



AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 23rd June 2008

Title: Audit Services Progress Report

Report of: Head of Audit Services

Report reference: CORP 28/08

Summary:

This report summarises the work carried out by Audit Services since the previous report to Committee on 15th April 2008.

Recommendations:

Members are requested to receive this report.

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

Audit Services Progress Report

1 Summary of Audit Work

As previously agreed by Members of this Committee, Members will be supplied, at each meeting, with the Management Summary and the Summary of Recommendations and Action Plan for each audit which has been completed since the previous meeting. The following audit reports are attached -

Housing Benefits	Appendix A
Car Park Income	Appendix B
Fixed Assets	Appendix C
IT Security	Appendix D
NNDR	Appendix E
Payroll	Appendix F
Debtors	Appendix G
Treasury Management	Appendix H

2 Follow-up Reviews

- 2.1 A number of follow -up reviews were undertaken during the period covered by this report. The only item of concern was that there has been little progress in respect of the "MASS" database in relation to Fixed Assets. Appendix A of the above report refers. This was discussed with the Head of Economic Development, Tourism and Property Services who provided the following response -

"It is acknowledged that there are a number of actions within the report that have not been progressed within the agreed timetable. The reasons for the lack of progress are to do with both workload and staff absence. Unfortunately the latter problem has become more acute with the recent resignation of the team leaders in both the Estates and Asset Management sections – both key qualified personnel. The Asset Management team leader has also been absent from work since July 07. Progress in the immediate future will depend on the recruitment of qualified and experienced chartered surveyors in a difficult and competitive job market".

It is understood that these posts have subsequently been advertised but this did not result in any appointment. The posts will be re-advertised in due course and progress will be monitored by Audit Services

3 Ongoing work

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

4 Annual Governance Statement

The collation of evidence to support the new “Annual Governance Statement” is now complete. The revised Code of Corporate Governance and the annual Statement have been reported separately to this meeting - **report CORP 26/08 refers.**

5 Issues (previously) relevant to the Statement on Internal Control (SIC)

- 5.1 No further issues relevant to the (previous) SIC have arisen during the period covered by this report which I need to draw Members’ attention. All outstanding items have been incorporated into the new Action Plan relating to the Code of Corporate Governance, which has been reported separately to this meeting – **report CORP 27/08 refers.**

6 Recommendations

- 6.1 Members are requested to receive this report.

I. Beckett
Head of Audit Services
June 2008

Corporate Services

Audit Services

Audit of Housing and Council Tax Benefits

Final Report

25th April 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\Benefits 07-08 Final Report.doc		

Directorate / Service Area	Recipients of Report	Action Required
Revenues and Benefits Services	Head of Revenues and Benefits (for information) Revenues Manager (for information)	There are no recommendations arising from this review

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

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area

- 2.1. The following information relating to Housing Benefits is available to potential claimants, via the Authority's Website
"Housing Benefit is a government scheme to help you pay for your rent. You can claim Housing Benefit if you pay rent to a landlord or landlady. Housing Benefit is assessed by comparing your household and personal circumstances with your income. It also takes into account any other adults in your household who are expected in some circumstances to contribute to these costs.

Examples of the type of rented accommodation you can be living in are:

- bed-sit
- flat
- hostel
- house
- lodgings

Council Tax Benefit is a government scheme to help you pay your Council Tax bill. In order to apply for this type of benefit you must be liable to pay Council Tax. Council Tax Benefit is assessed by comparing your household and personal circumstances with your income. It also takes into account any other adults in your household who are expected to contribute to these costs."

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

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

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<i>Benefit Administration</i> Disaster Recovery Plan in place. Rigorous use of test systems. Detailed manuals in place. Qualified management and robust training in place to reduce risk. Rigorous audit of all admin processes. Manual back up in place for benefit cheques	<i>Operational</i>	<i>M</i>
<i>Benefit Take-up</i> Campaigns co-ordinated with DWP, BAC etc. Robust customer consultation	<i>Operational</i>	<i>M</i>
<i>Benefit Probity</i> Rigorous use of test systems. Detailed manuals exist. Qualified management and robust training in place to reduce risk. Rigorous audit of all admin processes. Secure environment for cash payments	<i>Operational</i>	<i>L</i>

4. **Scope of the Audit**

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

	Area Examined
1	Administration
2	Assessment
3	Payments
4	Reconciliation
5	Procedure Notes

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

5.1. The procedures and controls in place for the Housing and Council Tax Benefits are thorough and secure and are well applied.

5.2. Staff involved in the Benefit Procedures are aware of the legislation and have access to thorough procedure notes.

6. **Statement of Assurance**

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

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

Corporate Services Directorate, Revenues and Benefits Service Area

APPENDIX A

1. ADMINISTRATION

Method of Review:

Staff Training and Awareness

Review the Benefits training programme and confirm it covers the necessary area, ensure appraisals are up to date and training needs are addressed

Service Accessibility

Visit the Benefits enquiry office and check that it is clearly signposted, and that the needs of the users have been addressed

Review the internet facilities

Benefits Document

Review the current claim forms, leaflets and supporting documentation

Confirm that the application form includes the necessary information

Summary of Findings:

The Benefits training programme was reviewed for the Trainee Assessment officers and the Trainee Counter Staff Assistants. The Training covers all the relevant areas, as staff learn at varying speeds the training programmes are amended to suit the individual member of staff. All appraisal are carried out by the relevant team leaders

The layout of the customer services was reviewed and it was ensured that it was accessible to all users and that the relevant information was clearly displayed

The internet is easily accessible and is user friendly. The information is up to date and contact details are available. A copy of the benefits application form is downloadable

The current forms and literature were found to be clear and concise. The application form included all the relevant information and needed the appropriate declarations

There are no recommendations arising from this area of the review

2. ASSESSMENT

Method of Review:

Claims and supporting documentation

Select a sample of current: rent allowance, non-housing revenue account, council tax benefits claims ensure that the relevant information is retained on file relating to

- Claim Form
- Liability, residency and identity
- Income
- Household and Non Dependants
- Rents payable
- Ensure that the handwriting of the landlord is different from the claimant
- Confirm that Rent Allowance cases were referred to the rent officer (RO)
- A rent determination form was returned and a copy is held on file
- Confirm that from claimants aged 25 years or under their assessments was restricted to a single room
- Checks and incomplete claims

Summary of Findings:

All the Claims reviewed were found to have all the relevant information, held on file relating to the claims. The correct action had been taken, by officers, to ensure that the benefit award was accurate and in line with agreed procedures and legislation.

There are no recommendations arising from this area of the review

3. PAYMENTS

Method of Review:

By enquiry with management and examination confirm that adequate separation of duties are in place.

Review the list of output expected from the benefits computer system and confirm that it is an up to date and is used to ensure that all expected output is actually received

Review a selection of reports produced by the system and check they clearly show the relevant information

Review a sample of computerised output from the system and check that a reference and/or name and address appear on each to enable it to be traced back to the source or input document

Summary of Findings:

The are adequate separation of duties between the Assessment Officers and staff processing payments

The "Payment Production Report" from Academy was found to detail the period to which it related, a start and end message indicator and control totals. It is used by the Finance Assistant (Payments) to reconcile with the report received from the Icon System detailing the cheques that have been issued. The reconciliations are retained by the Finance Assistant and have been reviewed and no issues have arisen.

A variety of outputs from the Academy system have been obtained and all bear the relevant unique reference number to enable them to be traced back to the appropriate account.

An issue was raised in November when a benefit cheque was not printed correctly and a blank cheque was signed and sent to a claimant. The remittance section was correctly printed but the cheque details were left blank. The claimant fortunately returned the cheque to the Authority. Internal Audit carried out an investigation and although it was found to be an isolated incident it proved that not all departments involved in the cheque printing were stringently following the agreed procedures.

There are no recommendations arising from this area of the review

4. RECONCILIATION

Method of Review:

Discussions with Key Staff

Review the reconciliation

Summary of Findings:

The Team Leader balances the Council Tax daily. All the values are entered on to a spreadsheet. This was reviewed and was found to be accurate and complete. Any discrepancies were explained with n the spreadsheet

In addition the returned cheques are reconciled. This is carried out throughout the year, as other work pressures allow, by the Team Leader (Technical and Training). The reconciliation and the spreadsheet were appropriately completed. The spreadsheet was reviewed and all reissued cheques were found to be appropriate

Financial Services carry out the reconciliation between the Academy System and the Main Accounting System. A Senior Accountancy Assistant under takes the "rent allowance balancing". Officers in Revenues and in Accountancy confirmed that it had been reconciled thoroughly during the current financial year. The Senior Accountancy Assistant ensures that the reconciliation is carried promptly and any discrepancies are reported back to Revenues to enable them to be investigated

There are no recommendations arising from this area of the review

5. Procedure Notes

Method of Review:

Review the external system procedure notes

Review the internal procedure notes

Summary of Findings:

The Benefits staff have access to the Benefits Academy Training Guide. This is updated via new releases as need arises.

In addition all relevant staff have access to HB Learning.co.uk. This is a comprehensive training and reference resource for people working in Housing Benefit and Council Tax Benefit. It is a high quality e-learning resource and a HB Alerts service. It is continually updated.

The relevant staff now have access to the Benefits Directory.url. This is used for reference to assist staff.

There are procedures within the Academy system in the interactive help, which is available to all staff with access to the system.

The Authority also has some additional in-house notes, for example the cheque runs procedures. A copy of this was obtained. It is working document, which is continually being updated and amended. It details the complete procedures, and explains all the reconciliations that need to be carried out in order to ensure that the output (cheque run) is appropriate

HB6820 Totals Report

HB6040 Private Tenant Payment Run

CR6010 Payment Production

CR6020 & Acadp_pay Script

There are no recommendations arising from this area of the review

Corporate Services

Audit Services

Audit of Car Parking and Patrol. (Material Review)

Final Report

09th June 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\Car Parking and Patrol Income Audit 2007-08 - Final.doc		

Directorate / Service Area	Recipients of Report	Action Required
Community Services/Car Parking.	Head of Environmental Services (for information). Highways Services Manager (for Action) Car Parking Team Leaders (for action)	There are agreed recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Community Services, which is attached as Appendix A.
Corporate Services/Financial Services.	Head of Financial Services.	There are agreed recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Corporate Services, which is attached as Appendix B.

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

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area.

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

3. Associated Risks of Providing this Service/Function

- 3.1. The risk register for Car Parking was not available at the time of the review.

4. Scope of the Audit

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

	Area Examined
1.	Follow up of previous review.
2.	Cash Collection and Banking Arrangements.
3.	On-Street Parking/Pay and Display/Penalty Charge Notices
4.	Contract Parking.

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in appendix A and have been brought to the attention of the relevant Head of Service.
- 5.2. The review of Car Parking and Patrol was last undertaken in 2004/05 prior to the floods. This review highlighted a number of issues, which were in part addressed as a result of the flood. This audit has focussed primarily on back office procedures and the income management arrangements.
- 5.3. From Audit testing it can be assured that the car parking and patrol function is working well.
- 5.4. The CIPFA Matrix has been used for this particular review, which can be used as a tool of assurance. Detailed testing was undertaken and it is evident that there have been improvements in all areas since the previous audit.

- 5.5. A new car parking system Chipside has been installed and is currently running alongside the previous system Compex, during the changeover period. The new system was required in order to comply with the implications of the new Traffic Management Act which comes into force on the 31st of March 2008. As with most new systems there have been initial teething problems but staff are working hard to address these before the implementation date.
- 5.6. As this system is not yet implemented, this audit focussed on the previous system Compex and the income processing arrangements used in 2007. Eden Payments were not examined as Eden District Council undertook their own review of the parking contract in December 2007.
- 5.7. As previously stated, the systems used by the Car Parking Section have considerably improved since the previous review was undertaken and very few issues were identified. Only a small number of areas of concern were identified, which once addressed should form a very effective system.
- 5.8. One of these areas is that it has always been an Audit issue that the General Ledger does not show a true picture of Penalty Charge Notices (PCN) management accounting information. Only the income received appears in the accounts and there are no identified discounts, cancellations or write-offs and they are not reconciled. The introduction of the new car parking system should be the ideal opportunity to try and address this. One identified weakness is that the new system and its capabilities have not been discussed with Financial Services staff.
- 5.9. There may be scope to form a trading account to account automatically for Penalty Charge Notices, perhaps via an interface and this should be discussed with Car Parking, Financial Services and IT staff to see if there is an opportunity to develop an interface from Chipside into the General Ledger.
- 5.10. All other issues are of a relatively minor nature that involves making improvements to existing systems of control.

