

# **AUDIT COMMITTEE**

## ***Committee Report***

### **Public**

**Date of Meeting:** 16<sup>th</sup> April 2012

**Title:** AUDIT SERVICES PROGRESS REPORT

**Report of:** Director of Resources

**Report reference:** RD04/12

### **Summary:**

**This report summarises the work carried out by Audit Services since the previous report to Committee on 13<sup>th</sup> January 2012 and details the progress made against the 2011/12 Audit Plan up to 31<sup>st</sup> March 2012.**

### **Recommendations:**

**Members are requested to receive this report and note progress made against the agreed 2011/12 Audit Plan.**

**Contact Officer:** Gill Martin,  
Audit Manager

**Ext:** 7294

## CITY OF CARLISLE

To: Audit Committee  
16<sup>th</sup> April 2012

RD04/12

### Audit Services Progress Report No. 4

#### **1 Summary of Audit Work**

1.1 This report summarises the work carried out by Audit Services since the previous report to Committee. It monitors the progress made on the 2011/12 Audit Plan up to 31<sup>st</sup> March 2012.

#### **2 Audit Performance Against the 2011/12 Audit Plan**

2.1 The 2011-12 Audit Plan was presented to the Audit Committee on 12th April 2011 – report RD5/11 refers.

2.2 To assist Members in monitoring progress against the agreed Audit Plan, **Appendix A** illustrates the current position of the Plan.

2.3 Members should note that:

- Of the 535 direct audit days scheduled for completion in 2011/12, 592 direct audit days have been delivered - 57 days more than originally planned.
- All 12 main financial system reviews were completed in year.
- There were 3 unplanned audits which arose during the course of the year – adjustments to the Audit Plan were made in year to accommodate these.
- There are 6 audits which have been deferred until 2012/13, as authorised by the Director of Resources.
- There are 4 audits which are ongoing – these will have minimal impact on the 2012/13 Audit Plan.

2.4 The 2011/12 Audit Services outturn report will be presented to the Audit Committee in July 2012 and will provide further performance details.

#### **3 Follow-up of Previous Audit Recommendations**

##### **3.1 Bereavement Services Follow Up**

3.1.1 At a previous meeting of the Audit Committee, Members asked that a formal follow up in relation to the position of the recommendations concerning the Bereavement Services audit review be reported back to the April 2012 Audit Committee

3.1.2 The Neighbourhoods & Green Spaces Manager has now responded to this audit follow up and has provided an outline of the actions taken to effectively address the audit recommendations / agreed actions arising from the audit review. This is attached as Appendix B

3.2 Whilst not all of the recommendations have been implemented, there has been progress in all areas. Outstanding matters will continue to be addressed by the service area as part of the ongoing service improvement review. Furthermore, Bereavement Services is scheduled for audit review later in 2012, so progress against these outstanding recommendations will once again be examined and reported.

3.3 There are no further issues concerning follow up reviews which need to be brought to Members' attention at this time.

#### **4 Review of Completed Audit Work**

4.1 There are 8 audit reports to be considered by Members at this time.

|                                     | <u>Assurance</u> |            |
|-------------------------------------|------------------|------------|
| Partnerships                        | Reasonable       | Appendix C |
| Capital Programme                   | Substantial      | Appendix D |
| <u>Main Financial Systems:</u>      |                  |            |
| Main Accounting System              | Substantial      | Appendix E |
| Treasury Management                 | Substantial      | Appendix F |
| Fixed Assets                        | Reasonable       | Appendix G |
| Council Tax                         | Reasonable       | Appendix H |
| Debtors                             | Reasonable       | Appendix I |
| Cash Receipting & Income Management | Substantial      | Appendix J |

#### **5 Recommendations**

5.1 It is recommended that Members:

- Note the progress made towards completion of the 2011/12 Audit Plan, for the period up to 31<sup>st</sup> March 2012, as illustrated in **Appendix A**.
- Note the follow up of Bereavement Services attached as **Appendix B**.
- Receive the completed audit reports which are attached as **Appendix C and J** to this report.

P. Mason  
Assistant Director (Resources)

**PROGRESS AGAINST THE AUDIT PLAN 2011/12**

**Position as at 31st March 2012**

| <b><u>Status</u></b> | <b><u>Audit Category</u></b> | <b><u>Directorate</u></b> | <b><u>Audit Area</u></b>                                  | <b><u>Allocated Days</u></b> | <b><u>Days Taken</u></b> | <b><u>Comments</u></b>   |
|----------------------|------------------------------|---------------------------|---|------------------------------|--------------------------|--|
| Draft for review     | High Risk                    | Com. Engagement           | Customer Contact Centre                                   | 15                           | 17                       | Final report will be considered at the July 2012 Audit Committee   |
| Draft Issued         | High Risk                    | Com. Engagement           | Tullie House  | 10                           | 11                       | Final report will be considered at the July 2012 Audit Committee   |
| <i>Deferred</i>      | <i>High Risk</i>             | <i>Com. Engagement</i>    | <i>Community Support</i>                                  | <i>10</i>                    | <i>0</i>                 | <i>Deferred until 2012/13 at request of Director of Resources</i>  |
| <i>Deferred</i>      | <i>High Risk</i>             | <i>Com. Engagement</i>    | <i>Events</i>   | <i>10</i>                    | <i>0</i>                 | <i>Ongoing transformational review of this service area, therefore not practical to commence at this time. Postponed until 2012/13.</i>  |
| <i>Deferred</i>      | <i>High Risk</i>             | <i>Com. Engagement</i>    | <i>Supporting People</i>                                  | <i>15</i>                    | <i>0</i>                 | <i>Deferred until 2012/13 at request of Director of Resources</i>  |
| Completed            | High Risk                    | Corporate                 | Tendering & Contracting (inc. e-Procurement & Frameworks) | 25                           | 37                       | Detailed review. Combined approach undertaken to provide wider coverage of corporate e-procurement activities along side tendering & contracting practices and procedures. Final report to be considered at the April 2012 Audit Committee |
| Completed            | High Risk                    | Corporate                 | Risk Management Arrangements                              | 10                           | 21                       | Comprehensive first review of this area plus contingency. Final report considered by the September 2011 Audit Committee.   |

|           |                  |                          |  |           |          |   |
|-----------|------------------|--------------------------|--|-----------|----------|---|
| Completed | High Risk        | Local Env. / Resources   | Insurance (inc highways) -                           | 10        | 30       | Difficulty in obtaining information hindered progress. Challenging review which brought in performance management measures. Final report considered by the October 2011 Audit Committee |
|           | <i>High Risk</i> | <i>Local Environment</i> | <i>Street Cleaning</i>                               | <i>10</i> | <i>0</i> | <i>Ongoing transformational review of this service area, therefore not practical to commence at this time. Postponed until 2012/13. Agreed June 2011</i>                                |
| Ongoing   | High Risk        | Local Environment        | Recycling  | 15        | 16       |   |
|           | <i>High Risk</i> | <i>Local Environment</i> | <i>Refuse Collection</i>                             | <i>10</i> | <i>0</i> | <i>Ongoing transformational review of this service area, not practical to commence at present time therefore postponed until 2012/13 at request of Director of Resources.</i>           |
| Completed | High Risk        | Local Environment        | Highways Contract & Claimed Rights                   | 15        | 5        | Initial piece of work completed.  |
| Completed | High Risk        | Local Environment        | Cemeteries & Crematorium (Income)                    | 12        | 20       | Final report was considered by the October 2011 Audit Committee   |
|           | <i>High Risk</i> | <i>Resources</i>         | <i>Asset Management</i>                              | <i>15</i> | <i>0</i> | <i>Deferred until 2012/13 at request of Director of Resources</i>   |
| Ongoing   | High Risk        | Resources                | Transformation                                       | 15        | 0        |   |
| Completed | High Risk        | Resources                | Partnerships   | 10        | 15       | Final report to be considered by the April 2012 Audit Committee   |
| Completed | High Risk        | Resources                | Capital Resources / Programme                        | 15        | 13       | Final report to be considered by the April 2012 Audit Committee   |
| Completed | High Risk        | Resources                | ICT Connect - Shared Service Governance Arrangements | 5         | 8        | Joint ICT review with Allerdale BC - Findings & Action Plan was considered by the September 2011 Audit Committee  |

|  |              |                   |  |            |            |   |
|--|--------------|-------------------|--|------------|------------|---|
| Completed                                | High Risk    | Resources         | Properties for Rent & Industrial Estates     | 10         | 20         | Combined with work brought forward from 2010/11. Review widened to incorporate Industrial Estates. Final report was considered by the August 2011 Audit Committee |
| Ongoing                                  | High Risk    | Resources         | Facilities Management / Building Maintenance | 10         | 3          |   |
| <b>TOTAL DAYS FOR HIGHER RISK AUDITS</b> |              |                   |  | <b>247</b> | <b>217</b> |   |
| Completed                                | Low Risk     | Resources         | VAT  | 10         | 10         | Final report to be considered by the January 2012 Audit Committee   |
| Completed                                | Low Risk     | Local Environment | Pest Control                                 | 5          | 6          | Final report was considered by the July 2011 Audit Committee  |
| Draft for review                         | Low Risk     | Resources         | CRB Compliance                               | 5          | 5          | Final report to be presented to the July 2012 Audit Committee   |
| <i>Deferred</i>                          | <i>Other</i> | <i>Corporate</i>  | <i>External Grant Funding</i>                | <i>5</i>   | <i>0</i>   | <i>Quality checking - this work needs to be started after year end (April / May)</i>  |
|  | Other        | Corporate         | National Fraud Initiative (NFI)              | 15         | 18         | Report on exercise to be incorporated in the final outturn report   |
| <b>TOTAL DAYS FOR OTHER AUDITS</b>       |              |                   |  | <b>40</b>  | <b>38</b>  |   |
| Completed                                | Material     | Resources         | Income Management & Cash Collection          | 12         | 18         | Final report to be considered by the April 2012 Audit Committee   |
| Completed                                | Material     | Resources         | Fixed Assets                                 | 12         | 9          | Final report to be considered by the April 2012 Audit Committee   |
| Completed                                | Material     | Resources         | Main Accounting System                       | 15         | 13         | Final report to be considered by the April 2012 Audit Committee   |

