

September 2017

Isle of Wight Council
FINAL Audit Committee Internal Audit Progress
Report – 2016/17

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1) Introduction and Internal Audit Overview

Introduction

This report presents a summary of the activities of Internal Audit for the period June to September 2017, regarding outstanding reviews from our 2016/17 programme of work; progress regarding our 2017/18 programme of work will be presented to December's meeting of the Audit Committee. This report provides executive summaries for the three remaining reports from 2016/17 issued since the Audit Committee last met in June 2017, rated as medium risk or lower overall. Three further reports, rated as high risk, are presented separately in full, under the same agenda item. Our Key Financial Systems review provides an individual risk ranking for each discrete area reviewed.

This progress report also details progress regarding the wider 2016/17 plan.

Summary of performance against key performance indicators


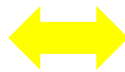
We have met the key performance indicators which were within internal audit's control in relation to providing a high quality internal audit service to the Council. We are pleased to report that our average customer satisfaction score for 2016/17, based on ten returned Customer Satisfaction surveys, is 8.2 out of 10.

Full details of performance against key performance indicators for 2016/17 can be found in Appendix 2 within this report.

2) Executive Summaries from Internal Audit Reports

In this Section we provide the executive summaries for the three 2016/17 reports, rated as medium risk or lower overall, which have been issued as final since the Audit Committee last met in June 2017.

Executive summary – Cash Handling

Report classification  Medium Risk	Trend  This is the first time we have reviewed cash handling.	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	1	0	0
		Operating effectiveness	0	0	2	0	0
Total		0	0	3	0	0	

Summary of findings:

We have performed the Cash Handling review in accordance with the terms of reference included at Appendix B covering the period April 2016 to February 2017. The review has considered arrangements for managing, collecting, transporting and banking cash to ensure that processes incorporate appropriate controls. We visited eight sites where we evaluated the local cash handling process for consistency with the Council's Cash Collection and Handling policy and identified areas where greater control or efficiency could be achieved. The review has been split across three areas, as detailed below.

- Cash Handling Policy** – The Council's cash handling policy is owned by the central Revenue and Reconciliation Team and is applicable to all Council managed sites across the Island. A fifteen point plan outlines expectations and standards that the sites must adhere to in order to be compliant. The policy covers the full cycle of cash management at a site, from collection through to reconciling and reporting the balance. We have analysed the appropriateness of the cash handling policy, that the policy has been updated to reflect current expectations and is in line with other limitations (e.g. insurance policies).
- Individual Site Review** – We reviewed a total of eight sites, the Shanklin Cliff Lift as referenced per the terms of reference has not been reviewed, as the site was not in operation as of the time of the fieldwork (February 2017). The remaining eight sites that have been reviewed are as follows; Cowes Floating Bridge, Newport Harbour, Dinosaur Isle Museum, Lord Louis Library, Medina Sports Centre, Quay Road Car Park, Adelaide House and The Gouldings. Each site has been reviewed for compliance with the Council's cash handling policy, with local controls in place being understood and compared to the expected controls.
- Management Oversight** – Management have a responsibility to review and monitor cash recorded from sites and reconcile the cash to bank postings. The Income and Reconciliation team receive cash sheets from the appropriate sites. These are entered into the ledger and are tracked against the banking of funds. The Commercial Services team has the full oversight of all sites and are responsible for ensuring sites record accurate cash balances which can be reconciled to the bank by the income team. Monthly meetings are held by key members of the Commercial Services team to review the income generated from the sites. We have reviewed the suitability of oversight of the appropriate sites. Where discrepancies are identified these are investigated and documented by service managers and recorded centrally by the Revenue and Reconciliation Team, along with any further actions taken, for example writing off.

The following findings have been noted from the review of the three key areas:

Cash Handling Policy – A **medium** risk finding has been raised due to three issues identified in relation to the cash handling policy:

- The policy clearly references key expectations of Council managed sites in respect to the management of cash. The policy currently allows £3,000 of cash to be held at each site however the Council's insurance policy only allows for £1,000. As such the Council are at risk that up to £2,000 at each site, if damaged, stolen or lost, is irrecoverable via insurance.

