



AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 14th January 2009

Title: Audit Services Progress Report

Report of: Head of Audit Services

Report reference: CORP 75/08

Summary:

This report summarises the work carried out by Audit Services since the previous report to Committee on 26th September 2008.

Recommendations:

Members are requested to receive this report.

Contact Officer: Ian Beckett, Head of Audit Services **Ext:** 7292

Audit Services Progress Report

1 Summary of Audit Work

As previously agreed by Members of 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 -

Creditor Payments	Appendix A
Electoral Registration	Appendix B
Equality and Diversity	Appendix C
Partnerships	Appendix D
Members' Expenses	Appendix E
Planning Income	Appendix F
Sundry Debtors/Misc Income	Appendix G
Treasury Management	Appendix H
Tullie House	Appendix I

Work has also commenced on a number of other reviews, including the "material" systems. The final reports will be presented to Members in due course.

An investigation was undertaken relating to fraudulent mis-use of the Authority's Council Tax system by an employee who has since left the Authority's employment. There was no financial loss to the Authority, and the matter was reported to the Police, under the terms of the Authority's Theft, Fraud and Corruption Response Plan. The Police are now instigating proceedings against the perpetrator. The Authority's standard control procedures brought this situation to light and subsequent checks by Audit Services revealed no system weakness. Should Members require further details, this can be dealt with in Part B of the Agenda.

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.

MASS Database

- 2.2 It was reported to Members at the meeting of this Committee on 23rd June 2008 that there had been little progress in respect of the "MASS" database in relation to Fixed

Assets. (Report CORP28/08 refers). This was further reported to Members at the meeting of this Committee in September 2008 (report CORP 48/08 refers), and it was agreed that the situation would continue to be monitored by Audit Services and developments would be reported to the Audit Committee in due course.

The Head of Economic Development, Tourism and Property has now supplied the following information -

“A review of MASS is now being taken forward as a corporate project and a project manager from the Policy and Performance Directorate has been identified to undertake an Asset Management Software Baseline Review. She reported at the end of October and will proceed to clarify requirements and costs and will develop a project plan and proposals aiming for implementation in Finance by Spring 2009 - subject to any practical implementation issues arising from the chosen solution. Neighbouring authorities are being approached to establish if there is any local shared experience of asset management software.”

External Grant Funding

2.3 Following an earlier Audit review, it was agreed that there was a need to enhance the role of the External Funding Officer (EFO), in order to provide a central co-ordinating role to manage the external funding function both strategically and to provide operational support. This was reported to Members at the meeting of this Committee in September 2008 (report CORP 48/08 refers) and it was agreed that the situation would continue to be monitored by Audit Services and developments would be reported to the Audit Committee in due course.

The Head of Economic Development, Tourism and Property has now supplied the following information -

“The position relating to the management of external funding has not yet been resolved since the report produced in September. The situation was discussed at a Carlisle Renaissance Project Management Group [with the Head of Finance and Head of Economy, Property & Tourism present] where it was agreed that the evaluation of the Carlisle Renaissance interim programme 2006-08 should focus particularly on an assessment of the management of the City Council's accountable body functions in relation to externally funded programmes. This will be funded by NWDA and will be completed by the end of the financial year. This overcomes the lack of in-house capacity to undertake this work and will provide an independent view on operational and management aspects of the role including the issues flagged up by the Audit review. The brief for the work is in hand and will need to be agreed between Head of Finance and Head of Economy, Property and Tourism.”

3 Ongoing work

Work on a number of other reviews commenced during the period – the reports will be presented to Members in due course. This includes work on the “material” systems, in

order to ensure that the deadline for the completion of all such reviews will again be met.

4 Annual Governance Statement Action Plan

Progress against the Action Plan has been reported separately to this meeting - report CORP 49/08 refers.

5 Recommendations

5.1 Members are requested to receive this report.

I. Beckett
Head of Audit Services
January 2009

Corporate Services

Audit Services

Audit of Tullie House

Final Report

13th October 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\Community Services\COM055 - Tullie House\Audit 08-09\Reports\Final Report - Tullie House.doc		

Directorate / Service Area	Recipients of Report	Action Required
Community Services	Director of Community Services Head of Community and Culture Services (for information) Arts & Museums Manager (for action) Services Manager (for information) Director of Corporate Services	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.

Please note: The Chief Executive, Deputy Chief Executive and Audit Committee receive a copy of the Final Report

1. Reason for the Audit

- 1.1. As part of the audit planning process, Tullie House was identified as a high / medium risk service area and has therefore been selected for review as part of the agreed Audit Plan for 2008/09.

2. Background Information / Summary of the Audit Area

- 2.1. Tullie House Museum and Art Gallery is part of Community Services. It was a silver award winner at the National Enjoy England Awards for Excellence in 2008. It contains four galleries, the Border, Millennium, Old Tullie House and the Art Gallery and also houses an award winning family restaurant and a gift shop which stocks a variety of goods including locally crafted items.
- 2.2. Tullie House is too large an area to audit in its entirety so key areas of risk have been identified and audited. These are identified below in section 4.
- 2.3. It should be noted that the Authority is currently reviewing Governance Options with the possibility of outsourcing Tullie House to a trust.

3. Associated Risks of Providing this Service/Function

- 3.1. The Tullie House Museum and Art Gallery Risk Register was examined. There are sixteen risks identified. The table below notes some of the risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
TH1 Physical aggression/violence from a member of public to a member or members of staff which could result in injury or death <ul style="list-style-type: none"> • <i>Personal attack alarms in main service points. Handheld radios in operation. Code Red system to summon assistance/call police</i> • <i>CCTV system in operation and shop check radio system</i> • <i>Lone Worker scheme, mobile phones issued</i> • <i>Safe area for locking up exiting the building on final lockup</i> • <i>Sale/supply of alcohol only by designated people</i> 	<i>Operational</i>	<i>H</i>
TH2 Bomb threat <i>Bomb threat procedures in place. Museum service would close whilst threat was investigated</i>	<i>Operational</i>	<i>L</i>

TH3 Fire in all/part of building resulting in evacuation of premises and possibly having to close to the public and possibly resulting in large insurance claim/salvage operation <ul style="list-style-type: none"> • <i>Electrical test/maintenance in operation</i> • <i>Fire Risk assessments</i> • <i>Premise License in place</i> • <i>Written emergency procedures</i> • <i>Duplication by photocopying Acquisitions register and thereafter copy retained at the County Archive</i> 	<i>Operational</i>	<i>M</i>
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4. **Scope of the Audit**

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

	Area Examined
1.	Grant Income
2.	Expenditure
3.	Brampton Live
4.	Tullie House Shop

5. **Overall Conclusion of the Audit Review**

- 5.1. A number of opportunities to further enhance controls have been identified which are identified in Appendix A and have been brought to the attention of the relevant Heads of Service. In summary the key issues arising from this review are:
- 5.2. Grant Income is generally well recorded with appropriate information provided in the register maintained by staff at Tullie House. There are however difficulties tracing grant income through to financial records and relevant spreadsheets are not being forwarded to Corporate Services. More significantly, the rules set out in the constitution regarding grant applications are not being followed.
- 5.3. An examination of transactions from the general ledgers and the creditors system concluded that expenditure was appropriate and was coded correctly. It was apparent however, that the detail code (3105) was used after the Pay Services Manager sent out an email requesting that it should not be used in order for the Authority to comply with a request from Her Majesty's Revenue and Customs (HMRC). This transaction will need to be re-allocated. There are, however, significant weaknesses over the control of expenditure incurred through petty cash and Financial Procedures Rules have not been followed correctly
- 5.4. Brampton Live was started in 1995, and is now in Partnership (Association) with Emerging Music. Several areas of weakness were identified which need to be addressed. These include insurance, petty cash, the contract used by the Authority with the performers, and the arrangement for the pitch fees in respect of catering stands.

- 5.5. Tullie House shop is well laid out and has a good turnover of stock. There is however, a large quantity of obsolete stock that needs to be written off as soon as possible. The online shopping facility is difficult to use in relation to all but the simplest of purchases and the lack of an online secure payment option means that clients are asked to submit confidential data via insecure methods

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 16 recommendations arising from this review. 1 at grade A, 6 at grade B, 7 at grade C and 2 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.

Community Services Directorate, Leisure Services

APPENDIX A

1. Grants

Method of Review:

Review the Expected Income Grants register maintained by Tullie House.

Ensure that identified grants are shown on the Grants register.

Ensure that all carried forwards from 07/08 are carried forward to 08/09 where appropriate.

Ensure that the grants are all passed on to the Finance officer for inclusion on the Authority's Grants and External Funding register.

Review a grant application through to final settlement.

Ensure rules and procedures in the Constitution regarding grant applications and external funding are adhered to.

Summary of Findings:

The Expected Income Grants register maintained by the Financial and Administration Assistant at Tullie House was reviewed to ensure that adequate information is being recorded.

The Grants identified by the Arts and Development Manager were all found to be recorded appropriately on the register maintained by Tullie House.

The Expected Income grants register from 07-08 was reviewed to ensure that all grants not received were carried forward to the 08-09 register. All were found to be correct.

The Expected Income grant was compared to the Grants and External Funding register maintained by Financial Services. From the testing carried out it appears that the documents are both correct. It was though difficult to be able to trace grants from one to another so it would though be prudent to identify the grant with a unique reference number so that it was easy to cross-reference the two documents.

Financial Services do not receive copies of the expected income grant spreadsheet. A copy should be sent to the Development & Support Manager to enable him to use the information in his quarterly report on Grants Claims and External Funding.

The Grant application form for the Tullie House Art Gallery – Exhibitions Programmes from the County Council was reviewed. All the forms were completed accurately and appropriately and the money was received.

Discussions were held to ascertain if the Constitution and the Procedures for responsibilities in respect to grant claim and external funding are adhered to. The Finance Officer advised that the Procedures are not generally followed and that individuals responsible for grants claims are not completing the relevant documents

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	There is difficulty following grants through from the spreadsheet maintained by Tullie House to the corporate Grants and External Funding register maintained by Financial Services.	Arts & Museums Manager	When the Grants are identified at Tullie House they should be given a unique reference number that would be entered on to the Grants and External Funding register.	C	3 Months
A.2.	Financial Services do not receive copies of the expected income grant spreadsheet.	Arts & Museums Manager	A copy of the expected income grant spreadsheets should be sent to the Development & Support Manager quarterly.	C	Immediately
A.3.	The Authority rules regarding grants applications are not followed.	Arts & Museums Manager	Ensure that all relevant staff are informed of their responsibilities under the Constitution in respect to grant applications and external funding. Ensure that staff are informed of their obligations to comply with laid down procedures when dealing with grants.	B	Immediately

2. Expenditure

Method of Review:

Review the General Ledgers and the Creditors System.

Test a sample of "Self Employed contractors" and ensure that they have provided relevant evidence.

Review expenditure processed through petty cash.

Summary of Findings:

General Ledgers

The ledgers were reviewed and it was noted that there was a shortage of codes for 2007/08 and large amounts of expenditure were being charged to 3430 – General Expenses, especially relating to exhibitions. A discussion was held with the Financial and Admin Assistant at Tullie House and it was explained that additional codes were being added in 2008/09. The ledgers were reviewed and the level of expenditure allocated under general expenses is now kept to a minimum. There is now use of the third Classification Code within 3430 that enables the items to be charged to specific exhibitions.

There was an overpayment on one of the Creditor's accounts. Creditor MC0319 was over paid and although it was not a significant amount of money, care must be taken when completing Creditor Certification slips and certifying them. The creditor does not appear to have informed us of the overpayment even though we have continued to use their services.

An invoice was paid to a creditor ST0844, of which, £150 were just itemised as "expenses". Receipts should be provided to support to verify the claim, as it is public money that is being spent.

Tullie House incurs expenditure relating to corporate entertainment. Staff have advised that they do not personally receive hospitality and always purchase their own meals/drinks. It would be prudent for staff to note on receipts who has received the hospitality.

Corporate Entertaining

A recent visit by Her Majesty's Revenue and Customs (HMRC) highlighted an area where the Authority needs to change its processes in connection with charging expenditure that relates to corporate hospitality, catering, working lunches etc.

This information was sent in an email to various manager groups on the 23rd June requesting that the use of detail code 3105 was to stop with immediate effect. There is evidence in the ledger that Tullie House used the code after this date

To comply with HMRC regulations invoices are to be charged different codes so that at the end of the year we can easily identify any expenses purely relating to *staff entertaining and working lunches etc.* The new codes are identified below with the guidance for processing
The codes to use in future are:

Detail Code 3101 Catering expenses should be charged
Detail Code 3106 All staff entertaining (except formal training sessions) should be charged
Detail Code 3107 Corporate entertaining should be charged
Detail Code 3108 Refreshments provided as part of a formal training session should be charged here
When processing orders, invoices etc please ensure that the date, place and name of the event is shown. This will save time if HMRC request details at the end of the year.

Self Employed Contractors

A sample of self employed contractors were reviewed to ensure that all had provided evidence to support their claim. All were found to have provided appropriate information. The evidence of one of the individuals had been lost in the flood. Financial Services are now adding comments to the notes file in the Creditor System. This will show that the check has been carried out and that appropriate evidence has been supplied.

Petty Cash

The Petty cash system was reviewed and it was found that one of the Petty Cash claims was not certified and therefore should not have been paid.

A Petty cash claim was processed on the 10/04/08. The details were as follows

Date	Name of supplier	Particulars	Amount
09/04/08	Petty Cash Claim – No Receipt		16.50

The vouchers were verified by A Walker and the Claim certified by M North

This is not appropriate, The Financial Procedure rules states - *that employees operating a petty cash advance obtain receipts as evidence of expenditure wherever possible.* If it had not been possible to obtain a receipt the name of the supplier and the particulars should have still been provided.

The staff at Tullie House had been reminded of their responsibilities regarding Petty Cash in a memo from the Services Manager in March 2008

The review of petty cash identified that funds are being utilised in what could be construed as inappropriate spending of public monies. Details have been passed to relevant managers.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
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A.4.	A creditors certification slip was incorrectly completed which lead to an overpayment of a supplier	Arts & Museums Manager	Care should be taken when completing a Creditors Certification slip and all details should be checked before certifying them	C	6 Months
A.5.	There was an overpayment on a invoice	Arts & Museums Manager	The supplier MC0319 should be contacted and a credit note should be requested to rectify the overpayment	B	Immediate
A.6.	Expenses were paid to a third party for £237.10 although no receipts were provided	Arts & Museums Manager	Receipts should be provided to support evidence of "expenses"	C	6 Months
A.7.	Tullie House incurs expenditure relating to corporate hospitality	Arts & Museums Manager	All invoices should identify the individuals that have received the hospitality in order to protect the staff involve that purchase their own	C	6 Month
	Detail code 3105 has continued to be used despite a request from Payroll Services advising of new procedures	<i>Advised by the Arts and Museum Manager that the code is not being used and that the transaction identified by audit was from a transfer invoice from prior to the email. In addition effort is being made to transfer all expenditure from 08/09 from the 3105 code</i>			
A.8.	Petty cash claims have been processed when not certified	Arts & Museums Manager	All Petty cash claims must be certified	B	Immediate
A.9.	Petty Cash claims have been processed when not completed with either the name of a supplier or particulars	Arts & Museums Manager	All Petty Cash claim must be supported whenever possible with receipts. All relevant staff must be made aware of the Financial Procedure Rules regarding Petty Cash	B	3 Months
A.10	Some of the Petty Cash expenditure is an inappropriate spending of public money	Arts & Museums Manager	Guidelines need to be drafted, agreed by Senior Management and adopted regarding the entertainment of suppliers and clients.	A	Immediately

3. Brampton Live

Method of Review:

Review insurance arrangements and discuss with the Treasury and Insurance Manager.
Review of Petty Cash.
Review of Contacts and discuss with Legal Services.
Review procedures adopted with Foreign performers ensuring compliance with taxation requirements.
Ensure that Catering stands are dealt with appropriately and that a reasonable income is received for the pitch.
Ensure that food vouchers are dealt with appropriately.

Post Audit Comments:

Since the audit has been completed it has been brought to Internal Audits attention that Brampton Live will not be run by the Authority again, the existing partner, Emerging Music, will run it. The Authority has made a commitment for the next two years of £15,000 per annum grant for the festival. Due to the findings below it is vital that an agreement is drawn up between the Carlisle City Council and Emerging Music and that the agreement is approved by Legal Services. Consideration must be given to whether Tullie House operates a box office and if so, ensure that a satisfactory commission is collected to cover the costs and overheads of providing the service.

