

**WYRE FOREST DISTRICT COUNCIL****AUDIT COMMITTEE**  
**29<sup>TH</sup> JUNE 2011****INTERNAL AUDIT MONITORING REPORT**  
**QUARTER ENDED 31<sup>ST</sup> MARCH 2011**

<b>OPEN</b>	
<b>SUSTAINABLE COMMUNITY STRATEGY THEME</b>	Stronger Communities
<b>CORPORATE PLAN PRIORITY</b>	Delivering Together with Less
<b>CABINET MEMBER</b>	Councillor Nathan Desmond
<b>DIRECTOR</b>	S151 Officer
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<b>APPENDIX</b>	Appendix 1 Internal Audit Report for the Quarter ended 31 <sup>st</sup> March 2011

**1. PURPOSE OF REPORT**

- 1.1 To inform members of the Internal Audit Monitoring Report for the Quarter ended 31<sup>st</sup> March 2011, attached as Appendix 1.

**2. RECOMMENDATIONS**

**The Audit Committee is asked to CONSIDER:**

- 2.1 **The Internal Audit Monitoring Report for the Quarter ended 31<sup>st</sup> March 2011 as detailed in the Appendix to the report.**

**3. BACKGROUND**

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective internal audit service is vital in helping management to meet these important duties as it is an independent appraisal function for the review of the entire internal control system.
- 3.2 The Audit Committee approved the operational Annual Audit plan 2010 – 2011 in March 2010. This plan takes into account changes in priorities or risk in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 3.3 The Internal Audit Strategic Plan 2009 – 2012 approved in March 2009 provides the overall direction for the Internal Audit service working in partnership with the External Auditors to minimise the overall audit cost to the authority.
- 3.4 Performance of the Internal audit service is monitored against plan each quarter during the year by way of this quarterly audit report to the Audit Committee, to the Corporate Management Team and to the External Auditors.

- 3.5 The Report attached as an Appendix contains 4 sections which are:
- Section 1 **Final** internal audit reports issued in the quarter
  - Section 2 **Follow up** Reviews undertaken in the quarter
  - Section 3 **Draft** internal audit reports issued in the quarter
  - Section 4 **Performance Statistics**
  - Section 5 Final Audit Reports issued in the period 1<sup>st</sup> April 2010 to 31<sup>st</sup> December 2010 ~ Key Systems
- 3.6 The audit reports referred to in the Appendix are those where testing has been undertaken on an element of the internal control environment. It should be noted that the findings are on an **exception basis** i.e. reported if an internal control was found not to be operating satisfactorily, so giving rise to a control weakness and therefore an area for improvement. The findings of audit reviews in the report do not list those internal controls which were found to be operating satisfactorily. This approach has been adopted to enable the output of the review to focus on those areas considered by internal audit to require management's attention.
- 3.7 The Internal audit review process is published on the Council's Intranet. This details the process whereby **Draft** internal audit reports arising from audits are forwarded to Chief Officers and nominated lead managers for agreement to recommendations and timescales for implementation prior to the preparation of **Final** internal audit reports.
- 3.8 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment, which is reported to the June meeting of the Audit Committee.
- 3.9 The terminology within the reports presented to members is in line with that used by many other Internal Audit sections of public authorities, private and public companies and external auditors.
- 3.10 Every organisation operates in the real world and errors/omissions/system weaknesses (manual or computerised) are inevitable. Management have to manage these known risks through the use of internal controls.
- 3.11 It may be that an operational decision has been taken by management to accept the risk of the non operation of an internal control. Where the area is being reviewed by internal audit in such an instance the weakness and any associated recommendation would be reported. Management would record within the service's risk register the processes in place to mitigate the risk.
- 3.12 The Corporate Management Team have confirmed that action would be taken immediately should an internal audit review report a significant weakness which could lead to a potential serious issue.

#### **4. KEY ISSUES**

- 4.1 Internal audit make recommendations to management on potential improvements to the internal control environment of the system under review. It is management's responsibility to take the necessary action to implement recommendations as agreed in the final internal audit report.
- 4.2 The Quarterly audit report contains details of internal audit reports issued in the quarter together with follow up reviews. The format of internal audit reports has been adopted to enable management and members to focus on those areas that internal audit wishes to draw to its attention. The success or otherwise of a service is reported via other dimensions of the Council's performance management framework including for example the monitoring of the Performance Indicators, Performance Review Clinics and the progress of the Council against its agreed implementation plan arising from its Comprehensive Performance Assessment review.
- 4.3 The internal audit section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Procedures are monitored to ensure that the internal audit section procedures remain compliant.
- 4.4 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment.