- The policy does not state example controls for sites to implement to promote for compliance. Currently there is subjectivity as to what would be acceptable as a compliant control, examples would provide guidance for the construction of compliant local procedures.
- Six of the reviewed sites were not aware of the existence of the policy and the requirement to be compliant when managing the Council's cash on a daily basis. This effectively invalidates the policy.

To partly address these issues, consideration should be given to requiring each site to formulate their own local cash handling procedures. These could then be reviewed and agreed centrally to ensure compliance with the main policy while taking into account the local circumstances.



Site Reviews – A **medium** risk finding has been raised due to issues identified within our site reviews. Each site had a range of differing issues and good practice. These have been fully reported separately to management. There were a number of issues that were identified at multiple sites which are set out below:

- Local procedures – Local cash handling procedures have not been adapted from the Council's wide policy to fit the operations of the local service. A clear local procedure document is required so all staff at the site are clear what processes must be followed when handling cash on daily basis. Local cash handling procedures should be approved by the Council's S151 Officer to ensure compliance with corporate expectation.
- Cash held – A regular count of the full cash balance held on the sites is not undertaken. This could leave sites vulnerable to exceeding the restrictions of the policy of only holding up to £3,000 and at high risk of exceeding the insurance limit of £1,000. It also increases the risk of not identifying any misappropriation of cash.
- Postal cash/cheques – Sites do not have a specified procedure in place for postal cash collection/ cheque collection. As a results, sites are unlikely to comply with the policy, which states that cash received from the post should be opened and reconciled by at least two individuals.
- Reconciliation of cash – Although most sites record and reconcile cash takings, there is often limited segregation of duties in place. In six cases, the same individual collects, records and reconciles the cash prior to collection. This puts these sites at higher risk of error and / or misappropriation of cash.
- Regular banking of funds – On review sites cash is not collected on a frequent enough basis. Cash therefore is held on site for a period longer than the minimum commensurate with the normal operation of the service, as such leaving a build-up of cash on site.
- Forgeries – The sites generally do not perform forgery checks on cash received prior to acceptance. A number of sites stated they had no access to the required equipment to perform forgery checks, such as a UV light. Forged cash could therefore be accepted. It is noted, however, that sites have not regularly had cash collected rejected by banks, therefore the risk of financial loss due to forgery is low.
- Risk assessments – Sites do not perform a risk assessment clearly identifying the threats present to operations and staff in relation to cash handling. Consideration on how to mitigate key risks, in particularly safeguarding staff would allow for a safer working environment and less risk of the theft of cash. Further consideration of the appropriateness on the location of safe keys should be reviewed at all sites.

The Council should look to review these risks across all sites to ensure these are mitigated.

Dinosaur Isle Cash Limit – A separate **medium** risk finding has been raised in relation to the allowable cash limit the Dinosaur Isle site can hold. Contrary to the other reviewed sites, Dinosaur Isle has an allowable increase in the cash the site can hold. Cash of £30,000 can be hold at any point. This is significantly higher than other comparable sites cash limits. The Council should review this limit for operational necessity, as to lower the risk of lost funds.

Executive summary – Payroll and Pensions Administration

Report classification  Medium Risk	Trend  Consistent with risk ranking when payroll and pensions have previously been reviewed.	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	1	5	0
		Operating effectiveness	0	0	0	0	0
		Total	0	0	1	5	0

Summary of findings:

This review focussed on the Council’s payroll and pension scheme administration processes and controls, covering:

- *Framework*: up to date and accurate framework is in place covering key areas, for example processing of payroll changes and administration of the LGPS (Local Government Pension Scheme).
- *Operation and Processing*: payroll and pensions are processed in line with documented procedures and controls.
- *Performance Management and Knowledge Transfer*: an appropriate set of performance measures are monitored and reported regarding the responsibilities of the Team; arrangements are in place to ensure that knowledge has been shared across team members and that there is no over reliance on any key members of staff.
- *Known Issues*: a range of issues which materialised during 2016, for example failing to issue annual pension benefit statements for modified fire fighters in a timely manner, have been addressed and steps have been taken to ensure they do not reoccur during 2017.

