

# **AUDIT COMMITTEE**

## ***Committee Report***

**Public**

**Date of Meeting:** 5<sup>th</sup> July 2011

**Title:** AUDIT SERVICES PROGRESS REPORT

**Report of:** Assistant Director (Resources)

**Report reference:** RD.20/11

### **Summary:**

This report summarises the work carried out by Audit Services since the previous report to Committee on 11<sup>th</sup> April 2011. The report details the progress made against the 2011/12 Audit Plan for the reporting period 1<sup>st</sup> April to 10<sup>th</sup> June 2011.

### **Recommendations:**

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

**Contact Officer:** Gill Martin,  
(Interim) Audit Manager

**Ext:** 7294

## CITY OF CARLISLE

To: Audit Committee  
5<sup>th</sup> July 2011

RD.20/11

### Audit Services Progress Report

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

1.1 This report summarises the work carried out by Audit Services since the previous report to Committee on 11<sup>th</sup> April 2011 and monitors progress made in the first quarter period of the 2011/12 Audit Plan - reporting period 1st April to 10<sup>th</sup> June 2011.

#### **2 Audit Performance Against the 2011/12 Audit Plan – quarter one**

2.1 The 2010-11 Audit Plan was presented to the Audit Committee on 12th April 2011 – report RD5/11 refers.

2.2 There is one change to the agreed Audit Plan, to which Members' attention is drawn. The audit of Street Cleaning has been postponed until 2012/13 due to a planned transformational review in this service area. The audit time allocation will now be used to undertake a review of the external funding arrangements for the Connect 2 cycleway project. This change was requested by the Assistant Director – Local Environment and supported by the Assistant Director – Resources. This audit report will be presented to the Audit Committee at its meeting in September 2011.

2.3 Audit work in the first quarter period has concentrating on 3 main areas:

- The completion of work brought forward from 2011/12.
- Audit reviews started on 5 high risk audit areas
- Work to address data matches raised by the National Fraud Initiative is also ongoing. The outcome of this exercise will be report later in 2011/12.

2.4 To assist Members in monitoring progress against the agreed Audit Plan for the first quarter period, the status of each audit in the Plan, along with time spent to date, is shown in **Appendix A**. Overall, 91 days (17%) of the total direct audit days expected for 2011/12 were delivered by 10<sup>th</sup> June – this is considered to be on target for this position in the year.

#### **3 Follow-up Reviews**

3.1 There are no issues which need to be brought to Members' attention at is time concerning follow up audits.

3.2 Members of the Committee received the audit report on Grants at their meeting in September 2010. Given that a restricted assurance rating was given to this audit review, a comprehensive follow up of recommendations is currently being considered by management. Members are reminded that further audit time is scheduled to be spent on grant claims later in 2011/12. This work will review the evidence to support the improvements made in this area.

#### 4 Review of Completed Audit Work

4.1 Current reporting protocol is that Members of the Audit Committee 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, and has been assigned a rating of either 'reasonable', 'restricted', or 'none'. Reports that have been assigned a rating of 'substantial' are supplied in a short report format (Management Summary only), as agreed at the Committee meeting on 24<sup>th</sup> September 2010.

4.2 There are 6 audit reports for Members to consider which have been rated as reasonable assurance – these are attached as:

**Appendix B** Cash Collection and Income Management

**Appendix C** Debtors

**Appendix D** Payroll

**Appendix E** NNDR

**Appendix F** Pest Control

**Appendix G** Health and Safety

4.3 There are a further 3 audit reports which has been completed in this reporting period which have been given a substantial assurance rating – these are attached as:

**Appendix H** Main Accounting System

**Appendix I** Council Tax

**Appendix J** Fixed Assets

#### 4.4 Recommendations

It is recommended that Members

- Note the progress made towards completion of the 2011/12 Audit Plan in the first quarter period attached as **Appendix A**.
- Receive the completed audit reports attached as **Appendices B – J**.

# APPENDIX A

## PROGRESS AGAINST THE AUDIT PLAN 2011/12 (for the period 1st April - 10th June 2011)

<u>Status</u>	<u>Directorate</u>	<u>Section</u>	<u>Audit Area</u>	<u>Allocated Days</u>	<u>Days Taken</u>	<u>Comments</u>
<b><u>HIGH RISKS</u></b>						
Ongoing	Local Environment	Highways	Highways Contract & Claimed Rights	15	5	-
Ongoing	Local Environment	Highways	Review of Sustrans Grant	10	1	Review of Sustrans Grant replaced Street Cleaning .
Ongoing	Resources	Property	Industrial Estates - lettings	10	16	Lettings audit incorporated with Properties for Rent audit c/fwd from 2010/11. Draft report issued.
Pending	Com. Engagement	Museums and Gallery	Tullie House	10	1	
Ongoing	Local Env. / Resources	Financial Services	Insurance (inc highways )	10	7	Initial work started in 2010/11
Ongoing	Chief Executive	Chief Executive's Team	Risk Management	10	6	
<b><u>LOWER / MEDIUM / OTHER RISKS</u></b>						
Completed	Local Environment	Environmental Services	Pest Control	5	5	Final Report to be considered by Audit Committee in July 2010
Pending	Resources	Corporate	CRB Compliance	5	1	Priority review currently pending due to updated practices on hold
Ongoing		Corporate	National Fraud Initiative (NFI)	15	3	Priority review - ongoing work
<b><u>MATERIAL AUDIT REVIEWS</u></b>						
Completed		-	Material Audits - Contingency	15	8	Relates to time taken to clear remaining draft reports from 2010/12
<b><u>ICT REVIEWS</u></b>						
Ongoing	-	-	IT Strategy	10	3	Joint audit review with Allerdale BC

<b><u>CONTINGENCY</u></b>			
Completed	Support provided to cash management changes		3
	Properties for Rent		6
			Started in 2010/11 - additional days required to finish this review in 2011/12. Draft report issued
Completed	Health and Safety Audit	-	10
			Started in 2010/11 - additional days required to finish this review in 2011/12. Final Report to be considered by the Audit Committee in July 2011.
	Other		7
<b><u>AUDIT REPORTING, PLANNING &amp; COMMITTEE</u></b>		<b>40</b>	<b>6</b>
<b><u>FOLLOW UPS</u></b>		<b>10</b>	<b>3</b>

<b>Total Direct Audit Days Delivered in Q1</b>	<b>91</b>
<b>Total Direct Audit Days in 2011/12 Plan</b>	<b>535</b>
<b>% of Direct Audit Days Delivered in Q1</b>	<b>17</b>



**Audit Services,**

**Resources Directorate**

Audit of Cash Collection and Income Management.

# Final Report

2<sup>nd</sup> June 2011

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

**Please note:** The Chief Executive, Deputy Chief Executive and relevant Assistant 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 5<sup>th</sup> July 2011

**1. Reason for the Audit**

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

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

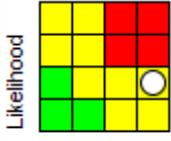
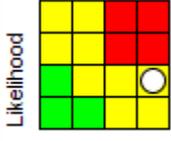
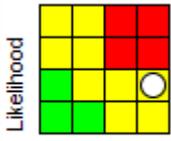
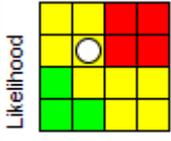
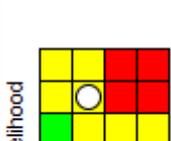
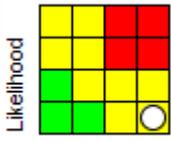
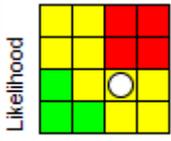
2.1. Cash Collection and Income Management are split between front office functions, which are carried out by the Customer Contact Centre and back office functions, which are carried out by the Support Services Team and Systems and Development Team, both of which form part of the Resources Directorate.

2.2. The ICON corporate cash receipting system is used to record all income received by the Authority. The cashiers in the Customer Contact Centre primarily deal with the receipt of income on a face to face basis. The Support Services and Development Support Teams deal with income collected from postal remittances, telephone and internet payments.

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

3.1. Examination of the risk registers noted the following risks:

Risk	Description	Present and Previous Risk Matrices	Review Dates	Current Risk Rating	Rating Description	Current Action Status / Control Strategy	Managed By
<b>Meeting requirements of existing and new legislation and guidance.</b>	The risk is that new legislation and guidance is not complied with.		07 Jun 2010	<b>4</b>	<b>Impact</b> Marginal <b>Likelihood</b> Remote	New publications are circulated to key staff. Relevant training given and attendance at external courses. External advice sought where appropriate.	Financial Services; Financial Services Manager
<b>Violence towards staff</b>	Physical Aggression /violence from a member of		01 Dec 2010	<b>8</b>	<b>Impact</b> Critical <b>Likelihood</b> Remote	Panic alarms in place together with security measure for staff to	Customer Services Manager

Risk	Description	Present and Previous Risk Matrices	Review Dates	Current Risk Rating	Rating Description	Current Action Status / Control Strategy	Managed By
	public to member of staff	 <p>Likelihood</p> <p>Impact</p>	01 Jun 2010			respond. Amended policy in place 2009 to allow for a zero tolerance of violence from customers.	
Losing customer data	Losing personal data from customers	 <p>Likelihood</p> <p>Impact</p>	01 Dec 2010	8	Impact Critical	Only photo copies of forms taken originals given back to customers, data logs maintained	Customer Services Manager
		 <p>Likelihood</p> <p>Impact</p>	26 May 2010		Likelihood Remote		
Complaints	Complaints being escalated due to customers not agreeing with outcome of enquiry	 <p>Likelihood</p> <p>Impact</p>	01 Dec 2010	6	Impact Marginal	At each level of staff enquires are dealt with to the fullest extent, before moving it up the structure as necessary, to ensure complaints at handled at the lowest level without them becoming serious	Customer Services Manager
		 <p>Likelihood</p> <p>Impact</p>	26 May 2010		Likelihood Reasonably probable		
Attempted robbery	Attempt to rob the cash desk	 <p>Likelihood</p> <p>Impact</p>	01 Dec 2010	4	Impact Critical	The cash desk is behind a glass screen although significant sums are kept in the safe. If threatened with violence staff are to avoid harm by acceding to the demands placed on them. CCTV covers the foyer area and panic alarm are in place.	Customer Services Manager
		 <p>Likelihood</p> <p>Impact</p>	26 May 2010		Likelihood Extremely remote		
Software systems not working	Software Systems not working properly causing delays to	 <p>Likelihood</p> <p>Impact</p>	25 Jan 2011	6	Impact High Likelihood Remote	Manual systems in place for if/when systems crash allowing continued service for	Customer Services Manager

Risk	Description	Present and Previous Risk Matrices	Review Dates	Current Risk Rating	Rating Description	Current Action Status / Control Strategy	Managed By
	serving customers and providing information					customers.	

There were no other specific operational risks identified by Internal Audit for the purpose of this 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 09/10 Review.
2.	Policies and Procedures.
3.	Transactions.
4.	Postal Remittances.
5.	Income Reconciliation.
6.	Security and Banking.

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

- 5.1. Existing procedures in place are considered good. Furthermore, there is going to be a thorough review of all cash collection procedures during 2011/2012 to identify efficiencies in operations. Audit Services will be involved in this exercise.
- 5.2. Secure procedures were found in relation to transactions, income reconciliation, security and banking and security of data – areas of improvement include:
- 5.2.1. Better procedures need to be in place to ensure that all leavers are removed from IT systems.
- 5.2.2. At present no record is maintained of unidentifiable income coming into the Authority. Whilst procedures are in place to deal with such items, a record should be maintained to provide a full audit trail of all actions taken.

**6. Grading of Audit Recommendations**

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

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

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

6.2. There are 8 recommendations arising from this review. 1 at grade B and 7 at grade C

**7. Statement of Assurance**

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

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

**APPENDIX A****1. Follow up of 09/10 Review.*****Method of Review:***

- Examination of the 2009/2010 review of Cash Collection and Income Management.

***Summary of Findings:***

All recommendations resulting from the 2009/2010 audit have been reviewed to ensure that appropriate action has been taken.

**A1 Support & Development staff should ensure that the member of staff that has retired is removed from the live system. A reminder should be sent to all supervisors that have access to the system of their responsibility to inform the Development and Support Section of relevant staff movements**  
This was actioned but another instance has been found during the 2010/2011 audit and therefore the recommendation has been repeated see A.1

**A.2 That Development and Support instruct the Car Parking staff to begin using the new PCN's with immediate effect in order to comply with the relevant PCI Security Standard. Any spare original PCN stocks should be destroyed securely.**

Actioned

**A.3. To ensure that staff integrity is maintained at all times, it should be paramount that the credit card payment details are only accessible to the minimum number of essential staff prior to them being destroyed.**

**The current procedures should be strengthened whereby when the detail is in the possession of the Authority, it should be stored immediately in a secure location until it is needed for reconciliation and disposed of immediately. The actual reconciliation should take place as soon as possible.**

Actioned

**A.4 The Customer Contact Centre Manager should:-**

**Update the 'Encashment of Benefit Cheque Form – The required 'Proofs of ID' should be strengthened to include that at least one should have photographic ID.**

This recommendation has not been implemented, but a discussion with the Customer Services Manager concluded that it would be implemented, the procedures have changed and the form will be updated as soon as possible to reflect the procedures.

**A.5 Consideration should be given to establishing a stand alone facility, (using existing staffing and IT resources) specifically for the encashment of Housing Benefit cheques. (i.e open separate till with own 'float'). Of course a cost benefit evaluation should be performed.**

This recommendation was made at the manager's discretion and it was decided not to implement it because it would add no value. No float is maintained for encashment of cheques – they are only carried out if enough income has been received. A stand alone facility would need a float.

**A.6 Officers should investigate the possibility of changing the combination of the main safe to increase the security controls.**

The combination for the safe has still not been changed, and it was considered that because of the insurance criteria there was no need to change the combination routinely. The Customer Services Manager has agreed, due to the change of staff at supervisory grade that the combination will be changed.

**A.7 The Treasury and Insurance Manager should ensure that the list of employees declared on the Fidelity Guarantee policy is updated when submitting the May 2010 renewal.**

The Fidelity Guarantee schedule was updated and is currently up to date.

## **2. Policies and Procedures.**

***Method of Review:***

Review the Authority's Constitution, Financial Procedure Rules (FPRs) and documented procedures and check that these specify clearly the responsibilities and procedures for cash/income collection and banking.

By computer enquiry, obtain a listing of all users who have access to the cashiers computer system and check that:

- each is a current employee
- the facility to input is restricted to cashiers
- only senior cashiers are able to make adjustments to make the tills balance
- other access levels are appropriate to the individual's duties
- the receipt recording part of the system is not accessible to cashiers
- all other terminals have ancillary access only

By enquiry with the cashier's system administrator, check that there are adequate procedures in place to ensure that:

- user access rights and levels are regularly reviewed (eg every six months)
- when users change jobs or leave, the notification process ensures the administrator is immediately notified so that access rights are:
  - removed for leavers
  - changed for transferees as appropriate

Select a sample of employees from the listing obtained above and by enquiry with them check that they are aware of and have copies of the Authority's Constitution, FPRs and written procedures.

***Summary of Findings:***

The Constitution is available to staff on the Intranet. The FPRs form part of the Constitution.

Section D20 – D46 of the Constitution relates to Income Collection. The key controls are identified and relate to all areas of cash collection, from identifying and allocating income through to pursuing non payments and writing off debts if necessary.

Thorough procedure notes are in place for the cashiers and supervisors. The Customer Services Manager intends to review and update the procedures, including Petty Cash during 2011/2012.

A list of users with current access levels was obtained and reviewed. A sample of current users was checked to ensure that these employees still required access. One employee was found to have left the Authority in October 2010 but still had access to the Webstaff. It would be difficult for the member of staff to gain access and they would need access to the Carlisle City Council Intranet which is only available via an internal PC in order to use Webstaff. **See recommendation A1**

Staff were asked to confirm whether they knew where to locate the Constitution, the FPRs and the document cash collection procedures. Some of the staff were not aware of the location of the documented procedures. **See recommendation A2**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	Employees which have left the Authority still have access to Webstaff	Personnel Manager	Personnel should inform ICT Connect of all leavers to ensure that all ICT access is removed when an employee leaves the Authority. <b>Personnel Comments</b> Personnel currently do inform ICT Connect of all leavers, it is current the responsibility of Managers to let system administrators know when individuals are leaving.	C	3 Months
A.2	Some members of staff were not aware of the location of the procedures	Customer Services Manager	All staff involved in cash collection procedures should be reminded where to find to the relevant procedure notes	C	3 Months

### 3. Transactions.

#### **Method of Review:**

Inspect a sample of different types of bills issued by the Authority.

Visit the Cash Office and check that there are signs predominantly displayed, requesting that payees ensure that they receive a receipt.

By enquiry and by inspecting a sample of recent till rolls/computer reports:

Review the ICON cash receipting system output and check the daily record.

Examine a completed bank paying-in slip and confirm that a schedule of all cheques included with the banking is produced and attached which shows the

- amount of each cheque
- reference number
- receipt number

Inspect the manual receipt book stock record.

#### **Summary of Findings:**

A debtor invoice was obtained and reviewed. The invoice clearly identifies how and where payments can be made to the Authority and that cheques should be made payable to "City of Carlisle". The invoice does not state that official receipts must be obtained for any cash payments. **See recommendation A3**

A blank Penalty Charge Notice was reviewed. The notice asks for cheques to be made to "Carlisle City Council" – whilst it is accepted that these can still be paid into the Authority's bank account, the account name is "City of Carlisle". For accuracy, payees should be requested to make the cheque out to the account name "City of Carlisle" **See recommendation A4**

Payees can make payments at the Civic Centre, by post, via the Internet or telephone.

Signage

There are no signs displayed in the Customer Contact Centre reminding payees to ensure that a receipt is obtained for all payments made. **See recommendation A5**

The daily transaction reports were checked for the 1/3/11 and were found to provide all the necessary information.

- The transactions were recorded individually
- A reference number is recorded against each transaction
- Each transaction has its own unique transaction number
- Transaction numbers run consecutively
- Vat is dealt with automatically
- The System only allows valid income codes to be input
- The date is recorded by the receipting equipment
- The date is changed each day independently of the cashiers
- The reference number of the cashier responsible for the transaction is recorded
- The till used is identified by the computer report
- All cash, cheques and direct credits are identified separately
- The cashier daily "Cash up" sheets are retained and stored securely by the Systems and Development team
- The transaction listing report shows the end of day totals, and identifies any cash, cheques and postal orders, etc separately

The ICON cash receipting system was reviewed on the 6<sup>th</sup> December 2010

The till balance report and the cash up report were reviewed. The daily record analyses payments into cash, cheques and debit cards. The income is shown for each payment type and this is under different income code headings i.e. debtors, business rates, council tax etc.

Cheques are paid in the day following receipt. The paying in slip details the cashier's number and the totals. Scanned copies of the cheques are retained, showing the amount and payee.

The manual receipt book stock was reviewed. The record shows the receipts and issues of stock along with a running balance. It shows the receipt numbers of the books issued and to which employee it was issued to. The books are stored in a locked filing cabinet in Support Services. At the time of the review the key box was left open. **See recommendation A6**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3	The invoice does not state that official receipts must be obtained for any cash payments	Financial Services Manager	Debtor invoices should remind payees that a receipt should be obtained for any cash payments	C	6 Months
A.4	The Penalty Charge notice asks for cheques to be made to "Carlisle City Council"	Customer Services Manager	Customer Services Manager should advise the Car Parking section that Penalty Charge Notices should be changed and the payee should be asked to make cheques out to the "City of Carlisle"	C	6 Months

A.5	There are no signs displayed in the customer contact centre reminding payees to ensure that a receipt is obtained	Customer Services Manager	Customer Services should display signs reminding customers to ensure that they receive a receipt for all payments	C	3 Months
A.6	The manual receipt books are stored in a locked filing cabinet in Support Services. There is an issue over the key box being left open and unattended	Support Services Supervisor	The key box should be kept locked.	C	6 Months

#### 4. Postal Remittances.

##### **Method of Review:**

Discuss post opening procedures.