#### **5. FINANCIAL IMPLICATIONS**

- 5.1 There are no financial implications arising from this report. There may however be financial implications if the audit recommendations made within audit reports are not implemented on a timely basis.

#### **6. LEGAL AND POLICY IMPLICATIONS**

- 6.1 The Accounts and Audit (England) Regulations 2011 section 6(1) require that:
- "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control."

#### **7. RISK MANAGEMENT**

- 7.1 In order to manage risks internal controls are used to mitigate and manage the identified risks to an acceptable level. Any weakness in the operation of internal controls therefore impacts directly on the management of risk.
- 7.2 Risk management issues could arise when weaknesses in internal controls are identified during the audit review process and management delay or defer implementation of the recommendations made.
- 7.3 The Internal Audit service is one element of the Council's assurance/internal control framework.

## **8. EQUALITY IMPACT NEEDS ASSESSMENT**

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands.

## **9. CONCLUSION**

- 9.1 The work undertaken by internal audit in the quarter ended 31<sup>st</sup> March 2011 is reported within Appendix 1. This information is presented to members in accordance with the Terms of Reference for the Internal Audit Section.
- 9.2 The work undertaken by the Internal Audit Section has complied with the requirements of the CIPFA Code of Practice for Internal Audit in Local government.

## **10. CONSULTEES**

- 10.1 Corporate Management Team

## **11. BACKGROUND PAPERS**

- 11.1 16<sup>th</sup> March 2010 ~ Audit Committee ~ Annual Audit Plan 2010~2011  
16<sup>th</sup> March 2009 ~ Audit Committee ~ Strategic Audit Plan 2009~2012  
16<sup>th</sup> March 2009 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update  
Accounts and Audit (England) Regulations 2011 (SI 817)



# **INTERNAL AUDIT SECTION**

## **INTERNAL AUDIT MONITORING REPORT**

**QUARTER ENDED  
31<sup>st</sup> March 2011**

**INTERNAL AUDIT SECTION**  
**QUARTERLY AUDIT REPORT**  
**QUARTER ENDED 31<sup>st</sup> MARCH 2011**

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DAVID BUCKLAND  
SECTION 151 OFFICER

17<sup>th</sup> MAY 2011

<b>SECTION 1 FINAL AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31<sup>ST</sup> MARCH 2011</b>		
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<b>KEY</b>		
<b>Assurance Level</b>	<b>Description of Assurance Level</b>	<b>What is reported in the Quarterly Audit Report</b>
U = Unsound	<p>Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.</p> <p>A significant internal control is one which is key to the overall framework of controls.</p>	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

<b>AUDIT REPORT TITLE: Worcestershire Hub 2010/11</b>	<b>ACTION PLANS ISSUED:</b> 6 <sup>th</sup> August 2010 & 18 <sup>th</sup> October 2010 <b>DRAFT REPORT DATE ISSUED: 25<sup>th</sup> February 2011</b> <b>FINAL REPORT ISSUED: 31<sup>st</sup> March 2011</b>	<b>SERVICE: Community and Partnership Services</b> <b>RESPONSE RECEIVED: 15<sup>th</sup> March 2011</b>
<b>BUDGET:</b> <b>REF: A260</b>		

<b>Assurance Levels</b>	<b>Definition</b>	<b>Recommendation Rankings</b>	<b>Definition</b>
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
<b>Some</b>	<b>Sufficient framework of controls but some weakness identified – provides adequate assurance.</b>	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

### **Overview**

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review concentrated on ensuring that the collection and banking of income is in accordance with Council policy and there are adequate procedures to ensure the security of both employees and cash within the three Hub locations.

The detailed testing has been undertaken to cover the first three quarters of 2010/2011 (April to December). As part of the review daily documentation completed by the Customer Service Advisors at all three Hub locations was examined in detail. The reports generated by the Radius Cash Receipting system to ensure that the all income received is receipted and banked and is in accordance with Financial Regulations included: Cash Analysis sheets, Cash-Up Reports, Payment Analysis by User reports, Global Fund reports, Bank Security Bag Credit slips, G4S (security company) Receipts, Bank Paying In slips, Bank Statement Reports and Collections & Deposit Book. Reversals and adjustments relating to refunds, encashment of Housing Benefit cheques and payments from the County Council vulnerable persons float that arose within the sample weeks were also examined. It was verified that variances indicated on the Cash-Up Reports (CSA End of Day Reconciliations) between expected and actual amounts are recorded and regularly reviewed and monitored by management to ensure that any additional training needs are identified.