Our review has identified a range of largely minor issues. However none of these are ‘new’, most have been issues for at least four years, while the lack of automated interface between SAP and Altair (the Payroll/HR system and Pension system respectively) date back to when SAP was implemented in 2010. At a high level the Council needs to continue with the programme of remedial actions planned, although there may be further options to be considered which we have highlighted as appropriate in our detailed findings. The five detailed findings we have raised are summarised below:

Performance Management: three metrics are currently monitored and reported regarding the work of the Payroll and Pensions Team: payroll accuracy, retirement benefit quotes 10 days and payment of pension benefits. The target for payment of pension benefits is five days and is being met in 93% of cases. However this measure is of limited value, as whether it is met is largely due to the point within the pension payroll cycle at which pensioners become entitled to benefits (i.e. if it falls prior to the change lockdown date, so can be included in the next payroll run, or will have to wait till the next month’s payroll run). This has been recognised by the Team and we were informed that a more meaningful measure is currently being investigated; this is sensible and should continue as planned. The other two targets are being largely met.

The main issue is that the current metrics do not sufficiently measure the impact of the Team, or align with the Council’s need to ensure it will meet external and statutory payroll and pension reporting requirements; for example providing annual benefit statements for pension scheme members. The performance measures set need to be reviewed, consulting senior Council staff and pension boards as necessary, to ensure measures adequately collect and report on the key requirements and outputs of the team.

We have raised this area as a **medium risk** finding.

Review of Documentation: while there is a wealth of documentation available to the Team on the shared drive, there are a high number of duplicated and/or obsolete documents, increasing the likelihood that staff will refer to the wrong documentation – for context there are over 200 processing guides on the shared drive. Specific to pensions there are 38 processing guides which have not been updated since at least 2012, with the majority no longer being required as the Altair system has embedded guidance for the majority of processing.

The first step needs to be rationalising the documentation stored on the shared drive, so that only the most recent copies are available to staff; for pensions this needs to focus on the processing elements managed outside of Altair, for example requesting and evidencing death certificates when required. Where documentation is overdue review and is still applicable, this needs to be addressed, to ensure it is up to date as soon as possible, with all documentation reviewed annually in future to ensure it can be relied on to support accurate processing.

We have raised this area as a **low risk** finding.

Succession Planning: payroll and pensions are currently administered by a small team, based at the Westridge Business Centre in Ryde. While historically there was an overdependence on individual team members, with knowledge of specific processes, the Council is confident that cross skilling has been successful and they now have sufficient resilience within this Team. A skills mapping exercise has been carried out and a programme of training is planned for the next 12 months to address remaining gaps with pension scheme knowledge; this should continue as planned.

We have raised this area as a **low risk** finding.

Reconciliations: SAP to Altair: when pension related changes, for example contribution levels, are made in SAP they need to be replicated in Altair, the pension administrative system. There is a long standing issue (dating from when SAP was implemented in 2010), with information from SAP having to be manually ‘transformed’ before it can be imported into Altair. The Council has purchased a product, iConnect, to make this reconciliation automatic, however, due to the Council’s non-standard SAP implementation, this did not work ‘out of the box’ and has never been implemented. The iConnect product was revisited in 2016, to scope out the work necessary to get it working. This initiative has now stalled, as funding is necessary to either train the in-house IT Department to get iConnect working or source a configuration service from a third party.

The Council needs to decide whether it is going to make the funding available to proceed with iConnect. The alternative would be to continue with the manual and potentially error prone process currently used. The information to inform this decision needs to be escalated to the appropriate level of management for decision.

We have raised this area as a **low risk** finding.

Teacher Pension Scheme (TPS) and Schools: although the majority of Council maintained schools on the Island use third party HR/Payroll processors, the Council remains responsible for completing the annual pension return to the TPA (Teachers' Pensions Agency). Since the Council ceased providing Payroll and HR services to schools in 2013 there has been an ongoing issue, with third party providers failing to provide accurate and timely information to the Council, both regarding TPS and LGPS (Local Government Pension Scheme) members. A meeting was held with schools in February 2017 to highlight issues and we were informed that all Island schools have been extremely supportive in chasing their HR/Payroll providers for missing/incorrect information.

The Council completed its TPS submission to the TPA by the 31st May deadline in 2017 and is now waiting to hear back from the TPA regarding any anomalies identified. Any anomalies identified will need to be addressed in time to enable the Council’s TPS submission to be independently audited by November 2017. As planned, should the Council encounter further issues with HR/Payroll providers not providing information in a timely manner, this should be escalated to

schools to be chased.