Select a sample of sheets recording unidentified remittances.

Review the items banked and posted to suspense pending allocation.

By enquiry with management confirm that adequate regular independent 'spot checks' are undertaken.

##### **Summary of Findings:**

A discussion was held with the Administrative Assistant (Service Support) who confirmed the procedures in place for post opening:

- At least two employee are present at post opening
- All income is allocated promptly to the correct code and account reference
- All cheques are scanned showing the amount and who the payment is from
- All cheques are dealt with promptly and are taken to cashiers
- Postal payments are banked the following day after being received

*Since the conclusion of this Audit review, the procedures for dealing with cheque payments received via the post have been change. Cheques are still scanned by Service Support but Cashiers now allocate them.*

Post opening procedure notes were reviewed. It was noted that employee names are being used within the procedure notes, Job titles should be used as it removes the need to update the procedures every time there is a change of post. **See recommendation A7**

All cheques are sent to the cashiers for processing. All unidentified remittances are investigated and discussions are held with various services to enable the payment to be matched to an outstanding amount.

Unidentifiable income is not banked. If an account cannot be found, the cheque is returned to the appropriate bank. A letter is sent which explains that it is an unidentified remittance and a copy of the letter is retained by the Systems and Development Team. Currently there are no checks made on the allocating of unidentifiable income. **See recommendation A8**

*It is noted that since the conclusion of the Audit review, unidentified cheques have been dealt with by the Customer Contract Centre. More recently, however, the Systems and Controls Team are to carry out this work for the next month to ascertain the resource needed to help decide where the work will be carried out in the future.*

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.7	It was noted that employee names are being used within the procedure notes	Service Support Supervisor	Where possible procedure notes should refer to job titles and not individual members of staff	C	3 Months
A.8	No record is maintained of unidentifiable cheques and any action taken with them	Principal Finance/ Systems officer	<p>A spread sheet should be sent up for unidentifiable income, it should include the date, payee, amount. This should include the action taken ie where the cheque has been posted or if the cheque is returned to the payees bank account</p> <p>Management should review the spreadsheet monthly to ensure that the appropriate action is taken.</p> <p>This work will be established by Financial Services but will be carried out in the longer term by the relevant staff.</p>	B	1 Month

**5. Income Reconciliation.*****Method of Review:***

Confirm the cashing up procedures.

Review the exemption report showing adjustments to the till totals.

Select a sample of paying in slips returned by the Bank and trace back to the Bank Statement.

***Summary of Findings:***

Discussions were held with the Customer Services Manager who confirmed that:

- Floats are removed from the takings and locked away prior to cashing up
- Each cashier's takings are reconciled separately
- Cashiers are aware that where takings do not agree, this must be immediately reported to a senior employee
- Actual amounts collected are reconciled at least daily to the total collected per till

A report was examined detailing the "Overs and Unders" for the 2010/2011 year to date.

The report showed a total over for the year of £33.75 over. It is understood that discrepancies do not happen on a regular basis and are for different cashiers. There were two major amounts during the period (1) an over of £899.94 and (2) an under of £3762.67, both were appropriately resolved on the same day as they occurred. No further problems were identified

Bank paying in slips were checked to ensure that the correct amounts had been credited through on the bank statements and that they were timely. The takings from the 6<sup>th</sup> December 2010 were reviewed. No problems were identified

The Payment Analysis for the above date was reviewed to ensure that the system output reports agree to the paying in slip details. No problems were identified

## 6. Security and Banking.

### **Method of Review:**

By examination review the security of the cash office  
Ensure that access is controlled  
Ensure that significant sums are not held at the Authority over night  
Check that collectors to transport the income have provided up to date list of authorised staff  
Ensure with Cashiers that procedures are followed  
Review the Authority's insurance policy

### **Summary of Findings:**

The security of cash office was reviewed and it ensured that

- Its location is secure and appropriate
- Access is restricted to cashiers and authorised employees only
- Checks are carried out to confirm the identity of people wishing to enter the secure area before the door is opened
- Cashiers are protected by glass security screens
- Panic alarms are fitted and are tested weekly
- 

Discussions with the Customer Services Supervisor confirmed that the safe's combination is strictly controlled and is restricted to a limited number of authorised staff. The combination has not been changed for a number of years as this would need to be carried out by an external engineer. The insurance policy does not state that the safe combination should be routinely changed as a condition of insurance. Further discussions with the Customer Services Manager confirmed given the timescale which has elapsed then the safe combination will be changed to adhere to good practice regimes.

The Authority's banking arrangements ensure that the cash is collected for banking on a daily basis. Where it is necessary to hold some cash overnight it is kept securely in the locked safe. The safe conforms to the insurance requirements.

Discussion with the Customer Services Manager confirmed that satisfactory arrangements are in place over the banking arrangement. Appropriate identification and security checks are under taken before monies are released for banking.

The Authority's insurance policy was reviewed to ensure that

- It adequately covers the cashiers safe
- Cover is maintained under the fidelity guarantee for the cashiers

No problems were identified

**7. Security of Data.*****Method of Review:***

Confirm that the system is currently registered  
Examine the Authority's information classification and data retention policies  
Ensure that Staff involved in the system have received the general training in data protection

***Summary of Findings:***

The Data Protection information supplied by Carlisle City Council was obtained from the Information Commissioner's Data Protection Register. A review of the register revealed that Carlisle City Council's ICON cash receipting system is registered to 22 October 2011.

A discussion with the Customer Services Manager confirmed all information is currently retained by the Customer Contact Centre indefinitely. There are plans during 2011/2012 to review the cashiering procedures and the Retention Policy. All financial information must be kept for 6 years and the Customer Contact Manager is aware of this timescale.

It was also confirmed that staff are aware of data protection, data retention and information classification.

No problems were identified.

**Resources Directorate**

**Audit Services**

**Audit of Debtors**

**Final Report**

24<sup>th</sup> May 2011

Directorate / Service Area	Recipient(s) of Report	Action Required
Resources Directorate	Assistant Director Resources (for information)  Financial Services Manager (for action)  Development & Support Manager (for information)  Principal Finance/Systems Officer (for information)  Service Support Team Leader (for information)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to Appendix A.

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

**1. Reason for the Audit**

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

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

- 2.1. The audit process seeks to reduce risk to an acceptable level based on the efficient, economic and effective application of financials controls. Changes to controls suggested in audit recommendations are intended to achieve these benefits. This process reduces but does not wholly eliminate risk.
- 2.2. The Debtors function is located in the Service Support Team, which is a shared operational services facility between the Resources and Governance directorates. The Assistant Director of Resources is responsible for the Debtors function.
- 2.3. The Council currently raises around 6,500 invoices each year and the annual debt raised is approximately £12,500,000. It costs the Council just under £10.00 to raise a debtor invoice and the average invoice value is just under £2,000. Processing costs and values compare favourably to other authorities.

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

3.1. Examination of the risk registers noted the following risks associated with the function:

Risk	Description	Present and Previous Risk Matrices	Review Dates	Current Risk Rating	Rating Description	Current Action Status / Control Strategy
<b>Miscellaneous Income Admin</b>	Risk of failure to comply with internal controls by Debtors staff and uncontrolled and untimely decentralised processing will impact on the Council's cash flow.		07 Jun 2010	<b>4</b>	<b>Impact</b> Marginal	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. Programme underway to centralise processing and introduce pre-payment, automated telephone and internet payments.
			10 Feb 2010			

**4. Scope of the Audit**

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

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

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

5.1. A number of opportunities to further enhance controls have been identified. These are shown in Appendix A and have been brought to the attention of the relevant Assistant Directors.

5.2. Several recommendations contained within this audit report concern all directorates. They relate to the prompt raising of invoices as soon as practically possible after the date of supply, the detail provided on invoices and the information required centrally to accurately reflect leavers from the Authorised System User List.

5.3. Overall it is clear that Debtors function is administered well but this could be further enhanced with greater co-operation from all directorates.

**6. Grading of Audit Recommendations**

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

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 eight recommendations arising from this review. 5 at grade B, 2 at grade C and 1 at grade D.

**7. Statement of Assurance**

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

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

**APPENDIX A**

**1. FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS**

***Method of Review:***

Previous audit recommendations were followed up via the testing carried out during this audit review to ensure all had been effectively implemented.

***Summary of Findings:***

Previous audit recommendations were followed up and subsequent areas which were deemed not to have been effectively implemented have been picked up once again in the relevant sections of this audit review. These areas concern:

- the accuracy of the Authorised User Lists – See Section 1, recommendation A2.
- the method / frequency of updating the Authorised User List - see Section 1, recommendation A2.
- actual date(s) of goods / services supplied are stated on invoices – see Section 3, recommendation A3
- ensuring that invoices are raised within 14days of supply of goods/services – see Section 3, recommendation A4

**2. DEBTORS GENERAL**

***Method of Review:***

- Discussions with the Finance Assistant (Debtors) to ascertain the procedures for Debtors general questions.
- Testing was carried out utilising the CIPFA Matrix for Debtors (ICQ 1).
- Testing was carried out on the following areas:
  - a) Carlisle City Council's Constitution
  - b) Sundry Debtors Procedure Manual
  - c) Sundry Debtors User List

***Summary of Findings:***

The Constitution

- Testing was carried out to ascertain whether the Constitution held the correct procedures and responsibilities relating to the debtors function. The Constitution can be located on the Council's Intranet and covers the Debtors procedures and responsibilities. The Income and

Expenditure rules can be located from page 293 within the Constitution and examination of the document highlighted that it correctly reflects current management.

- The Constitution was last updated in January 2011, however, it currently conflicts itself with regard to debt write off authorisation. Page 120 states that the Assistant Director (Resources) can write off debts without limit but further down on page 295 it states that their write off limit is £1,000. Discussions with the Financial Services Manager confirmed that this matter is currently being reviewed alongside other noted changes to the Constitution. **Please refer to recommendation A.1.**

#### Documented Debtor Procedures

- It was confirmed that the Sundry Debtor Procedures have been updated, as recommended during the previous audit review, and now reflects the current staffing structure and management.
- Documented procedures currently states that the Assistant Director (Resources) can write off debts up to £1,000. This may require updating if page 120 of the Constitution is accurate- see **recommendation A.1.**

#### Authorised Debtors User List

- A Debtor's User List was acquired from the Finance Assistant (Debtors) who is responsible for updating it. This list was checked against the internal telephone directory to determine how accurate it was. The Debtors User List details all users and their permission levels. Currently there are 216 users maintained on the list. All users who were not marked as 'leavers' on the List were examined to determine whether they were all current employees. Nine users on the List were not found in the Council's internal phonebook. Of these 9:
  - 5 are still employed by the Council but have different surnames (one of these was identified during the previous audit review);
  - 4 no longer work for the Council.
- It was also noted that while all 'Leavers' had an authorisation limit of '0', nine had authorisation levels above '0'. These leavers were amongst a small number whose permissions had not been addressed before an improved method of updating permissions was established. Whilst these leavers' permissions have now been moved to Debtors Leavers User Group, it is noted also that ICT remove all leavers' Network access, so there would, in this instance, have been no access to the Debtors system.
- The Finance Assistant (Debtors) reviews the Authorised System User (access) List annually by forwarding a memo to each Directorate requesting changes to be brought to their attention. Users who have left the Council are marked throughout the List as a leaver. The last exercise to update the List was at the end of 2010. Responses provided have yet to be reflected on the User List. The update of the User List appears to be an annual exercise, in which case the Authorised User List will also be out of date to some degree. This would explain some of the errors found on the existing Authorised User List as detailed above. **Please refer to recommendation A.2.**

Printing of Invoices

- Procedures in relation to the daily debtor's run include the invoices being brought to the Debtors Section once these are printed by ICT. The invoices are then checked against the Invoice and Credit Note Daybook Summary to ensure that all invoices are present. A brief check of the invoices is also undertaken for any errors and /or omissions. Invoices are then posted out. .

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	The Constitution states two conflicting write off authorisation levels.	Financial Services Manager	Review of the apparent inconsistency in the Constitution and request the necessary amendments to correct conflicting rules regarding the authorisations levels for write off procedures (and if necessary the Debtor Procedure documents be updated to reflect such changes .	B	31 <sup>st</sup> August 2011
A.2	The Debtors User List has not been recently updated and is currently only reviewed annually The Principal Finance/Systems Officer & Debtors Section are not being notified of all amendments relating to names changes and leavers with regards to the Debtors Authorised User List.	Financial Services Manager	Service Managers from all directorates should ensure that a memorandum or e-mail is sent to the Principal Finance/Systems Officer to notify then of all amendments to records relating to staff name changes and leavers.  Also, the Employee Leaving Checklist section for 'Actions to be undertaken by Personnel' (within the Service Support) is to be amended to more accurately reflect removal of system access for leavers.	C	30th June 2011

### 3. RAISING INVOICES

#### **Method of Review:**

- Discussions with central Debtors section to ascertain procedures for raising invoices.
- Testing was carried out using the CIPFA matrix for Debtors (ICQ 3).
- Testing was carried out on a sample of 20 debtor invoices.

#### **Summary of Findings:**

- Debtor accounts are checked by a member of the Debtors Section to ensure the debtor does not already exist on the system and that the invoice amount looks reasonable. Although basic checks are in place, the Debtors Section is largely reliant on users inputting correct information onto the system. Apart from individual managers checking information that has been input onto the system, there is no real control against inaccurate / completeness of charging. This issue was previously raised during the last three audit reviews and budget holders were advised to pay particular interest to their monthly FIS reports. This still remains the case.
- Testing was carried out on 20 invoices, resulting in the following:
  - 60% (12) of invoices were raised without 'Date of Supply' date (9 of these related to periodic invoices) – **please refer to recommendation A3.**
  - 5% (1) of invoices were raised before 'Date of Supply' date
  - 5% (1) of invoices were raised within the 14 day guideline
  - 30% (6) of invoices were raised after the 14 day guideline – **please refer to recommendation A4**
- Good debtor practice dictates that wherever possible / applicable, payment should be collected in advance of the service or supply of goods. This will both improve the Council's cash flow and reduce the risk of bad debt accumulating. Testing found that whilst some invoices were raised prior to the service being received, not all were produced in enough time for the payment to have been received before the service began.
- There is no minimum specified billing amount used by the Council as some services legally require billing i.e. rents, way leaves etc.
- Council details are visible on each invoice i.e. address, VAT number etc and form part of the standard invoice template which are always shown on each individual invoice and all invoices show adequate billing and payment information details:
- The pay-in reference and remittance slip forms part of the invoice. This can be detached and returned with payment.

- The rear of the invoice also states that non-payment by the due date will incur additional debt recovery expenses that will be charged to the debtor.
- Coding of the invoices appeared reasonable given the invoice descriptions
- Of the sample of 20 invoices selected for review, 10 were in respect of periodic invoices. These were successfully traced to supporting documentation retained on the periodical income master file in respect of rents, leases, licences.
- It was noted that certain fees are dependent upon various parameters e.g. pest control contracts depending on number/size of building etc, recycling credits are dependent on tonnage collected by a rate set by Carlisle City Council.
- Invoice numbers are sequential and issued automatically by the system. It is therefore not possible to miss any invoice numbers.
- The Finance Assistant (Debtors) is advised of any charging updates by the service department requiring a charge to be updated or changed. The system is then updated accordingly.
- There are only 3 financial services staff that have access to amend periodical invoices. Standard system users have no access to this function. The periodical income master file is regularly maintained. All details are present with regarding to names, charges, amounts, and due dates etc. From an examination of 10 periodic invoices, all were found to be correct.
- It was confirmed that Debtor's financial stationery (Direct Debit Mandates) is controlled and stored securely within a locked filing cabinet in the Finance office. Invoices and Reminders are not items of controlled stationery.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3	The actual date of supply or commencement of work is not stated on data entry of the invoice.	Financial Services Manager	In order to enforce recovery it is essential that the correct date is stated on the invoice. All directorates should be reminded that, wherever possible, they should state the <i>actual</i> date of supply or commencement of work.	C	30th June 2011

A.4	Debtor procedures require that invoices should be raised within 14 days following supply. This helps to ensure prompt recovery of the debt. This is not wholly adhered to – 6 out of 20 invoices samples were raised more than 14days after supply.	Financial Services Manager	All Directorates should be reminded of the importance of the prompt raising of debtor accounts and that they <b>must</b> ensure that invoices are always raised within 14 days of supply.	B	30th June 2011
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#### 4. AMENDMENTS TO INVOICES

##### **Method of Review:**

- Discussions with the Finance Assistant (Debtors) to ascertain the procedures for amendments to invoices.
- Testing was carried out utilising the CIPFA matrix for Debtors (ICQ 3).
- Testing was carried out on 10 debtor cancellation notices.

##### **Summary of Findings:**

- The two Finance Assistants (Debtors) are the only staff members who can amend and cancel debtor invoices. Invoices can only be cancelled or part cancelled (i.e. reduced). Invoices can not be amended. Both processes require a Debtors Cancellation Notice (signed by an authorised signatory) to be submitted to the Debtors Section.
- The Finance Assistant (Debtors) maintains a file for authorised signatories. Elements of the list have been updated but a complete update is pending due to Transformation changes throughout the Council. The updating exercise is usually undertaken annually but it was stated that an updated list of authorised signatories is due to be issued once this process is complete. **Please refer to recommendation A.5.**
- The procedure for cancellations is documented in the Sundry Debtors Procedures.
- Testing was carried out on 10 cancellation invoices, the results were as follows:
  - All reasons for cancellations were sufficiently documented
  - 9 cancellations were authorised by an authorised signatory
- The cancellation notice which was not appropriately authorised as per the file of authorised signatories was queried with the Finance Assistant (Debtors). It was determined that at that time, the Debtors Section had reduced staff and that the person preparing the cancellation notice thought that the Manager who authorised the cancellation would be acceptable (as he could authorise invoices). **Please refer to recommendation A.6.**

- While all reasons for the cancellation were stated, one appeared inappropriate for use of a cancellation notice. The reason for cancellation was stated as “Recovery Exhausted” which conflicts with the Constitution which states that “*Once raised, no bona fide debt may be cancelled by full payment or by its formal writing off. A credit note to replace a debt can only be issued to correct a factual inaccuracy or administrative error in the calculation and/or billing of the original debt*”. In this instance, cancellation notes should not be used to write off debt, but only to correct inaccuracies **Please refer to recommendation A.7.**
- All Debtors’ cancellation notices are kept on file within the Debtors Section for future reference.
- An invoice and cancellation day book is printed every time a transaction is entered onto the system. These are then checked against the cancellations.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.5	The authorised signatory list is only updated annually.	Financial Services Manager	Directorates should ensure that any changes to the establishment should be circulated to all relevant staff / system administrators on a regular basis to ensure authorised signatories are kept up to date.	B	30th June 2011
A.6	Cancellation notes are incorrectly authorised.	Financial Services Manager	If not on the authorised signatory list, signatures authorising cancellation notices should be queried prior to processing the cancellation.	B	30th June 2011
A.7	Cancellation notes used to effectively write off debt.	Financial Services Manager	Cancellation notes should not be used to write off debt, but only to correct inaccuracies.	C	30th June 2011

## 5. PAYMENTS

### **Method of Review:**

- Discussions with the Finance Assistant (Debtors) to ascertain the procedures for debtor’s payments.
- Testing was carried out utilising the CIPFA matrix for Debtors (ICQ 4).
- Testing was carried out on the reconciliation between the debtors system and the FIS reports both daily and monthly.

**Summary of Findings:**

- By enquiry it was confirmed that staff involved in Debtor procedures have adequate separation of duties with regard to raising invoices, income collection and cancellation of invoices.
- It was confirmed that payment methods are provided on the rear of the invoice. Methods are detailed and clearly explained.
- Regular reconciliations are undertaken on the system and the FIS reports both on a daily and monthly basis. This duty is carried out by Accountancy staff members who are independent of the Debtors Section. The daily reconciliation was examined and found to be correct.
- The suspense account is administered by the Finance Assistants (Debtors). The balance of the suspense account was nil as of 11/03/11. It was noted that any balance is shown on the suspense notification report. This can be easily identified and cleared promptly.

