

AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 24 September 2010

Title: AUDIT SERVICES PROGRESS REPORT

Report of: Assistant Director (Resources)

Report reference: RD 40/10

Summary:

This report summarises the work carried out by Audit Services since the previous report to Committee on 22nd June 2010, and monitors progress against the plan for the period 1st April to 30th June 2010. Finally, this report offers a summary report for consideration by the Committee.

Recommendations:

Members are requested to receive this report, and consider for approval the summary 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 – Procurement

Appendix B – Grants

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.
- 2.2 However, at the Audit Committee meeting of 22nd June Members noted that five recommendations from the 2008/9 Payroll had not been implemented. Members requested that further follow up be performed with regard to these recommendations, and the results reported to the next Audit Committee.
- 2.3 Follow up has demonstrated that actions have been taken to address recommendations. A database has been enhanced to monitor the requirement for, and receipt of, CRB checks, and Personnel has issued instructions to SMT and Managers reporting to Assistant Directors or TCCE regarding good recruitment practice. Finally, Personnel have made progress to verify the Trent system regarding casual staff. This has yet to be performed regarding permanent staff, a task due to be completed by 31st January 2011 once structures have been finalised in Trent following transformation.

3 Ongoing 2010/11 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.

- 4.2 To assist Members in monitoring progress against the plan, progress has been recorded for the period 1st April to 30th June 2010. This report is at **Appendix C**.
- 4.3 Members will note that 60% of days represent productive audit, rather than the target of 66.4%. This is due to more than anticipated annual leave taken in the first quarter.

5 Proposal to amend summary reports to Audit Committee

- 5.1 At the Audit Committee meeting of 22nd June, Members discussed whether for future meetings summary reports should be prepared. The Interim Audit Manager circulated a potential report, and Members requested that a revised version of the report should be brought to the next Audit Committee for consideration, to include an Executive Summary and recommendations. A summary of the Main Accounting and Budgetary Control Systems report is at **Appendix D**. For comparison, the original report is at **Appendix E**.

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)
24th September 2010

Final Report

14 September 2010

Audit Contact	Diane Rippon	Extn No.	7528
Document Ref:	K:\2006-07 onwards\Corporate Services\COR270 - Procurement\2009.10 Audit\audit reports\Procurement Final Report 14.09.10.doc		

Directorate / Service Area	Recipients of Report	Action Required
Resources Directorate	Assistant Director (Resources) Financial Services Manager	For Information There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Community Services, which is attached as Appendix A.
	Development & Support Manager Efficiency Manager Procurement Officer	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 24th September 2010.

1. Reason for the Audit

- 1.1. In accordance with the 2009/10 audit plan, where procurement was assessed as a high risk audit area, a review regarding the administration of the procurement activity undertaken by the Council has been undertaken. The review commenced in July 2009 and completed during 2010/11 due to other workload demands within the Internal Audit Section.

2. Background Information / Summary of the Audit Area.

- 2.1. Comprehensive Spending Review (previously known as the Gershon Agenda) has placed value for money and efficiencies high on the agenda of the City Council. Procurement was also assessed by the Audit Commission Use of Resources Assessment (UOR), under Key Line of Enquiry 2.3. This considers various documents that are further discussed in this report.
- 2.2. Carlisle City Council is a member of Effective Procurement in Cumbria (EPiC). This is a collaborative group consisting of six Cumbrian District Councils, the County Council and Lake District National Park. It is hosted (but not controlled) by Cumbria County Council. The Group meets monthly and is supported by the Regional Improvement & Efficiency Programme (RIEP).
- 2.3. EPiC regularly undertake collaborative tender exercises to obtain efficiency & Value for Money (VFM) e.g gas and electricity contracts.
- 2.4. A procurement shared service proposal has been submitted to the Cumbrian Improvement & Efficiency Program (CIEP) to suggest the combining of procurement activities in one central location.
- 2.5. Previous internal audit work undertaken was to review the positioning and resourcing for a "Corporate Procurement Section within the Council". A report was subsequently presented to SMT with the findings of the review in 2006. The Council's Executive approved the establishment of a corporate procurement team within Corporate Services in April 2006.
- 2.6. On commencement of this audit review the established corporate procurement structure, known as the Procurement & Efficiency Team, comprised:
- Efficiency Manager;
 - Project Officer;
 - Procurement & Efficiency Officer (position vacant); and
 - Assistant Procurement Officer.
- 2.7. In addition, the Auditor undertaking this review had just returned back to their substantive post in Internal Audit, following a 10 month secondment to the post of Project Officer, when this audit review was assigned by the then Principal Auditor.
- 2.8. The Development and Support Manager and the Efficiency Manager have since confirmed the Procurement Officer post has become the revised post of the Assistant Procurement officer which became effective from June 2010 and the post of Procurement & Efficiency Officer was deleted in January 2010 as a result of transformational changes in the Resources Directorate.

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
<p><u>Title</u> <i>Failure to provide sound and consistent procurement advice across the Council.</i></p> <p><u>Description</u> <i>There is a risk that procurement advice provided is not in accordance with Council policy and procedure.</i></p> <p><u>Current Action Status/Control Strategy</u> <i>Procurement must comply with Council Constitution. Centralised purchasing for common items. Procurement Action Plan identifies progress against National Procurement Strategy. Cumbria wide collaboration. Shared Services Initiative. Training programme is being developed to ensure that all officers are aware of the Council's Contract Procedure Rules and appropriate procurement legislation.</i></p>	<p>Operational Risk Register. Last update January 2010.</p>	<p>M (4)</p>

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 key areas reviewed are stated in the table, and a summary of findings has been included in Section 5 below. The areas examined were selected for coverage by the Principal Auditor from the CIPFA matrix.

	Areas Examined
1.	Controls & Counter Measures
2.	Policies & Procedures
3.	Monitoring & Review
4.	Approved Lists
5.	The 'Chest' procurement e-tendering system

5. Overall Conclusion of the Audit Review

5.1. The audit review revealed good controls to be in operation; however, areas have been identified where controls could be enhanced further, thus, providing the opportunity to increase the robustness of the system controls. These are shown in appendix A and are to be brought to the attention of the Financial Services Manager. In summary the key issues arising from this review are:

- The review and update of Procurement Strategy and Procurement Code of Practice which should be undertaken on at least an annual basis;
- The Procurement Action Plan should be fully completed i.e. target dates set and inclusion of stating reasons if target dates are not met;
- The procurement regulations/procedures should detail the procedure, areas and levels of responsibility for compiling the approved/selected lists; and

- The Procurement & Efficiency Section do not periodically issue reminders/notifications of changes in procurement legislation, policies and/or procedures to other staff involved in the process within the Council.

6. Grading of Audit Recommendations

- 6.1. 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, necessarily, wholly eliminate risk.
- 6.2. 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. reputation, financial etc).

- 6.3. There are 5 recommendations arising from this review. 4 at grade B and 1 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.

APPENDIX A

1. Controls & Counter Measures

Method of Review:

Establish the system's objective, policies and procedures that are in operation. Review to evaluate that the detailed system complies with legislation, professional requirements, best practice and the organisation's requirements, standards and objectives.

Ascertain whether the systems objectives, policies and procedures have been communicated and are readily available/accessible to employees and stakeholders and appropriate training has been provided.

By examination, check for each agreed risk response:

- *Controls & counter measures selected;*
- *Person responsible;*
- *Timescale/date for implementation; and*
- *Are clearly recorded.*

The details above agree to those recorded in the procurement system's risk register and the operational risk register where appropriate.

Each control established/implemented was actioned within the agreed timescale.

Where an agreed control was not implemented, the reason was:

- *clearly recorded;*
- *Reported to and agreed by senior management; and*
- *Where an agreed revised timescale has been agreed, it appears reasonable in view of the level of risk concerned.*

Where any of the risks in the procurement system's risk register are shown as mitigated by insurance, check by examining the organisation's insurance cover that current and appropriate insurance exists.

Summary of Findings:

- 1) Procurement is governed by the Council's Constitution within which the Financial Procedure Rules and Contract Standing Orders are components.
- 2) The system's policy and objectives are stated within the 'Procurement Strategy 2007-2009'. The Strategy was obtained from the Council's intranet site and then it was confirmed with the Efficiency Manager and the then Assistant Procurement Officer that it was current on 16 July 2009.
- 3) On the 29 July 2009 the Efficiency Manager e-mailed the latest Procurement Strategy Action Plan 2009/10 (updated on same date). It has been noted by Internal Audit that, following the above, the Efficiency Manager has updated the Procurement Strategy Action Plan 2009/10 to