|                  |            |                   |  |            |            |   |
|------------------|------------|-------------------|--|------------|------------|---|
| Draft Issued     | Material   | Com. Engagement   | Housing & Council Tax Benefits                         | 12         | 21         | Final report to be presented to the July 2012 Audit Committee   |
| Completed        | Material   | Resources         | Treasury Management                                    | 8          | 14         | Final report to be considered by the April 2012 Audit Committee |
| Draft Issued     | Material   | Resources         | Creditors  | 8          | 12         | Final report to be presented to the July 2012 Audit Committee   |
| Completed        | Material   | Com. Engagement   | Housing Regeneration (Improvement grants)              | 8          | 19         | Final report was considered by the January 2012 Audit Committee |
| Draft Issued     | Material   | Resources         | Payroll  | 10         | 9          | Final report to be presented to the July 2012 Audit Committee   |
| Completed        | Material   | Resources         | Debtors  | 8          | 8          | Final report to be considered by the April 2012 Audit Committee |
| Draft Issued     | Material   | Com. Engagement   | NNDR   | 10         | 16         | Final report to be presented to the July 2012 Audit Committee   |
| Completed        | Material   | Com. Engagement   | Council Tax  | 12         | 12         | Final report to be considered by the April 2012 Audit Committee |
| Draft Issued     | Material   | Local Environment | Car Parking  | 10         | 8          | Final report to be presented to the July 2012 Audit Committee   |
|                  |            |                   | <b>TOTAL DAYS FOR MATERIAL AUDITS</b>                  | <b>125</b> | <b>158</b> |   |
| Ongoing          | ICT        |                   | IT Strategy  | 10         | 4          |   |
| Draft for review | ICT        |                   | Network Controls                                       | 10         | 6          | Final report to be presented to the July 2012 Audit Committee   |
| <i>Deferred</i>  | <i>ICT</i> |                   | <i>Service Desk, Incident &amp; Problem Management</i> | <i>10</i>  | <i>0</i>   | <i>Completed if time permitting</i>                             |
|                  |            |                   | <b>TOTAL DAYS FOR ICT AUDITS</b>                       | <b>30</b>  | <b>10</b>  |   |

|                    |                  |                   |  |            |            |  |
|--------------------|------------------|-------------------|--|------------|------------|--|
|                    |                  |                   | <b>TOTAL DAYS FOR CONTINGENCY</b>              | <b>43</b>  | <b>38</b>  | Relates to additional time allocations, VFM and other misc. advice / support / "hot assurance" work.                               |
|                    |                  |                   | <b>AUDIT MANAGEMENT</b>                        | <b>40</b>  | <b>51</b>  | Audit Management, Reporting, Planning and Committees. Also includes attendance at Corporate Risk Management Group - unplanned time |
|                    |                  |                   | <b>AUDIT FOLLOW UP REVIEWS</b>                 | <b>10</b>  | <b>11</b>  |  |
| <u>Other Work:</u> |                  |                   |  |            |            |  |
| Completed          | B/fwd<br>2010/11 | Governance        | Health & Safety                                | -          | 12         | Final report was considered by the July 2011 Audit Committee   |
| Draft Issued       |                  | Local Environment | Connect 2 Cycleway Project -<br>Sustrans Grant | -          | 41         | To be presented to the July 2012 Audit Committee   |
| Completed          |                  | Com. Engagement   | Housing Benefits Overpayments                  | -          | 15         | Final report was considered by the August 2011 Audit Committee   |
|                    |                  |                   | <b>TOTAL DAYS FOR UNPLANNED AUDITS</b>         |            | <b>68</b>  |  |
|                    |                  |                   | <b>TOTAL AUDIT DAYS</b>                        | <b>535</b> | <b>592</b> |  |



**AUDIT OF BEREAVEMENT SERVICES****FOLLOW UP SCHEDULE OF AGREED AUDIT ACTIONS**

|                              |          |   |                                       |
|------------------------------|----------|---|---------------------------------------|
| Final report issued          | 20.10.11 | Key Officer responsible for implementing Agreed Actions               | Neighbourhoods & Green Spaces Manager |
| Date Follow up Audit Started | 23.03.12 | Date of Audit Committee to which status of Follow Up will be reported | 16.04.12                              |

| Ref | Issue Raised  | Agreed Audit Action to be Implemented  | Grade | Target Date To Implement | Details of action taken (including actual date) to implement this Agreed Audit Action  |
|-----|---|--|-------|--------------------------|--|
| R1  | Lack of service continuity if records lost e.g. due to fire.  | The manual cash receipting system (the Kalamazoo book) should be replaced with an electronic system - ICON the Corporate Cash Receipting system should be directly utilised by Bereavement Services.               | B     | April 2012               | Replacement of Kalamazoo system to be discussed and arranged by Mary Palm, Sandra Murphy and Phil Gray on the 4 <sup>th</sup> April 2012 with the aim of soonest possible implementation of the ICON system. (ongoing) |
| R2  | There is a lack of audit trail which impacts upon establishing the completeness and accuracy of cash income received. | On the reverse of the pay in slip the cash element should be individually recorded (in accordance with cash receipts received) by noting the receipt number and totalled to agree with the pay in slip cash total. | B     | April 2012               | All cash amounts are now recorded individually on the reverse of the paying in slips. (Implemented)  |

|    |  |   |   |            |  |
|----|--|---|---|------------|--|
| R3 | To ensure that 'proper' invoices are issued.   | Invoices should be raised through the Council's corporate debtor system and the centralised debt recovery procedures should be applied.<br><br><i>See also recommendation R4 below.</i> | B | April 2012 | See R1 above – corporate invoicing will be introduced at the earliest possible date (ongoing).   |
| R4 | There is no evidence of a formal system of outstanding debt monitoring, actions taken and write off. | The identification of outstanding debts and appropriate follow up action to be taken (including write off where relevant) should be through the Council's main debtors system.          | B | April 2012 | See R1 and R3 above – this is being implemented at the earliest possible date (ongoing).   |
| R5 | There is no evidence that the BACAS system is accurate and complete.                                 | BACAS should be reconciled to the Kalamazoo (or electronic record when recommendation R1 is implemented) to ensure its completeness and accuracy.                                       | B | April 2012 | Tied in with issues R1, R3 and R4, communication with Martin Caxton of Clear Skies Software (supplier of BACAS System) in conjunction with R1.(ongoing)  |
| R6 | The Council's risk management process is not embedded within its operations as intended.             | There should be greater evidence available to demonstrate that operational risks are being appropriately managed.   | B | Immediate  | Changes to the management of operational risks have been implemented to reflect a closer relationship between risk and response. The risk register now includes more details of management of risks identified.(implemented) |



# **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

## **FINAL REPORT**

### **Audit of Partnerships**

**Draft Report Issued: 27th January 2012**

**Final Report Issued: 27th February 2012**

## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1 The audit of Partnerships was identified for review as part of the agreed Audit Plan for 2011/12. The system was previously reviewed in early 2011 and a final report issued on the 31<sup>st</sup> March 2011 which was presented at the Audit Committee held on the 11<sup>th</sup> April 2011.
- 1.2 A number of issues were identified that required attention although the review gave an overall *Reasonable* assurance grading. The purpose of this review is to perform a detailed follow up to the April 2011 report to ensure that all recommendations have been actioned to a satisfactory level.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient                                   | Action Required   |
|---|---|
| Director of Resources                       | Report to be noted.   |
| Director of Community Engagement.           | Report to be noted.   |
| Director of Governance                      | Report to be noted.   |
| Director of Community Engagement.           | Action required. Please refer to Appendix A<br>- Summary of Recommendations / Action Plan |
| Financial Services Manager (Resources)      | Action required. Please refer to Appendix A<br>- Summary of Recommendations / Action Plan |
| Development and Support Manager (Resources) | Action required. Please refer to Appendix A<br>- Summary of Recommendations / Action Plan |

### 3. BACKGROUND INFORMATION

- 3.1. The Council's definition of a Partnership has been made more specific since the last review in March 2011. This is to take into account the scope of the audit recommendations and also the continually developing requirements surrounding the arrangement of partnerships.

- 3.2. The revised definition of Partnerships states:-

Partnership means working with other public bodies, voluntary and community organisations and businesses on a range of issues. This offers the Council the opportunity of increasing the level of participation in decision-making and widens the opportunities for inclusion and local community governance.

## Section 1 – Management Summary

The Council needs to ensure that partnerships have clear terms of reference and roles, clear goals with robust measures and all have exit strategies particularly those where and existing partnership exists.

Partnerships can evolve over time. What might start out as parties initially coming together to agree joint outcomes and working arrangements can then develop into a new stand-alone entity, legally separate from the parent partners. The Council has classified four types of partnership i.e.

