**) The low risk reviews comprise:-

• Building Resources / Cleaning	10
• Highways Insurance Claims	10
• Advice Agencies	10
• Sports development	10
Total	40

Based on the estimated available 519 direct audit days under the shared service arrangements this leaves 269 days to undertake the following reviews which are detailed below and form a part of the overall risk assessed plan at Appendix A. Contingency is

allowed for any unforeseen staff changes, additions to the Plan, fraud investigations etc, as may arise during the year.

•	Area Maintenance	15
•	Personnel	10
•	Insurance	10
•	Partnerships	15
•	Green Spaces	15
•	Facilities	10
•	Procurement	10
•	Rents for Properties	10
•	Grants	10
•	Carlisle Renaissance	15
•	Building Control	05
•	Recycling	10
•	Customer Contact Centre	20
•	GIS	15
•	Carlisle Tourism Partnership	15
•	Pest Control	10
•	Food standards	10
•	Health & Safety	10
•	Tullie House	15
	Contingency	39
	Total	269

AUDIT RISK ANALYSIS MODEL

APPROACH

The purpose of audit risk analysis is to determine a schedule of priorities for audit attention thereby allowing the creation of an Audit Plan.

The model was developed by Business Risk Management Ltd in 2002 – taking into account the best practice from other models and verifying the results with hundreds of internal audit functions. The model has been regularly updated is used by at least 1,000 internal audit functions across the world.

The model is predicated on the basis that all risks are relative but that they can be compared by combining three key factors: -

1. The size of the risk or exposure.
2. The likelihood that the risk will materialise and
3. The probability of the consequences being detected if the risk does materialise.

Each of these 3 factors is given an equal overall weighting to reflect the fact that audit assessment is a combination of risk and control.

The risks in each function or system throughout the Authority are then evaluated to create a score for each of the three categories above. The sub-categories are given different weightings to reflect their relative importance.

RISK MODEL METHODOLOGY

For each business function or topic in the audit universe, assess the following criteria and enter scores into the excel model. There are 3 sections to be considered (1) Size, (2) Control and (3) Detection.

1. SIZE: parameters relating to the size of the exposure or risk

A = Value of income or expenditure, or size of budget

B = Number of employees involved

C = Impact per the risk matrix

D = Volume of transactions

A Value of service / transactions processed.

This identifies whether the service is income or expenditure driven. Where it is a corporate services or concept where such a value can not be easily determined, these audit areas have been scored "middle of the road" i.e. 3.

1: up to £5K

2: £5K - £25K

3: £25k - £250K

4: £250K - £500K

5: over £500K

(Above score carries a weighting of 2.)

B Number of employees involved in the activity

The rationale is that the more employees are involved in processing transactions in the area under review, the greater chance of error etc – and the greater the risk.

1: 1 member of staff

2: 2 - 5 members of staff

3: 6 – 10 members of staff

4: 11 – 20 members of staff

5: more than 20 members of staff

C Impact score from the risk matrix.

Impact upon the Organisation as per the risk matrix: i.e. if something were to go wrong in the area under review what would be the potential impact on the business.

Using the Strategic and Operational Risk Registers, those audit areas which have been formally identified and prioritised in terms of the impact such a risk would have on the Authority / service area.

1: negligible

2: marginal

- 3: critical
- 4: catastrophic

(Above score carries a weighting of 3).

D Volume of Transactions.

The rationale is that the greater the number of transactions processed in the area under review, the greater chance of error etc – and the greater the risk

Estimated Transactions:

- 1: up to 1,000 transactions per year
- 2: 1,000 – 5,000 transactions per year
- 3: 5,000 – 25,000 transactions per year
- 4: 25,000 – 50,000 transactions per year
- 5: over 50,000 transactions per year

2. CONTROL: parameters relating to the likelihood of the risk materialising

F = Impact of Management and Staff

G = Third Party Sensitivity

H = Standard of Internal Control

J = Likelihood of Occurrence per Risk Matrix

F Management and Staff:

This involves making an audit judgement which considers:

- Quality of Management
- Extent of Staff Turnover
- Length of time system has been operational within the business
- Degree of expressed concern by management
- Extent of use of external suppliers and/or contractors on sensitive systems
- Management's attitude to risk taking
- Morale of Staff

Score on a range of '1' to '5' where '1' represents top quality management and staff with low turnover of both, in an operation which has been in existence for more than three years and about which no known concern is being expressed.

- 1: Very Good
- 2: Good
- 3: Average or effectiveness not known
- 4: Concerns
- 5: Considerable concerns

(Above score carries a weighting of 2).

