

AUDIT COMMITTEE	AGENDA ITEM No. 4
7 FEBRUARY 2011	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources		
Committee Member(s) responsible:	Councillor Collins, Chair of Audit Committee		
Contact Officer(s):	John Harrison, Director of Strategic Resources	☎ 452 398	
	Steve Crabtree, Chief Internal Auditor	☎ 384 557	

INTERNAL AUDIT: QUARTERLY REPORT 2010 / 2011 (TO 31 DECEMBER 2010)

RECOMMENDATIONS	
FROM : John Harrison, Director of Strategic Resources	Deadline date : N/A
<p>Audit Committee is asked to :</p> <p>1. Receive the Internal Audit Update Report to 31 December 2010 and note in particular:</p> <p style="padding-left: 40px;">(a) that the Chief Internal Auditor is of the opinion that based on the works conducted during the 3 months to 31 December 2010, internal control systems and governance arrangements remain generally sound; and</p> <p style="padding-left: 40px;">(b) the progress made against the plan and the overall performance of the section.</p>	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee as a routine planned report within the work programme of the Committee. It sets out Internal Audit performance and progress with regards to the 2010 / 2011 Audit Plan (Audit Committee approval: 29 March 2010).

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2010 / 2011 as at 31 December 2010.

The report is for the Committee to consider under its Terms of Reference No. 2.2.4 – *To consider reports dealing with the management and performance of the providers of internal audit services.*

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. OVERVIEW

This report outlines the work undertaken by Internal Audit up to 31 December 2010, progress against our plan and other issues of interest.

5. ASSURANCE OPINION

5.1 One of four levels of assurance is allocated to each audit review. These assurance levels are: **FULL**; **SIGNIFICANT**; **LIMITED**; and **NO ASSURANCE**. Where concerns have been identified resulting in limited or no assurance, the Executive Summaries for these reviews will be included in an appendix to this report, once the audit review has been agreed and finalised. **TWO** reports fall into this category for the quarter, details of which are included in **Appendix B**.

5.2 Based on the work carried out and finalised during the 2010 / 2011 (to 31 December 2010), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 100% of high / critical recommendations made to date have been accepted by management and programmed for implementation (against a target of 97%).

6. AUDIT PLAN 2010 / 2011

6.1 Progress against Plan

6.1.1 **Appendix A** shows the Operational Plan that was agreed by the Audit Committee on 29 March 2010. It shows the audits that are due to be performed during 2010/2011 and the status of those audits. It includes audits brought forward from the previous year that have been finalised during 2010 / 2011. It also includes audits that were not planned when the Annual Audit Plan was approved. It does not, however, separately list audit work of more limited scope, such as control advice.

6.1.2 To date, 21 audit projects for 2009 / 2010 have been finalised together with a further 46 for 2010 / 2011. There are also 47 audit assignments that are either in draft or in various stages of review.

6.1.3 Progress against the revised plan 2010 / 2011 plan is 71.9% (compared with 74.8% to the 9 month period December 2009). This is primarily due to a member of staff reducing their contracted hours after the revised plan had been produced. Further pressures on the revised audit plan from January 2011 include the new shared service arrangements for the Chief Internal Auditor where time available will be reduced by 50% for the remainder of the financial year. A separate report is on the agenda covering these arrangements.

6.1.4 In addition to the reviews detailed in the Appendix, other work in the form of consultancy advice has been provided by Internal Audit which may not have resulted in the production of a formal report, and is therefore not separately listed.

6.2 Other Performance Matters

6.2.1 An average of 17.5 days sickness per person was lost during the 9 months to 31 December 2010, compared to a target of 3.75 days. Whilst higher than our target, this is a major reduction on last year's figure of 31.5 days per person at the same point in the year.

6.2.2 Removing the long term sickness figures from the equation gives an average of 2.5 days lost to sickness per person for this period, which is below the authority target.

- 6.2.3 The long term sickness of two members of the team has had a major impact on this performance indicator. The total number of productive days lost as a result of long term sickness during the year to date is 113 days and has had an impact on our ability to deliver the audit plan. Sickness has been actively managed in accordance with the Council's Attendance Policy and through Occupational Health where appropriate. The second team member has now returned to work and has opted for a reduction in hours to 0.68fte.