- incorporate the review and updating of the 'Procurement Strategy'. On further inspection the Procurement Strategy Action Plan 2009/10 provided by the Efficiency Manager does not include a timescale/target date for this. Until recently the Procurement Strategy was encompassed by enhancements driven by the UOR. During the finalisation of this report UOR has been disbanded, nevertheless management should ensure the Procurement Strategy is updated and pursued. In the opinion of Internal Audit this action should be taken without delay. **See Recommendation/Agreed Action 1 below.**
- 4) There is a 'Procurement Code of Practice' covering the remit of the Procurement Section. The date on the front of this document states July 2007. Again this should also be reviewed more regularly and updated as/when changes occur. It can be confirmed that it has been included within the Procurement Strategy Action Plan 2009/10 (albeit in a vague way as it is not specifically recorded within the activity column) but again there is no timescale/target date recorded for this action to be undertaken. It is the opinion of Internal Audit that this action should also be reviewed and updated (where appropriate) without delay. **See Recommendation/Agreed Action 2 below.**
 - 5) A review of the Council's intranet revealed that there were numerous procurement documents that have been posted and recently updated for internal information and guidance.
 - 6) A review of the Council's website revealed that there is a 'procurement' area where there was found to be good information and guidance provided to external stakeholders along with how to obtain any further information and answers to questions/queries. This area is contained within the Procurement Action Plan for review and update to reflect changes that are planned to the system of procurement (e.g. the Chest).
 - 7) There is no specific 'Procurement Risk Register'. Risks identified by the Procurement Section are included within the Financial Services Operational Risk Register. There was one specific risk noted relating to procurement made on the last update (January 2010) as noted at para 3.1
 - 8) As mentioned above, part of the current action/status/control strategy is the 'Procurement Action Plan'. The Procurement Action Plan:
 - References each activity;
 - Details the activity;
 - Assigns a responsible officer; and
 - Details current position.
 - 9) A review of the Procurement Action Plan also revealed that there were other areas/actions (i.e. in addition to the Procurement Strategy in note 3) which that did not include timescales. It was also noted by Internal Audit that there was actions that had not been taken to meet timescales that had been stated. There were no reasons mentioned for the latter, but the 'next steps' to be taken was noted. Overall the associated risk that this is a component of (recorded within the Operational Risk Register) states this to be a low risk area. Although it does not provide a 'chain of events' and full record of progress for monitoring purposes. **See Recommendation/Agreed Action 3 below.**
 - 10) Discussion with the Development & Support Manager revealed that the Procurement Action Plan is reported and agreed by SMT twice during a financial year. Through enquiry it was confirmed that the last meeting had recently taken place.
 - 11) Performance targets are included within the 'Corporate Services Directorate Service Plan 2009-10'.
 - 12) There are no risks recorded in the procurement systems risk register shown as mitigated by insurance, therefore there has been no examination of the Council's insurance cover to ascertain that appropriate insurance exists.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
1	<p><u>See summary of findings note 3.</u> The revised 'Procurement Strategy' should be ratified and thereafter reviewed and updated (as a minimum) on an annual basis so that there is regular assessment and evidence of what has been achieved and a focus on the direction of the service. The risk of inadequate review of the strategy may be that strengths, weaknesses, opportunities and threats are missed and not addressed in a timely manner and the strategy applied may be outdated and inappropriate pointing the service in the wrong direction.</p>	Financial Services Manager	<p>The Procurement Strategy should be reviewed and updated on at least an annual basis.</p> <p><u>Management Comments:</u> Procurement is assessed as part of the Use of Resources Assessment undertaken by the Audit Commission. Specifically it falls under Key Line of Enquiry (KLOE) 2.3. During January 2010 a new 'Procurement Strategy' was drafted to incorporate the key aspects of the KLOE which had previously not been included i.e commissioning.</p> <p>The strategy is to be agreed with senior management of the Council and then subsequently by Committee.</p>	B	End October 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
2	<p><u>See summary of findings note 4.</u> The 'Procurement Code of Practice' covering the remit of the Procurement Section should be reviewed and evidenced (as a minimum) on an annual basis so it is monitored and can be updated in light of any changes.</p>	Financial Services Manager	<p>The 'Procurement Code of Practice' should be reviewed and updated on at least an annual basis.</p> <p><u>Management Comments:</u> The 'Procurement Code of Practice' links to the 'Strategic Procurement Strategy'. Once the 'Strategy' has been approved the 'Code of Practice' would then be updated to reflect the 'strategy'.</p> <p>The Efficiency Manager has stated that she is confident that updates have been made to the 'Procurement Code of Practice', but the date of update on the front of the document has not been changed. It is appreciated that changes cannot be substantiated (document looks to have been overwritten rather than resaved) but equally there is no evidence to suggest the existing code of practice is out of date either – the last update (resaved document) was April 2010 and this is on the intranet. The Procurement Team will ensure in the future that updates are clearly recorded (document/version control is used more effectively).</p>	B	Implemented

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
3	<p><u>See summary of findings note 9.</u> Even though the risk is stated as being 'low' within the Services Operational Risk Register, there is no audit trail and evidence of the monitoring and review of risks.</p>	Financial Services Manager	<p>The Procurement Action Plan should be fully completed i.e. target dates set and reasons stated if targets are not met.</p> <p><u>Management Comments:</u> Changes have been made (January 2010) to the 'Action Plan'. Targets have now been set and tasks have been more specific in what the service is trying to achieve.</p>	C	Implemented

2. Policies & Procedures

Method of Review:

By enquiry and examination, check that the procurement system's policy was referred to and approved by:

- *SMT*
- *Full Council*
- *Was signed by the Chief Executive to confirm and demonstrate commitment*
- *Procedures have been communicated to all employees, members, stakeholders and relevant third parties, using effective and appropriate methods and was emphasised that all parties involved have a general responsibility for ensuring the effectiveness of the procurement system*

Procedures:

- *Are suitably covered in other relevant organisation policies*
- *Are required to be regularly reviewed and updated, and immediately as a result of monitoring, testing, significant changes and developments*
- *Have been regularly reviewed and updated by checking the dates on the documents and supporting documentary evidence*

By examination check that the procurement policy:

- *States Carlisle City Council's procurement vision, goals and objectives*
- *Demonstrates the commitment to obtain value for money rather than the lowest price option*
- *Is aligned with relevant strategies and objectives, for example:*
 - *Sustainability*
 - *E-procurement*
 - *Economic development*
- *Complies with the Department for Communities and Local Government National Procurement Strategy requirements.*

Select a sample of staff throughout Carlisle City Council responsible for:

- *Procuring goods, works and services*
- *Managing, maintaining and awarding revenue and capital works contracts*
- *Establishing and participating in partnership agreements/workings*
- *Employing agency workers, jobbing contractors*

And by enquiry with them, check that they:

- *Are aware of, and have been trained in and have ready access to the procurement policy, regulations, procedures and guidance*
- *Are aware that they must comply with, for example, the procurement regulations and procedures and relevant legislation (i.e. EU Directives)*
- *Periodically receive reminders and notifications of changes in procurement legislation, policies and/or procedures.*

Summary of Findings:

13) By enquiry it was revealed that the Procurement Policy (contained within the Strategy) was referred to and approved by SMT and Council.

- 14) The Procurement Strategy (containing the Policy) was not signed by the Chief Executive to confirm and demonstrate the Council's commitment. This is not the protocol adopted by Carlisle City Council.
- 15) Procedures are communicated to all employees, members, stakeholders and relevant third parties, using effective and appropriate methods (e.g. internet, intranet and EPiC).
- 16) The procedures are suitably covered in other relevant organisational policies e.g. the Council's Constitution i.e. Contract Procedure Rules and Financial Procedure Rules. These are regularly reviewed and updated, and are in the process of being updated to allow for changes resulting on the implementation of the 'Chest'. Discussion has been taking place between Procurement and Legal Services. When the above documents have been updated they are dated to indicate when the last update was undertaken.
- 17) A review of the Procurement Policy (contained within the Procurement Strategy 2007-2009) revealed that it:
 - States the organisation's procurement vision, goals and objectives;
 - Demonstrates the organisation's commitment to obtain value for money rather than the lowest price option;
 - Is aligned with the organisation's relevant strategies and objectives, for example:
 - ~ Sustainability; and
 - ~ E-procurement.
 - Complies with the Department for Communities and Local Government (DCLG) National Procurement Strategy (NPS) requirements.
- 18) A sample of staff throughout the organisation responsible for:
 - Procuring goods, works and services;
 - Managing, maintaining and awarding revenue and capital works contracts;
 - Establishing and participating in partnership agreement/workings; and
 - Employing agency workers, jobbing contractors, etc.

was selected and 5 staff e-mailed (30 October 2009) to enquire about the following:

- Are aware of, have been trained in and have ready access to the organisation's procurement policy, regulations, procedures and guidance
- Are aware that they must comply with, for example, the organisation's procurement regulations and procedures, relevant legislation (e.g. EU directives), etc.
- Periodically receive reminders and notifications of changes in procurement legislation, policies and/or procedures

The responses received from the staff sampled revealed that one did not receive reminders and notifications and one stated that they would benefit from update training, otherwise the sample indicated that the above was met. **See Recommendation/Agreed Action 4 below.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
4	<p><u>See summary of findings note 18.</u> The Procurement & Efficiency Section do not periodically issue reminders/notifications of changes in procurement legislation, policies and/or procedures to other staff involved in the process within the Council.</p>	Financial Services Manager	<p>Reminders and notifications of changes in procurement legislation, policies and/or procedures from the Procurement & Efficiency Section should be periodically sent to staff through a formal notification process.</p> <p><u>Management Comments:</u> Changes are posted on the Council's intranet e.g. changes to EU thresholds. It is not seen as a major issue by the Procurement and Efficiency Section and the relevant Officers are kept up to date.</p>	B	End October 2010

3. Monitoring & Review

Method of Review:

By enquiry with the procurement system's manager and examination, check that detailed records are maintained and regularly monitored of the volumes/quantities:

- Of each category of goods procured in order to assess levels of demand and investigate instances of increase
- Percentages of recycled, Fair Trade, etc products procured to check that they are increasing
- To check that fuel, energy and resources consumption is reducing as a result of, for example, the organisations:
 - 'Green Travel' plan (e.g. encouraging use of public transport, provision of bikes for employees to use for local business use)
 - Campaigns to encourage employees to save energy (e.g. switch of pc monitors at the end of each day)
 - Of goods and services procured from local third sector and small/medium entities.

From the creditors' payment system select a sample of items procured by the organisation (e.g. paper, cleaning materials, food stuffs, building materials) check that:

- In each case the procurement strictly complied with the sustainable procurement policy, procedures and guidance (e.g. recycled paper)
- Prohibited items have not been procured (e.g. bottled water)

For each item in the sample, by examination, check that the respective suppliers have provided current documented assurances confirming that they comply with Carlisle City Council's sustainability and ethical policies, standards and guidance.