Summary of Findings:

Insurance

The Authority is responsible for arranging cover for theft / damage, and this is organised by the Authority's Treasury and Insurance Manager. The Public Liability is insured by the School (William Howard) and arranged by them. The Treasury and Insurance Manager at the Authority has not seen a copy of the insurance arranged by the School to ensure that the levels of cover are appropriate

The insurance taken out by the Authority for 2008 only covered £2,000 for Musical Instruments, this seems very low compared to the £25,000 that was insured in 2006.

Petty Cash

A payment was raised last year through Petty Cash to Debby Bradburn, There was no receipt / invoice.

Contacts with Performers

The standard contract was reviewed that was used for Brampton Live Music Festival. It was found to contain numerous errors including ambiguity (eg Clause 4b. to provide proper security at all times -personal property, before, during and after the performance)

Advice was sort from Legal Services and other areas of weakness were identified including the contract using the wrong title for the Authority our Legal entity is "The Council of the City of Carlisle". Legal Services advised that they had not ever seen the contract template. It is vital that the contracts protects both parties and the current contract was found to be inadequate.

Two contracts provided from Performers were reviewed and were found to be complete. It would be prudent for major contracts, such as that for Steve Earl which was for £10k, be reviewed by Legal Services before signed on behalf of the Authority.

Foreign Performers

A review of the Performers at last year's festival was carried out and the procedures in place to ensure that the Foreign Performers are appropriately treated for income tax were found to be secure. The Arts Development Manager checks through all payments with Payroll Services.

Caterers Pitch Fees

The Caterers at Brampton Live are charged 15% of their turnover for the pitch. This relies on trust between the Authority and the traders. There are no controls in place to ensure that the traders have declared all their income. Other "community events" organised by the Authority have stopped charging pitch fees on commission to a more transparent basis of tendering. A tender is sent out to traders with details of the event, approximate audience numbers, trading hours etc. It is not necessarily always the highest tender that gets the pitch with consideration as to the quality of the food, condition of trailer etc to ensure that the trader meets the expectations of the audience and the Authority. Once a trader is agreed on details are sent to the Licensing Section to ensure that they are appropriately licensed and to Food, Health and Safety Team to ensure they have the appropriate level of food hygiene certificates to ensure that the Authority meets all its legal obligations. Other Authority community events such as the Spring show, which is a comparable event, has generated income of approximately £1900 with payments in advance over a two day event with limited opening times.

The current method used to calculate the pitch fee is placing the Authority in breach of HM Customs and Excise regulations. The staff are currently taking the 15% fee and then netting off any food vouchers which have been declared so that the Authority honours the necessary vouchers at a value of £5 each. They are then charging the pitch fee on the balance. See example below :

"La Pain Baguette" figures from last years festival

Turnover £4520 inc. 88 vouchers therefore pitch fee was £678 including VAT.

The vouchers were then netting off leaving a balance of £238 including Vat. The Authority's VAT liability was 35.45

The Authority is liable for VAT on the 15% fee and should have been £100.98.

It is of no relevance to Customs and Excise the Authority net off the vouchers.

It is vital that VAT is charged correctly and accounted for appropriately so as not to place the Authority at risk

This has been discussed with The Head of Culture & Community to ensure that the Vat is calculated correctly at Brampton Live 2008

Internal Audit has requested several times that a sample copy of a caterers pitch contract is supplied for review. Please note that no sample has been made available

Food Vouchers

The food vouchers are issued to Artists, Stewards and the Red cross. Last year 547 vouchers were distributed with a total value of £2735. These are given in to the trade stands in exchange for refreshments. The Authority honours the vouchers with the traders. The vouchers are not numbered or reconciled.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
	The Treasury and Insurance Manager at the Authority has not seen a copy of the insurance arranged by the School to ensure that the levels are appropriate	Arts & Museums Manager	Ensure that the Treasury and Insurance Manager receives a copy of the Insurance Certificate for the insurance taken out by William Howard School	Post Audit <i>Since the audit has been completed it has been brought to Internal Audits attention that Brampton Live will not be run by the Authority again. The Authority will continue to support the festival with a grant. It is therefore acknowledged that the recommendations identified will not need following-up. The issues raised though should be considered if Tullie House operates any similar events in the future</i>	
	The insurance taken out by the Authority for 2008 only covered £2,000 for Musical Instruments, this seems very low compared to the £25,000 that was insured in 2006.	Arts & Museums Manager	It is vital to ensure that the correct values for insurance are provided to the Treasury and Insurance Manager as any errors could have financial implications for the Authority		
	A payment was raised last year through Petty Cash to Debby Bradburn, There was no receipt / invoice	Arts & Museums Manager	There are to be no artists paid through the petty cash system.		
	Legal Services advised that they had not ever seen the contract template used with Artist It is vital that the contracts protects both parties and this was found to be inadequate	Arts & Museums Manager	The Arts Development Manager needs to seek advice from Legal Services to ensure that the form of contract is legally binding and has no implications that could put the Authority at risk.		
	Other "community events" organised by the Authority have stopped charging pitch fees on commission to a more transparent basis of tendering.	Arts & Museums Manager	It is suggested that the pitch fee should be a fixed rate. This amount should be based on previous years and with the size of pitch being a consideration. All traders should be charged on the same basis and in advance. Consideration should be given to the levels of income raised from other events organised by the Authority.		
	The Customs and Excise are not interested in the Authority netting off the vouchers prior to calculating the pitch fee. It is vital that VAT is charged correctly and accounted for appropriate so as not to place the Authority at risk.	Arts & Museums Manager	The VAT on pitches must be dealt with appropriately. The Arts and Development Manager must seek advice from Accountancy Services for any areas of VAT that he is not confident with.		
	The food vouchers are not numbered or reconciled	Arts & Museums Manager	The refreshment vouchers should be pre-numbered and a log should be maintained to show how many vouchers are issued and who has received them. Vouchers should be reconciled back and recorded in one place, suggested in a spreadsheet. This information should be retained for two years.		

4. Tullie House Shop

Method of Review:

Discuss with the Front of House Manger (Retail)

Review the procedures for

- Cashing up
- Stock Take
- Dealing with Obsolete stock
- Advertising (Promoting awareness)
- E-government (Internet sales)

Summary of Findings:

Cashing Up

The procedure notes for cashing up were reviewed and were found to be satisfactory. The procedure notes were saved on to a personal drive which was not accessible to all relevant staff including The Front of House Manager (Retail).

Stock Take

A stocktake was carried out on the 31st March and some documentary evidence of the stocktake was reviewed at Tullie House. The manual records of the descriptions and the quantities were however filed away at the time. Records were not kept showing the calculations for the stock figure used for the Final accounts.

Dealing with Obsolete Stock

The current stock value as at the 31 March 2008 was £46977.76. Included in this a large amount of stock that is considered to be obsolete. The Front of House Manager (Retail) provided a list of the stock considered to be obsolete and its valuation was £17263. This stock needs be written off, and will have an adverse effect on the trading account but would leave a more prudent stock valuation. This write off is not considered to be material to the 2007/08 accounts and will be processed through the 2008/09 accounts. The policy for stock disposal is listed in the Financial Procedure rules.

Advertising

Tullie House shop offers good discounts to Carlisle City Council staff. The book recording discounts was reviewed and it was found to be very rare that anyone other than Tullie House staff ever took advantage of this. It is considered a possibility that maybe other Council staff are not be aware of this discount or the range of goods in the shop.

E-government

The shop has an online area in the Tullie House web-site that is accessible from the home page. The online shop is sub divided into six areas. The gift area was reviewed and although it was categorised as it was not possible to order some of the items without sending additional information either by email/telephone or mail. For example the Thomas Jones Coasters and the original haematite jewellery it is possible to order both of these items but there are many different designs and styles and there is no where on the order form to specify a specific item

The online shop does not allow for payments to be made online and clients are asked to send information via, phone, mail or email. All information taken over the telephone is dealt with appropriately and credit card details are only kept until the payment is processed. A discussion was held with The Front of House Manager (Retail) on how the credit card details were treated if they were sent in by post or email. He explained he had "never had a customer send in their credit card details this way as it does not specify this on the web-site and I do not encourage customers to do so - this applies to emails as well as I do not know how secure our system is".

The web-site clearly does offer the payment methods, the information below is taken from the Ordering Goods page

We accept credit card payment. At present we ship on to the UK Mainland.

We accept Visa and Mastercard. We do not charge for any item until it is ready to ship. Backordered items are not charged until they are shipped. You may send your credit card information via:-

Phone - Jason Munn, Shop Manager on 01228 618705.

Mail - Tullie House Museum & Art Gallery, Castle Street, Carlisle CA3 8TP

Email - shop@tulliehouse.co.uk

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.11.	The procedure notes were saved on to a personal drive which was not accessible to all relevant staff including The Front of House Manager (Retail)	Arts & Museums Manager	All procedures should be stored on a shared drive so that all relevant staff can gain electronic access to it as required	C	3 Months
A.12.	Records were not kept showing the calculations for the stock figure used for the Final accounts	Arts & Museums Manager	It is recommended that the stock records and workings used to calculate the closing balance for the accounts should be kept for at least two years. These are supporting evidence for the Authority's final accounts	B	6 Months

A.13.	The obsolete stock needs be written off, although it will have an effect on the trading account it will leave a more prudent stock valuation	Arts & Museums Manager	The obsolete stock needs to be written off in accordance with the Financial Procedure Rules	B	6 Months
A.14.	It is considered a possibility that maybe other Council staff outside of Tullie House are not aware of this discount or the range of goods in the shop	Arts & Museums Manager	Consideration should be given to advertising in the "Staff News" and or on the intranet in an attempt to increase sales.	D	6 Months
A.15.	The web-site gift area was reviewed and although it was categorised it was not possible to order some of the items without sending additional information either by email/telephone or mail	Arts & Museums Manager	Consideration should be given to making the Online facility more user friendly. It is felt that this would increase revenue as on the current web-site it is not easy to select an item	D	6 Months
A.16.	The web-site offers payment methods including telephone, email and post.	Arts & Museums Manager	The Ordering Goods page on the internet should be amended so customers are made aware to only submit credit card details over the telephone as there is no security in the post or in an email.	C	3 Months

Corporate Services

Audit Services

Audit of Creditors System

Final Report

1st December 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\Material Systems\Creditors MAT010\08-09 Audit\Audit Reports\Creditors Audit Final 08-09.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Corporate Services	<p>Head of Financial Services (for action)</p> <p>Development and Support Manager (for information)</p> <p>Principal Finance/Systems Officer (for information)</p> <p>Finance Assistant (for information)</p>	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Corporate Services, which is attached as Appendix A.

Please note: The Chief Executive, Deputy Chief Executive and 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 14th January 2009.

1. Reason for the Audit

- 1.1. The audit of Creditors forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts.
- 1.2. In agreement with the Audit Commission a reduced review has been carried out as Creditors received "Substantial Assurance" last year.

2. Background Information / Summary of the Audit Area

- 2.1. The Creditors function is operated by Systems and Controls within Development and Support in Financial Services.

The Development and Support Manager is responsible for providing the Service

There is only one full time member of staff responsible for the daily procedures and the weekly payments of the Creditors.

The Creditors Section are facing an efficiency review during 08/09,

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
Prompt and accurate payment of certified suppliers' invoices	<i>Operational</i>	<i>L</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.	Review of Creditor invoices
2.	Review of General Expenses
3.	Walk Through Test
4.	Reconciliation to Main Accounting System
5.	Duplicate Payments

5. Overall Conclusion of the Audit Review

5.1. In overall terms there are good controls in place relating to the processing of Creditor Payments. However, certain laid down procedures have not been followed in some instances and a number of opportunities to enhance the procedural controls have been identified during the course of the audit. System deficiencies and proposed improvements have been outlined in appendix A together with recommendations that have been brought to the Head of Financial Services. In summary the key issues arising from this review are:

5.2. The Creditors system is used by staff across the authority. The creditors' function within Financial Services operates very well and is well organised. Finance Staff are aware of procedures, work to a high level and carry out additional checks.

Staff across the Authority who input creditor invoices appear to not be so sure of the correct procedures. There is a lack of responsibility for ensuring that the appropriate ledger code is used.

5.3. The General Expenses expenditure code is used too frequently. The Financial Services staff regularly transfer items out and post to correct expenditure codes.

Despite training by Financial Services the authorised signatories are still not coding expenses accurately.

Financial Services staff need to ensure that there are relevant codes to enable accurate charging

5.4. From the walk through test carried out, IT systems are interfacing effectively and accurately and there are good separation of duties

5.5. The procedures for reconciling the Creditors System with the General Ledgers are good and there are adequate cover arrangements to ensure that this process is carried out daily. The improvements highlighted above are to enhance the system further

5.6. During the conclusion of the 08/09 audit, testing software was obtained for reviewing duplicate payments. It was not implemented before the end of the audit. Will need to be reviewed during 09/10 audit.

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 11 recommendations arising from this review. 5 at grade B, 6 at grade C.

7. **Statement of Assurance**

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

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

Corporate Services, Development and Support Services

APPENDIX A

1. Review of Creditor Invoices

Method of Review:

Documentation obtained to clarify checks:-

- Electronic copy of the Authorised Signatory Limits for Creditor Invoices
- Hard copy of Authorised Signatory Limits for Creditor Invoices.
- Invoices 76450 – 76464

A random sample of 15 creditor invoices were checked and verified for the following:

- Supplier name
- Supplier number
- Date on invoice
- Purchase order number stated invoice or attached
- Creditor voucher number
- Gross amount
- VAT amount
- Net amount
- VAT number on invoice
- Invoice ledger code
- Checked and certified by appropriate staff
- Authorised Signature on Authorised Signatory Limits Listing
- Signatory Limit was not exceeded

Summary of Findings:

Attempts were made to locate the purchase procedure rules on the intranet. It is a procedures document for a corporate system and the notes should be available to all staff. Staff from a variety of Services within the Authority use the Creditors System. The intranet is the corporate system used for sharing information. It was not possible to locate the Purchase Procedure Rules.

15 invoices were reviewed for accuracy and correctness.

From the sample tested there is a lack of purchase orders being completed when orders are place and there are very few copies being attached.

Errors were identified on a Creditors Certification slip. The wrong VAT code had been entered for Electricity. The right amount and code were however subsequently entered on to the Creditors system. Efforts should be made to ensure that the slips are correct.

Errors were identified in with some of the Ledger Codes used. There were cases of :-

- An electricity invoice was posted to General Expenses
- An invoice for Taxi Signs was posted to General Expenses/ Riding Establishments

The current authorised Signatures List was reviewed and all forms had been renewed during 2008 and were found to be up to date.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The purchase ledger procedure notes are not available on the intranet.	Head of Financial Services	The Purchase Ledger Procedures should be made available to all necessary staff via the intranet This had now been actioned – 20th Nov 08		
A.2	There is no convenient method of passing on messages to staff responsible for authorising invoices	Head of Financial Services	A distribution list should be set up in outlook for “authorised signatories”	C	1 Month
A.3	There are a lack of purchase orders being completed and being attached to the invoice.	Head of Financial Services	Staff should be reminded of their responsibility to follow the purchase ledger procedures and attach purchase orders where applicable	C	3 Months
A.4	The wrong VAT code had been entered for Electricity. The right amount and code were entered onto the Creditors system. Efforts should be made to ensure that the slips are correct.	Head of Financial Services	Staff should be reminded of their responsibility to ensure that the correct VAT code is entered onto the Creditor Certification Slip	C	3 Months
A.5	From the fifteen sampled invoices two were incorrectly coded.	Head of Financial Services	Staff should be reminded of their responsibilities to ensure that appropriate ledger codes are used. Certification/Authorisation Officers should be reminded of their responsibilities to ensure that the correct codes are always used. This should be one of the checks that they carry out prior certifying the creditors slip	C	3 Months

2. Review of General Expenses

Method of Review:

Review the transactions for 2008/09

Cross reference the credit items as these have been identified incorrectly coded by financial services and transferred out of the code

Select 10 transactions at random from the remaining transactions and review the coding

Review the Attendance lists on the final accounts training carried out by Financial Services

Summary of Findings:

During the review of the General Expense code (3430) it was noted that there are many items that are transferred out of the code by Financial Services. The onus is on the certifying officer to ensure that the correct codes are used. There are many users of the Authority's accounts and it is vital that they create a true picture of the actual spending. The Authority receives Freedom of information requests from external sources and often the financial ledgers are used to produce the figures and information that are provided.