7. EXTERNAL WORK

- 7.1.1 The Internal Audit Strategy for 2010/11 which was approved by the Audit Committee on 29 March 2010, detailed that '**Internal Audit has been charged with selling Audit Services to other areas of the Public Sector in the region, as part of the Manor Drive initiative.**' Internal Audit had been actively looking to target schools in neighbouring authorities as part of a marketing strategy but due to the changes introduced by the Coalition Government resulting in the abolition of the Financial Management Standard in Schools (FMSiS) initiative this will not now be possible until such a time that a new scheme is introduced. Internal audit will continue to discuss external business opportunities with neighbouring authorities as part of the shared service arrangements with Cambridge City Council and will advise accordingly regarding secured business.
- 7.1.2 We previously reported to Audit Committee that the team had secured two pieces of external work, one with a Leicestershire school and one with a local authority. Due to the FMSiS abolition reported above the work with the Leicestershire school will no longer be undertaken. Similarly, due to changes in working arrangements within the local authority we will not now be performing the audit work previously agreed. However a framework agreement is due to be produced between the two authorities and it is hoped that this will generate external business during 2011/12.
- 7.1.3 We will notify the Audit Committee of the progress of any external work undertaken, but will not state outcomes or provide copies of reports, as this work is commercially sensitive.
- 7.1.4 Whilst our Annual Audit Plan includes time for external work, any growth in this area will need to be carefully balanced with the need to provide an appropriate level of assurance to the Audit Committee, S151 Officer and senior management.

8. CONSULTATION

This report and the accompanying appendices have been issued to the deputy s.151 Officer for consideration.

9. ANTICIPATED OUTCOMES

That the Audit Committee is informed of Internal Audit's progress against the Annual Audit Plan and its business plan performance. In addition, that the Audit Committee is made aware of any key control issues highlighted by our work since the last progress report.

10. REASONS FOR RECOMMENDATIONS

The Council is subject to the Accounts and Audit (amendment) Regulations 2006 and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. This report and associated papers

demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

11. ALTERNATIVE OPTIONS CONSIDERED

The alternative of not providing an Internal Audit service is not an option.

12. IMPLICATIONS

Corporate Resource Implications

During the year, Internal Audit makes a number of recommendations. While implementing these may have resource implications for the various areas under review, Internal Audit discuss and agree recommendations with the Auditee prior to the issue of the final audit report. Therefore, it is assumed that their implementation can and will be undertaken either with existing resources or with additional resources that they can readily call upon.

Legal Implications

The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations (Amendments) 2006.

There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006
Accounts and Audit (amendment) (England) Regulations 2006
Internal Audit Business Plan 2010 / 2011
Internal Audit Annual Plan 2010 / 2011

APPENDICES:

Appendix A	Progress of Audit Plan 2010 / 2011 (To 31 December 2010)
Appendix B	Audit Reports Issued in Quarter 3: Limited / No Assurance

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.										
Main Accounting / Financial Accounting	Strategic Res					-	-	-	-	-	Removed from plan – reliance placed on PwC as part of final accounts
Accounts Payable	Strategic Res					-	-	-	-	-	In progress
Sundry Billing	Strategic Res					-	-	-	-	-	Removed from plan
Debt Recovery	Strategic Res					-	-	-	-	-	Due to commence Qtr2, but delayed until Qtr4 as central debt recovery function not yet in place.
Housing and Council Tax Benefits	Strategic Res					-	-	-	-	-	In progress
Council Tax	Strategic Res					-	-	-	-	-	In progress
Business Rates	Strategic Res					-	-	-	-	-	In progress
Cash / Banking	Strategic Res					-	-	-	-	-	Removed from plan. Awaiting closure of previous review.
Budgetary Control (Capital)	Strategic Res					-	-	-	-	-	In progress
Treasury Management	Strategic Res					-	-	-	-	-	Due to commence Qtr4
Payroll	Strategic Res					-	-	-	-	-	In progress
Fixed Asset Accounting	Strategic Res					-	-	-	-	-	Due to commence Qtr4

APPENDIX A

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Unplanned reviews 2010/11											
Youth Offending Service – Imprest Account	Strategic Res		x			3	-	-	-	3	Memo issued
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Rolled forward from 2009/10	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.										
Benefits 2009	Strategic Res		x			1	2	-	-	3	Final issued
Cash and Banking 2009/10	Strategic Res		x			4	3	2	-	9	Final issued
Main Accounting System	Strategic Res		x			1	1	-	-	2	Final issued
Accounts Payable – Central Controls	Strategic Res			x		5	4	4	-	13	Final – Executive Summary to Audit Committee 07/02/2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement.										
Arrangements for production of AGS 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Assurance Framework	All					-	-	-	-	-	Awaiting approval of strategic risk register by CMT.
Annual Audit Opinion 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Anti Fraud Culture:	Reviews to reported individually throughout the year										
SI (Chi2120-02)	Chi Services				x	1	5	7	4	17	Draft issued
Internal Audit Effectiveness	All					-	-	-	-	-	Due to commence Qtr4
CAA / UoR Support	All					-	-	-	-	-	No longer required in current format - Work requirements to be reviewed in line with Government initiatives
Follow-Up Reviews	Individual reviews to be detailed throughout the year										
FMSiS follow-ups	Chi Services					-	-	-	-	-	17 currently in progress
The Voyager School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Jack Hunt School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
St John Fisher School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Stanground College	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Orton St Johns Primary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Barnack Primary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final