Summary of Findings:

- 19) Discussion with the Procurement & Efficiency Team on commencement of the audit review revealed that (re: the areas stated in the method of review) this was not the responsibility of the Team and that if they were to undertake this level of analysis and monitoring then they would not have sufficient resources and would not have time to undertake the work that they currently do.
- 20) However, a discussion was held with Facilities Management and it was revealed that the Support Officer in Resource Planning undertakes a substantial amount of work in maintaining detailed records on an ongoing basis which are regularly reviewed, monitored and reported annually. The records include the following:
- Buildings electricity, gas & oil consumption;
 - Street lighting;
 - Fleet transport; and
 - Business mileage.

The above is part of the Council's carbon footprint of which the target is to reduce CO2 emissions by 25% (based on 2007-08 levels) by 2012-13. Facilities Management are also involved with the Council's 'Green Travel Plan' and have undertaken campaigns to encourage employees to save energy e.g. switching off equipment when not in use (PC monitors etc) and also to reduce business mileage with a target reduction set and monitoring taking place through quarterly returns made by Council Sections. Participation with national energy saving days is undertaken and various energy saving posters can be seen within Council buildings. This is just some of the areas of work in this area that they do. Further details can be obtained from the Council's intranet site under e-library, Green Travel Plan. Facilities Management are in regular contact with the procurement team.

- 21) A request was made to the Procurement & Efficiency Team by e-mail (22 April 2010) for information regarding the monitoring of each category of goods procured, percentages of recycled & fair trade and goods and services procured from local third sector and small/medium entities. This information was received on 27 July 2010 and comprised the following:
- There is no definitive policy although there are service areas which have independently adopted the use of fair trade suppliers e.g. committee refreshments and Talkin Tarn;
 - Use of SME's will be examined as part of the supplier rationalisation exercise (which will be carried out in conjunction with purchasing system rollout see Procurement Action Plan for details);
 - The Chest provides equal opportunity regardless of size of business – use of the Chest is a key priority for the Council (awaiting update to Council Procedure Rules to allow commencement of its use).
- 22) In the absence of any adoption of policy and lack of formal controls over the above areas, the testing of the creditors system for compliance

has not been undertaken.

4. Approved Lists

Method of Review:

By examination, check that the procurement regulations and procedures adequately detail the procedures and areas and levels of responsibility for compiling the approved/selected lists

By enquiry with the staff responsible for compiling the lists, check that they:

- *Are aware of their specific roles, duties, areas and levels of authority and responsibility;*
- *Have access to the procurement regulations and procedures; and*
- *Have received appropriate training.*

Summary of Findings:

- 23) A review of the available procurement regulations and procedures identified that improvement could be made in detailing the procedures and areas and levels of responsibility for compiling the approved/selected lists. **See Recommendation/Agreed Action 5 below.**
- 24) It was confirmed by discussion with the Assistant Procurement Officer (responsible for compiling lists) that:
- They are aware of their specific roles, duties, areas and levels of authority and responsibility;
 - Have access to the procurement regulations and procedures; and
 - Have received appropriate training.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
5	<p><u>See summary of findings note 23.</u> The procurement regulations and procedures do not detail the procedures, areas and levels of responsibility for compiling the approved/selected lists.</p>	Financial Services Manager	<p>The procurement regulations/procedures should detail the procedure, areas and levels of responsibility for compiling the approved/selected lists.</p> <p><u>Management Comments:</u> The approved/selected lists are referred to as existing suppliers by the Procurement and Efficiency Section.</p> <p>Use of non preferred suppliers are considered hard to control under current regime as officers are able to amend current processes whereby orders can be placed with suppliers who are either not a preferred supplier or who do not exist on the creditor masterfile.</p> <p>The Procurement and Efficiency Section are waiting for the implementation/extended use of the Civica e-purchasing systems which will provide better control over the use of non preferred suppliers.</p>	B	End October 2010

5. 'The Chest' E-Tendering System

Method of Review:

Obtain details of the procedures and controls that will be in place with regards to 'The Chest' e-tendering system. Evaluate these procedures and controls and report accordingly.

Ascertain current progression for the implementation of 'The Chest' e-tendering system, that there is a timetable in place, action plan which is regularly monitored, reviewed and updated where necessary.

Establish future aims/objectives of the service (e.g. position re any shared services arrangements).

Summary of Findings:

- 25) Details of the procedures and controls intended to be in place over the 'Chest' system were found to be satisfactory.
- 26) The management of procurement have stated that to enable use of the 'Chest' changes are required to the Council's Contract Procedure Rules which are currently being considered/reviewed by the Legal Section. Similarly changes will be necessary to Financial Procedure Rules to align against planned revisions to purchasing procedures and controls. A report has been submitted to the Audit Committee for the meeting of 24 September 2010 regarding these changes.

Final Report

13 September 2010

Audit Contact	Diane Rippon	Extn No.	7528
Document Ref:	K:\2006-07 onwards\Material Systems\Grants MAT050\2010.11 Audit Review\Report\Final Grants Report 13.09.10.doc		

Directorate / Service Area	Recipients of Report	Action Required
Resources Economic Development	Assistant Director Resources Assistant Director Economic Development	For Information For Information
Resources	Financial Services Manager	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Community Services, which is attached as Appendix A.
Resources Economic Development Local Environment Carlisle Renaissance	Development & Support Manager External Funding Officer Green Spaces Manager Carlisle Renaissance	

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 24th September 2010.

1. Reason for the Audit

- 1.1. In accordance with the 2010/11 audit plan, where grants were assessed as a high risk audit area, a review regarding the administration of grants undertaken by the Council has been undertaken.
- 1.2. Following issues that were raised by the Audit Commission in their Annual Report, covering Certification of Claims and Returns 2008/09, dated February 2010, the audit has incorporated these areas into the review. In addition, the review has also covered the areas identified with the Audit Commission Corporate Briefing document titled 'Claims and returns, Good practice for authorities'. This audit has concentrated on the claims requiring submission and certification i.e. claims in value totalling £500K or more.

2. Background Information / Summary of the Audit Area.

- 2.1. The last audit of 'External Grant Funding' was undertaken as part of the agreed audit plan 2006/07. The final report contained 4 audit recommendations (all at grade B) which was issued in March 2007. The follow up audit dated 23/04/08 revealed that 2 recommendations had been satisfactorily completed, 1 partially completed and 1 where there was a report to SMT outstanding. The follow up was reported to the 23 June 2008 Audit Committee meeting.
- 2.2. Grants amounted to £62.8M during 2008/09. This is a material class of transaction with regard to the Council's Financial Statements. The fee charged by the Audit Commission for grant certification work for 2008/09 was £42,007.
- 2.3. The Audit Commission Annual Report of Certification of Claims and Returns dated February 2010 included the following issues:
- The Council needs to ensure submission of the 2009/10 claims for audit by 30 June 2010 deadline and to improve the quality assurance arrangements to minimise error and to comply with grant conditions.
 - It noted that there was no Internal Audit coverage during 2009/10.
 - Four of the five claims reviewed by the Audit Commission for 2008/09 received a qualification letter.
- 2.4. Grants are required to be 100% accurate to meet their terms and conditions; otherwise this may result in an increased financial risk to the Council with the associated implications of grant claw back. In addition, a lack of Internal Audit assurance over the control environment (see table in para. 2.5) and poor administration which incorporates errors has led to increased Audit Commission time in assessing the claims. This arguably has resulted in a greater financial cost to the Council in terms of fees during 2008/09.
- 2.5. The Audit Commission approach to the certification of claims and returns is as detailed in the table below:

Financial parameters relating to the total value of the claim over its lifetime	Current audit certification threshold requirements
Less than £100K	The Audit Commission does not make certification arrangements
£100K - £500K	Part A testing – this is limited to agreeing form entries to

	underlying records, but do not undertake any testing of eligibility of expenditure)
Greater than £500K	<p>Based upon the control environment - <u>see para. 2.5</u> (assessment and risk factor based) and any certification instructions.</p> <p>Where the Audit Commission auditors deem that they can place reliance on the control environment – limited testing is undertaken to agree entries to underlying records but no testing undertaken of the eligibility of expenditure or data.</p> <p>If it is deemed reliance cannot be placed on the control environment then auditors would undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required.</p>

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
<p><u>Carlisle Renaissance</u></p> <p><u>Description</u> <i>There is a strategic risk associated with withdrawal of support of key partners at a sub-regional, regional and national level, loss of momentum and resultant loss of confidence within the local resident and business community. Failure will be expressed in:</i></p> <ul style="list-style-type: none"> - <i>Reputational – failure to secure and utilise funds appropriately</i> - <i>Delivery – failure to manage a programme of growing scale and diversity</i> <p><u>Current Action Status/Control Strategy</u> <i>The Carlisle Renaissance Action Plan approved by the Board and adopted by the Founding Partners – Cumbria County Council, the NWDA and by Carlisle City Council has identified four Transformational Actions and priorities which provide the framework for delivery.</i></p> <p><i>The Founding Partners and Carlisle Renaissance Board will drive forward delivery to the stated objectives. Financial management arrangements are in place with the accountable body (Carlisle City Council). A programme management structure has been put in place using Covalent and is currently being rolled out across the priorities/projects.</i></p>	<p>Corporate Risk Register (Last Updated December 2009)</p>	<p>M (6)</p>
<p><u>Risk</u> Partnerships and external funding not maintained to enable opportunities for enterprise to be supported in</p>	<p>Development Services Operational</p>	<p>M (4)</p>

<p>Carlisle as elsewhere in Cumbria.</p> <p>Description Stated as per risk above.</p> <p>Current Action Status/Control Strategy Maintain good relationships through LSP, other networks. Ensure funding proposals are of a high quality. Identify match funding and bend mainstream resources.</p>	<p>Risk Register (Last Updated September 2009)</p>	
<p>Risk Partnerships and external funding not maintained to enable Carlisle's profile to be raised as a visitor destination, contributing to the local economy.</p> <p>Description Stated as per risk above.</p> <p>Current Action Status/Control Strategy Maintain good relationships through Carlisle Tourism, NWDA and others. Ensure funding proposals are of a high quality. Identify match funding and bend mainstream resources.</p>	<p>Development Services Operational Risk Register (Last Updated September 2009)</p>	<p>M (4)</p>
<p>Title Returns including Grant Claims</p> <p>Description There is a risk that returns including grant claims are not submitted accurately and on time.</p> <p>Current Action Status/Control Strategy Returns and grants listed and monitored at FMT. External funding procedure in place. Training to form part of the Council's training programme with a separate session provided by the Audit Commission.</p>	<p>Financial Services Operational Risk Register (Last Updated January 2010)</p>	<p>M (6)</p>

N.B. The operational risks (i.e. those risks associated with the projects) have not been included above due to the number of risks identified by Carlisle Renaissance. The risks can however be obtained from Covalent if required.