- **Significant Partnerships** – these have defined goals to achieve, have funding attached, aims and objectives are shared, outcomes are delivered and benefits can be measured. Significant Partnerships have funding over £70,000. *Shared Services now fall within this category.*
- **Minor Partnerships** – have defined goals to achieve, where funding is attached and aims and objectives are shared, outcomes are delivered and benefits can be measured. Minor Partnerships have funding under £70,000.
- **Member Partnerships** – are classified as purely advisory where no funding is attached. They may be aimed at a strategic level and have been set up to govern smaller partnerships, which deliver actual outcomes.
- **Participatory Partnerships** – are not true partnerships but are included for clarity. These are where grant funding is provided by the Council, usually with other external bodies, to local associations, groups and initiatives (e.g. Community Centres), or where the Council has effectively contracted out a service to an external provider (e.g. CLL, Riverside), but which continue to support the achievement of the Councils aims and objectives.

- 3.3. The procedures and control over partnership development within the Authority has considerably improved since the first major review was undertaken in 2007, when the use of the Partnership Development and Evaluation Handbook and Toolkit was utilised to form a framework on which to establish and monitor the arrangements in place.
- 3.4. The central monitoring of partnerships is undertaken by the Development and Support Team within the Resources Directorate. This is primarily the responsibility of the Development and Support Manager with administrative input from the Finance Assistant.
- 3.5. The ongoing need to find efficiency savings will become increasingly difficult for the Council to achieve and this may increase the need for more partnership working. This was recognised in the 2010/11 Annual Audit Letter as a key challenge facing the Council. It is imperative that the Council can demonstrate that robust arrangements are in place over the creation, management and performance reporting of its partnerships within the agreed partnership definition and policy guidance.

## 4. SCOPE

- 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 detailed findings are shown in Section 2 of this report - Matters Arising:

## Section 1 – Management Summary

| Section | Area Examined                                   |
|---------|---|
| 1.      | Definition of Partnerships/Partnerships Policy. |
| 2.      | Partnerships Guidance.                          |
| 3.      | Partnerships Registration.                      |
| 4.      | Risk Management and Monitoring of Partnerships. |

- 4.2. The scope and testing undertaken as part of the review in March 2011 reflected the identified risks specific to Partnerships which had been raised through the Council's corporate risk management arrangements. This review concentrated on following up the additional identified risks and reports on the action taken to address these.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate's Operational Risk Registers should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

### 5. RECOMMENDATIONS

- 5.1. Each recommendation 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     | For consideration only - 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).*

- 5.2. There are 7 recommendations arising from this review :

- 6 at grade B
- 1 at grade C

### 6. STATEMENT OF ASSURANCE

- 6.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

## Section 1 – Management Summary

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

- 6.2. The assurance level given to an audit area can be influenced by a number of factors: including stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.
- 6.3. From the areas examined and tested as part of this audit review, we consider the current controls operating within Partnerships provide **REASONABLE** assurance.
- 6.4. Areas have been identified where improvements could be made to strengthen controls and these are detailed in Section 2 – Matters Arising. The Summary of Recommendations /Action Plan is attached as Appendix A.

### 7. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

A number of opportunities to further enhance controls have been identified and these are shown in Appendix A – Summary of Audit Recommendations and Action Plan.

Good progress has been made, particularly around clearer definitions, detailed guidance and enhancements to the central monitoring role.

The key issues arising from this review are:

7.1. Definition of Partnerships/Partnership Policy.

It was established that the definition of ‘Partnerships’ was amended to categorise shared services as significant partnerships. These are now included in the central monitoring framework.

7.2. Partnership Guidance.

Workshops were arranged for those staff involved in partnership arrangements, although attendance was not targeted at key officers. In all, general take up of this training was poor and knowledge gaps across the Council are likely to still exist because of this. Staff changes in the

## Section 1 – Management Summary

last 12 months will also likely to have had an impact on this area.

### 7.3. Partnerships Registration.

Issues were identified with regards to the accounting for income and expenditure of Carlisle Tourism Partnership. Whilst this partnership is no longer in operation, the situation regarding the accounting arrangements which were in place still need to be fully resolved.

This matter is addressed in section 8.3 of this report. This section highlights the need for ensuring that when entering into such agreements, the constitutional Financial Regulations must be enforced to enable proper accountability. The importance of exit strategies being built into all significant partnership agreements was also highlighted for address.

### 7.4. Risk Management and Monitoring of Partnerships.

It is emphasised that it is the duty of the relevant lead officers within directorates to monitor their respective partnerships. The central monitoring performed by Development & Support is intended to concentrate on the overriding controls which provide high level assurance that they are performing this function in line with agreed protocols. It is not responsible for the actions of specific partnerships. It is evident that some partnerships have submitted information for central monitoring purposes, which is deemed insufficient on which to base an informed judgement on the status of the partnership. This could put reliance on the information reported to members at risk. This issue can again be primarily addressed via training assistance.



## RESOURCES DIRECTORATE

### Audit of Partnership Arrangements

#### SUMMARY OF RECOMMENDATIONS & ACTION PLAN

| REF | ISSUE RAISED   | RECOMMENDATION  | GRADE | AGREED ACTION   | RESPONSIBLE OFFICER             | DATE ACTIONED BY |
|-----|--|---|-------|---|---------------------------------|------------------|
| R1  | Partnership Workshops may have failed to meet the targeted audience.           | Training session 2 - Partnership Working Policies and Procedures Workshop should again be promoted, but this time specifically targeted at those staff with partnership arrangement responsibility. Senior Management should ensure that their staff with delegated responsibility attend.  | B     | Development & Support has identified all appropriate officers and a specific training programme is being developed.                 | Development and Support Manager | 01/06/2012       |
| R2  | There were issues surrounding the financial management of the CTP Partnership. | If the City Council enters into a partnership arrangement where they are appointed official 'bankers' then a detailed financial arrangement, where by constitutional financial procedure rules to be applied must be written into the agreement and responsibility for the financial monitoring and control thereof be retained within the Council. | B     | Financial Services has requested that SMT give cognisance to this matter and ensure their staff are fully aware of the requirement. | Financial Services Manager      | Ongoing          |

|    |   |  |   |   |                                  |            |
|----|---|--|---|---|----------------------------------|------------|
| R3 | There are 2 significant partnerships that have not developed or submitted an exit strategy.                                 | The development of an exit strategy when entering into a partnership is not only prudent, but will ensure that transitional arrangements are in place in event of the cessation of the partnership. These should be in place in all cases. | B | Development & Support has repeatedly requested this information. The training programme scheduled above will include this topic.  | Development and Support Manager. | 01/06/2012 |
| R4 | Reported monitoring arrangements are not representative.  | It is essential that the review questionnaires distributed for central monitoring purposes must be completed to fully reflect the true position and not what is thought 'should' happen as this is not representative of the situation.    | B | Each responsible Partnership manager/officer is required to provide complete and accurate information. Development & Support cannot contradict information provided when it is signed and certified as correct.<br><br><i>Financial Services will raise this matter with SMT so to ensure that all staff are reminded of the importance of providing accurate information for central reporting purposes.</i> | Financial Services Manager       | Ongoing    |
| R5 | Partnership Monitoring details are not always submitted to the Development and Support Team in a timely or complete manner. | Key officers responsible for monitoring significant partnerships should be reminded to complete the necessary information (bi-annually for significant partnerships, and annually for non significant partnerships including               | B | Numerous updates and reminders are issued to responsible officers by Development & Support. Timeliness will be included as part of the training programme.  | Development & Support Manager    | 01/06/2012 |

|    |   |  |   |   |                                   |             |
|----|---|--|---|---|-----------------------------------|-------------|
|    |   | supportive documentation when requested.).   |   |   |                                   |             |
| R6 | The Development and Support Team are in the process of moving the monitoring element of partnerships onto the Covalent Performance Monitoring System. | Prior to any possible Partnership Monitoring 'roll-out' of Covalent, tailored Covalent training course is provided and targeted at all relevant staff.   | B | All details are now monitored centrally by Development & Support on Covalent. The decentralisation of partnership, shared service and commissioned service monitoring will only occur when individual responsible partnership officers have been trained and are fully conversant with the required procedures. | Development & Support Manager     | 01/10/2012  |
| R7 | Central partnership monitoring information is incomplete with regard to the Carlisle Partnership.   | Legal and Financial Services contacts should be consulted and the exact relationship and responsibilities incurred between the Carlisle Partnership and the Carlisle Housing Partnership established. Once this is established, it should be identified if it would require a separate partnership agreement or adopt their own terms of reference under the umbrella of the main partnership. | B | Partnership Officer and the Director of Community Engagement to ensure this information is provided to Legal Services and Finance.  | Director of Community Engagement. | Immediately |

|  |  |  |   |  |  |  |
|--|--|--|---|--|--|--|
|  |  | <p>All evidence to support the Carlisle Partnership monitoring arrangements should be forwarded to Financial Services for central monitoring purposes.</p>   | B |  |  |  |
|  |  | <p>The risks identified by the Carlisle Housing Partnership should also be forwarded for inclusion in the central monitoring especially as there is Carlisle City Council involvement and therefore responsibility for risk.</p> | B |  |  |  |



## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council  
and Copeland Borough Council*

## **AUDIT REPORT**

### **Audit of the Capital Programme**

**Draft Report Issued: 1st February 2012**  
**Draft Report (2) Issued: 15th March 2012**  
**Final Report Issued: 30 March 2012**

## Section 1 – Management Summary

### 1 REASON FOR THE AUDIT

- 1.1. The audit of the Capital Programme was identified for review as part of the agreed Audit Plan for 2011/12.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient                     | Action Required                              |
|-------------------------------|--|
| Director of Resources         | Report to be noted.                          |
| Director of Local Environment | Action Required – please refer to Appendix A |
| Financial Services Manager    | Report to be noted                           |
| Chief Accountant              | Report to be noted                           |

### 3. BACKGROUND INFORMATION

- 3.1. Capital expenditure is for fixed assets that will benefit the Council for more than one year; the Capital Programme is the budgeted capital expenditure.
- 3.2. The Director of Resources reports to the Executive on the overall budget position, however, it is the responsibility of individual directors and budget holders in service areas to manage their budgets, informed by the Director of Resources.
- 3.3. The Capital Budget 2011/12 was revised from £9,724,500 to £6,627,700 between June and September 2011. The Capital Programme has been challenged by reductions in grant funding and the re-profiling of the budget for the old Town Hall, however, additional contributions later in the year have allowed the programme to include further budgeted expenditure for Disabled Facilities and Play areas.
- 3.4. This audit was undertaken to evaluate the systems in place for the management and reporting of the Capital Programme and to consider future resourcing requirements, particularly in connection with the Vehicle Replacement Programme and the alternative finance options which may be available for such assets.