The transactions reviewed found that seven of the ten transactions should have been coded elsewhere. Invoices coded to General Expenses included :

- Town centre entertainment
- Membership to the Park Mark Safer Parking
- IT monitors and graphics cards.
- Consultancy Expenses
- Inkjet Printer
- Advice on the Tullie House Trust
- External Training from the St John Ambulance

The expense for the Consultancy coded to General was queried by the Finance Assistant responsible for Creditors with a Senior Accountancy Assistant, who confirmed that the code was Ok. The Narrative line in the ledger clearly states "consultancy expenses" as does the invoice. A new detail code should have set up.

The Authority should be producing meaningful and materially accurate accounts which is not possible when staff allocate expenditure to "general expenses" when there are more appropriate cost codes. Authorising staff have been made aware of this during training carried out by Financial Services earlier this year.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.6	During the review of the General Expense code (3430) it was noted that there are many items that are transferred out of the code by Financial Services	Head of Financial Services	The certifying officers should be reminded of their responsibility to ensure that appropriate codes should be used and not for the Senior Accountancy Assistant to be asked to keep recoding	C	3 Months
A.7	Authorising Officers do not seem to appreciate the importance of ensuring that the most appropriate expenditure code is used	Head of Financial Services	All authorised signatories should be reminded to ensure that all specific expenditure should be coded correctly	B	3 Months
A.8	Consultancy expenses coded to General were queried by the Finance Assistant responsible for Creditors with a Senior Accountancy Assistant, who confirmed that the code was Ok	Head of Financial Services	Financial Services staff should ensure that the relevant detail codes are in place	B	6 Months

3. Walk Through Test

Method of Review:

Carry out a full walk through test to ensure that the system procedures have remained the same since the previous audit (2007/08)

Ensure that no new risks have been highlighted

Summary of Findings:

During a meeting with the Secretarial/Admin Supervisor an invoice was selected at random.

The invoice was reviewed to ensure that the correct information had been put on to the Creditors slip from the invoice

The Creditors system was interrogated to ensure that the correct information was entered and that amounts were the same as the creditors slip. The correct information was taken from the System and put on to the Slip too

The General ledgers were checked to ensure that the payment was shown on the correct code

The BACs payment listing was reviewed and it was apparent that the payment was identified by the Supplier reference number.

From the walk through test carried out, IT systems are interfacing effectively and accurately and there are adequate separation of duties involved in the creditor processing system.

4. Reconciliation to Main Accounting System

Method of Review:

Discuss the Procedures with the Clerical/Admin Assistant in Financial Services

Review the procedures for reconciling the Creditors system with the Main Accounting System.

Ensure that the reconciliation takes place on a timely basis.

Summary of Findings:

The reconciliation is carried out on a daily basis by the Clerical/Admin Assistant in Financial Services

The Clerical Assistant receives an email from the system showing the Creditor Vouchers and the Creditors Payment. This email is also sent to additional relevant staff to ensure that there are cover arrangement to perform the task. The daybooks are also available on the accountancy electronic filing system

The payments are deducted from the vouchers and the total is entered on to the G/L Control Spreadsheet. The figure is balanced to the General Ledger Total, which comprises of 06/07 balance, 07/08 balance and the balance to date, plus a balancing value

The Balancing figure of £853.81 is used daily. Queries into the figure show that the problem arose because an invoice was shown as 0.00 value due to a currency problem. The GL and Creditors were corrected but the Daybook was not amended

The reconciliation works successfully for the majority of the days. Problems tend to occur when there is an IT interface problem.

There have only been three occasions this year when the system has not balanced.

On one of the occasions when the spreadsheet was not balanced, there were no notes to explain why. Although it was noted that the "problem" had rectified itself the following day

There are documented procedures for reconciling the creditors system to the Main Accounting System. However, these are in need of updating and have not been reviewed during the last year

The procedures for reconciling the Creditors System with the General Ledgers are good and there are adequate cover arrangements to ensure that this processes is carried out daily. The improvements highlighted are to enhance the system further.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.9	The Balancing figure of £853.81 is used daily. Queries into the figure show that the problem arose because an invoice was shown as 0.00 value due to a currency problem. The GL and Creditors were corrected but the Daybook was not amended	Head of Financial Services	The Daybook should be corrected so it is not necessary to use the balancing figure each day	B	6 Months
A.10	On one of the occasions when the spreadsheet was not balanced, there were no notes to explain why.	Head of Financial Services	When the creditors and the General Ledger do not reconcile a comment should always been entered on to the spreadsheet with the explanation	B	3 Months
A.11	There are documented procedures for reconciling the controls. They are however in need of updating and have not been reviewed during the last year	Head of Financial Services	The Procedures for reconciling the controls should be reviewed and updated annually	C	6 Months

5. Review of Duplicate Payments

Method of Review:

Review a months expenditure and identify any suspected duplicate payments

Review the invoices to ensure that the payments are not actual duplicates

Review the Creditors invoice entry process

Review the current year's Creditors invoices greater than £10,000 to ensure that there are no duplicate payments

Summary of Findings:

A list of the creditors invoices from July were reviewed and any possible duplicates ie matching accounts and value were investigated.
All were found to be genuine payments on original invoices

Review of the System

The Creditors system has an automatic warning if exactly the same invoice number is entered. The warning works even if a different date is entered. The Operator (Person entering the invoice) can override the warning and continue to enter the system.

The Authority is part of a Civica "google" group. A duplicate payments identifier programme has placed on the internet for use by the group members. A copy has been obtained and will be implemented as soon as possible.

The Finance Assistant has advised that the programme will be run monthly to ascertain what the levels of errors (duplicates) are. The testing will be evaluated and the future testing schedule will be agreed

The Finance Assistant is aware of the possibility of duplicate payments and queries all fax/photocopies invoices to ensure that the originals are not already on the system.

The creditors invoices from the current year were reviewed to ensure that there were no duplicate payments in excess of £10,000. The invoices from April to current date were reviewed and no duplicate payments were identified.

Corporate Services

Audit Services

Audit of Electoral Registration & Election Fees

Final Report

11th November 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\Legal & Democratic Services\LEG105 - Electoral Registration (inc fees & expenses)\Reports\Electoral Registration Final Report.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Legal & Democratic Services	<p>Director of Legal & Democratic Services (for information)</p> <p>Electoral Services Officer (for action)</p> <p>Treasury & Insurance Manager (for action)</p> <p>Director Of Corporate Services</p>	<p>There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Legal & Democratic Services, which is attached as Appendix A.</p>

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 14th January 2009.

1. Reason for the Audit

- 1.1. As part of the audit planning process, Electoral Registration & Election Fees was identified as a high / medium risk service area and has therefore been selected for review as part of the agreed Audit Plan for 2008/09.

2. Background Information / Summary of the Audit Area

2.1. ELECTORAL REGISTER

The Electoral Register is a list of everyone who is entitled to vote. The register for the City Council's area has approximately 80,000 names and includes the whole of Carlisle constituency and part of Penrith and the Border constituency. If anyone is not included on the register, they will not be able to vote.

To register, someone must be:

- Normally a resident on the Council's area.
- Over 16 (but cannot vote until 18th birthday)
- A British or Commonwealth citizen.
- A citizen of the Irish Republic or of another European Union Member State.

A student studying away from home, or someone having a second home where they live regularly, can register at more than one address but cannot vote more than once at the same election.

The register is updated every October using details supplied on registration forms sent to all householders. A revised register is published by 1st December each year.

In addition, the register is updated monthly except during the annual canvass period in September, October and November when all households must register. The monthly update will include any name or address changes or if anyone is not already on the register. A misunderstanding by many people is that if a person is on the Council Tax list they are also on the Electoral Register. This is not the case and people must register separately.

Two versions of the register are prepared - a full and an edited register. The full register lists everyone, who is entitled to vote, and can be inspected at the Civic Centre, Carlisle. Only certain people and organisations can have copies of the full register and they can only use it for specified purposes, such as, electoral purposes, prevention and detection of crime and checking identities when applying for credit.

The edited register leaves out the names and addresses of people who have asked for them to be excluded for that version of the register. The edited version can be bought from Carlisle City Council and may be used for any purpose. For voters to have their name and address edited from the register, there is a specified box which must be ticked on the registration form.

Voters can also vote by post instead of voting in person at a polling station. A reason does not have to be given to vote by post but the voter must be on the Register of

Electors and is required to apply in writing. Postal votes can be sent to addresses within the UK or abroad.

Voters can apply for a postal vote at any time but an application received after 5.00pm eleven working days (excluding Saturdays, Sundays and Bank Holidays) before an election will not be valid at that election.

Once a postal vote has been granted, the ballot paper will be sent to the address of choice about 7 – 10 days before an election. A postal voting statement will also be sent along with the ballot paper. The statement must be completed by the voter and returned with the ballot paper in the pre-paid envelope. The voter is required to pay postage from abroad.

Proxy voting also takes place within Carlisle City Council. A proxy vote is where someone appointed by the voter actually votes on that person's behalf because they are unable to vote in person themselves. This usually takes place at a polling station but the proxy could apply to the Authority to vote by post. Proxy voting can take place for one election only due to the original voter being away on business or on holiday. A permanent proxy vote may be applied for on the basis of physical incapacity, occupation, employment or education restrictions.

2.2. ELECTION FEES

Form P527 is completed by the employee/claimant undertaking election duties. The employer gives the employee/claimant the opportunity to say they are not liable to tax by completing P527. The employer makes payment to those who sign the form without deducting tax.

The employer deducts tax at the basic rate from:

- Payments for electoral duties.
- Payments for travel between home and place where the electoral duties are performed.
- The employer's own pay, which is the amount left after payment of fees to Deputies or superannuation contributions.

The employer gives each employee a form P528 where tax is deducted. This is sufficient evidence of tax paid for all purposes.

After an election the employer completes a return for each employee together with a summary. No forms P45, P46 or P60 are used. Class 1 National Insurance contributions are not payable on the payments.

Electoral Registration is a statutory service situated within the Legal and Democratic Directorate and is maintained by the Electoral Services Officer.

The budgets for Electoral Registration were set at £104,300 for financial year 2007/08 and £112,900 for financial year 2008/09.

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
Failure of Electoral Register	Operational	4

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

- Unauthorised disclosure of confidential information.
- Ineffective / inadequate management of the Electoral Register.
- Potential financial loss to the Authority.

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

4. Scope of the Audit

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

	Area Examined
1.	Follow Up from previous review undertaken in 2003/04.
2.	Compliance with Statutory Requirements.
3.	Sale of Electoral Registers.
4.	Payments to Canvassers.
5.	National Scale for Election Fees.
6.	Calculation of Fees.
7.	Review of General Expenditure.

5. Overall Conclusion of the Audit Review

- 5.1. The areas examined as mentioned above were all found to be sufficiently effective. The procedures, relevant paperwork and spreadsheets are complete and reliable.
- 5.2. Although there were a couple of discrepancies with the calculations in the spreadsheets, these were identified to be merely clerical errors and did not affect the budgets or expenditure regarding Electoral Fees.

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 three recommendations arising from this review all 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.

Directorate, Service Area

APPENDIX A

1. FOLLOW UP FROM PREVIOUS REVIEW UNDERTAKEN IN 2003/04.

Method of Review:

Examination of the previous audit review undertaken in 2003/04 to confirm that all recommendations had been actioned / implemented.

Summary of Findings:

There were three recommendations made in the previous review undertaken in 2003/04.

Recommendation 2.3.1 – The charges booklet for 2004/05 should be updated to reflect the pricing structure for the sales of registers and ongoing updates – Grade B.

Action – Complete – actioned 17/02/05.

Recommendation 2.3.2 – The record of register sales, maintained by the Electoral Registration section, should be revised to include full details of registers sold and how the exact cost has been calculated – Grade C.

Action – Complete – actioned 17/02/05.

Recommendation 5.2.1 – Operational staff should only be paid election fees and expenses on submission of a complete and signed claim form – Grade C.

Action – Complete – actioned 15/02/05.

Conclusion – Satisfactory action was taken.

2. COMPLIANCE WITH STATUTORY REQUIREMENTS.

Method of Review:

- Discussions with the Electoral Services Officer.
- Confirm that the Authority is in possession of a current Electoral Registration Timetable.
- Review the Electoral Registration Timetable to ensure that the deadlines and other electoral requirements are being adhered to.
- Review the Representation of the People (England and Wales) (Amendment) Regulations 2002 policy.

Summary of Findings:

- It was confirmed that the Authority is in possession of a current Electoral Registration Timetable.
- The Electoral Registration Timetable and all other electoral duties are maintained and carried out by the Electoral Services Officer and the Deputy Electoral Services Officer. It was confirmed that the Electoral Registration Timetable is being adhered to and all other electoral requirements are being followed.
- It was confirmed that the Authority is complying with the regulations set out in the Representation of the People (England and Wales) Regulations 2002 policy.

Conclusion – There are no recommendations to be made regarding the Compliance with Statutory Requirements.

3. SALE OF ELECTORAL REGISTERS.

Method of Review:

- Discussions with Electoral Services Officer to ascertain the procedures for the sale of electoral registers.
- Review the Representation of the People (England and Wales) (Amendment) Regulations 2002 policy to ensure that requirements are being adhered to.
- Examination and testing of the Sale of Electoral Register records to ensure the correct fees are being charged.
- Examination and testing on account 32300/8201 – Electoral Registration Sale of Publications to ensure the correct fees are being collected and credited against the correct account.
- Review the Financial Plan 2007/08 and 2008/09 to ensure that the correct charges are stated for the Sale of Electoral Registers.

Summary of Findings:

- The Electoral Services Officer confirmed that all monies relating to the sale of electoral registers are received prior to the dispatch of the registers as agreed by the Authority.
- It is confirmed that the Authority is complying with the regulations set out in the Representation of the People (England and Wales) (Amendment) Regulations 2002 policy.
- It was confirmed through examination of the Sale of Electoral Register records that all entries were correct as recorded.
- Testing was carried out on Sale of Electoral Registers account 32300/8201. All entries were found to be correct although two entries related to election expenses. An explanation was sought from the Electoral Services Officer who explained that the two entries for £6.20 and £32.00 were receipts for a payment of election expense documents that candidates must complete after an election. Although this is not part of the register sales, it was allocated to account 32300/8201 as this is the only income account code in either the registration or elections budget.
- The charges in the Financial Plan for 2007/08 and 2008/09 for the Sale of Electoral Registers were found to be accurate. These charges are in line with the Representation of the People Regulations 2002 policy and the Authority has no discretion to alter the charges.

Conclusion – There are no recommendations to be made regarding the Sale of Electoral Registers.

4. PAYMENTS TO CANVASSERS.

Method of Review:

- Discussion with Treasury & Insurance Manager to ascertain the procedures for payments to canvassers.
- Review of the Canvassers' Fee policy to ensure that the procedures are valid and complete.
- Examination and testing on the Canvassers spreadsheet to ensure correct and accurate fees are being paid by the Authority.

Summary of Findings:

- It was confirmed that payments to Canvassers are paid through the Trent system for any canvassing work undertaken. Canvassing fees are divided into two parts, 80% for the initial canvass and 20% for reminders. Also, a higher fee is paid for rural properties than urban properties as these tend to be spread out over a greater geographical area. The procedure policy outlines rules, scales and budgets.
- It was confirmed that procedure notes exist for payments to canvassers. The procedure notes were drawn up to update the system which had been in place since 1974.
- Through testing undertaken on the Canvassers payment spreadsheet it was noted that a total of 31 canvassers undertook canvassing duties during 2007/08.
 - Initial Fees – 28 canvassers payments were made for urban properties, 3 for rural properties and 11 for both urban and rural. All payments were found to be correctly calculated.
 - Reminder Fees – 31 canvassers were paid for reminder fees. All payments were found to be correctly calculated.

Random testing was carried out on six canvassers' payments to the Trent system and General Ledger code 32300/0501. One was found to be incorrect. An explanation was sought from the Electoral Services Officer who explained that due to illness this particular canvasser was unable to carry out canvassing duties. These duties were then undertaken by the Deputy Electoral Services Officer and were paid a fee based on the number of reminder forms issued. An updated spreadsheet has now been received with the accurate figures.

➤ Formula for Calculations:

Urban Properties x Urban Fees / 100 + Rural Properties x Rural Fees / 100 + Reminders x Reminders fee / 100 = Total then allocated to Initial 80% and Reminder 20%.

Conclusion – There are no recommendations to be made with regards to Payments to Canvassers.

5. NATIONAL SCALE FOR ELECTION FEES.

Method of Review:

- Discussions with the Treasury & Insurance Manager to ensure the Authority is paying the correct national scale for election fees.
- Review the Election Fees notes regarding national scales for election fees.
- Examination and testing on the Local Election Fees spreadsheet.
- Examination and testing on the Election Fees spreadsheet.