6. **Grading of Audit Recommendations**

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

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

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

- 6.2. There are 10 recommendations arising from this review. 5 at grade B and 5 at grade C.

7. Statement of Assurance

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

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

Directorate: Community Services, Service Area: Car Parking & Patrol

APPENDIX A

1. FOLLOW UP OF PREVIOUS REVIEW.

Method of Review:

A meeting was held between Audit, The Head of Environmental Services, The Highways Services Manager and The Car Parking Team Leader to go through the schedule of agreed actions resulting from the previous review.

Summary of Findings:

There were 28 recommendations made in the 2004/05 Car Parking & Patrol report. The majority of these have been addressed. A number of security issues were addressed as a result of the flood and there have been improvements made to the back office operations. Time has also overtaken events and the problems identified at the time with the Compex system will no longer be a problem with the introduction of the new system.

A couple of the outstanding issues have not been addressed. Mainly the problems regarding retention of documents and the overall reconciliation of income into the General Ledger (which will be addressed in Section 3).

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
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A.1	<p>There remains a problem with the retention of credit card payment details. There are 6 years of credit card payment details waiting to be scanned which pose a security risk. IT has yet to arrange the system required to do this scanning. When the scanner is installed it will then be an enormous task to scan all the documents, and resources are limited to perform this task. From the 1st of April the system will change and any credit card details will be encrypted so this risk will reduce. The Merchant Banking Authority has advised that these documents are retained for 8 years in case of refund but the practicalities and risk of retaining these details may outweigh this benefit.</p>	<p>Head of Environmental Services/High ways Manager.</p>	<p>Management should take the decision whether or not it is worth the time and resources to scan the credit card payment details or whether to administer secure disposal of the detail. Refunds (if any) can be met from departmental budgets. If management take the decision to adopt that approach refunds can be paid without reference to original paperwork. Sufficient evidence of the refund should be retained to provide the appropriate audit trail.</p> <p>It is accepted that the benefits of not scanning the information outweighs the risk. Steps should be taken to ensure that the existing information is disposed of securely.</p>	C	June 2008.
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2. GENERAL, CASH COLLECTION AND BANKING.

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Car Parking Income.

Summary of Findings:

- Back office staff have access to all the necessary information required to perform their duties. As the nature of the work is wide and varied, the staff members tend to construct their own working manuals from the available information as and when they feel the need to have that information to hand for future reference.
A complete manual that would be full of anything and everything they need to know would actually form an unusable document for new staff, as the information would be exhaustive. The role is often a 'reactive' one and knowledge comes with experience. A complete manual was available for audit scrutiny.
- Staff are trained and are aware of the financial rules and regulations that are required for them to carry out their duties.
- The Authority's Money Insurance schedule covers the contents of the safe to a value of £30,000
- Staff with cash counting and deposit duties are fully conversant with the correct accuracy and security procedures that are involved with the cash handling process.
- The cash collection and deposit function is outsourced to Loomis (formerly Securitas). Their Liability Limits for the total cash deposited in the safe is £35,000. This is deemed a sufficient amount of cover as the income collections never exceeds that amount. Extra collections are already arranged for busy periods such as Christmas.
- A copy of the published notice of off-street charges appeared in the Cumberland News on the 7th March 2008. There was 25 days between publication and when the new charges are to be implemented.
- The Charges Review Report 2008/09 was presented to Committee on the 28th of November 2007.

- Any off street orders are made by Legal Services and all records are maintained by them. There has not been any recent change to the off street traffic order however the procedures to be followed are set out by statute and involve advertising the proposed order and dealing with any written objections received.
- When the charges are changed:-
 - New stationery is ordered, and existing stationery is amended to reflect the new changes.
 - Machine charging mechanisms are altered.
 - Car Park Signs and notices are amended.
 - Staff involved in the car park system are notified prior to the changes in writing.
- At the time of testing all the signage reflected 2007/08 prices which was correct. The Head of Environmental Services confirmed that the correct amounts would be displayed on the 1st April.
- Recent photographs were obtained that depicted the current signage in the car parks. It was established that at end of year changeover, car parking staff 'tape over' all old charges on the signage and state the next years charges. It was confirmed that signs are displayed correctly.
- The signs do not state the location of the other machines that should be used but they do advise to use other available machines if one is out of order. – Due to the physical size of the car parks this is an acceptable alternative.
- Cash is left in the machines overnight as it is only collected 2 times weekly (more at busy periods). Cash is also not collected if there is less than £200 in the machine as management has decided that it is not cost and resource effective to do so. There is nothing in the Authority's money schedule that says that the cash would not be insured if it had been left overnight.
- The inventory was compared to the cash collection returns to ensure that each identified machine is collected from on an appropriate basis. The inventory has been developed to be used as an income return that is sent to Financial Services.
- Car parking machines are not stipulated separately under the Authority's insurance schedule but it was verified that they are all covered. The machine maintenance policy was cancelled in 2006/07 and the task is now undertaken in house and the main inventory maintained as a result of this, therefore there is no secondary document to compare this with.
- The only controlled stationery used are the manual Penalty Charge Notice (Penalty Charge Notices) books and the ticket machine rolls. The PCN books are controlled by the Team Leader in charge of the Parking Attendants. The Team Leaders confirmed that all receipts and issues of paying in books are entered in a stock record, and all issues of these are signed for by the persons receiving the item.

- Car Park Ticket machine rolls and PCN books are not strictly 'stock checked' but Parking Attendants do inform the Parking Team Leader when stocks are running low.
- The ticket machine rolls are stored in an alarmed and locked area. These are used sequentially and logged that they have been taken on to the machine maintenance log. There is no central record kept which logs each ticket roll and who has possession of it.
- The records examined showed that the cash was collected on each day the ticket machines were emptied. The General Ledger was examined to ensure that the income was credited to the appropriate codes and it was done in a timely manner. There were no problems found within the selected sample.
- Procedures state that Financial Services processes the return on the day it is received and this is the common practice (except in exceptional circumstances).
- The record of income was checked to ensure that it was in a suitable format and clearly shows the amount of money banked, the financial code to which it has been credited, and the date of the banking.
- December 2007 transactions were chosen as this is one of the busiest periods for car parking and this sample would also highlight additional collections and if there were any weaknesses with the additional pressure. All of the transactions were correct. All the amounts agreed taking into account the under and overbankings.
- The record maintained was examined that shows the amount of income received from each machine or car park, and was agreed, on a test basis, to the amounts shown from the machines 'audit tickets' or meter readings. No problems were found.
- Financial Services maintain a spreadsheet that specifically performs this reconciliation. The spreadsheet 'Income Control 7-8' matches all payments received through the bank with the returns received to allocate the income to specific services. December's income was examined and no problems were found.
- The car parks copy paying in slip and the banks receipted income balanced. There was not enough time to cross reference security sack serial numbers on this occasion. No problems were found within the sample.
- Information is available from reports available from the Calebriparc system which is linked from the machines to PC via a SIM. This details all the cash collected in each machine and also show whether or not the system is 'on-line'. Each morning the Parking Team Leader prints a report and then decides which machines it is necessary to empty that day. (see previous mention of management decision on selective collections). It is evident from the daily car park collection returns which machines have been emptied. No problems were found.

- As above. Frequency of collections is determined by the amount of cash collected.
- Each morning the Parking Technical Assistant responsible for machine maintenance logs on to the Calebriparc system to ensure that the machines are 'on-line'. If the machine is 'off-line' the officer will go out, investigate and if necessary repair the machine. All repairs are logged in the maintenance record. The machines are also randomly checked to ensure that the tariffs are correct in each machine. A test ticket is produced and these records are also retained.
- There were no large or regular surpluses identified. These would be picked up, however, in the reconciliation to the bank account and investigated immediately.
- The Parking Team Leader is informed of any problems identified with the cash collection service and deals with them accordingly by liaising with the contact at Loomis. There is provision for dealing with breaches of contract specified within the contract schedule.
- The cash collection contract with Loomis was agreed on the 13th November 2006 and is for an initial period of three years. The contract does not stipulate the times or frequency for collection but does refer to a 'client schedule' where these details can be found. A copy of the client schedule was obtained and it was confirmed that the days and times stated were aligned with those dates collected within the December sample.
- There was evidence that the record of income has been monitored regularly to identify irregular banking practices.
- There was evidence that delays in physical cash banking by Loomis have been queried. Any discrepancies are queried as soon as possible with both the bank and the cash collection firm. A record is maintained of any contact details and evidence retained. There have been a number of delays with monies being banked during 2007/08 but these have been dealt with effectively by the Financial Services staff.
- The record of collections was examined to ensure that the levels of income for each machine or car park appear reasonable throughout the period concerned.
- The level of income collected to date was compared to the levels collected in the same period for previous years and it was ensured that they appeared reasonable (taking into account price increases, changes in charging policies etc..)
- The income collected to date was compared with previous years with those forecasted any unexplained deviancies were investigated. This is monitored by both the Parking Team Leader from an operational perspective and also by the Assistant Accountant in Financial Services. The Assistant Accountant compares two years income to identify any deviancies and report these to management. Income to budget is strictly monitored and variances identified and investigated as soon as problems arise.

- The three Senior Parking Attendants are the only key holders. A key record was established however the Parking Team Leader had recently discovered that it wasn't being completed in all cases. Procedures have already been put in place and staff have been briefed to ensure that the key records will be completed immediately.
- The function is manned 7 days a week and staff are rotated to ensure that it is not the same staff involved in the cash collection procedure
- The 'cashing-up' process was observed and the procedure noted on the Audit file. The procedure is outlined in WP 2.18. There were no risks identified from observing the procedure.
- The Car Parking Team Leader (projects), who is independent of the car parks procedure and banking, regularly monitors income collection statistics such as:
 - Income collected during such periods and compares income levels to when the machines are in operation,
 - The frequency of when car parks machines are out of operation.

and has been instructed to report any apparent income discrepancies and/or suspicious (e.g frequent) machine breakdowns direct to a senior manager independent of the car parks system and to Internal Audit.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
A2	<p>The only controlled stationery used is the manual PCN books and the ticket machine rolls. The PCN books are controlled by the Team Leader in charge of the Parking Attendants. The Team Leaders confirmed that the all receipts and issues of paying in books are entered in a stock record, and all issues of these are signed for by the persons receiving the item.</p> <p>They are not strictly 'stock checked' but Parking Attendants do inform the Parking Team Leader when stocks are running low.</p>	Highways Manager/ Parking Team Leader.	A more defined stock control method should be implemented. The Parking Team Leader should make at least bi-annual stock checks on the ticket stores and any other controlled stationery.	C	COMPLETE
A3	The ticket machine rolls are stored in an alarmed and locked area. These are used sequentially and logged that they have been taken on to the machine maintenance log. There is no central record kept which logs each ticket roll and who has possession of it.	Highways Manager/ Parking Team Leader.	A central control record of ticket rolls should be established and maintained. Each ticket roll should be signed for by an authorised person and any spare tickets left on old rolls when they have been replaced should be accounted for and disposed off securely.	C	COMPLETE

A4	Unders and overs are identified on the car park returns but are not so identified when posted to the General Ledger. The total cash paid in is attributed to each individual car park code. In December there were £329.13 worth of overbankings that are not identified as such in the General Ledger.	Highways Manager/ Senior Accountancy Assistant.	<p>A General Ledger code for under and over bankings should be set up for each individual car park and the identified amounts credited or debited to these codes. This will seek to improve the management income information by identifying accurately the car park usage over a period, identifying possible machine faults with either its audit reporting or coin acceptance mechanisms and also providing accounting provision for accounting for refunds in event of complaints for overcharging.</p> <p><i>Management are satisfied that the existing system where under and overbankings are recorded manually is sufficient.</i></p>		NOT AGREED
A5	The cash collection contract with Loomis is on a 3 year agreement with the option to extend after November 2009. The contract value will be worth £12,477.60 if it is <u>not</u> extended in 2009. This amount exceeds the £10,000 limit for when 3 quotes are required before appointing the successful contractor. There was no evidence to prove that Contract Procedures had been applied when appointing Loomis. When the contract is up for renewal in 2009, three quotes should be sought to provide the cash collection function.	Head of Environmental Services/ Highways Manager.	When the security cash collection is up for renewal, contract procedure rules must be applied.	B	November 2009.