**Conclusion – Satisfactory arrangements are in place in respect of payments. There are no recommendations arising.**

**6. DEBT RECOVERY**

**Method of Review:**

- Discussions with the Finance Assistant (Debtors) to ascertain the procedures for debt recovery.
- Testing was carried out utilising the CIPFA matrix for Debtors (ICQ 5).
- Testing was carried out on a sample of twenty unpaid debtor invoices.

**Summary of Findings:**

- Debtor reminders are automated by the system. When a new stage of debtor recovery is reached debtors staff are notified and the new recovery stage is authorised.
- As reported in previous audit reviews, there are numerous occasions when interest may have been charged on outstanding sums for persistent late payers. Again, although this option is available the Council has chosen not to implement at this measure.
- Periodic statements/reminders are issued promptly and the appropriate recovery stages are established.
- It was confirmed that there are adequate and appropriate debt collection procedures in place which are regularly monitored and reviewed.

- An external recovery agent has been appointed by the Council as collection agents. Only cases of £15+ are referred. The external recovery agent operates on a commission only basis for Debtors recovery. If the Debtor pays in full, the external recovery agent will currently take 17% commission or 30% commission if it is a doorstep collection.

These recovery costs are charged back to departments at year end in accordance with the Best Value Accounting Code of Practice. This charge is allocated on a proportionate basis – it does not reflect the number of individual cases raised by specific departments / services. It may be deemed good practice to charge these costs back to the specific department / service to which the debt relates as an incentive for department / service to raise invoices promptly, with all relevant details and to not allow further credit to persistent late / non payers. It is, however, recognised that this may not be a wholly feasible exercise given the amount of time and resource it would take to complete such a detailed exercise. It is also recognised that the current approach is in line with proper accounting practice.

- Certain debtors may be referred straight to the County Court for debt recovery rather than the external recovery agents. These tend to be high value amounts and are deemed unrecoverable by the standard debt recovery process.
- Different reports are maintained for each stage for the debt recovery process:
- A sample of recent unpaid debtor invoices was examined and it was found that appropriate debt recovery action has been taken.

## 7. WRITE OFFS

### *Method of Review:*

- Discussions with the Finance Assistant (Debtors) to ascertain the procedures for write offs.
- Testing was carried out utilising the CIPFA matrix for Debtors (ICQ 6).
- Testing was carried out on 10 debtor write offs.

### *Summary of Findings:*

- Both members of the debtors team have the necessary authority to write off debts, though this function is left to one staff member to ensure consistency
- A debtor will be recommended for 'write off' if they cannot be traced and recovery procedure has been exhausted. This action can also be reversed if required.

- It was confirmed that all write off proposals are filed and stored within the Debtors Section. Proposals are checked and signed off by the Assistant Director of Resources prior to being actioned.
- Debtors do not contact the sections pre write off unless the invoices are for services that are raised periodically.
- Whilst there appears to be a contradiction in the Constitution with regard to the required authorisation for write offs (see section 2), write offs examined showed that the Assistant Director of Resources authorised write offs up to £1,000 and the Executive authorised write offs of greater amounts. **Please refer to recommendation A.1.**
- Individual financial codes are not adjusted in the Main Accounting System when a debt is written off. Instead, the debts are written off to a central provision for bad debts, in line with proper accounting practice.
- It was confirmed through testing that details are held against the invoice notes i.e. each stage of the recovery.
- It was confirmed that the written off debts are reversed through the debtors system and an entry made to the VAT control code. This is then picked up in the following month when the VAT return is completed and the VAT will be reclaimed from HMRC. (HMRC would have received the VAT when the original invoice was raised). VAT implications arising from debtor write offs will be examined in more detail as part of the planned VAT review in 2011/12.

**Conclusion – Satisfactory arrangements are in place in respect of write offs. There are no recommendations arising.**

## 8. MONITORING AND REPORTING

### **Method of Review:**

- Discussions with the Finance Assistant (Debtors) to ascertain the procedures for monitoring and reporting.
- Testing was carried out utilising the CIPFA matrix for Debtors (ICQ 7).
- Examination of documented Debtors Procedures and the Council's Constitution.

### **Summary of Findings:**

- The Debtors Procedures state that *“It is the responsibility of each Business Unit Head to monitor the number of invoices raised within 14 days of the service being provided and inform the Service Support Manager if this target is not being met and including the reasons why”*.

- The Council Constitution (paragraph D.34) states that “Assistant Directors shall ensure that charges for work done are billed promptly and substantiated as each contract or internal agreement specifies”.

Debtor’s performance could be improved if Debtor invoices are sent out within the 14 day guideline – **recommendation A.4. refers.**

- The Finance Assistant (Debtors) collates the debtor performance indicator on a monthly basis. This refers to the percentage of debt over 90 days and has a target of 40%. The performance is calculated by the use of the Aged Debt Summary report which is sent to departments on a monthly basis. The first three quarters averages for the current financial year have shown an improvement on the same periods in the previous year. This performance indicator is looked at yearly by the Assistant Director (Resources).
- A monthly aged debt report is sent to each directorate so they can monitor their outstanding debt.
- No specific monitoring exists to ensure that persistent bad debtors are prevented from obtaining further credit from the Council; however, this could be done with technical guidance from Resources (Finance) and by reference to the monthly aged debt report – **please refer to recommendation A.8.**
- Service areas (Council Tax, NNDR and Debtors) should be seen to communicate with each other on a regular basis to ensure when companies go into receivership / liquidation that each department are aware of the situation and recovery outstanding monies accordingly.
- The latest benchmarking results for 2009/10 show that the Council’s processing costs for 2009/10 compares favourably to district authorities. The Council has a lower total cost for raising a debtor account a lower cost per £’000 debt raised, and a lower direct cost than the benchmarked averages.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.8	No specific monitoring exists to ensure that persistent bad debtors are prevented from obtaining further credit from the Council	Financial Services Manager	Debtors Section should be provided with technical assistance and support from Resources (Finance) to help inform / provide guidance on actions to review aged debt analysis and identify / take action on persistent bad debtors.	B	31 <sup>st</sup> October 2011

## 9. SECURITY OF DATA

### ***Method of Review:***

- Discussions with the Finance Assistant (Debtors) to ascertain data storage and retention
- Testing was carried out utilising the CIPFA matrix for Debtors (ICQ 8).

### ***Summary of Findings:***

- The Council has appropriately registered the debtors systems with the Information Commissioner for Data Protection purposes. This is due to expire on 22<sup>nd</sup> October 2011.
- Records are maintained in line with retention guidelines.
- Debtor stationery and records are held in locked cupboards in a secure location.

***Conclusion – Satisfactory arrangements are in place in respect of data security. There are no recommendations arising.***

**Resources Directorate**

**Audit Services**

**Audit of Payroll**

# Final Report

23rd May 2011

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

**Please note:** The Chief Executive, Deputy Chief Executive/Strategic Director and relevant Assistant 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 5<sup>th</sup> July 2011.

**1. Reason for the Audit**

1.1. The audit of Payroll forms part of the programme of annual material reviews. 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**

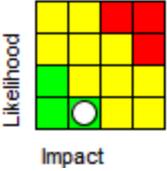
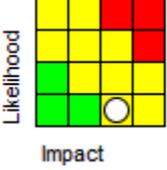
2.1. Carlisle City Council's Payroll is administered by the Service Support Team within the Resources Directorate. There are 3 members of staff who are directly responsible for the production of the payroll. In addition some Personnel, administration and IT staff have a role in the operations.

2.2. The service pays all contracted and casual staff, Community Centres' staff salaries and members' expenses. The services relies on the Trent IT System which provides a direct interface with the Council's Main Accounting System. The Trent payroll system has been in place since April 2007.

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

3.1. Examination of the Operational Risk Registers noted the following specific risks relating to payroll:

Risk	Description	Present and Previous Risk Matrices	Review Dates	Current Risk Rating	Rating Description	Current Action Status / Control Strategy
<b>Loss of key people</b>	Loss of key people during a time of difficulty/change.		12 May 2010	<b>6</b>	<b>Impact</b> Critical  <b>Likelihood</b> Remote	Written procedures; more than one able to carry out key tasks
<b>Information Systems' dysfunction</b>	Information Systems' dysfunction		24 May 2010	<b>3</b>	<b>Impact</b> Critical  <b>Likelihood</b> Extremely remote	Addressed during implementation of Trent.
<b>Inadequate resources (due to Service Reviews and Transformation) to deliver our full range of services</b>	Inadequate resources (due to Service Reviews and Transformation) to deliver our full range of services		24 May 2010	<b>6</b>	<b>Impact</b> Marginal  <b>Likelihood</b> Reasonably probable	Reorganisation; prioritisation; workload dropped/re-allocated; budget bids.

<b>Payment to 'bogus individuals'</b>	Payment to 'bogus individuals'		24 Mar 2010	<b>2</b>	<b>Impact</b> Marginal  <b>Likelihood</b> Extremely remote	Ensure that staff involved in setting up employees and Members are not involved in the distribution of payslips.
<b>Failure of IT system leading to non payment of staff</b>	There is a risk that staff and Members will not get paid in the event of failure of IT systems.		24 Mar 2010	<b>3</b>	<b>Impact</b> Critical  <b>Likelihood</b> Extremely remote	BACS contingency arrangements are in place via Allerdale, although still not tested.

**4. Scope of the Audit**

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

	<u>Area Examined</u>
1.	Follow up of the Audit Recommendations arising from 2009/10 review
2.	General Controls
3.	Starters
4.	Deductions
5.	Variations
6.	Leavers
7.	Payments
8.	Reconciliations

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

- 5.1. The payroll arrangements are well established and good internal controls are in place.
- 5.2. The Payroll section has experienced and knowledgeable staff in place to deal with all aspects of the payroll functions.
- 5.3. From the areas reviewed and tested as part of this audit there were no major problems identified with the systems and procedures in place. The main issues for address relate to reconciliation procedures (see section 8). Particular reference is made to the verification of the establishment which is a key control measure which helps to provide assurance over the accuracy and completeness of the main payroll. This exercise is well overdue although it is recognised that individual service areas are being verified as part of the Transformation programme.

**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 7 recommendations arising from this review, 2 at grade B, 3 at grade C and 2 at grade D.

**7. Statement of Assurance**

7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review (delete if no recommendations), 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, Service Area

APPENDIX A

**1. FOLLOW UP OF THE AUDIT RECOMMENDATIONS ARISING FROM 2009/10**

***Method of Review:***

Examination of the 2009/10 review of Payroll Audit.

***Summary of Findings:***

**A1 - Personnel should be proactive in determining whether or not posts require CRB disclosures. These should be held in the form of a central register and/or details held within an illuminated field within Trent which can be easily identified.**

Details are held on a spreadsheet which is maintained by Pay and Workforce Administrator. This information will be transferred on to Trent after Transformation is complete. Personnel more actively assist managers when deciding if posts require a CRB check. N.B. A detailed audit review of applicable posts requiring CRB disclosures and the role of Service Managers and Personnel in this process is to be examined in 2011/12.

**A2 - To remind all authorised signatories of their responsibility to ensure that casual forms are completed appropriately.**

Actioned.

**A3 - All contracts of employment should be signed and retained on file. Where contracts have not been signed Personnel should request that the new staff member should be asked to sign the contract by their line-manager on their first day at work and this should be passed back to Personnel without delay.**

Where possible staff are encouraged to sign their contract of employment. It is not necessary to get them completed though because if staff come to work then legally they are seen to accept their terms and conditions of employment.

**A4 - There should be evidence of eligibility checks having been undertaken to work in the UK and these should be retained on file i.e. photocopies of original documents that have been checked and agreed should be initialled and dated by the verifier and placed on file as evidence. This should be undertaken before the new member of staff commences employment.**

Actioned.

**A5 - The 'New Entrant Documentation List' /Post Interview Checklist should be fully completed and where sections are not relevant they should be marked as such.**

Actioned.

**A6 - Two references should be requested, received back, reviewed and placed on file, as a minimum. These should be reviewed (signed and dated as evidence) before an offer of employment letter is issued to the successful candidate. Where two references have not been received/requested then a note should be placed on file (signed and dated) to state the reason why this is not possible. Other actions should be considered and where possible undertaken to ensure that risk is minimised in case of the applicant trying to conceal information. These other actions/considerations should also be noted on file (signed and dated).**

Actioned.

If there are not two references on file then the Manager should ensure that there is a note on file to explain.

**A7 - The highest level of qualification stated on the application form & job specification qualifications should be verified by reviewing the original and a photocopy/or clear note placed on file. The file copy should be signed and dated by the reviewer.**

Actioned.

**A8 - The reference form should include the request for the current basic salary of the applicant so that cross checks could be undertaken to the application form.**

Actioned.

**A9 - Data input into Trent should be independently reviewed. This could be undertaken by sample checking, say on a quarterly basis, a number of new starters for that quarter to ensure that the details input into Trent are complete, accurate and agree to the employee file. A note should be retained of the checks that have been undertaken.**

There is still no separation of duties and management have accepted this risk. This matter is reviewed further in section 3.

**A10 – N/A Recommendation withdrawn at 2009/2010 final report stage. No further action is required.**

**A11 - Management should routinely undertake spot checks of a sample of manual files, say on a quarterly basis, to ensure that there is compliance and consistency in the application of the Council's Personnel policies and procedures and that the files are complete and accurate. Spot checks should be noted, to include the files reviewed and any actions taken.**

This has not been actioned due to resources needed to support Transformation and Single Status during 2010/2011. It is hope that resources will allow this to happen during 2011/2012.

**A12 - If there is no segregation of duties and responsibilities between the personnel and payroll functions and this has been formally accepted by management, then the risk posed should be assessed and included within the operational risk register.**

See response to recommendation 9.

**A13 - Personnel should remind service managers of their duties and responsibilities in recruitment to ensure that the information received by Personnel is complete, accurate and in accordance with Personnel policies and procedures. When information is to be filed this should be promptly undertaken so that all files are complete and accurate.**

Actioned.

**A14 - The 'Payroll Processing Checklist' should be signed and dated by the person who undertakes the required actions.**

Actioned.

**A15 - Verification of the payroll to be carried out independently of the Payroll Section to ensure completeness and accuracy.**

Casuals have been checked and verified. A full establishment check has not yet been carried out in full, although areas are being completed as part of Transformation. Once this is completed, then a full establishment check will be carried out.

## 2. GENERAL CONTROLS

### **Method of Review:**

- Review of the arrangements surrounding the management of the Authority's establishment to provide assurance that changes are properly approved and actioned independently of the payroll function.
- Review of the Authority's Financial Procedure Rules (FPRs) to ensure they clearly specify the procedures and responsibilities for processing the payroll.
- Examination of the Information Commissioner's Office website to ensure the Authority is registered for payroll purposes.
- Determine that office procedure notes sufficiently detail payroll procedures and these are accessible to the Team and are up to date.
- A timetable for payroll processing is in place and is adhered to.
- Authorised signature lists for payroll related submissions are in place and are up to date
- Assurance that secondary checks are undertaken to ensure that data input is bona fide, correct and complete. Ascertain whether independent checks are undertaken in year of the:
  - The Establishment (verification by departments / directorates / accountancy)
  - Payroll adjustments (at the time of pay awards, incremental pay rises etc)
- Review the extent and arrangements for producing and examining exception and management reports produced from the system and confirm that these are:
  - Produced independently of the payroll function
  - Appropriate reports are reviewed and inspected independently of the Payroll Section.

### **Summary of Findings:**

- The arrangements surrounding the management of the Authority's establishment to provide assurance that changes are properly approved and actioned independently of the payroll function were reviewed. There is now an Establishment Change Form (ES1 and Guidance Notes) in place which replaces the Staffing Forum and Vacancy Management process. Changes to the establishment can range from a simple change of hours or post title for one position to a more complex change involving the restructuring an entire service department. The information is used to:

- Provide specialist professional comments on the proposals.
- Act as authorisation to implement the required change in Personnel and Finance.

Finance comments will include whether or not the funding is available, full costing details and whether or not the proposals help meet the Council's financial objectives.

Personnel comments will include:

- Whether or not adequate consultation has been carried out to meet corporate practice and legal obligations.
- Job evaluation aspects e.g. grades for new/amended, potential impact on grades of other jobs affected by the proposals.
- Method of implementation in relation to Council policies and good practice.
- Comments on contents of job descriptions/person specifications.
- Whether the proposal is supported/not supported and the reasons for this.

Attached to the Guidance Notes are procedure notes which explain, stage by stage, the process and the key staff involved.

- Constitution and Financial Procedure Rules (FPRs)

An examination of Carlisle City Council's Constitution and FPRs (January 2011) was carried out to ensure key controls are clearly outlined for the 'Payments to Employees and Members'.

The Constitution and FPRs can be located on the Council's Intranet. The document details the Payroll procedures and responsibilities, within Appendix D, Financial Systems and Procedures (D47 – D118).

- The Payroll system is appropriately registered on the Information Commissioner's Office website. The date of expiry is 22<sup>nd</sup> October 2011.
- It was confirmed through examination that there are office procedure notes which sufficiently cover all aspects of the payroll function. These are accessible to all payroll staff.
- The names of individual members of staff are being referred to within system / procedure notes. Staff changes mean that the procedures notes then need to be updated. The amount of updates / changes to procedure notes could be reduced by referring to job titles instead, although it is recognised that the use of job titles may cause some confusion when generic titles are in use. E.g. there are several members of staff with the job title Senior Accountancy Assistant . **Please refer to recommendation A.1.**
- The Service Support Team Leader explained that there is no timetable for the payroll due to the fact that the pay date of the 15<sup>th</sup> falls differently each month and the processing time varies. However, there is a Salary Timetable 2010/11 which can be found on the Intranet which detail the date the salary will be paid, alongside key dates for claim submissions (overtime claims, travel claims, member claims, premium payments and casual starters'

timesheets etc). The timetable is updated annually.

- It was confirmed that an Authorised Signature Lists exists, although it is currently out of date in areas due to transformational changes which are in progress.

The Payroll Section is aware that the Authorised Signature Lists requires updating and it was confirmed that this will take place once all Transformation is complete.

- Secondary checks are carried out within the Payroll Section to ensure that all permanent amendments to pay are correct and verified. There is audit functionality within Trent to support this process, however this has not been implemented, so any amendments are undertaken by the system default function.

It was confirmed through examination that Trent produces the following exception reports:

- Unusually High Net Pay Values

This report details all employees who receive a high net pay. The Finance Assistant independently checks this report for any differences / discrepancies to previous monthly pay and obtains clarification on the difference.

- Errors and Warnings

This report details all Standard Monthly (including Casuals) employees where there may be call for concern regarding their monthly salary. The report is checked by either the Service Support Team Leader or (Payroll) Personnel Assistant. Each error/warning is checked individually then signed and dated.

Although this function is carried out by Payroll staff and is not therefore independently reviewed, it is recognised that Payroll staff have more insight into why errors and warnings may appear on the report. Also, as such, checks are done at the pre run stage (i.e. before the BACS run), this eliminates any risk of the monthly pay run being delayed.

- Payroll currently employs 2.2 FTE staff members that are responsible for the operational duties associated with the production of payroll. In addition, Personnel and ICT staff provide technical support to the production of Payroll.
- Whilst undertaking the Payroll review it became apparent that there is a lack of staffing resources within the Service Support Team due to staff retiring and others being on sick leave. As a result of these staff shortages, a backlog of filing for Payroll and Personnel has built up. Errors may be made and matters overlooked if files are not maintained and up to date. The matter that this filing contains confidential paperwork is also of concern. This backlog should be addressed without delay. ***Please refer to recommendation A.2.***

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1.	Individual members of staff are being referred to within system / procedure notes. Staff changes mean that the procedures notes then need to be updated.	Service Support Team Leader	Thought may be given to using job titles instead of naming individual staff members within these notes	D	For consideration only
A.2.	At present there is a backlog of Payroll & Personnel filing. This filing contains confidential and personnel information.	Service Support Team Leader	The backlog of filing should be cleared without delay.	B	31 <sup>st</sup> May 2011

### 3. STARTERS

#### **Method of Review:**

- Determine the arrangements and controls in place to create a new employee on to Trent.
- Assurance was sought that duties and responsibilities are sufficiently segregated between creating a new employee on the establishment and attaching them on to the Payroll.
- A sample of 10 New Starters was examined to ensure that the contract details are on file from which the employee's employment details have been accurately input on the Payroll. Also, payroll records / files indicate:
  - Whether a P45 / P46 was sent to the Inland Revenue.
  - Whether or not the employee elected to join the pension scheme.
  - The name of the payroll employee who (a) input the data on to the payroll system (b) that this day input was independently checked.