Regarding the LGPS the same underlying issues apply, third party HR/Payroll providers are not providing the Council with the information it requires to ensure that the information in Altair is accurate, ensuring benefit statements can be issued by the annual August deadline and scheme valuations are accurate. As with the TPS, should information not be forthcoming from HR/Payroll providers, this should be escalated to schools for chasing. The Council also needs to ensure that it captures the additional time spent/cost incurred carrying out this work and, as flagged to schools at the February 2017 meeting, the option of recharging additional costs to schools if information is not forthcoming should be escalated to senior management at the Council for consideration.

We have raised this area as a **low risk** finding.

Known Issues












In the terms of reference for this review a number of issue were identified, specific to the Firefighters' Pension Scheme (FPS). At a high level these have either been addressed, or are in the process of being addressed. One area, ensuring that the annual issue of accurate benefit statements to scheme members, would benefit from greater oversight, which we have covered in a wider finding on performance management, summarised above. A summary of the current position regarding each of the issues is provided below.


Inadequate governance in place over the FPS: a new forum, the 'Isle of Wight Fire Fighters Pension Board', first met in September 2016 and is attended by members, senior officers and scheme members. This group is focussed on ensuring that the FPS is correctly managed and is overseeing progress regarding a number of further planned enhancements to governance, for example updating policies applicable to each of the four FPS schemes.

Inability to correctly process modified FPS schemes, due to Fire Service being unwilling to fund system upgrade: the issue was that the Council did not have the necessary functionality in Altair (the pension administration system) to manage one of the FPS schemes. The Council has funded the upgrade itself and work is ongoing to address remaining data quality issues. At the time of writing (May 2017) it is estimated that there are no more than 45 scheme members still affected, with work in progress to address the errors applicable to these members.

Failure to issue benefit statements to modified FPS members by the deadline in 2016 (31st August): now the Council has the necessary functionality in Altair it is confident that the outstanding 2016 benefit statements will be issued by the revised July 2017 deadline, agreed with the Section 151 officer and notified to the Pension Regulator. While the Council is confident that it will be able to meet future August deadlines for the issue of accurate benefit statements, as summarised further above, associated performance monitoring would benefit from being enhanced, to ensure that, should any issues materialise, these are escalated and addressed at the earliest opportunity.

Executive summary – Key Financial Systems

<p>Cash and Bank</p> <p> Low risk</p>	<p>Trend</p> <p> Decrease in risk rating from prior year.</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	1	0	0	Total	0	0	1	0	0
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<p>Creditors</p> <p> Low risk</p>	<p>Trend</p> <p> Consistent with prior year risk rating.</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>1</td> <td>3</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>1</td> <td>3</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	1	3	0	Total	0	0	1	3	0
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<p>Debtors</p> <p> Medium risk</p>	<p>Trend</p> <p> Consistent with prior year risk rating.</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>2</td> <td>2</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>2</td> <td>2</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	2	2	0	Total	0	0	2	2	0
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Total	0	0	2	2	0																					
<p>General Ledger</p> <p> Low risk</p>	<p>Trend</p> <p> Decrease in risk rating from prior year.</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>0</td> <td>2</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>0</td> <td>2</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	0	2	0	Total	0	0	0	2	0
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<p>Payroll</p> <p> High risk</p>	<p>Trend</p> <p> Increase in risk rating from prior year.</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>1</td> <td>2</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>1</td> <td>2</td> <td>1</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	1	2	1	0	Total	0	1	2	1	0
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<p>VAT</p> <p> Low risk</p>	<p>Trend</p> <p>Not reviewed in 2015/16.</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	0	1	0	Total	0	0	0	1	0
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Control design	0	0	0	0	0																					
Operating effectiveness	0	0	0	1	0																					
Total	0	0	0	1	0																					

Treasury Management  Low risk	Trend Not reviewed in 2015/16.	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	0	0	0
		Operating effectiveness	0	0	1	1	0
Total		0	0	1	1	0	

Summary of findings:

We have performed the Key Financial Systems review in accordance with the terms of reference included at Appendix B covering the period April 2016 to March 2017. The key financial systems in scope for testing this year are:

