
Report to Resources and Audit Committee

Date of Meeting: 20 June 2013

Subject: Internal Audit and Fraud Progress Report

Report by: Internal Audit and Fraud Team Leader

1.0 Purpose

- 1.1. This report provides an update on work completed from the Internal Audit and Fraud Annual Plan 2012/13, as approved by Resources and Audit Committee on 4 October 2012, in accordance with the Financial Regulations. The report also provides an update of progress made on the 2013/14 Annual Plan as approved by the Resources and Audit Committee on 2 May 2013.
- 1.2. The report is outwith the normal quarterly reporting cycle to allow detail of recently completed reports to be presented to members. A quarterly progress report to end June will be provided the next R&A Committee.
- 1.3. The report also provides an update on the progress of implementation of recommendations to 31 March 2013 by Officers from previous Internal Audit Reports.

2.0 Recommendations

- 2.1. The Committee is asked to note, comment on and challenge the report and progress made on the Internal Audit and Fraud Annual Plan 2012/13 and the 2013/14 Plan.

3.0 Considerations

Progress Against 2012/13 Plan

- 3.1. Progress on completion of the Assurance element of the Annual Plan 2012/13, is summarised in the table below, with more detail being provided in Appendix A.

Status of Audits		%
To be Commenced	0	0%
Onsite/On going	0	0%
Draft Report Issued	0	0%
Final Report Issued	6	100%
Total	6	100%

- 3.2. Progress on the Assurance element of the 2013/14 plan is summarised in the table below, with more detail being provided in Appendix B.

Status of Audits		%
To be Commenced	14	82%
Onsite/On going	3	18%
Draft Report Issued	0	0%
Final Report Issued	0	0%
Total	17	100%

- 3.3. The Internal Audit and Fraud Team have also contributed to delivery of risk management training and have been represented on the various Governance Panels.

Final Reports

Assurance

- 3.4. The following reports are provided for members in appendices C-F:-
- Risk Management Arrangements (Appendix C)
 - Non- Domestic Rates Income (NDRI) (Appendix D)
 - Income Collection and Cash Receipting (Appendix E)
 - Purchase Orders to Payment of Suppliers (Appendix F)
- 3.5. These final reports represent the conclusion of the 2012/13 Annual Plan. The completion of this work has been an early priority for the now fully resourced Internal Audit and Fraud Team. Following receipt of these reports, the Council's Corporate and Service management teams have reinstated the

practice of monthly review of recommendations to ensure that effective implementation of recommendations is prioritised.

- 3.6. Appendix F sets out the Internal Audit findings and recommendations in respect of purchase orders to payment of suppliers. The Chief Executive and Director of Finance & Corporate Services have requested further details in respect of the testing results to establish where greatest support and/or intervention is required to improve consistency and performance across the range of Council services.

Fraud

- 3.7. Internal Audit and Fraud Team are responsible for co-ordinating the NFI exercise and reporting the progress of investigations to Audit Scotland. Internal Audit and Fraud will also liaise with services and provide guidance, where necessary.
- 3.8. Responsible Officers are responsible for the data export and upload and for investigating data matches and forwarding comments and outcomes of investigations to Internal Audit on a timely basis. Phase 2, investigation of data matches has now commenced.

Progress of Follow Up

- 3.9. Within Action Plans from previous Internal Audit Reports, there were 41 recommendations which were due to be implemented by 31 March 2013, arising from 11 reports. 10 recommendations have been implemented, 27 are in progress and 4 are no longer applicable. Recommendations are considered no longer applicable if they cover issues that have either been superseded by other events and are therefore dropped (1 in total) or have been carried forward in reviews as part of the 2012/13 plan (3 in total). Further detail on this is provided in Appendix G.
- 3.10. The progress made by Officers on these recommendations is summarised in Appendix G and where not sufficiently implemented, progress to date and revised completion dates have been agreed.

Conclusion

- 3.11. All Assurance reports from the 2012-13 Annual Plan have now been completed with work now commenced on the 2013/14 Plan. Further progress has been made on implementing and addressing recommendations from previous reports.
- 3.12. Members are asked to note the report and progress made.

4.0 Sustainability Implications

- 4.1. There are no sustainability implications.