#### **Summary of Findings:**

- It was confirmed that a completed Post Interview Checklist along with other supporting documentation is submitted by the Service Manager to Personnel. Personnel make an initial job offer of employment to the successful candidate based on this information, although this is subject to Eligibility to Work in the United Kingdom checks and Medical Clearance. Personnel also use the information provided on the Checklist to produce the Contract of Employment and to create a new employee onto the Trent payroll system. Copies of the Contract of Employment are then submitted to Payroll and Accountancy. Payroll use the Contract of Employment to input / attach the employee on to the Trent payroll system.
- It was confirmed through observation that the duties and responsibilities are sufficiently segregated between creating a new employee for personnel purposes and attaching the employer to the payroll system.
- Testing was carried out on 10 random new starters from the 'New Starters' report. The Personnel files were examined to ensure that the 'Contract of Employment' details were correct and all data e.g. pay scales, employee number, start date, pension etc held on the Trent payroll system were accurately entered.

Examination of the personnel files revealed that 4 (40%) out of 10 'Contracts of Employment' were not signed by the employee as previously mentioned in section 1. Whilst there is no legal obligation to sign the 'Contract of Employment', it is considered to be good practice to insist this is done. If, for any reason, the 'Contract' is not signed, it is deemed to be signed i.e. Accepts the terms and conditions of employment, if the individual turns up for work.

Testing revealed that all entries were accurately entered into the Trent payroll system.

- Within the 'Contract of Employment' and 'App 2' letter it states that employees will automatically be made a member of the Local Government Pension Scheme from their starting date unless they choose to opt out by completing a PEN2 form.

If employees choose to opt out of the pension scheme, this must be done within 3 months of their starting date in order to obtain any refund necessary, otherwise no refund will be granted.

Temporary/Casual employees on a 3 month contract or less do not have the option to join the Local Government Pension Scheme.

- New employees are requested in their 'Contract of Employment' and 'App 2' letter to submit their P45 / P46. If, for any reason, a P45 / P46 is not received, the Payroll staff will contact the employee to try and locate the document. It is beneficial to the employee to supply their P45 / P46 alternatively they will automatically be placed on a basic rate tax code. When the details from the P45 / P46 are entered into Trent, the system automatically calculates the 'year to date' earnings against the 'tax paid to date', if there are any discrepancies the system will flag the error. Employees P45's and P46's are transmitted electronically to HMRC.

The Service Support Team Leader advised that all data/amendments to details on the Trent system are not independently checked by another member of the Team. Office procedures dictate that the same individual never appoints and attaches a new starter on Trent, although there is no control with in the Trent system to stop this happening and user access levels permits this. Although the risk is accepted, it would be appropriate to discuss with ICT to establish whether an exception report could be produced to show any new starter appointed and attached by the same member of staff. There is, however, a check on all data entry on Trent between Personnel and Payroll. Exception reports are ran and checked before any BACS transmission is carried out as outlined in section 2 – page 9.

The 'Contract of Employment' is evidenced by an initial and date written on the form by Payroll and Personnel staff who input the employee on to the Trent system.

- It was highlighted through testing that the 'New Entrant Documentation' forms are not always completed. This form was introduced when Trent was initially set up to ensure that all aspects of the Trent payroll system were covered (i.e. as a reminder to staff). As Trent was implemented in April 2007, this is now deemed unnecessary by the Payroll and Personnel staff, as this document adds no further benefit. Also training would be given to any new Payroll or Personnel staff. Thought should be given to disposing of the form if no longer used. **Please refer to recommendation A.3.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3.	The 'New Entrant Documentation' form is not being completed.	Service Support Team Leader	Thought should be given to disposing of the 'New Entrant Documentation' form as it is now obsolete.	D	For consideration only

## 4. DEDUCTIONS

### **Method of Review:**

- Review of the arrangements to ensure that a tax code, an NI number and an NI code is in place.
- Determine the use of temporary NI numbers and the timescales attached to using these.
- Select a sample of 10 employees having non statutory deductions taken from their pay ensure that:
  - An instruction is held on file which was signed by either the employee or an authorised employee.
  - There is documentary evidence that the instruction was input by one employee and checked by another.
  - The deductions are clearly shown on the employee's payslip.
  - A holding account or financial code was set up for each type of deduction.
  - Adequate records are maintained that satisfy the Inland Revenue in respect of all tax and national NI contributions deducted.
- Select a sample of financial codes in respect of both statutory and non-statutory deductions payable to external bodies and check that the full amount of the sums deducted were paid promptly and in full. For each of the above trace to the payment request forms and ensure that:
  - They show the payees and amounts payable.
  - They clearly show the periods to which the payment relates.
  - They were signed by authorised employees.

### **Summary of Findings:**

- The Trent System will not allow an employee to be attached to the system without a Tax Code or a NI code to be specified.

The system has specific mandatory fields for the Tax Code.

- It was confirmed by the Service Support Team Leader that no temporary National Insurance numbers are used by the Authority, although the field on Trent may be left blank.

The HMRC no longer accepts temporary National Insurance numbers.

A report was generated by the Service Support Team Leader from Trent to show all employees with missing National Insurance numbers. It was confirmed that there were no employees with missing National Insurance numbers.

- Testing was carried out on a sample of 10 employees involving non statutory deductions e.g. Childcare and Safety Wear. Testing revealed:
  - An instruction was held either on the employee's personnel file or in the Variation file. Each instruction was signed by the employee and authorised signatory.
  - There was documentary evidence that the deduction was input into the Trent payroll system by one member of staff and check by another.
  - Relevant deductions were clearly shown on the employee payslips.
  - A financial code was set up specifically for the relevant deduction.
  - There are records maintained for the HMRC in respect of all tax and National Insurance contributions deducted.
  - The payment requests forms clearly state the payees and amounts payable.
  - The period was clearly displayed to which the payments related to and was signed by an authorised signatory.

All entries were found to be accurate and no further investigation or testing was required.

The instruction for Safety Wear originates from a request by the employee to the Manager usually within Community Services. The Manager completes the relevant paperwork and this is signed by the employee and Manager, and then forwarded to Payroll for deductions to be started from their salary. The original paperwork is then placed in the Variation file for future reference.

The instruction for Childcare Vouchers originates from a request by the employee. Relevant paperwork is completed by the employee and returned to Payroll for action. Payroll confirms all details in a letter to the employee advising them of their new salary once Childcare vouchers have been deducted from their salary.

It was confirmed through examination of the General Ledger that financial code X0056 is set up for Payroll deductions for non statutory deductions.

***Conclusion – Procedures and controls in place for payroll deductions are satisfactory. No recommendations are arising.***

## 5. VARIATIONS

### *Method of Review:*

- Casual Payments

Select a sample of 5 casual employees paid via timesheets from the latest pay run and check that a valid timesheet exists for each, authorised and records shows when this was input to the payroll system. Where a valid timesheet does not exist, ensure that the payment is for basic pay only and that relevant documentary evidence is obtained that the payment is valid.

- Overtime Payments

Select a sample of 5 salaried and waged employees who received overtime payment and check that the amount paid is supported by a fully completed official / authorised overtime claim form and records show when this was input to the payroll system.

- Fixed Temporary Adjustments

Select a sample of 5 employees who received fixed temporary adjustments, such as honorariums and fixed bonuses, and confirm that copies of the payment requests are held on file and were certified by authorised signatories.

- Incremental / annual pay awards

Select a sample of 5 salaried and waged employees who received pay rises and check that:

- Their pay points match the relevant national pay rates.
- Where the payment was backdated, the calculations are correct.
- Where back-payments involve other items such as standby payments, these were calculated correctly.
- There is evidence that all calculations were checked and agreed by an independent employee

- JE Adjustments

Clarify the arrangements in place to implement Job Evaluation adjustments from 28<sup>th</sup> February 2011.

**Summary of Findings:**

- Casual Employees

Testing was carried out on 5 'Casual' employees' timesheets from the pay run on 15<sup>th</sup> March 2011. A valid timesheet exists for each employee tested. The forms show the period for which work is undertaken, hours worked and month the salary is paid. It was noted that 1 timesheet had not been signed by the employee. The remaining 4 had been completed correctly and input onto the Trent system accurately.

The (Payroll) Personnel Assistant confirmed that the unsigned casual timesheet was copied from an old format timesheet onto a new standard format timesheet on behalf on the employee by their line manager.

It was also confirmed that the last date of entry (day worked) on the timesheet is the date that is entered into Trent. This acts as the input date as many Casual employees change rates of pay according to the type of work undertaken.

- Claim For Overtime

Testing was carried out on 5 'Claim For Overtime' timesheets from the pay run on 15<sup>th</sup> March 2011. A valid timesheet exists for each employee tested. All timesheets were found to be correct. Testing was carried out on the Main Accounting System to ensure overtime was correctly coded, all entries were found to be correct.

From testing carried out, employees appear to be working overtime after their normal working hours or on a weekend and are taking 'Rest Periods as outlined in the Authority's Working Time Regulations.

- Honorarium

Testing was carried out on 5 'Request To Pay An Honorarium Form (SF3) forms. All forms are held in the Variation file. Also, in addition, a copy is placed on the employee's personnel file and a copy is given to Financial Services so accounts can be realigned to reflect the honorarium.

All timesheets tested explained why the honorarium was being paid, signed by a Director or Service Head and dated.

- Incremental / Annual Pay Awards

Annual incremental / annual pay awards are automatically implemented through the Trent system. A field within Trent allows you to input a date for the pay awards to be actioned. A 'Bulk Update' report is ran which identifies all employees that will receive a pay scale increment. The report shows the old scale point and the new scale point for each employee. The report is checked by the Service Support Team Leader to ensure all entries are correct. All entries were found to be correct.

- Revised pay scales came into effect as of 1<sup>st</sup> March 2010 after Job Evaluation. For those whose pay would be reduced as a consequence of the exercise were given Job Evaluation salary protection for a year. A decision was made not to send reminder letters to affected employees regarding the impact on their pay as this was clearly stated within their original Job Evaluation original letter and was thought to demoralising to employees.
- The Authority's Pay and Arrangement Policy clearly cover all aspects of policy, procedures and on going and transitional arrangements for all employees.

***Conclusion – Procedures and controls in place for payroll variations are satisfactory. No recommendations are arising.***

## 6. LEAVERS

### **Method of Review:**

Sample of 10 leavers selected and a corresponding Leaver's Notification Form was examined to ensure that:

- It showed the leaver's full name, post number, termination date
- It detailed the necessary payroll adjustments to be made / sums to be recovered.
- It was received by the Payroll Section sufficiently in advance of the employment termination date.
- Records show the date when the payroll system was updated / passed to Personnel.

Also:

- P45 notifications were issued promptly to the Inland Revenue.
- There is evidence of the action taken in respect of superannuation and that the fund administrators were advised accordingly.

### **Summary of Findings:**

- Leavers Notification Forms are completed by Service Managers. The forms go to Payroll first to ensure that the necessary adjusts are made to the employee's salary. The form is then passed on to Personnel to undertake the remaining adjustments / checks.
- A random sample of 10 leavers was selected to ensure that a 'Leavers Notification Form' was received and all relevant sections were complete. Particular attention was paid to the following areas:
  - The form had been signed and dated by the employee.
  - Time in Lieu.
  - Flexi owing.
  - Holiday entitlement.
  - Car Park permits.
- All forms were found to be completed and actioned correctly. It was confirmed that P45 notifications are sent electronically, after the monthly salary payroll is carried out.
- The Service Support Team Leader runs a monthly report detailing the month's leavers. The report shows the names for whom information is sent to the pension provider. E-mails sent to the pension provider showing the relevant calculations are also retained for future reference.

**Conclusion – Procedures and controls in place for payroll leavers are satisfactory. No recommendations are arising.**

## 7. PAYMENTS

### *Method of Review:*

- Ensure that BACS processing arrangements require that:
  - All new employees are required to receive payments via BACS.
  - Processing times allow for the BACS transmission file to be despatched in time to meet the BACS processing deadline.
  - The BACS transmission file is agreed before and after releasing the payment.
  - Securely transmitted.
  
- Review of the financial controls surrounding BACS limits to provide assurance that the process is:
  - Carried out independently of payroll.
  - Controlled through the use of appropriate passwords.
  - Carried out after the number of records on the transmission file has been agreed back to the control totals.Also;
  - Appropriate managers, independent of payroll, are responsible for setting the BACS transmission limit.
  - The current BACS transmission limit is reasonable by reference to the total amounts paid in respect of recent payroll runs.
  - The fidelity guarantee insurance includes all employees involved in the procedure and that the cover is reasonable.
  
- Examination of the input reports for latest BACS run to ensure that:
  - Where reports highlight records for review, sufficient measures are undertaken to review and clear these and confirm correctness.
  - The amount of the transmission was within the Authority's specified BACS limit.Also;
  - Compare the input report produced by BACS with the transmission report and that all control totals agree.
  - Review of "audit" reports produced to ensure that cases are sufficiently traced back to the transmission printout and master records.
  - Trace the BACS total to the Authority's bank account and agree the amount debited.
  
- Confirm the arrangements for rejected BACS payments and confirm that any rejected payments (from March) to the Authority's Bank Account.
  
- Ascertain the arrangements for making cheque (and cash) payments, confirming that these are made only in exceptional circumstances and that any cheques which are produced are despatched independently of the payroll function.
  
- Confirm that there is adequate separation of duties in place to ensure that the distribution of payslips and returned payroll post is dealt with independently of the Payroll Section.
  
- Examination of the emergency payments procedure and ensure that this is:

- Clearly defined.
- Transactions are satisfactorily controlled, recorded and authorised.

**Summary of Findings:**

- It was confirmed by enquiry with the Service Support Team Leader that the Trent payroll system does not allow payment to an employee when they do not have a tax code as this field is mandatory within the system. (See summary of findings in sections 4 Deductions). However payments can be made to an employee who does not provide a P45 / P46 or a National Insurance number.

Procedures for the secure production and distribution of pay slips confirmed that:

- Payslips are printed, folded and sealed independent of the Service support Team.
- Payslips are delivered to the Service Support Team.
- Payslips are sorted into services and one member of each department comes to Service Support Team to collect the payslips. A signature is required upon hand over of the payslips. Payslips are then distributed with their respective services.
- The Service Support Team Leader advised that most employees are paid by BACS, however, there are a few occasional cheque payments. These were investigated and it was found that these are usually for one off payments for work carried out by Consultants etc, casual staff and when an employee has not presented their banking details in time for the pay run.

There is a BACS timetable, against which the Payroll staff adhere, to ensure timely despatch of the BACS transmissions. Before each BACS transmission, the files are checked by a pre-run and then before the actual BACS run. BACS files are released independent of payroll and the files are transmitted securely. There is a minimum processing deadline in place. The transmission file is checked and signed by an Authorised Manager before releasing of the BACS payment.

The BACS transmission limit appears to be at a reasonable limit, when compared to the total BACS payroll figures for January – March 2011.

It was confirmed by the Service Support Team Leader that there are no salaries paid by cash.

Testing was carried out on the Payroll BACS transmission dated 15<sup>th</sup> March 2011 and traced back to the Authority's bank accounts. All entries were found to be correct and there were no BACS rejections.

- It was confirmed by enquiry with the Finance Assistant the arrangements for rejected BACS. The BACS rejection would appear on the Authority's bank statements via the electronic bank file. A journal would be created to refund the payment to the payroll net pay code(X0041/0990). The Service Support Team Leader would be advised of the return, who in turn would issue a cheque payment via Creditor system. The correct banking details would then be obtained and Trent updated for the future. The same code in the MAS would be used for the cheque payment so the debit/credit would cancel each other out in order.

- The Fidelity Guarantee insurance policy for the Authority was inspected and it confirmed that although the Service Support Team Leader is not named on the main schedule, as this covers Finance Designated Officers they are covered in the supporting schedule covering 'All Persons'.
- Discussions with the Service Support Team Leader confirmed that the Authority still makes the occasional cheque payment in exceptional circumstances. Testing was carried out which revealed that during the period of December 2010 to February 2011 there were 3 cheque payments issued - 2 cheque payments for new starters requesting an advance on their salary and 1 cheque payment for an incorrect tax code notification from the HMRC leading to an incorrect salary. The monies paid by cheque will be deducted from their new salary payment.

It was confirmed that stringent procedures are in place for all cheque payments.

***Conclusion – Procedures and controls in place for payments are satisfactory. No recommendations are arising.***

## 8. RECONCILIATIONS

### **Method of Review:**

- Ensure that verification reports are produced on a regular (e.g. half-yearly) basis, independently of the Payroll Section, which lists by directorate / section, the name of each employee who is charged to the cost code/centre and details:
  - Post Number
  - Salary and-or grade
  - Status (for example, full or part-time, permanent, temporary or casual)
- Confirmation that the verification reports are sent direct to directorates independently of Payroll and procedures require each service manager to confirm that the data shown for their section is correct. Service managers are advised to refer any queries to Audit Services for investigation.
  - Reconciliations / monitoring arrangements are regularly undertaken independently of payroll - specifically:
    - The arrangements for monthly payroll reconciliations / monitoring undertaken by Accountancy
    - Management of the payroll control account to ensure that these are regularly reconciled
    - Management of the payroll suspense accounts along with testing undertaken to ensure that these are promptly reviewed and cleared independently of the Payroll Section.

### **Summary of Findings:**

- The full establishment verification has not yet been carried out due to the changes incurred through the transformation programme. As part of transformation, services are being reviewed and posts are being verified and this is a continuous process. Once the organisational structure has been confirmed, there are plans to undertake a full verification of the establishment. These arrangements need to ensure that verification of the complete payroll is undertaken on a cyclical basis thereafter. **Please refer to recommendation A.4.**
- Verification work was carried out on the casual staff in September 2010. This exercise is due to be carried out again in early 2011 but it was agreed to wait until the matter concerning the transfer of Tullie House staff to the Trust has taken place. The Pay and Workforce Administrator is aware of the need to complete this exercise – this exercise should be completed in June / July 2011 - but again arrangements need to ensure that verification of the casual payroll is undertaken on a cyclical basis. It is suggested that the complete of this exercise should eventually be aligned with the main payroll verification – **please refer to recommendation A.4.**
- Financial Services carry out work to ensure that employees paid are correctly shown in the MAS. Managers receive copies of the Employee Analysis Estimates, and these are checked to ensure they are correct. It would be good practice to send the Employee Analysis “Actuals” once a year to ensure these too are correct. The Group Accountant also intends to carry out reconciliation between the MAS and the Trent System later in 2011/12.