A6	While in discussion with Team Leader regarding the safe and security issues it was highlighted that there had been a problem identified with the design of the 'v' safe that has been provided by Loomis. Apparently the 'drop' was not wide enough and the bags tended to land on top of each other which makes it extremely difficult for the security firm to be able to open the drawer to retrieve the money. In the contract it states that "The Customer shall notify the Company of any defect in the design, workmanship or materials used in the Safe whereupon (subject to condition 2.3) the Company (acting as the Customers fully authorised agent) shall instruct the Safe Manufacturer to remedy such defect as soon as reasonably practicable at the Safe Manufacturers expense." Condition 2.3. stipulates that this must be within 36 months of the contract being signed. The deadline for this will be November 13 th 2009.	Highways Manager/Car Parking Team Leader.	Management should report the safe defect to Loomis as soon as possible before the 36 month deadline to see if replacement or adjustment would be possible under the original terms of the contract. <i>Management have contacted Loomis who are currently in discussion on how to address the problem.</i>	C	November 2008.
A7	It is the duty of the assigned Parking Attendant who is on Car Park Patrol that day to change the car park ticket rolls. The Cash collecting Parking Attendants do however carry spare rolls in the van in case the machine has run out whilst they are there collecting money. Strictly this is a division of duties issue, and should not be allowed. The value of stopping the practice, however and potentially causing inconvenience to the public and loss of income outweighs the minimal risk that this practice will present if suitable controls are put into place.	Highways Manager/Car Parking Team Leader.	Any ticket rolls should be signed out to the cash collecting vehicle on the day they are booked out. They should be dated and signed for by the officer placing them in the van. If these tickets are used, it should be made evident that they have been used and a record kept. The Parking Attendants on duty that day can be easily traced back if the staff rotas are accurate and up to date.	B	COMPLETE

3. ON STREET PARKING/PAY & DISPLAY/PENALTY CHARGE NOTICES (Penalty Charge Notices).

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Car Parking Income.

Summary of Findings:

- The Penalty Charge Notices have had to be revised to accommodate the introduction of the Traffic Management Act 2004. These will come into use on the 1st April 2008. Both the Penalty Charge Notices issued manually and by machine in 2007/08 and the revised Penalty Charge Notices were examined for this test. There were no problems found.
- In 2007/08 the majority of the DVLA requests were done automatically. The Authority would send the request to Compex who in turn would contact the DVLA with the information that would then be transmitted back to the Authority. Only on a limited number of occasions was a manual request made to the DVLA, usually when the information was needed urgently. In these instances the form had to be sent in paper format and the reply was received in paper format. This was proven through observation.
- 10 Penalty Charge Notices that were issued were examined to ensure that they have been done so correctly:
- The Parking Attendants training manual was inspected. This included full instructions for them to be able to carry out their expected duties.
- At present there is a report produced that states the average Penalty Charge Notices issued per day by each Parking Attendant. The Team Leader evaluates the performance but this practice is historic and the daily task is of little value. From 2008/09 this practice will be changed to producing this information monthly where it will be more meaningful.
- The record of Penalty Charge Notices was examined for a sample of 10 charges, which have been paid at the lower concessionary discount rate, to ensure that the payments were made within the organisations agreed number of days and that the discounts were valid. There were no problems found.
- The record of charges that are currently outstanding was examined and a sample selected at each stage of the enforcement action process to ensure that the action taken complies with the organisational policy for debt collection, is reasonable and that there is adequate division of duties at each stage.
- Outstanding fines are reported on an 'age' basis and reviewed by management regularly.

- Individual debts are not grouped together and pursued as one composite amount as the fines are dealt with as individual offences if and when they go to appeal.
- The Penalty Charge Notices masterfile is independently examined to confirm that all notices have been entered and can be accounted for (i.e. there are no missing numbers in a sequence).
- All of the write offs examined were in line with organisational policy and were supported by the appropriate bailiff report.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
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A8	<p>One of the specified CIPFA Matrix tests was to examine the Penalty Charge Notices record and compare it to the most recent copies of the Penalty Charge Notices issues, the Financial Information System (FIS), and the record of charges which have been written off. This was to ensure that the Penalty Charge Notices notice record is up-to-date. This test was not possible due to the current accounting information available.</p>	Highways Manager/ Assistant Accountant/ Chipside Technical Support/IT.	<p>It was not possible due to the reporting capabilities of the previous Car Parking system Complex to perform an accounting reconciliation exercise. The new system Chipside, however, could be capable of providing the necessary information to produce a PCN trading account in the General Ledger. It is recommended that the Car Parking staff liase with Financial Services, IT staff and the Chipside Technical Support to research possibilities.</p> <p><i>Management is of the opinion that it is not possible to produce a trading account in the General Ledger for PCN's. They have agreed however for staff to liaise with Chipside to agree a practical solution to that they can be accounted for more accurately.</i></p>	B	August 2008.
A9	<p>There were 4 cases within the sample of 10 recovery cases that had exceeded the 28 day limit for sending cases from the 'waiting for bailiff' stage to the 'recommended execution of warrant' stage. There was no explanation for this other than it was a very busy period and the workload was reprioritised.</p> <p>Currently there are a number of forms waiting to be developed and agreed nationally. These forms will be to progress recovery and are not yet complete. There is a national group that is working with Local Authorities to progress these. At the time of this review, some forms had</p>	Head of Environmental Services/ Highways Manager/ Car Parking Team Leader.	<p>Car Parking staff must ensure that the recovery process is followed as quickly as possible to maximise the chances of fines being paid.</p>	B	June 2008.

	been developed and agreed and were awaiting IT to load these onto the system.				
A10	PCN cancellations do not currently have to be authorised, however a sample check is undertaken each month by an independent Team Leader. There was one occasion within the sample where the reason for the cancellation was not apparent.	Head of Environmental Services/ Highways Manager/ Car Parking Team Leader.	All cancellations must have a legitimate reason for the cancellation attached to ensure that the process is clear and transparent. <i>Management have agreed that staff will enter a detailed description of the reason for cancellation and the present sample check will continue.</i>	B	COMPLETE

A11	<p>A sample of 50 cases to bailiff were also examined to establish the recovery rate level. From this sample it was calculated as being 14% in 2007/08. Although this is a marked improvement on the 8% recovery rate of 2006/07, it is still quite low.</p> <p>It must be understood that the recovery rate will never be high due to the nature of the debt. Unlike Council Tax and NNDR, Car Parking fines do not result in a custodial sentence.</p> <p>Also, the debt is assigned to the vehicle and the driver on that day of issue. These cases are not always as 'clear cut' as assigning a debt to a property as vehicles can be bought and sold and it can take quite a while to identify who was the owner and driver of the vehicle on that day.</p>	Head of Environmental Services/ Highways Manager	<p>When the Bailiff contract is next under review it is justified to search the bailiff market to see whether expected recovery performance can be improved.</p> <p><i>At the present time, Management are waiting for the Procurement Section to decide what they are doing with regard to Bailiff Services for the whole Authority. If this is not progressed when the contract is up for renewal then Management will procure their own bailiff services.</i></p>	C	When the next bailiff contract is due for renewal.
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Directorate: Corporate Services, Service Area: Financial Services

APPENDIX B

5. COLLECTION & REFUNDS.

Method of Review:

Discussions with management and staff were undertaken alongside detailed system testing in accordance with the CIPFA Control Matrix for Car Parking Income.

Summary of Findings:

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
A8	One of the specified CIPFA Matrix tests is to examine the Penalty Charge Notices record and compare to the most recent copies of the Penalty Charge Noticespenalty issues, the Financial Information System (FIS), and the record of charges which have been written off to ensure that the Penalty Charge Notices record is up-to-date. This test was not possible due to the current accounting information available.	Highways Manager/ Assistant Accountant/ Chipside Technical Support/IT	It was not possible due to the reporting capabilities of the previous Car Parking system Compex to perform an accounting reconciliation exercise. The new system Chipside, however, could be capable of providing the necessary information to produce a PCN trading account in the General Ledger. It is recommended that the Car Parking staff liase with Financial Services, IT staff and the Chipside Technical Support to research possibilities. <i>Management is of the opinion that it is not possible to produce a trading account in the General Ledger for PCN's. They have agreed however for staff to liaise with Chipside to agree a practical solution to that they can be accounted for more accurately.</i>	B	August 2008

Corporate Services

Audit Services

Audit of Fixed Assets/Capital Expenditure
(Material Review)

Final Report

29th April 2008

Audit Contact		Extn No.	
Document Ref:	K:\ 2006-07 onwards \ Material Systems \ Fixed Assets MAT055\2007-08\audit reports \ Fixed Assets Audit 2007-08 – Draft.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Corporate Services	Head of Financial Services Head of I.T. Chief Accountant Development and Support Manager Infrastructure and Network Manager.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Corporate Services, which is attached as Appendix A.
Development Services.	Head of Economy, Property and Tourism Services. Property Services Manager	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Development Services, which is attached as Appendix B

Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 23rd June 2008.

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area

Fixed Assets is an audit area that was comprehensively examined in 2006/07 with the main focus directed upon land and property assets which forms the majority of the Council's asset base. The scope of the 2007/08 audit was substantially confined to Plant, Transport and Equipment but also incorporated some control checks on Capital Expenditure in general and the Longtown Market Town Initiative in particular. Longtown M. T .I. was a project that the City Council managed as an Accountable Body processing Capital and other grants financed by English Heritage, the ERDF and the NWDA..

3. Associated Risks of Providing this Service/Function

Examination of the Risk Registers noted the following risks:

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<i>Failure to retain key staff</i>	<i>Both</i>	<i>M</i>
<i>Failure to implement a comprehensive record system</i>	<i>Both</i>	<i>H</i>
<i>Control and record keeping over the movement of assets is inadequate.</i>	<i>Operational</i>	<i>M</i>
<i>Safeguarding of assets within departments is not adequate</i>	<i>Operational</i>	<i>M</i>
<i>Record keeping over the disposal of fixed assets may be inadequate</i>	<i>Operational</i>	<i>M</i>
<i>Acquired assets are not recorded at all or not recorded accurately in the financial system</i>	<i>Operational</i>	<i>M</i>

4. Scope of the Audit

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

	Area Examined
1.	Follow up of previous review.
2.	Plant and Transport Asset Register.
3.	Plant and Transport Acquisitions & Disposals
4.	IT Equipment Inventory
5.	Capital Expenditure
6.	Longtown Market Town Initiative.

5. Overall Conclusion of the Audit Review

A number of opportunities to further enhance controls have been identified, these are shown in the appendices A - B and have been brought to the attention of the relevant Heads of Service.

6. Grading of Audit Recommendations

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

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

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

There are 10 recommendations arising from this review. 5 at grade B and 5 at grade C.

7. Statement of Assurance

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

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

Corporate Services Directorate, Financial Services

APPENDIX A

1. Follow Up of Previous Review

Method of Review:

A meeting was held with the Chief Accountant to discuss the progress made on the schedule of agreed actions emanating from the previous review.

Summary of Findings:

The majority of the recommendations and actions agreed had been implemented within defined time-scales. It was hoped and anticipated that by the end of the financial year, that with the help of Finance, the Authority's Land and Property database,, which is the responsibility of Development Services, would be fully developed on the MASS system and that complete reliance could be placed on the Property Services Asset Register for accounting and Asset Management purposes. However, there has been a significant lack of progress in respect of developing the Mass System due to a lack of resource availability in the Property Services Section.

2. PLANT TRANSPORT & EQUIPMENT REGISTER

Method of Review:

Discussions with key staff in the Finance Section were undertaken in conjunction with test checking of the overall accuracy of the current Register against Balance Sheet records. Further checks were made comparing assets physically inspected at Bousteads Grassing Depot with the Asset Register within Finance.

Summary of Findings:

The Plant, Transport and Equipment Section of the Finance Asset Register correlated with the Balance Sheet entry for 31/3/2007. New assets purchased during the current financial year will be incorporated as part of the Accounts closure process as will any disposals.