- Cash and Bank** - The Cash and Bank Team is located at the Sandown Centre. Cash and bank reconciliations form part of the Council's Treasury Management procedures, defined as the management of the Council's cash flows, banking, money market and capital market transactions. The areas of cash and bank in scope for our review were the collection and banking of monies, the reconciliation of bank accounts and the set up of new accounts. Reconciliation of local tax income has been performed within the Local Tax internal audit review.
- Creditors** - Accounts Payable staff, located at the Westridge office within the Shared Services Department, are responsible for paying debts owed by the Council such as invoices relating to goods and services received. The ordering and payment of goods, services and large contracts have been reviewed. In addition the procedures around the changes of supplier standing data and the purchasing authorisation hierarchy have also been tested.
- Debtors** - The Accounts Receivable function, located at the Westridge office, is responsible for collecting sundry debts due to the Council, for example invoices relating to homecare, allotments and school music lessons. The raising of invoices, receipt of income, chasing of debtor balances and the writing off of debtor balances, as well as the procedures in place over the raising of credit notes, have been reviewed.
- General Ledger** - The financial accounts responsible for maintaining the general ledger are located at County Hall. The general ledger module within the SAP accounting system provides key financial information to managers regarding financial performance, as well as forming the main source of data for the production of the Council's statement of accounts and other financial reports. Ensuring appropriate journals have been posted and authorised, that appropriate procedures exist around new and dormant codes, that suspense accounts are maintained effectively as well as effective financial reporting is undertaken by the Council, were the main areas within the scope of this review.
- Payroll** - The Payroll Team is located at the Westridge Shared Services Centre, with the HR Transactional Team. The Payroll Team is responsible for processing the payroll for directly employed Council staff. The HR Transactional Team is responsible for processing starters, transfers and leavers. Procedures in place over starters, leavers and amendments, payroll reconciliations and appropriateness of payroll advances have been reviewed.
- VAT** – VAT is managed by the Pensions and Treasury Management Accountant, supported by the Technical Finance Manager and external advisors. VAT returns are completed by the Accountant for Structure, Data Quality and Freedom of Information, following review by the Pensions and Treasury Management Accountant, and the Technical Finance Manager. Testing reviewed VAT policies were in place, staff have had VAT training and VAT compliance is reviewed and discussed. Further to this our sample testing reviewed the application of VAT on a transactional level.

- **Treasury Management** – The treasury team are based in County Hall. The Treasury team aim to optimise the financial assets available to the Council. They seek to ensure that the Council have appropriate operating cash to perform daily transactions, while ensuring excess cash have been invested appropriately. Good investment decisions allow the Council to efficiently and effectively increase funds available to utilise. Testing included a review of the current year treasury strategy, the short term and long term forecasting of cash and sample testing review of treasury transactions undertaken within the financial year.

The majority of the controls and processes tested as part of this review, including those relating to payroll and HR, are undertaken on the Council's integrated SAP financial system.

Our detailed findings are included within section two of this report. In summary:

Cash and Bank – The overall risk rating awarded to Cash and Bank is **Low** risk. A *medium* risk issue has been raised due to the operating efficiency of reconciliations. For the two months tested (July and December 2016), cash reconciliations prepared had not been signed as reviewed by a senior financial staff member. Reconciliations should be reviewed to ensure that the reported cash balance agrees to the bank statement, with any reconciling items identified and addressed.

Creditors – We have raised four findings in relation to the review of Creditors. The overall risk rating awarded to Creditors is **Low** risk.

- i) A *low* risk finding was raised over the ordering of goods and services. Our sample testing of 25 purchase orders initially identified that three had not been paid within 30 days. However, following clarification from the Payments Manager, all of these were property related orders, where a slightly different process is followed – orders are initially raised with a nominal value of £45, being processed once the actual price is known and this has been confirmed as reasonable by the Property Team. For clarity there was a delay in processing but this was due to the time taken by the Property Team in responding to queries by the Payments Team, not due to slow processing by the Payments Team.
- ii) A *medium* risk finding has been raised over the payment of invoices. It was identified that four out of the twenty five tested were not paid within 30 days, as well as two occasions where a retrospective purchase order had been raised. The value of the late payments were £55,560.45 and the retrospective orders had a value of £2,833.23.
- iii) A *low* risk finding has been raised for vendor set up. On one occasion confirmation of the change was not processed within two weeks, with the change being processed after 105 days. Further to this, on one occasion the date that the supplier change request form was submitted could not be provided, therefore timeliness could not be tested. Further to this as per the procedure, the Council must inform the supplier their bank has been amended, on one occasion this could not be verified.
- iv) A *low* risk finding has been raised as it was noted the Large Order policy has not been updated on a timely basis. The policy was last reviewed on October 2015, hence the policy has not been reviewed within the 16/17 financial year.