G Third Party Sensitivity

This involves making an audit judgement which considers:

- Tax Implications
- Extent of Regulatory requirements
- Legal Implications
- Political Sensitivity
- Impact of community and other stakeholders
- Partnerships
- Joint Ventures

Score on a range '1' to '5' where 1 means there are no tax legal, regulatory or other third party implications & '5' means that very significant third party sensitivity is present.

- 1: Negligible
- 2: Marginal
- 3: Average or sensitivities not known
- 4: Sensitive
- 5: Extremely Sensitive

H Standard of Internal Control

This involves making an audit judgement which considers:

- Means of authority to commit (e.g. none, sole, sole with review, dual, Committee)
- Extent of losses
- Scope for intentional manipulation
- Vulnerability to fraud
- Degree of technical sophistication of systems
- Extent to which standard systems are being used
- Extent to which operating manuals are complied with
- Extent of recent reorganisations and systems changes
- Known factors which should ring warning bells
- Reliability of last internal control review
- Extent of weaknesses highlighted in last internal control review
- Strength of accounting systems
- Extent of formal procedures
- Impact wide ranging across directorates

- 1: Excellent with no known significant re-organisations or systems changes; little known scope for intentional manipulation.

- 2: Above average with standard systems in use throughout.
 - 3: Sound
 - 4: Known or suspected to be weak
 - 5: Known or suspected to be very unsound
- (Above score carries a weighting of 3).*

J Measure of Likelihood of occurrence as per Risk Matrix

Using the Strategic and Operational Risk Registers, those audit areas which have been formally identified and prioritised in terms of the likelihood such a risk would have on the Authority / service area.

- 1.: Extremely Remote
- 2: Remote
- 3: Reasonably Probable
- 4: Probable

(Above score carries a weighting of 3).

3. **DETECTION:** *parameters relating to the probability of unwanted consequences being detected if they do materialise.*

K= Likely effectiveness of internal audit

L= Duration of the audit

M = Length of time since last audit

N = Effectiveness of other assurance providers

K Likely effectiveness of internal audit/ complexity of the audit area:

- Extent to which relevant specialist skills are available to internal audit
- Knowledge of business and experience of staff to conduct a competent audit

Score on a range `1' to `5' with a score of `1' if there are no significant constraints that are likely to preclude doing an effective audit. i.e. a well-established function with fully experienced and trained staff with a good knowledge of the business together with receptive and focused line management.

L Likely duration of audit work

- 1: 5 days
- 2: 10 days
- 3: 15 days
- 4: 20 days
- 5: more than 20 days

(Above score carries a weighting of 2).

M Time since last Audit

- 1 = Reviewed in the last 12 months.
- 2 = Reviewed 1 – 2 years ago.
- 3 = Reviewed 2 – 3 years ago.
- 4 = Reviewed 3 – 4 years ago.
- 5 = More than 4 years ago or a new audit area.

(Above score carries a weighting of 2).

N Other Assurance Providers

- 1 = regular compliance, QA and other audits with no significant findings
- 2 = regular compliance, QA and other audits with some significant findings
- 3 = no other audit work completed
- 4 = regular compliance, QA and other audits with many significant findings
- 5 = continual significant problems identified by assurance reviews.

(Above score carries a weighting of 2).

FORMULA USED FOR CALCULATION OF OVERALL RISK SCORE

The scores are entered into this calculation matrix. Certain of the criteria are weighted e.g. A is given a weighting twice the norm and H treble the norm.

The basis of the scoring takes into account that each of the elements (size, control and detection) is given equal importance.

Therefore, each element has a maximum score of 1

Size for example will be $(2 \times 5 + 5 + 3 \times 5 + 5) / 35 = 1$

The overall results (for each audit evaluated) are then entered into the Audit priority schedule

$$\begin{array}{ccc} \text{SIZE} & & \text{CONTROL} & & \text{DETECTION} \\ \frac{(2A + B + 3C + D)}{32} & \times & \frac{(2F + G + 3H + 3J)}{42} & \times & \frac{(K + 2L + 2M + 2N)}{35} \end{array}$$

THE RESULT IS THEN MULTIPLIED BY 200

Minutes

AUDIT COMMITTEE

FRIDAY 9 APRIL 2010 AT 10.00 AM

PRESENT: Councillor Mrs Mallinson (Chairman), Councillors P Farmer, Layden, Ms Patrick, and Mrs Riddle (as substitute for Councillor Boaden)

ALSO

PRESENT: Mrs Karen Murray (District Auditor, Audit Commission)
Nick Pearson, Shared Services Audit Manager, Cumbria County Council

AUC.18/10 WELCOME

The Chairman welcomed all those present to the meeting and in particular Nick Pearson, of Cumbria County Council, who will be the Auditor for Carlisle under the new Shared Audit Services arrangement.