- The February 2011 Main Payroll – X0041 was reviewed:
- The gross pay account was reconciled to the MAS. The MAS was found to balance to the Payroll information supplied. The Senior Officers are not verifying the balance is correct. **Please refer to recommendation A.5.**
- The suspense account was found to have been cleared out promptly and testing showed that all transactions had been allocated appropriately.
- The reconciliation of the advances was reviewed. Two advances were of concern:
  - One was brought forward from 09/10, and this is still outstanding. Finance has advised Payroll that it is outstanding but no further action has been taken. The Support Services Team Leader has agreed to write to the individual to reclaim the advance. **Please refer to recommendation A.6.**
  - The other was a clerical error in Financial Services. The transaction should be showing as a negative entry on the reconciliation spreadsheet, as it relates to a cheque that the individual paid in through debtors because they had been overpaid. This was reviewed and the overpayment was found to have been corrected. **Please refer to recommendation A.7.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.4.	The full establishment verification has not yet been carried out due to transformation.	Personnel Manager	Verification of the main payroll is to be carried out as soon as the transformation is completed. . Once in place, it is suggested that payroll verification exercise is completed every 6 months. The completion of the verification of casual members of staff should also (eventually) be aligned with the completion of the main payroll verification process.	B	30 November 2011
A.5.	The Monthly Payroll reconciliation is not being verified.	Financial Services Manager	The Monthly Payroll reconciliation should verified by a senior officer.	C	31 August 2011
A.6.	An advance brought forward from 09/10 and is still outstanding.	Support Services Team Leader	The advancement brought forward from 2009/2010 should be cleared. Payroll should write to the individual as soon as possible.	C	31 May 2011
A.7.	The advancement showing for September is an error, the transaction related to an incoming cheque and not	Financial Services	The outstanding advance from September 2010 should be reversed on the reconciliation	C	31 May 2011

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	an advance.	Manager	spreadsheet, as it relates to payment received and not an advance paid.		
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**Audit Services,**

**Directorate Resources**

Audit of National Non Domestic Rates  
(Material Review)

# Final Report

11 April 2011

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

***Please note:*** The Chief Executive, Deputy Chief Executive and 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 June 2011.

**1. Reason for the Audit**

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

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

2.1. National Non-Domestic Rates (NNDR) are collected by Carlisle City Council from businesses and others who occupy non-domestic property within the area. The rates are pooled to Central Government and are then redistributed to local councils according to population sizes.

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). 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.

2.3. The NNDR function operates as part of the Shared Revenues and Benefits Service, and is a component of the Community Engagement Directorate at Carlisle City Council.

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

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

<b>Risk Description and Control Strategy</b> <b>Revenues and Benefits corporate operational risk</b> <b>register dated February 2010</b> <b>SEE RECOMMENDATION/AGREED ACTION 1</b>	<b>Type of Risk</b> <i>(strategic / operational)</i>	<b>Risk Score</b> <i>H/M/L</i>
<p><b>Risk:</b> NNDR Administration  <b>Description:</b> Risk of significant interruption to Service e.g. disaster  <b>Current Action Status/Control Strategy:</b> Disaster recovery plans in place. Rigorous use of test systems. Detailed operational text in place. Qualified management and robust training in place to reduce risk. Rigorous audit of all admin processes. Secure environment for cash payments. Contingency arrangements in place.</p>	<p>Operational</p>	<p>M (3)</p>

**4. Scope of the Audit**

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

	<b>Area Examined</b>
1.	Follow up of the 2009/10 audit review recommendation & Risk Management
2.	Valuation
3.	Liability
4.	Billing
5.	Collection and Refund
6.	Procedure Notes

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

5.1. Good controls were found to be in operation, however there were areas identified where improvements could be made. These were:

- Review and update of the shared service operational risk register and mainstreaming the register into Carlisle City Council’s corporate approach to risk management;
- Preparing and implementing three monthly schedules of monitoring visits to ensure capture of new hereditaments to be brought into rating;
- Timely clearance of the NNDR system suspense account;
- Review and update of procedure notes;
- Ensuring that staff are aware of the existence and location of procedure notes for reference; and
- Preparation and implementation of an information and data retention policy.

5.2. The previous audit recommendation identified as part of the 2009/10 material audit review was confirmed that it had been implemented and evidence also indicated this to be the case. However under further investigation during the latter stages of this review it was found that the recommendation had not been consistently implemented throughout the year.

**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:

<b>Grade</b>	<b>Level of Risk</b>
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 recommendation/s arising from this review, 5 at Grade B and 1 at Grade C.

### **Statement of Assurance**

- 6.3. 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).

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

**APPENDIX A**

**1. FOLLOW UP 2009/10 AUDIT REVIEW RECOMMENDATION & RISK MANAGEMENT**

**Method of Review:**

- Follow up the 2009/10 audit review recommendation with relevant staff

**Summary of Findings:**

1.1 2009/10 audit recommendation – Grade C

**Issue Raised:** An item remained in the suspense account for 1 month due to other work pressures.

**Recommendation:** Attempts should be made to try to clear the suspense account within a week in all cases.

**Comments/Action Taken:** The suspense account is empty. Print of the suspense account supported that comment received.

**Status:** Recommendation Implemented.

The most recent 'corporate' operational risk register was obtained for Revenues & Benefits. The risks recorded which related to NNDR have been noted in the Executive Summary of this report along with the last review date as being February 2010. There is, however, outside of the 'Corporate' risk management process a Shared Service 2010-2013 Service Plan dated May 2010. This Plan incorporates a risk register.

**See Recommendation/Agreed Action 1.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
1	<b><u>See Summary of Findings Note 1.1</u></b> Risk management of the Shared Revenues and Benefits Service is outwith the Council's corporate risk management process. In addition the date of the Shared Service Plan (May 2010) incorporating the operational risks indicates that the risks have not been regularly reviewed/updated/monitored through out the current financial year.	Revenues Manager	The operational Risk Register should be reviewed and updated at least on a quarterly basis and should be included within Carlisle City Council's formal risk management process.	B	End June 2011

## 2. VALUATION

### **Method of Review:**

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

### **Summary of Findings:**

#### 2.1 New & Amended Properties

There is regular correspondence between Planning Services, Building Control and NNDR in an attempt to identify new or change of use hereditments as early as possible.

The information received from Building Control and Planning is received via a generic NNDR reports mailbox. This ensures that all staff have access to the necessary information. The reports are sent to NNDR promptly after the end of each month. The reports received are the Planning Applications / Decision Notices / Commencement Reports / Completion Notices. The relevant information is extracted and put into a monitoring spreadsheet (Commencement Reports) which details the Completion Date and shows on which VO report the information was reported.

It was confirmed with the Senior Rating Officer that there are no completions during 2010/11 to date (March 2010). The reason for this is that the developers and agents are leaving builds at the 'shell and core' stage (first stage electrics & cradling etc). This is likely to be due to the empty rating reform which took place in 2008 which saw the removal of the half rates applied to commercial premises which are empty.

Discussion with the Senior Rating Officer revealed that with the new Shared Service arrangement there have been significant changes to duties and responsibilities of staff. In this instance the Revenues Team Leader is responsible for monitoring new properties to come into rating although this is likely to be passed to the Visiting Officer. There is currently no 3 month schedule for visits in place, although the spreadsheet is used to keep watch. **See Recommendation /Agreed Action 2.**

NNDR also check the local press daily for information relating to new businesses, which they might otherwise not be aware of. There is no obligation on the liable person or business to inform the Authority of a new property.

Procedures are in place to actively monitor all building commencements and to investigate any relevant planning applications.

2.2 Notifications to the Valuation Office

6300 report (valuation notification) is produced on a weekly basis as batch jobs from Academy.  
 There is an outstanding file waiting for replies to come back in.

2.3 Valuation Office Listings

Reports are downloaded weekly from the Department of Communities and Local Government (DCLG) website.  
 These were found to be up to date and processed the week they are available.

The Current Valuation List is available to members of the public via the Valuation Office Website. In addition the Public can come into the Authority as it has an obligation to produce a spreadsheet for their information. This can be done from the VO website and would only be done as necessary.

2.4 Reconciliations & Checks

Controls ensure that that valuation data is input correctly, reconciliations are carried out at the end of each Schedule of Adjustments from the VO. If there is a reason to withhold an amendment workings are always attached to ensure that the Academy System always balances with the VO Schedule.

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

There is regular correspondence between Planning Services, Building Control and NNDR in an attempt to identify new or change of use hereditments as early as possible.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
2	<b><u>See Summary of Findings Note 2.1</u></b> It is essential that once a building is completed for NNDR purposes it is picked up promptly and brought into rating to avoid financial implications residing with the Council.	Revenues Manager	A three monthly schedule of monitoring visits should be compiled and passed to the Visiting Officers to ensure that completion is captured in a timely manner.	B	End June 2011

### 3. LIABILITY

#### **Method of Review:**

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

#### **Summary of Findings:**

##### 3.1 Determination of Liability

A form is used to determine the liable person prior to billing. The form categorises organisations into three areas (limited company, sole trader or partnership and not limited company, partnership or sole trader) which is used to establish the liable person and is applied to ensure that there is a consistent approach.

There are controls in place to ensure that the liability system parameters are maintained correctly. The parameters are set prior to main billing and are checked by a third party. The main billing is run in "read only" and checks are carried out to ensure that it is reconciled prior to its actual run in "update" mode. Parameters for 2010/11 have been checked and agreed with regards to the standard multiplier and small business multiplier.

From February 2011 the parameters are to be input by the Performance Team and checked by the Revenues Manager.

##### 3.2 Amendments to Liability

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

Amendments to Liability are actioned within one month of notification from the VO. Sample testing satisfactorily revealed that they had been actioned on the Academy system. Changes made are reconciled between the Academy system and the VO notifications and testing revealed this to be in order.

##### 3.3 Reliefs & Exemptions

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

Some of the reliefs available include:

- Small Business Rates Relief;

- Relief for charities and other not for profit organisations;
- Rural Settlement; and
- Part Occupation (S44A).

Business Rate Explanatory Notes are issued with all NNDR bills. The notes are prepared by the NNDR Section in accordance with the prescribed regulations. It is the responsibility of the Authority to ascertain changes in relief/discount status as the liable person has no legal requirement to inform the Authority.

A copy of the relief for charities and other not for profit organisations application form and guidance notes was obtained and was found to be informative to the applicant and detailed their responsibility. It includes the mention of ..."any changes to the circumstances affecting your entitlement must be notified...." Sample testing of awarded applications and calculations revealed;

- For 4 out of 5 of the sample tested there was not original application form;
- 2 of the 4 which did not have the original application had a renewal and two therefore have no supporting documentation; and
- Where application forms were available for the sample (one original and two with renewal applications) it can be confirmed that these were adequately completed, signed and dated.

No recommendation has been made as part of this review as the award and system of awarding charitable relief applications is to change for 2011/12 and letters have been sent out to this effect to those in receipt of the relief.

Discretionary awards made to charities has been under review and reports have been presented to Committee. This area is due to change and should be reviewed again, in greater detail to ensure compliance and ascertain fairness of award, as part of the 2011/12 material audit review when the changes are expected to be in force.

#### 3.4 Reconciliations & Checks

Reports are produced for management within the Shared Service on a monthly basis for performance monitoring purposes. The Performance Manager, in addition, prepares a quarterly monitoring report which is presented to the Shared Service Board.

A review of the NNDR Performance spreadsheet February 2011 revealed:

- % Collected is above target (actual 97.64%, target 97.5%); and
- % Target has increased on last year.

**Conclusion – procedures in place for liability are considered satisfactory.**

## 4. BILLING

### ***Method of Review:***

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

### ***Summary of Findings:***

#### 4.1 Issuing of Demands

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

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

An opening bill for 2010/11 was reviewed on the Academy system which indicated that it had be issued at least 14 days prior to the first instalment being due.

#### 4.2 Calculation & Payments

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

- Direct Debit;
- Via the Internet Payments;
- By post;
- Payment Office; and
- Telephone automated or through a member of staff.

4.3 Revisions & Suppressions

A list of suppressed bills as at the 1<sup>st</sup> February 2011 was obtained and reviewed. Work was undertaken to ensure that the identified accounts were appropriately suspended. Evidence was obtained from the Academy system after the date to ensure that the accounts were not still suspended and to ensure that payment terms had been agreed where appropriate.

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

4.4 Reconciliations

There is a file held by the Performance Team of the NNDR reconciliation with regards to the billing process. It was established that the Deputy Revenues Manager performed the reconciliation for 2010/11 opening bills. Evidence supported that the expected RV total had been reconciled to the total RV of the billing run after it had been processed and that the number of bills produced had been reconciled to the number of properties. No areas of weakness have been identified.

**Conclusion – procedures in place for billing are considered satisfactory.**

## 5. COLLECTION & REFUNDS

***Method of Review:***

- Completion of the CIPFA's internal Control Questionnaire relating to NNDR Collection and Refunds
- Ensure that there is adequate separation of duties
- Sample test refunds contained within the main accounting system and trace back to the NNDR system
- Review the allocated and unallocated amounts in the NNDR system suspense account to ensure it is regularly cleared
- Ensure reconciliations are undertaken between the MAS and the NNDR system

***Summary of Findings:***

5.1 Income Collection

Through discussion with the Revenues Manager there is a separation of duties between the creation of a debt and the collection of payment. NNDR staff have no involvement with the collection processes and cashiers have no involvement in the setting up of a debt. Cheques raised are authorised from the Creditor system by the Finance Assistant (Creditors). Cheques are produced by ICT Connect and then dispatched by a Clerical/Admin Assistant who is independent of both NNDR and Creditor Payments.

5.2 Credits & Refunds

Five refunds recorded within the Council's Main Accounting System during January 2011 were selected and traced to the Creditor system (where the

business rate account number is used as the creditor number) and then to the Academy system. In all cases the refund had been created by one person and authorised by another. All refunds were found to be in order.

5.3 Suspense Account

On commencement of this audit review it was seen that the suspense account at that time had been cleared. A review was carried out during the latter stages of this review of unallocated suspense items and the length of time taken during 2010/11 to clear suspense items. This revealed:

- There was one current unallocated suspense item as at 30 March 2011. This was for the amount of £316.13 which had been received within the suspense account 22 March 2011 (i.e. 5 days at this point); and
- There were 28 transactions allocated in the suspense account to date. 12 had been cleared the next day, 8 cleared within 2-3 days, 4 cleared within 4 days and 4 cleared within 7-10 days.

**See Recommendation/Agreed Action 3.**

5.4 Checks & Reconciliations

The Accountancy Assistant performs a reconciliation between the NNDR system and the Main Accounting System on a monthly basis. The January 2011 reconciliation (Period 10) was examined and found to be in order.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
3.	<b><u>See Summary of Findings Note 5.3</u></b> A review of the time taken to clear the suspense account revealed a fluctuation in the number of days. This should be reviewed to ensure that there is a smoother clearance of these items so that the records held are complete and accurate in a timely manner.	Revenues Manager	Suspense account items should be cleared as soon as possible but at worst within 5 working days.	C	End June 2011

## 6. PROCEDURE NOTES

### **Method of Review:**

- Review the internal procedure notes
- Review the external system procedure notes

### **Summary of Findings:**

#### 6.1 Internal

There is a thorough internal document relating to NNDR, The Non Domestic Rates Notes and Procedures. It is available to staff on the shared Q drive but is also available in a hard form in the office. A copy was reviewed and was found to be comprehensive. Relevant legislation is included within the document. There is evidence that notes have been updated as changes are needed, however there is no evidence that there are regular reviews to ensure that all changes have been captured. **See Recommendation/Agreed Action 4.**

It was clear that during this review that there has been a change in the staffing within NNDR including the duties and responsibilities undertaken by staff. In addition it was also revealed that the new staff were not aware of the notes and procedures and instead were making their own notes and documenting their own procedures. **See Recommendation/Agreed Action 5.**

The Revenues Manager has stated that the procedures should be reviewed and harmonised within the Shared Service.

#### 6.2 External

The Academy user guide is a thorough, complete manual explaining the Academy system and is available to all relevant staff on the shared Q drive. It details what each screen does.

Copies of the non-domestic rates valuation regulations and guidance are available for all necessary staff. A paper copy is available in the office and it is accessible on the Internet.

#### 6.3 Security of Data

The system has been registered with the Information Commissioner for data protection purposes.

It was queried whether there was an information classification and data retention policy and that there was data compliance to these. The response received was that there were no policies and the Shared Service currently has no immediate intention to do so. **See Recommendation/Agreed Action 6.**

<b><u>Ref</u></b>	<b><u>Issue</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Recommendation</u></b>	<b><u>Grade</u></b>	<b><u>Suggested Timescale for Completion</u></b>
4	<b><u>See Summary of Findings Note 6.1</u></b> Procedure notes have not been reviewed and updated on a regular basis, increasing the risk that they do not reflect current processes.	Revenues Manager	That the procedure notes are reviewed and amended where appropriate and harmonised within the shared service.	B	End June 2011
5	<b><u>See Summary of Findings Note 6.1</u></b> Since the matching to posts it was revealed during this review that there was a lack awareness by staff of the procedure notes that did exist.	Revenues Manager	That once the above recommendation has been implemented the procedure notes staff are made aware and informed of accessibility to make reference to them.	B	End June 2011
6	<b><u>See Summary of Findings Note 6.3</u></b> There is currently no information classification and data retention policy in place and thereby no formalisation of what data is retained for how long which could increase the risks of breaching data protection legislation.	Revenues Manager	That an information classification and data retention policy is prepared and implemented.	B	End June 2011

**Audit Services**

**Resources Directorate**

**Audit of Pest Control**

**Final Report**

21st June 2011

Directorate / Service Area	Recipient(s) of Report	Action Required
Local Environmental	Assistant Director (Local Environment)  Environmental Health Manager  Assistant Environmental Quality Manager  Senior Pest Control Officer	For information  There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Local Environmental Services, which is attached as Appendix A.  For information  For information

***Please note:*** The Chief Executive, Deputy Chief Executive/Strategic Director and relevant Assistant 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 5<sup>th</sup> July 2011.

**1. Reason for the Audit**

1.1. As part of the audit planning process, Pest Control was identified as a lower risk service area, which was carried forward from the 2010/11 Audit Plan (as agreed by the Audit Committee on 30<sup>th</sup> November 2010).

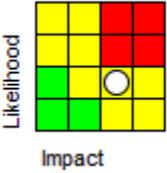
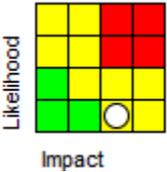
**2. Background Information / Summary of the Audit Area**

- 2.1. The Pest Control function is located in the Environmental Health area of the Local Environment directorate.
- 2.2. There is no statutory obligation for the Council to provide a Pest Control service for the treatment of pests to the public. There is an obligation to follow the Prevention of Damage by Pests Act 1949 and deal with significant vermin infestations on land.
- 2.3. There are 3 FTE staff plus additional support staff that maintain the day to day administration surrounding Flare, the Environmental Services database system.
- 2.4. The Pest Control service carries out disinfection and control measures for insect and rodent pests within domestic and commercial premises and also rodent control for farms and other agricultural premises.
- 2.5. The Council offers an annual contract service for a standard fee. All other services are charged on an hourly rate plus materials used, with the exception of treatment for rats in domestic premises.
- 2.6. Concessions are offered to senior citizens and customers with high rate disability living allowance.

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

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

Risk	Description	Present and Previous Risk Matrices	Review Dates	Current Risk Rating	Rating Description	Current Action Status / Control Strategy
Public health duties	Failure to meet statutory public health duties		07 Feb 2011	3	Impact High Likelihood Extremely remote	Maintain enforcement service
Pest control service	Failure to operate a Pest Control Service		07 Feb 2011	4	Impact Marginal Likelihood Remote	Maintain current service provision

Pest control - injury, non-target species and damage	Incidents involving the provision of pest control treatments in private properties and dwellings which result in injury to the public, non target species or accidental damage to property or fittings		07 Feb 2011	6	Impact Marginal Likelihood Remote	Safe working practice and procedures, safety equipment and information Pest Control Officer's fully trained
Infectious diseases	Failure to control infectious diseases		07 Feb 2011	3	Impact High Likelihood Extremely remote	Ensure service is adequately resourced

#### 4. Scope of the Audit

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

<u>Area Examined</u>	
1.	Policies & Procedures
2.	Health, Safety & Training
3.	General Visits
4.	Contracts

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

5.1. The Pest Control arrangements are well established and good internal controls are in place.

5.2. The Pest Control section has experienced and knowledgeable staff in place to deal with all aspects of the pest control functions.

5.3. From the areas reviewed and tested as part of this audit there were no major problems identified with the systems and procedures in place. The main issue for address relate to:

- Out of Hours call out charges – this part of the service is not financially viable and steps should be taken to withdraw it.
- Adequacy of completed and submitted job sheets and the impact these have on the Flare database.