Following the detailed testing carried out in quarters one (April to June) and two (July to September), action plans were issued in August and October respectively. The aim of the action plans being to advise of any matters arising during the period of testing in order that they can be addressed promptly and remedial action taken. The observations reported within both action plans focussed on housekeeping issues i.e. signing of end of day banking documentation, ensuring paying in slips agreed to reports from the Cash Receipting System, ensuring refunds and reversal payments are processed correctly, signatures are obtained for encashed cheques.

For these matters arising, prompt remedial action was taken by the Customer Services Manager. However, it should be noted that within the recommendations detailed below, reference is made to the action plans following similar observations within the recent testing in respect of cash to bank transactions, ensuring all paying in slips are completely and deposit schedules signed.

### **Conclusion:**

The review concluded that with the volume of transactions processed by the Worcestershire Hub on a daily basis income is being receipted and banked appropriately and the systems in place are well managed. However, there are some areas where an opportunity for improvement has been identified. These areas cover the Customer Service Advisors (CSA's) recording information on bank paying in slips and security bag slips accurately, the Collections & Deposits Book (C&D) is 'signed off' by Team Leaders and C&D amendments are processed only on receipt of an official request and within the current week.

The overall conclusion therefore, is that **SOME** assurance can be given in that the internal controls in place over the Worcestershire Hub as operated by Wyre Forest D.C. are operating as intended. The implementation of the following recommendations will further strengthen the system in place and raise the level of assurance.



<b>AUDIT REPORT TITLE: BANK RECONCILIATION 2010/2011</b>	<b>ACTION PLAN DATE ISSUED:</b> 19 <sup>th</sup> July 2010 <sup>5<sup>th</sup></sup> /November 2010 <b>DRAFT REPORT DATE ISSUED: 3<sup>rd</sup> February 2011</b>	<b>SERVICE: Resources (Accountancy)</b>
<b>BUDGET: N/A</b> <b>REF:</b>	<b>FINAL REPORT DATE ISSUED: 11<sup>th</sup> March 2011</b>	<b>RESPONSE RECEIVED DATE:</b> 3 <sup>rd</sup> March 2011

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
<b>Some</b>	<b>Sufficient framework of controls but some weakness identified – provides adequate assurance.</b>	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

**Overview**

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review was undertaken to ensure that there are regular reconciliations of the Council's bank accounts and concentrated on ensuring that there are adequate controls over the processes in place for both the income and expenditure bank reconciliations. In addition, that there are procedures in place to ensure peer reviews are appropriately undertaken and all entries are substantiated by relevant supporting documentation.

The detailed testing of the Income and Expenditure reconciliations has been undertaken to cover the first three quarters of 2010 (April to December). Reconciliations for four separate weeks were selected for testing, Week 4~24<sup>th</sup> April, Week 19~8<sup>th</sup> August, Week 29~17<sup>th</sup> October and Week 35~26<sup>th</sup> November. Following the testing of the reconciliations for Quarter 1 (Week 4) and Quarter 2 (Week 19) action plans were issued in July and November respectively to the Financial Services Manager. The aim of the action plans being to advise of any matters arising during the period of testing in order that they can be addressed promptly and remedial action taken. Of the observations arising from the July action plan covering the reconciliations for Week 4 it was found that retrospective amendments had been made to the reconciliations however supporting documentation had not been retained as evidence of the changes and amended reconciliations had not been retained on file; additionally reconciliation templates had been copied from the previous year without the date being amended leading to misleading records. Of the observations arising from the November action plan covering Week 19 there were income reconciliation differences which occurred due to an error in a spreadsheet link in the previous weeks reconciliation and ultimately an error on the cash in transit summary. The spreadsheet link error had not been identified at the time of reconciliation and had continued uncorrected until Week 30. The error came to light during the audit review. For these matters arising (detailed below for completeness), prompt remedial action was taken by the Financial Services Manager with evidence of actions to Internal Audit.

During the detailed testing, the Financial Services Manager was also advised of a possible contravention of Financial Regulation 4.5, which requires a division of duties regarding monies to be calculated, checked and recorded to be separated from a duty of collecting or disbursing them. The audit review highlighted that an employee with responsibilities for Treasury Management was also undertaken bank reconciliation duties. The Financial Services Manager was able to provide assurance to Internal Audit that any risk is mitigated by the requirement for three separate employees to approve any Treasury Management transactions. The Financial Services Manager also advised that to ensure business resilience the Treasury Management employee will still be required to undertake the bank reconciliation process, however, it was agreed that these reconciliations will be reviewed by the Financial Services Manager herself. From the examination of the reconciliations for Weeks 29 and 35 only one additional observation was noted with a supporting recommendation in respect of ensuring reconciliations are completed in a timely manner.