Summary of Findings:

- From a review undertaken on the Election Fees notes, the following were noted:
 - The fees are based on a Carlisle scale derived from national scales issued in May 2005 in respect of the Carlisle City Council area.
 - In any year in which a new National Scale is not issued, fees will be varied in line with the annual pay award, 2.5% is assumed for 2008/09.
 - New pay figures are calculated to take account of the standard rate of income tax of 20% in 2008/09.
 - Parish fees are based on the assumption that the elections will be held simultaneously with City Elections in the Ward which includes the Parish.

- Testing was carried out on the Local Election Fees spreadsheet to ensure accuracy and that the correct scales were calculated. All scales were accurate and correctly calculated.
- Testing was carried out on the Election Fees spreadsheet maintained by the Treasury & Insurance Manager. The spreadsheet categories all staff working on the elections into categories such as the Returning Officers, Disburseable Fees, Presiding Officers and Poll Clerks. Two errors were found on the spreadsheet, as follows:
 - The 'Actual' figure of £4,787 compared to the 'Estimate' figure of £4,767 had been input against the Returning Officer. On examination through the P528 Electoral Payments form the 'Actual' figure was £4,767. This was purely an inputting clerical error.
 - The calculation for the Assistant Returning Officer working on the Upperby By Election was calculated incorrectly, the figure was estimated at £223. This was overestimated by £5, the correct figure being £218.

Calculation:

75% of the Returning Officer fee – £291 x 75% = £218.

Again, this was a clerical error. *Please refer to recommendation A.1.*

Conclusion – Although there were two clerical errors on the Election Fees spreadsheet, the final fees paid by the Authority were correct.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	Figures have been incorrectly calculated and input into the Election Fees spreadsheet.	Treasury & Insurance Manager.	The Election Fees spreadsheet should be updated to reflect the correct figures.	C	ASAP

6. CALCULATION OF FEES.

Method of Review:

- Discussions with the Treasury & Insurance Manager.
- Identify staff employed throughout the Elections and ensure the correct fees are processed.
- Examination and testing on the expense claim forms submitted by staff employed throughout the Elections.
- Examination and testing on the Election Fees Actual Figures spreadsheet for 1st May 2008 Election.
- Examination and testing on the Postal Vote 2008 spreadsheet.
- Examination and testing on form P528 Electoral Payments against the Creditors system.
- Examination and review on form P527 for non tax payers to ensure all have been completed correctly.

Summary of Findings:

- Key and Operational Staff identified working on the Elections were:

- Returning Officer.
- Assistant Returning Officers.
- Presiding Officers.
- Poll Clerks.
- Count, postal votes, Clerical Assistants.
- Security and miscellaneous staff.

Testing was carried out on the Local Election Fees spreadsheet to ensure the correct fees had been calculated to include the annual increase of 2.5%. All fees were accurate and calculated correctly.

- Testing was carried out on 186 expense claim forms for the May 2008 elections. The findings were as follows:
 - Six expense claim forms were unsigned.
 - Two expense claim forms were signed but had relevant details missing.

- One expense claim form had no details or signature but when checking against form P528 and the Creditors system the Claimant had received payment for election duties carried out. *Please refer to recommendation A.2.*

- Testing was carried out on the Election Fees Actual Figures spreadsheet against expense claim forms for elections duties carried out on 1st May 2008 to ensure an expense claim form had been submitted for each claimant.

A total of 194 claimants were paid by cheque through the Creditors system, although only 186 expense claim forms were received. A cross check was carried out to identify the missing 8 expense claim forms and an explanation from the Treasury & Insurance Manager revealed 6 of the claimants who are DSO staff have never submitted an expense claim form for their preparation work before, during and after the elections. The fee the DSO staff receives is considered a token gesture and is authorised by the Chief Executive. There was no explanation for the remaining 2 missing expense claim forms. *Please refer to recommendation A.3.*

- Testing was carried out on the postal votes against the Election Fees Actual Figures spreadsheet. All calculations were checked and clarified as being accurate and no errors were identified.
- Testing was carried out on the P528 forms against the Creditors Ledger and the Election Fees Actual Figures spreadsheet to ensure that the claimants received the correct cheque payments. All P528 forms were checked to ensure that a signature was gained before payment was released to either the claimant or a nominated person. All entries were found to correct and no issues were identified.
- Testing was carried out on the claimants P527 forms to ensure each was complete and signed. All claimants had completed their forms correctly. The findings were as follows:
 - 3 claimants completed the form for total earning including this payment and other income for all sources for tax year will not be more than the personal allowance for a person under 65 for the year.
 - 2 claimants completed the form for 65 and over and the income is not high enough to make the claimant liable for tax.

All forms were found to signed and completed correctly and no issues were identified.

Conclusion – With the exception of the missing expense claim forms, there are no problems with the calculation of fees and payments to claimants when carrying out election duties. All calculations and payments are set out and agreed by the Electoral Services Officer and the Treasury & Insurance Manager.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.2	Election expense claim forms were incomplete or not signed.	Electoral Services Officer and Treasury & Insurance Manager	The Electoral Services Officer and the Treasury & Insurance Manager should ensure that expense claim forms are received complete and signed for all claimants working on election duties.	C	When undertaking the next election.
A.3	Election expense claim forms were missing for the elections undertaken in May 2008.	Electoral Services Officer	Staff claiming election fees and expenses should only be paid on submission of a complete and signed expense claim form.	C	When undertaking the next election.

7. REVIEW OF GENERAL EXPENDITURE.

Method of Review:

- Discussions with the Electoral Services Officer.
- Examination on the Income and Expenditure accounts on the General Ledger.

Summary of Findings:

- The General Ledger Income and Expenditure accounts for Electoral Registration were examined. Below listed are the expenditure accounts which incurred an overspend on the 2007/08 budget. A further examination was carried out and a satisfactory explanation was given by the Electoral Services Officer.

- Account 32300/0407 – Jury Service

Overspend of £232.84. The overspend was for Jury Service attended by the Deputy Electoral Services Officer and unfortunately Jury Service cannot be predicted.

- Account 32300/2301 – Transport Hire

Overspend of £29.27. The overspend was for the purchase of fuel to attend a training course.

- Account 32300/3302 – Printing & Photocopying

Overspend of £198.71. The overspend was due to inflation costs of printing and additional printing for reminders etc.

- Account 32300/3305 – Stationery & Office Materials

Overspend of £1,967.63. The overspend was due to inflation of canvass forms from Sciprint Ltd and general stationery materials.

- Account 32300/3320 – Reference Books & Publications

Overspend of £174.00. The overspend was due to the release of new electoral publications.

- Account 32300/3330 – Office Equipment & Furniture

Overspend of £8.96. The overspend was minimal and could not be predicted.

- Account 32300/3430 – General Expenses

Overspend of £100.25. The overspend was due to a renewal of the Data Protection Registration.

- Account 32300/3501 – Postages

Overspend of £5,124.61. The overspend was due to the rise in the postal charges of stamps and general volume of reminder letters etc.

- Account 32300/3810 – Advertising

Overspend of £5,561.20. The overspend was due to a bus advertising campaign to encourage the younger generation to register to vote. Also, a £4,000 grant was received towards this campaign but funds were allocated into 2008/09.

Conclusion – Although there has been an overspend on 9 accounts, each account was found to satisfactory and the overspend justified.

Corporate Services

Audit Services

Audit of Equality & Diversity

Final Report

13th November 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\People Policy & Performance\PPP140 - Equality and Diversity 08.09\audit reports\Equality and Diversity Final Report.doc		

Directorate / Service Area	Recipients of Draft Report	Action Required
People, Policy & Performance	Head of Policy & Performance Head of Personnel & Development	<u>For action.</u> There are matters arising/recommendations arising from this audit review which require your attention. Please refer to the Action Plan of People Policy & Performance, which is attached as Appendix A .
	Policy & Performance Team Manager	<u>For information.</u>

1. **Reason for the Audit**

- 1.1. As part of the audit planning process, Equality & Diversity was identified as a medium risk area and has been selected for review as part of the agreed Audit Plan for 2008/09. This is the first time that a review covering this area has been undertaken.

2. **Background Information / Summary of the Audit Area.**

- 2.1. Equality and diversity is set out in numerous acts of legislation that have come into effect at various dates. This area is constantly changing through legislation and case law, which when combined, determines best practice.
- 2.2. The Council has adopted the Equality Standard for Local Government. This 'Equality Standard' currently sets out a framework consisting of five levels and covers race, disability, gender, age, sexuality and religion. All of these affect the Council's policies, practices, services and functions in ensuring fairness and removing barriers to people from different racial and gender groups and disabled people.
- 2.3. The Council has currently attained Level 2 of the Equality Standard for Local Government and is looking to attain Level 3 by the end of the 2008/09 financial year.
- 2.4. However, the Audit Commission Annual Audit and Inspection Letter (dated March 2008) page 8, para 22, states "...Progress in promoting equality and diversity within the Council and its services has been slow and is behind the progress made in most other Councils".

3. **Associated Risks of Providing this Service/Function**

- 3.1. Examination of the Risk Registers identified the following risks that cover this audit area:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<i>Risk Description:</i> Loss of key people during a time of difficulty/change <i>Control Strategy:</i> Written procedures; more than one able to carry out key tasks.	Operational (Updated risk register dated July 2008)	Medium
<i>Risk Description:</i> Inadequate resources (due to vacancy management etc) to deliver our full range of services. <i>Control Strategy:</i> Reorganisation; prioritisation; workload dropped/re-allocated; budget bids.	Operational	High

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.	Current system in operation including planned developments and actions to be taken.
2.	Reporting requirements, roles and responsibilities.
3.	Training provision.
4.	The recording, monitoring and review built into the process for the effective and efficient embedding of equality and diversity issues into every day operations.

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in appendix A and have been brought to the attention of the Head of Policy & Performance and the Head of Personnel & Development.
- 5.2. There has been good progress towards implementing and embedding equality and diversity within the Council and the services it offers externally, although there is still a lot to be achieved to attain all levels of the Equality Standard for Local Government. The vacancy management arrangements and monitoring arrangements of attendance on training courses seem to be the main threat to implementation and there is evidence to suggest that it may be impacting upon progress.

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 wholly eliminate risk.
- 6.2. 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).

- 6.3. There are five recommendations arising from this review, all at grade B.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a 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.

PEOPLE, POLICY & PERFORMANCE

APPENDIX A

1. CURRENT SYSTEM IN OPERATION INCLUDING PLANNED DEVELOPMENTS AND ACTIONS TAKEN AND PLANNED TO BE TAKEN

Method of Review:

Discussions with management and staff were undertaken to establish the system in operation and actions taken by the Council to date and planned for the future, to implement equality and diversity in its policies, procedures and practices. The system design was then evaluated to identify any areas where improvements could be made so that they are brought to the attention of management.

Summary of Findings:

- 1) A Corporate Equality Group was set up in 2006, for the implementation and embedding of equality and diversity both internally and to cover Council services provided externally to the public. The remit was to:
 - Agree the role and function of the Group (including membership);
 - Establish the Equality Impact Assessments, to update on scheduling, agree approach, prioritise coverage and include personnel policies;
 - Progress the Disability Equality Schemes;
 - Agree the approach to consultation;
 - Determine training requirements;
 - Set out the reporting lines; and
 - Set agenda items.

A clearly defined structure was found to be in place with associated duties and responsibilities for the implementation of equality and diversity having been assigned. The structure was found to comprise equality and diversity champions with nominated Members' of the Executive and a Senior Officer champion (the Deputy Chief Executive).

- 2) The Council has approved an Equality and Diversity Policy, a Corporate Consultation Policy 2008, along with Disability, Race and Gender Equality Schemes for the implementation of Equality and Diversity.
- 3) The above mentioned schemes incorporate the collection of equality data for analysis, evaluation, action and review by way of undertaking impact assessments. Each scheme has an implementation/action plan (reflecting the findings of the impact assessments), which is to be regularly monitored and each scheme is required to be reviewed/revised every three years as a minimum.
- 4) There is a standard template for completion of Equality Impact Assessments and 'Guidance for doing equality impact, needs and requirements assessments'. These were found to be comprehensive for purpose.

- 5) There is also a Corporate Equality Action Plan, the most current being v4.0 Feb '08 detailing key work stream/area, resources/support required and target dates etc. The Action Plan is monitored by the Corporate Equality Group and is laid out under the following headings:
- Commitment & Leadership;
 - Policies & Schemes;
 - Service Delivery & Service Monitoring;
 - Consultation – SLA's/Involvement – Community Engagement & Accountability;
 - Access & Communication;
 - Harassment/Hate Crime Reporting;
 - Employment & Equal Pay;
 - Training;
 - Employment Monitoring;
 - Occupational Segregation;
 - Recruitment;
 - Flexible Working; and
 - Procurement & Partnerships.
- 6) Good practice was found to be incorporated into Corporate guidance of procurement (which includes working with contractors etc). These were found on the Council's intranet in the E-Library/Financial & Audit. This requires (amongst other things) to undertake checks upon the equality and diversity policies and procedures of (for example) the contractor before contracts are awarded. Where these policies and procedures do not exist the procedures mention that other issues should be considered, so their application is not dismissed outright.
- 7) The 'Service Planning Guidance 2008/2009' incorporates equality and diversity as 'Key challenges for Service Planning'.
- 8) The audit coincided with the Policy and Performance Manager being new in post and this officer's former post of Community Safety Development Officer being deleted through the Authority's vacancy management policy. As a result, this officer and other members of the Policy and Performance team have been covering a number of roles and therefore there has been insufficient capacity in the team to ensure the continuity of the implementation and embedding of equality and diversity issues. The Head of Policy & Performance indicated that vacancy management was impacting on services, and this was acknowledged by members and the Senior Management Team. However, within the resources available, corporate capacity is now being built in to improve the performance of the City Council in this important area. **See Recommendation/Agreed Action 1 below.**
- 9) This audit has, as a result of the above, been carried out through obtaining available information from the Council's intranet and website and piecing the detail together. The reliability of this report in terms of accuracy is subject to the comments and observations invited and received back from the Head of Policy and Performance and the Head of Personnel and Development when the draft report was issued for consultation.

<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>See summary of findings notes 7/8. The Audit Commission in its Annual Audit Letter (March 2008) has commented that progress has been slow in implementing equality & diversity within the Council and its services. The lack of availability of the lead officer, through the impact of vacancy management, may slow the process further and the situation needs to be more closely monitored/addressed to ensure that this is not the case.</p> <p>It is noted that this issue covered within the operational risk register although it is not clear whether the control strategy to mitigate against the risk has been effectively applied or is not sufficient to address this area under the current circumstances.</p>	Head of Policy & Performance	<p>The Head of Policy & Performance should try to ensure that vacancy management does not hinder progress and should closely monitor the implementation of equality & diversity. Where there is evidence of slippage appropriate action should be taken to keep implementation on track to embed equality and diversity and to meet the target date set (March 2009) for completion of Level 3.</p> <p>Comments of The Head of Policy & Performance. The Council's target of Level 3 of the Equality Standard by March 2009 is unlikely to be achieved. Vacancy management and salary turnover savings targets have impacted on the capacity of the policy and performance team during 2008 and have made progress slower than anticipated. All of the district Council's in Cumbria are similarly striving to achieve a higher level of performance within the standard and a proposal will be submitted to CLASB which outlines a plan of action for all the districts to achieve Level 3 by 2010.</p>	B	

2. REPORTING REQUIREMENTS, ROLES AND RESPONSIBILITIES

Method of Review:

Discussions with management and staff were undertaken alongside system testing to evaluate the reporting requirements, roles and responsibilities within the system.

Summary of Findings:

- 1) A clearly defined & a documented structure was found to be in place with associated duties and responsibilities for the implementation of equality and diversity. This can be seen in, for example, the minutes of the Corporate Equality Group, the Corporate Action Plan and service planning guidance.
- 2) Meeting minutes of the Corporate Equality Group were found on the Council's intranet and cover the period 18 October 2006 to 15 November 2007. The meetings have been undertaken on approximately a quarterly basis during this time. There have been a number of meetings during 2008 and the minutes will be placed on the intranet.
- 3) The three approved schemes include review and reporting requirements.

3. TRAINING PROVISION

Method of Review:

Discussions with management and staff were undertaken to evaluate the adequacy of training provision.