### 4. SCOPE

- 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 detailed findings are shown in Section 2 of this report - Matters Arising:

## Section 1 – Management Summary

| Section | Area Examined   |
|---------|---|
| 1.      | Review of the Council’s Medium Term Financial Plan in relation to capital expenditure.                                      |
| 2.      | Confirmation that the overarching guidelines within the Capital Strategy are being followed.                                |
| 3.      | Review of the procedures in place for the reporting and monitoring of the capital budget.                                   |
| 4.      | Review of the role of the Project Assurance Group (PAG) and the reporting, monitoring and actions carried out by the group. |
| 5.      | Review of the current plans for vehicle replacement.  |

- 4.1. The scope and testing undertaken as part of this review reflects identified risks specific to the Capital Programme raised through the Council’s corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate’s Operational Risk Registers should be made. If risks are of a strategic nature, these would be considered by the Corporate Risk Management Group.

## 5. RECOMMENDATIONS

- 5.1. Each recommendation 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     | For consideration only - 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).*

- 5.2. There are 2 recommendations arising from this review :
- 1 grade B
  - 1 grade C

## Section 1 – Management Summary

### 6. STATEMENT OF ASSURANCE

- 6.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

- 6.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the Capital Programme provide **substantial** assurance.

### 7. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 7.1. The substantial assurance level provided by this audit has been influenced by a number of factors including the stability of processes / controls in operation, adherence to corporate procedures and the number of significant recommendations made.
- 7.2. The Capital Programme is subject to regular review by senior officers within the Council and Members are supplied with further information upon request regarding the use of capital resources.
- 7.3. Reduction in the funding available within the Capital Programme has impacted the funds available for the Vehicle Replacement Programme. Examination of the vehicle replacement programme in Local Environment Directorate found that appropriate measures have been taken which provided assurance that the continuing need for individual vehicles are being challenged and the resulting procurement activity following approved bids provided additional assurance that competitive prices are being achieved.
- 7.4. Two opportunities to further enhance controls have been identified and these are shown in Appendix A (Summary of Audit Recommendations and Action Plan). The key issues raised relate to: the following matters:
- Managers need to be mindful of the lead in time for replacement assets and the detailed procurement exercise which is required. A lengthy timescale is often attached to such an exercise and this should be accommodated and built into the Directorate's renewal schedule



## Section 1 – Management Summary

a full year before the asset is required. This is to allow for appropriate planning to take place and to ensure continuous service delivery is maintained during the replacement period.

- Local Environment Directorate is a key user of vehicles and plant and as such, was able to demonstrate robust and complete actions to date in terms of challenging future vehicle needs. There is, however, a shortfall in capital available for anticipated replacement vehicles within this directorate in future years and there does not appear to be a defined plan to address this. The Directorate needs to continue to robustly challenge / monitor requirements to determine how the anticipated Vehicle Replacement Programme within Local Environment will be funded in future years.

## APPENDIX A to the Capital Programme Report

### SUMMARY OF RECOMMENDATIONS & ACTION PLAN

#### Audit of Capital Programme and Resources

| REF | ISSUE RAISED   | RECOMMENDATION  | GRADE | AGREED ACTION  | RESPONSIBLE OFFICER   | DATE ACTIONED BY |
|-----|--|---|-------|--|---|------------------|
| R1  | The lead in time for replacement assets and the extent of the procurement process required needs to be factored into service planning. | The required lead in timescales need to be built into the directorate's renewal schedule a full year before the asset is required, so continuous service delivery is maintained | B     | <p>Recommendation Agreed – process will be started in year prior to required asset replacement</p> <p><i>Once the Vehicle Replacement Programme is prepared and is approved by Council, the Procurement Team will remind service managers of the lead in time and give details of the procurement process, so that they have sufficient time to consider service requirements etc.</i></p> | <p>Director of Local Environment</p> <p><i>supported by</i></p> <p><i>Director of Resources</i></p> | Ongoing          |
| R2  | The Vehicle Replacement Programme will cause a shortfall in capital in future years.   | Continue to robustly challenge / monitor requirements to determine how the anticipated Vehicle Replacement Programme within Local Environment will be funded in future years.   | C     | Recommendation Agreed  | Director of Local Environment   | Ongoing          |



## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council  
and Copeland Borough Council*

### **FINAL REPORT**

#### **Audit of Main Accounting System**

**2011-12**

**Draft Report Issued: 29<sup>th</sup> March 2012**

**Final Report Issued: 29<sup>th</sup> March 2012**

## Part 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of the Main Accounting System and Budgetary Control 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 Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Internal Audit Services, as part of their work on the annual statement of accounts.
- 1.2. As part of a new joint-working initiative aiming to save time spent with client officers, Internal Audit accompanied the Audit Commission auditor during their initial walk-through test of the system and findings are included and in areas have been expanded upon in this report.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient  | Action Required        |
|--|------------------------|
| Peter Mason<br>Director of Resources               | Please note the report |
| Alison Taylor<br>Financial Services Manager        | Please note the report |
| Steven Tickner<br>Chief Accountant                 | Please note the report |
| Malcolm Mark<br>Development and Support<br>Manager | Please note the report |
| Mary Palm<br>Principal Finance/Systems Officer     | Please note the report |

### 3. BACKGROUND INFORMATION

- 3.1. The Civica Financials accountancy package, which was implemented in April 2004, incorporates the Main Accounting System and 3 subsidiary systems - Debtors, Creditors and Purchasing. ICON Bank Reconciliation and Cash Receipting are also fundamental to the Main Accounting System and processes. The Main Accounting System is vital in the production of timely financial management information and the production of the annual financial statements.
- 3.2. The provision of this service is maintained and managed by Financial Services, which is part of the Resources Directorate.
  - The Accountancy Services team ensure that all financial information entered into the Main Accounting System on a daily basis is exact and available at year-end in order to produce the annual accounts.
  - The Systems and Controls team ensure the system administration and controls are in place so that the Main Accounting System is able to produce the information required in the accounting format defined by Service Reporting Code of Practice.

## Part 1 – Management Summary

3.3. It should be appreciated that in addition to the normal day to day operations of both these teams, there has been a large amount of finance related work attributable to the transformation process, the International Financial Reporting Standards (IFRS) requirements and also the newly introduced Transparency Agenda imposed by Central Government which involves the publication of key expenditure data including:-

- Items of spending above £500;
- Contracts and tender documents in full;
- The job titles of every member of staff;
- The salaries and expenses of staff paid more than £58,200;
- Structure charts;
- Meeting minutes;
- Councillor allowances and expenses;
- Local service and performance data.

### 4. SCOPE

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 arising from this review are summarised in Section 8 below. Detailed findings are shown within Section 9 – Matters Arising. The areas which have been examined as part of this review are:

| Section | Area Examined                 |
|---------|-------------------------------|
| 1.      | Policies and Procedures.      |
| 2.      | Budgetary Control             |
| 3.      | Coding Structure              |
| 4.      | Feeder Systems                |
| 5.      | Journals & Internal Transfers |
| 6.      | Suspense & Holding Accounts   |
| 7.      | Bank Reconciliation           |
| 8.      | Security of Data              |

4.2. The scope and testing undertaken as part of this review reflects the inherent risks specific to the main accounting system and those which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.

4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate's Operational Risk Registers should be made. If risks are of a strategic nature, these will be reviewed by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

5.1. The Main Accounting system was most recently internally audited in May 2011. A follow-up schedule of the agreed audit actions arising from the 2010-11 audit review was completed by the Financial Services Manager and this is attached as Appendix A. All 3 actions have been implemented.

## 6. RECOMMENDATIONS

- 6.1. There are no recommendations arising from this review :

## 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

- 7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the system for managing the Main Accounting system provide **SUBSTANTIAL** assurance.

## 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 8.1. The **substantial** assurance level provided by this audit has been influenced by a number of factors: including stability of systems audited, adherence to procedures and that no recommendations have been made.