AUC.19/10 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Boaden and Hendry and Mr Richard McGahon (Audit Manager, Audit Commission)

AUC.20/10 DECLARATION OF INTEREST

Councillor Mrs Mallinson declared a personal interest in accordance with the Council's Code of Conduct in respect of Agenda items A.1 (Minutes of Meeting of 15 January 2010– Item AUC 14/10 - Future of Internal Audit Services) because she is also a Member of Cumbria County Council.

AUC.22/10 MINUTES

The Minutes of the meeting of the Audit Committee held on 15 January 2010 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 15 January 2010 be agreed as a correct record and signed by the Chairman.

RESOLVED - That the decision of the Executive be noted

AUC.25/10 CERTIFICATION OF CLAIMS AND RETURNS

The District Auditor presented the Annual Report on Claims and Returns for 2008/09.

The report summarised the findings from certification of 2008/09 claims. It included the messages arising from the Audit Commission's assessment of the City Council's arrangements for preparing claims and returns and information on claims that the Audit Commission had amended or qualified. Carlisle City Council received more than £29.2 million funding from various grant-paying departments. Those grants have conditions attached that the Council had to show had been met. In 2008/09 the Audit Commission certified five claims, of which one was a limited review and a full review of four claims. Four claims were amended and the Audit Commission were unable to fully certify them and for each one a qualification letter to the grant-paying body was issued.

The key area for improvement to the Council's arrangements for grant claims was the Single Programmes claims. The Council needed to ensure submission of the 2009/10 claim for audit by the 30 June deadline. The Council also needed to improve the quality assurance arrangements to minimise errors and ensure compliance with grant conditions.

The following recommendations, that had been agreed by the relevant officers of the Council, were made:

- consider whether Internal Audit should undertake work on the single programme claims
- ensure that all single programme claims were submitted for audit by 30 June deadline
- ensure that all single programme claims were subject to quality assurance checks so that arithmetical, typographical or totals errors were addressed prior to submission for audit
- ensure that only expenditure paid in the year was included within the relevant year's single programme claims
- where possible, for single programme claims, obtain an updated offer letter/programme agreement from North West Development Agency (NWDA) for the approved funding for the lifetime of the project.

The Development and Support Manager advised that while he accepted there were one or two areas to be looked at, he had responded to the report and confirmed that he would look at the issues in more detail. He stated that quality assurance would be more robust in future.

The Chief Accountant advised that training had been arranged for 23 April for people who were involved in the implementation of claims. Training had been provided previously and was attended by the Chairman who was confident

provided internally. Detailed reports had been sent to SMT and no major risks had been identified.

With regard to the IFRS the Chief Accountant explained that the treatment of leases and mitigation would be included in the 09/10 statement and that the Action Plan would continue to be updated.

RESOLVED – (1) That internal training would be made available to all Members of the Council

AUC.28/10 STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2010/11

The Acting Head of Audit submitted report RD.4/10 that gave details of the updated Strategic Audit Plan and the proposed Audit Plan for 2010/11. He explained that he had spoken with the Chief Executive and the Plan had been presented to SMT, neither of whom had made any amendments.

The Acting Head of Audit referred Members to Appendix C and advised that the standard methodology recommended by CIPFA had been applied. Gill Martin, Efficiency Manager, had undertaken the exercise and the Committee thanked her for her input.

The District Auditor commented on the report to advise that the strategic plan as it stood would be difficult for Members to use to ensure that internal audit were providing the assurance needed because it did not set out the detail of internal audit coverage. Furthermore, as there was no indication of days to be spent on individual reviews, it would be difficult for Members to oversee that internal audit coverage was in line with the plan. The District Auditor was also unclear on how the plan would be implemented because, for example, partnership working was a high risk area but Carlisle Renaissance was identified as a separate review. The plan did not appear to cover some corporate areas such as data quality where Members might be looking for internal audit to provide assurance.

The Acting Head of Audit referred Members to section 4.4 of the report that advised that the Risk Indicator showed the order in which the reviews were to be considered and not necessarily the order in which they would be undertaken. The Acting Head of Audit would work with the Shared Services Audit Manager on adding more detail to the Audit Plan. He explained that he would identify the plan for the coming quarter and that outturn results would be issued on a regular basis.