4. Scope of the Audit

4.1. Discussions, 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 key areas reviewed are stated in the table below, and a summary of findings has been included in Section 5 of this report.

4.2.

	Areas Examined
1.	Grant Process and Procedure
2.	Financial Administration
3.	Timescales
4.	Working Papers

5.	Supervision and Review
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5. Overall Conclusion of the Audit Review

5.1. Good procedures were found to be in place, however, the actual system in operation should be improved to comply with the procedures set. Recommendations have been incorporated within this report to address the areas of improvement required.

6. Grading of Audit Recommendations

6.1. 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, necessarily, wholly eliminate risk.

6.2. 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. reputation, financial etc).

6.3. There are 24 recommendations arising from this review. 20 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 **restricted** 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.

APPENDIX A

1. Grant Process and Procedure

Method of Review:

- Establish the co-ordination of grant claims:
 - Are they recorded in a central register?
 - Does the central register detail all necessary information?
 - Does the Grants Co-ordinator periodically (at year end) secure a copy of the index from the Audit Commission and review it to confirm that the Council has identified all relevant schemes to be certified?
- Establish the role of the Grants Co-ordinator or individual responsible:
 - Who is the Councils nominated contact for communications from the grant paying body?
 - Who distributes documents quickly and efficiently to all officers who need to be aware of their content (especially if addressed to Chief Finance Officer or Chief Executive)?
- Ascertain each scheme has a nominated individual responsible for the claim:
 - Who maintains a comprehensive collection of relevant documents?
 - Who prepares briefing notes on scheme developments for other officers?
 - Is written advice obtained from the grant paying body where there is any uncertainty as to what is required to operate the scheme effectively?
 - Who commissions training that might be required to operate the scheme effectively?
- Are there consistent and equitable policies for the treatment of, for example, overheads, support services, pension costs and capital charges across all claims and returns that do not include specific instructions for special treatment?
- Are there deadlines for submission of claims and returns recorded in a claims and returns register and are all staff involved in their compilation aware of their responsibilities, including deadlines and the consequences of not meeting them?
- Where grant is paid by instalments based on estimates of entitlement is there a reasonable forecast to avoid cash flow difficulties arising from under estimation?
- Is there a permanent file set up (for information that governs the grants/claims) or is part of the specific grants file but specifically sectioned to include key documents which include for example offer and acceptance letters, terms and conditions, correspondence etc)?

Summary of Findings:

- 1) The 'Procedure For/Responsibilities in Respect of Grant Claims & External Funding' prepared by Financial Services was obtained from the Development & Support Manager. A review of these procedures was undertaken and it was concluded that they comprehensively covered the administration of the grants process that should be undertaken within Carlisle City Council. They were also, generally, in line with the Audit Commission Corporate Briefing document 'Claims and Returns Good practice for authorities'. These procedures were last up dated February 2010 and are accessible via the Councils intranet (e-library/Financial Audit/Team Document).

- 2) The above procedure highlights that Financial Services has a role in the leading and co-ordination of the grant claims process to ensure the necessary information is captured for financial purposes which includes understanding the nature of transactions to thereby correctly account for them within the main ledger and subsequently the Council's financial statements.
- 3) The main accounting system is used as a focal point for the recording of grants utilising the 815* range of codes for this purpose. In addition the Finance Officer (assisted by the Senior Accountancy Assistants) maintains a central monitoring spreadsheet detailing all the necessary information for presenting to senior management on a regular basis e.g. Financial Monitoring meetings.
- 4) The procedures state that the Finance Officer assisted by the Accountancy Assistant informs "the Audit Commission of grants requiring audit certificates at the beginning of each financial year or when known so that the Audit Commission can plan their workload". It also states the Development Support Manager "has responsibility for ensuring that officers provide Single Programme Grant Claim information to the Audit Commission for annual review in accordance with their timescales.
- 5) Individual officers are assigned to each Single Programme Grant and thereby become a nominated contact for communications from the grant paying body. Having reviewed grant claim files there are instances whereby there is more than one officer contact as the grant can be administered as part of a team. However, where there is more than one contact the individual assigned to the Single Programme Grant has overall responsibility for the administration. Communication is most often conducted by e-mail rather than postal mail. Where the communication is via postal mail the distribution of documents is via the Councils internal mailing system.
- 6) The nominated officer is responsible for the claim and maintains a comprehensive collection of relevant documents. Of the grant files reviewed briefing notes on scheme developments were not found for the two files directly reviewed which were - Chances Park and Durranshill. This has been found to be especially important in the case of Chances Park for cover arrangements where there was a pass over of responsibility for the administration of this grant to another officer in December 2009. In the case of Durranshill the correspondence file was fuller and certainly seemed to be more comprehensive if not a little daunting in terms of filing arrangement. **See Recommendation/Agreed Action 1.**
- 7) E-mails have been seen securing written advice from the grant paying body where there was uncertainty to ensure that there was compliance to the schemes terms and conditions.
- 8) In some instances discussions revealed that for some of the grant schemes training had been provided and attended. However, there were others where training had not been undertaken. The Development & Support Manager held discussions with the Audit Commission resulting in the Audit Commission undertaking a briefing session covering the main areas of weaknesses that they identified in the certification of grant claims and what the Council needed to concentrate upon to improve their administration and reduce the time the Audit Commission needed to review the claims. All officers involved directly with the grants process were invited although it is disappointing to report that too few officers actually attended. **See Recommendation/Agreed Action 2.**

- 9) Overheads, support services and capital charges were treated in accordance with the grant terms and conditions or would be agreed with the funding body rather than the Council having a consistent and equitable policy. The grant administration is set up that a nominated officer deals with the administration of a single grant rather than being a completely centralised administration process and so by the nature of the process set up there is no overall policy or necessarily consistency of approach in this regard.
- 10) Discussion with relevant staff revealed that deadlines for submission of claims and returns are recorded within the central monitoring spreadsheet and all staff involved in their compilation are aware of their responsibilities, including deadlines and the consequences of not meeting them.
- 11) Of the grants reviewed there was no evidence or indication that grant money had been paid by the funding body in instalments based upon estimates of entitlement.
- 12) It was found that each responsible officer administering their allocated grant had set up files differently but they all contained the filing of key documents, e.g. offer letters, terms and conditions, correspondence etc.
- 13) The intention was to undertake a detailed review the following grants as part of this audit, however the actual review of grants was as stated below:
 - ~ CARLISLE RENAISSANCE CORE COSTS (*See comment below)
The nominated/Council contact officer is the Programme Manager (Carlisle Renaissance). However, the Programme Support Officer (Carlisle Renaissance) mainly maintains the collection of relevant documents which is overseen by the Programme Manager. The grant claim and the two supporting files had been passed to the Audit Commission. The review of this area has been the result of discussion with the Programme Support Officer.
 - ~ CARLISLE RENAISSANCE YEAR 1 ACTION PLAN
The nominated/Council contact officer is the External Funding Officer (Economic & Community). The grant claim and supporting documentation was reviewed by a fellow auditor. The claim was found to be in order.
 - ~ CHANCES PARK
The nominated/Council contact officer is the Green Spaces Manager (Green Spaces). The claim and supporting documentation was reviewed as part of this audit review. Most, if not all findings were raised immediately and these can be seen in the relevant sections of this report.
 - ~ ROMAN GATEWAY
The nominated/Council contact officer is the Arts & Museums Manager. Grant claim and supporting documentation was not received and therefore has not been reviewed. The Development & Support Manager was uncertain whether this claim was to be certified by the Audit

Commission. It is understood that the Audit Commission was to get back clarifying the position but Internal Audit have not been informed of the outcome.

~ DURRANHILL

The nominated/Council contact officer is the External Funding Officer (Economic & Community). The claim and supporting documentation was reviewed as part of this audit review. Most, if not all findings were raised immediately and these can be seen in the relevant sections of this report.