# **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

## **FINAL REPORT**

### **Audit of Treasury Management**

**Draft Report Issued: 29<sup>th</sup> March 2012**  
**Final Report Issued: 30<sup>th</sup> March 2012**

## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1 The audit of Treasury Management forms part of the annual programme of material reviews, which focus on the fundamental systems of the Council. These systems have a high impact on the Main Accounting System and therefore on the Final Accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services as part of their work on the Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient                               | Action Required     |
|---|---------------------|
| Director of Resources                   | Report to be noted. |
| Financial Services Manager<br>Resources | Report to be noted. |
| Chief Accountant<br>Resources           | Report to be noted. |
| Group Accountant<br>Resources           | Report to be noted. |

### 3. BACKGROUND INFORMATION

- 3.1. Treasury Management is undertaken within the Resources Directorate by Financial Services.
- 3.2. The main aspects of the Treasury Management Function are:
- Accounting, budgeting and reporting;
  - Borrowing and lending; and
  - Cash flow forecasting.
- 3.3. The Council has adopted the CIPFA Code of Practice for Treasury Management and implemented the key recommendations on developing Treasury Management Practices (TMP's).
- 3.4. Council documents relating to Treasury Management include:
- Treasury Management Policy Statement;
  - Treasury Management Strategy Statement;
  - Annual Investment Strategy;
  - Minimum Revenue Provision Policy Statement;
  - Annual Treasury Review Report;
  - Treasury Management monitoring reports (half yearly and quarterly);
  - Annual accounts and financial instruments disclosure notes;
  - Annual budget;
  - 5 Year Capital Plan;
  - Medium Term Financial Plan; and
  - Relevant minutes of Council, Executive, Scrutiny Panel and Audit Committee meetings.



## Section 1 – Management Summary

3.5. External service providers used by the Council include:

- Sector, a treasury advisor service, to provide expert advice on:
  - Interest rate forecasts;
  - The annual treasury management strategy;
  - The timing for borrowing and lending;
  - Debt rescheduling; and
  - Use of various borrowing and investment instruments and how to select credit worthy counterparties for inclusion on the Councils approved lending list. The approved lending list is used to monitor current investments and where to place any new investments.
- Three money-brokering services, for temporary borrowing and investment and long term borrowing. The Council's policy is to provide an even spread of business amongst these approved brokers.

3.6. Cash flow forecasting was improved during 2010/11 and was noted by the Audit Commission in their Annual Governance Report 2010/11 stating "Improved cash flow forecasting during 2010/11 has meant significant reduction in short term borrowing in the second half of 2010/11. This addresses the weakness in the Council's arrangements" and the effects have continued in 2011/12.

## 4. SCOPE

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 detailed findings are shown in Section 2 of this report - Matters Arising:

| Section | Area Examined             |
|---------|---------------------------|
| 1.      | Policies & Procedures     |
| 2.      | Risk Management           |
| 3.      | Cash-Flow                 |
| 4.      | Lending                   |
| 5.      | Borrowing                 |
| 6.      | Capital Investment        |
| 7.      | Payments                  |
| 8.      | Fraud Prevention          |
| 9.      | Records & Reconciliations |
| 10.     | Monitoring & Reporting    |

4.2. The scope and testing undertaken as part of this review reflects identified risks specific to Treasury Management which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.

## Section 1 – Management Summary

- 4.2. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate's Operational Risk Registers should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Treasury Management was previously carried out in 2010/11. Appendix A lists the recommendations made and the actions agreed to be taken.
- 5.2. It is concluded that all agreed actions have been satisfactorily implemented.

### 6. RECOMMENDATIONS

- 6.1. Each recommendation 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     | For consideration only - 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 no recommendations arising from this review:

### 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.               |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk. |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.      |

## Section 1 – Management Summary

|      |   |
|------|---|
| 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. |
|------|---|

- 7.2. The assurance level given to an audit area can be influenced by a number of factors: including stability of systems, number of significant recommendations made impact of not applying audit recommendations, non adherence to procedures etc.
- 7.3. From the areas examined and tested as part of this audit review, we consider the current controls operating within Treasury Management provide a **SUBSTANTIAL** level of assurance.

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 8.1. This audit of Treasury Management has been undertaken at a high level and has focussed upon enquiries to agreed procedures and policies and general compliance testing. Testing on treasury management transactions for borrowing and lending is limited to walk through testing.
- 8.2. From the areas examined there are no specific matters arising on which to report and as such this has led to a substantial assurance rating with no recommendations arising from this review.



## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council  
and Copeland Borough Council*

### **AUDIT REPORT**

#### **Audit of Fixed Assets**

**Draft Report Issued: 30th March 2012**

**Final Report Issued: 30th March 2012**

## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.2 The audit of Fixed Assets forms part of the annual programme of material audit reviews. These audits focus on the fundamental systems of the Authority and thus have a high impact on the Main Accounting System and therefore on the Authority's accounts.
- 1.3 The Audit Commission place reliance on the material reviews undertaken by Audit Services as part of their work on the Final Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient                               | Action Required   |
|---|---|
| Director of Resources                   | Report to be noted.   |
| Director of Governance                  | Report to be noted.   |
| Financial Services Manager<br>Resources | Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan. |
| Legal Services Manager<br>Governance    | Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan. |
| Property Services Manager<br>Resources  | Report to be noted.   |
| Chief Accountant<br>Resources           | Report to be noted.   |
| Group Accountant<br>Resources           | Report to be noted.   |

### 3. BACKGROUND INFORMATION

- 3.1. International Financial Reporting Standards (IFRS) was introduced from 2010/11. The 2011 Practitioner's Guidance notes, which are supplementary to the Code of Practice on Local Government Accounting (the Code), were received at the end of December 2011.
- 3.2. The Net Book Value (NBV) of all Property, Plant and Equipment at 31 March 2011 was £54.5m.
- 3.3. The main implication for 2011/12 will be the requirement to recognise all of the Council's Heritage Assets on the balance sheet. This will include items such as art collections, museum exhibits and civic regalia. Work will continue to assess the guidance notes and a further report is expected to the Committee in April 2012 with further details.
- 3.4. The Audit Commission has identified the successful adoption of IFRS 30 – Heritage Assets as a potential area of risk for the 2011/12 Financial Statements due to the volume of assets and artefacts and the complexity of the valuations.

## Section 1 – Management Summary

- 3.5. Another risk factor concerns the valuation of investment properties to ensure these reflect the market conditions at the balance sheet date. The value of the Council's investment properties is around £102 million but a number of assets, with a value of over £81 million, have not been re-valued since 31 March 2009. There is a risk the valuation reported in the Financial Statements will be materially misstated due to changing market conditions.
- 3.6. As valuations are not undertaken until year end, and any movements and charges are not applied and reflected in the Fixed Asset Register until after the Capital Outturn report (scheduled for mid May), this has severely restricted the scope. The areas reviewed are listed at 4.1. For the areas under examination, the associated risks are:
- *The Council has not established a capital accounting policy based on recognised CIPFA approved principles dealing with the main issues of capital charges, valuations and depreciation.*
  - *Financial systems do not comply with the Council's Financial Procedure Rules, policies and procedures in respect of the management and accounting of fixed assets leading to financial information that is not consistent, cannot be relied upon and does not comply with best practice.*
  - *The Authority can not wholly demonstrate ownership of land and property assets.*
  - *Assets are not procured or disposed of in accordance with laid down procedure.*
  - *Inappropriate costs may be capitalised or allocated to revenue.*

### 4. SCOPE

- 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 detailed findings are shown in Section 2 - Matters Arising:

| Section | Area Examined                               |
|---------|---|
| 1.      | Policies and Procedures                     |
| 2.      | Existence and Ownership of Land & Buildings |
| 3.      | Acquisitions and Disposals                  |

- 4.2. The scope and testing undertaken as part of this review reflects specifically identified risks in relation to the management of Fixed Assets. Reference is also made to risks which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the Director of Resources and necessary updates to Directorate's Operational Risk Registers should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Fixed Assets was previously carried out in 2010/11, the final report of which was issued in June 2011 and contained two audit recommendations.

## Section 1 – Management Summary

- 5.2. Appendix A lists the recommendations arising from this last review, along with the actions which have been taken to address these.
- 5.3. It is concluded that *sufficient* action will be taken to effectively implement all previous audit recommendations made when possible in terms of staffing resource and as part of year end procedure.
- 5.4. Further action is required and will be taken when possible to do so as stated in Appendix A.

### 6. RECOMMENDATIONS

- 6.1. Each recommendation 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     | For consideration only - 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 1 grade B recommendation arising from this review.

### 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

## Section 1 – Management Summary

- 7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the administration of Fixed Assets provide **REASONABLE** assurance.

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 8.1. From the areas which have been examined, the **reasonable** assurance level provided has been influenced by a number of factors: including stability of systems audited, and non adherence to procedures. It is appreciated that whilst there is only one recommendation arising from this audit review, this relates to an ongoing matter which requires further address.
- 8.2. This audit review has not examined Fixed Assets in its entirety due to the availability of information at the time of the audit. As such, audit work has not examined the 2011/12 adjustments to the Fixed Asset Register and Main Accounting System in respect of fixed asset movements (e.g. acquisitions, disposals, valuations etc) and other charges (e.g. depreciation) which need to be applied. This is because these adjustments are not accounted for until after year end.
- 8.3. Matters concerning land ownership, which were originally raised as part of the audit of the 2010/11 Final Accounts, are still to be fully addressed. Additional audit testing of this area has highlighted further issues for review.
- 8.4. The testing undertaken on acquisitions and disposals was restricted to the initial parts of the process (i.e. authorisation, reporting and the collation of working papers to support the pending entries / adjustments). No key issues were arising from this work.



**RESOURCES DIRECTORATE**

**Audit of Fixed Assets**

| REF | ISSUE RAISED   | RECOMMENDATION  | GRADE | AGREED ACTION  | RESPONSIBLE OFFICER                               | DATE ACTIONED BY |
|-----|--|---|-------|--|---|------------------|
| R1  | <i>The matters concerning land ownership, which were originally raised as part of the audit of the 2010/11 final accounts, have not been fully addressed as there remains outstanding ownership issues. Further audit testing of this area has also highlighted other issues for address</i> | That the remaining 3 assets (per para. 9.2.1.) where no land registry title numbers exist are resolved.<br><br>Details of missing land registry title numbers for the additional sample tested should also be resolved. | B     | Where appropriate, land registry records will be updated and title numbers obtained for the assets reviewed during the audit | Financial Services Manager/Legal Services Manager | July 2012        |



# **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council  
and Copeland Borough Council*

## **FINAL REPORT**

### **Audit of Council Tax**

**2011-12**

**Draft Report Issued: 19<sup>th</sup> March 2012**

**Final Report Issued: 30<sup>th</sup> March 2012**

## 1. REASON FOR THE AUDIT

- 1.1. The audit of Council Tax forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting System (MAS) 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. As part of a new joint-working initiative aiming to save time spent with client officers, Internal Audit accompanied the Audit Commission auditor during their initial walk-through test of the system and findings are included or expanded upon in this report.