**Conclusion:**

On the basis of the work undertaken, the review has concluded that within the systems in operation for the reconciliation on Income and Expenditure to the Council's Bank Accounts there were opportunities for improvement. In view of the Action Plans issued and in recognition of the prompt action taken by the Financial Services Manager, the overall conclusion is that **SOME** assurance can be given on the internal controls in place for the reconciliation of all income and expenditure to the council's bank accounts.

<b>AUDIT REPORT TITLE: Corporate Creditors 2010/2011</b>	<b>DRAFT REPORT DATE ISSUED: 3<sup>rd</sup> February 2011</b>	<b>SERVICE: Resources Legal &amp; Corporate Services (No 4)</b>
<b>BUDGET: Various</b>	<b>FINAL REPORT ISSUED: 31<sup>st</sup> March 2011</b>	<b>RESPONSE RECEIVED: 9<sup>th</sup> March 2011</b>
<b>REF:</b>		

<b>Assurance Levels</b>	<b>Definition</b>	<b>Recommendation Rankings</b>	<b>Definition</b>
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
<b>Some</b>	<b>Sufficient framework of controls but some weakness identified – provides adequate assurance.</b>	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

### Overview

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review concentrated on ensuring that the controls in place over the system for the payment of the Council's creditors are operating as intended. The review comprised examination of the Council's new procedures for the ordering, processing and payment of invoices and that these procedures operate within current Standing Order relating to Contracts and Financial Regulations. Further examination was undertaken to ensure that reconciliations are undertaken regularly, revenue and capital contracts are appropriately approved and exceptions reviewed.

A new purchase order processing system was introduced in April 2010; an assessment was undertaken on a sample of invoices processed for payment during June and September. It was observed that the reconciliation processes within the Accountancy and Support Services Sections were working effectively. The introduction of purchase order processing has proved complex to set up with many coding and approver changes which require ongoing monitoring. Initial teething problems appear to have settled down. There is however a need for continued monitoring to ensure the commitment accounting records are accurate at the year end. With so many on going changes the systems in place, as yet, have not been fully documented. The audit review highlighted that following the change from a manual system, orders raised to a single given supplier could exceed an approvers' electronic authorisation limit. Although this had been identified as a weakness the issue had not been addressed until the audit review. Initially, once made aware, the Council's Directors agreed to accept the risk involved in allowing requisitioners/approvers, with a credit limit of £1000 per cost centre, the ability to raise multi cost centre orders up to an aggregate value of £10,000. However, following external consultation with Agresso, system restrictions have now been implemented within user profiles to prevent individuals from raising orders outside of their approved credit limit. Orders exceeding authorised limits are now escalated to a higher approver level and evidence has been provided to Internal Audit of the control in place to mitigate any risk. In addition there are areas that require strengthening with regard to the authorisation of procurement contract orders. Additional recommendations have been made to enhance the current system for ordering, authorising and payment of creditor invoices and highlight the advantages that could be gained from the function being centralised.

### Conclusion

On the basis of the work undertaken, the review has concluded that there are significant areas for improvement within the system for approval of the requisition, and the documenting of the systems in operation. The report also identifies other areas where there are opportunities for improvement. Five advisory recommendations have also been included regarding the payment method for NNDR & Council Tax refunds, the timely processing of invoices for payment, authorisation protocols for shared services/partnerships, the reviewing of risks and the risk register and the accuracy of the information available on the Accountancy intranet page.

At the time of audit only LIMITED assurance could be given that the internal controls in place for the electronic ordering, processing and payment of Council invoices were operating effectively however, following the changes to use profiles and in recognition of the remedial actions taken by the Financial Services Manager and the principal Accountant the overall conclusion therefore has been raised to **SOME**. It should be noted that the System Administrator has been and will continue to work closely with the Internal Audit team to ensure that the risks from process changes are identified, evaluated, monitored and minimised.

