

INTERNAL AUDIT PROGRESS REPORT

Portfolio Holder Cllr Neal Davey
Responsible Officer Audit Team Leader

Reason for Report: To update the Committee on the work performed by Internal Audit in the 2012/13 financial year to date.

RECOMMENDATION(S): The Committee notes the contents of this report.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council to deliver its corporate and improvement plan.

Financial Implications: None

Legal Implications: None

Risk Assessment: None

1.0 Introduction

1.1 The four-year strategic audit plan for 2012/13 to 2015/16 and annual work plan for 2012/13 were presented to the Audit Committee at its meeting on 20 March 2012, where they were approved.

1.2 The purpose of this report is to provide the Committee with a progress report of performance against the 2012/13 Internal Audit work plan for the period from 1 April to 31 October 2012.

2.0 Progress to date and scope of audit activities

2.1 The Audit Plan is split into the following sections:

- Core Audits
- Systems Audits
- Other Work (including fraud/ irregularity/ consultancy/contingency)

2.2 Core Audits

2.2.1 The core audits are given priority as they cover the Council's key financial controls and also the areas where the level of income is material in the context of the Council's annual accounts. These audits are required to be carried out on an annual basis as part of the managed audit process with the Council's external auditor. The external auditor places reliance on the work of Internal Audit when expressing an opinion on the Statement of Accounts.

2.2.2 We have kept the timing and scope of these audits as before in the absence of any information to the contrary from Grant Thornton who are our external auditors with effect from 1 November 2012.

2.2.3 So far we have completed Income and Cash Collection, Housing Rents and Creditors. We have commenced Council tax and NNDR, Payroll and Main Accounting.

2.3 Systems Audits

2.3.1 Systems Audits have been completed for the Leisure Centres, Building Control Income, Standby and Gifts & Hospitality and Register of Interests. This position will not change now until the March update report as work from July until January 2013 will be concentrated on the Core Audits.

2.4 Other Work

2.4.1 The Internal Audit team continue to administrate Spar and provide input into the corporate performance reports.

2.4.2 Data quality checks are carried out on committee reports as required.

2.4.3 One Auditor takes part on job evaluation panels and on occasion takes minutes for investigations for HR, the second continues to provide some cover for the Finance Systems Administrator role until a replacement member of staff is recruited.

2.4.4 The Audit Team Leader carried out an investigation for HR and has been involved in setting up the corporate risk register on SPAR as part of the Annual Governance Action Plan.

2.4.5 The Audit Team Leader has also carried out an investigation into a potential tax liability.

3.0 **Audit Opinions**

These opinions have been issued since the last Committee meeting:

3.1 **Income and Cash Collection**

3.1.1 There were a number of areas that came out as well controlled. The area of incoming income through the post was very good with 2 members of staff present at all times, a list of a cheques being completed before they are passed to the cash desk to be entered onto the system. Also, the audit trail of income received through the Aim system to the bank statements and the Accounting system (eFinancials) is very good.

3.1.2 However, there are a number of weak areas in need of some attention. These being:

- Completeness of income - the situation has not changed since the previous year but the Finance Team has discussed some possible options to help address the issue, this has not yet been implemented.
- Suspense account (CR499 8450) – this account was found to have had a brought forward balance, the reconciliations are not being signed off by the Line Manager and it has not been reconciled since June 2012.

3.1.3 It is the overall opinion of the auditor that the Income and Cash Collection system is adequately controlled.

3.2 Housing Rents

3.2.1 There are areas within Housing Rents that are well run and follow good practice. To name a few, there is clear separation between debit and collection which ensures a good standard of separation of duties. The list of Council stock and the amount of rent applied to each account within the Orchard system was all accurate. It was also found that there is a good level of monitoring and chasing of tenant accounts.