- Pest Control Service requests are channelled directly to Environmental Quality (back office). The Customer Contact Centre has little involvement with this process.

The Council needs to make provision for Pest Control under the Prevention of Damage by Pests Act 1949 Act.

The Council needs to consider the future viability of existing in house service delivery against other options. Currently, the service is provided in house, but the Out of Hours service has already been deemed not financially viable and it is know that additional requests for annual pest contracts at commercial premises are being declined due to insufficient resources. It is suggested that future delivery options should be explored as part of the continuing transformation service review within the Local Environment directorate.

## 6. Grading of Audit Recommendations

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

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

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

- 6.2. There are 5 recommendations arising from this review - 2 at grade B and 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 (delete if no recommendations), it is considered that a **REASONABLE** level of assurance can be given in relation to the systems of control (see definition below).

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

## Local Environment

## APPENDIX A

### 1. Policies & Procedures

#### *Method of Review:*

- Discussions with relevant staff with regards to all aspects of Pest Control.
- Review and examination of the Council's Constitution and Financial Regulations policies.
- Review and examination of the paper or electronic office procedures relating to Pest Control.
- Examination of the Information Commissioner's Office website to ensure the Authority has appropriately registered the Flare database.
- Examine the National / Local Performance Indicators.

#### *Summary of Findings:*

- Constitution & Financial Regulations

An examination of the Council's Constitution and Financial Procedures Rules 2011 was carried out to ensure key controls are clearly outlines for Pest Control.

The Constitution and Financial Procedure Rules can be located on the Council's Intranet. Pest Control procedures and responsibilities are specifically referred to on Page 113. The powers are delegated to the Assistant Director (Local Environment).

It was confirmed that the Council's Constitution details the rules to apply to Pest Control.

- Procedures

It was confirmed that the Pest Control section have a hard copy of all 'method of working' procedures. The file is located on the Senior Pest Control Officer's desk and is accessible to all staff. The procedures are maintained and updated accordingly.

- Data Protection Considerations

An examination of the Information Commissioner's Office website was undertaken to ensure the Council is correctly registered.

The Flare database is appropriately registered. The current registration applies until 22<sup>nd</sup> October 2011.

- National / Local Indicators

There are no National or Local Performance Indicators relating to Pest Control.

- General

Carlisle City Council are members of the British Pest Control Association. The membership is renewed annually.

Pest Control data is only submitted to the Government when requested. This is usually for information on the number of jobs carried out throughout the year and various ad hoc information.

The Pest Control Team consists of 3 FTE members of staff plus administration staff. Team members report to the Assistant Environmental Quality Manager for any initial day to day issues. The Pest Control section is overseen by the Environmental Health Manager who reports directly to the Assistant Director (Local Environment). Environmental Quality administration staff carry out general administrative duties relating to Pest Control. The Council does not employ outside pest control contractors.

It was confirmed that Pest Control staff are covered by the Employers and Public Liability Insurance.

***Conclusion – There are no recommendations to be made regarding Policies & Procedures.***

## 2. Health, Safety & Training

### **Method of Review:**

- Discussions with relevant staff.
- Determine the arrangements for the staff training.
- Determine the arrangements for the Health & Safety of staff using controlled substances.

### **Summary of Findings:**

- It was confirmed that Pest Control Officers receive training on an 'as required' basis and the current staff have been fully trained in their post for numerous years. Refreshers courses are arranged by Management or if requested by a staff member. Training and refresher courses are undertaken by Killgerm Chemicals Ltd.
- The Health & Safety Manager routinely checks that all chemicals used are appropriately listed and accounted for.
- If a new member of staff is employed by the Authority full training will be given before they are able to carry out any Pest Control duties. The new member of staff will be shadowed through a preliminary period to ensure their safety when using poisonous chemicals and dealing with rodents etc.
- Staff are verbally updated with all new notifications relating to controlled chemicals and substances which are received from the Biocidal Directive/Regulations. The Senior Pest Control Officer subscribes to a magazine which lists all updates. Procedures will be updated accordingly and all paperwork is filed for future reference which is accessible to all staff.
- The Council is not required by law to have a poison licence due to the fact the all poison used can be bought over the counter in shops.
- It was confirmed that all members of the Pest Control Team wear protective clothing when carrying out duties.

**Conclusion: There are no recommendations to be made regarding Health, Safety & Training.**

### 3. General Visits

#### **Method of Review:**

- Discussions with relevant staff.
- Review of the Council's website and Financial Plan 2010/11 & 2011/12 to ensure the appropriate fees and charges are applied to customers.
- Review concessions and exempt charges to ensure proof of age or benefit are proven before work is carried out.
- Carry out testing on 10 job sheets to ensure all paperwork is correct and verified.
- Review of the Flare database system and Debtors Ledger to ensure all entries are correct.
- Review of the Council's 'Out of Hours' service.

#### **Summary of Findings:**

- It was confirmed through examination of the Financial Plan for 2010/11 & 2011/12 and the Council's website that the fees and charges were both compared and that the correct charges are applied.

The information is thoroughly illustrated giving an example of charges relating to all types of pest control and clearly states the fees are based on a hourly rate and materials used.

- Concessions were examined as the Council offer's a half price charge for the treatment of mice and public health insect pests for senior citizens or persons in receipt of high rate disability living allowance.

It was confirmed by the Senior Pest Control Officer that evidence to support concessions granted are not always requested by the Pest Control Officer when attending a call out or by administration staff when dealing with a call out request. **Please refer to recommendation A.1.**

There is no charge for rats in domestic premises and the Council also provides advice for free as many customers are unsure of the different types of pests/vermin. The Pest Control Officer, in these instances, would visit the site and provide information accordingly. These visits could take 30 minutes minimum for each visit. Pest Control job sheets are completed and logged onto the Flare database system for reference.

- Pest Control requests are received into the Environmental Quality office via a direct telephone line or by an online call out request via the website. Staff log all data/information directly onto the Flare database which produces a job sheet. Job sheets are picked up on the relevant day. The Pest Control Officer attends the request and completes the job sheet with time taken, date visited, poisons used etc. The job sheet is then brought back into the office where administration staff update the Flare database with all relevant information.

It was noted that the Customer Contact Centre have little involvement in taking service request details from members of the public. The Environmental Quality (back office) operations deal direct with call requests and website details channel customers direct to the back office. This should all be routed through the Customer Contact centre. This should be considered as an option during the service review of Environmental Health in 2012. **Please refer to recommendation A.2.**

Two different types of job sheets are in use. The Pest Control Administration staff complete and print off job sheets from the Flare database for work to be carried out, Pest Control Officers also keep job sheets in their vans in case administration staff telephone with a job request. All sheets are logged through Flare and allocated a number so they are traceable.

The Flare database has the ability to analyse jobs into various categories for reporting purposes. This enables management to provide figures for costing purposes etc. A review of the Flare database highlighted that on occasions, the database had not been completed with the job/call out details causing the database to inaccurately show jobs as outstanding pending jobs/call outs. The weekly report showing all outstanding jobs/call outs should be produced and properly utilised to help ensure all job details are up to date on the system. **Please refer to recommendation A.3.**

Pest Control call outs are usually dealt with within 24 hours of the request being received. Occasionally the request may be delayed due to workload. In these instances the customer would be notified. The Council's website states 'Our service standard is to contact you within 2 working days of your request being received. Examination of paperwork and the Flare database confirmed that call outs are undertaken within 24 hours.

During 2010/11 there were 595 debtor invoices were raised in respect of the Pest Control. This figure does not include treatment of rats, advice visits and miscellaneous treatments which are on public land as these treatments are free of charge to the public.

- The Council currently offers an 'Out of Hour' service, weekdays 5.00pm – 8.30pm and weekends 9.00 – 8.30pm. The service is available through Careline who pages the rotated Pest Control Officer to attend.

The Council pays Careline an annual fee of £1,147.73 for this service.

The Pest Control Officers work a 3 week rota pattern for the 'Our of Hours' service. They are paid an additional £80 for the week they are on call. The additional salary costs for 2010/11 was £4,140. The total cost (not including travel, poisons, administration staff etc) for 2010/11 was £5,287.73.

It was confirmed that during 2010/11 there were just 2 Out of Hour call outs.

Findings clearly indicate that operating an 'Out of Hours' service is not financially viable. It is understood that this part of the service is currently being

reviewed as part of transformation in the Local Environment directorate.

- Whilst it may be deemed good practice to encourage pre payments before work is carried out, thus avoiding the need to raise and recover debtor invoices, this is not considered appropriate for pest control visits due to changing circumstances when undertaking the work. This could include extra treatments required, more staff and the job being completely different from what was originally described.
- Debtor invoices are raised on a weekly basis. The job sheets are returned weekly by the Pest Control Officers, Flare is updated with the status and details of all jobs, then debtor invoices are raised and mailed to customers. A check to ensure that debtor accounts are promptly raised on return of completed job sheets found that the debtor invoices were raised within the 14 days target set by the Council.
- It was confirmed that within the Flare system there is an alarm tick box which gives the facility to enter text against individual debtors if invoices remain unpaid. It was highlighted that this facility only works if it is the same person requesting further work and not another member of the same household as they cannot be refused pest control treatment.

It was confirmed that there has been no instances of withdrawing services to customers in previous years.

There are currently 36 invoices which remain unpaid from April 2010 to current date (25/05/11) with a total value of £3,670.17. The Debtors section has debt recovery controls in place to ensure all outstanding invoices are followed up and paid accordingly.

- Testing was carried out on 10 random pest control job sheets. The job sheets were examined to ensure that all details had been completed and that signatures had been obtained from customers.

Examination of the job sheets revealed that only 3 (30%) out of 10 job sheets had been signed by the customer and the Pest Control Officer. An explanation was sought from the Pest Control Officer who advised that customers signatures are not always obtained due to the job being carried out outside of the premises e.g. garden, lane etc and the customer is now always available to sign the documentation. Customer signatures on completion of work are important particularly if the Council is to raise an invoice for the work as it is the customer acceptance of the work completed and the charge to be applied. ***Please refer to recommendation A.4.***

It was noted that appropriate concessions were given to Senior Citizens and customers on Disability Living Allowance although evidence to support concessions granted are not always sought.

Testing revealed that all job sheets were accurately entered into the Flare system and the Debtors ledger.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	Proof to support concessions is not routinely sought and recorded.	Environmental Health Manager	Pest Control staff should ensure that suitable evidence is seen to support concessions. This should be noted on relevant paperwork / job sheets before carrying out any work.	B	ASAP
A.2	The Customer Contact Centre does not play an active role in taking Pest Control service requests for member of the public.	Environmental Health Manager	The transformation changes within Local Environment directorate should consider methods to appropriately direct service requests from the back office into the Customer Contact Centre. This should be considered as an option during the service review of Environmental Health in 2012.	B	During 2012 service review.
A.3	The Flare system is not always routinely checked for missing data.	Environmental Health Manager	Administration staff should run a weekly report highlighting all pending jobs/call outs. The report should be checks and the database updated accordingly.	C	ASAP
A.4	Signatures are not always obtained from customers.	Environmental Health Manager	Pest Control Officers should ensure a customer signature is obtained for all cases. Where this is not possible, the reason why should be clearly recorded on the job sheet.	C	ASAP

## 4. Contracts

### **Method of Review:**

- Discussions with relevant staff.
- Review of the Council's website and Financial Plan 2010/11 & 2011/12 to ensure that appropriate fees and charges are applied to customers.
- Carry out testing on 5 contract job sheets to ensure all paperwork is correct and verified.
- Review of the Flare system and Debtors Ledger to ensure all entries are correct.

### **Summary of Findings:**

- It was confirmed through examination of the Financial Plan for 2010/11 & 2011/12 and the Council's website that the fees and charges were both compared and that the correct charges are being applied.

The information is thoroughly illustrated giving an example of charges relating to the contract service and clearly states the number of routine visits that the Council will carry out annually.

It was noted through examination of the Council's website that the Commercial Premises paragraph inaccurately states the number of routine visits. This is misleading to existing and future customers. **Please refer to recommendation A.5.**

- The Council will carry out:-
  - Farm contracts for rodents – 4 routine visits per year at approximately 3 month intervals plus any further visits considered necessary.
  - Commercial premises for insect and / or rodent control – 4 routine visits per year plus any further visits if necessary.

The Council has contracts with farms and various establishments i.e. Schools, Retail Areas, Parks etc.

The Council currently has 53 contracts but due to the current work load and lack of experienced staff, no new contracts are currently being taken. This is to ensure that all current contracts and all other daily jobs are honoured and remain first priority.

- The Council ensures that all contracts are signed by both parties. The contract lists full details of routine visits, costs etc. A contract was examined and found to be in order.

If treatments are carried out in outbuildings or properties connected to the contract premises e.g. a farm or school, but are not within the original contract, then an enhanced service charge would be invoiced to the customer.

- Debtor invoices for all contracts are raised annually. Invoices can be raised in advance due to a standard contract fee being charged unlike the general call outs covered in section 3 of this report.
- Testing was carried out on 5 random pest control job sheets. The job sheets were examined to ensure that all details had been completed and that signatures had been obtained from customers.
- Examination of the job sheets revealed that all 5 (100%) of the job sheets had not been signed by the customer or the Pest Control Officer. An explanation was sought from the Pest Control Officer who advised that no notification date or time is given to the contract holder/customer as to when visits are going to be carried out. If no signature could be obtained a card would be posted through the door to inform the customer that a routine visit had been carried out. It was confirmed that job sheets were correctly completed apart from the signature. Please refer to recommendation A.3.
- Testing revealed that all job sheets were accurately entered into the Flare system and the Debtors ledger.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.5	Carlisle City Council's webpage for Pest Control requires rewording for Commercial Premises.	Environmental Health Manager	Update appropriate web pages for Pest Control to accurately state that routine visits are now 4 instead of 8 for Commercial Premises.	C	ASAP

**Audit Services,  
Resources Directorate  
Audit of Health and Safety**

# Final Report

23<sup>th</sup> June 2011

Directorate / Service Area	Recipient(s) of Report	Action Required
Governance	Safety Health and Environmental Manager (for action)  Assistant Director - Governance (for information)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Governance, which is attached as Appendix A.

***Please note:*** The Chief Executive, Deputy Chief Executive/Strategic Director and relevant Assistant 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 5<sup>th</sup> July 2011

**1. Reason for the Audit**

1.1. As part of the audit planning process, Health and Safety was identified as a high risk service area and was therefore selected for review as part of the agreed 2010/2011 Audit Plan.

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

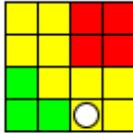
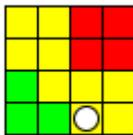
2.1. The Health and Safety section forms part of the Governance Directorate. The Section employees' two members of staff, a Safety Health and Environmental Manager and a Support Officer.

2.2. Main functions of the Health, Safety and Environmental Team includes:

- The provision of specialist Health & Safety advice and assistance to the City Council, its committees, the Town Clerk and Chief Executive, Assistant Directors, managers, supervisors and other employees on all aspects of Health & Safety issues which may arise as a result of their work activities.
- Advising upon and monitoring the implementation of the City Council's Health & Safety Policy, and assist The Town Clerk and Chief Executive, Assistant Directors, managers and supervisors to fulfil their responsibilities under the Health and Safety at Work etc Act 1974 and associated legislation.
- Advising upon the provision of appropriate training to underpin the City Council's Health & Safety Policy.
- Take responsibility for developing environmental procedures and monitoring performance in accordance with the City Council's corporate priority of "Cleaner, Greener, Safer"

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

3.1. Examination of the risk registers noted the following risks:

<b>Inadequate systems to ensure Health and Safety compliance</b>	Likelihood  Impact	10 Sep 2010	<b>3=</b>	<b>Impact</b> High  <b>Likelihood</b> Extremely remote	Council's H&S policy fully adopted. Qualified H&S manager employed in corporate role. Clear H&S management systems installed across council. H&S action plan regularly updated and ongoing auditing of current practices. Developing local PIs which will be reported in council performance management reports to corporate O&S. Continuing training of staff as appropriate including mandatory training for newly appointed employees. Role of H&S to be included in service plans.	Safety Health and Environmental Manager
	Likelihood  Impact	04 Jun 2010				

<b>Health and Safety prosecution/claims</b>		10 Sep 2010	6=	<b>Impact</b> High  <b>Likelihood</b> Remote	Council's H&S policy fully adopted. Qualified H&S manager employed in corporate role. Clear H&S management systems installed across council. H&S action plan regularly updated and ongoing auditing of current practices. Developing local PIs which will be reported in council performance management reports to corporate O&S. Continuing training of staff as appropriate including mandatory training for newly appointed employees. Role of H&S to be included in service plans.	Safety Health and Environmental Manager
		01 Dec 2009				
<b>Sustainability/ Environmental - Failure to promote, pursue and implement Government guidelines on S&amp;E</b>		10 Sep 2010	6=	<b>Impact</b> High  <b>Likelihood</b> Remote	Use of CCC Environmental Performance officer(s) to: Maintain gold CBEN award - co-ordinate the production of environmental registers (site based) and environmental initiatives eg Green Travel plan through the Environmental Working Group. Monitor all aspects and report on relevant indicators. Develop a climate change strategy.	Support Officer; Safety Health and Environmental Manager

**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.

	<b><u>Area Examined</u></b>
1.	Policies and Procedures
2.	Awareness
3.	Risk Identification
4.	Managing Risk
5.	Training
6.	Accidents and Incidents
7.	Monitoring and Reporting
8.	Security of Data

## 5. **Overall Conclusion**

- 5.1. A number of opportunities to further enhance existing controls have been identified. These are shown within Appendix A and have been brought to the attention of the relevant officers. In summary the key issues for address:
- Arrangements to ensure that training provided to all nominated safety persons is complete and up to date.
  - A more effect method is needed to highlight and address areas of council business where risk assessments have not been appropriately undertaken.
  - Health and Safety policy wording needs to be updated in some areas.
  - Arrangements to cease payments to employees who no longer undertake first aid duties are needed.
  - Office health and Safety inspections should be undertaken to meet the minimum 3 year cycle.
  - Basic Health and Safety training should equally apply to Agency and Temporary staff
  - Inadequate reference to and training on health and safety matters is provided to Members
  - Better arrangements are needed to log Health and Safety complaints

## 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:

<b><u>Grade</u></b>	<b><u>Level of Risk</u></b>
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 Council as a whole (e.g. reputation, financial etc).

- 6.2. There are 8 recommendations arising from this review - 3 at grade B, and 5 at grade

**7. Statement of Assurance**

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

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

**Governance**

**APPENDIX A**

**1. Policies and Procedures**

***Method of Review:***

- Review the Council's Health and Safety (H&S) Policy;
- Review the Council's H&S procedures;
- Ensure that the H&S policies and procedures are reviewed;
- Ensure that the overall responsibility for H&S is clear.

***Summary of Findings:***

The Council's statement of intent clearly states its commitment to and responsibility for ensuring that its activities are undertaken without risk.

It clearly encourages the involvement of employees and their safety representatives. It states that the Council "Encourages and promotes co-operation between management and employees on all matters relating to Health and Safety at work, and implementing this policy" The Statement makes a commitment to ensure that there is effective communication of all H&S issues. The timescales for the policy's review is stated in the introduction, along with information relating to additions during the year being entered into Section 3: Amendments and Alterations to policy. The Statement of Intent is signed by the Town Clerk and Chief Executive.

The need for the policy is laid down in the Statement of Intent. "The aim of this policy and the Council's procedures and priorities it is minimise unsafe and unhealthy conditions and this can only be achieved by co-operation and positive attitudes from all involved". The Council recognises in the policy and accepts its responsibility to provide as far as is reasonably practical, a place of work and conditions that will ensure the health, safety and welfare of all employees whilst at work. The Council's H&S staffing and reporting structure is detailed in section 2 of the Statement – Organisation and Responsibilities. The individual responsibilities are clearly defined. Health and Safety report to Resources, Overview and Scrutiny on a regular basis.