Debtors – We have raised four findings in relation to the review of Debtors. The overall risk rating awarded to Debtors is **Medium** risk.

- i) A *medium* risk finding was noted on the raising of invoices. Testing identified that on four instances out of the twenty five, invoices were not raised on a timely basis. As per the Council's policy, timely has been defined as 21 days. The total value of these invoices was £122,748. One of these invoices was

not paid as the charge was identified as incorrect by the supplier. Subsequent to the completion of our fieldwork we were informed that the correct amount, £69,125.15, has now been paid. The remaining three late invoices were for property lets, where payment terms vary from the standard 21 days, for example dependent on lease terms. While not exceptions processing notes need to be revised, to ensure that where the approach does vary from 'standard' this is documented and followed consistently.

- ii) A *medium* risk finding has been raised regarding write offs. Testing of twenty five write offs identified one instance, for a debt of £1,507, where the recovery actions had not been documented, although writing off the debt had been authorised by the Business Centre Manager.
- iii) A *low* risk finding has been raised over the debt recovery process. The Council do not currently define priorities in debt collection, i.e. which types of debt or amounts should be focused on, hence large sums can fall irrecoverable. Although this is the case, we have not identified any significant sums becoming irrecoverable within the financial year. Significant funds have been defined as over 1% of the debtor balance. As well as this it has been noted at the time of the review 37% of overdue debt was over 120 days in age, and therefore unlikely to be recoverable. It is noted, however, that this has improved from the prior year where the balance was 75%.
- iv) A *low* risk finding has been raised as two of the seven applicable debtor policies have not been reviewed or updated in year. No significant issues or gaps were identified with the procedures. The procedures are as follows; Creating Periodic Contracts and Transaction User Guide – Display, Change, Delete Contract.

General Ledger – We have raised two findings in relation to the review of General Ledger. The overall risk rating awarded to General Ledger is **Low** risk.

- i) In relation to the raising of journals, a *low* finding has been raised. Four initial forms contained incorrect information, which had been subsequently corrected in SAP. However the information in the forms had not been corrected, being inconsistent with the information in SAP.
- ii) In relation to budget monitoring, a *low* finding has been raised. There is currently no set threshold on what constitutes a significant variance between budgets and actuals for the purposes of internal reporting. As such, there is a risk that variances may not be sufficiently explained or investigated.

Payroll – We have raised four findings in relation to the review of Payroll. The overall risk rating awarded to Payroll is **High** risk.

- i) A *medium* risk finding has been raised over the starters and leavers process. Testing of twenty five starters identified eight starters' forms that had not been sent prior to the starter's date; the Payroll deadline had been missed on a total of twelve starters; eleven contracts have been sent late, after the start date. On three occasions these contracts were sent after the employment legislation guidance of two months.
- ii) Testing of twenty five leavers identified eight leavers that had not been sent prior to the leaver's date, missing the HR deadline. On two occasions leavers forms had been filled out incorrectly, stating the wrong leavers date to the actual leaving date. The total overpayments as a result were £1,707.62. This has been raised as a *high* risk finding.
- iii) A *medium* risk finding has been raised on the amendments process. Testing of twenty five amendments identified seventeen occasions when the Payroll deadline was not met, causing backdated payments or reductions in future salary. Of the seventeen, on eleven occasions amendment forms were provided after the appropriate HR deadline. Further to this on nine of the occasions the change was processed after the change effective date.
- iv) A *low* risk finding has been raised in relation to payroll reconciliations. Our testing of the July and December 2016 reconciliations identified that there had been no senior staff member review and approval.

VAT - We have raised one finding in relation to the review of VAT. The overall risk rating awarded to VAT is **Low** risk.

- i) A *low* risk has been raised as the Draft VAT manual, in place to help those processing transactions, has not yet been reviewed. Training has also not been provided to finance staff members who deal with VAT on a daily basis. As such, there is a risk that errors are being made at a transactional level.

As part of our testing of debtors and creditors we checked whether the correct VAT code was recorded for each transaction, no issues have been noted in the testing performed.