Thirty nine pre 2007 items of plant and transport were identified at Bousteads Grassing and checked against the Finance Asset Register. 1 vehicle identified, (i.e. W131 WCB a second gritter purchased in 2006) was recorded incorrectly against a different registration number. Another vehicle K835 EAO was located on the Plant and Transport Register held by the Facilities Section within Community Services but omitted, with reason, from the Finance Asset Register utilised for balance sheet purposes. Whilst the two sets of asset records are held for different purposes and will vary depending on various issues including ownership and depreciation levels, it would be beneficial to carry out an up to date reconciliation between both registers and to ensure that procedures are formalised to ensure that full information is passed from directorate to directorate on asset acquisitions and disposals.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
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A.1	Finance Asset Registers are incomplete	Chief Accountant	<p>Records held by the Finance and Transport Sections are fully reconciled and formalised procedures introduced to ensure each directorate is kept informed of acquisitions and disposals</p> <p>Agreed that the Technical Accountant will undertake a reconciliation exercise of the Plant and Transport Register held within Financial Services and Community Services.</p> <p>Agreed that procedures will be reviewed by the Technical Accountant and documented to ensure that information on plant and transport asset acquisitions and disposals are fully communicated between Corporate and Community Services.</p>	C	<p>June 2008</p> <p>June 2008</p>
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3. PLANT & TRANSPORT ACQUISITIONS AND DISPOSALS

Method of Review:

Ten 2007/08 Plant and Transport capital purchases with an overall value of £346,000 were selected from financial records to undertake relevant ownership checks and to ensure purchases were made in accordance with laid down procurement requirements and that capital costs were appropriately allocated.

For the 10 items of Plant and Transport purchased, full checks were undertaken on the disposal arrangements for the assets being replaced.

Summary of Findings:

All items were physically inspected at Bousteads Grassing over a 2 day period and original registration documents were examined on site.

All items were purchased through the Authority's Associate membership of North Eastern Purchasing Organisation (NEPO) and quotations were sought in advance. However the overall process to be adopted is not documented and there is some confusion over the direct interface between Council Officers and NEPO.

In respect of "disposals" 2 vehicles were actually retained as verified by physical inspection and scrutiny of registration certificates. Of the other items which were dispensed with, appropriate documentary evidence was obtained including sales receipts where appropriate.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
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A.2	Lack of Documented Procedures for NEPO purchasing arrangements	Development & Support Manager	<p>Develop and distribute full procedural requirements for the utilisation of NEPO purchasing arrangements.</p> <p>Agreed that the Procurement Assistant will prepare notes covering NEPO purchasing arrangements and inform key officers concerned of these arrangements. These procedure notes will also be held on the Intranet for ease of reference/access</p>	B	June 2008
A.3	Revenue elements of expenditure like Road Fund Licences were consistently charged to Capital	Chief Accountant	<p>2007-08 Capital transactions on all Plant and Transport purchases to be reviewed and amended where appropriate.</p> <p>Agreed that all costs that are potentially revenue in nature but charged to capital will be reviewed as part of the final accounts process and amended if material.</p>	C	June 2008

5. CAPITAL EXPENDITURE GENERAL

Method of Review:

Reviewed 15 external invoices allocated to Capital projects in general and IT in particular checking for proper authorisation and certification together with accuracy of coding, evidence of appropriate procurement, use of contract register where necessary etc.

Summary of Findings:

On the whole payments were processed in accordance with laid down procedure. However some control and system deficiencies were located and are identified below.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officers</u>	<u>Recommendation/Agreed Action</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
A.4	On 2 occasions, payments emanating from IT exceeded signatory limits but these limits were low, i.e. less than £30,000 , particularly given the ongoing expenditure levels in the Section for equipment and licences.	Director of Corporate Services/ Head of IT	Review authorised signatory limits for 2008/09 to more adequately reflect the requirements of the Section. Agreed that existing limits will be adhered to pending further discussions with Director.	C	With immediate effect
A.5	On one particular occasion, The Falkirk Agreement, which is utilised for the procurement of IT equipment was used as a negotiating tool for purchasing P.C'S. These negotiations were not adequately documented and quotations obtained from differing suppliers were not on a like for like basis	Head of IT/ Development and Support Manager	The Procurement Section should the lead with any post tender discussions and negotiations, producing and retaining fully documented records. Agreed by the Infrastructure and Network Manager and the Development and Support Manager that any post- tender negotiations are conducted and documented within the procurement section.	B	With immediate effect
A.6	Expenditure for annual IT enterprise agreements was charged to Capital expenditure.	Chief Accountant	It is recommended that as part of the year end review of Capital expenditure, IT invoices are scrutinised for validity. Agreed that the Group Accountant will carry out the necessary checks as part of the regular review of capital spending and in conjunction with the final closure of the 2007-08 accounts.	C	June 2008

A.7	The Contracts Register which is maintained to provide a database for all contracts for supplies, services and projects externally procured was incomplete with a number of tender submissions omitted due to "acceptance sheets" not being received from the Committee Section.	Development and Support Manager	<p>The Contract Register should be maintained in acceptance reference number order and any sequence breaks should be investigated on a timely basis.</p> <p>Agreed that the Procurement Assistant will periodically review the Contracts Register at quarterly intervals and check for any omissions via Committee Services.</p>	B	April 2008
A.8	Community Services "internal DSO" recharges have been consistently processed through the Capital accounts with overheads included contrary to the requirements of FRS 15	Chief Accountant	<p>All recharges processed from Contractor-Plus to capital accounts in 2007-08 need to be reviewed and amended as required dependent upon materiality issues as part of the year end close down process.</p> <p>Overhead recovery rates on internal DSO recharges for 2008-09 will be amended as early in the financial year as possible to reflect FRS 15 requirements</p>	C	<p>June 2008</p> <p>May 2008</p>

Development Services Directorate, Economy, Property and Tourism Services

APPENDIX B

1. FOLLOW UP REVIEW

Method of Review:

Meetings were held with the Property Services Manager and The Head of Economy, Development and Tourism to go through the schedule of agreed actions resulting from the 2006-07 review. These discussions were followed by further written comments.

Summary of Findings:

It was acknowledged by the Head of Economy, Development and Tourism that a number of actions agreed to following last years report have not been progressed within the agreed timetable. Reasons were presented for the lack of progress, which stemmed around both workload and lack of resources due to absence. The latter problem has become more acute with recent resignations of team leaders in both Estates and Asset Management, both of which are key qualified personnel.

Progress in the immediate future will be dependent on the future recruitment of suitably qualified, experienced chartered surveyors in a difficult and competitive jobs market.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Action</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
B.1	Progress with the Development of the MASS System	Head of Economy, Property and Tourism.	With the level of investment made in Mass and the passage of time since it was purchased, the previously agreed development of the system within Property Services should be progressed as soon as possible. This is particularly important given previous assurances to progress audit recommendations in general and those specifically designed to alleviate major issues raised with the final accounting process over the past 2 years in particular.	B	To be agreed upon the successful appointment of qualified staff within posts currently advertised.

2. LONGTOWN MARKET TOWN INITIATIVE

Method of Review:

Carried out a full walkthrough test of a Business Expansion Grant and carried out "process testing" of 5 Business expansion grants and 5 delegated fund grants.

Checked that an exit strategy was in place for the ending of the project and that residual arrangements were in hand.

Summary of Findings:

The staff at Longtown were knowledgeable and organised and all test checks reflected that records were in good order and all necessary laid down procedural steps had been followed in respect of the 10 claims scrutinised. It should be noted that the NWDA had only recently carried out an external audit concluding systems and processes in place were excellent.

With regard to the exit strategy and closedown arrangements following the departure of all hands on staff on 31/03/08, The Council's External Funding Officer is responsible for all residual arrangements

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Action</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
B.2	Longtown M.TI. Residual Arrangements	External Funding Officer	A fully documented closure action plan with time - scales should be developed as soon as possible. Agreed that a comprehensive action plan will be drawn up by the External Funding Officer.	B	May 2008

Corporate Services

Audit Services

Audit of ICT Security and Recovery

Final Report

25th April 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\ICT 07-08 Final Report.doc		

Directorate / Service Area	Recipients of Report	Action Required
Corporate Services / ICT Services	<p>Head of ICT Services (For Action)</p> <p>Infrastructure and Network Manager (For Information)</p> <p>Infrastructure Project Co-ordinator (For Information)</p>	<p>There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for ICT Services, which is attached as Appendix A</p>

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

1. Reason for the Audit

- 1.1. The audit of ICT Security and Recovery forms part of the programme of annual work required for the material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the main financial system and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the annual statement of accounts. The ICT Security and Recovery element has been removed from each of the individual Materials Audits and reviewed as a separate audit in order to standardise the review.

2. Background Information / Summary of the Audit Area

- 2.1. ICT Services is part of Corporate Services. This service is responsible for :
- providing the IT Service to the Authority by establishing, delivering and supporting each Service's IT requirements
 - developing and maintaining the Authority's website
 - developing and maintaining the Authority's telephone system
- 2.2. The Material Systems were reviewed and the relevant IT systems were highlighted

ICT SYSTEM	MATERIAL REVIEW
ACADEMY SYSTEM –	Housing Benefits Council Tax NNDR
RADIUS -	Creditors Debtors Budget Monitoring & Capital Accounting
TRENT -	Payroll
HEXAGON - ACCOUNTANCY K-Drive	Treasury and Insurance
ICON -	Cash Income
ACOLADE -	Planning Fees Improvement Grants
COMPEX -	Car Parking
MASS DATABASE - ACCOUNTANCY T-Drive	Fixed Assets
BACUS -	Bereavement Services

3. Associated Risks of Providing this Service/Function

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

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
Protection of IT E-records and data and hard copy information:- - failure will have business/financial impact - inability to meet legal/other obligation - impact on resources / cost of re-establishment	<i>Strategic</i>	<i>M</i>
Effectiveness/Reliability and Protection of Current ICT Systems.	<i>Operational</i>	<i>H</i>
Implementation of New Hardware/Software Systems.	<i>Operational</i>	<i>H</i>
Effectiveness/Reliability and Protection of Telecoms and Data Networks	<i>Operational</i>	<i>M</i>

4. Scope of the Audit

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

	Area Examined
1	ICT Access
2	ICT Backup
3	Recovery

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in the appendix A and have been brought to the attention of the relevant Head of Service. In summary the key issues arising from this review are:
- 5.2. There is a lack of recovery testing being carried out and although ICT Staff are confident that systems can be recovered it would be prudent to routinely test the recovery process.
- 5.3. The procedures for Starters/leaver and internal transfers are ad hoc and information is not always being passed to ICT Services from Personnel, which could lead to a security risk on the system.
- 5.4. The backup procedures are thorough although a concern has been raised regarding the storage/transport of the tapes from the outlying Services. Some of the information held is confidential and is being sent in the internal mail from Boustead Grassing to the Civic Centre.

6. **Grading of Audit Recommendations**

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

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

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

- 6.2. There are 6 recommendations arising from this review. 3 at grade B, 3 at grade C

7. **Statement of Assurance**

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

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

Corporate Services Directorate, ICT Service Area

APPENDIX A

1. ICT ACCESS

Method of Review:

- Discuss with key staff the current procedures for new starters / transfers and leavers.
- Follow up any outstanding recommendations from previous Material Audits relating to this area.

Summary of Findings:

Personnel Services should inform ICT Services when a member of staff starts, transfers internally or leaves the Authority. This currently happens ad-hoc. Although information relating to appointments is generally passed on, any information relating to transfers or leavers can be either forgotten or not current. ICT Services advised that sometimes information of leavers can be received months later from work colleagues and not through official channels.

A Personnel Officer had commenced work with ICT Services in order to draw up procedures and a form for sharing relevant information relating to post changes. Since the above officer has left the Authority, it is understood that no further work has been done in the area.

ICT Services are planning to implement Microsoft Active Directory during 2008-09. This will enable an accurate log of all users and the systems to which they have access be maintained in one central point. Currently no information is maintained relating to which systems users have access.

These issues were raised in several of the Material Audits relating to 2006-07 in which users were found with write access to systems after they had left the Authority.

The 06-07 Main Accounting System highlighted

Issue : The IT Security Policy does not presently deal with the security arrangements for officers who are required to take work home.

Recommendation : The Head of IT Services should ensure that these security arrangements are incorporated into the IT Policy.

The ICT Security Policy is still in draft form. The Infrastructure and Network Manager has taken the lead on its production and is establishing a working group. All home-work issues are currently being addressed and it is envisaged that the USB ports will be blanked off to prevent staff from taking information from the building on flash disks as these could easily be misplaced or lost and have an adverse effect on the reputation of the Authority.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	Information is not being relayed to ICT Services when staff leave the Authority or transfer posts within.	Head of ICT Services	Head of ICT Services should ensure that procedures are drawn up with Personnel Services to ensure all relevant information relating to starters, internal transfers and leavers is pass to ICT Services	B	3 Months
A.2	There is no list of users and systems to which they have access, which makes it hard for ICT Services to control/monitor the permissions	Head of ICT Services	Ensure that the planned implementation of Microsoft Active Directory is in operation as soon as possible	C	6 Months
A.3	Information is taken from the Authority's system via several methods, which include, flash disks, emails, CD etc. The Authority has no records of this information being taken, and the methods are not very secure.	Head of ICT Services	Ensure that the ICT Security Policy provides staff with a secure method of taking information from the Authority if necessary for either home working or between remote sites	B	6 Months

2. ICT BACKUP

Method of Review:

- Discuss with key staff the current procedures for ICT Backup
- Follow up any outstanding recommendations from previous Material Audits relating to this area.