Summary of Findings:

- 1) Corporate training courses have been undertaken with a half day course to all staff and in addition to this a specific one day training course for managers' (covering Impact Assessment form completion). This has covered what equality and diversity is and what it means in practice with examples of case law. Training has also been offered to members.
- 2) A register of attendance on these courses was completed by the presenter (from EAGA) and then forwarded to Personnel & Development for monitoring purposes.
- 3) Discussion with the Personnel Training co-ordinator revealed the following:
 - No action has been taken upon the half day course (for staff) registers received from EAGA by the Personnel Section. The Training co-ordinator stated that there was a review of the feedback forms which indicated a positive experience from the training. There is no monitoring of who has attended and who has not.
 - There is a record retained of manager and member attendance on the associated courses. However, again there is no monitoring or reviewing of the information to ensure that there is full participation.
 - There has to date been no training on disability, although this training is to be organised shortly.
See Recommendation/Agreed Action 2 below.
- 4) *There is currently no Employee Code of Practice (Conduct/Protocol) in place. This was identified within the Annual Governance Statement (AGS) and has been included within the AGS Action Plan (ref. 3.1.2) updated 24 June 2008. With regard to Members' there is a Code of Conduct for Members' which is included as part of the Council's Constitution. Equality and diversity is incorporated within the Annex. – The Ten General Principles - principle number 7 Respect for others. **See Recommendation/Agreed Action 3 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>

2	<p>See summary of findings note 3. There is inadequate recording and monitoring of attendees at the training courses provided in connection with equality & diversity. Staff, managers and members may be reluctant to attend these courses which under the current circumstances cannot be corrected to ensure that all are aware of these issues and impact upon their working environment and how they are to behave and respond. This could significantly impact upon the implementation and embedding of equality and diversity throughout the Council and have an adverse effect upon the reputation, goals and objectives of the Authority. It could also place the Authority at risk from litigation.</p>	Head of Personnel & Development	<p>Accurate and complete records of attendance on training courses should be held in Personnel.</p> <p>These records should also be monitored and regularly reviewed for attendance.</p> <p>Actions should be taken to ensure that relevant individuals attend these courses, especially where they are of great importance to the meeting of Corporate goals and objectives.</p> <p>Comments of The Head of Personnel & Development Current systems record attendances but cannot provide accurate and easily accessed details of staff who have not attended training courses deemed to be mandatory like Equality and Diversity. Development of the Training and Development modules on the Trent system would facilitate this requirement and the production of other information that needs to be provided for the Equality Standard. However, Trent project monies have run out and further development is dependent upon the success of a budget bid for 2009/10</p>	B	
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3	<p>See summary of findings note 4. There is a recommendation/agreed action to implement an Employee Code of Practice within the Annual Governance Statement Action Plan, target date set August 2008. The recommendation is made within this report to ensure that equality and diversity is included within the Code.</p>	<p>Head of Personnel & Development</p>	<p>Equality and diversity should be included within the Employee Code of Practice. This should be undertaken as part of the implementation of the recommendation made in the Annual Governance Statement Action Plan.</p> <p>Comments of the Head of Personnel & Development. The production of a local code of conduct has been held back awaiting progress on a national code which is the subject of current consultation. A position statement will be issued to the Audit Committee in January 2009.</p>	B	March 2009
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4. THE RECORDING, MONITORING AND REVIEW BUILT INTO THE PROCESS FOR THE EFFECTIVE AND EFFICIENT EMBEDDING OF EQUALITY AND DIVERSITY ISSUES INTO EVERY DAY OPERATIONS

Method of Review:

Discussions with management and staff were undertaken along side sample testing to evaluate the adequacy of the recording, monitoring and review built into the process for the effective and efficient embedding of equality and diversity issues into every day operations.

Summary of Findings:

- 1) The review of the Corporate Equality Action Plan (in addition to the details mentioned in Appendix A, Section 1, note 5) revealed what seems to be:
 - A duplication of columns. 'Target Date', 'Target', 'Who?' and Who.
 - In some instances it was found that there was no differentiation between 'Target Date', 'Target' and Complete columns to provide sufficient and reliable information for monitoring purposes and therefore the omission of an audit trail identifying progression.
 - There was a good sound plan of actions to be taken to implement equality and diversity by the Council.

See Recommendation/Agreed Action 4 below.

- 2) There is an Impact Assessment Timetable in place, which details the assessments to be undertaken in service areas and the officer/s, associated with the service, who will be carrying out the assessment. The timetable splits out the assessments to be carried out into financial years covering 2007/2008 (as year one) to 2009/2010 (year three). The timetable includes a column for details of when the assessment will take place (a 'When' column). This column however has not been completed for any assessment. **See Recommendation/Agreed Action 4 below.**
- 3) The timetable lists 45 Impact Assessments to be undertaken in year 1. There have been 38 Impact Assessments completed for year 1. It is however, not known the number of 'assessments' in progress remaining for year 1 and those underway for year 2 or where relevant what the reasons for the slippage/changes to the timetable. **See Recommendation/Agreed Action 4 below.**
- 4) Best practice in embedding equality & diversity has been evidenced in the 'Corporate Improvement Plan' and 'Service Planning Guidance 2008/09' which states the process to be adopted by the Council in terms of service planning and equality and diversity considerations to service delivery.
- 5) A review of the Council's website revealed that there is information not posted that it states should be (completed Impact Assessments). **See Recommendation/Agreed Action 5 below.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Action</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
4	See summary of findings note1, 2 & 3. Based upon the available information there was no clear audit trail in place regarding the Corporate Equality Action Plan and the timetable for Impact Assessments. There appears to have been slippage and no reasons given. This would hinder the monitoring of implementation and embedding equality and diversity by the Council.	Head of Policy & Performance	<p>The Corporate Equality Action Plan and Impact Assessments should ensure that there is an adequate audit trail in place of target dates and implementation dates. There should also be a column to identify reasons for slippage to assist monitoring of the implementation and embedding of equality and diversity by the Council.</p> <p>Comments of The Head of Policy & Performance. The action plan is now contained within Covalent, the new performance management software which will make managing and monitoring easier and more transparent with a full audit trail including reasons for any slippage.</p>	B	Ongoing

5	<p>See summary of findings note 5. There is available information (completed Equality Impact Assessments) that have not been posted on the Council's internet website. The website states that this information will be posted when complete and therefore the website is not up to date/accurate.</p>	Head of Policy & Performance	<p>A review of the Equality & Diversity area of the Council's internet website is undertaken to ensure that the information is posted where the site states that it should be there.</p> <p>Comments of The Head of Policy & Performance.</p> <p>The Policy and Performance Administrative Assistant post that included the role of website - knowledge champion has been vacant since early in the year as a contribution to salary turnover savings. An appointment for this post has now been made and the officer will be in post in mid November. Work involved in updating the website will be initiated at that point in time</p>	B	January 2009
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Corporate Services

Audit Services

Audit of Partnership Arrangements

Final Report

21st November 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\Corporate Services\COR260 - Partnerships\Partnerships - Draft.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Corporate Services	Head of Financial Services Director of Corporate Services	There are no matters arising / recommendations relating to your service area which require further action.

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 14th January 2009.

1. **Reason for the Audit**

- 1.1. As part of the audit planning process, "Partnerships" was identified as a high risk area and has therefore been selected for review as part of the agreed Audit Plan for 2008/09.

2. **Background Information / Summary of the Audit Area**

The CIPFA/SOLACE Good Governance Framework document contains a number of references to systems, source documents and controls that are required to be in place. The purpose of this review is to ensure that the Council is continuing to meet the requirements of the Framework in these respects.

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
Risks relating to partnerships (including framework agreement and collaborative working arrangements). Existing partnerships and new and proposed partnerships, failure to ensure compliance with existing arrangements. The Control Strategy is outlined in both the Operational and Corporate Risk Registers.	Strategic and Operational	6 (M)

4. **Scope of the Audit**

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

	Areas Examined – in accordance with the Framework
1.	The Authority is required to ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.
2.	The Authority is required to ensure that there is clarity about the legal status of partnership/s. The Authority is required to ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.
3.	The Authority is required, in pursuing the vision of a partnership, to agree a set of values against which decision making and actions can be judged.

	Such values must be demonstrated by partners' behaviour both individually and collectively.
4.	The Authority is required to ensure that those making decisions whether for the Authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.
5.	<p>The Authority is required to exercise leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</p> <p>The Authority is required to take an active and planned approach too dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the Authority, in partnership or by commissioning.</p>

5. **Overall Conclusion of the Audit Review**

- 5.1. It is concluded that the Council has adequate systems and policies in place to meet the “requirements” outlined in the CIPFA/SOLACE Framework in relation to partnerships.
- 5.2. There are no recommendations arising from this review.

6. **Statement of Assurance**

- 6.1. Based on the audit approach, and the evidence obtained during the review, it is considered that a **Substantial** level of assurance can be given in relation to the systems of control (see definition below).

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

Corporate Services Directorate

APPENDIX A

1. The Authority is required to ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.

Method of Review:

By discussion with relevant officers and examination of the Authority's current procedures/documents in relation to partnerships.

Summary of Findings:

The Authority has a Partnership policy that was presented to the Executive for approval on 17th March 2008, and later presented to Council for formal adoption in April 2008.

There is a separate agreement for each partnership, which is recorded in the Partnership Register maintained by the Development and Support Officer in Corporate Services.

A Partnership pre-evaluation decision-tree is completed when new a partnership is proposed. Evidence is held on the "documents file" for Corporate Governance.

There is an annual review of all "significant" partnerships – the latest review was undertaken in 2008 and the results were reported to SMT on 4th August 2008.

Conclusion – satisfactory – there are no recommendations arising from this area of the review.

2. The Authority is required to ensure that there is clarity about the legal status of partnership/s. The Authority is required to ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

Method of Review:

By discussion with relevant officers and examination of the Authority's current procedures/documents in relation to partnerships.

Summary of Findings:

The Authority has a Partnership Policy that was presented to the Executive for approval on 17th March 2008, and later presented to Council for formal adoption in April 2008.

The formal procedures require, for each proposed partnership, that a formal "checklist" and Risk Assessment are completed – and that there must be a formal partnership agreement in each case that includes adherence to the requirements noted above.

Evidence of the above is held on the "documents file" for Corporate Governance.

Conclusion – satisfactory – there are no recommendations arising from this area of the review.

3. The Authority is required, in pursuing the vision of a partnership, to agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively.

Method of Review:

By discussion with relevant officers and examination of the Authority's current procedures/documents in relation to partnerships.

Recommended good practice is that the Council should have protocols in place for partnership working. The Authority has a Partnership Policy that was presented to the Executive for approval on 17th March 2008, and later presented to Council for formal adoption in April 2008.

The formal procedures require, for each proposed partnership, that a formal "checklist" and Risk Assessment are completed – and that there must be a formal partnership agreement in each case that includes adherence to the requirements noted above.

Conclusion – satisfactory – there are no recommendations arising from this area of the review.

4. The Authority is required to ensure that those making decisions whether for the Authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.

Method of Review:

By discussion with relevant officers and examination of the Authority's current procedures/documents in relation to partnerships.

Summary of Findings:

Recommended good practice is that the Authority should have a formal "Members' Training Scheme" and a scheme of Training for Committee Chairs.

These requirements have been met – there is a Members' Learning and Development Directory – revised in 2007 - and a "New Member Induction" Programme. Training for Committee Chairs is included in this Programme.

Conclusion – satisfactory – there are no recommendations arising from this area of the review.

5. The Authority is required to exercise leadership through a robust scrutiny function that effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.

The Authority is required to take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the Authority, in partnership or by commissioning.

Method of Review:

By discussion with relevant officers and examination of the Authority's current procedures/documents in relation to partnerships.

Summary of Findings:

Recommended good practice is that the Authority should have a formal Community Strategy, a partnership Framework, Communication Strategy and a Constitution.

These requirements have been met – there are the Constitution; a Communication and Accessibility Policy; a Corporate Communications Strategy; a Corporate Consultation Policy; a Branding manual; a Partnership Framework. The Council has also joined “Community Voice” with other Cumbrian Authorities etc.

Conclusion – satisfactory – there are no recommendations arising from this area of the review.

Corporate Services

Audit Services

Audit of Payments to Members

Final Report

16th December 2008

Audit Contact			
Document Ref:	K:\2006-07 onwards\Audit Reports to Committee\14th Jan 09\Payments to Members Final Report.doc		

Directorate / Service Area	Recipients of Report	Action Required
People, Policy & Performance	<p>Head of Personnel & Development (For Action)</p> <p>Pay Services Manager (For Information)</p> <p>Assistant Pay Services Manager (For Information)</p> <p>Head of Legal & Democratic Services (For Action)</p> <p>Deputy Chief Executive (For information)</p> <p>Director of Legal & Democratic Services (For information)</p>	There are matters arising/recommendations arising from this audit review which require your attention. Please refer to the Action Plan included as Appendix A.

1. **Reason for the Audit**

- 1.1. As part of the audit planning process, payments to members was identified as a low risk area and has been selected for review as part of the agreed Audit Plan for 2008/09.
- 1.2. The agreed Audit Plan for 2008/09 includes a small selection of low risk audit reviews to provide a more holistic coverage of identified risks. This is a change to the audit planning strategy in comparison with the previous financial year whereby the focus was based on a top down risk approach.

2. **Background Information / Summary of the Audit Area.**

- 2.1. The audit process seeks to reduce risk to an acceptable level based on the efficient, economic and effective application of financial controls. Changes to controls suggested in audit recommendations are intended to achieve these benefits. This process reduces but does not wholly eliminate risk.
- 2.2. Payments to members areas reviewed during this audit include:
 - Basic Allowance;
 - Special Responsibility Allowance;
 - Public Transport;
 - Mileage Expenses;
 - Subsistence; and
 - Co-opted Members' Allowance.

3. **Associated Risks of Providing this Service/Function**

- 3.1. Examination of the People, Policy & Performance Risk Register noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<i>Risk Description</i> Payment to bogus employees (raised with Head of Personnel & Development and to be amended, i.e. to include coverage of Members'). <i>Control Strategy</i> Ensure that staff involved in setting up employees are not involved in the distribution of payslips.	Operational	Low
<i>Risk Description</i> Inadequate resources (due to Vacancy Management etc) to deliver our full range of services. <i>Control Strategy</i> Reorganisation; prioritisation; workload dropped/re-allocated; budget bids.	Operational	High
<i>Risk Description</i>	Operational	Low

Information Systems' dysfunction. <i>Control Strategy</i> Addressed during implementation of Trent.		
<i>Risk Description</i> Loss of key people during a time of difficulty/change. <i>Control Strategy</i> Written procedures; training; advice; trade union consultation arrangements.	<i>Operational</i>	<i>Medium</i>

4. **Scope of the Audit**

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

	Areas Examined
1.	Policies and Procedures
2.	Claims
3.	Payments
4.	Security of Data

5. **Overall Conclusion of the Audit Review**

- 5.1. Good controls were found to exist; however, there were a number of opportunities identified to enhance controls within the administration of member payments. These are shown in appendix A and have been brought to the attention of the relevant Head of Service. In summary the key issues arising from this review are:

- There was no formally adopted system in operation to ensure that members' and the vehicle/s used by them meet legal requirements before a claim for mileage is paid by the Council;
- Testing revealed claim forms are passed on a self certified basis and some had not been fully completed; and
- Members' were not submitting VAT receipts with the mileage claim form for reimbursement.

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 six recommendations arising from this review. Four at grade B and two 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.

People, Policy & Performance

APPENDIX A

1. Policies and Procedures

Method of Review:

Discussions with management and staff were undertaken to establish the policies and procedures and system in operation. These were then evaluated to identify whether there were any weaknesses and/or areas where improvements could be made to the established system.

Summary of Findings:

- 1) The main document covering the administration of members' allowances is the Council's Constitution, which incorporates the 'Elected Members' Allowances Scheme 2007/08' (the 'Scheme') and the Council's Financial Procedures. The Assistant Pay & Reward Manager confirmed that all members' have received a copy of the 'Scheme'
- 2) The Elected Members Allowances Scheme 2007/08 includes coverage of:
 - The allowances available in accordance with the Local Authorities (Members Allowances)(England) Regulations 2003; and
 - Guidance notes, laid out in Appendix 1 of the scheme (these do not form part of the regulations), to assist Member's. These guidance notes contain:
 - Greater detail about each individual allowance;
 - List approved duties;
 - Payment of allowances;
 - Miscellaneous provisions;
 - Taxation;
 - Methods of claiming;
 - Insurance cover;
 - Sources of help;
 - List of outside bodies;
 - Members' role descriptors;
 - Introduction to the skills and knowledge requirements for the various member roles; and
 - The members learning and development programme including suggested scale of developmental commitment.
- 3) All policies and procedures viewed/obtained were found to provide full coverage of the administration of members' allowances.
- 4) Approved duties and responsibilities were clearly documented in the 'Scheme' and provided sufficient details of eligibility and applicability.