## 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient   | Action Required   |
|---|---|
| Mike Toner, Revenues Manager  | Action required. Please refer to Appendix A - Summary of Recommendations / Action Plan. |
| Keith Gerrard, Director of Community Engagement                               | For information   |
| Reg Bascombe, Revenues and Benefits Partnership Manager                       | For information   |
| Alison Taylor, Financial Services Manager<br>Steven Tickner, Chief Accountant | Action required. Please refer to Appendix A - Summary of Recommendations / Action Plan. |
| Peter Mason, Director of Resources  | For information   |

## 3. BACKGROUND INFORMATION

- 3.1. There were no risks identified relating to Council Tax in operational risk registers in June 2011. However, the inherent risks associated with Council Tax are:
- Failure to recover monies due leading to a reduction in cash flow
  - Criticism over poor performance.
- 3.2. Carlisle City is a collecting authority for Council Tax, the amount of which is established by Cumbria County Council, Carlisle City Council, the Police Authority and the Parish Councils who each work out the cost of providing their services each year.
- 3.3. In 2011/12, Cumbria County Council set the largest part of the Bill at 75%, Carlisle City Council set 12.5% of the Bill and Cumbria Police setting 12.5% of the Bill. Parishes set their individual precepts on top of the basic Council Tax Bill.

## 4. SCOPE

- 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 are summarised in Section 8 and detailed findings are shown in Section 9 of this report – Matters Arising:

| Section | Area Examined                 |
|---------|-------------------------------|
| 1.      | Follow up of previous review. |
| 2.      | Valuation.                    |
| 3.      | Liability.                    |
| 4.      | Billing.                      |
| 5.      | Recovery & Enforcement.       |
| 6.      | Collections & Refunds.        |

- 4.2. The scope and testing undertaken as part of this review reflects identified risks specific to Council Tax which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to operational risk registers should be made. If risks are of a strategic nature, these will be reviewed by the Corporate Risk Management Group.

## 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. A follow-up schedule of the agreed audit actions arising from the 2010-11 audit review was completed by and discussed with the Revenues Manager. This is attached as Appendix A. 3 of the 5 actions have been implemented and the remaining 2 are incomplete and, as such, have been re-included in the recommendations of this report.

## 6. RECOMMENDATIONS

- 6.1. Each recommendation 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     | For consideration only - 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).*

## Part 1 – Management Summary

6.2. There are 5 recommendations arising from this review :

- 1 at grade A
- 1 at grade B
- 2 at grade C
- 1 at grade D

## 7. STATEMENT OF ASSURANCE

7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the system for managing Council Tax provide **REASONABLE** assurance.

## 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

8.1. The reasonable assurance level provided by this audit has been influenced by a number of factors: including stability of systems audited, adherence to procedures and the recommendations made.

8.2. Opportunities to further enhance controls have been identified and these are shown in Appendix A – Summary of Audit Recommendations and Action Plan.

8.3. The key issue arising from this review is:

The write-off process is not as robust as one would expect and several recommendations have been made to strengthen the different elements relating to this process.

**AUDIT OF COUNCIL TAX**  
**FOLLOW UP SCHEDULE OF AGREED AUDIT ACTIONS**

| Ref | Issue Raised   | Agreed Audit Action to be Implemented  | Target Date | Details of action taken (including actual date) to implement this Agreed Audit Action  | Has recommendation been fully implemented? – <i>include any matters outstanding / concerns arising</i> |
|-----|--|--|-------------|--|--|
| A.1 | There have been instances where liability has not been established correctly.                      | A pro-forma should be developed for all initial registration for Council Tax that sets out the criteria for liability in accordance with Section 6(2) of the Local Government Finance Act 1992. These should be completed at the initial point of contact. Grade C | June 2011   | Pro-forma has been developed. Now in use since 17/11/2011 by customer services, who complete the details, then it is passed to back office for processing via an interface.  | Yes  |
| A.2 | Discount/exemption statistics are collated and available but are not used for management purposes. | Management should consider using the discount/exemption statistics to concentrate available resources as part of the rolling review. Grade D   | June 2011   | Exemption class C cases (vacant properties) are being reviewed by revenues inspectors, using data supplied by performance team. Single person discounts will be reviewed using data from the NFI exercise, which provides a list of mismatches between council tax and electoral roll records. | Yes – NFI mismatches should be available in Feb 2012.  |
| A.3 | The suppressions spot check exercise has been deferred due to other work pressures.                | That a monthly spot check of suppressions is reinstated as soon as possible. Grade B   | June 2011   | Recovery suppressions are now being monitored by the Senior Revenues Officer on a monthly basis.   | Yes  |

|     |   |   |           |  |  |
|-----|---|---|-----------|--|--|
| A.4 | There are outstanding items in the Council Tax suspense account dating back from 2007/08. | The outstanding transactions should be cleared from the suspense accounts as soon as possible. It is recommended that the account should be cleared to zero annually. Grade C | June 2011 | Performance Team (Neil Gillespie) have been asked to clear down old items out of the suspense account. | No – awaiting clearance by Performance Team  |
| A5  | All staff has access to action transfers and access is not restricted or monitored.       | Transfers of balances between accounts should be monitored. Reports should be run regularly and spot checks implemented. Grade C  | June 2011 | Guidance sought from Performance Team to obtain listing of cases for examination.                      | No – list needs to be obtained from Performance Team before examination can start. |

## SUMMARY OF RECOMMENDATIONS &amp; ACTION PLAN

## COMMUNITY ENGAGEMENT DIRECTORATE

## AUDIT OF COUNCIL TAX 2011/12

| REF | ISSUE RAISED  | RECOMMENDATION   | GRADE | AGREED ACTION   | RESPONSIBLE OFFICER  | DATE ACTIONED BY   |
|-----|---|--|-------|---|--|--|
| R1  | <p>The write-off process is not robust:</p> <ul style="list-style-type: none"> <li>Cases forwarded to the Director of Resources to be authorised for write off are entered onto the Council Tax system prior to the authorisation being received from the Director of Resources.</li> <li>Written off amounts are not verified as having been balanced to the Council Tax system.</li> <li>An amount could be written off on the system that has not been through the approval</li> </ul> | <p>Debts can, for operational reasons, be written-off in the Council Tax system prior to formal approval by the Director of Resources on the basis that:</p> <ul style="list-style-type: none"> <li>The actions taken are within the Council's Financial Procedure Rules.</li> <li>The quarterly list of suggested write-off cases should be balanced to the council tax system</li> <li>The extracted report is saved to the appropriate folder.</li> <li>Debts written off up to 31<sup>st</sup> March are formally approved by the</li> </ul> | A     | <ul style="list-style-type: none"> <li>The quarterly list of suggested write-off cases should be balanced to the council tax system</li> <li>The extracted report is saved to the appropriate folder.</li> <li>Debts written off up to 31<sup>st</sup> March are formally approved by the Director of Resources as part of the year end process.</li> </ul> | <p>Revenues team leader</p> <p>Revenues team leader</p> <p>Director of Resources</p> | <p>30 June 2012</p> <p>30 June 2012</p> <p>31 March 2013</p> |



|    |   |   |   |   |  |               |
|----|---|---|---|---|--|---------------|
| R2 | <p>process.</p> <p>Accounting for debt not in the year in which actions are taken, without accruals, is incorrect.</p>  | <p>Director of Resources as part of the year end process.</p> <p>Council Tax procedure notes for the Write Off process should be updated to reflect revised practices.</p>  | B | <p>Council Tax procedure notes for the Write Off process should be updated to reflect revised practices.</p>  | Revenues Team leader   | 30 June 2012  |
| R3 | <p>The ability to recover debts in the time taken from suggesting write-off to approval is lost.</p> <ul style="list-style-type: none"> <li>An amount could be written off on the system that has not been through the approval process.</li> </ul> | <p>The procedure surrounding the production of the write off list should be examined with the possibility of producing this directly from the Council Tax system as oppose to a separately maintained spreadsheet – this would reduce the risk of non reporting of items for write off.</p> | D | <p>The procedure surrounding the production of the write off list should be examined with the possibility of producing this directly from the Council Tax system as oppose to a separately maintained spreadsheet – this would reduce the risk of non reporting of items for write off.</p> | Revenues team leader   | 30 June 2012  |
| R4 | <p>There are outstanding items in the Council Tax suspense account dating back from 2007/08.</p>  | <p>The outstanding transactions should be cleared from the suspense accounts as soon as possible. It is recommended that the account should be cleared to zero annually.</p>  | C | <p>The outstanding transactions should be cleared from the suspense accounts as soon as possible.</p>   | Neil Gillespie – Performance Team                                      | 30 April 2012 |
| R5 | <p>All staff has access to action transfers and access is not restricted or monitored.</p>  | <p>Transfers of balances between accounts should be monitored. Reports should be run regularly and spot checks implemented.</p>   | C | <p>Transfers of balances between accounts should be monitored. Reports should be run regularly and spot checks implemented.</p>   | Neil Gillespie – Performance Team –spot checks by revenues Team leader | 31 May 2012   |



# **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council  
and Copeland Borough Council*

## **FINAL REPORT**

### **Audit of Debtors**

**Draft Report Issued: 9<sup>th</sup> February 2012**

**Final Report Issued: 30<sup>TH</sup> March 2012**

## Part 1 - Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of Sundry Debtors forms part of the annual programme of material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting 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 Statement of Accounts.
- 1.2. As part of a new joint-working initiative aiming to save time spent with client officers, Internal Audit utilised the Audit Commission auditor's initial walk-through test of the system and findings are included or expanded in this report.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient                                      | Action Required   |
|--|---|
| Peter Mason<br>Director of Resources           | Please note the report  |
| Alison Taylor<br>Financial Services Manager    | Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan. |
| Mary Palm<br>Principal Finance/Systems Officer | Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan. |

### 3. BACKGROUND INFORMATION

- 3.1.1 The Debtors Section was previously located with the Revenues Section. The function was excluded from the Revenues and Benefits Shared Service arrangements which are now in place between Carlisle, Allerdale and Copeland. Note that this has led to certain recommendations remaining outstanding from previous years due to the re-organisation of the staff structure.
- 3.1.2 The Debtors Section is now located within the Resources Directorate and the Director of Resources is responsible for the service. The function forms part of the Service Support Team. Two staff (job share) are involved in the day to day processing / operational tasks (1FTE).