*(See Above – first heading para 13). On commencement of this audit review, Carlisle Renaissance was still in operation but has since been disbanded and is to be incorporated into the Economic Development Directorate and considered as part of the Council’s current ‘Transformation Programme’. Further information can be obtained from the report to the Executive dated 4 June 2010.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
1	<u>See Summary of Findings Note 6.</u> There is a risk that without all relevant officers’s being up to date with the project and its progress in administration terms there is the potential for errors to occur within the claim form.	All assigned responsible officers for grant claims.	Briefing notes should be prepared for each project in sufficient detail to enable grant administration continuity in case of the transfer of responsibility of the grant to another officer.	B	December 2010
2	<u>See Summary of Findings Note 8, 37 & 41.</u> The Audit Commission presentation of grants was overall poorly attended. Issues were raised which should improve the grants administration process and thereby reducing time and costs incurred by the Council. The non-attendance by assigned officers responsible for projects does not aid in meeting the corporate aims and objectives of the Council. It is recognised that there are times when attendance may not be possible but to support the non attendance the reasons should be noted so that they can be monitored and evaluated.	All assigned responsible officers for grant claims and Development & Support Manger	When training/presentations have been arranged regarding grants all relevant officers should attend unless there is good reason as to why attendance is not possible. Attendances (were recorded) and more importantly as was not the case, reasons for non attendance should be noted.	C	December 2010

2. Financial Administration

Method of Review:

- Have separate cost centre codes been set up for each grant claim/return?
 - Does each cost centre have appropriate controls over posting data from other financial systems and journals?
 - Is the coding structure adapted to produce the form entries and a clear audit trail that goes from the figures in the accounts back to supporting documentation and then forward to the claim/return?
 - Are cost centres subject to the usual range of internal controls over transactions to ensure, for example, that transactions are properly authorised, coded and the totals for each code are properly accumulated?
 - Has duplication with other claims/returns been avoided?
- Establish whether funding has been passed to third parties. If so, do procedures demonstrate that funding passed to third parties has been used for their intended purpose?
 - Does the Council satisfy itself (auditors and grant paying body) that only eligible expenditure has been claimed?
 - Do arrangements include, for example, obtaining independently audited statements from partners certifying the eligibility of expenditure?
 - Has a payment monitoring system been set up for the year supported by appropriate prime records and/or a system of spot checks on third party records?
 - Is there a standard agreement providing access to financial records of a third party which allows scrutiny of stewardship arrangements?
- Is budgetary control and cash flow monitoring undertaken to identify instances where the Council might not have secured its full grant entitlement?
 - Have estimates of grant income have been based on forecasts of activity and entitlement for the forthcoming year rather than prior year figures adjusted for inflation?
 - Have estimates been adjusted when changes in the scheme conditions significantly affect the grant the Council can expect to receive?
 - Is the receipt of grant income against forecasts monitored and any shortfalls identified, investigated and the appropriate action taken?
 - Does the grants co-ordinator prepare regular reports for the chief finance officer to consider?

Summary of Findings:

- 14) Separate cost centre codes were found to be set up for each of the grants reviewed.
- 15) Each cost centre has appropriate controls over the posting of data from other financial systems and journals. This area is reviewed annually as part of the main accounting system material audit review.
- 16) Coding structures were identified as having been adapted to produce the form entries and a clear audit trail from the figures within the accounting system back to the supporting documentation and then to the claim return.
- 17) Cost centres are subject to the usual range of internal controls over transactions. This again is reviewed as part of the main accounting

system material audit review performed on an annual basis.

- 18) The approach to budgetary control identified that 'budget holders' have responsibility for assigned budgets and thereby should identify where a grant project has not secured its full entitlement. If this occurs the budget holders should ensure that the Senior Accountancy Assistants are made aware at the monthly FIS meetings so adjustments are made where necessary. In addition where adjustments have not been made variances would arise and should be identified by the Senior Accountancy Assistants for explanation. In accordance with the grants procedure the progress of grants is also monitored by the Senior Accountancy Assistants issuing the monitoring spreadsheet/database to Assistant Directors on a regular basis for use at the Financial Monitoring Meetings.
- 19) Budgetary control and cash flow monitoring is undertaken by Financial Services with the designated responsible officer for each project to identify instances where the Council might not have secured its full grant entitlement. This includes estimates of grant income being based on forecasts of activity and entitlement for the forthcoming year. Prior year figures are not adjusted for inflation. The estimates are also adjusted when changes to the scheme conditions affect the grant income expected to be received by the Council. The receipt of grant income is monitored through the Financial Services spreadsheet/database.

CARLISLE RENAISSANCE CORE COSTS

- 20) Discussion with the Programme Support Officer revealed that claims duplication had happened once (which was corrected) whereby Cumbria County Council had included an invoice re: the transportation project. On investigation by Carlisle Renaissance, Cumbria County Council had been provided with an incorrect invoice. Since this came to light, when the invoices are received they are now checked to identify amounts and verify the details to ensure there is no duplication. In addition, the new claim form, since the occurrence of the duplication, requires invoice numbers to be stated and more narrative detail thereby a duplication is more easily highlighted to allow prompt corrective action to be taken.
- 21) The Programme Support Officer stated that funding passed to third parties relating to the core costs programme has been undertaken based upon the offer letter received by the original funding body (NWDA). Time is spent upfront with third parties who receive funding and regular meetings take place to ensure the terms and conditions are met. Where outputs, reports and sponsorship requirements are set documents/evidence is required before payment is released to ensure that the programme itself has the necessary evidence to support the expenditure.

3. Timescales

Method of Review:

- Are there regular reviews of the claims and returns register to ensure it is up to date?
- Is the register used to monitor progress against timetable?
- Are missed deadlines followed up along with any other problems to ensure that the grant paying body and auditor are informed of delays and is action taken to avoid delay in the future?
- Are all staff aware of their duties and responsibilities and is there adequate coverage in case of absence/s?
- Are targets set for completion of stages in claim and return compilation rather than working unsystematically towards a deadline?
- Have plans to meet deadlines been properly resourced taking account of appropriate experience being available to complete claims and make the return?
- Is there sufficient administrative support?
- Are arrangements in place to ensure that the information is required when needed, where compilation requires the preparation of special reports from financial systems or the collection of information not already held?
- Does the closure of accounts programme take into account claim and return deadlines?

Summary of Findings:

- 22) The Finance Officer is notified by the nominated officers of the date and value of anticipated and actual receipts against grants. This enables the Finance Officer to maintain the organisation wide record of grant receipts due and received. The register is used to monitor income receivable against when it is due. However, the Development & Support Manager, had noted the dates the grant claims had been received by Finance and when the claims had been passed to Internal Audit. The submission deadline to the Audit Commission was also noted along with a column of Notes/Comments relating to each claim.
- 23) As part of this audit review it encompassed the opportunity, due to timing, to review the grant claims to be submitted by 30 June 2010. In doing so any findings could be raised and corrected before submission of the claims. The reality was that grant claims were being compiled to meet the deadline rather than being planned to systematically work towards the deadline. This appears to be the root cause (further details stated in para 24 below) to missed deadlines and increased risk of inaccurate claims, as there is insufficient time built in to check accuracy in terms of casts and cross casts and that all information input in the claim can be substantiated, with supporting documentation having been placed on file and that all terms and conditions have been met. **See Recommendation/Agreed Action 3.**
- 24) Grant claims were received by the Internal Audit Section for review, most having already been submitted or were still being finalised for submission. The earliest completed grant claim (Chances Park) with all supporting evidence was received by Internal Audit one day before the deadline date. Durrhill and Rosehill Acquisitions grant claim was received 1 July 2010 (after the deadline date). Supporting files were received for Carlisle Renaissance Year 1 Action Plan (but no claim) and the claim was received for Carlisle Renaissance Core Costs but no supporting files following quality checking by Finance who received these claims on 23 June 2010. There was no claim or supporting files

received for Roman Gateway. Queries were being raised by relevant staff in the grants process as to whether this claim should be submitted to the HUB and whether the claim required to be certified by the Audit Commission. It is the opinion of Internal Audit that if the process had been properly planned the latter should have been resolved much sooner.

- 25) Relevant staff have been issued with the 'Procedure For/Responsibilities In Respect Of Grant Claims and External Funding'. Regarding adequate coverage in case of absences this varies between the projects. Internal Audit would suggest that responsible officer's review their area to ensure that there is appropriate cover for absences and that there is a formal note/recording of a deputy to the responsible officer to evidence. This should also include considerations of ensuring that there is appropriate information/direction placed upon the supporting documentation file for an unconnected person to be able to pick the file up and satisfactorily complete a return. If this can happen then it ensures that the supporting files are maintained to support the claim and thereby the Audit Commission review time and subsequent audit fee should be reduced. **See Recommendation/Agreed Action 4.**
- 26) Discussion with the Green Spaces Manager responsible for Chances Park indicated that plans to meet deadlines having been properly resourced taking into account appropriate experience being available to complete claims and make the return had not been undertaken. In the opinion of Internal Audit these were unfortunate circumstances whereby the initial officers involved within the project from the outset (one designated as the responsible officer) had left the Council during December 2009 as part of the Council transformation process. The current responsible officer received a file with 3 A4 pages and no pass over/takeover period to prepare the claim. It would appear (details covered in Section 4 Working Papers) that this has also impacted upon meeting the grant terms and conditions. **See Recommendation/Agreed Action 4.**
- 27) The day-to-day level of administrative support for grants varies between projects. There was no evidence seen/found to suggest that the administrative support levels for each of the project areas was insufficient for grant administration purposes.
- 28) There was no evidence found to suggest that arrangements are not in place to ensure that the information required is not available when needed i.e. where compilation required the preparation of special reports from financial systems of the collection of information not already held.
- 29) The closure of accounts programme takes into account the claim and return deadlines through the Closure of Accounts Pack 2009/10.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
3	<u>See Summary of Findings Note 23 & 41.</u> Currently the approach to grant claims across the Council is to work to deadlines rather than having a systematic planned approach to meet the deadline. A systematic approach will enable time to be built in where problems and issues arise and also to ensure that all stages of the grants administration process have been undertaken before submission of the grant.	All assigned responsible officers to grant projects.	There should be systematic planning in place to incorporate all aspects of the grants process so that deadlines are met.	B	December 2010
4	<u>See Summary of Findings Note 25 & 26.</u> Lack of resourcing reviews in undertaking the administration of grants increases the risks of errors within the grant claims/returns, non compliance with the grant terms and conditions and missing grant claim/return deadlines.	Financial Services Manager	Resources should be regularly reviewed to ensure grant administration is properly undertaken and grant deadlines are met. Including the recording of a deputy responsible officer.	B	December 2010

4. Working Papers

Method of Review:

- Is the statutory requirement of the Chief Financial Officer to maintain adequate records in relation to claims satisfied?
- Is the basis of the claim or return and the derivation of the information it contains documented?
- Are documents kept in a form which will help the appointed auditor and reduce certification time and therefore cost to the Council?
- Do working papers/files include:
 - The date of preparation and the name of the officer preparing the working papers?
 - The appropriate cells on the claim or return to which the working paper relates?
 - Cross references to the system or copies of system printouts from which the information is taken?
 - Copies of original approvals, subsequent variations and any other correspondence with the grant paying body?
 - Details of payments made on account, supported by relevant advice notes from the grant paying body?
 - A comparison of expenditure with approvals?
 - An explanation of significant variances from the previous period and from forecasts?
 - Details of large journal transfers with voucher references?
 - Notes on the basis of any expenditure apportionment?