5.0 Resource Implications

- 5.1. *Financial Details*

5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. No

5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes

5.4. *Staffing*

6.0 Exempt Reports

6.1. Is this report exempt? Yes (please detail the reasons for exemption below) No

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) **Council Policies** (Please detail)

Financial Regulations.

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
Yes No

9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A - Progress on 2012/13 Internal Audit and Fraud Annual Plan

Appendix B - Progress on 2013/14 Internal Audit and Fraud Annual Plan

Appendix C - Risk Management Arrangements

Appendix D - Non- Domestic Rates Income (NDRI)

Appendix E - Income Collection and Cash Receipting

Appendix F - Purchase Orders to Payment of Suppliers

Appendix G - Progress Of Follow Up Of Internal Audit Reports

11.0 Background Papers



11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes (please list the documents below) No

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
Julie Burnett	Senior Support Services Manager	
Nikki Bridle	Director Finance & Corporate Services	

Audit	Audit Weeks	Annual Plan	Service	Progress
Governance				
Annual Assurance Report	10	2012-13	Corporate	Completed
Assurance				
Risk Management Arrangements	5	2012-13	Corporate	Final Report Issued
Data Protection - Corporate	4	2012-13	Corporate	Final Report Issued
Following the Public Pound- Review of ALEO	4	2012-13	Corporate	Final Report Issued
Income Collection and Cash Receipting	5	2012-13	Support Services- Finance/Accountancy	Final Report Issued
Non- Domestic Rates Income (NDRI)	6	2012-13	Corporate Support Services- Revenues	Final Report Issued
Purchase Orders to Payment of Suppliers	6	2012-13	Corporate & Revenues & Payments	Final Report Issued
Fraud				
Fraud Detection and Recovery	50	2012-13	Audit and Fraud	Completed
National Fraud initiative- Phase One	8	2012-13	All Services submitting data	Completed
Data matching	4	2012-13	All Services	Policy Issued
Fraud Strategy and Associated Policies	4	2012-13	Corporate and Finance & Corporate Services	Strategy Issued
Fraud Training	5	2012-13	Corporate and all services	Completed
Follow Up	4	2012-13	All Services	Ongoing

Audit	Audit Weeks	Annual Plan	Service	Progress
Governance				
Annual Assurance Report	8	2013-14	Corporate	To Be Commenced
Assurance				
Information Governance- Document Management.	5	2013-14	Corporate and Governance	Ongoing
Business Continuity Planning (BCP) & Disaster Recovery (DR)	5	2013-14	Corporate and Emergency Planning Unit	To Be Commenced
Welfare Reform	6	2013-14	Corporate	To Be Commenced
Procurement	6	2013-14	Corporate & Services to Communities- Facilities Management	To Be Commenced
Corporate and Public Performance Reporting	6	2013-14	Corporate & Customer Services	To Be Commenced
Shared Services- jointly managed Services with Stirling Council	6	2013-14	Corporate	To Be Commenced
Adult Care- Commissioning of Care and Corporate Appointees	4	2013-14	Social Services	Ongoing
Funding applications including European Funds	6	2013-14	Services To community- Economic Development	To Be Commenced
Schools PPP/PFI Contract Monitoring	6	2013-14	Services to Communities- FM	To Be Commenced
Roads Management- Road Costing System.	6	2013-14	Services to Communities - Roads & Transportation	To Be Commenced
ICT Asset Management Plan	5	2013-14	ICT Service	To Be Commenced
Devolved School Management	6	2013-14	Education	To Be Commenced
Payroll and HR	6	2013-14	Corporate & Revenues & Payments	Ongoing

PROGRESS ON APPROVED INTERNAL AUDIT ANNUAL PLAN 2013/14

APPENDIX B

Audit	Audit Weeks	Annual Plan	Service	Progress
Fixed Asset Register	5	2013-14	Corporate Finance & Services to Communities- FM	To Be Commenced
Council Tax	4	2013-14	Corporate Services- Revenues	To Be Commenced
ALEOs	1	2013-14	Corporate and across selected services	To Be Commenced
Review of Savings and Efficiencies	4	2013-14	Corporate and across a selection of services	To Be Commenced
Fraud				
Fraud Detection and Recovery	54	2013-14	Audit and Fraud	Ongoing
National Fraud initiative- Phase One	6	2013-14	All Services submitting data	Ongoing
Data matching	4	2013-14	All Services	To Be Commenced
Fraud Awareness and Training	5	2013-14	Corporate and all services	To Be Commenced
Other				
Follow Up	4	2013-14	All Services	Ongoing