- 5) What has not been identified, within the control environment, was annual checks upon the legality of individuals and vehicles used before mileage claims were processed and paid by the Council (i.e. Members carrying out 'Council business'). It was confirmed by the Assistant Pay and Reward Manager and the Pay & Reward Manager that there were no checks undertaken regarding members' motor insurance policies and MOT certificates. **See recommendation/agreed action 1 below.**
- 6) The Assistant Pay and Reward Manager stated that all staff involved in the administration of members' allowances are aware and have ready access to a copy of:
 - The Council's Financial Regulations;
 - Written allowances procedures; and
 - Training notes of the computerised systems.
- 7) The Assistant Pay and Reward Manager stated that relevant staff are suitably trained in the administration of members allowances.

<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>See summary of findings note 5 above. Under existing arrangements, there are no checks undertaken to ensure that mileage claims have been submitted by members legally allowed to drive and that the vehicle used also meets legislative requirements.</p> <p>The main associated risks to the Council include reputation loss and that a member not appropriately insured has a motor accident while carrying out Council business, with injured parties attempting to bring a claim against the Council.</p>	Head of Personnel & Development	<p>Checks covering members' motor insurance policies and vehicle MOT certificates should be undertaken, along with the retention of evidence (photocopies).</p> <p>For new members' these checks should be undertaken before mileage is incurred.</p> <p>These checks should be undertaken, on say, an annual basis with a clear statement to individual members' that any changes should be immediately reported with evidence so that records can be updated. This requirement should be incorporated into the 'Scheme' guidance notes.</p> <p>Comments of the Head of Personnel and Development. We should consult with Group Leaders before making such a proposal which in any case could not be introduced quickly due to resource implications. The issues raised are better covered if any person receiving payment for driving their own vehicles is required to sign a declaration to state that all legal documents and requirements are in order. This is covered in the "driving at work" draft document developed by the Transport Manager which awaits presentation to SMT.</p> <p>I will liaise with the Head of Facilities to progress SMT consideration of this document.</p>	B	28/02/08

2. CLAIMS

Method of Review:

Discussions with management and staff were undertaken alongside system testing to evaluate the claims process.

Summary of Findings:

- 1) The basic and special responsibility allowances (SRA) are paid in monthly instalments which are set up in Trent (the Council's payroll system) for payment on the 15th of the month. The Head of Legal and Democratic Services confirmed that monitoring of attendance at meetings by the members receiving the allowances takes place in accordance with the approved duties and responsibilities of each allowance.
- 2) All travel expenses and subsistence claims are input into Envoy (the travel and subsistence system) which interfaces into Trent. A reconciliation between the two systems is performed to ensure the complete and accurate transfer of data each month the payroll is run. Evidence is retained on the administrative office file. **See recommendation/agreed action 2 below.**
- 3) Claims are required to be made on official forms and to be fully completed. Testing, however, revealed that forms were not all fully completed with the following areas being identified:
 - Forms not signed and dated;
 - One claim not submitted on the correct form (it was an employee form). The Assistant Pay & Reward Manager stated that this has only happened on one occasion;
 - Mileage not split for round trips over 120 miles as per the 'Scheme' and claim form. The Assistant Pay & Reward Manager stated that this is part of the administration of the payments to members where it is undertaken in the office as part of the process; and
 - Time and total columns not filled in. The Assistant Pay & Reward Manager stated the time column is for subsistence purposes to determine the eligibility of meal allowances and that the total columns are completed as part of the office administration process.

See recommendation/agreed action 3 below.

- 4) It was confirmed that official mileage and subsistence forms are required to be submitted for reimbursement with limited supporting documentation (receipts) where appropriate. The Assistant Pay & Reward Manager stated that receipts for meal allowances are not required and the full amount as detailed in the 'Scheme' is payable. Receipts for reimbursements for accommodation and taxi fees were found to be received in the testing sample.
- 5) There is a set date each month for the receipt of claims for reimbursement, as stated within the 'Scheme'. Testing revealed that there were varying degrees of compliance with the date. However, there was one notable exception where one claim covered the complete financial year.
See recommendation/agreed action 3 below.

- 6) The claims made were found to have been made legitimately by members who were current at the time of the claim and in accordance with approved duties.
- 7) The Assistant Pay & Reward Manager stated that there is no requirement for the claim forms to be signed by an authorised signatory and therefore there are no arrangements in place for this to happen.
- 8) No evidence was found to indicate that the claims had been signed and dated on input into the system to prevent duplicate payments. **See recommendation/agreed action 4 below.**
- 9) Current claims for mileage by members include journeys between their place of residence and the Civic Centre. It is believed, through discussion with the Assistant Pay & Reward Manager, that the HMRC is reviewing this practice at Carlisle City Council. **See recommendation/agreed action 5 below.**
- 10) Discussion with the Assistant Pay & Reward Manager revealed that members were not required to submit VAT receipts for fuel with their mileage claim and so receipts were not being submitted. It was thought that there were sufficient VAT receipts obtained by employees which would cover the claim. No evidence could be supplied to support this action. This practice was queried with Accountancy Services who suggested that members should be submitting VAT receipts*. **See recommendation/agreed action 6 below.**

*A member of Accountancy Services Team contacted PWC for clarification and the response received back confirmed receipts should be supplied by members.

<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	See summary of findings note 2 above. Testing revealed that there is insufficient segregation of duties in the inputting of claims into the Envoy system and the subsequent reconciliation with the Trent system, with both being performed by the same officer.	Head of Personnel & Development	<p>The reconciliation should ideally be countersigned by an independent officer to confirm its accuracy. The reconciliation should be signed and dated by the independent officer as evidence that the check has taken place.</p> <p>Comments of the Head of Personnel and Development. This is considered to be low risk and is not agreed given the staffing resources available in Pay and Reward Services.</p>	C	-

<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	See summary of findings note 3 & 5 above. Testing revealed claim forms are passed on a self certified basis, directly to staff responsible for input with some claims having not been fully completed. Where, for example, a claim form is not signed there is no clear statement that the claim is completed as being correct and where there is no date it is unclear when the form has been submitted for reimbursement of allowances.	Head of Personnel & Development	Initial independent officer checks should be performed to ensure that the claims received for reimbursement are made on the correct form, are fully completed (e.g. signed and dated) and comply with the 'Scheme' in operation (e.g. submitted in a timely manner). Comments of the Head of Personnel and Development. It is agreed that the above checks should be carried out but that LDS are better placed to undertake this function given they carry budget responsibility for members expenses, have greater awareness of members attendance at meetings and there an issue of segregation of duties.	B	
		Head of Democratic Services	Comments of the Head of Democratic Services In recognition of the current system deficiencies and for the reasons stated by The Head of Personnel and Development, Legal and Democratic Services are willing to receive and carry out routine checks upon and monitoring of, claims for members travel and other expenses for Councillor related business.		01/04/09

<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	See summary of findings note 8 above. There was no evidence seen to identify which payments had been input into the system for payment. Payments may therefore be accidentally paid twice even though in built systems checks alert the potential for such an incidence.	Head of Personnel & Development	Claims should be signed and dated on input to reduce the likelihood of duplicate entry and to provide an audit trail. Agreed	C	01/12/08
5	See summary of findings note 9 above. Current claims for mileage by members include journeys between their place of residence and the Civic Centre. It is believed, through discussion with the Assistant Pay & Reward Manager, that the HMRC is reviewing this practice at Carlisle City Council.	Head of Personnel & Development	The risk should be assessed and consideration should be to include this within the operational risk register until a decision has been made by HMRC. Comments of the Head of Personnel & Development. As at 28/11/08 there is still no decision from HMRC on this issue. It is agreed that risks should be incorporated on the current register if a decision is not forthcoming by the end of the calendar year.	B	31/01/09
6	See summary of findings note 10 above. The current practice is that members' are not required to submit VAT receipts for fuel with their mileage claims for reimbursement. The impact upon this action may be that the Authority is unable to claim this element and there may be a risk of clawback.	Head of Personnel & Development	Members' should be requested to submit VAT receipts (on a reasonable frequency, i.e. based upon their mileage/fuel consumption) with their mileage claim forms for reimbursement. This requirement should be incorporated into the 'Scheme' guidance notes. Agreed	B	15/12/08

3. PAYMENTS

Method of Review:

Discussions with management and staff were undertaken alongside system testing to evaluate the payments process.

Summary of Findings:

- 1) The Assistant Pay & Reward Manager stated all relevant records are promptly updated with changes to payment rates, changes to the Constitution, claims/payment rates and personal details. This was evidenced in the parameter area of the Envoy system.
- 2) There was no evidence found to suggest the claims had been previously paid.
- 3) All recipients were found to be current members for the claim period.
- 4) All relevant deductions were found to be correct.
- 5) Payslips were correctly recorded on the payment system.
- 6) Discussion with the Assistant Pay & Reward Manager revealed that payslip/pay advice is issued by post to the member concerned.

There were no areas identified for recommendation/agreed action.

4. SECURITY OF DATA

Method of Review:

Discussions with management and staff were undertaken along side observing the current arrangements to evaluate the adequacy over the security of data.

Summary of Findings:

- 1) The information gathered within the administration of members' allowances has been registered with the Information Commissioner for Data Protection purposes.
- 2) Through discussion with the Assistant Pay & Reward Manager and observation, satisfactory controls are in place over both computerised and manual records, both types of records were found to be held securely and had restricted access.
- 3) Discussions with the Assistant Pay & Reward Manager revealed that data was retained in accordance with best practice guidance.

There were no areas identified for recommendation/agreed action.

Corporate Services

Audit Services

Audit of Planning Services Income 2008/09

Final Report

17th November 2008

Audit Contact	Iain Atkinson	Ext. No.	7297
Document Ref.:	K:\2006-07 onwards\Material Systems\Planning Services Income MAT045\08-09\Final Report\Planning Income 2008-09 Final Report.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Development Services / Planning	<p><u>Copy of report for action to:</u></p> <p>Head of Planning Services</p> <p>Building Control Manager</p> <p>Development Control Manager</p>	<p>- There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan at Appendix A.</p>

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

1. Reason for the Audit

- 1.1 The audit of Planning Services Income forms an element of the programme of annual material reviews. Material systems are considered to be the fundamental systems of the Authority. As a result, these have a high impact on the main financial system and therefore the Authority's accounts. The Audit Commission place reliance on the work undertaken by Audit Services on material systems as part of their work on the annual statement of accounts.

2. Background Information / Summary of the Audit Area

- 2.1 Planning and Housing Services is within the Development Services Directorate. Essentially, there are three subsections:
- Development Control.
 - Building Control.
 - Local Plans and Conservation.
- 2.2 For the purposes of this review, only Development Control and Building Control were considered. Local Plans and Conservation was not included as it does not generate significant income.
- 2.3 Development Control and Building Control are administered separately (although they share the same software system – Acolaid) and each has its own operational manager.
- 2.4 Although the majority of income is processed directly by the Service (prior to being banked through the Income Management Section) a proportion of the income is processed through the Cashier's section. In addition, Debtor Services can process income for Building Control where debtor invoices have been raised for Building Inspection Fees.

Development Control

- 2.5 This area generates income in the region of £535,800 per year and processes around 1,500 applications each year. Although applications are received for agricultural determinations, demolition determinations and tree preservation orders, the majority of applications are for either outline or full planning permission.

Building Control

- 2.6 This area generates income in the region of £517,400 per year and processes around 1400 submissions each year. The Building (Local Authority Charges) Regulations enable local authorities in England and Wales to charge for carrying out their statutory building control functions relating to the Building Regulations. The three main functions relate to full planning applications, building notices and site inspections. These regulations authorise local authorities to make the following charges:
- Plan charge
 - Inspection charge

- Building Notice charge
- Reversion charge
- Regularisation charge

2.7 There are two methods by which applicants can obtain Building Regulations approval:

- Deposit of detailed plans and specifications for the work known as a Full Plans Application and consisting of a Plan and Inspection charge.
- A Building Notice, which simply involves providing a site location plan and the Building Notice charge equals the Plan and Inspection charge.

2.8 The Reversion charge (although extremely rare) equals the Building Notice charge and is applicable where a private Building Inspector cannot get the contractor to correct works and it requires the Building Control Section to take over and bring it up to standard. The Regularisation charge is 20% greater than the Building Notice charge and is applicable where work has been carried out without Building Regulations approval.

3. Associated Risks of Providing this Service/Function

3.1 Examination of the Risk Registers (updated April '08) did not identify any specific associated risks within these areas.

4. Scope of the Audit

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

	Area Examined
1.	Scale of Charges
2.	Processing
3.	Income & Banking
4.	Accounting
5.	Policies & Procedures

Please note that if recommendations have been made in association with these areas examined, these are detailed in Appendix A.

5. Overall Conclusion of the Audit Review

- 5.1 Overall the procedures and controls in place for the collection of income in Planning Services are working well.
- 5.2 Planning staff involved in the collection of income are aware of the current legislation and have access to the most up to date schedule of fees and charges.
- 5.3 There are good controls in place to ensure that any income associated with an application is recorded correctly upon receipt and that all applications are dealt with promptly.

- 5.4 There are good controls in place to ensure that income received is held securely until it is banked. However, in some cases income could be banked more promptly.
- 5.5 Although there are basic procedures in place they need to be reviewed and regularly updated to ensure that they cover the processes involved in a planning application and the collection and banking of income in the section.

6. **Summary and Gradings of Recommendations**

- 6.1 Each recommendation/agreed audit action 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 <i>fundamental</i> 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 4 recommendations arising from this review; 1 at grade B and 3 at grade C.

7. **Statement of Assurance**

- 7.1 Based on the audit approach to and the findings 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.

Development Services, Planning & Housing Services

APPENDIX A

1. Scale of Charges

Method of Review:

To confirm that staff involved in the process are aware of, and have access to, a copy of the:

- Current Legislation
- The Authority's Standing Orders and Financial Regulations
- Schedule of Fees & Charges

To confirm that when fees are altered that the relevant staff are immediately informed of the new fees and charges and that relevant literature is immediately amended to show the new charges.

Perusal of the Planning Services section of the Authority's Website to ensure that the list of fees is:

- Comprehensive
- Easy to Source
- Current

Summary of Findings:

All staff involved in the processing of income in the separate departments are aware of the relevant up to date schedule of fees and charges and are updated when these change. Staff are also aware of the Financial Procedure Rules that cover income collection

The Authority's website was found to contain comprehensive information regarding the different services offered. There were details of current charges and the latest Planning permission laws (effective from 1st October 2008). Application forms were easily obtainable through the A-Z of services.

There are no recommendations arising concerning the scale of charges and the information on the Website.

2. Processing

Method of Review:

To confirmation that applications and appeals are only accepted if they are on the correct form, supported by appropriate plans and the correct fee, and that initial cursory examinations are undertaken to establish the same.

To gain assurance that applications are immediately referred to the applicant where the fee is incorrect and that paperwork is held separately until all information is received.

To confirm by observation that procedures do not allow any one employee to enter details to process an application and make a decision, to ensure that there is adequate separation of duties.

To confirm that there is adequate separation of duties when dealing with planning applications.

Summary of Findings:

From the records examined it was found that in all cases the appropriate fees have been recorded against the application and that the fee was traceable throughout the system to the relevant General Ledger codes.

There are no recommendations arising concerning the processing of applications.

3. Income & Banking

Method of Review:

Consideration of the various methods of payment available to customers.

To confirm that only official receipts are issued and that the receipt numbers are recorded on the application.

To confirm that there are procedures in place to ensure prompt banking of income, that cheques are individually listed on paying in slips and that the paying in slip is initialled by the person responsible for its preparation.

Summary of Findings:

Cheques and income received in both Building Control and Development Control are listed in the appropriate mail log systems upon receipt.

Development Control

Cheques received are logged on the mail log system and are banked within a few days of receipt. Paying in slips are referenced with the name of

the cheque drawer and reconciled to a print of the mail log system. Both are then copied and filed together for reference.

All files are set up with the appropriate details of the application, and are referenced with the fee paid and the receipt numbers issued.

On occasions where an invalid fee is supplied with the application, a standard letter is produced from the Acolaid system that will request the additional fee.

From the testing undertaken, the controls in place are working well with income being held securely and logged properly. Within the audit sample, all fees were allocated to the correct ledger codes but in some cases the fees could be banked more promptly.

To aid reconciliation of fees and the completeness of the records, it is recommended that the pay in slip number be recorded in the Notes field against a submission fee in the Acolaid application fee history. This activity already occurs within Building Control.

Building Control

Cheques received are logged on the mail log system and are banked within a few days of receipt. All fees received are recorded on Acolaid and copies of paying in slips are maintained within the department.

Where inspection fees are required, these are raised via a debtor invoice. This fee is also recorded in Acolaid under the fee history.

From the testing undertaken the controls in place are working well.