The Council's H&S Policy is clear and concise and covers appropriate hazards and relevant activities including :-

- Fire Prevention and Precautions
- Dealing with Bomb Threats
- Guidance on harmful substances
- Office safety
- Moving things safely and manual handling

The H&S policy is reviewed annually. In the event of additions throughout the year, insertions are made into Section 3. The policy was last reviewed and updated in July 2010.

The Statement of Intent lays down that managers, supervisors and team leaders are all to take responsibility for monitoring health and safety in their services and will co-ordinate safety management and ensure compliance with legislation. They are responsible for ensuring that matters arising from health and safety inspections are recorded and that records are maintained

The Health and Safety policies and procedures are thorough and are clearly laid down

## 2. Awareness

### ***Method of Review:***

Ensure that the H&S policies are readily accessible and are the current versions;

Ensure that specific H&S responsibilities are recorded in employees job descriptions and in external parties agreements and contracts;

Ensure that H&S procedures are communicated to all staff;

Ensure that there are adequate arrangements for raising H&S awareness and communicating issues and legislations.

### ***Summary of Findings:***

The Council's H&S policies are available to staff on the Intranet. On reviewed these were found to be current and are readily accessible.

### **Job Descriptions**

All employment contracts have, as part of the detail, the following:

#### Health and Safety

Safety is a responsibility for management, but equally, all employees must exercise their personal responsibility in avoiding accidents and in creating safe and healthy working conditions. A copy of the Statement of the Council's Policy, Organisation and Arrangements for Health and Safety at Work is issued to staff on taking up their appointment.

A discussion was held with the H&S Manager who advised that all new starters receive an induction in Health and Safety. All senior staff are aware of their specific responsibilities and information is given to them via Senior Management Team (SMT) and the Departmental Management Team (DMT) meetings.

As part of the tender process and contractors selection process, specific forms are completed before the Council considers using them. There is a separate section for health and safety. Contractors are provided with minimum safety requirements in booklet and list format. Managers run through the Council's basic requirements depending on the nature and complexity of the work contractors will be undertaking.

The Safety Health and Environmental Manager advised that when the Directorate safety persons were initially appointed they all received a two day IOSH training course. Since the training was provided and transformation has been taking place many of the Directorate safety persons have changed. The newly appointed safety persons have not received any formal training the Safety Health and Environmental Manager is aware of this situation and is intending to provide an in-house training day. **RECOMMENDATION A1**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	Some staff initially appointed as Directorate safety have left the Council and the duties have been past on to other staff who have not received the appropriate health and safety training	Safety Health and Environmental Manager	Training should be provided to all Directorate safety persons	B	6 Months

### 3. Risk Identification

**Method of Review:**

Ensure that risk assessments are required to undertaken;

Ensure that the responsibility for undertaking risk assessments is formally and clearly recorded and allocated to an appropriate person;

Ensure that the Council's procurement policy and procedures requires H&S issues to be appropriately addressed.

**Summary of Findings:**

Risk assessments are required to be undertaken to :

- Assess the work place for all employees
- Where new working practices are being considered
- When an accident or a near miss has occurred.

Risk assessments are formally recorded and are maintained securely with all supporting documentation

It is the responsibility of the managers to undertake risk assessments. The Council has approximately 16 generic compliance assessments for the basic office environment. High risk areas are assessed and monitored by the relevant managers and the Safety Health and Environmental Manager. The Safety Health and Environmental Manager advised that most of the time this works well, however, some sections do not carry out all assessments that are required. It was explained that if assessments are not carried out and the relevant Assistant directors would be advised. Risk assessments involving high risk environments are carried out between with relevant manager and the Safety Health and Environmental Manager are reviewed regularly. Low risk areas are managed by the local supervisors and managers, after initial support from the Safety Health and Environmental Manager. These areas are reviewed every 2 years.

**RECOMMENDATION A2**

The Council's Invitation to tender document was reviewed and was found to include a Health and Safety section 9. The individual/organisation submitting a tender is asked to confirm that it:

- Complies with H&S at work act;
- Has a H&S policy which is available on request;
- Safety arrangements include risk assessments, first aid provision, procedures for dealing with emergencies, and reporting accidents;
- Has an member of staff who is responsible for coordinating safety matters.

In addition the company is asked to provide details of

- HSE/Local authority enforcement action taken against it;
- Accidents reportable under HSE Legislation in the last three years;
- H&S training given to employees.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.2	It is the responsibility of the manager to undertake risk assessments for their areas. Not all risk assessments are reviewed annually.	Safety Health and Environmental Manager	Ensure that Procedures are in place to identify sections that are not carrying out the relevant risk assessments and that this information is fed back to relevant Assistant Directors.	B	6 Months

## 4. Managing Risk

### *Method of Review:*

Review the H&S procedures and ensure that they require safe working practices to be devised;

Review the H&S and the risk management procedures;

Ensure that the Council has adequate fire and bomb policies and procedures;

Ensure that the Council has adequate first aid policies;

Ensure that the Display Screen procedures comply with legislations;

Review the H&S policies for managing work related road safety;

Review the procedures are managing Control of Substances Hazardous to Health (COSHH);

Review the asbestos management policies.

### *Summary of Findings:*

Safe Working practices are devised and these are written and formally set out to eliminate hazards and minimise risks.

Fire prevention and precaution is detailed in the H&S Policy. Sources of fire danger are listed with fire precautions along with fire fighting and evacuations procedures. Information relating to fire extinguishers is also detailed which explains the colours and the uses. The Council has a code of safe working practices for dealing with bomb threats, including guidance on receiving the telephone call and dealing with a "suspicious" package

The H&S policy provides information on First Aid. The first aid box in Financial Services was reviewed and was found to contain all the necessary items listed in the policy. The Council currently has approximately 60 First Aiders. First aiders are required to attend a course and take an exam every three years. Staff taking on first aid as an additional duty receive a small remuneration monthly. The Health and Safety team ensures that first aid training is up to date. Currently there are no procedures for removing the additional pay from an individual who decides not to renew their first aid training. **RECOMMENDATION A3**

The document details a Code of Safe Working Practice - Display Screen Equipment work. There are 22 personal checks to a safe a comfortable day. Assessments are carried out, CC08, these were last done for Financial Services in April 06 and Revenues and Benefits in December 05. The assessments should be taken every three years. The Safety Health and Environmental Manager advised that he is currently reviewing the Council and plans to assess 50% of staff every year. This requirement forms part of the Corporate Plan and is monitored though Covalent. The guidance notes from the Health and Safety Executive were

examined to ensure that the Council complies with legislation, no problems were identified. Employees are made aware that eye tests are free to those working with VDUs and that a contribution towards the cost of spectacles is provided where appropriate. Information is provided in the H&S Policy and on the Intranet.

**RECOMMENDATION A4**

There are daily checks to ensure that Council vehicles are safe and road worthy along with preventative measures – for ensuring that loads are secure. There is further information for staff relating to:

Overloading, Towing of Trailers etc, New Driving Licenses, Vehicle Record/Log Book, Defect Books, Security, Accident Procedures, Cleanliness

The policy states that drivers who pass their tests after the 1/1/91 are not eligible to drive vehicles with a Gross Vehicle weight of 7.5 tonnes. This legislation was actually not brought in until 1/1/97. **RECOMMENDATION A5**

There is a policy for Managing Occupational Road Risk. The Policy and associated arrangements were drawn up to meet the legal requirements. All those who drive during the course of their work or their activities for The Council must comply with them. The Consultation on the policy ended on the 9<sup>th</sup> August 2010 and the policy was agreed.

COSHH requires employers to carry out an assessment of all hazardous substances used in the course of their operations. Hazardous substances should not be used where an assessment has not taken place. All staff are supplied with the relevant protective equipment. The Council change practices for example only water based paints are now used internally to adopt safer working practices and safer environment. Staff encountering hazardous whilst at work have an annual Health Surveillance test and action is taken where necessary to amend roles. This includes tests for noise at work related problems. All Council sites have been surveyed and an asbestos register has been produced. This is monitored and updated a regular basis. Asbestos training is on a three year cycle, it is for all those who may be working with or come into contact with asbestos. This is the minimum statutory duty.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3	There are no procedures for removing first aider salary additions	Safety Health and Environmental Manager	Procedures need to be brought into place to ensure that all salary additions are removed when a 1 <sup>st</sup> aider does not retake the training	C	6 Months
A.4	Office inspections have not been carried out regularly	Safety Health and Environmental Manager	Office Inspections should be carried monthly by the Directorates safety persons / or relevant manager. Actions should be address in the appropriate time frame. Any issues not addressed will be reported to the relevant Assistant Director if there is no justifiable reason.	B	6 Months
A.5	The H & S Policy is incorrect.	Safety Health and Environmental Manager	The H&S Policy Section 2b – Specific Arrangements should be amended on page 18 to reflect the legislative requirements relating to driver licenses	B	6 Months

## 5. Training

### **Method of Review:**

Review the Council's job appraisal documents and check that H&S is adequately featured

Review the Council's corporate training programme

### **Summary of Findings:**

The Corporate Training Manual was reviewed and the following courses were identified

Basic General awareness

- Writing Risk Assessments
- Drug and Alcohol awareness;
- Manual Handling.

A basic health and safety training framework is provided to staff.

Agency Staff are not currently identified across the Council and do not receive the corporate induction training. A discussion was held with the Development and Support Manager who advised that the Council are going to be using a new provider – Management Service for Temporary and Agency Resources (M-STAR). The role of the provider will be to ensure that all staff have received the basic training for the role they are fulfilling for the Council. The Safety Health and Environmental Manager should liaise with the Development and Support Manager to ensure that all the necessary training is included. **RECOMMENDATION A6**

Training is not provided to new Members. In previous years training had been provided however this year Personnel decided to remove the Health and Safety from the new Members induction. Information should be provided to them in their new Member's packs and the Safety Health and Environmental Manager should liaise with the Organisation Development Manager to ascertain how the training should be delivered in the future. **RECOMMENDATION A7**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.6	Agency Staff are not currently identified across the Council and do not receive the corporate induction training	Safety Health and Environmental Manager	Liaise with the Development and Support Manager to ensure that all the necessary training is provided to agency and temporary staff prior to their commencement with the Council.	B	6 Months
A.7	Training is not provided to new Members	Safety Health and Environmental Manager	Health and Safety information should be provided to new Members in their starter packs. Advising them of the policies that affect them and about the information that is available to them via the Intranet. In addition the Safety Health and	B	6 Months

		Environmental Manager will liaise with the Organisation Development Manager to ascertain how the training for all Members should be delivered in the future.		
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## 6. Accidents and Incidents

### **Method of Review:**

Review the accidents and incidents reporting of adverse events procedures

Review the accidents and incidents reporting forms

### **Summary of Findings:**

The accident and incident reporting procedure is clearly laid out in the Health and Safety policy (pg 9-16). All accidents, incidents or dangerous occurrences must be reported to the relevant line manager. Details must be recorded on the Councils Accident/Incident Report form.

An Accident book is maintained by the Safety Health and Environmental Manager and is available for inspection on request. The book is retained for 3 years after the last entry.

It is noted in the procedures that in the event of a serious accident or dangerous occurrence that the scene is left undisturbed with the exception of any measures necessary to make the area safe, to assist any investigation.

The Safety Health and Environmental Manager normally has the responsibility of reporting incidents to the Health and Safety Executive.

The Accident and Incident reporting form and the Accident and Incident Investigation report form were reviewed.

The forms are :

- Clearly worded
- Give adequate advice on how to complete them
- Require sufficient information to be recorded of the incident

## 7. Monitoring and Reporting

### **Method of Review:**

Ensure that the monitoring of the Council's Health & Safety procedures is formally allocated to an appropriate person

Review the accident and incident record book

### **Summary of Findings:**

The monitoring of the Council's Health & Safety is undertaken by the Safety Health and Environmental Manager. He is a chartered member of IOSH, which is the largest professional institute for health and safety. There are adequate procedures to enable Health & Safety issues to be reported confidentially. Procedures ensure that all such reports are promptly and effectively actioned. There is no log kept although the Safety Health and Environmental Manager does keep a informal record until actions are taken. **RECOMMENDATION A8**

Employees are made aware of the reporting procedures as part of the Corporate induction Process. The Council's Intranet and Internet provides advice about health and safety reporting procedures.

The Safety Health and Environmental Manager has the responsibility for:

- Reporting all major incidents to the Health and Safety Executive.
- Preparing the Council's annual Health & Safety report – The Forward Plan complies with the guidance issued by the Health and Safety Commission in its publication, Revitalising Health and Safety

The Safety Health and Environmental Manager confirmed that:

- All incidents are acted upon and satisfactorily addressed in a timely manner;
- Findings are clearly communicated to all interested parties;
- Effective action was taken to prevent any reoccurrences.

All required incidents were reported to the HSE within the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 1995 timescales

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.8	There is no log of the issues raised with Health and Safety	Safety Health and Environmental Manager	An excel spreadsheet should be set up to record all Health and Safety Complaints and any issues addressed through the whistle blowing process, and the action taken	C	6 Months

## 8. Security of Data

### **Method of Review:**

Review the Council's data policies

Review any systems that hold personal data are appropriately registered with the Information Commissioner

### **Summary of Findings:**

All documents relating to Health and Safety are securely held on a the Council's system and this can currently only be access by the Safety Health and Environmental Manager.

All information relating to occupational injuries is retained for 40 years, other information is kept for 3 years. All informational relating to a claim is held for 7 years.

The business continuity is part of the Disaster Recovery Plan.

All staff are aware of the implications of the data protection, and of how to deal with freedom of information requests.

The Information Commissioner's website was reviewed

The Health and Safety information is registered under Purpose 1 – Staff Administration, for data protection and processing purposes.

"The making of health and safety provisions for staff, including the operation of violent warning marker systems" This registration expires October 2011

**Resources Directorate**

**Audit Services**

Audit of Main Accounting and  
Budgetary Control Systems

**Final Report**

16<sup>th</sup> May 2011

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

***Please note:*** The Chief Executive, Deputy Chief Executive, Strategic Director and relevant Assistant 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 the final report management summary at the meeting to be held on 5<sup>th</sup> July 2011.

## **1. Reason for the Audit**

- 1.1. The audit of the Main Accounting System and Budgetary Control forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Internal Audit Services, as part of their work on the annual statement of accounts.

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

- 2.1. The Civica Financials accountancy package which was implemented in April 2004, incorporates the Main Accounting System and 3 subsidiary systems - Debtors, Creditors and Purchasing. ICON Bank Reconciliation and Cash Receipting are also fundamental to the Main Accounting System and processes. The Main Accounting System is vital in the production of timely financial management information and the production of the annual financial statements.
- 2.2. The provision of this service is maintained and managed by Financial Services, which is part of the Resources Directorate.
- 2.3. The Accountancy Services team ensure that all financial information entered into the Main Accounting System on a daily basis is exact and available at year-end in order to produce the annual accounts. It should be appreciated that in addition to the normal day to day operations, there has been a large amount of work attributable to the transformation process, the International Financial Reporting Standards (IFRS) requirements and also the newly introduced Transparency Agenda imposed by Central Government which involves the publication of key expenditure data including:-
- Items of spending above £500;
  - Contracts and tender documents in full;
  - The job titles of every member of staff;
  - The salaries and expenses of staff paid more than £58,200;
  - Structure charts;
  - Meeting minutes;
  - Councillor allowances and expenses;
  - Local service and performance data.

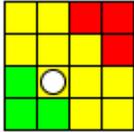
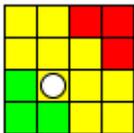
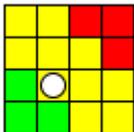
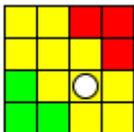
The preparation and supply of this information alongside the other non standard occurrences did have an impact on available resources in Financial Services, however the Section met this challenge head on and will continue to do so.

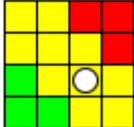
The Systems and Controls team ensure the system administration and controls are in place so that the Main Accounting System is able to produce the information required in the accounting format defined by BVACOP (Best Value Accounting Code of Practice). BVACOP is to be replaced by SeRCOP (Service Reporting Code of Practice) in 2011/12, but this change has no impact on the 2010/11 accounts on which this review concentrates.

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

#### 3.1. Examination of the current Financial Services Risk Register noted the following risks

Risk	Description	Risk Matrices & Review Dates	Rating Description	Current Action Status / Control Strategy
<b>The Council regularly fails to deliver the Capital Programme incorporated in its budget to the originally planned timescales.</b>	There is a risk that the Council significantly over or under spends against the planned budget and/ or that the scheme is not completed within the planned timescales.	<p>Impact</p> <p>07 Jun 2010</p> <p>Current Risk Rating <b>9</b></p>	<p><b>Impact</b> Critical</p> <p><b>Likelihood</b> Reasonably probable</p>	Training to be provided to all staff dealing with capital. The financial system will be developed to provide more detailed spending information on capital schemes. Detailed exercises have been and will continue to be undertaken to challenge project manager's budget profiles and early carry forwards/savings/slippage in schemes will be identified from this process. A Project Assurance Group has been established to monitor all corporate projects including capital projects, led by the Deputy Chief Executive. Each scheme will be supported by a Member of SMT who will also attend the Assurance Group.
<b>Medium Term Financial Planning and maintaining asset values</b>	There is a risk that the medium-term financial plan budget projections will not be met. Specific risks are: - Worsening of financial forecasts particularly due to the impact of the recession - Failure to deliver transformation savings approved as part of the budget - Failure to achieve balanced budget through the budgetary process - Failure to match future policy commitments and aspirations compared to funding available.	<p>Impact</p> <p>07 Jun 2010</p> <p>Current Risk Rating <b>9</b></p>	<p><b>Impact</b> Critical</p> <p><b>Likelihood</b> Reasonably probable</p>	<p>(i) The Strategic Planning Group (SPG) monitors all of these aspects regularly and proposes actions prior to reporting formally through the Committee process, and throughout the next budget process.</p> <p>(ii) Work will continue to ensure resource allocation to corporate priorities is further developed.</p> <p>(iii) The work of SMT/ Project Assurance Group will support the improvements to financial and performance improvements regarding the capital programme.</p> <p>(iv) SPG continues to monitor progress against the Transformation agenda.</p> <p>(v) Reports are considered by Executive and Overview &amp; Scrutiny on recession planning measures.</p> <p>(vi) SPG and the Executive continue to receive regular monitoring information to ensure budgets are not overspent and income streams are maintained.</p>
<b>Annual Statement of Accounts</b>	The risk is that the authority will receive a qualified opinion on Annual Statement of Accounts from the Audit Commission.	<p>Impact</p> <p>07 Jun 2010</p> <p>Current Risk Rating <b>4</b></p>	<p><b>Impact</b> Marginal</p> <p><b>Likelihood</b> Remote</p>	<p>The Annual Statement of Accounts will be reviewed to ensure compliance with the SORP/ Code of Practices applicable to the year in question. Closure of Accounts Timetable updated annually and monitored at regular meetings.</p> <p>Training offered to all to enable activities to be effectively actioned. Experienced staff monitor quality of output. The recruitment to implement IFRS with effect from 2010/11 (with restatements required for 2008/09</p>