- A description of relevant internal controls?
- Evidence that contracts were let in accordance with Standing Orders where the claim or return includes charges for work carried out by a third party under contract?
- Provision of training for officers on the compilation of good working papers?
- Development of standard stationery for claim and return documentation including the preparation of computerised working papers and spreadsheets?

Summary of Findings:

- 30) Overall the statutory requirement of the Chief Financial Officer to maintain adequate records in relation to claims was found that improvements should be made to comply with the statutory requirement in a more robust manner.
- 31) There were areas of good claim and return documentation found on file for the grants that were reviewed. However there were, again, areas identified for improvement. These have been stated below under the relevant project grant review.
- 32) Improvements were identified for action to be taken in order to reduce certification time and therefore cost to the Council with regards to information and evidence retention on the grant files. Addressing these areas should assist the appointed external auditor with the grant certification process.

CARLISLE RENAISSANCE CORE COSTS

- 33) Discussion with the Programme Support Officer regarding the Carlisle Renaissance – Core Costs programme identified areas for improvement which were raised during the meeting.
- 34) In relation to working papers the following was established:
 - Working papers did not include the date of preparation and the name of the officer preparing the working papers. This has been discussed and was agreed to be undertaken by the Programme Support Officer. **See Recommendation/Agreed Action 5.**
 - The appropriate cells on the claim or return are not referenced to the working papers. Again this was discussed and agreed to be undertaken by the Programme Support Officer. **See Recommendation/Agreed Action 6.**
 - There was no cross references to the system but there were copies of system printouts from which information was taken. **See Recommendation/Agreed Action 7.**
 - Copies of original approvals, subsequent variations and other correspondence, with the grant paying body was found to be in order, and on file for reference.
 - Working papers include details of payments made on account and are supported by relevant advice notes from the grant paying body.
 - A comparison of expenditure with approvals is ongoing for each project by the Project Managers. They keep running totals and

complete proforma records before any payments are made.

- An explanation of significant variances from the previous period and from forecasts is undertaken through the progress monitoring reports which are sent to NWDA on a quarterly basis. These reports also predict spending quarter by quarter. Changes to expenditure are explained. This is undertaken in accordance to the grant offer letter and match funding requirements.
- Details of journal transfers with voucher references are placed on file (where relevant).
- Notes on the basis of any expenditure are per the terms and conditions and allocation made to reflect the outputs.
- There is no description of relevant internal controls. This has been discussed with the Programme Support Officer who has agreed to prepare a brief description of the system in operation incorporating officer responsibilities and a list of tasks required and their frequency. **See Recommendation/Agreed Action 8.**
- A tendering contract is used and takes the form of the grants funding body's offer letter so that the terms and conditions are the same and there is a better understanding of the requirements of the grant so there is no unnecessary confusion as everyone is working to the same requirements. When work is undertaken by third parties there is close liaison made by Carlisle Renaissance with the Business Development & Manager. This is part of the development strategy and framework delivery mechanism. E.g. Roman Gateway.
- Provision of training for officers on the compilation of good working papers has not been made available to staff. This is an area that they have developed as they have gone along and looked to set up a workable system. Discussion revealed that they are open to improvements as the above discussions have shown. The areas discussed above should be sufficient to make the necessary improvements required. The Programme Support Officer attended the Audit Commission presentation session on grant claims/returns 23 April 2010.
- Claim and returns are submitted on the forms supplied by the grants awarding body. Working papers are computerised where appropriate and incorporate spreadsheets. In addition, there is also other standard documentation in use for administrative purposes.

CARLISLE RENAISSANCE YEAR 1 ACTION PLAN

35) An Internal Audit Colleague reviewed the claim form – There were no areas identified for improvement.

CHANCES PARK

36) Grant file contents:

- Permission to start as requested form
- General correspondence
- Offer Letter
- Original Detailed breakdown of eligible project costs and partnership funding
- Parks for People – England – How to acknowledge your grant

- Internal memo – Legal Services – consideration of contract and associated comments
- Grant Payment Request and Progress Reports
- Copies of Invoices
- Heritage Grants Monitoring Documents
- Chances Park Claims Summary and individual claim calcs with ledger prints– Working Papers
- Volunteer Timesheet
- End of Grant Claim Report – Biffa ward

37) Audit Review/Testing:

- Working papers did not include the date of preparation and the name of the officer preparing the working papers. **See Recommendation/Agreed Action 5.**
- The appropriate cells on the claim or return were not referenced to the working paper. **See Recommendation/Agreed Action 6.**
- There was no cross references to the system but there was copies of system printouts from which the information was taken. **See Recommendation/Agreed Action 7.**
- There were copies of original approvals but there was no evidence of subsequent variations and any other correspondence with the grant paying body. It was established that there was no evidence on file re change of authorisation details to comply with grant terms and conditions. It was agreed with the Green Spaces Manager/Group Accountant to confirm both variation and authorisation by e-mail with the funding body. **See Recommendation/Agreed Action 9.**
- There was a reconciliation of income and expenditure figures in the claim/return to working papers and account codes.
- Details of payments made on account supported by relevant advice notes from the grant paying body, this was not seen to be relevant to the claim.
- There was a comparison of expenditure with approvals
- No evidence was seen on file that there had been an explanation of significant variances from the previous period and from forecasts. Although this did not seem to be necessary.
- Details of large journal transfers with voucher references were not required.
- There were no notes prepared regarding basis of expenditure apportionment as it was undertaken in accordance with the grant terms and conditions.
- There was no evidence on file providing a description of relevant internal controls. **See Recommendation/Agreed Action 8.**
- There was no evidence on file to suggest that contracts were let in accordance with the Council's Standing Orders where the claim/return includes charges for work carried out by a third party under contract. Discussion with the Green Spaces Manager suggested that the Resource Planning Manager would have undertaken tendering. This was discussed and it was stated by Internal Audit that the information should be obtained to be placed on file (unless there is any known reason why the Resource Planning Manager is required to hold the information) as supporting evidence to the claim form and progress reports. This action was agreed to be undertaken with and by the Green Spaces Manager. **See Recommendation/Agreed Action 10.**
- The compilation of the return was passed to the Green Spaces Manager for completion when the two original officers left the Council.

Discussion revealed that the file received contained 3 papers. This would suggest that provision of training has not been the case and in addition there was no planned pass over period for project continuity. However the Audit Commission undertook a presentation session on grant claims/returns 23 April 2010. The attendance list highlighted the Green Spaces Manager was not present. **See Recommendation/Agreed Action 2.**

- Standard stationery for claim and return documentation is in use including the preparation of computerised working papers and spreadsheets.

38) Review of claim 3

- A query was raised by Internal Audit regarding the claim percentage of 82.39%. Information on file suggests this should be 74%. Discussion with the Group Accountant revealed the 82.39% is correct as there was a variation resulting from agreement to remove £125K from 'Increased management and maintenance costs'. The Green Spaces Manager agreed to have a look to see if available otherwise the Group Accountant would confirm via e-mail with the funding body. Latest position - Group Accountant to confirm with funding body. **See Recommendation/Agreed Action 11.**
- A query was raised with the Green Spaces Manager - What/where is the application dated 5 November 2008 as stated within the claim? The Green Spaces Manager agreed to place a copy on file. **See Recommendation/Agreed Action 12.**
- A query was raised with the Green Spaces Manager - Was the contract amended to state 'Council of the City of Carlisle' as opposed to Carlisle City Council? Discussion revealed that it doesn't appear to have been amended. **See Recommendation/Agreed Action 13.**
- A query was raised with the Green Spaces Manager - Was the 10 Year Management Plan prepared? Where can it be located/should a copy be placed on file? Discussed with the Green Spaces Manager revealed that he has a copy and will place it on file. The 10 Year Management Plan is part of the maintenance post grant completion and is a requirement to comply with the projects terms and conditions. **See Recommendation/Agreed Action 14.**
- A Legal Services memo on file identified "we must continue to own the property and keep full control over what happens to it". The concern was expressed regarding the grant payment in relation to if there is a change in our status, such as merger or a reorganisation (e.g. unitary). It was seen that the probability was unlikely that this would happen within the next 4 years but gave recognition that a change of mood could see it happen. This is a risk that should be considered for inclusion within the risk register so that it can be monitored. **See Recommendation/Agreed Action 15.**
- There is no copy of the report to committee seeking and receiving approval to enter into the contract for grant money. A copy should be placed on the grant file. **See Recommendation/Agreed Action 16.**
- The review of the Chances Park claim 3 summary sent to Fiona Southern revealed that there was no evidence found on file of the 'project timetable and programme'. A copy should be placed on file. **See Recommendation/Agreed Action 17.**
- Referring to Part 9 of the claim form, there was no evidence found on file to support the statutory permissions of the grant form (i.e. copies of planning approval and listed building consent). These (or copies) should be placed on file. **See Recommendation/Agreed Action 18.**
- The spending and approved costs schedule part of the claim form had blank cells which should have been completed (totals, vat, non cash contributions) even if there was nothing to declare i.e. with a '0'). **See Recommendation/Agreed Action 19.**
- There was no ledger copy (print) of the grant payments received by the Council and no copy of relevant bank statement/s showing this

payment placed on file as evidence. **See Recommendation/Agreed Action 20.**

- Referring to Claim 3 (working paper). It was raised to the Group Accountant that there were rounding differences in the calculations which resulted in the totals being incorrectly calculated. The Group Accountant stated that it would be reviewed. **See Recommendation/Agreed Action 21.**