<u>Ref.</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Implementation</u>
A.1	Fees are generally banked in an average of 2 days however on occasions it was noted that this rose to 5-6 days.	Building Control Manager/ Development Control Manager	Wherever possible, the department should aim to bank all income within 1 day of receipt.	C	Immediate
A.2	In the Development Control section paying in slip numbers are not recorded against the submission fee in Acolaid	Development Control Manager	Pay in slip number should be recorded against the submission fee on Acolaid. Building Control have already adopted the notes field for this purpose	C	Immediate

4. Accounting

Method of Review:

Security of Income: To ensure that:

- Responsibility for the collection of income has been allocated to a limited number of specified employees and that deputies are appointed in the case of absence.
- That income in respect of planning fees is kept separate from other (planning) income.
- Income is held securely with access limited to authorised personnel only.

Refunds and Compensation Claims: To ensure that:

- Compensation claims are checked that they are valid before being processed.
- Where refunds are requested, they are authorised by a senior employee and checks are made to ensure that refunds are only made for legitimate reasons.
- Where monies are refunded, this is done using a standard letter stating why the cheque is enclosed and that a copy is kept on file.

Reconciliation

To confirm that:

- Planning fee income is reconciled to the applications register to ensure the correct amount is banked, that all other income is reconciled to receipt books prior to being banked and that there are procedures in place to ensure that the banking of income is promptly undertaken.
- Banking and reconciliations are checked by an independent employee to confirm that they are correct
- The FIS is updated with all income received, that reconciliations to the FIS are undertaken by an employee independent of the banking process and that the employee signs the reconciliation to confirm correctness.

Summary of Findings:

There are good controls in place to ensure that income received is held securely until it is banked. Only authorised personnel have access to the locked income drawer.

On the whole, refunds were all found to be in order, however, care should be taken to ensure that the refund value is entered as a negative value in the Acolaid fee history to ensure displayed fees will reconcile.

<u>Ref.</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Implementation</u>
A.3	A refund was entered as a positive value in the Fee History screen of Acolaid.	Building Control Manager	Refunds to be recorded as a negative value on the Fee History Screen within Acolaid.	C	Immediate

5. Policies and Procedures

Method of Review:

Confirmation with relevant staff that there is an up to date procedure manual and notes.

Summary of Findings:

There are some basic procedures in place but they should be reviewed and updated to ensure that they cover all aspects of recording a planning application and the collection and banking of income in the department. Once updated these procedures should be reviewed on a regular basis to ensure that they are kept up to date with current practices.

<u>Ref.</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Implementation</u>
A.4	Procedure notes should be regularly updated to ensure that responsibilities are clearly defined and that they are up to date with current practices.	Head of Planning Services	Procedure notes should be formalised and updated to ensure that they cover all aspects of recording a planning application and the collection and banking of income in the department. The procedure notes in each section should be reviewed on a regular basis to ensure that they are complete and cover all the processes involved in the collection and banking of all income. It would be ideal if this information was held in a central location such as the council intranet or an indexed manual to enable easy access to staff.	B	Completed by August 2009

Corporate Services

Audit Services

Audit of Sundry Debtors and Miscellaneous Income.
(Material Review)

Final Report

27th November 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\Material Systems\Debtors MAT035\2008-09\Reports\Final\Sundry Debtors and Misc Income Audit 2008-09 - Final.doc		

Directorate / Service Area	Recipients of Report	Action Required
Corporate Services	Head of Revenues & Benefits Services (for information). Revenues Manager (for action).	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Revenues & Benefits Services, which is attached as Appendix A .
All Directorates	Head of Culture and Community (for action) Head of Planning & Housing Services (for action) Head of Legal Services (for action) Head of Environmental Services (for action) Head of Facilities (for action) Head of Personnel & Development (for action) Head of Policy & Performance (for action)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan which is attached as Appendix A .

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

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area.

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

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

4. Scope of the Audit

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

	Area Examined
1.	Follow up of Previous Audit
2.	Debtors General
3.	Raising invoices
4.	Amendments to Invoices
5.	Payments
6.	Debt Recovery
7.	Write Offs
8.	Monitoring and Reporting

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in appendix A and have been brought to the attention of the relevant Heads of Service. There are no issues raised that are of major concern.
- 5.2. A number of problems identified are beyond the control of the Debtors Section and it should be noted that few of the recommendations contained within this report apply to the Revenues staff and their operations. Debtors performance could be significantly enhanced through greater co-operation of all Directorates.
- 5.3. The Debtors System still retains the old Authority structure. However, the Revenues Manager is happy for this to remain as the Authority's structure is likely to change again in the near future.
- 5.4. As the system is user-based there is no possibility of direct control from the Debtors Section and problems continue to arise. Sufficient controls are in place to ensure that recovery and write off procedures are abided by. However, much of this reactive work could be avoided if a more pro-active approach to the raising of debts was taken by other services.
- 5.5. All services should review common types of invoice they produce and determine whether the option of pre-payment could be introduced. There is a strong business case for this as pre-payment would enhance the Council's cash flow and reduce the risk of bad debts accumulating in the first place.
- 5.6. There could be a more pro-active approach to dealing with persistent late payers through the use of interest charges. Debtors staff should evaluate cases on their own merit and decide if it is possible to pass on costs incurred to the debtor.
- 5.7. Overall, it is concluded that the administration of Sundry Debtors and Miscellaneous Income is working well. However, debtors performance could be enhanced with greater co-operation of all Directorates.

6. Grading of Audit Recommendations

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

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

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

- 6.2. There are 13 recommendations arising from this review. 7 recommendations are at grade B and 5 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.

Corporate Services, Revenues

APPENDIX A

1. FOLLOW UP OF PREVIOUS REVIEW.

Method of Review:

A meeting was held with the Revenues Team Leader to go through the schedule of agreed actions resulting from the previous review.

Summary of Findings:

- All recommendations from the previous review have been implemented.
- One area of concern was noted. The Sundry Debtors and Miscellaneous Income Audit 2006-07 made a recommendation for the Debtors System to be updated with the current authority structure, 2 years later this recommendation is still outstanding.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	<ul style="list-style-type: none"> • Recommendation 3a (the debtors system is still configured with the previous Authority structure) from Audit 2006-07 is still outstanding after 2 years. 	Revenues Manager	<ul style="list-style-type: none"> • NONE – The Revenues Manager is happy to keep the present setup as the authority's structure is likely to change again in the near future. 		

2. DEBTORS GENERAL.

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- The Constitution may be found on the Council intranet and covers debtor procedures and responsibilities. The page link is below:-
<http://intranet/yourcouncil/dirser/legal/demserv/Documents/COUNCIL%20CONSTITUTION%20and%20FINANCIAL%20PROCEDURE%20RULES%20FEBRUARY%202008%20Incorporating%20Long%20Version%20of%20Member%20Protocol.doc>
- ❑ The Income and Expenditure rules have **not** changed since the last audit and can be found on pages 298 – 302.
 - ❑ The office manual also details the procedures and responsibilities regarding Debtors.
- Due to the legal implications involved with the payment of leases, rents and wayleaves, there is no specified minimum amount stated for the raising of invoices. This is preferable for this Authority as with the accounts being raised by 'users' it minimises the risk of a minimum limit rule being misunderstood.
- The debtors system does not allow invoices to be amended. They may only be cancelled by sending a cancellation request to the debtors section. This must be authorised by a key signatory.
- The Revenues Team Leader maintains all users and their permission level on the Debtor's system. Currently there are 182 'users'.
 - ❑ 2 users have left the Authority. One still has insertion privilege for invoices.
 - ❑ 1 user is shown under her maiden name.
 - ❑ 3 users have changed directorate or the listed directorate does not match the email address book.
- No problems were found with access levels.
- Only 3 members of staff are able to write off debts. Users are unable to do this.
- A debt is not deleted until the recovery or write off process has been exhausted. This is monitored throughout. Any deletions are shown on the daybook summary which is checked daily by the Revenues Team Leader. This print is used to compile the write off spreadsheet for the report to Committee therefore the Revenues Team Leader would notice any unauthorised deletions via this report. The spreadsheet is also balanced to the system and sent to Finance to be balanced to the Ledger. Any unauthorised deletions would be picked up via any one of these methods.

- The Revenues team leader currently reviews the access list annually by sending a memo to each directorate asking them to inform of any leavers etc. Users who have left are placed in a new group called leavers which has no access privilege to the system.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.2	<ul style="list-style-type: none"> Some user information is out of date. <ul style="list-style-type: none"> The annual review of system access was already underway prior to this audit. The post audit discussion established the exercise was now complete. 	Revenues Team Leader	<ul style="list-style-type: none"> Update the users list with the changes detailed below:- <ul style="list-style-type: none"> 2 officers have left the Authority 1 officer is shown under her maiden name 3 officers are listed against different departments when compared to the email address book. This should be clarified. 	C	ACTIONED
A.3	<ul style="list-style-type: none"> Access list only reviewed annually. <ul style="list-style-type: none"> The post audit discussion established that increasing the number of reviews would be very time consuming. Also, the Debtors Section believe the onus should be on each Directorate to inform them of personnel changes. 	Revenues Team Leader	<ul style="list-style-type: none"> NONE - Management have decided to accept this risk due to the administration involved. 	N/A	N/A
		All Directorates	<ul style="list-style-type: none"> Directorates should inform the Debtors section of any changes in personnel. 	C	Immediate

3. RAISING INVOICES.

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- A weekly debtors report is produced of debtors who still have not paid within 14 days of the reminder. It is an assigned duty of a member of staff to inspect each debt and decide whether to pursue any further action.
- Debtors names are not listed alphabetically, instead they are listed by debtor number. In the debtors application, each debtor is allocated a system generated unique debtor number. A debtor is easily located using this number.
- The date of entry on the list is not recorded. Instead, the date of payment due is used instead. This is because the active recovery process begins 14 days after this date. The initiating section can be identified by the 2nd, 3rd and 4th characters of the invoice number.
- The report is circulated to each directorate monthly. However, it is not the Debtors Section responsibility to ensure that services make use of these reports they can only rely on user co-operation.
- A random sample of 30 debtors was taken from the debtors report. This provided no evidence to suggest that users refer to the aged debtors list before allowing credit to users. The test results showed 30% (9 businesses/persons) were still being supplied with services despite owing the authority money. A regular late payer highlighted was **Asset Co. Municipal**. The authority leases vehicles from this company and charges back any repair work which needs done. At the time of the snapshot, (29/09/2008) this company owed the authority **£16,938.27**. Of this amount, **£11,479.14** was debt outstanding more than 30 days. It should be noted that the authority is very prompt in paying its own bills to this company!
- On 29/09/2008 (minus contract parking and car loans), the authority was owed **£1,490,234.07** from overdue debts. Monies not yet due amounted to **£516,467.79** resulting in a combined total of **£2,006,701.86**.
- It is clear that a number of debtors accumulate debts and take full advantage of the lengthy recovery process before settling their debts.
- Debtors accounts are checked by a member of the Revenues staff to ensure a debtor does not already exist on the system and that an invoice amount looks reasonable. Although these basic checks are in place, the debtors section is largely reliant on users inputting the correct info onto the system. There is no real control against inaccurate charging other than individual managers checking the information being input. This issue was also raised on the previous audit and it was advised that service budget holders should pay particular attention to income on their monthly FIS reports. This still remains the case.

- 28 invoices were sampled (the total number produced over 3 days)
 - ❑ 14% (4 invoices) had inadequate date info.
 - ❑ 57% (16 invoices) were raised within the 14 day guideline.
 - ❑ 29% (8 invoices) were raised after the 14 day guideline.
 - ❑ The average number of days to raise an invoice was 22 days.
- The maximum number of days to raise an invoice was approximately 131 days. This was for a service supplied in the summer but not billed until the end of October. The number of days is estimated because there was no supply date on the invoice – the official start of summer was used as the approximate date.
- The revenues team leader is advised of any charging updates by the service department requiring a charge to be changed. The system is then updated accordingly.
- In many cases it would have been possible to collect payment in advance of the service or supply of goods but this option was not taken up. Good examples include the provision of trade sacks, supply of hanging baskets and building inspection fees.
- There is no minimum specified minimum amount for which an invoice can be produced. This is because certain services legally require billing i.e. rents, wayleaves etc.
- Invoices correctly show the Council's name, address, VAT number, paying reference and remittance slip. These are part of the invoice template and will always be present.
- Invoices are numbered sequentially.
- All billing information is shown and payment methods and details are shown on the rear of the invoice.
- The rear of the invoice also states that non-payment by the due date will incur additional debt recovery expenses that will be charged to the debtor.
- Not all charges can be accurately assessed in advance. However, some charges can be traced back to the Financial Plan 2008/09. Where this applies, fees tested were in line with those stated in the plan. Fees were also recorded against the correct GL codes.
- Others fees are dependent upon various parameters e.g. pest control contracts depend on number/size of buildings etc, recycling credits are dependent on tonnage collected multiplied by a rate set by Cumbria County Council.

- 3 debtor staff have access to amend periodical invoices. Normal users have no access.
 - ❑ The list is maintained and the necessary detail present.
- A sample of 10 periodic invoices were checked
 - ❑ 8 invoices were raised prior to due dates.
 - ❑ All debts have been paid on time and terminations were documented.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.4	<ul style="list-style-type: none"> • Businesses/persons still being supplied with services despite owing the authority money. <ul style="list-style-type: none"> ▪ The Revenues Manager acknowledges this is a significant problem. However, it requires the co-operation of Directorates for the issue to be resolved. 	All Directorates	<ul style="list-style-type: none"> • All Directorates <u>must</u> ensure that all users refer to the aged debtors report prior to allowing further credit to bad debtors. • Whilst it is appreciated that statutory services must be supplied, wherever possible, directorates should ensure that further credit is only supplied to bad debtors when the outstanding debt is settled. 	B	Immediate
A.5	<ul style="list-style-type: none"> • Debtors accounts are checked by a member of the Revenues staff to ensure a debtor does not already exist on the system and that an invoice amount looks reasonable. Although these basic checks are in place, the debtors section is largely reliant on users inputting the correct information onto the system. There is no real control against inaccurate charging other than individual managers checking the information being input. This issue was also raised on the previous audit and it was advised that service budget holders should pay particular attention to income on their monthly FIS reports. This still remains the case. 	All Directorates	<ul style="list-style-type: none"> • As per previous audit (2007/08), Budget Holders should continue to pay attention to the income codes on the monthly FIS reports to ensure that debtor accounts have been raised accurately. 	C	Immediate

A.6	<ul style="list-style-type: none"> 28 invoices were sampled <ul style="list-style-type: none"> 14% had inadequate date information This issue is beyond the control of the Debtors Section and requires the co-operation of Directorates for it to be resolved. 	All Directorates	<ul style="list-style-type: none"> Financial Procedure D43 under responsibilities of directors states:- <i>“To supply the Director of Corporate Services on a timely basis with details relating to work done, goods supplied, services rendered or other amounts due, to enable the Director of Corporate Services to record correctly the sums due to the Council and to ensure accounts are sent out as close to the event as possible”.</i> With the above in mind, invoices must state the <u>actual</u> date of supply or commencement of work, stating the month alone is not sufficient. It is a legal obligation to enforce the recovery process and therefore, it is important that the correct date is stated on the invoice. All directorates should strive to raise invoices for services supplied as soon as possible and at the very least, within 14 days of supply. 	C	Immediate
A.7	<ul style="list-style-type: none"> 28 invoices were sampled <ul style="list-style-type: none"> 57% were raised within the 14 day guideline. 29% were raised after the 14 day guideline. The average number of days to raise an invoice was 22 days. 	All Directorates	<ul style="list-style-type: none"> Again referring back to Financial Procedure D43, it is a responsibility of all Directors to ensure that accounts are sent out as close to the event as possible. Also, the debtors procedure 	B	April 2009

	<ul style="list-style-type: none"> The maximum number of days to raise an invoice was approx 131 days. This was for a service supplied in the summer but not billed until the end of October. The number of days is approximate because there was no supply date on the invoice – the start of summer was used as a ballpark figure. This issue is beyond the control of the Debtors Section and requires the co-operation of Directorates for it to be resolved. 		<p>manual states:-</p> <p><i>“It is the responsibility of each business head to monitor the number of invoices raised within 14 days of the service being provided and inform the Revenues Manager if this target is not being met and including reasons why.”</i></p> <ul style="list-style-type: none"> There are still a large number of invoices raised more than 14 days after the event. Currently the average is 22 days. All directorates <u>must</u> strive to raise invoices within 14 days of supply. 		
A.8	<ul style="list-style-type: none"> In many cases it would have been possible to collect payment in advance of the service or supply of goods but this option was not explored. Good examples include the provision of trade sacks, supply of hanging baskets and building inspection fees This issue is beyond the control of the Debtors Section and requires the co-operation of Directorates for it to be resolved. 	All Directorates	<p>Financial procedure rule D20 states:-</p> <p><i>“It is preferable to obtain income in advance of supplying goods or services as this both improves the Council's' cash flow and avoids the time and cost of administering debts.”</i></p> <ul style="list-style-type: none"> Wherever possible, goods or services should be paid for up front. Directorates should be more pro-active with this approach particularly as this would enhance the Authority's cash flow and reduce the risk of bad debts accumulating in the first place. 	B	April 2009