Ref.	OBSERVATIONS	CONTROL RISK	RECOMMENDATIONS	MANAGEMENT COMMENTS
<b>SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS</b>				
1	<p><b>Budgetary Control</b> In accordance with Financial Regulation 14.2, approver roles and responsibilities are agreed and authorised by divisional Directors, also any amendments to the approver roles should be approved by Directors.</p> <p>Budgetary responsibility has been delegated by Directors to Managers and Administration Officers within specified limitations (cost centres and expenditure limits)</p> <p>With the old manual ordering system an authorised signatory could approve an order up to the value of a pre-defined limit only (example £1000), whether that order was for one general ledger account code or several.</p> <p>Approver authorisation limits are split by budgetary code and monetary bands. With the new electronic system the same approver, with the same limit (example £1000), can approve each general ledger cost centres up to their specified limit, with no restriction placed on the number of transactions processed.</p> <p>Therefore an approver with a £1000 authorisation limit, who can authorise 13 different general ledger cost centres, can now approve one order up to the value of £13000.</p> <p>It was also identified that following the introduction of the Regulatory Shared Service, budgetary codes had been merged allowing employees to approver budgetary spend outside their authorised areas.</p>	<p>Approvers could exceed their authorised limits.</p> <p>Unauthorised access could result in data corruption/ misappropriation of funds</p>	<p>Orders raised for a total value exceeding the approvers limit should be escalated up to the next level of approval.</p> <p>System amendments, including changes in roles and responsibilities, are reviewed and authorised by a senior employee (Director).</p> <p>In view of the computerised authorisation limits: Systems access/ approval limits for employees working out their notice period should be restricted or removed with approval limits being immediately transferred to the new employee delegated with budgetary responsibility.</p> <p><b>Management Comments:-</b> Agresso Authorisation Limits are at cost centre level which does allow orders to be raised for a total value exceeding the approvers' cost centre limit. This is a change to approval levels per order to approval levels per cost centre.</p> <p><b>Management Comments 7<sup>th</sup> March 2011:-</b> System amendments, including changes in roles and responsibilities will be reviewed and authorised by a senior employee (Director) on a quarterly basis. Accountancy will act on instructions received from the appropriate Director to restrict or remove employees working out their notice period and transfer to nominated employee delegated with budgetary responsibility. Directors have been made aware of the authorisation process in Agresso and are in agreement. A restriction of £10,000 will be placed on orders in this category, which will now be escalated to the appropriate authorisation level</p> <p><b>Management Comments 14<sup>th</sup> March 2011:-</b> The Council's four Directors accepted the risk that an approver with a £1000 authorisation limit can place one order for aggregated cost centres up to a value of £10,000. However, the parameters have now been set to ensure approvers can not exceed their credit limits by the requisitioning of a single multi cost centre order. Such orders are now escalated to approver with a higher credit limit.</p>	<p><b>Responsible Manager:</b> Principal Accountant</p> <p><b>Recommendation to be actioned and completed by (Date):</b> February 2011/March 2011</p>

<b>AUDIT REPORT TITLE: Council Tax Reconciliation 10/11</b>	<b>DRAFT REPORT DATE ISSUED: 17<sup>th</sup> February 2011</b>	<b>SERVICE: Director of Resources (Revenues)</b>
<b>BUDGET £59,715,651 Gross Debit 2010/2011</b>	<b>FINAL REPORT DATE ISSUED: 25<sup>th</sup> February 2011</b>	<b>RESPONSE DATE: 18<sup>th</sup> February 2011</b>
<b>REF:</b>		

<b>Assurance Levels</b>	<b>Definition</b>	<b>Recommendation Rankings</b>	<b>Definition</b>
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
<b>Some</b>	<b>Sufficient framework of controls but some weakness identified – provides adequate assurance.</b>	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

N.B. Assurance level for this system is highlighted.

#### **Overview**

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review was undertaken to ensure that there are regular reconciliations between the Council Tax (Civica Tax – Open Revenues) system with the Agresso Financial Management System (FMS), the Radius Cash Receipting and the Valuation Office Property Listings and these reconciliations are regularly reviewed by management. The Gross Debit reconciliation for 2010/2011 was examined to ensure it had been promptly undertaken. The review also concentrated on ensuring that there are adequate controls over the processes in place for the monitoring of Council Tax arrears & exceptions and that information is appropriately reported to committee. Further examination was undertaken on the Council Tax business plan 2010/2011 and performance monitoring.

The June and September 2010 reconciliations between the Council Tax system and the Agresso & Radius systems were selected for detailed assessment. Although the timeliness of the reconciliations has improved since the previous financial year and each completed within the following month, the September reconciliation was not completed until December 2010. The delay was due to unidentified differences between the Civica (Council Tax) and Agresso (FMS) internet payments. Three Valuation Office reconciliations were assessed dating from April, May and June 2010; these reconciliations were found to have been undertaken in a timely manner and each had been independently reviewed with supporting documentation for all entries. The Gross Debit reconciliation for 2010/2011 had been appropriately completed prior to the start of the financial year, which identified an unexplained difference of £1161.43, advice had been sought from Civica to ensure there was no underlying fault with the system and all other balances were checked and agreed. However, it was not possible to identify which Valuation List Schedule was used for the reconciliation for clarification as the Schedule number was not recorded. Arrears monitoring reports had been regularly and appropriately reviewed as were exception reports. Information is reported to committee appropriately and in a timely manner. The 2010/2011 business plan reflects the commitments and aspirations of the Revenues and Benefits Manager and an update of the progress to date had been reported to the Corporate Resources Committee on 11<sup>th</sup> November 2010.