Summary of Findings:

All the servers are backed up daily to tapes.

The servers in the Civic Centre are backed up each evening and are taken the following morning to the Old Town Hall where they are stored in a fire proof safe.

The Crematorium server is backed up each evening and the back-up is then placed in a fire-proof safe within the offices by Crematorium staff. It would be sensible for a regular backup to be removed from the Crematorium and stored appropriately, possibly either at the Civic Centre or the Town Hall. A weekly backup is suggested as a daily would prove too time consuming to take off site. The Crematorium features heavily in the Disaster Recovery Plan and great importance is place on the service continuation and delivery.

A daily backup is run at Boustead Services in the evening by staff on site. It is sent to the Civic Centre in the Internal Mail, for storage. Consideration should be given to how secure the Authority's Internal Mail is for handling very sensitive information.

ICT Services monitor, each morning, all the outlying servers to ensure that the backups have been successful. The monitoring chart was reviewed and was found to having been completed daily and that any issues had been reported to the relevant officers

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>

A.4	There are no backups of the Crematorium Server stored offsite. It would be prudent for a regular backup to be stored offsite.	Head of ICT Services	Head of ICT Services to liase with Bereavement Services Manager to a try to arrange for a weekly backup to be stored offsite in an appropriate location.	C	6 Months
A.5	Backup tapes are sent to the Civic Centre from Boustead Grassing in the Internal Mail.	Head of ICT Services	Head of ICT Services to consider if the Internal Mail is secure for transporting the backup disks from Boustead Grassing to the Civic Centre	C	6 Months

3. ICT RECOVERY

Method of Review:

- Discuss with key staff the current procedures for ICT Recovery
- Follow up any outstanding recommendations from previous Material Audits relating to this area.

Summary of Findings:

Recovery of the key systems is not routinely tested. ICT Services are confident that if system failure were to happen that all recovery would be successful. Partial recovery takes place as and when the need has arisen and no problems have been identified.

Testing has been limited due to a restriction on “out of hours working” and “no down time” to be permitted if avoidable during working hours.

A thorough test of the Civic Centre recovery was proved during the floods of 2005 when all Civic Centre systems were recovered and were back running within a very short time to allow essential actions to take place, for example the Payroll and the Housing Benefit run.

No testing of recovery has ever taken place at the Crematorium.

ICT Services are merging with Allerdale Council's ICT Services as part of “Shared Services” and this will eventually form a key part in the disaster recovery plan for the Authority's ICT systems. It will provide the Authority with access to a remote server and similarly the Authority will provide a Server to Allerdale should they be affected by a disaster. It is going to be a major project and will be completed during 08-09.

The 06-07 Debtors audit highlighted

Issue

Whilst it was noted that no formal contingency contract was deemed necessary with DTP or any other provider as a result of the 2004/05 Audit, the absence of a contract with a hardware supplier to deliver a server in an emergency is specifically highlighted.

Recommendation

That renewed consideration is given as to whether or not a contract is appropriate for the main IT servers to be replenished in the event of a disaster.

The floods of 2005 proved that the Authority did not need a contract for the main IT servers and that it was possible to source the necessary equipment from the D.T.P Group. There were no additional costs incurred and the Authority was only charged the standard equipment rates, proving that a contract was not needed.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.6	No routine testing of the recovery of the Material systems from the back up tapes takes place due to resources and the restrictions on "out of hours" working to allow the systems to be shut down and cause minimal disruption to the other Services	Head of ICT Services	Regular testing of the recovery of the Authority's Material Systems should take place	B	6 Months

Corporate Services

Audit Services

Audit of National Non Domestic Rates

Final Report

8th May 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\NNDR 07-08 Final Report.doc		

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

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

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area

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

3. Associated Risks of Providing this Service/Function

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

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
RBS 6 NNDR Administration <i>Disaster recovery plans in place. Rigorous use of test systems. Detailed operational text in place. Qualified management and robust training in place to reduce the risk. Rigorous audit of all admin processes. Secure environment for cash payments. Contingency arrangement in place</i>	<i>Operational</i>	<i>Low</i>

4. Scope of the Audit

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

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

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in the appendix A and have been brought to the attention of the relevant Head of Service. In summary the key issues arising from this review are:
- 5.2. The NNDR system is well run and secure procedures are in operation and there are no major areas of weakness. The work carried out is accurate and thorough and all necessary timescales are met.
- 5.3. Although it is always ensured that the VO schedules of alterations are always actioned prior to key dates, there is evidence from the testing carried out that at times there can be a backlog.
- 5.4. The procedure notes have been greatly enhanced since last year's audit but they are still not complete. Further work needs to be carried out to finish the internal procedure notes and to ensure that they are accessible to all relevant staff.

6. Grading of Audit Recommendations

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

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

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

- 6.2. There are 4 minor recommendations arising from this review. 1 at grade B, 3 at grade C

7. Statement of Assurance

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

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

Corporate Services Directorate, Revenues and Benefits Service Area

APPENDIX A

1. Valuation

Method of Review:

- Ensure that there is effective liaison with Building Control / Planning, Obtain a sample of recent building controls and planning commencement and completion reports and confirm they were reported to NNDR
- Ensure that recent changes to properties were promptly reported to the VO and were correctly recorded on the Academy System
- Review any outstanding proposals to the VO
- Ensure that the NNDR property history file is updated and that all details were input correctly
- Confirm that regular reconciliation is undertaken of the number of composite properties on Council Tax system to those recorded on the NNDR system
- Review the reconciliation of the property control totals to the VO schedules of alterations

Summary of Findings:

There is regular correspondence between Planning Services, Building Control and NNDR.. The reports are sent to NNDR promptly after the end of the month. The reports received are the Planning Applications / Decision Notices / Commencement Reports / Completion Reports. The relevant information is extracted and put in to a monitoring spreadsheet (Commencement Reports) which details the Completion Date and shows on which VO report the information was reported. This was started in February 2007 as the previous planning applications spreadsheet was proving too time consuming to monitor and complete, it has only set up as a temporary solution until the GIS system is completed. Normally NNDR wait for a completion report to be sent from Building Control so NNDR completion notices are not sent 3 months prior to the agreed completion date. This is ultimately down to workload pressures and a lack of staffing. The staff do ensure that when completions are issued from Building control that they are acted upon. Currently the information is only sent to one member of staff in NNDR, the Revenues Officer (Bill, Adm & Rec) it would be appropriate for an additional member of staff to be including in the circulation list in order to ensure that all information is received timely A copy of a Completion Notice, which was issued during 2007/2008, was reviewed and it was found to include all the relevant information. The Building Control Completion report was reviewed and found to be actioned accurately and the relevant information has been forwarded to the Valuation Office. There are notes on the individual accounts within Academy.

All outstanding proposals to the VO are within the accepted timescale and none are overdue

Reports are downloaded weekly from the Department of Communities and Local Government (DCLG)

At the time of review there was a backlog of amendments to be processed by the Revenues Team Leader (Technical). NNDR Staff were aware of the backlog that went back approximately three months. There is no option to delegate the workload as some of the amendments involved complex calculations ie Transitional Relief, Interest etc. It is noted that all amendment are brought up to date prior to key dates in the NNDR Process and are at present up to date.

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

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

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	It would be good practice for additional staff to receive the information from Planning Services to ensure that it is received promptly	Deputy Revenues Manager	An additional member of staff should receive the information from Planning Services and Building control	C	3 Months
A.2	Although it is ensured that the VO schedule of alterations are always actioned prior to key dates there is evidence from the testing carried out that at times there can be a backlog.	Deputy Revenues Manager	All amendments from the VO should be input within 35 days of receipt, to ensure that they are up to date throughout the year	C	6 Months

4. Collections and Refund

Method of Review:

- Review the Authority's calculation of its provisions contribution NNDR1
Ensure that the calculation is : done prior to the start of the year; Independently checked; the evidence is documented; submitted on time
- Review the last NDR grant claim
Ensure that it is : Checked independently; externally certified; Submitted prior to due date
- Ensure that there is adequate separation of duties
- Select a sample from the "return to drawer" and review
- Select a sample of items from suspense to ensure that they are allocated appropriately
- Review a sample from Creditors where ratepayers have had a cheque returned
- Ensure reconciliations are undertaken between the MAS and the NDR
- Review the PI

Summary of Findings:

Calculation of the NNDR1 provisions contribution

It is independently checked by the Head of Revenues and Benefits. The Director of Corporate Services receives a copy and the year on year comparisons are carried out to ensure that there are no unusual discrepancies. The supporting evidence is filed with the claim and was reviewed to ensure that appropriate figures have been used.

The form this year was submitted after the deadline but this has been explained. The forms were not received until the 4/2/08 and were due to be completed by the 8/2/08. The Department of Communities and Local Government provided contradictory advice on the completion with regards to the new regulations regarding empty properties relief and it was requested that the form be completed as soon as possible. It was accepted that it might not be possible to submit it prior to the due date.

Calculation of the NNDR3 grant form

It was independently checked by The Director of Corporate Service on the 11/6/07. It is noted that the Audit commission did not sign the Statement of Responsibilities until the due in date of the 30/10/07. There is no financial risk to the Authority if the form is not submitted on time.

There are clear separation of duties and between the creation of a debt and the collection

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

The suspense account was examined on two days and was clear on both. The 07/08 period was reviewed. Most postings were cleared the following day and all were cleared within a week. Several entries on the 8/1/08 were explained by the Technical Team leader.

Five accounts were examined where an action had resulted in a cheque being issued. In all cases the refund had been created by one person and authorised by another. The actions were followed through to the creditors system for the cheques to be produced. The creditors system maintains the Business Rate account number and uses it as the Creditor number. Four of the five had had the cheques issued. The transaction date on one was 24/1 and the cheque was to be issued during the week’s cheque run.

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

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

The PI relating to NNDR is BV10 – National Non Domestic Rates (NNDR) Collected

Target for 06/07 98.70 %

Actual for 06/07 98.40 %

06/07 The Authority was in the bottom quartile. The flood of 2005 was highlighted as a cause of downturn. It is essential for the Authority to raise its collection levels in order to lift itself from the bottom quartile.

Target for 07/08 98.50%

Actual to 3rd Quarter 88.05

The target to the third quarter is 88%.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3	The authority was in the bottom quartile for NNDR collected during 06/07 and was below its target	Deputy Revenues Manager	Attempts should be made to try to improve the collections rates	C	Ongoing

5. Procedure Notes

Method of Review:

Review the internal procedure notes

Review the external system procedure notes

Summary of Findings:

The Academy user guide provides a thorough complete guide to the Academy system. It is available to all relevant staff on the shared drive.

The production and updating of the internal procedure notes is still in progress. They are complete in most areas but work still needs to be completed for them to be merged into one document. Revenues Team Leader (Technical) advised that further work needs to be carried out to enhance the "Main processing" notes to enable a new starter to be able to follow them.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>

A.4	The internal procedure notes are not complete. Currently the Revenues Team Leader (Technical) stored the procedure notes on her personal drive, therefore other members off staff can not gain access to them	Deputy Revenues Manager	The procedure notes need to be completed and need to be saved to the shared drive	B	6 Months
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Corporate Services

Audit Services

Audit of Payroll

Final Report

29th May 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\Payroll - Final Report (May 2008).doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
People, Policy and Performance	Head of Personnel and Development	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Personnel and Development Services, which is attached as Appendix A. Please also see Appendix B
Corporate Services	Head of Facilities	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Environmental Services, which is attached as Appendix B

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

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area

- 2.1. There were huge changes afoot for the Payroll function during 2006/07. A new pay/personnel system "Trent" went live on 1st April 2007. System testing has been undertaken to determine the adequacy of controls in place with this new system. There has been little change in general office procedures and payment mechanisms.
- 2.2. The "establishment" i.e. the established payroll is constantly changing. The Vacancy Management Initiative which came into effect from March 2008 will impact significantly on the personnel and payroll operations in place for dealing with new appointments.
- 2.3.

3. Associated Risks of Providing this Service/Function

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

Risk Description	Type of Risk (strategic / operational)	Risk Score H/M/L
Loss of key people	Operational	Low
Failure to implement Trent in time to replace Open Door on 1 April 2007.	Operational	Low
Information Systems' dysfunction	Operational	Low

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

All new appointments have not been subject to the agreed Vacancy Management process.