39) DURRANHILL

40) Number of files with the following titles:

- Grant funding agreement
- CSRES – Claims 2009/10
- Durranhill Industrial Estate Acquisitions (SRES GFA) Calculation of officer time timesheets
- CSRES File 2 – current working file
- Tender documentation
- Cumbria Sub Regional Employment Sites – File 1

41) Audit Review/Testing:

- Working papers did not include the date of preparation and the name of the officer preparing the working papers. **See Recommendation/Agreed Action 5.**
- The appropriate cells on the claim or return were not referenced to the working paper. **See Recommendation/Agreed Action 6.**
- There was no cross references to the system but there were copies of system printouts from which the information was taken. **See Recommendation/Agreed Action 7.**
- There were copies of original approvals, subsequent variations and any other correspondence with the grant paying body (where relevant).
- There was no evidence on file providing a description of relevant internal controls. **See Recommendation/Agreed Action 8.**
- Evidence was retained on file indicating that contracts were let in accordance with the Council's Standing Orders where the claim or return includes charges for work carried out by a third party under contract.
- The Audit Commission provided a presentation session on grant claims/returns 23 April 2010, however the officer did not attend. **See Recommendation/Agreed Action 2.**
- Standard stationery for claim and return documentation was in use including the preparation of computerised working papers and spreadsheets.
- Referring to Table 1 Statement of Grant Expenditure and column (b) Eligible Payments defrayed in 2009/10. The capital figure stated as £1,473,507.90 is incorrect as it includes (the quarter 4 accrual claim) of £55,641.17 which is for the period 1 April to 19 April 2010. Schedule 1B – Payments by Project 1 April 2009 to 31 March 2010, column 2 – Total gross payments defrayed* (* defrayment is defined as payments made on or before 31 March delivery partner that can be ultimately evidenced by bank statements). This column includes figures stated with the accruals previously stated. **See Recommendation/Agreed Action 22.**

- The claim was signed and dated by the Chief Finance Officer for the Project Sponsor 1 July 2010. Thereby missing the deadline date of 30 June 2010. **See Recommendation/Agreed Action 3.**
- Schedule 1A - Breakdown of Total Approved Project Payments has an error referring to Carlisle City Council - admin fee. This should in fact state Cumbria County Council as per the grant funding agreement. The discussion with the External Grants Funding Officer revealed that this was a mistake in the original grant funding agreement as it was always intended to be Carlisle City Council. **See Recommendation/Agreed Action 23.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
5	<u>See Summary of Findings Note 34, 37 & 41.</u> The dating and inclusion of the name of the officer preparing the working paper enables a review to be undertaken to determine whether project/grant is progressing to target/deadlines, it enables independent reviews to quickly establish the most up to date working paper and also who has prepared the working paper to direct any queries that may arise to the relevant person.	All assigned responsible officers to grant projects	All working papers should be dated and include the name of the officer preparing the working paper. There should also be the date and name of the officer who reviews the working paper if it is use as part of the grant claim to provide evidence that a review has taken place.	B	December 2010
6	<u>See Summary of Findings Note 34, 37 & 41.</u> Without cells on the claim return being referenced to the working papers there is a lack of clarity with the audit trail.	All assigned responsible officers to grant projects	All appropriate cells on the claim or return should be referenced to the working papers.	B	December 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
7	<u>See Summary of Findings Note 34, 37 & 41.</u> The information may be on file but to reduce time cross referencing should be used so that the audit trail and supporting evidence on file is easily located. It also provides a good way of ensuring that all evidence has been placed on file to support claims.	All assigned responsible officers to grant projects	Cross references should be made to system prints.	B	December 2010
8	<u>See Summary of Findings Note 34, 37 & 41.</u> Without a brief description of each of the grant project internal controls there is no clarity of process, ability to review and improve the control environment, increased errors, and enable continuity of grant administration where there are changes of staff.	All assigned responsible officers to grant projects	There should be a description of internal controls operating over each grant project. I.e. this should include for larger projects a brief description of the duties and responsibilities each officer involved, how they undertake the tasks and frequency.	B	December 2010
9	<u>See Summary of Findings Note 34 & 37.</u> It was established that there was no evidence on file re change of authorisation details to comply with grant terms and conditions.	Green Spaces Manager/Group Accountant	Evidence should be placed on file that the funding body has been informed of the change of authorisation details.	B	December 2010
10	<u>See Summary of Findings Note 37.</u> There was no evidence on file to suggest that contracts were let in accordance with the Council's Standing Orders where the claim or return includes charges for work carried out by a third party under contract.	Green Spaces Manager	Consideration should be given to place contract documentation on file as evidence Council Standing Orders have been met and as evidence to grant claims/returns.	C	December 2010
11	<u>See Summary of Findings Note 38.</u> Risk of non-compliance to the terms and conditions of the grant. Agreed variations should be retained on file as evidence to support the grant claim/return.	Green Spaces Manager/Group Accountant	Agreed variations to funding should be agreed with the funding body and retained on file as evidence.	B	December 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
12	<u>See Summary of Findings Note 38.</u> Grant claim supporting evidence is not retained on file.	Green Spaces Manager	A copy of the application form dated 5 November 2008 (referred to within claim 3) should be placed on file.	B	December 2010
13	<u>See Summary of Findings Note 38.</u> Query raised with the Green Spaces Manager - Was the contract amended to state 'Council of the City of Carlisle' as opposed to Carlisle City Council? Discussion revealed that it doesn't appear to have been amended.	Green Spaces Manager & Legal Services Manager	For Information.	D	December 2010
14	<u>See Summary of Findings Note 38.</u> The 10 Year Management Plan is part of the maintenance post grant completion and is a requirement to comply with the projects terms and conditions.	Green Spaces Manager	The 10 Year Management Plan should be placed on file.	B	December 2010
15	<u>See Summary of Findings Note 38..</u> A Legal Services memo on file identified "we must continue to own the property and keep full control over what happens to it". The concern was expressed regarding the grant payment in relation to if there is a change in our status, such as merger or a reorganisation (e.g. unitary). It was seen that the probability was unlikely that this would happen within the next 4 years but gave recognition that a change of mood could see it happen.	Green Spaces Manager	Consideration should be given to including this as a risk in the operational risk register.	C	December 2010
16	<u>See Summary of Findings Note 38.</u> There is no copy (placed on the grant file) of the report to committee seeking and receiving approval to enter into the contract for grant money.	Green Spaces Manager	Committee approval to enter into the funding contract should be placed on file.	B	December 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
17	<u>See Summary of Findings Note 38.</u> The review of the Chances Park claim 3 summary sent to Fiona Southern revealed that there was no evidence found on file of the 'project timetable and programme'. A copy should be placed on file as it forms part of the grants terms and conditions.	Green Spaces Manager	The project timetable and programme should be placed on the grants file.	B	December 2010
18	<u>See Summary of Findings Note 38.</u> Referring to Part 9 of the claim form, there was no evidence found on file to support the statutory permissions of the grant form (i.e. copies of planning approval and listed building consent).	Green Spaces Manager	Planning and listed building consent approvals should be placed on the grants file.	B	December 2010
19	<u>See Summary of Findings Note 38.</u> The spending and approved costs schedule part of the claim form had blank cells which should have been completed (totals, vat, non cash contributions) even if there was nothing to declare i.e. with a '0')	Green Spaces Manager	All cells on the spending and approved costs schedule of the claim/return should be completed. If there are nil values a '0' should be placed in the cell.	B	December 2010
20	<u>See Summary of Findings Note 38.</u> There was no ledger copy (print) of the grant payments received by the Council and no copy of relevant bank statement/s showing this payment placed on file as evidence.	All assigned responsible officers to grant projects	A ledger print of the grant payments received by the Council and a copy of the bank statement showing this payment should be placed on file as supporting evidence to the claim form.	B	December 2010

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
21	<u>See Summary of Findings Note 38.</u> Referring to Claim 3 (working paper). It was raised to the Group Accountant that there were rounding differences in the calculations which resulted in the totals being incorrectly calculated (casts and cross casts did not balance).	Group Accountant	A review should be undertaken to ensure that the spreadsheet casts and cross casts balance.	B	December 2010
22	<u>See Summary of Findings Note 41.</u> Referring to Table 1 Statement of Grant Expenditure and column (b) Eligible Payments defrayed in 2009/10. The capital figure stated as £1,473,507.90 is incorrect as it includes (the quarter 4 accrual claim) of £55,641.17 which is for the period 1 April to 19 April 2010. Schedule 1B – Payments by Project 1 April 2009 to 31 March 2010, column 2 – Total gross payments defrayed* (* defrayment is defined as payments made on or before 31 March delivery partner that can be ultimately evidenced by bank statements). This column includes figures stated with the accrual aforementioned.	External Grant Funding Officer	Grant claims should include expenditure that has been defrayed as per the claim form and the grant terms and conditions.	B	December 2010
23	<u>See Summary of Findings Note 41.</u> Schedule 1A - Breakdown of Total Approved Project Payments has an error referring to Carlisle City Council - admin fee. This should in fact state Cumbria County Council as per the grant funding agreement. The discussion with the External Grants Funding Officer revealed that this was a mistake in the original grant funding agreement as it was always intended to be Carlisle City Council.	External Grant Funding Officer	A letter of clarification should be sent to the funding body. Correspondence should be retained on file to indicate that the funding body is aware and has accepted the error and amendment.	B	December 2010

5. Supervision and Review

Method of Review:

- Are claims and returns compiled by officers with the appropriate expertise and knowledge of the scheme?
- Can the Council evidence that it has met the conditions attached to each claim?
- Before certification, are claims and returns checked for arithmetical or clerical errors, reviewed for completeness and reasonableness, test checked back to supporting documentation and compared to the claim/return for the prior period, by an officer not directly involved within the claim/return compilation?
- Is the review process properly evidenced especially with regard to the resolution of matters arising from the review?
- Establish whether the grants co-ordinator has any responsibilities with the supervision, review and certification stages for claims and returns. These may include:
 - Ensuring that officers responsible for completing claims and returns are given the necessary training, particularly those officers without relevant accounting experience?
 - Ensuring that action is taken to address points arising from the previous auditor certifications before the current claim or return is submitted?
 - Providing management information from the accounts and the grants ledger in terms of:
 - ~ Claims and returns made and interim amounts claimed and received?
 - ~ Cost and time spent by the Council on each claim or return?
 - ~ Cost and time spent by the auditor on each claim or return?
 - ~ Performance in meeting deadlines?
 - ~ Values, amounts and reasons for adjustments made as a result of auditor certification?
 - ~ Reasons for and subsequent action taken with regard to matters leading auditors to qualify their certificates?