### 4. SCOPE

- 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 detailed findings are shown in Section 2 of this report - Matters Arising.
- 4.2. For material reviews, previous audit recommendations are followed up as part of the next audit review. The 2010/11 audit review provided a "reasonable" assurance rating and there were 8 recommendations from this review - 5 grade B's, 2 grade C's and 1 grade D.
- 4.3. Risks identified by Internal Audit from the Council's Financial Services Risk Register in June 2011 were:

## Part 1 - Management Summary

### Recovery of Income from Council Debtors

There is a risk that debtor invoices are not raised in a timely and accurate manner and that the debts to the Council are not recovered.

### Current Action Status / Control Strategy

The impact is judged to be marginal and the likelihood remote as:

- There are experienced staff within the section,
- There is a debtor ledger manual in place to aid training to relevant staff, and
- Monthly reports are issued to budget holders on all outstanding debts.

4.4. Where applicable, other emerging risks have also been included in the scope and testing undertaken.

4.5. The audit concentrated on the 8 key areas as outlined by the CIPFA control matrices.

| Section | Area Examined            |
|---------|--------------------------|
| 1.      | Debtors General          |
| 2.      | Raising Invoices         |
| 3.      | Amendments to Invoices   |
| 4.      | Payments                 |
| 5.      | Debt Recovery            |
| 6.      | Write Offs               |
| 7.      | Reconciliations          |
| 8.      | Monitoring and Reporting |
| 9.      | Security of Data         |

4.6. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate's Operational Risk Registers should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

## 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

5.1. An audit of Sundry Debtors was previously carried out in May 2011. Appendix A lists the recommendations made and the actions which have been taken to address these.

5.2. It is concluded that insufficient action has been taken to effectively implement all previous audit recommendations made.

5.3. Further action is required.

## 6. RECOMMENDATIONS

- 6.1. Each recommendation 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     | For consideration only - 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 3 recommendations arising from this review :
- 2 at grade B
  - 1 at grade C

## 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

- 7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Debtors provide **REASONABLE** assurance.

**8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW**

The **reasonable** assurance level provided by this audit has been influenced by a number of factors: including stability of systems audited, non adherence to procedures and the recommendations made.

A number of opportunities to further enhance controls have been identified and these are shown in Appendix B – Summary of Audit Recommendations and Action Plan.

Overall it is clear that the Debtor's function is administered well, but this could be further enhanced with greater co-operation from all directorates.

It is disappointing to note, however, that insufficient action has been taken to address three of the audit recommendations arising from previous audit review. It is clear that the issues raised have not been acted upon as one would have expected within the timeframe allowed. As such, the key issues arising from this review are very much the same as the previous review. These matters relate to the prompt raising of invoices as soon as practically possible after the date of supply and the sharing of knowledge to budget holders regarding bad debtors.

**Audit of Debtors 2010/11  
PREVIOUS RECOMMENDATIONS & ACTION PLAN**

|            | <b>Issue Raised</b>   | <b>Agreed Audit Action to be Implemented</b>  | <b>Target Date</b>                 | <b>Details of action taken (including actual date) to implement this Agreed Audit Action</b>  | <b>Has recommendation been fully implemented? – include any matters outstanding / concerns arising</b> |
|------------|---|---|------------------------------------|---|--|
| <b>A.1</b> | The Constitution states two conflicting write off authorisation levels.   | Review the apparent inconsistency in the Constitution and request the necessary amendments to correct conflicting rules regarding the authorisations levels for write off procedures (and if necessary the Debtor Procedure documents be updated to reflect such changes<br>GRADE B   | 31 <sup>st</sup><br>August<br>2011 | Report RD59/11 refers – this was considered by the Audit Committee on 31 <sup>st</sup> October 2011 and approved by Council on 8 <sup>th</sup> November 2011. | Yes  |
| <b>A.2</b> | The Debtors User List has not been recently updated and is currently only reviewed annually<br>The Principal Finance/Systems Officer & Debtors Section are not being notified of all amendments relating to names changes and leavers with regards to the Debtors Authorised User List. | Service Managers from all directorates should ensure that a memorandum or e-mail is sent to the Principal Finance/Systems Officer to notify then of all amendments to records relating to staff name changes and leavers.<br><br>Also, the Employee Leaving Checklist section for ‘Actions to be undertaken by Personnel’ (within the Service Support) is to be amended to more accurately reflect removal of system access for leavers.<br>GRADE C | 30 <sup>th</sup> June<br>2011      | Reminders have been sent as part of this years review.<br><br>Action has been taken.  | Yes<br><br>Yes   |
|            |   |   |                                    |   |  |

|     |   |  |                |  |     |
|-----|---|--|----------------|--|-----|
| A.3 | The actual date of supply or commencement of work is not stated on data entry of the invoice.   | In order to enforce recovery it is essential that the correct date is stated on the invoice. All directorates should be reminded that, wherever possible, they should state the <i>actual</i> date of supply or commencement of work.<br>GRADE C | 30th June 2011 | Email issued to all staff in November 2011.            | No  |
| A.4 | Debtor procedures require that invoices should be raised within 14 days following supply. This helps to ensure prompt recovery of the debt. This is not wholly adhered to – 6 out of 20 invoices samples were raised more than 14days after supply. | All Directorates should be reminded of the importance of the prompt raising of debtor accounts and that they <b>must</b> ensure that invoices are always raised within 14 days of supply.<br>GRADE B   | 30th June 2011 | Email issued to all staff in November 2011.            | No  |
| A.5 | The authorised signatory list is only updated annually.   | Directorates should ensure that any changes to the establishment should be circulated to all relevant staff / system administrators on a regular basis to ensure authorised signatories are kept up to date.<br>GRADE B                          | 30th June 2011 | Reminders have been sent as part of this years review. | Yes |
| A.6 | Cancellation notes are incorrectly authorised.  | If not on the authorised signatory list, signatures authorising cancellation notices should be queried prior to processing the cancellation.<br>GRADE B  | 30th June 2011 | Signatures are reviewed and queried when required.     | Yes |



|     |  |  |                                     |  |     |
|-----|--|--|-------------------------------------|--|-----|
| A.7 | Cancellation notes used to effectively write off debt.   | Cancellation notes should not be used to write off debt, but only to correct inaccuracies.<br>GRADE C  | 30th<br>June<br>2011                | Cancellation notes are not be used to write off debt, but only to correct inaccuracies | Yes |
| A.8 | No specific monitoring exists to ensure that persistent bad debtors are prevented from obtaining further credit from the Council | Debtors Section should be provided with technical assistance and support from Resources (Finance) to help inform / provide guidance on actions to review aged debt analysis and identify / take action on persistent bad debtors.<br>GRADE B | 31 <sup>st</sup><br>October<br>2011 | Insufficient action has been taken   | No  |

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

RESOURCES DIRECTORATE

Audit of Debtors

| REF | ISSUE RAISED  | RECOMMENDATION  | GRADE | AGREED ACTION  | RESPONSIBLE OFFICER        | DATE ACTIONED BY |
|-----|---|---|-------|--|----------------------------|------------------|
| R1  | The actual date of supply or commencement of work is not stated on data entry of the invoice.   | In order to enforce recovery it is essential that the correct date is stated on the invoice. All directorates should be reminded that, wherever possible, they should state the <i>actual</i> date of supply or commencement of work. | C     | Forms part of the annual budgetary control training and a further reminder was emailed to all staff in November 2011 | Financial Services Manager | On-going         |
| R2  | Debtor procedures require that invoices should be raised within 14 days following supply. This helps to ensure prompt recovery of the debt. This is not wholly adhered to – 6 out of 20 invoices samples were raised more than 14days after supply. | All Directorates should be reminded of the importance of the prompt raising of debtor accounts and that they <b>must</b> ensure that invoices are always raised within 14 days of supply.   | B     | Forms part of the annual budgetary control training and a further reminder was emailed to all staff in November 2011 | Financial Services Manager | On-going         |
| R3  | No specific monitoring exists to ensure that persistent bad debtors   | Debtors Section should be provided with technical assistance and  | B     | Assistance will be   | Financial                  | June 2012        |

|  |  |  |  |  |   |  |
|--|--|--|--|--|---|--|
|  | are prevented from obtaining further credit from the Council | support from Resources (Finance) to help inform / provide guidance on actions to review aged debt analysis and identify / take action on persistent bad debtors. |  | provided to clarify procedures for persistent bad debts but the provision and charging of services will need to be reviewed on an individual basis | Services Manager (in conjunction with Legal Services) |  |
|--|--|--|--|--|---|--|