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

4. **Scope of the Audit**

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

	Area Examined:
1.	Follow Up of 2006/07 Recommendations
2.	Starters
3.	Leavers
4.	Processing Deductions from Pay
5.	Monthly Variations to the Payroll
6.	Processing Monthly Payroll
7.	Verification and Reconciliation

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

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

- 5.1. Main issues arising from this report are associated with the appointment process (see section 2 of Matters Arising), where procedures were found to have slipped in many areas. These findings are likely to be due to resource issues faced by the Sections.

6. **Statement of Assurance**

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

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

People, Policy and Performance - Personnel and Development Services

1. Follow up of 2006/07 Recommendations

Summary of Findings

There were 16 recommendations arising from the 2006/07 audit of Payroll. Managers were contacted to ascertain whether these recommendations have been effectively implemented within the necessary timescale. Three recommendations were found to be outstanding.

*12 recommendations for Personnel and Development – 3 outstanding (see below)
3 for Financial Services - complete
1 for IT Services - complete*

<u>2006/07 Ref</u>	<u>Issue</u>	<u>Action Agreed on Conclusion of the 2006/07 Audit</u>	<u>2007/08 Update</u>	<u>Action Still required?</u>	<u>Suggested Timescale for Completion</u>
6B	Members' payslips once sealed are returned to Payroll and are posted out. This is seen as a breach of division of duties as payslips should be distributed separately from the Payroll function.	Discussions with the Head of Committee Services when concluding the 2006/07 audit agreed in principle that Members' payslips could be distributed by Member Support Services. The Assistant Pay Services Manager is to discuss the hand over arrangements and a suitable commencement date.	This recommendation is still to be fully discussed by the Pay Services Manager and the Head of Democratic Services. This is a relatively low risk area.	Yes	Should be completed by June 2008
12A	The contingency plan still needs to be updated to cover revised processing /procedures through Trent.	It was agreed that the contingency arrangement for Trent would be finalised when the system is implemented.	Contingency notes are in the process of being prepared	Completed – but still requires testing of BACS by IT Services	To be reviewed as part of 2008 audit.
14A	There are no operational procedure notes / manual for the (then) new Trent system	It was agreed that the Assistant Pay Services Manager would continue to update the procedure notes to reflect the new system over the next 12 months	Procedure notes are still being updated	Completed	

2. New Appointments (Starters)

Method of Review:

Determine the procedures in place to manage new appointments (both internal and external). Ascertain the adequacy of and compliance to these procedures via sample testing the following key stages of the appointment process:

Assurance sought, via sample testing, that that all successful candidates who are offered "high risk " posts are appropriately vetted via the Criminal Records Bureau (CRB) prior to commencing employment. Ascertain the adequacy and consistent compliance to these procedures.

Ascertained the arrangements and assurance sought through sample testing that that employees who are required to drive as part of their job, whether it be a council or their privately owned vehicle, have their driving licences checked to ensure they have a full licence.

Summary of Findings:

It is noted that the Vacancy Management arrangements, which came into effect in March 2008, will have an impact in regards to the personnel and payroll operations in place for dealing with new appointments.

The use of the starter's form to capture key information works well and file details relating to new appointments are accurately captured on Trent.

The system for undertaking medical clearance to work changed part way through 2007/08. The revised system, which involves Well Work Occupational Health, involves a notably improved process, which is consistent and well documented.

Employment information required by third parties was found to be forwarded promptly by the Pay and Reward Section.

There are, however, improvements in a number of areas to the appointment process, which are considered necessary. These are discussed in more detail below:

<u>Ref</u>	<u>Issue</u>	<u>Responsible Head of Service</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
1 (a)	<p>Applications for employment are only considered providing an applicant has completed the Council's approved Employment Application Form. This form has a declaration which all applicants must sign and date.</p> <p>It is common practice for applicants to submit electronically completed application forms. Whilst this method of submission is encouraged, current procedures dictate that such applications should be signed by the applicant at interview, should they be selected.</p>	Head of Personnel and Development	<p>Personnel should ensure that all completed applications, whether they are completed electronically or by hand, are signed and dated. A quality check of this basic requirement should be undertaken prior to Personnel handing applications to the selection panel for short-listing. Applications which have not been duly signed and dated should be flagged to the selection panel for the applicant to complete should they be selected for interview.</p> <p>Pay Services manager's comment – "The chair of the interview panel should be responsible for this –if they miss any – it is only</p>	B	Immediate -

	Sample testing of this requirement found that out of the 10 applications randomly selected for review, only 5 had been signed and dated. Four applications had been completed electronically and none of these had been signed at interview stage. One handwritten application had also not been signed.		the person appointed who needs to sign and Operational Support Team can be responsible for this as part of the offer process" – later confirmed with Head of Personnel and Development that this means that Personnel will ensure that all forms are duly signed.		
1 (b).	References should be requested by Personnel, prior to interview and references received, once examined by the interview panel, are retained on the Personnel file. Two occasions were noted whereby a line manager had taken up references directly with no Personnel involvement and no details had been made available to Personnel to retain on file.	Head of Personnel and Development	<p>Personnel should remind line managers of the correct procedure to obtain references and maintain an adequate central record to ensure that references are received and passed to line managers prior to the issue of the formal letter of appointment/employment contract.</p> <p>Pay Services Manager's comments – "OK with this for the most part – I have no problem on some occasions (and with HR agreement) of managers taking up references but a copy must be passed on to Operational Support Team for files".</p>	B	April 08
1 (c)	Trent does not flag posts which require CRB disclosure reports. No other separate record (i.e. post listing) is maintained by Personnel for reference / guidance purposes. The need to complete a CRB disclosure is based only on the information provided in the memo (template) which is completed by the employing department to inform Personnel of the vacancy which is to be advertised (see Recruitment / Appointment Procedure booklet on page 7). This process is not sufficient as: (a) the need for a CRB disclosure may not be fully appreciated by the line manager and therefore not included in the advertisement details, and (b) Personnel may inadvertently miss the insert stating that a CRB disclosure is required.	Head of Personnel and Development	<p>Personnel should be pro-active in determining whether or not posts require CRB disclosures. These should be held in the form of a central register and/or the details held within an illuminated field within Trent which can be easily identified.</p> <p>Pay Services Manager's comments – "We will need to do this in conjunction with managers for safeguarding children, but deadline (May 2008) too tight – I suggest Christmas given other things we have to do.</p> <p>Posts which require CRB disclosures to be undertaken should be easily recognisable in Trent (flag/indicator in place).</p> <p>Pay Services Manager's comments – If this is technically possible – a good idea.</p> <p>Ideally, system controls should prevent an employee being attached to the payroll unless a CRB disclosure has been completed and cleared and the details updated in Trent.</p> <p>Pay Services Manager's comments – Disagree – there are some circumstances where manager, after discussion with Personnel takes them on before CRB clearance received and adjusts work arrangements to ensure they are not alone with children or vulnerable adults.</p>	<p>B</p> <p>C</p> <p>D</p>	<p>Dec 08</p> <p>Dec 08</p> <p>To be considered</p>
1 (d)	The adequacy of and adherence to procedures surrounding the	Head of			

	<p>completion of CRB disclosures raised the following concerns:</p> <p>Whilst Personnel spreadsheet records had details of CRB disclosures being completed, evidence of these were not always on file.</p> <p>Further enquiries into missing CRB disclosures found that applicants may have provided their own copy at interview. One manager confirmed this was the case and such disclosure reports were accepted providing they had been completed in the last 3 years.</p> <p>One employee had started work before the CRB check had been completed.</p>	Personnel and Development	<p>The completion of CRB disclosures should always be co-ordinated by Personnel and evidence of these retained. Pay Services Manager's comments – We record details of clearance (issue date and no) on the CRB spreadsheet received. If Trent can do this, it would be useful to also record fact clearance received on Trent but can't be done immediately. We MUST NOT keep a copy on file – they have to be destroyed after 6 months at the longest.</p> <p>The Council should complete its own CRB disclosure regardless of whether or not an applicant provides their own copy which is "in date" i.e. within the last 3 years. This will ensure that the Council makes an appointment based on information which it has requested, which is up to date and which the evidence (outcome) is retained. Pay Services Manager's comments – I agree completely. I was unaware that this was happening – I will remind those appointing that we can not accept CRBs.</p> <p>Personnel should ensure that a CRB disclosure has been completed and cleared and the results reported to the line manager before the successful applicant commences their employment. Pay Services Manager's comments – Not necessarily agree – see comments at 1(c) above. It is nevertheless recommended that this risk should be recorded in the appropriate Risk Register.</p>	<p>B</p> <p>B</p> <p>B</p>	<p>If possible on Trent – Dec 08.</p> <p>Immediate</p> <p>Immediate</p>
1 (e)	<p>Personnel advise that CRB disclosures should be undertaken on all successful applicants of posts which, either directly or indirectly, have contact with children, youths and vulnerable adults (typical posts include Hostel and Resettlement Workers, Museum Gallery Assistants, Summer Playscheme Workers and Neighbourhood Enforcement Officers).</p> <p>No consideration seems to have been given to other potential risk posts – for example positions with financial responsibility i.e. Treasury Management and Accountancy positions with unlimited access to records (e.g. Audit) or those with significant</p>	Head of Personnel and Development	<p>Consideration should be given to which types of posts CRB disclosures should be undertaken and whether the existing guidance, which focuses on posts involving contact with vulnerable people, should be extending to include other high risk areas such as significant financial and decision making responsibility and unlimited access to (confidential) records. Pay Services Manager's comments – CRB provide a list and we use that for new appointments. We will review the posts to ensure we have captured all on CRB guidance but not immediately.</p>	D	To be considered

	capacity for decision making (e.g. senior management positions).				
1 (f)	Documented procedures for managers to refer to regarding when, why and how CRB checks are undertaken could be improved.	Head of Personnel and Development	<p>The Recruitment / Appointment procedures booklet - Summary of Procedure for Posts on page 6, should be updated to include the responsibility of Personnel to ensure CRB disclosures are fully completed, reported and evidence retained. These procedures should stress that managers must not obtain CRB disclosures for applicants themselves or take evidence provided by applicants that suggest such checks have been completed and are "in date".</p> <p>Pay Services Manager's comments – Additional notes to be sent to managers by June 08, but do not have resources to review fully Recruitment and Appointment procedure immediately unless PWS suffers. It is a waste of time to do this piecemeal especially when we will have to make changes in respect of safeguarding Children.</p>	B	June 08
1 (g)	<p>The Asylum and Nationality Act 1996 puts the onus firmly on employers to check and copy documentation to prove that potential employees are legally entitled to work in the UK. Employers must check the validity of these documents to establish evidence against liability for a penalty.</p> <p>Sample testing of 10 new appointments found 1 occasion where insufficient evidence had been seen/record maintained and 1 occasion where no evidence at all had been seen. These findings suggest that procedures covering this important requirement should be strengthened.</p>	Head of Personnel and Development	<p>Personnel should review its current practices which control the request for and checking of acceptable evidence that new appointments are eligible to work in the UK to ensure all appointments have the same level of checks applied and that evidence is retained as proof should it be subject to external challenge / inspection.</p> <p><i>Note that such practices have been recently updated. Penalties for non- compliance are higher and the list of items of acceptable evidence has reduced.</i></p> <p>Ideally, system controls within Trent should prevent an employee being attached to the payroll unless sufficient evidence to prove eligibility to work in the UK has been received.</p> <p>Pay Services Manager's comments – Don't know if this is possible but we don't appoint until eligibility to work established. Difficulty is around casuals. We will reiterate this fact but once a person has worked we can not refuse to pay then without getting into other breaches of law, although we try to hold out until documentation received. Managers have been reminded of obligations in relation to Casuals.</p>	A	Actioned

7. Verification and Reconciliation

Method of Review:

Review the arrangements in place to ensure that the established payroll is verified on a regular basis and this is independent of the Pay and Reward Section.

Appraise the procedures which exist to ensure that casual employees on the payroll are regularly reviewed / verified.

Determine the payroll pre-run procedure, reviewing the various errors and exception reports and the methodology used to correct highlighted anomalies and ensuring a management trail of the process exist.

Assurance sought that reconciliations between Trent and the General Ledger are undertaken on a scheduled basis and these are balanced and up to date.

Payroll suspense accounts are reviewed and cleared on a systematic basis by an authorised person and a management trail exists.