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AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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Energy Payments follow-up	City Services					-	-	-	-	-	In draft

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK – Rolled forward from 2009/10											
Follow-Up Reviews											
Discovery FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
John Clare FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Nene Valley FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Wittering FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Bishop Creighton FMSiS	Chi Services					-	-	-	-	-	In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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OTHER GOVERNANCE ARRANGEMENTS	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.										
Performance Management	All City Services					-	-	-	-	-	Removed from plan
Risk Management	All Operations					-	-	-	-	-	Due to commence Qtr4
Information Governance	All					-	-	-	-	-	Reports to Audit Committee will be through the Information Governance Group. Reduce scope of Information Security review and place reliance on PwC work in this area. No further Contact Point work as abolished by central govt.
Business Continuity	All Operations					-	-	-	-	-	Due to commence Qtr4. Focus on IT
Partnerships	Reviews to reported individually throughout the year										
Youth Offending Service	Chi Services					-	-	-	-	-	At review stage
OTHER GOVERNANCE ARRANGEMENTS Rolled forward from 2009/10	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.										
Information Governance - Contact Point Accreditation	Chi Services					n/a	n/a	n/a	n/a	n/a	Final Certification

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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STRATEGIC AND OPERATIONAL RISKS	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Regeneration / Sustainability	Asst Chief Executive					-	-	-	-	-	Removed from plan
Health & Safety	Operations		x			1	3	1	-	5	Final
Arms Length Management Organisation (ALMO) for City Services	City Services					-	-	-	-	-	Removed from plan
Environmental Management	Operations					2	4	6	-	12	Final
Safeguarding Children	Chi Services					-	-	-	-	-	Due to commence - delayed due to Ofsted inspection
Property Asset Management	Strategic Res					-	-	-	-	-	Removed from plan
Highways	Operations					-	-	-	-	-	Removed from plan
Agile Working Scheme	Strategic Res		x			5	6	1	-	12	Final issued
Travel & Subsistence	All					-	-	-	-	-	At review Stage
Attendance Management	All					-	-	-	-	-	Due to commence Qtr4
Concessionary Fares	Operations					-	-	-	-	-	Removed from plan
Asylum and Immigration Act	Strategic Res			x		-	2	2	-	4	Final – Executive Summary to Audit Committee 07/02/2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

STRATEGIC AND OPERATIONAL RISKS (cont.)	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Children in Care	Chi Services					-	-	-	-	-	Removed from plan
Financial Controls within Children's Services	Chi Services					-	-	-	-	-	Due to commence Qtr4
Procurement:											
Corporate Contracting											Removed from plan
Purchasing Cards	All			x		6	9	9	-	24	Draft issued
STRATEGIC AND OPERATIONAL RISKS – Unplanned Reviews / Control Advice	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
(Loyalty) Spend Cards	Chi Services					n/a	n/a	n/a	n/a	n/a	2 memos issued
Interim Utility Billing Process	Strategic Res		x			2	-	-	-	2	Memo issued
Sale of goods on Ebay	Chief Exec Operations					n/a	n/a	n/a	n/a	n/a	2 memos issued
STRATEGIC AND OPERATIONAL RISKS – Rolled Forward from 2009/10	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
SI (Chi2084-05)	Chi Services		x			-	1	2	-	3	Final

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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CONTRACTS AND PROJECTS	Dependent on risk, we review a sample of projects contracts each year to test whether the council's governance arrangements are being followed and that contracts provide value for money.											
Project Management:												
Post Implementation Review	All											Removed from plan
Capital Gateway Processes	All					-	-	-	-	-		At review stage
Projects:												
CIA Consultancy – E-Payment Project Board	All					-	-	-	-	-		In progress
CIA Consultancy – Internet Project	All					n/a	n/a	n/a	n/a	n/a		Complete
CIA Consultancy – Museum Refurbishment	All					-	-	-	-	-		In progress
CIA Consultancy - Manor Drive Project												In progress
CIA Consultancy – Service Delivery	All					-	-	-	-	-		In progress
Contracts:												
PFI (Secondary School) contract	Chi Services											Removed from plan
CIA Consultancy – Green Waste	City Services					n/a	n/a	n/a	n/a	n/a		Final