3.2.2 One of the areas that has attracted much comment in the past was the overly complicated arrears procedures. These are in the process of being re-written and approved. It is hoped that having these new procedures in place this could be instrumental in being able to move forward, improve account monitoring and create better consistency in the treatment of tenant's accounts. One area especially in need of guidance/procedures is the stage at which an account is processed for court action. The 2013/14 audit will look at the new procedures once they are established.

3.2.3 Other areas of weakness found were:

- Some users still have access to the Orchard system who should have been deactivated. One of the users was mentioned on the previous year's audit.
- Performance has so far this year (2012/13) declined from that of the same period in 2011/12. This has been based on the Spar PI's. Housing provide lots of performance reports for the team, Committee etc.,
- Accounts for tenants who have been pursued for large amounts of debt and taken to court were found to have various complexities. Some of the issues found during testing include: taking a long time to be taken to court, accounts being suppressed without end dates, tenants that pay up just before going to court and tenants that do not comply with the court order.

3.2.4 It is the overall opinion of the auditor that Housing Rents is adequately controlled.

3.3 Creditors

3.3.1 Finance is successfully paying most of MDDC's bills on time (see 5.2 below) however there are still problems with some of the finer details of the e-procurement process which is rather depressing now that e-financials has been in place for over 3 years.

3.3.2 Some areas are still weak causing unnecessary work for the Accountants in correcting postings and accruals. A Business Objects report run today as at 31 March 2012 lists 353 outstanding orders totalling £139k in potential commitments and £50k in potential accruals were the automated postings to be used which obviously cannot be correct six months after the year end.

3.3.3 Further training on e-procurement has been scheduled over the next 3 months and these issues will be raised as part of the training which will hopefully eliminate these problems.

3.3.4 It is the overall opinion of the auditor that the Creditors system is adequately controlled.

4.0 Conclusion

4.1 The focus of the Audit Team will continue to be the Core audits to ensure our performance target of carrying out 100% of these audits is achieved.

Contact for more Information: Catherine Yandle, Audit Team Leader, x4975

Circulation of the Report: Management Team and Cllr Neal Davey

List of Background Papers: None

Overdue High Priority Recommendations
ACTION PLAN

Findings	Recommendation	Lead Officer	Timescale	Comments
Leisure				
The underlying transactions on the IT system are not calculating VAT consistently in accordance with the codes that are set up in the "estates" part of the system.	Arrange a meeting with the supplier to resolve the shortcomings.	Head of ICT HD 99610	30 Nov 2012	A patch to resolve an issue with incorrectly calculated VAT when moving a booking was supplied by IT supplier. Patch installed on test system and undergoing User Acceptance Testing (UAT) by Leisure.
Some of the key performance information involves headcounts. At the moment the IT system does not record numbers accurately to produce reliable information.	Ensure IT supplier resolves the outstanding issues regarding headcount reports from the system.	Head of ICT HD 92706 HD 97659	Completed	A Cascade upgrade which took place on 11/10/12 seems to have sorted this out. IT supplier met the supplier of the reporting tool and agreed to provide common data sources which should ensure consistent reporting for the future.
When looking at the reconciliation process it was found that under part of the reconciliation there was a figure labelled 'difference between reports'.	Ensure that the discrepancy causing the figure labelled 'Difference between reports' is rectified.	Head of ICT HD 99610	30 Nov 2012	New version of bookings.dll installed on live system. IT supplier met the supplier of the reporting tool and agreed to provide common data sources which should resolve this.

Overdue High Priority Recommendations
ACTION PLAN

Findings	Recommendation	Lead Officer	Timescale	Comments
Building Control Income				
Local authorities must produce an annual financial statement within 6 months of the end of the financial year to identify any surplus or deficit in relation to the chargeable service.	<p>Ensure that these calculations are done before the accounts are finalised because there is a potential requirement for an ear marked reserve.</p> <p>As per the regulations ensure that the required financial statement is published</p>	Head of Finance/Building Control Manager	September 2012	The Accountant for the Building control Service will prepare the statement and present it to the Planning Committee for their approval at the meeting on 19 December 2012.