Treasury Management - We have raised two findings in relation to the review of Treasury Management. The overall risk rating awarded to Treasury Management is **Low** risk.

- i) A *low* risk finding has been raised in relation to the review of treasury transactions. It was noted that the June 2016 treasury reconciliation had not been reviewed within a month of the period end. Timely has been defined as one month from the relating period. Further to this, it has been noted that the Treasury Board no longer meets. The risk associated with these issues is that insufficient management oversight may allow inappropriate lending or borrowing to occur.
- ii) A *medium* risk finding has been raised in relation to cash flow forecasts. Monthly cash flows have not been produced on a regular basis, for instance the February 2017 could not be provided, while the December 2016 monthly cash flow forecast was not reviewed by a senior finance staff member. The long term cash flow, covering the next three years, is currently a work in progress. Work on this should continue to allow for longer term strategical planning.

Overall the following key trends over the areas have been noted:

- Cash – The Council’s cash has slightly increased in the year (£149m) in comparison to the prior year (£130m), no significant transactions have been undertaken. Controls remain consistent with prior year operation.
- Creditors – The value of creditors has marginally increased in comparison to the prior year (increase of £0.4m). The accuracy of ordering and invoicing has improved.
- Debtors – The level of debtors (as commented above) has decreased in comparison to the prior year. Debt collection has improved, and accuracy of invoicing has improved.
- General Ledger – Controls over new codes and dormant codes have improved in line with prior year recommendations. The majority of journals are accurate but there is still a requirement the Council ensure they implement segregation of duties in requesting and posting journals.
- Payroll – Payroll costs (rise of 1%) have slightly increased as per the yearly pay rise in June. Controls have remained consistent with the prior year, with emphasis on timely authorisation of starters, leavers and amendments
- VAT – VAT transactions and compliance should be reviewed on a more regular basis. On a transactional level, VAT assumptions seem appropriate.
- Treasury Management – Key transactions are analysed and reviewed on a daily basis. The Council must look to continue reforecasting on a regular basis as to ensure appropriate transactions are being entered into. Senior management should discuss treasury on a more regular basis. All transactions seem to be appropriate and in line with the Council’s regulations.

Classification of report findings





Assessment rationale

Finding rating	Effect on Service	Embarrassment/ reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Critical	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse and persistent national media coverage Adverse central government response, involving (threat of) removal of delegated powers Officer(s) and/or Members forced to resign 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Death of an individual or several people 	<p>A finding that could result in:</p> <p>All personal details compromised/ revealed</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/ fines from Department £250k + Corporate £500k + 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs over £500,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Complete failure of project/ extreme delay – 3 months or more
High	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Complete loss of an important service area for a short period Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse publicity in professional/ municipal press, affecting perception/ standing in professional/local government community Adverse local publicity of a major and persistent nature 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Major injury to an individual or several people 	<p>A finding that could result in:</p> <p>Many individual personal details compromised/ revealed</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/ fines from Department £50k to £125k Corporate £100k to £250k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs between £50,000 and £500,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Significant impact on project or most of expected benefits fail/ major delay – 2-3 months

Finding rating	Effect on Service	Embarrassment/reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/Schedule Deadlines
Medium	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Major effect to an important service area for a short period Adverse effect to services in one or more areas for a period of weeks <p>Service Disruption 2-3 Days</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse local publicity /local public opinion aware Statutory prosecution of a non-serious nature 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Severe injury to an individual or several people 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Some individual personal details compromised/ revealed 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/ fines from Department £25k to £50k Corporate £50k to £100k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs between £5,000 and £50,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Brief disruption of important service area Significant effect to non-crucial service area <p>Service Disruption 1 Day</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Contained within section/Unit or Directorate Complaint from individual/small group, of arguable merit 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Minor injury or discomfort to an individual or several people 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Isolated individual personal detail compromised/ revealed 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/ fines from Department £12k to £25k Corporate £25k to £50k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs less than £5,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Minimal impact to project/ slight delay less than 2 weeks
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.						