# **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

## **FINAL REPORT**

**Audit of Cash Collection & Income Management**

**Draft Report Issued: 20<sup>th</sup> March 2012**

**Final Report Issued: 30<sup>th</sup> March 2012**

## Section 1 – Management Summary

### 1 REASON FOR THE AUDIT

- 1.1. The audit of Cash Collection & Income Management forms part of the annual programme of material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting 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 Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The audit report has been distributed to the following officers.

| Recipient                         | Action Required   |
|-----------------------------------|---|
| Director of Community Engagement  | Report to be noted.   |
| Director of Resources             | Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan. |
| Customer Services Manager         | Report to be noted.   |
| Customer Services Supervisor      | Report to be noted.   |
| Financial Services Manager        | Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan. |
| Principal Finance/Systems Officer | Report to be noted.   |

### 3. BACKGROUND INFORMATION

- 3.1. The ICON corporate cash receipting system is used to record all income received by the Authority. Cash Collection and Income Management duties are split between front and back office functions. The cashiers in the Customer Contact Centre primarily deal with the receipt of income on a face to face basis. The Support Services and Development Support Teams deal with income collected from postal remittances, telephone and internet payments.
- 3.2. Elements of this review were undertaken alongside the Audit Commission, in an attempt to reduce duplication of work. This involved the completion of joint walkthrough testing being undertaken with the help and assistance of the Principal Finance/Systems Officer.

### 4. SCOPE

- 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 detailed findings are shown in Section 2 of this report - Matters Arising:

| Section | Area Examined         |
|---------|-----------------------|
| 1.      | Policies & Procedures |
| 2.      | System/User Access    |
| 3.      | Transactions          |
| 4.      | Postal Remittance     |

## Section 1 – Management Summary

|    |                       |
|----|-----------------------|
| 5. | Income Reconciliation |
| 6. | Security & Banking    |
| 7. | Security of Data      |

- 4.2. The scope and testing undertaken as part of this review reflects identified risks specific to Cash Collection & Income Management which have been raised through the Authority’s corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate’s Operational Risk Registers should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Cash Collection & Income Management was previously carried out for 2010/11. Appendix A lists the recommendations made and the actions agreed to be taken.
- 5.2. The previous audit report contained 8 recommendations of which there were 7 agreed actions for implementation. It was concluded that 6 of the 7 agreed actions have been satisfactorily implemented. The outstanding recommendation (grade C) has been incorporated into the 2011-12 Summary of Recommendations/Action Plan attached as Appendix B.

### 6. RECOMMENDATIONS

- 6.1. Each recommendation 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     | For consideration only - 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 4 recommendations arising from this review:
- 4 at grade C

## Section 1 – Management Summary

### 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

| Level       | Evaluation  |
|-------------|---|
| Substantial | Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.   |
| Reasonable  | Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.   |
| Restricted  | Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.  |
| 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. |

- 7.2. The assurance level given to an audit area can be influenced by a number of factors: including stability of systems, number of significant recommendations made impact of not applying audit recommendations, non adherence to procedures etc.
- 7.3. From the areas examined and tested as part of this audit review, we consider the current controls operating within Cash Collection and Income Management provide a **SUBSTANTIAL** level of assurance.
- 7.4. Only minor areas have been identified where improvement could be made to strengthen controls and this is detailed in Section 2 – Matters Arising. The Summary of Recommendations/Action Plan is attached as Appendix B.

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

Good controls were found to be in place and these were operating as intended.

The review identified only minor areas in which to improve system control. Recommendations relating to these areas are shown in Appendix B – Summary of Audit Recommendations and Action Plan.

COMMUNITY ENGAGEMENT & RESOURCES DIRECTORATES

AUDIT FOLLOW UP OF CASH COLLECTION AND INCOME MANAGEMENT

*Final report issued 02 June 2011*

SUMMARY OF PREVIOUS RECOMMENDATIONS

| REF | RECOMMENDATION   | GRADE | ACTION TAKEN                  | SUCCESSFULLY IMPLEMENTED<br>(Completed by Audit Services)  |
|-----|--|-------|-------------------------------|--|
| R1  | <p><b><u>Issue: Employees which have left the Authority still have access to webstaff.</u></b></p> <p><b><u>Recommendation:</u></b><br/><i>Personnel should inform ICT Connect of all leavers to ensure that all ICT access is removed when an employee leaves the Authority.</i></p> <p><b><u>Personnel Comments:</u></b><br/><i>Personnel currently do inform ICT Connect of all leavers. It is currently the responsibility of Managers to let system administrators know when individuals are leaving.</i></p> | C     | As per Personnel Comments.    | No - the issue still needs to be appropriately addressed and has been raised within para. 9.2.1. Section 2 – Matters Arising which includes an amended recommendation. |
| R2  | All staff involved in cash collection procedures should be reminded where to find the relevant procedure notes.  | C     | Yes                           | Yes  |
| R3  | <b><i>Debtor invoices should remind payees that a receipt should be obtained</i></b>   | C     | This has not been progressed. | <b>No – included para.</b>   |



## APPENDIX A to the Cash Collection Report

|    |  |   |  |  |
|----|--|---|--|--|
|    | <i>for any cash payments.</i>  |   | Fundamental review of debtor invoice is planned for 2012 and will incorporate this recommendation. | <b>9.1.2. Section 2 – Matters Arising and recommendation made again for 2011/12.</b> |
| R4 | Customer Services Manager should advise the Car Parking section that Penalty Charge Notices should ne changed and the payee should be asked to make cheques out to the “City of Carlisle”.   | C | Yes  | Yes  |
| R5 | Customer Services should display signs reminding customers to ensure that they receive a receipt for all payments.   | C | Yes  | Yes  |
| R6 | The key box should be kept locked  | C | Yes  | Yes  |
| R7 | Where possible procedure notes should refer to job titles and not individual members of staff.   | C | Yes  | Yes  |
| R8 | <p>A spreadsheet should be set up for unidentifiable income, it should include the date, payee, amount. This should include the action taken i.e. where the cheque has been posted or if the cheque is returned to the payees bank account.</p> <p>Management should review the spreadsheet monthly to ensure that the appropriate action is taken.</p> <p>This work will be established by Financial Services but will be carried out in the longer term by the relevant staff.</p> | B | Yes  | Yes  |

**RESOURCES DIRECTORATE**

**Audit of Cash Collection & Income Management**

**SUMMARY OF RECOMMENDATIONS & ACTION PLAN**

| REF | ISSUE RAISED  | RECOMMENDATION  | GRADE | AGREED ACTION   | RESPONSIBLE OFFICER        | DATE ACTIONED BY |
|-----|---|---|-------|---|----------------------------|------------------|
| R1  | Follow up of the previous audit recommendation relating to Debtor Invoices stating that they should remind payees that a receipt should be obtained for any cash payments revealed that this action had not been progressed by the service to date. However, the Financial Services Manager has stated that there is to be fundamental review of the debtor invoice during 2012 which will incorporate this recommendation. | Debtor invoices should remind payees that a receipt should be obtained for any cash payments.   | C     | <b>Fundamental review of debtor invoice is planned for 2012 and will incorporate this recommendation.</b>                         | Financial Services Manager | Sept 2012        |
| R2  | The recommendation arising from the 2010-11 audit review concerning the matter that employees which have since left the Authority still have access to Webstaff (telephone payments) has not been appropriately actioned. See para. 9.2.1. as recommendation has been widened to cover administration of all computerised user and user access levels within cash   | System Administrators should ensure that there is a holistic system in operation over the administration of system users and user access levels to ensure that they are relevant and up to date.<br><br>It is suggested that systems administrators should issue details of | C     | <b>In the process of formalising requests for access to systems and regular monitoring will be incorporated into this process</b> | Financial Services Manager | July 2012        |

## APPENDIX B to the Cash Collection Report

|    |  |   |   |  |                            |           |
|----|--|---|---|--|----------------------------|-----------|
|    | collection and income management.  | the users and their accesses to the service managers on at least a 6 monthly basis, requesting them to confirm that these system permissions are appropriate.<br>In addition, service managers should request/seek authorisation for new users/changes to existing users rather than users directly requesting the access to be received and granted from a system administrator. |   |  |                            |           |
| R3 | With changes to the Authority's Financial Procedure Rules over time it is the current procedures that are now relevant and with no limit being set then it may be considered that technically to comply with the Financial Procedure Rules all discrepancies should be reported. Therefore it is suggested that formal direction is given by the Director of Resources. See para. 9.5.1. | Formal direction should be given to ensure that there is compliance with the Authority's Financial Procedure Rules but that compliance does not become burdensome operationally.  | C | <b>Systems will be put in place whereby all discrepancies will be reported to the Director of Resources who will determine whether further investigation is required</b> | Director of Resources      | immediate |
| R4 | The review of the Fidelity Guarantee policy revealed that there were no stated posts relating to cashiers, only officers within the Resources Directorate (i.e. Director of Resources, Finance and Accountancy staff).   | Cashier posts should be considered for inclusion within the Authority's Fidelity Guarantee policy and the policy should be reviewed to ensure posts titles are correct (e.g. Assistant Director (Resources) is now the Director of Resources etc).  | C | <b>Post titles and designated list will be updated as part of the annual review. Cashiering staff adequately covered by the general fidelity guarantee limit.</b>        | Financial Services Manager | May 2012  |