#### **Conclusion:**

The review concluded that there are some areas within the internal controls for the reconciliation of Council Tax with opportunities for improvement. One area highlighted was in reference to the reconciliation of the Valuation Office Listing to the Gross Debit Calculation for the annual billing, the difference of £1161.43 in terms of materiality to the gross debit of £59,715,652 only forms part of the detailed reconciliations that are undertaken throughout the year. Therefore, the overall conclusion is that **SOME** assurance can be given in that the internal control processes for the Council Tax reconciliation will operate as intended, with the implementation of the following recommendations to further strengthen the system in place and raise the level of assurance.

<b>AUDIT REPORT TITLE: NNDR Reconciliation 2010/2011</b>	<b>DRAFT REPORT DATE ISSUED: 17<sup>th</sup> February 2011</b>	<b>SERVICE: Director of Resources (Revenues)</b>
<b>BUDGET: £30,479,029 (Gross Debit) REF: P100</b>	<b>FINAL REPORT DATE ISSUED: 25<sup>th</sup> February 2011</b>	<b>RESPONSE RECEIVED DATE: 18<sup>th</sup> February 2011</b>

<b>Assurance Levels</b>	<b>Definition</b>	<b>Recommendation Rankings</b>	<b>Definition</b>
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
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N.B. Assurance level for this system is highlighted.

#### **Overview**

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review was undertaken to ensure that there are regular reconciliations between the NNDR (Civica - Open Revenues) system and the Agresso Financial Management System (FMS), the Radius Cash Receipting and the Valuation Office rateable value listings and that the Gross Debit reconciliation for 2010/2011 had been promptly undertaken. The review also concentrated on ensuring that there are adequate controls over the processes in place for the completion of the NNDR1 return and the monitoring of NNDR arrears and exceptions.

A detailed examination of the June and September 2010 reconciliations between the NNDR system and the Agresso (FMS) & Radius systems was carried out to ensure the accuracy of the information recorded. As identified by the Principal Revenues Officer there is a difference of £116 between the two systems which is currently held on the suspense account and under review. Four Valuation Office reconciliations were assessed dating from June, July, August and September 2010; these reconciliations were found to have been undertaken in a timely manner and each had been independently reviewed with supporting documentation for all entries. The Gross Debit Reconciliation for 2010/2011 was found to have been appropriately completed prior to the start of the financial year and the NNDR1 return for 2010/2011 had been completed and returned within the required time frame (February 2010). Although Void Property and Allowances are reviewed and included within the Gross Debit Reconciliation there was no evidence of review of void properties. The review of the accuracy for the parameters set in the Civica system prior to the annual billing run is evidenced by the Revenues & Benefits Manager and the Principal Revenues Officer, however, there were no sample bills retained as evidence that these had been checked. Arrears monitoring and exception reports had been regularly reviewed and evidenced by the appropriate officer. The 2010/2011 business plan reflects the commitments and aspirations of the Revenues and Benefits Manager and an update of the progress to date had been reported to the Corporate Resources Committee on 11<sup>th</sup> November 2010.

#### **Conclusion**

On the basis of the work undertaken, the review has concluded that the systems in operation for the reconciliation and monitoring of the NNDR system are working effectively with the reconciliations being undertaken regularly and appropriately reviewed and signed in a timely manner. There were some areas identified for improvement in the retaining of evidence for which the following recommendations will further strengthen the procedures in place. The overall conclusion therefore, is that **SOME** assurance can be given on the internal controls in place for the reconciliation of the NNDR.

<b>AUDIT REPORT TITLE: Civica IBS Application Audit 2010/11</b> <b>(Revenues &amp; Benefits ~ Council Tax ~ NNDR)</b>  <b>BUDGET £37,780,070 Benefit Payments (Estimated)</b> <b>£59,715,651 Council Tax Gross Debit</b> <b>£38,479,029 NNDR Gross Debit</b>  <b>REF:</b>	<b>ACTION PLAN ~ NOVEMBER 2010</b> <b>DRAFT REPORT DATE ISSUED:</b> <b>3<sup>rd</sup> February 2010</b> <b>FINAL REPORT DATE ISSUED:</b> <b>25<sup>th</sup> February 2011</b>	<b>SERVICE: Director of Resources</b> <b>(Revenues &amp; Benefits)</b>  <b>RESPONSE DATE: 18<sup>th</sup> February 2011</b>
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Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
<b>Some</b>	<b>Sufficient framework of controls but some weakness identified – provides adequate assurance.</b>	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