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 1 -Progress on the 2016/17 internal audit plan

Audit name	Fee	Current Status	Report classification for those audits completed
Adult Social Care – Savings Plans and Dynamic Purchasing System (DPS)*	£10,500	Postponed	-
Benefit Payments	£5,250	Final Report	Low Risk
Building Control	£5,250	Final Report	Low Risk
Cash Handling	£10,500	Final Report	Medium Risk
Communications***	£8,400	Suspended	-
Constitution**	£8,400	Final Report	N/A
Democratic Accountability**	£8,400	Suspended	-
Electronic Human Resources (E-HR)	£7,350	Final Report	Medium Risk
Environmental Health*	£5,250	Postponed	-
Fostering**	£5,250	Final Report	Medium Risk
Highways PFI and Waste - Delivery Phase Client Relationships	£9,450	Final Report	High Risk

Audit name	Fee	Current Status	Report classification for those audits completed
HR – Workforce management	£9,500	Final Report	Medium Risk
Insurance	£5,250	Final Report	Medium Risk
IT Strategy	£7,350	Final Report	Low Risk
Key Financial Systems:	£12,600	Final Report	
o Cash and Bank	-	-	Low Risk
o Creditors	-	-	Low Risk
o Debtors	-	-	Medium Risk
o General Ledger	-	-	Low Risk
o Payroll	-	-	High Risk
o VAT	-	-	Low Risk
o Treasury Management	-	-	Low Risk
Local Taxation (Council Tax and NNDR)	£5,250	Final Report	Low Risk
Pan Meadows	£9,450	Final Report	High Risk
Payment Card Industry, Data Security Standard (PCI DSS)	£7,350	Final Report	High Risk
Payroll and Pensions Administration	£7,350	Final Report	Medium Risk
Placements*	£5,250	Suspended	-
Procurement	£6,300	Final Report	Medium Risk

Audit name	Fee	Current Status	Report classification for those audits completed
Property Assets	£7,350	Final Report	Medium Risk
Schools' Audits	£5,250	Final Report	N/A

Subsequent to consultation with the Chief Internal Auditor and senior management a number of changes have been made to our planned programme of work for 2016/17, summarised below:

* Postponed reviews:

- Adult Social Care – Savings Plans and Dynamic Purchasing System (DPS): this review is now scheduled for quarter one, 2017/18.
- Environmental Health: this review is now scheduled for quarter three, 2017/18.

** Substituted reviews:

- A review of the Council's Constitution has substituted our planned review of Democratic Accountability. Following consultation with the sponsor for the Democratic Accountability review focussing on the Constitution was identified as of greater value to the Council.
- A review of Fostering has substituted our planned review of Placements. This is due to the Placements' initiative not progressing as quickly as projected at the time of our audit planning; Fostering was included in our 16/17 Internal Audit Plan as an optional review.

Suspended reviews:

Communications: due to ongoing changes to this service area, subsequent to our programme of reviews being agreed, this review was felt to be of limited value to the Council. The budget for this review was used to partially fund a supplementary, investigative review, currently in draft.

Appendix 2 - Internal audit performance against key performance indicators 2016/17

Key performance indicator	Adult Social Care	Benefit Payments	Building Control	Cash Handling	Communications	Constitution	Electronic Human Resources	Environmental Health	Fostering	Highways PFI and Waste	HR – Workforce management	Insurance	IT Strategy	Key Financial Systems	Local Taxation	Pan Meadows	PCI DSS	Payroll & Pensions Administration	Procurement	Property Assets	Schools' Audits
Scope agreed prior to fieldwork commencing?	-	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Exit meeting held?	-	Y	Y	Y	-	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Draft report issued within 10 working days of completion of exit meeting?	-	N	N	N	-	Y	Y	-	Y	N	Y	N	Y	N	N	N	Y	Y	Y	Y	N
Draft report issued within 10 working days of receiving documentation from auditee?	-	N	N	N	-	Y	Y	-	Y	N	Y	N	Y	N	N	N	Y	Y	Y	Y	N
Management response received?	-	Y	Y	Y	-	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Final report issued within five working days of agreement of management response?	-	Y	Y	Y	-	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Client satisfaction survey score (if received)?	-	9	-	-	-	8.4	9.6	-	-	-	9	8.2	9.8	-	-	-	-	10	9.6	9.2	7.2

Detail regarding reviews which have been postponed, suspended and substituted is set out in Appendix 1. The finalisation elements (from fieldwork completion, to issue of draft reports) has been delayed for a number of our quarter three and quarter four review, as above. This is primarily due to changes in senior staffing at the Council and consequent delays in reports being signed off, prior to issue to sponsors.