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CONTRACTS AND PROJECTS – Rolled forward from 2009/10											
CIA Consultancy - Funds	City Services					n/a	n/a	n/a	n/a	n/a	Final

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EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.										
Grant Claim Certification:	Work on behalf of PwC (fee reduction)										
Teachers Pensions (TPA) TR17	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
Jack Hunt TPA	Chi Services	x				1	-	-	-	1	Final issued
Hampton College TPA	Chi Services		x			2	1	-	-	-	Final issued
Orton Longueville School	Chi Services		x			4	5	-	-	-	Final issued
FMSiS Section52 Outturn Return	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
FMSiS Inventories Summary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final memo
GAF Opportunity Peterborough Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Memo
GAF3 Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
Stroke Care Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
Economic Participation Programme	Chief Exec					n/a	n/a	n/a	n/a	n/a	Final memo
Womens Enterprise Centre	Operations										In progress
Future Jobs Fund and Migration Impact Fund	Strategic Res										At review stage
Leisure Trust	SLA in place between Internal Audit and Vivacity (income generating)										
	N/A					-	-	-	-	-	Two reviews commenced during Qtr3. A further two are due to commence in

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AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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											Qtr4

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
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EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.										
PCC FMSiS 2010/11:	23 Primary Schools and 1 Secondary School to be reassessed (fee reduction)										
Training delivered to schools	Chi Services					n/a	n/a	n/a	n/a	n/a	Complete
Southfields Junior	Chi Services		x			1	1	-	-	2	Draft issued
Thorpe	Chi Services		x			2	2	2	-	6	Final
Dogsthorpe Junior	Chi Services		x			4	2	1	-	7	Draft Issued
Leighton	Chi Services										At review stage
Hampton Hargate	Chi Services		x			-	3	-	-	3	Final
St Botolph's	Chi Services	x				-	-	-	-	-	Final
Fulbridge	Chi Services		x			1	4	-	-	5	Draft Issued
Marshfields	Chi Services		x			1	5	-	-	6	Draft Issued
Queens Drive	Chi Services		x			2	4	1	-	7	Draft Issued
Heritage Park	Chi Services		x			2	2	-	-	4	Draft Issued
Duke of Bedford	Chi Services										At review stage
Brewster	Chi Services										NFA due to FMSiS cancellation
Eye Primary	Chi Services		x			-	2	-	-	2	Draft issued
Orton Wistow	Chi Service										At review stage
Welland	Chi Service										At review stage

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Braybrook	Chi Services		x			2	5	-	-	7	Draft Issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

EXTERNAL WORK - Rolled Forward from 2009/10	Work resulting income or a reduction in fees paid to other organisations.										
The Voyager FMSiS	Chi Services		x			3	2	1	-	6	Final issued
Barnack Primary FMSiS	Chi Services		x			1	5	-	-	6	Final issued
Dogsthorpe Infants FMSiS	Chi Services		x			3	5	-	-	8	Final issued
Hampton Vale FMSiS	Chi Services			x		1	4	3	-	8	Final – Exec Summary to AC 06/09/2010
Southfields Infants FMSiS	Chi Services		x			1	2	-	-	3	Final issued
The Beeches FMSiS	Chi Services			x		1	6	-	-	7	Final - Exec Summary to AC 01/11/2010
Welbourne Primary FMSiS	Chi Services			x			5	1	-	6	Final – Exec Summary to AC 06/09/2010
Winyates Primary FMSiS	Chi Services			x		1	2	3	-	6	Final - Exec Summary to AC 01/11/2010
Heltwate FMSiS	Chi Services			x		2	5	4	-	11	Final – Exec Summary to AC 06/09/2010
NeneGate FMSiS	Chi Services			x		1	3	3	-	7	Final - Exec Summary to AC 01/11/2010

AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

LIMITED ASSURANCE		Date To Audit Committee
Str5160-10	Accounts Payable – Central Controls	07 February 2011
Str5460-04	Compliance with Immigration and Asylum Legislation	07 February 2011

Report Str5160-10 Accounts Payable – Central Controls

Executive Summary

The audit focused on the central aspects of the Accounts Payable function, which is predominately carried out by the Transactional Service's team. However the team are reliant on service teams to provide the correct information swiftly. Where service teams follow procedures, payments are made efficiently and promptly, however when there is an anomaly with an order or invoice, there can be substantial delays. The Transactional Services team has estimated there to be 2000 invoices on hold, some of which date back to 2007. During the audit it was noted that this number was reducing in anticipation of year-end.