1. INTRODUCTION

- 1.1 This report details the recommendations and findings arising from the Internal Audit review of the Council's Risk Management Arrangements. The review forms part of the Audit Plan for 2012-13, which was approved by the Resources and Audit Committee on 4 October 2012.
- 1.2 Responsibility for a sound internal control environment rests with management. The role of Internal Audit is to assess the adequacy of controls and provide an assurance on how effectively these are operating. The audit work undertaken is designed so that material irregularity has a reasonable probability of being uncovered; however, collusive fraud can override even sound control systems.
- 1.3 The matters raised in this report are only those which came to the attention of Internal Audit during the course of the review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

2. SCOPE AND AUDIT OPINION

- 2.1 The objective of the audit was to provide assurance on the controls relating to the Council's Risk Management Arrangements. The Council is currently on a development journey in relation to risk management arrangements. Over the last 6 months, the Council have continued this strengthening of processes and procedures through:

- The approval at Resources and Audit Committee of the Council's revised approach to Risk Management.
- A revised process for the reporting and scrutinising of risk by the Council's Service Committees.
- Risk management training for managers across all the Council's Services providing guidance on identification and assessment of risks to improve consistency.
- The on-going development of Covalent as a tool for reporting and recording risk.
- Revised Business Planning guidance for 2013-14, incorporating greater requirement for services to consider risks and their potential impact.

- 2.2 Our review and opinion aims to provide a position statement as to where the Council is on this development journey. We have done this by acknowledging the progress made to-date, while also outlining a number of recommendations designed to assist in the improving of arrangements up to the point they have been developed to date. We are aware that the Council are planning further actions to strengthen existing practices. Our report also includes areas for development which should be considered in respect of these further actions. It is our intention to follow up and review the further development of the risk management arrangements in 2014-15.

- 2.3 Six key controls were identified and tested and the adequacy of the internal controls was established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix A. The key controls and assessments are as follows:

Key Control	Assurance Assessment	Number of Recommendations
There is a formal Risk Management Strategy in place which has been approved by those responsible for governance.	Reasonable	4
Risk Management is linked to the strategic and corporate objectives of the Council.	Reasonable	1
Risk Management is linked to the operational objectives of the Services.	Reasonable	1
A risk management culture covering all risks is embedded throughout the Council at all levels, including Members.	Reasonable	1
The risks facing the Council are identified, evaluated, managed and monitored timeously and effectively both at services and corporate level.	Reasonable	2
Risks facing the Council are routinely reported internally and to members, and challenged.	Reasonable	1

3. SYSTEM OVERVIEW AND FINDINGS

- 3.1 Clackmannanshire Council is required to manage a variety of risks on a daily basis. The current approach to risk management is directed by the December 2009 Risk Management Strategy and Policy which has three guiding aims, to:
- Engender a positive risk management culture that supports efficient and effective delivery of the Council's Objectives.
 - Ensure consistent deployment the Council's Risk Management approaches.
 - Ensure continuous improvements of risk management approaches.
- 3.2 This approach is consistently evolving and developing. An update to the Council's Approach to Risk Management was approved by the Resources and Audit Committee in December 2012 setting out the framework for the Council's corporate and service risk management approaches. Risk Management also forms an important strand of the Council's Governance Strategy.
- 3.3 While the Council has a formal risk management framework in place, elements of it are out-of date and have been superseded by changes to the Council's organisational and reporting structure. A Corporate Risk Management Policy

will be developed during 2013, taking account of the Council's new organisational and reporting structures, and improvements to Corporate and Service risk management approaches. .