4. AMENDMENTS TO INVOICES

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- Invoices cannot be amended, they can only be cancelled or part cancelled by the Debtors section. Either process requires a Debtors Cancellation Notice (signed by a key signatory) to be submitted to the Debtors Section. The revenues team leader maintains a file with authorised persons and their signatures. The procedure for cancellations is documented in the Sundry Debtors Procedure Manual.
- A sample of 10 cancelled invoices were tested with the following conclusions:-
 - ❑ All cancellations were authorised
 - ❑ 1 cancellation was authorised by the same person who raised the invoice, however, this person was also a key signatory.
 - ❑ All reasons for cancellation were sufficiently documented
- A cancellation report is not produced from the system. Instead, debtors cancellation notices are kept in a file in the debtors section for future reference.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.9	<ul style="list-style-type: none"> • A sample of 10 cancelled invoices were tested <ul style="list-style-type: none"> ❑ 1 cancellation was authorised by the same person who raised the invoice, however, this person was also a key signatory. ▪ The post audit discussion established that in future, where the above issue occurs, the cancellation will be returned with a request for it to be signed by an independent signatory. 	Revenues Team Leader All Directorates	<ul style="list-style-type: none"> • Debtors Cancellation Notices should be authorised by a person independent of the raised invoice process. 	C	Immediate

5. PAYMENTS

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- On the whole there is adequate separation of duties. Where there is overlap, revenues management have decided to accept the risk and regularly monitor processes.
- Payment methods are detailed on the rear of the invoice. Methods are detailed and clearly explained.
- Regular reconciliations are carried out between the debtors system and the FIS both daily and monthly. This is carried out by a staff member of Financial Services.
 - At the time of testing only the daily reconciliation was available for scrutiny due to problems with the spreadsheet links on the monthly reconciliation.
- Any balance on the Giro account is included on the bank reconciliation at the end of the month.
- The suspense account is administered by a member of staff in the debtors section.
 - At the time of the audit the balance for suspense account was nil. Any outstanding balance would be shown on the suspense notification report. When a balance is in suspense it is usually easy to identify why there is a problem with the account and items are usually cleared very quickly.

CONCLUSION

- Satisfactory – No recommendations arising.

6. DEBT RECOVERY

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- Reminders are automated by the system. When a new stage of recovery is reached debtors staff are notified and the new stage authorised .
- Currently interest charges are only to apply to commercial customers. However, there were numerous occasions when it would have been appropriate to charge interest on outstanding sums – particularly for persistent late payers. Although this option is available, it has not yet been exercised by the authority.
- Reminders were issued promptly and the appropriate recovery stages entered as appropriate.
- Reminder/recovery suppression is managed by the debtors section.
- There were no suppressions to test at the time of this audit.
- There are adequate and appropriate recovery procedures in place and these are promptly invoked.
- There is evidence of efforts made to recover the debt. Rossendales Collect Ltd are appointed as collection agents. Only cases of £15+ are referred. If the debtor pays in full they will take 18% commission or 33% if it is with the doorstep collector.
- Certain cases may not be deemed suitable for collection agent action and instead may be considered for County Court action.
- Various reports exist for each stage of the recovery process.
- If a debtor cannot be traced or recovery has been exhausted, the debt is recommended for write off.
- Procedures exist for each stage of debt recovery. Where a debt has been written off it can also be written back on.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.10	<ul style="list-style-type: none"> There are numerous occasions when it would have been appropriate to charge interest on outstanding sums for Commercial debtors – particularly for persistent late payers. <ul style="list-style-type: none"> The post audit discussion established the existence of the Late Payment of Commercial Debts (Interest) Act 1998. In summary, interest may be charged if the debt is in relation to a supply of goods or a service contract. However, due the separate court systems in the United Kingdom it would only be prudent to use this Act against companies with an office presence in England. With regard to the likes of Asset Co (based in NI) it would be difficult to apply the Act to them. However, the Revenues Manager is going to make enquiries to see if the contract can be checked to ascertain whether there is any scope for passing on additional costs incurred. If this is not possible then it should be considered when the contract is next up for review or renewal. 	Revenues Manager	<ul style="list-style-type: none"> Debtors are taking full advantage of the lengthy recovery process and in many cases waiting until recovery has almost reached bailiff stage before settling the debt. Under the terms of the Late Payment of Commercial Debts (Interest) Act 1998, the Authority should look to imposing interest charges on persistent late payers to offset the cost of recovery and to encourage charges to be paid on time. 	B	April 2009

7. WRITE-OFFS

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- Methods to recover debts were appropriate with use of external services (Rossendales) where deemed necessary.
- Write-off proposals are stored in a paper file and signed by the Director of Corporate Services.
- Debtors don't contact the initiating sections pre write-off unless the invoices are for services that are raised periodically.

- All write-offs are balanced to reports by the Team Leader who in turn balances them to a write-offs spreadsheet.
- The Director of Corporate Services can authorise write-off of debts <£1000. Only Members can authorise write-offs greater than this.
- Financial codes are not adjusted in the General Ledger. Instead, accounts are written off to an overall write off code in the general pool. The initial code is then credited with income the authority has not received.
- Details are held against the invoice notes i.e. stages of recovery etc.
- The written off debts are reversed through the Debtors system, at this point an entry will be made to the VAT control code. This will be picked up the following month when the VAT return is completed and the VAT will be reclaimed from HMRC (this would have been paid to HMRC at the point when the original invoice was raised).
- The section has written procedures available for write offs. Records of write off transactions are kept.
- Amounts credited in Debtors agree to FIS

CONCLUSION

- Satisfactory – No recommendations arising.

8. MONITORING AND REPORTING

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Sundry Debtors.

Summary of Findings:

- The Debtors Procedure Manual states:-
 - ❑ ***“It is the responsibility of each Business Unit Head to monitor the number of invoices raised within 14 days of the service being provided and inform the Revenues Manager if this target is not being met and including the reasons why.”***

- The Council Constitution (Financial System and Procedures) paragraph D.34 states:-
 - ❑ ***“Directors shall ensure that charges for work done are billed promptly and substantiated as each contract or internal agreement specifies”***
- With respect to the above points, the average number of days taken to raise an invoice was 22 days. The evidence suggests that if the number of days to raise an invoice is monitored then monitoring is either poor or inadequate. Debtors performance could be greatly improved if invoices were sent out within the 14 day guideline.
- The Council Constitution (Financial System and Procedures) paragraph D.20 states:-
 - ❑ ***“It is preferable to obtain income in advance of supplying goods or services as this improves the Council’s cashflow and avoids the time and cost of administering debts.”***
- With respect to the above point, other than parking and pest control contracts, testing found no evidence of pre-payment in operation although there were several instances where it could have been used e.g. supply of trade sacks, supply of hanging baskets etc.
- Debt collection performance could be greatly improved through the use of pre-payment. Wherever possible, unless a statutory service is being supplied, goods or services should ideally be paid for up front.
- No monitoring exists to ensure that persistent bad debtors are prevented from obtaining further credit from the council.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.11	<ul style="list-style-type: none"> • The average number of days taken to raise an invoice was 22 days. • The evidence suggests that if the number of days to raise an invoice is monitored then monitoring is either poor or inadequate. • Debtors performance could be greatly improved if invoices were sent out within the 14 day guideline. 	All Directorates	<ul style="list-style-type: none"> • Debtors performance could be greatly improved if invoices were sent out within the 14 day guideline. • Business Unit Heads <u>could</u> and <u>should</u> be more pro-active in monitoring this requirement. 	B	April 2009
A.12	<ul style="list-style-type: none"> • Other than parking and pest control contracts, testing found no evidence of pre-payment in operation although there were several instances where it could have been used e.g. supply of trade sacks, supply of hanging baskets etc. 	All Directorates	Directorates should review common types of invoice and determine whether a particular service could be paid for in advance in the future.	B	April 2009

A.13	<ul style="list-style-type: none"> No monitoring exists to ensure that persistent bad debtors are prevented from obtaining further credit from the council. 	All Directorates	<ul style="list-style-type: none"> Use of the bad debtor's list should be monitored by each Directorate to ensure (wherever possible) that bad debtors are prevented from obtaining further credit. 	B	April 2009
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Corporate Services

Audit Services

Audit of Treasury Management

Final Report

10th December 2008

Audit Contact		Extn No.	
Document Ref:	K:\2006-07 onwards\Material Systems\Treasury Management MAT005\2008-09\Reports\Treasury Management Final Report 08-09.doc		

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

Please note: The Chief Executive, Deputy Chief Executive and 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 14th January 2008.

1. Reason for the Audit

- 1.1. As part of the audit planning process, Treasury Management is one of the 'material' reviews which are required for 2008/09. On this occasion it was agreed that a 'reduced' review would be undertaken giving that the Treasury Management Statement of Assurance for 2007/08 was 'Substantial'. Please refer to Section 7.1 in Management Summary for evaluation explanation.

2. Background Information / Summary of the Audit Area

- 2.1. Treasury Management is located within the Corporate Services Directorate under Financial Services. The Treasury & Insurance Manager has been involved with Treasury Management for approximately 25 years and has gained extensive experience and knowledge of this area.
- 2.2. A 'walk through' test was carried out to ensure that the system as recorded is still operated correctly.
- 2.3. There have been no changes to the system by which Treasury Management is controlled and processed.

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
Treasury Management – Treasury Management and Investment Strategy approved annually. Separation of duties exists, with cover arrangements in place and passwords maintained. Records kept and documentation of actions taken. Regular internal audits carried out. Banking controls. CIPFA Code adopted with regular reports to Executive. Expert advice sought from consultants where appropriate. More personnel to be trained. Review cash flow monitoring requirements per U of R.	Operational	H
Financial Management Information – Inaccurate information can lead to poor management decisions.	Strategic	H

4. Scope of the Audit

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

	Area Examined
1.	Follow Up to 2007/08 Review.
2.	Policies & Procedures.
3.	Walk Through Test

5. Overall Conclusion of the Audit Review

- 5.1. The review undertaken in 2008/09 once again showed that the overall procedures and controls in place for Treasury Management are extremely effective and working efficiently.
- 5.2. Staff within the Authority involved in the process of Treasury Management are aware of the Financial Procedures Rules and relevant legislation regarding all aspects of Treasury Management.
- 5.3. There is complete division of duties between staff dealing with the transactions of Treasury Management.
- 5.4. As documented in the latest 'Use of Resources Auditor Judgements' report issued by the Audit Commission, the treasury management strategy is in accordance with CIPFA requirements.

6. Grading of Audit Recommendations

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

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

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

- 6.2. There is one recommendation arising from this review at Grade C.

7. **Statement of Assurance**

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

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

Corporate Services – Financial Services

APPENDIX A

1. FOLLOW UP TO 2007/08 REVIEW

Method of Review:

- Discussions with the Treasury & Insurance Manager regarding the outstanding follow up from the 2007/08 review.
- Completion of relevant Audit Follow Up templates detailing the remaining outstanding follow up.

Summary of Findings:

- There was one outstanding recommendation from the 2007/08 Treasury Management review.

Recommendation A.1.

Ensure that the Head of Revenues & Benefits Services is listed on the Fidelity Guarantee Insurance Policy when renewed.

Action

Carlisle City Council as of 24th October 2008 had still not received the Fidelity Guarantee Insurance Policy Schedules for 2008/09. The Treasury & Insurance Manager e-mailed the Insurance company on 24th October 2008 to advise that the Head of Revenues & Benefits required adding to the policy and to inform that Carlisle City Council are still awaiting the 2008/09 schedules. The new schedules were received on 3rd November 2008, a review of the schedule was undertaken and the Head of Revenues & Benefits was still absent from the schedule. It was apparent from dating on the schedule that the paperwork had been completed before the Treasury & Insurance Manager had contacted the Insurance company to advise of the requirement.

Recommendation for 2008/09

The Treasury & Insurance Manager should contact the Insurance company to confirm that the Head of Revenues & Benefits Services is a designated officer on the Fidelity Guarantee Schedule and request that they be included on any future schedules / policies issued.

Conclusion

Although the Treasury & Insurance Manager had e-mailed the Insurance Company to advise of the situation, the recommendation still remains incomplete. *Please refer to recommendation A.1.*

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The Head of Revenues & Benefits Services still remains unlisted on the Fidelity Guarantee Insurance Policy for 2008/09.	Treasury & Insurance Manager.	Ensure that the Head of Revenues & Benefits Services is a designated officer on the Fidelity Guarantee Insurance Policy and request that they be included on any future schedules / policies.	C	Immediately.

2. POLICIES & PROCEDURES

Method of Review:

- Discussions with the Treasury & Insurance Manager.
- Confirm that adequate anti-money laundering controls are in place.
- Confirm that the following report/policies are still valid and accessible to all staff involved within the Treasury Management function.
 1. Treasury Management Polices and Procedures.
 2. Financial Regulations.
 3. Treasury Management Strategy & Investment Strategy.
 4. Treasury Management Outturn Report.

- 5. Treasury Management Practices Policy.
- 6. Investment Portfolio.
- 7. Schedule of Approved Investment Counterparties.
- 8. Investment Spreadsheet.

Summary of Findings:

- It was confirmed that there are comprehensive procedures regarding anti-money laundering controls within the Treasury Management Practices policy. The Treasury Management Practices Policy is a rolling document and is updated every 6 months. The next update is due in December 2008.
- It was confirmed that the Authority has the required report/policies required for Treasury Management and they are accessible to all staff involved within the Treasury Management function.
- It was noted that a revamped version of the regular investment spreadsheet has been devised. In addition to the base information in terms of counterparty, interest rate and duration of investment, the spreadsheet now shows the credit rating of each counterparty, both at the time the investment was placed and also the current credit rating where applicable. The schedule also includes those building societies that do not have a formal credit rating but are included within our current investment strategy as approved counterparties. The table shows the split between specified and non-specified investments and this analysis is also shown in a pivot table and a graph.
- With the recent collapse of the Icelandic banking system which has put 'at risk' almost £1 bn of local authority investments, it was confirmed that the Authority only invests and banks with financial institutions within the United Kingdom and no investments are made abroad. The appropriate policies are in place to safeguard these investments.
- It was noted that 4 investments were taken out with financial institutions that the Authority no longer uses for this purpose. These are as follows:
 - 1. Northern Rock – Investment for £1,000,000 made 27/04/07. In September 2007, Northern Rock sought and received a liquidity support facility from the Bank of England. In February 2008 Northern Rock was taken into state ownership.
 - 2. Derbyshire Building Society – 3 investments for £1,000,000 each made 17/04/07, 01/04/08 and 02/04/08. In September 2008, Derbyshire Building Society announced it would merge with the Nationwide Building Society. The merger was borne out of increasing fears about the financial security of the Building Society due to half yearly losses of £17 million. The merger took place on 1st December 2008.

Conclusion

There are no recommendations to be made regarding Treasury Management Policies & Procedures.

3. WALK THROUGH TEST

Method of Review:

- Discussions with the Treasury & Insurance Manager.
- Carry out a full walk through test from the initial investment to ensure that the procedures remain unchanged since the audit review undertaken in 2007/08.

Summary of Findings:

- An investment was selected at random to carry out the walk through testing.
- The following areas were checked and verified during the walk through test.
 - Written documentation from the Treasury & Insurance Manager advising of the transaction.
 - Authorisation form stating amount of transfer, beneficiary, receiving bank details, also checking the input, verified and authorised signatures.
 - Hexagon Global Activity Summary – checking transfer amounts, date, beneficiary etc.
 - Investment Made spreadsheet – checking interest rates, amounts, beneficiary etc.
 - Outstanding Investment spreadsheet – checking data has been correctly input and calculated.
 - Brokers Statement – checking all details to the Authority's details.
 - HSBC Statement – checking that the correct monies have been received on the investment expiry date.
 - General Ledger code 29710/8511/90305 Interest Received – checking interest amount is correct once the investment has expired.
 - Interest Received spreadsheet – checking interest amounts and dates are correct.

Conclusion

There are no recommendations to be made with regards to the Treasury Management Walk Through Test.