Summary of Findings:

- 42) All the claims and returns were compiled by officers with the appropriate expertise and knowledge of each scheme. With the exception of one claim, already raised within this report see note 26, whereby the officer it is suspected would have initially had limited knowledge of the claim but this would have been built up on compilation.
- 43) Evidence has been passed to the Audit Commission with each claim for certification.
- 44) There was a quality assurance process incorporated into the grant administration process before they were passed to the Audit Commission for certification. Finance reviewed claims and returns to check for arithmetical and clerical errors, reviewed claims for completeness and reasonableness, test checked back to supporting documentation and compared to the claim/return for the prior period before submission for certification.
- 45) If there were matters arising as part of the quality assurance checking process these would be raised and resolved with the relevant responsible officer for the project. These, however, are not documented. **See Recommendation/Agreed Action 24.**

46) The Procedure For/Responsibilities in Respect of Grant Claims & External Funding detail the responsibilities with the supervision, review and certification stages for claims and returns.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
24	<p><u>See Summary of Findings Note 45.</u> The quality control checks in place are currently not documented and there is no record of any matters arising as part of the quality assurance checking process including the resolution of the matters identified. The implication of this is that monitoring cannot take place over the issues raised in terms of frequency and nature. Action cannot then be easily taken to improve the speed and system of quality checking. It is anticipated that over time there should be few matters (if any) that arise from the quality checking process.</p>	Financial Services Manager	The quality control checks undertaken by Finance should be documented along with matters arising as part of the quality control process and their resolution.	B	December 2010

Performance for the quarter 1st April to 30th June 2010

Audit	Scheduled days (this quarter)	Actual days (this quarter)	Percentage complete	If audit is completed, Scheduled vs actual days	Notes
Carried Forward	23.5	35.75	100%	N/A as in 2009/10 specific days were not assigned to audits.	10 audits were completed in the period and reported to the 22 nd June Audit Committee, 8 of which were material reviews.
Follow Ups	2.5	2.25			
Building Control	5	0.25	5%		Some initial work undertaken in 2009/10
Recycling	10	3.75	30%		
Area Maintenance	10	14.50	50%		Some material findings are likely to result from this audit, so budget was expanded
J/E Back Pay	0.5	0.5	100%		
Fraud Investigations	6	6.	100%		
Insurance	10	4	40%		On target
Procurement	6	8.75	80%		Final report presented to the Audit Committee 24/9/10
Rents from Properties	7.5	3.75	25%		

Audit	Scheduled days (this quarter)	Actual days (this quarter)	Percentage complete	If audit is completed, Scheduled vs actual days	Notes
Green Spaces	12	12.75	50%		This area has not been reviewed for some time, so budget has been increased.
Facilities Management	7	0.25	10%		Some work initiated in 2009/10
Grants	16	16.5	40%		Final report presented to the Audit Committee 24/9/10. Some material findings have resulted from this audit, so budget was expanded. Internal Audit work performed in this area should have the beneficial impact of a reduction in District Auditor fees.
Partnerships	5	0	0%		
Audit Shared Services	1	9			
Total Productive	122	118			
Holidays / Sick / Elections	26	41			The differential is mostly accounted for by additional annual leave.
Management & Administration	47	35.75			
Training	2	2.25			
Total Non Productive	75	79			
Grand Total	197	197			

RESOURCES – AUDIT SERVICES – MAIN ACCOUNTING AND BUDGETARY CONTROL SYSTEMS

Executive Summary	
Overall, good controls were found to be operating with the main accounting system and budgetary control processes. Governance processes are effective, ledgers are satisfactorily structured, and controls over budget preparation, journals, and suspense account processes are satisfactory. A small number of areas were identified where improvements could be made to improve systems and these have been covered by the recommendations made.	
Recommendations	Impact of implementing recommendations
As part of the induction process, Management should ensure that new starters are aware of how to access relevant system procedures material. (Grade C)	Increased adherence to accounting procedures and regulation, leading to enhanced integrity of accounts.
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. (Grade B)	
The Financial Guide should be updated and / or reviewed when changes occur, otherwise on an annual basis. (Grade B)	
Where expenditure is consistently coded incorrectly following training sessions and discussions with the Senior Accountancy Assistants a list should be maintained of the Sections and relevant officers which should be reported on a frequent (monthly / quarterly) basis to Assistant Directors. (Grade B)	More accurate financial data as coding anomalies are identified and corrective action taken through amended processes and / or training
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 2008/9 audit recommendation) In addition all cells should be completed i.e. responsible officer and verifier (or blanked out by shading if not relevant) (Grade C)	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	

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
<p><u>Medium Term Financial Planning & Maintaining Asset Values</u></p> <p>Description: There is a risk that the MTFP budget projections will not be met. Specific risks are:</p> <ul style="list-style-type: none"> • Worsening of financial forecasts particularly due to impact of recession • Failure to deliver transformation savings assumptions 	Strategic	M

<p>approved as part of the budget</p> <ul style="list-style-type: none"> • Failure to achieve balanced budget through the budgetary process • Failure to match future policy commitments and aspirations compared to the funding available <p>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.</p>		
<p><u>Financial Management Information</u></p> <p>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:</p> <ul style="list-style-type: none"> • Overspends against budget • Poor management decisions • Financial information not linked to performance management <p>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.</p>	<p><i>Strategic</i></p>	<p><i>M</i></p>
<p><u>Financial Reporting</u></p> <p>Description: There is a risk that financial reporting will drop below minimum standards. Failure will:</p> <ul style="list-style-type: none"> • Lead to reputational damage • Have an impact on overall CPA/Use of Resources assessment <p>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</p>	<p><i>Strategic</i></p>	<p><i>M</i></p>

<p>implementation of International Reporting Standards and in particular the new requirement for the identification of assets has been prepared is being progressed.</p>		
<p><u>Vacancy Management</u></p> <p>Description: There is a risk that failure to meet the vacancy management target will generate substantial budget deficit in the 2009/10 financial year.</p> <p>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.</p>	<p><i>Strategic</i></p>	<p><i>M</i></p>
<p><u>Protection of IT E-records and data and hard copy information</u></p> <p>Description: There is a risk that IT E-records and data and hard copy information is not adequately backed up and protected:</p> <ul style="list-style-type: none"> • Failure will have business/financial impact <p>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.</p>	<p><i>Strategic</i></p>	<p><i>M</i></p>
<p><u>Financial Management information provided must be accurate, robust and flexible for budget holders to manage effectively</u></p> <p>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:</p> <ul style="list-style-type: none"> - Overspends or underspends against budget - Poor management decisions - Financial information not linked to performance management <p>Current Action Status/Control Strategy:</p> <p>(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.</p> <p>(2) Work is ongoing with the Policy and Performance and Finance Teams to further improve linkages between use of resources and performance.</p> <p>(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.</p> <p>(4) A significant financial training programme has now been launched to improve the financial management standards throughout the authority.</p>	<p><i>Operational</i></p>	<p><i>M</i></p>
<p><u>The Council regularly fails to deliver the Capital Programme incorporated in its budget to the originally planned timescales</u></p> <p>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.</p>	<p><i>Operational</i></p>	<p><i>M</i></p>

<p>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.</p>		
<p><u>Medium Term Financial Planning and maintaining asset values</u></p> <p>Description: There is a risk that the medium term financial plan budget projections will not be met.</p> <p>Specific risks are:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p><i>Operational</i></p>	<p><i>M</i></p>
<p><u>Annual Statement of Accounts</u></p> <p>Description: The risk is that the authority will receive a qualified opinion on Annual Statement of Accounts from the Audit Commission.</p> <p>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.</p>	<p><i>Operational</i></p>	<p><i>M</i></p>

<p>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.</p>		
<p><u>Reporting of Financial Implications of Council activities</u></p> <p>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.</p> <p>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.</p>		<i>M</i>
<p><u>Meeting requirements of existing and new legislation and guidance</u></p> <p>Description: The risk is that new legislation and guidance is not complied with.</p> <p>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.</p>	<i>Operational</i>	<i>M</i>
<p><u>Financial Reporting</u></p> <p>Description: There is a risk that financial reporting standards will drop below minimum standards. Failure will:</p> <ul style="list-style-type: none"> • Lead to reputational damage • Have an impact on overall CAA/Use of Resources assessment <p>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.</p>	<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).

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Implementation Date</u>
A.1	<p><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.</p> <p>Previous 2008/09 recommendation found not to be implemented.</p>	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	<p><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.</p>	Financial Services Manager	<p>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.</p> <p><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></p>	B	Implemented
A.3	<p><u>See summary of findings note 6.</u> There is no up to date description of systems in operation.</p>	Financial Services Manager	<p>The Financial Guide should be updated and/or reviewed the shorter time span of when changes occur or at least on an annual basis.</p> <p><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></p>	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.

- 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.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Implementation Date</u>
A.4	<p><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.</p> <p>(N.B. similar to previous audit recommendation contained in the 2008/09 report).</p>	Financial Services Manager	<p>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.</p> <p><u>Financial Services Manager Comment:</u> 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.</p>	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.

<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.