- 3.4 We are able to provide overall reasonable assurance that Risk Management within the Council is linked to its strategic and corporate objectives. However, these links are not always explicit or documented clearly, for example the corporate risk strategy does not make an explicit reference to the Governance Strategy. Initiatives such as the on-going development and implementation of Covalent; training for staff across all services, together with the reporting of service risks quarterly to service committees as part of performance reporting, should continue to strengthen the links between risk and the Council's strategic and operational objectives.
- 3.5 We are satisfied that at Service levels, risk management is linked to the operational objectives of the Council. Each of the Council's Services has their own risk register. Annually, each service prepares their own Business Plan, linking service objectives to wider Council corporate objectives. The identification, assessment and management of risk is an integral part of this process. Some inconsistencies and variations were identified between Service Risk Registers. Our review noted the on-going guidance and training being provided to Service Managers supporting the continued improvement of the processes and procedures.
- 3.6 We can provide reasonable assurance on the embedding of a risk management culture across all levels of the Council. At Senior Officer levels, there is clear evidence that risk is considered as part of the normal decision making process. However, at more operational levels of the Council, it becomes increasingly difficult to identify documented risk management activity. Our review of Service team's management meeting minutes identified limited explicit evidence of risk being routinely discussed. From our meetings with a number of Council Officers, we identified a perceived lack of involvement and understanding in the identification and assessment of pertinent service level risks. We are confident however that while risk is not always defined or couched in explicit terms, it is routinely considered in the day-to-day role of officers. The on-going development of Covalent will play a key role in the process of further developing the embedding of a risk management culture with the development of the Risk Management Policy setting out the corporate and operational risk framework.
- 3.7 A reasonable level of assurance can be provided regarding the timely identification, evaluation and management of risks. Our review noted the recent Senior Management revision of the Corporate Risk Register, focusing on significant cross cutting risks. Correspondingly, a greater responsibility has been devolved to service managers to identify, manage and report significant service specific risks. These changes require an underpinning framework to be produced providing clarity on how risks will be scanned and assessed across the organisation, clearly setting out the assessment criteria for the escalation and demotion of risks between the different levels of risk register.
- 3.8 We are satisfied that there are adequate processes in place for ensuring risks are routinely reported to Senior Officers and members. A revised reporting framework is set out in the December 2012 "Revised Approach to Risk

Management”. This revised approach requires that Corporate Risks are to continue to be reported every six months to the Resources and Audit Committee, with service risks now requiring to be reported quarterly to the relevant service committee. To provide consistency in the reporting of risks to Service Committees, guidance should be provided to detailing a suggested corporate reporting template.

3.9 As noted previously, the Council is currently on a development journey in relation to risk management arrangements. As part of this process the following longer term development opportunities should also be considered:

- Consideration should be given to the need for an individual or group dedicated to the cross-scanning of all the different levels of risk register across the Council. This would help highlight common risks, which are being identified by more than one service which potentially could collectively have a more significant impact on the organisation as a whole. This would also foster greater consistency and standardisation of different aspects of risk management practice across the organisation.
- The Council’s Facilities Management Service maintains risk registers for each major project they are involved in. Concurrently, the Council’s IT Department are developing a project management toolkit “Clacks Project” (which includes a risk management module) for roll-out across the organisation. Development of corporate arrangements should include ensuring that discrete risk management arrangements are aligned to the corporate approach.
- Our review of the Council’s six Service Risk Registers identified only two where the potential positive benefits of risk had been considered. Future developments should include investigating how the Council could encourage more consideration of 'upside' risks to identify and improve the management of service delivery.
- Consideration should be given to including within Council papers a section outlining any risk implications related to the paper.
- Our review identified that no service fully considers the likely cost of the control measure against the potential loss that could be incurred should no action be taken to mitigate the risk. The Service Accounting teams could assist services in assessing the financial costs of mitigating control measures.
- Clarification is required of the role of designated Covalent Super-users and specialists and ways in which they can potentially support risk owners in the monitoring and management of risks on Covalent.
- The Council should give consideration to undertaking a self assessment of their risk management arrangements using a nationally recognised standard such as ALARM’s “National Performance Model for Risk Management in the Public Services”. This would provide the Council with a defined benchmarking point from which they could continue to assess and measure their on-going development on the risk management journey.

- To support their risk management self-assessment and to assist with on-going embedding of a risk culture, the Council should seek to define its risk appetite. This would provide officers with clearer guidance on levels of risk that can be tolerated.
- A suite of measurable performance and key risk indicators should be developed. This would assist in the monitoring of risk management performance. Examples of possible indicators include:
 - tracking incidence and value of accidents / incidents to monitor risk management effectiveness.
 - % of key risks mitigated to accepted tolerance levels

3.4 The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

4. RECOMMENDATIONS

4.1 A summary of the recommendations raised from this audit is included in a Management Action Plan in Appendix B. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.