Summary of Findings:

Personnel create employees on the "establishment" and Pay Services then attach to them to the payroll. There is, however, still no separation of duties between creating new casual employees on the payroll and processing payments to casual staff. Pay Services continue to carry out and control both of these functions because of a continuing lack of resources in Personnel, which means they have been reluctant to take on casuals.

Routine verification of the accuracy of the payroll should be undertaken routinely, independent of Pay Services. The completion of this requirement has slipped. Personnel Services, who are responsible for this control, has not undertaken this exercise for a couple of years. The complete establishment and casuals were last verified as part of the switch over between Opendoor (the previous personnel / payroll system) and Trent in late 2007.

The payroll pre-run process is undertaken each month by experienced staff under restricted timescales. Some documented procedure notes are in place. A walk through of the payroll pre – run procedures for the October 07 payroll was undertaken. System controls to ensure payments are made against valid and complete employee records were reviewed. Exception reporting identified 3 potential errors during this procedure and all of these were effectively rectified by the Pay and Reward Section in time for the live run the following day.

Procedures in place to reconcile the payroll into the Ledger were examined and testing for period 7 (October 07) was undertaken. No issues were arising.

The payroll suspense account has a number of outstanding amounts which need to be rectified. Clarification regarding the reasons for these entries was ascertained and it was reported to be due to the Absence module in Trent, which has not yet been fully implemented. A full year of data is needed before testing can be undertaken on this particular module so during this interim period, Absence is manually calculated and this does not produce all the postings into the Ledger. The suspense account will now be cleared regularly until the Absence module is fully tested and implemented.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Head of Service</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
6(a)	Independent verification regarding the accuracy of the payroll has slipped. The last time this was done was during the switch over	Head of Personnel and	The requirement to independently verify the accuracy of the established payroll (including casual staff) needs to be reviewed	B	Dec 2008

	from Opendoor to Trent in late 2006 / early 2007 and this was led by Pay Services. Personnel have had no involvement verifying the established payroll or casuals.	Development	and fully implemented by Personnel. This exercise should be undertaken on a scheduled basis (suggest every 6 months for staff on the establishment and every 3 months for casual staff). <i>Noted that there is a continuing resource issue in Personnel Services, which will have to be address in order for this requirement to be fully endorsed with the section.</i> <i>Pay Services Manager's comments – We need to do this especially now with potential issues regarding segregation of duties but we shall need to put back implementation to December 2008.</i>		
6 (b)	Payroll Pre Run Procedure Notes have been prepared but these are brief in content. They were not considered sufficient enough for an inexperienced (payroll) officer to follow considering the process involved and checks that need to be undertaken. More detailed procedure notes would aid the training of payroll staff and support contingency arrangements.	Head of Personnel and Development	It is suggested that the Payroll Pre Run Procedure notes are expanded to include more explanatory information regarding the process to be undertaken and the reasons for it. Likely findings are on errors and exception reports and which transactions are "normal"(e.g. "zero net pay" are usually casuals, Vat on temporary elements usually affects travel and subsistence payments).	B	June 2008

Community Services, Environmental Services

2. New Appointments

Method of Review:

Ascertained the arrangements and assurance sought through sample testing that that employees who are required to drive as part of their job, whether it be a Council vehicle or their privately owned vehicle, have their driving licences checked to ensure they have a full licence.

Summary of Findings:

Enquiries with the Garage Manager found that whilst processes are in place to ensure any one who drives fleet or hire vehicle has their driving licence checked by the Garage, these procedures do not extend to all employees.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Head of Service</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
2.1.	Where it is a requirement of a post to drive on Authority business either as a casual user, essential car user, leased car, hired vehicle (by the Authority) or in one of the Authority's own fleet vehicles, post holders should be required to present their driving licence to prove eligibility to drive.	Head of Facilities	This control currently applies to only employees who drive fleet or hired vehicles. Consideration should be given to extending the checks on valid driving licences to all employees who are required to drive i.e. leased car holders, essential car users, as part of their job. The Head of facilities will take a suggested policy through SMT/Exec to the effect that it is the responsibility of each Head of Service to check their teams' driving licences annually.	B	Nov 2008

3. Leavers

Method of Review:

Satisfactory procedures in place to ensure that, prior to an employee leaving, relevant sections are notified so that assets can be returned and computer and physical access rights can be removed/deleted.

Summary of Findings:

Records maintained by the Car Park Section are not detailed enough to trace issued staff parking permits to individual members of staff. This made it difficult to ascertain whether permits had been returned when an employee leaves the Authority as permits were reissued by the employing section/department rather than the Car Parking Section.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Head of Service</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
3.1.	<p><u>Staff Car Parking Permits</u> - Car Parking Section could not trace whether or not car park permits had been handed back, as the pass numbers are not recorded centrally when an employee leaves <i>(nominated officers within each service area are responsible for managing the number of car park passes allocated in their area and they rely on line managers to retrieve / pass car park permits back once a member of staff has left. The need to retrieve the permit is not, however, listed on the leaver's form, which is completed by managers.)</i></p> <p>To conclude, the Car Parking Section are ultimately responsible for car parking permits but without completing a full reconciliation of car park passes in each service area, no assurance can be given regarding the retrieval of staff car parking permits from employees leaving the Authority. Car parking permits are valuable commodities (currently £624 for an annual pass). These permits are also "open" as they have no expiry date, they are transferable between vehicles and are usually valid in more than one car park. Improved controls are required to manage their issue/retrieval.</p> <p>The imminent introduction of salary sacrifice arrangements (initially schemes being Child Care Vouchers and Bicycles) will require robust measures in place to ensure the Payroll Section is promptly notified of employees leaving the Authority.</p>	Head of Personnel and Development	<p>The records maintained by the Car Park Section should be sufficiently detailed to indicate that an employee has returned the car park pass. In order to achieve this, the leavers form should be amended to alert Managers to the need to recover the car-park pass where applicable, and to inform Car-parking Section accordingly.</p> <p>This was discussed with the Personnel Manager who agreed to make the necessary change to the leavers form (also to include other requirements e.g. key-fob, equipment etc.)</p>	C	Immediate (May 08)

Corporate Services

Audit Services

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

Final Report

12th May 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\Sundry Debtors and Misc Income Audit 2007-08 - Final report.doc		

Directorate / Service Area	Recipients of Report	Action Required
Corporate Services	Head of Revenues & Benefits Services (for information). Revenues Manager. (for action)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Revenues & Benefits Services, which is attached as Appendix A .
All Directorates	Director of Corporate Services Director of Community Services Director of Development Services Director of Legal & Democratic Services Director of People, Policy & Performance Services. Director of Carlisle Renaissance. FOR ACTION.	Directors should ensure that the points contained in the report and the resulting recommendations are circulated to staff responsible for the administration of their service debtor accounts.

Please note: The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 23rd June 2008.

1. Reason for the Audit

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

2. Background Information / Summary of the Audit Area.

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

3. Associated Risks of Providing this Service/Function

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

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

4. Scope of the Audit

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

	Area Examined
1.	Follow up of previous review.
2.	General controls and procedural awareness.
3.	Raising invoices.
4.	Payments
5.	Recovery
6.	Monitoring and Reporting.

5. Overall Conclusion of the Audit Review

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in appendix A and have been brought to the attention of the relevant Head of Service. There are no issues raised that are of major concern to the Debtors Management but there are a number of Authority-wide issues that need to be addressed by all Directorates, hence the universal circulation of this final report.

- 5.2. Although previous records have been lost due to the floods of 2005, it can still be proven since that date that the same problems arise continuously, as outlined in this report. The problems identified are completely outwith the control of the Debtors Section and it should be noted that few of the recommendations contained within this report apply to the Revenues staff and their operations.
- 5.3. Previously, problems with billing were identified and solutions sought through additional training and memorandums giving instructions to abide both by financial procedure rules and good accounting practice. These were sent to users from both Revenues Management and Audit Services
- 5.4. As the system is user-based there is no possibility of direct control from the Debtors Section and problems continue to arise. Sufficient controls are in place to ensure that recovery and write off procedures are abided by, although much of this reactive work may be avoided if a more pro-active approach to the raising of debts was taken by other services.
- 5.5. Recommended accountancy practice states that directorates are credited with income automatically when the invoices are raised. This in turn shows that services generate income when in fact the debts so raised may never be recoverable. The services are however credited with the income, which has the potential of providing misleading management information.
- 5.6. As previously stated, this is outside of the Debtors Sections control, despite numerous repeated requests from Revenues Management and Audit Services for users to abide by Financial Procedure Rules and to only raise realistic debts. The user base is too wide to control and other measures may be required to control the function.
- 5.7. Overall, it is concluded that the administration of Sundry Debtors and Miscellaneous Income is working well.

6. **Grading of Audit Recommendations**

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

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

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

- 6.2. There are ten recommendations arising from this review. Five recommendations are at grade B and five at grade C.

7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a SUBSTANTIAL level of assurance can be given in relation to the systems of control within the Debtors section itself. There are however problems relating to the operations undertaken by the users of the system.
- 7.2. Because of the nature of this review, it is necessary on this occasion to give two 'statements of assurance'. For the work undertaken by the Debtors Section, a 'Substantial' level can be given. Because of the problems noted with the users of the system, assurance for the work undertaken can only be stated as 'Restricted'.

(see definition below).

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

Directorate, Service Area

APPENDIX A

1. FOLLOW UP OF PREVIOUS REVIEW.

Method of Review:

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

Summary of Findings:

Only one of the previous audit recommendations was outstanding. This recommendation concerned the adjustment of the debtors system structure to be in line with the current structure. Although this has not yet been actioned, it is in hand and will be dealt with when resources allow.

2. DEBTORS GENERAL.

Method of Review:

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

Summary of Findings:

- The Constitution was found on the Authority Intranet under "E-Library, Democracy, Committee Services, Constitution". Income and Expenditure Rules begin on p 97.
- On p97 'Income' Ref D20 it states that 'it is preferable to obtain income in advance of supplying goods or services as this both improves the Council's cash flow and avoids the time and cost of administering debts.'
- Due to the legal implications involved with the payment of leases, rents and wayleaves, there is no specified minimum amount stated for the raising of invoices. This is preferable for this Authority as with the accounts being raised by 'users' it minimises the risk of a minimum limit rule being misunderstood. The benefits of raising a small number of accounts for small amounts far outweighs the substantial cost that would be incurred if adverse possession were to happen. To counteract this cost however, the recovery process is never implemented, even for those with legal requirements, as the law only requires the tenant or lessee to be billed - the income does not have to be collected.

- The system prevents invoices being amended once they have been raised. They can only be cancelled by putting a request in to the debtors section.
- Financial Procedure Rules. Income and Expenditure, Key Controls. P97 D21(c). States 'The responsibility for cash collection should be separated from that for identifying the amount due and for reconciling the amount due to the amount received.' D36. States 'To separate as far as is practicable, the responsibility for identifying amounts due and the responsibility for their collection.'
- D21(e) states 'formal approval for debt write-off is obtained'. D21(f) states that 'appropriate write-off action is taken within defined timescale. D21 (g) states that 'appropriate accounting adjustments are made following write-off action'. It also states under D24, that it is the responsibility of Director of Corporate Services to 'Agree the write-off of bad debts up to the approved limit of £1,000 in each case and to refer larger sums to the Executive'. D25 states that it is the Executives responsibility to approve all debts to be written off up to the approved limit and to adhere to the requirements of the Accounts and Audit Regulations 2003. D26. States Directorates should obtain the approval of the Executive in consultation with the relevant Director for writing off debts in excess of £1,000.
- D35. States that it is the responsibility of the Directors to ensure that 'Sums due to the Council shall not be written off except by the authority of the Director of Corporate Services in respect of amounts up to £1,000 and by the Executive in respect of amounts exceeding £1,000. A report or summary of all amounts so written off shall be submitted quarterly to the Executive.
- The Revenues Team Leader maintains a spreadsheet with all users and their permission level. Currently there are 166 'users' maintained on this spreadsheet.
- There were a number of users with access who had either left the Authority or had transferred between directorates who should ideally be disabled from the system or be transferred within. The details are:-
 - 1 duplicate user where a 'new' user has been set up with their married name.
 - 2 users who have transferred between directorates/units and therefore may require different permissions than those set or to be disabled from the system.
 - 1 'user' who has left the Authority who has 'Debtor invoice insertion' permissions (although they do have '0' value Authorisation limit).
 - Only 3 members of Debtor staff are able to write off debts. No 'users' have access to do this. Secondly, no debt gets deleted until it has gone through the recovery or write off process which is monitored throughout. Thirdly any 'deletions' are shown on the daybook summary which is checked daily by the Revenues Team Leader. This print is used to compile the write off spreadsheet for the report to Committee therefore the Revenues Team Leader would notice any unauthorised deletions via this report. Finally, the spreadsheet is also balanced to the system and sent to Finance to be balanced to the Ledger. Any unauthorised deletions would be picked up via any one of these methods.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The debtors user record is not up to date.	Revenues Manager/ Revenues Team Leader.	The duplicate users' maiden name access should be removed.	C	Completed
A.2	As above	Revenues Manager/ Revenues Team Leader.	The 2 users who have transferred to other directorates should be contacted to see if access is still required and if so, duly amended as they may require new permissions to be set.	C	Completed
A.3	As above	Revenues Manager/ Revenues Team Leader.	The identified user with Invoice Insertion permissions should be disabled from the system immediately.	C	Completed

3. RAISING INVOICES.

Method of Review:

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

Summary of Findings:

- There is a weekly report produced of debtors who still have not paid within 14 days of the reminder. It is an assigned duty of a member of staff to inspect each debt and decide and pursue any further action.
- The debtors names are not listed alphabetically. They are listed in debtor reference number order and staff search for the account with this reference.