**Overview**

The purpose of the Audit was to examine the arrangements in place relating to the IBS Application used in the Revenue & Benefits Section. The application enables the Council to record, produce and report on various Revenue and Benefit matters. With Anite as a document image solution running parallel with IBS for Council Tax and Benefits. NNDR correspondence was not saved to Anite at the time of the audit. Anite is being rolled out as a corporate document imaging solution. However, for the purposes of this audit it was outside the scope but due to its link with IBS certain aspects have been considered.

IBS has been in place for approximately eight years and is a stable system with continual development. The application has an audit trail which has several levels of functionality depending on the level of reporting required, however, not all of it is enabled due to resource restrictions. The audit trail is currently set at a local level but there is functionality which will allow a full version to be reported. There are controls on data input to assist data cleansing and uniformity of input data. System back ups appear to be sufficient and during the audit the application was moved from physical servers to a virtual server which is contained in the server room at the Town Hall. Users are provided with access to the system using groups and rights and permission status in order to view, create or update documents. Security pertaining to the rights and permissions, which has the effect of limiting the functionality available to them within the system through dynamic menus, is in place and is administered by the System Administrators. Documentation pertaining to cases is displayed using the Anite application for Council Tax and Benefits. NNDR is soon to follow. There is an Escrow Agreement which would allow the ICT Section to obtain the core code if there was an issue with the Software House. A maintenance agreement with the software supplier is in place to assist ICT with the maintenance of the software. Documents are held in Anite which runs in parallel with IBS but with no direct interface. There is also an uploading of documents on a daily basis from docking stations contained within the office which are used for visiting officers using VPM software to capture the eforms that are used. The Audit has identified several points which Management should consider to enhance overall security, reduce risk and strengthen control. Overall, the control environment evidenced during the audit indicated a satisfactory level of security and integrity of information storage. The application appears to be operating as intended with a development cycle. Home working is an area which is developing and has been considered as part of this audit in respect of the remote access security. The Council has a Home Working Policy in place and assurance can be provided for the access link and is contained in the audit.

**Conclusion:**

The overall conclusion based on the overview above is that **SOME** assurance can be given that the internal controls are in place within the key system for control of Civica. Implementation of the following recommendations will ensure that the controls are strengthened. It should be noted, that since the integration of the Revenues and Benefits Sections the teams have become more overcome challenges and enabled them to develop best practice across the Service as a whole.

**Summaries of Follow up Reviews undertaken in the Quarter**

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

TITLE	SYSTEM TYPE <small>K=Key S=Subsidiary</small>	ASSURANCE LEVEL OF FINAL REPORT	IMPLEMENTATION STAGE PER CHIEF OFFICER AND/OR RESPONSIBLE MANAGER AT TIME OF FOLLOW UP REVIEW				Page No.
			No of Recommendations	No of Recommendations Implemented	No of Significant Recommendations	No of Recommendations Implemented	
<b>Community &amp; Partnership Services</b>							
Cash to Bank ~ Worcestershire HUB 09/10	K	S	6	6	-	-	-
<b>Planning &amp; Regulatory Services</b>							
Innogistic Computer Application 09/10	K	S	5	5	-	-	-
<b>Resources</b>							
Council Tax Gross Debit Reconciliation 09/10	K	S	3	3	1	1	-

**SECTION 3**

**DRAFT AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31<sup>st</sup> MARCH 2011**

TITLE	DATE OF ISSUE	CURRENT STATUS OF REPORT
<b>Resources Directorate:</b>		
Agresso (Financial Management System) Computer Application 2010~11	04.02.11	Final Report Issued 06.05.11
Benefit Reconciliations 2010~11 (Accountancy)	11.03.11	Final Report Issued 06.05.11
Benefit Reconciliations 2010~11 (Revenues & Benefits)	11.03.11	Final Report Issued 01.06.11
MOT Testing Station 2010~11	31.03.11	Final Report Issued 01.06.11

INTERNAL AUDIT SECTIONPERFORMANCE AGAINST ANNUAL PLAN FOR THE FINANCIAL YEAR 2010/11Quarter Ended 31<sup>st</sup> March 2011Year to 31<sup>st</sup> March 2011