The day-to-day processing takes priority. Any spare time is used to deal with queries, and is mainly reactive. Resources need to be allocated to resolve the issues, to ensure the correct financial position within the accounts, and to ensure a good working relationship with our vendors.

Three members of staff have the ability to create and amend vendors, set up and authorise payments, and process the pay-runs. This does not provide appropriate segregation of duties, and staff may be open to allegations of misuse.

It was noted that where issues are arising both the Purchase-to-Pay team and Transactional Services team have been actively involved in promoting the new processes via insite, training, and drop-in-sessions. It is disappointing therefore, that staff are still not following procedures.

From February 2010 all invoices received without an order number are being returned to the vendor, although this is an extreme measure, this should improve the situation regarding vendor validation, and ensure orders are valid and authorised.

Scope & Objectives

Internal Audit sought to establish that key controls were in place to ensure the following:

- Invoices are only paid where goods have been ordered and received
- Payments are only paid on receipt of a valid invoice.
- Invoices are paid in a timely manner
- All transactions are compliant with the Council's Financial Regulations and Contract Regulations
- Payments only made to valid vendors

Limited walkthrough testing was undertaken to ensure compliance with the above key controls. Some areas have been noted for further investigation in the full Accounts Payable Audit 2010/2011.

Conclusion

Since the last full audit there have been numerous changes to the system, particularly the purchasing element of the system, which allow for enhanced controls. These include vendor validation and the requirement to raise orders prior to purchase of goods or services. However, there have been a significant number of instances where new processes have not been followed. Other areas of concern include limited segregation of duties and a lack of exception reporting. These control weaknesses increase the risk of error and fraud significantly.

The audit opinion is **Limited Assurance**.

Report Str5460-04 Compliance with Immigration and Asylum Legislation

Executive Summary

When this audit was conducted and the draft report issued, the Head of Shared Transactional Services was responsible for this function. However, between the draft report being issued and the response being received, responsibility had passed to the Head of Business Support. Since assuming this responsibility, the Head of Business Support has been working with the HR Administration team to realign the work that is done. The issues raised in this report will be addressed as part of this process.

The system dealing with employee identity checks that are required on an annual basis for staff that have a limited right to remain in the United Kingdom (UK) needs to be more robust to prevent the Council from inadvertently continuing to employ migrant workers after their right to work has expired. Apart from this, the current system in place for undertaking identity checks on all job applicants is sound provided that the prescribed procedures are followed. This means that adequate training must be provided to employing managers.

Background

Since 27 January 1997, employers have had a duty to check that all new employees are entitled to work in the United Kingdom (UK). Undertaking this check gives the employer a defence against conviction or an excuse against payment of a civil penalty if they are later found to have employed an illegal migrant worker. The law on preventing illegal migrant working has occasionally been revised, and the latest legislation passed is the Immigration, Asylum and Nationality Act 2006, which came into force on 29 February 2008. This imposes civil penalties for breaches (maximum £10,000 per worker) but also extends to criminal prosecutions for knowingly employing illegal workers, for which the maximum penalties are an unlimited fine and/or two years imprisonment.

The pre-employment identity checks that employers should make (or have made) depend on the initial employment date of each individual, as the requirements are dependent on the legislation in force at the time of recruitment. Evidence should be retained on file of these checks, in the form of certified, dated copies of specified identity documentation (e.g. passport, full birth certificate). For most employees this initial check is sufficient but there are some migrants for whom an annual check is required to maintain immunity from penalties.

The prevention of illegal working can often raise race discrimination issues and employers must be careful not to use discriminatory recruitment practices. If a tribunal upholds a complaint of racial discrimination, there is no upper limit on the amount of compensation that the employer can be ordered to pay, so the best way to deal with this is to treat all job applicants in the same way at each stage of the recruitment process.

Scope & Objectives

To identify if the Council is at serious risk of non-compliance with UK Border Agency Regulations:

- when recruiting new employees
- in respect of existing staff.

Conclusion

Provided that the correct recruiting procedures are followed, there is no risk of the Council breaching either the UK Border Agency Regulations or the associated problem of breaching race discrimination laws for new employees and existing staff applying for new posts.

There is a risk that the correct identity check documentation is not held on file for all staff employed between 27 January 1997 and 31 January 2008 but as penalties only apply to illegal workers, this might not be significant. However, it is probably better to err on the side of caution, especially when financial penalties are imposed for employing illegal workers. If this were to happen, not only would a fine have to be paid at a time when budget cuts are necessary but there is also a reputational risk to the Council to be considered.

The audit opinion is **limited assurance**.

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