- The date of entry on the list is not recorded either. The date of 'payment due' is used as 14 days after this date, which is when active recovery begins. This is a preferable way and fits in with the Section's procedures for recovery.
- One designated member of debtors staff deals with the recovery and each month Directorate 'users' are issued with a list of their overdue debts for their action. It should be noted that the responsibility for setting up the debtor invoices lies with the directorates who will have all the supporting documentation and contact details for the debtor.
- The overdue debt reports are circulated each month. It is not the Debtors Section's responsibility to ensure that services make use of these reports - they can only provide them.
- Service departments inform the Revenues Team Leader of all charging updates. They in turn immediately update the system accordingly. The system is strictly controlled.
- Problems were identified in the narrative in five of the thirty sampled. Users should take care to ensure that the information stated on the invoice is descriptive and has been entered accurately and with care.
- The debtors section are considering introducing interest charges for commercial customers and this will be stated on the invoices. It is the intention to charge interest only after considering each individual case.
- Only three designated debtors staff have access to amend periodical invoices. The process is that user sections send memorandums stating the accounts to be set up. There has been an instance where memorandums have gone astray. It is the responsibility of the user directorates to ensure the account has been raised as they have access to the Financial Information System reports. User directorates should maintain their own income records.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A4	<p>The aged debtors report was scrutinised. There were a number of problems identified from the sample.</p> <p>There was a problem identified regarding the larger debts (and agencies).</p> <p>At the time of the sample (04/02/08) there was £1,093,452.94 registered on the debtors system as owing to the Authority. (this is the total minus Direct Debits and Community Centre Wages which are not strictly true debts). Of this £634,881.26 was overdue. One debt alone was for £27,012.22 and had been outstanding for over five months.</p> <p>This figure was further analysed and it became apparent that there are a number of businesses that accumulate very large debts and do not pay until the recovery process is almost at collection agency or bailiff stage. This was the debt figure as at the 04/02/08 yet further investigation showed that this is still happening with these particular debtors. This is not acceptable and will be affecting the Authority's cash flow.</p> <p>The lost interest in the above total overdue amount at that point in time can be estimated (based on 6% interest rate) at approximately £100 per day.</p>	All Directorates	<p>The length of time that substantial debts are outstanding causes a problem for the Authority's cash flow. Management should decide whether to reduce the current 70 days it takes before the debt goes to recovery stage to considerably improve the Authority cash flow and also increase the chance of the debt being paid.</p> <p>Post audit discussions established that this is indeed going to change. The payment due date on single invoices will be reduced from 28 days to 14 days. For this to be possible a new system release needs to be installed. At the time of this review this was awaiting further work to be done on the rest of the Radius systems before this was possible.</p>	B	<p>Awaiting Ledgers release.</p> <p>April 2008.</p>

A5	It was noted that there were a considerable number of debtors who still owed the Authority money but were still being provided with services.	All Directorates	All users must refer to the aged debtors report provided before allowing further credit to bad payers.	B	April 2008
A6	Bad payers are not made to pay in advance where it is possible to do so.	All Directorates	<p>Financial procedure rule D20 states that 'it is preferable to obtain income in advance of supplying goods or services as this both improves the Council's' cash flow and avoids the time and cost of administering debts.' This rule should be enforced for bad payers. Services should not inflate their performance figures at the expense of raising uncollectable debts.</p> <p>As an example it is recommended that room hire and training courses be paid for in advance.</p>	B	April 2008

A7	<p>The debtor accounts are checked by a member of Revenues staff to ensure that 'new' debtors aren't already set up and that invoices look 'sensible'.</p> <p>It again must be reiterated that the debtors section can not be responsible for the information that goes 'into' the system. It only deals with the result of such actions. For instance if invoices are entered on the system and the information differs from the base information given to the user, this would not be picked up, as there is no control there, unless the managers check the system for themselves.</p> <p>The only control possible is for the service budget holder to pay particular attention to income on their monthly FIS reports.</p>	All Directorates	Budget Holders should pay attention to the income codes on the monthly Financial Information System (FIS) reports to ensure that debtor accounts have been raised accurately.	C	April 2008
A8	<p>The service standard is for debtor accounts to be raised within two weeks (14 days) of the service being provided. Scrutiny of billing accounts proved that it was only possible to calculate the time taken to raise the account on 60% of the sample.</p> <p>60 invoices (3 days random sample) were tested and the results were as follows:-</p> <p>For those where a date was shown, the test suggested that 38% of invoices were raised within the 14-day guideline and 22% were raised after the 14-day guideline. The remaining 40% had no date of service provision recorded.</p> <p>The debtors service new performance indicator of all debtor accounts paid within 2 months of service provided requires the date of service provision to calculate performance against and therefore it is essential that it is stipulated on the invoice.</p>	All Directorates	All debtor accounts raised must show the date the service was provided to allow monitoring of this indicator.	B	April 2008

A9	<p>Invoices cannot be amended. They can only be cancelled or part cancelled. Each of these processes require authorisation.</p> <p>From testing it was concluded that:-</p> <p>One invoice was cancelled without authorisation.</p> <p>Reasons for cancellation were not sufficient. 'Invoice raised in error' does not give sufficient information to justify the cancellation. There should be a defined process to enable staff to have a specified criteria for cancellations.</p> <p>From sampling it was evident that there was a high level of error that resulted in cancellation of accounts</p> <p>A large number of errors were due to misunderstanding about VAT. Services should ensure that the staff are aware of the VAT rules.</p>	All Directorates	<p>Users should take care to ensure that the narrative stated on the invoice is correct.</p> <p>Cancellations should be supported by sufficient evidence to justify the cancellation.</p>	B	April 2008

5. **RECOVERY.**

Method of Review:

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

Summary of Findings:

The Revenues Team Leader reports on unresolved disputes to the user sections.

There are procedures in place to enable written off debts to be written back on.

The initiating sections *should* be responsible for their own write-off balances. If a debt is not paid then the sections should not be credited. BVACOP states that this charge should be shown in the individual service account, however this would be impossible to do in this instance as the Authority always calculates a global bad debt provision and not to individual services.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
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A.10	<p>Testing highlighted that recurrent bad payers are effectively taking full advantage of the current recovery process. This is damaging Authority cash flow. In addition to this, when cases get as far as collection agency stage it costs the Authority 33% of the debt to collect. This cost is not passed on to the debtor.</p> <p>Prepayment must be considered. It was again highlighted that the provision of Eurobins posed a problem,</p> <p>Post audit discussions with the Head of Legal Services established the following regarding the provision of Eurobins. The provision of commercial waste collection is covered by Section 45 of the Environmental Protection Act 1990. This states that it is the duty of the Council, if requested by the occupier of a premises in its area to collect any commercial waste from the premises, to arrange for the collection of the waste and the person making such a request is liable to pay a reasonable charge. It is also the duty of the Council to recover the charge unless the Council deems it inappropriate to do so.</p> <p>Basically what this means is that even if we do apply bailiff charges on top of the outstanding debt and they still do not pay, then the service will still have to be provided.</p>	All Directorates	<p>If a debt reaches collection agency stage and incurs costs then these ideally should be passed on to the debtor.</p> <p>Unfortunately this is not possible in all cases as to do this incurs a cost as the debt has to pass through the courts. It is not viable therefore to enforce the costs on the smaller debts but it will be enforced on the larger debts once certain criteria have been taken into consideration. Also, the Authority has a legal obligation to provide some services whether debtors pay or not.</p> <p>Debtors staff should evaluate each individual case on its own merit.</p> <p>The invoice template has been adjusted to inform debtors that the Authority reserves the right to enforce this charge.</p>	C	April 2008.

Corporate Services

Audit Services

Audit of Treasury Management

MAT005

Final Report

21st April 2008

Audit Contact		Extn No.	
Document Ref:	C:\DOCUME~1\RachelR\LOCALS~1\Temp\Treasury Management Report 2007-08 Final.doc		

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

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

1. Reason for the Audit

- 1.1. As part of the audit planning process, Treasury Management is one of the 'material' reviews which are required for 2007/08.

2. Background Information / Summary of the Audit Area

- 2.1. The Treasury & Insurance Manager has been involved with Treasury Management for approximately 25 years and has gained extensive experience and knowledge of this area.
- 2.2. As there have been no changes to the system by which Treasury Management is controlled and processed, the basic key controls have been addressed.
- 2.3. Treasury Management is located within Financial Services.
- 2.4. Random testing was carried out on investments throughout 2007/08.

3. Associated Risks of Providing this Service/Function

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

<u>Risk Description and Control Strategy</u>	<u>Type of Risk</u> <i>(strategic / operational)</i>	<u>Risk Score</u> <i>H/M/L</i>
Treasury Management – Treasury Management & Investment Strategy approved annually. Separation of duties. Records kept and documentation of actions taken. Banking controls in place. CIPFA Code adopted.	Operational	H
Financial Management Information – Inaccurate information can lead to poor management decisions	Strategic	H

4. Scope of the Audit

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

	<u>Area Examined</u>
-	Follow Up to 2006/07 Review
1.	Policies & Procedures
2.	Risk Management
3.	Long & Short Term Borrowing
4.	Lending – Loans Raised and Repaid
5.	Cash Flow – Payments & Transfer of Funds
6.	Reconciliation to Ledgers
7.	Fidelity Guarantee Insurance

5. Overall Conclusion of the Audit Review

- 5.1. Overall the procedures and controls in place for Treasury Management are extremely high and working efficiently.
- 5.2. Staff within the Authority involved in the process of Treasury Management are aware of the Financial Procedures Rules and relevant legislation regarding anti-money laundering, investments etc.

6. Grading of Audit Recommendations

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

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

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

- 6.2. There is one grade 'D' recommendation arising from this review.

7. **Statement of Assurance**

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

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

Directorate, Service Area

APPENDIX A

7. FIDELITY GUARANTEE INSURANCE

Method of Review:

1. Discussions with the Treasury & Insurance Manager.
2. Examination of the Fidelity Guarantee Insurance Agreement/Policy.
3. Examination of the Treasury Management Practice policy to ensure that the Fidelity Guarantee Insurance has been included.

Summary of Findings:

2. The Fidelity Guarantee Insurance Policy was reviewed to ensure that designated employees were covered and the indemnity of £10 million for any one designated employee and the indemnity of £1 million for all other persons under a contract of service were adequate.
3. It was noted that the Head of Revenues & Benefits Services was not listed on the Fidelity Guarantee Insurance Policy. The Treasury & Insurance Manager confirmed that the Head of Revenues & Benefits Services had been added to the policy and would be on the new policy when renew. **Please refer to Recommendation A.1.**
4. Examination of the Treasury Management Practices policy confirmed that the Fidelity Guarantee Insurance Agreement/Policy had been included. Please refer to report <\\Carl62\Accountancy\Treasury Management\TREASURY MANAGEMENT PRACTICES.doc>, section 1.8 – Fraud, Error & Corruption. Details can also be found in report Contingency Management, ref 1.8.3 – Insurance Cover Details.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
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A.1	The Head of Revenues & Benefits Services is not listed on the Fidelity Guarantee Insurance Policy as a designated employee.	Treasury & Insurance Manager	Ensure that the Head of Revenues & Benefits Services is listed on the Fidelity Guarantee Insurance Policy when renewed.	D	When Fidelity Guarantee Insurance Policy is renewed.
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