With regard to HR and checking references, the Acting Head of Audit advised that an audit was currently being undertaken of personnel systems and a report would be presented to the Committee in June. He explained that personnel was a large area to audit and for that reason it was split up into different components for review purposes.

Plan, the NWDA had agreed to fund an external assessment of the management of external funding, in terms of financial controls, processing of claims, etc which would be used to inform any decision on how the role of the External Funding Officer should work in future. The work had been commissioned from Genecon and, following an initial outline, a draft report had been received. The EFO and a finance representative within the Resources Directorate had liaised and passed back joint comments to Genecon. The latest version of the report had been received on 25 March 2010 and would be considered by the Senior Management Team as part of the transformational review. The situation would continue to be monitored by Audit Services and developments reported to the Audit Committee in due course.

The Acting Head of Audit then advised on the work done on Job Evaluation Back pay and advised that after an audit of the figures only one error had been identified providing a high degree of assurance.

In respect of a query over the submission of audit reports to other Committees the Acting Head of Audit explained that the audit reports would go to the directorates individually with recommendations. Those recommendations would be followed up and if any actions had not been done the Audit Committee would chase up the issues with relevant managers. The Assistant Director (Governance) advised that there were no problems within Licensing with regard to the disposal to confidential waste.

RESOLVED – That report RD.3/10 be received.

NO actions

AUC.30/10 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Chief Accountant submitted report RD.2/10 on progress of the Annual Governance Statement Action Plan. He informed Members that in accordance with the usual practice the Action Plan had been monitored and the updated status reported to Members at each meeting of the Committee. He added that there were no new areas of risk arising from the Audit Reviews or the Risk Register which needed to be drawn to Members' attention at the current meeting.

The Assistant Director (Governance) advised that as the date for the production of a national statutory Code of Conduct was not known, the Personnel Manager had produced a code for the City Council and the draft had been presented to the Employment Panel on 1 February 2010. It had then been circulated to all staff for consultation. The consultation period ended on 26 March 2010 and the report would now be going to SMT and back to the Employment Panel before being presented at Council. The draft National Code of Conduct for Officers had been presented to Management Briefing and JMT and would come to Audit Committee when the issue was more clear. The Assistant Director (Governance) also outlined for the benefit of Members the broad details of an 'ethical governance' training package that was in its formative stages. Training would be provided, initially for managers

(2) That the Executive be informed that the Audit Committee had considered the quarterly report on Treasury Transactions and was satisfied that the Council had acted in good faith and decisions had been made fully in accordance with Council policy.

AUC.32/10 PUBLIC AND PRESS

RESOLVED – That, in accordance with Section 100A(4) of the Local Government Act 1972, the Public and Press were excluded from the meeting during consideration of the following item of business as the report contained exempt information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime as defined in the paragraph number (as indicated in brackets against the Minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

AUC.33/10 FRAUD INVESTIGATION REPORT

(Public and Press excluded by virtue of Paragraph 7)

The Acting Head of Audit submitted Report RD.6/10 that apprised Members of the results of an audit investigation relating to irregularities over the appointment of a temporary member of staff.

The Acting Head of Audit outlined the circumstances surrounding the appointment and issues that had arisen as a result of using a recruitment agency to fill the post.

Members questioned the officer on the issues raised.

Resolved: (1) That Report RD.6/10 be noted.

AUC.34/10 – CHAIRMAN'S COMMENTS

The Chairman thanked the members of the committee for their support over the year. She also expressed thanks on behalf of the Committee to the Finance and Audit staff and also to the Audit Commission for their attendance and advice at the meetings.

[The meeting ended at 11:20am]

RESOURCES – AUDIT SERVICES – MAIN ACCOUNTING AND BUDGETARY CONTROL SYSTEMS

Summary of Findings		
Overall, good controls were found to be operating with the main accounting system and budgetary control processes. However, there were a small number of areas identified where improvements could be made to improve the systems in place and these have been covered by the recommendations made.		
Detail of Recommendations	Impact of implementing recommendations	
5 Recommendations – 3 at grade B and 2 at grade C	The implementation of recommendations will ensure: Increased adherence to accounting procedures and regulation as access to financial procedures rules and awareness to the staff manual increases; More accurate financial data as coding anomalies are identified and corrective action taken through amended processes and / or training; Increased financial integrity as processes are tightened to ensure that information is captured in a complete, accurate and timely basis from feeder systems.	
Level of assurance assigned to this audit: Substantial		