Risk	Description	Risk Matrices & Review Dates	Rating Description	Current Action Status / Control Strategy
				and 2009/10), is being monitored via FMT and reports taken to the Audit Committee. Discussions are also taking place with the Audit Commission who will be reviewing progress against the project plan.
<p><b>Reporting of Financial Implications of Council activities</b></p>	<p>The risk is that financial implications of proposals are not accurately assessed or provided in a timely manner and/ or not given due consideration.</p>	<p>Likelihood </p> <p>Impact</p> <p>07 Jun 2010</p> <p>Current Risk Rating <b>4</b></p>	<p><b>Impact Marginal</b></p> <p><b>Likelihood Remote</b></p>	<p>A timetable of report deadlines is maintained and staff are developed to build expertise. SMT consider reports before submission to the Executive. Comments on reports provided by FS staff and go through at least one other member of DMT before the response is given.</p>
<p><b>Provision of advice and information</b></p>	<p>There is a risk that the provision of financial advice and information is incorrect.</p>	<p>Likelihood </p> <p>Impact</p> <p>07 Jun 2010</p> <p>Current Risk Rating <b>4</b></p>	<p><b>Impact Marginal</b></p> <p><b>Likelihood Remote</b></p>	<p>Professional qualifications and continued professional development of staff ensures quality of advice. External advice sought if necessary.</p>
<p><b>Meeting requirements of existing and new legislation and guidance.</b></p>	<p>The risk is that new legislation and guidance is not complied with.</p>	<p>Likelihood </p> <p>Impact</p> <p>07 Jun 2010</p> <p>Current Risk Rating <b>4</b></p>	<p><b>Impact Marginal</b></p> <p><b>Likelihood Remote</b></p>	<p>New publications are circulated to key staff. Relevant training given and attendance at external courses. External advice sought where appropriate.</p>
<p><b>Financial Reporting</b></p>	<p>There is a risk that financial reporting standards will drop below minimum standards. Failure will: - Lead to reputational damage</p>	<p>Likelihood </p> <p>Impact</p> <p>07 Jun 2010</p>	<p><b>Impact Critical</b></p> <p><b>Likelihood Remote</b></p>	<p>(i) The Audit Commission has judged the Council's financial reporting standard for 2008/09 as part of the Use of Resources judgement to be adequate and an action plan exists to improve this. (ii) An action plan for the implementation of International</p>

Risk	Description	Risk Matrices & Review Dates	Rating Description	Current Action Status / Control Strategy
	<p>- Have an impact on overall CAA/Use of Resources assessment</p>	<p>Current Risk Rating <b>6</b></p>		<p>Financial Reporting Standards and in particular the new requirement for the identification of assets is being progressed using existing resources. However the impact of any future staffing changes, to be reviewed as part of the Transformation agenda, will need to be managed to ensure that standards do not drop.</p>
<p><b>Financial Management information provided must be accurate, robust and flexible for budget holders to manage effectively</b></p>	<p>There is a risk that financial management information may not be accurate, robust or timely to enable Budget Holders to effectively manage their budgets. Failure leading to:-</p> <ul style="list-style-type: none"> <li>- Overspends or underspends against budget</li> <li>- Poor management decisions</li> <li>- Financial information not linked to performance management</li> </ul>	<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-size: small; margin-right: 5px;">Likelihood</div>  </div> <p style="margin-left: 20px;">Impact</p> <p style="margin-left: 20px;">07 Jun 2010</p> <p style="margin-left: 20px;">Current Risk Rating <b>6</b></p>	<p><b>Impact Critical</b></p> <p><b>Likelihood Remote</b></p>	<p>(i) The Council's Financial Management arrangements have been assessed as adequate in the Audit Commission's Use of Resources judgement. An action plan has been developed to tackle the areas that need improving to raise the score over the longer term against the Commission's new harder test.</p> <p>(ii) Work is ongoing with the Policy and Performance and Finance Teams to further improve linkages between use of resources and performance.</p> <p>(iii) Changes are proposed to the reporting mechanism in light of the revised management arrangements and transformational programme to make the process more streamlined by concentrating more on high risk areas and those that add more value to the decision making process.</p> <p>(iv) A risk remains to the Council from the existing system utilised by the old Community Services Directorate for ex DSO work and the ability to easily reconcile the system to the Councils core financial management system. A budget has been allocated and work is progressing to replace the Community Services system.</p> <p>(iv) A significant financial training programme has now been launched to improve the financial management standards throughout the authority.</p>

#### 4. **Scope of the Audit**

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

	Area Examined
1.	Follow up of 2009/10 Audit.
2.	Policies and Procedures.
3.	Financial Systems.
4.	Budgetary Control.
5.	Coding Structure.
6.	Feeder Systems.
7.	Journals.
8.	Suspense and Holding Accounts
9.	Bank Reconciliation. – The Audit Commission are due to proceed auditing the 2010/11 reconciliation therefore actual testing on this area was limited.
	Capital Accounting. – All of the testing deemed necessary under this specific area will be undertaken as part of the Audit of Fixed Assets 2010/11.
10.	Security of Data.

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

- 5.1. In general terms, the review confirmed the effectiveness of systems and controls that are in place to minimise key risks. A number of opportunities to further enhance controls have been identified. These are shown in Appendix A and have been brought to the attention of the relevant Assistant Director. In summary, the key issues arising from this review are:

##### 5.1.1. Follow up from 2009/10 audit review.

With the exception of the updating of the Financial Guide, whereby a more achievable date had been agreed with Audit Services during the follow up process, all agreed actions from the 2009/10 audit review have been satisfactorily implemented.

##### 5.1.2. Policies and Procedures.

Satisfactory systems are in place regarding policies and procedures. The updating of the Financial Guide is a work in progress. The responsible officers completing this task are to update Audit Services when this is complete.

The existing accounting policies and other statutory requirements are clearly referenced and maintained.

##### 5.1.3. Main Accounting System - General.

From evidence collated and examined it can be assured that the controls surrounding the Main Accounting System with regards to structure and its subsequent compliance to accounting legislation are satisfactory.

5.1.4. Budgetary Control.

The controls surrounding the issue of Budgetary Control are clear and robust. Unfortunately the Financial Services staff still do not have the full support of some users; although steps are to be taken to address this whereby Budgetary Control Training will be compulsory for budget holders.

5.1.5. Coding Structure/Feeder Systems.

There are satisfactory controls in place surrounding the Coding Structure within the Main Accounting System. The feeder systems are balanced regularly and evidence showed that any discrepancies are investigated and resolved without delay.

5.1.6. Journals and Internal Transactions.

Journals and internal transactions were found to be in order with the exception of some minor verification oversights.

5.1.7. Suspense and Holding Accounts.

Sound arrangements are in place for monitoring and managing suspense and holding accounts.

5.1.8. Security of data.

Robust system security controls are in operation although there are opportunities to improve the physical security of sensitive information.

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:

<b>Grade</b>	<b>Level of Risk</b>
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 3 recommendations arising from this review. All at grade C.

**7. Statement of Assurance**

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

<b>Level</b>	<b>Evaluation</b>
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.



**Audit Services,**

**Resources Directorate**

Audit of Council Tax (Material Review)

# Final Report

09<sup>th</sup> May 2011

Directorate / Service Area	Recipients of Report	Action Required
Community Engagement Directorate/Revenues & Benefits Shared Service.	Assistant Director (Community Engagement) (for information).  Shared RBS Partnership Manager. (for information).  Shared Services Revenues Manager (for action).  Revenues Team Leader (for action).  Recovery Team Leader (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 Shared Services, which is attached as Appendix A.

***Please note:*** The Chief Executive, Deputy Chief Executive and relevant Assistant 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 copy of the management summary at the meeting to be held on 5<sup>th</sup> July 2011.

**1. Reason for the Audit**

- 1.1. The audit of Council Tax forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting System (MAS) and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services, as part of their work on the Annual Statement of Accounts.

**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 through audit recommendations are intended to achieve these benefits. This process reduces but does not wholly eliminate risk.
- 2.2. The collection of Council Tax is a statutory function delegated to district councils by the County Council. In 2010, the Revenues and Benefits functions. i.e. Council Tax, Housing and Council Tax Benefits, NNDR, Benefit Fraud and Recovery of 3 Cumbrian district councils, Allerdale, Copeland and Carlisle, came together under a shared service arrangement. All Revenues and Benefits Services (RBS) staff transferred to the employing authority – Carlisle City, in June 2010. The shared service became fully functional from October 2010 when employees were 'job matched' to their new roles.
- 2.3. There is a RBS Shared Service Plan in situ. This plan was created covering the aspects and functions to be delivered through out the Shared Service. The Plan outlines the key challenges, actions, risks and performance targets during implementation and the first year of operation as a Shared Service. It is the intention to revise the document for subsequent years to reflect the performance achieved following implementation.
- 2.4. At the time of this review, each District was still processing their own Council Tax accounts, therefore, the audit work undertaken has concentrated only on the administration of Carlisle City Council's accounts and the working processes used.
- 2.5. The amount of Council Tax is established by Cumbria County Council, Carlisle City Council, the Police Authority and the Parish Councils who each work out the cost of providing their services each year. In 2010/11, Cumbria County Council set the largest part of the Bill at 75%, Carlisle City Council set 12.5% of the Bill and Cumbria Police setting 12.5% of the Bill. Parishes set their individual precepts on top of the basic Council Tax Bill.

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

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

Risk Description and Control Strategy	Type of Risk (strategic / operational)	Risk Score H/M/L
<p><b><u>Failure to Recover Monies due leading to a reduction in cash flow and criticism over poor performance.</u></b></p> <p><b><u>Mitigation Action</u></b> Existing processes to be maintained, conversion issues for Allerdale may create delays in recovery action and cash allocation as new system is introduced.</p>	Operational	Medium

**NB. It was noted that the current operational risk register is not in the corporate format. The information should be transposed for 2011/12.**

**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 2009/10 review.
2.	Valuation.
3.	Liability.
4.	Billing.
5.	Recovery and Enforcement.
6.	Collection and Refunds.

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

- 5.1. There were no significant errors or weaknesses found during this course of the review.

- 5.2. Areas highlighted that would benefit from being addressed if deemed practicable are:

5.2.1. There was one recommendation made in the 2009/10 audit regarding the division of duties between Council Tax amendments and Income Collection. This was not implemented as, after investigation, it was decided it was not feasible. A suitable compromise was met that will minimise the presented risk. There were no other issues outstanding from the 2009/10 review.

5.2.2. The outstanding balances in suspense should be transferred as they have been outstanding for a number of years. Including the suspense postings in the overall monthly income reconciliation would encourage regular clearance of the suspense accounts, therefore, it may be beneficial to include this as part of the reconciliation process from now on.

**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 overleaf:

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

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

6.2. There are 5 audit recommendations arising from this review. 1 grade B, 3 grade C's and a 1 grade D. The majority of the recommendations are to address issues of a minor nature.

**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).

<b>Level</b>	<b>Evaluation</b>
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.



**Audit Services**

**Resources Directorate**

Audit of Fixed Assets  
(Material Review)

# Final Report

24 June 2011

Directorate / Service Area	Recipient(s) of Report	Action Required
Resources	Financial Services Manager Chief Accountant Group Accountant Transport Co-ordinator Property Services Manager	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan, which is attached as Appendix A.

***Please note:*** The Chief Executive, Deputy Chief Executive/Strategic Director and relevant Assistant 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 5<sup>th</sup> July 2011.

**1. Reason for the Audit**

1.1. 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 Internal Audit, as part of their work on the annual statement of accounts.

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

2.1. Total Fixed Assets were stated as £152,870K in the 2009/10 Balance Sheet (a component of the Council's Financial Statements) which equates to 83% of total assets. The composition of fixed assets can be seen in the table below.

<b>2009/10 Financial Statement Classification</b>	<b>Value £'000 per 2009/10 Financial Statements</b>
<u>Intangible Assets</u>	161
<u>Tangible Assets</u>	
<b><i>Operational Assets:</i></b>	
Dwellings	196
Other Land & Building	37,122
Infrastructure Assets	2,633
Community Assets	3,250
Vehicles & Plant	8,222
<b><i>Non Operational Assets:</i></b>	
Investment	80,123
Surplus	20,632
Assets Under Construction	531
<b>Total Fixed Assets</b>	<b>152,870</b>

2.2. The 2010 Code of Practice on Local Authority Accounting introduces significant changes to the preparation of the Council's financial statements due to the implementation of International Financial Reporting Standards (IFRS) with effect from 1 April 2010. Previously the financial statements of the Council were prepared using accounting policies based on UK Generally Accepted Accounting Practice (UKGAAP). This change has required the restatement (from UKGAAP to IFRS) of the 2009/10 accounts for consistent comparative figures and opening balances for the 2010/11 Financial Statements. As fixed assets are part of the balance sheet these are also affected.

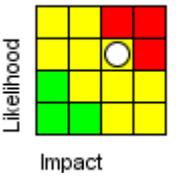
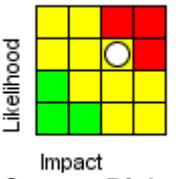
2.3. The material audit review for 2009/10 followed up the audit recommendations for 2008/09 but no final report was produced. In addition, there was one recommendation identified for 2009/10. These aforementioned previous audit recommendations have been incorporated into this audit review and included within the relevant section of this report.

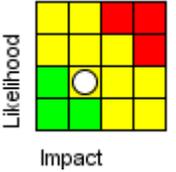
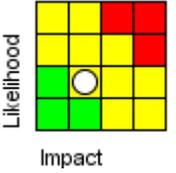
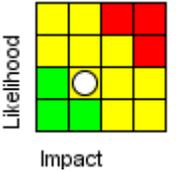
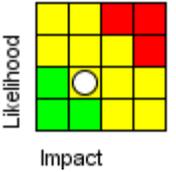
2.4. The 2008/09 report consisted of 6 recommendations, 4 at grade B and 2 at grade C and the level of assurance given was 'substantial'. The 2009/10 review identified 1 grade B recommendation which would (using the assurance level criteria at section 7.1 of this report) have also reported a further 'substantial' level of assurance.

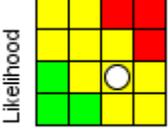
**3. Associated Risks of Providing this Service/Function**

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

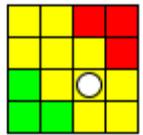
Extracts from Financial Services Operational Risk Register - last updated June 2010

Title	Description	Present Risk Matrix / Rating Description	Current Action Status / Control Strategy	Managed By
<p><b>The Council regularly fails to deliver the Capital Programme incorporated in its budget to originally planned timescales.</b></p>	<p>There is a risk that the Council significantly over or under spends against the planned budget and/or that the scheme is not completed within the planned timescales</p>	 <p><b>Current Risk Rating = 9</b></p>	<p>Training to be provided to all staff dealing with capital. The financial system will be developed to provide more detailed spending information on capital schemes. Detailed exercises have been and will continue to be undertaken to challenge project manager's budget profiles and early carry forwards/savings/slippage in schemes will be identified from this process. A Project Assurance Group has been established to monitor all corporate projects including capital capital projects, led by the Deputy Chief Executive. Each scheme will be supported by a Member of SMT who will also attend the Assurance Group.</p>	<p>Financial Services Manager  Chief Accountant</p>
<p><b>Medium Term Financial Planning and maintaining asset values</b></p>	<p>There is a risk that the medium –term financial plan budget projections will not be met.                      Specific risks are:                      - Worsening of financial forecasts particularly due to the impact of the recession                      - Failure to deliver transformation savings approved as part of the budget                      - Failure to achieve balanced budget through the budgetary process                      - Failure to match future policy commitments and aspirations compared to funding available.</p>	 <p><b>Current Risk Rating = 9</b></p>	<p>(i) The Strategic Planning Group (SPG) monitors all of these aspects regularly and proposes actions prior to reporting formally through the Committee process, and throughout the next budget process.                      (ii) Work will continue to ensure resource allocation to corporate priorities is further developed.                      (iii) The work of SMT/Project Assurance Group will support the improvements to financial and performance improvements regarding the capital programme.                      (iv) SPG continues to monitor progress against the Transformation agenda.                      (v) Reports are considered by Executive and Overview &amp; Scrutiny on recession planning measures.                      (vi) SPG and the Executive continue to receive regular monitoring information to ensure budgets are not overspent and income streams are maintained.</p>	<p>Financial Services  Assistant Director of Resources</p>

Title	Description	Present Risk Matrix / Rating Description	Current Action Status / Control Strategy	Managed By
<b>Annual Statement of Accounts</b>	The risk is that the authority will receive a qualified opinion on Annual Statement of Accounts from the Audit Commission.	 <p><b>Current Risk Rating = 4</b></p>	<p>The Annual Statement of Accounts will be reviewed to ensure compliance with the SORP/ Code of Practices applicable to the year in question.</p> <p>Closure of Accounts Timetable updated annually and monitored at regular meetings.</p> <p>Training offered to all to enable activities to be effectively actioned. Experienced staff monitor quality of output. The recruitment to implement IFRS with effect from 2010/11 (with restatements required for 2008/09 and 2009/10), is being monitored via FMT and reports taken to the Audit Committee. Discussions are also taking place with the Audit Commission who will be reviewing progress against the project plan.</p>	<p>Financial Services Manager;  Chief Accountant</p>
<b>Reporting of Financial Implications of Council activities</b>	The risk is that financial implications of proposals are not accurately assessed or provided in a timely manner and/ or not given due consideration.	 <p><b>Current Risk Rating = 4</b></p>	<p>A timetable of report deadlines is maintained and staff are developed to build expertise. SMT consider reports before submission to the Executive. Comments on reports provided by FS staff and go through at least one other member of DMT before the response is given.</p>	<p>Financial Services Manager; Financial Management Team</p>
<b>Provision of advice and information</b>	There is a risk that the provision of financial advice and information is incorrect.	 <p><b>Current Risk Rating = 4</b></p>	<p>Professional qualifications and continued professional development of staff ensures quality of advice.</p> <p>External advice sought if necessary.</p>	<p>Financial Services  Financial Services Manager</p>
<b>Meeting requirements of existing and new legislation and guidance</b>	The risk is that new legislation and guidance is not complied with.	 <p><b>Current Risk Rating = 4</b></p>	<p>New publications are circulated to key staff. Relevant training given and attendance at external courses. External advice sought where appropriate.</p>	<p>Financial Services  Financial Services Manager</p>

Title	Description	Present Risk Matrix / Rating Description	Current Action Status / Control Strategy	Managed By
<b>Financial Reporting</b>	<p>There is a risk that financial reporting standards will drop below minimum standards.                      Failure will:</p> <ul style="list-style-type: none"> <li>- Lead to reputational damage</li> <li>- Have an impact on overall CAA/Use of Resources assessment</li> </ul>	 <p><b>Current Risk Rating = 6</b></p>	<p>(i) The Audit Commission has judged the Council's financial reporting standard for 2008/09 as part of the Use of Resources judgement to be adequate and an action plan exists to improve this.                      (ii) An action plan for the implementation of International Financial Reporting Standards and in particular the new requirement for the identification of assets is being progressed using existing resources. However the impact of any future staffing changes, to be reviewed as part of the Transformation agenda, will need to be managed to ensure that standards do not drop.</p>	<p>Financial Services Manager                       Assistant Director of Resources</p>

Extracts from Property Services Operational Risk Register – dated December 2010

Title	Description	Present Risk Matrix / Rating Description	Current Action Status / Control Strategy	Managed By
<b>Failure to maintain the Council's asset value / income flow</b>	 <p><b>Current Risk Rating = 6</b></p>	<p><b>Impact</b> Critical</p> <p><b>Likelihood</b> Remote</p>	<p>Oversee all property, ensure that it is fit for purpose. Regularly review and monitor flow of rental income.</p>	<p>Property Services Manager</p>

**4. Scope of the Audit**

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

	Area Examined
1.	Follow up of 2008/09 and 2009/10 audit review recommendations
Completion of the CIPFA matrix - Fixed Asset part of the Main Accounting System:	
2.	Policies and Procedures
3.	Control Accounts
4.	Fixed Asset Register

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

5.1. Good procedures and controls were found to be operating within the administration of the Council's fixed assets. There are two recommendations arising from this review:

- There was only one system administrator set up for the REAL asset management system thereby cover arrangements are severely restricted.
- Consideration will also be given to improving system procedure notes to support how the figures contained within at the Summary Lead Schedule figures are derived and

evidence that they have been sufficiently checked and agreed (albeit the lead schedule has been signed and dated by both a preparer and reviewer).

- 5.2. The follow up of the 2008/09 recommendations with management indicated that they had all been implemented. However further audit testing undertaken for 2010/11 found that that one was subsequently identified as not having been sufficiently implemented. This recommendation related to performing reconciliations between the registers on a half yearly basis (Grade B). Discussions confirmed that this recommendation was not considered feasible and is no longer to be implemented by management. This matter has been noted.
- 5.3. The one recommendation resulting from the 2009/10 review was confirmed with relevant staff that appropriate action had been taken and the recommendation has been implemented.

**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 2 recommendations arising from this review, 1 at Grade C and 1 at Grade D.

**7. Statement of Assurance**

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