	<u>Quarter Actual</u>	<u>Quarter Plan</u>	<u>Quarter Actual as a % of Plan</u>		<u>Year Actual</u>	<u>Annual Plan</u>	<u>Year to Date Actual as a % of Plan</u>
	<u>Days</u>	<u>Days</u>	<u>%</u>		<u>Days</u>	<u>Days</u>	<u>%</u>
System and Probity	114.00	98.75	115.44%	System and Probity	468.25	395	118.54%
Computer Audit	3.25	10.00	32.50%	Computer Audit	12.50	40	31.25%
Computer Audit Contract	5.00	5.00	100.00%	Computer Audit Contract	50.00	50	100.00%
Contract Audit	2.00	10.00	20.00%	Contract Audit	15.50	40	38.75%
Consultancy and Advice	9.25	10.00	92.50%	Consultancy and Advice	39.00	40	97.50%
Irregularity	3.50	10.00	35.00%	Irregularity	15.00	40	37.50%
Specific Service Duties	4.25	3.75	113.33%	Specific Service Duties	16.25	15	108.33%
<b>Sub Total</b>	141.25	147.50	95.76%	<b>Sub Total</b>	616.50	620	99.44%

**TARGET****90.00%**



## Audit Resource Statistics

For the year ended 31<sup>st</sup> March 2011, **99.4%** of the annual audit plan has been completed compared against the set target of 90%.

<b>SECTION 5</b>	
<b>FINAL AUDIT REPORTS ISSUED IN THE PERIOD 1<sup>ST</sup> APRIL 2010 TO 31<sup>ST</sup> DECEMBER 2010 - KEY SYSTEMS</b>	
<b>QUARTER ENDED 30<sup>TH</sup> JUNE 2010</b>	<b>ASSURANCE</b>
<b>CORPORATE</b>	
Corporate Creditors Compliance Testing 2009/10 (LCS)	<b>F</b>
Corporate Creditors Compliance Testing 2009/10 (PRS)	<b>F</b>
Fixed Assets (Title Deeds) 2009/10 ~ Physical Verification	<b>N/A ~ Inspection Only</b>
<b>PLANNING &amp; REGULATORY SERVICES</b>	
General Licensing & Registration 2009/10	<b>L</b>
<b>RESOURCES</b>	
Benefits Compliance Testing 2009/10	<b>S</b>
Council Tax Compliance Testing 2009/10	<b>F</b>
Cash to Bank ~ Miscellaneous Income & Housing Act Advances 2009/10	<b>F</b>
NNDR Compliance Testing 2009/10	<b>F</b>
NNDR Gross Debit Reconciliation 2009/10	<b>S</b>
Payroll Compliance Testing & Establishment Verification 2009/10	<b>F</b>
Payroll Reconciliations 2009/10	<b>S</b>
<b>QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2010</b>	
<b>CORPORATE</b>	
Corporate Creditors Compliance Testing 2009/10 (C&PS)	<b>S</b>
Corporate Creditors Compliance Testing 2009/10 (RD)	<b>S</b>
Corporate Debtors Compliance Testing 2009/10	<b>S</b>
Fixed Assets (Intangible & Vehicles & Play Equipment) 2009/10~Physical Verification	<b>N/A</b>
<b>COMMUNITY &amp; PARTNERSHIP SERVICES</b>	
Cash to Bank ~ Worcestershire HUB 2009/10	<b>S</b>
<b>RESOURCES</b>	
Housing Benefits Reconciliations 2009/10	<b>S</b>
Council Tax Gross Debit Reconciliation 2009/10	<b>S</b>
Treasury Management 2009/10	<b>F</b>
<b>QUARTER ENDED 31<sup>ST</sup> DECEMBER 2010</b>	
<b>PLANNING &amp; REGULATORY SERVICES</b>	
Development Control 2010/11	<b>F</b>
Innogistic Computer Application 2009/10	<b>S</b>
MVM Computer Application 2009/10	<b>S</b>
<b>RESOURCES</b>	
Benefits Compliance 2010/11	<b>S</b>

<b>KEY</b>		
<b>Assurance Level</b>	<b>Description of Assurance Level</b>	<b>What is reported in the Quarterly Audit Report</b>
U = Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.  A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

**SECTION 5**

**FINAL AUDIT REPORTS ISSUED IN THE PERIOD 1<sup>ST</sup> APRIL 2010 TO 31<sup>ST</sup> DECEMBER 2010 - KEY SYSTEMS**

Council Tax Compliance 2010/11	<b>S</b>
NNDR Compliance 2010/11	<b>S</b>

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	<p>Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.</p> <p>A significant internal control is one which is key to the overall framework of controls.</p>	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	<p>Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.</p>	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	<p>Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.</p>	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	<p>Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.</p>	The title of the review undertaken is reported.