4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix B.

Priority Assessments	Number
Priority 1	0
Priority 2	1
Priority 3	8
Priority 4	1

5. HISTORY OF THE AUDIT REPORT

5.1 The table below sets out the history of this report.

Issue of Draft Report	March 2013
Receipt of Management Comments	April 2013
Issue of Final Report	April 2013

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Assurance Assessments

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with consistently. Risks are being controlled or mitigated. Good practice is in operation.
Reasonable Assurance	There are controls operating within the system. Some improvements could be made to further enhance the control environment. Significant risks are being adequately controlled/mitigated.
Limited Assurance	There are only minimal controls operating and the control environment requires to be improved. Risks are not being controlled/mitigated adequately.
No Assurance	There are no controls operating within the system or no reliance can be placed on the controls and a control environment must be established.

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MANAGEMENT ACTION PLAN

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
Control Objective 1 - There is a formal Risk Management Strategy in place which has been approved by those responsible for governance.						
6.1	The existing Risk Management Policy is due to be reviewed and updated.	<p>A defined timescale for the review of the Risk Management Policy should be clearly documented and monitored.</p> <p>Internal Audit would be happy to provide comment on draft strategy and policy prior to final release if this would be helpful.</p>	The Policy will set out the Corporate and Operational framework for Risk Management, clearly setting out the revised processes, roles and responsibilities.	2	Strategy and performance manager	30/09/13
6.2	The Council does not have a Senior Officer with documented accountability for risk management.	Consideration should be given to formalising which senior officer has delegated responsibility as the Corporate lead for Risk Management. This would facilitate consistency in the development of Risk Strategy and policy.	Update to the revised policy will take account of changing approaches and Council reorganisation etc including identifying senior officer accountability.	3	Strategy and performance manager	30/09/13
6.3	None of the Council's existing Risk Management Procedural Guidance outlines the process or assessment criteria used for determining how risks are escalated or demoted between the different levels of risk register (e.g., Corporate and Service).	Guidance should be updated to provide officers with a clear framework, including the assessment criteria to allow risks to be escalated or demoted in an evidenced based way.	The guidelines on risk analysis and reporting will be updated to include a statement on escalating or demoting risks from service to corporate logs. This will be based on 'significant risks that impact on more than service.	3	Strategy and performance manager	31/05/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.4	The Performance and Partnership Support Team requested a Stewardship Report from the Council's Insurance Brokers, which provides advice on potential ways to reduce incidence and value of claims against the Council using improved risk management techniques. At the time of our review, potential actions from the report had not been taken forward.	Consideration to be given to using the Stewardship Report to assist in an analysis of areas of the Council where remedial / preventative action (e.g.. Training) could be taken forward with aim of reducing the risk, and the frequency of the occurrence of accidents / incidents for which the Council could be liable either financially, reputationally or both.	Copies of the Stewardship Report will be distributed to relevant service managers for appropriate action.	4	Strategy and performance manager	31/07/13
Control Objective 2 - Risk Management is linked to the strategic and corporate objectives of the Council.						

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Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.5	<p>Risk Management within the Council is linked to its strategic and corporate objectives. However, links between corporate objectives and risks are not always explicit or documented clearly</p> <p>This could either lead to significant risks being missed, not considered or incorrectly assessed and scored.</p>	Corporate Risk Register should link risks explicitly to corporate objectives.	Future reports of the Corporate Risk Register will link risks to corporate objectives.	3	Strategy and performance manager	31/05/13
Control Objective 3 - Risk Management is linked to the operational objectives of the Services.						

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.6	<p>Our testing identified only six of the Council's eighteen functions (level below Service) have their own risk registers.</p> <p>Of these 6, our testing highlighted the following:</p> <ul style="list-style-type: none"> - Only 2 were fully completed and regularly reviewed - 2 contained no risk owners - 1 contained no impacts, actions, review dates or a delegated manager. - 1 contained no actions to eliminate risk or review frequency. <p>This suggests possible inconsistencies in the understanding of risk management strategy and policy and its implementation at middle levels of the Council.</p>	<p>Actions should be identified to improve the consistency and standardisation of risk registers at function and team levels. This would assist in furthering risk management knowledge enabling the development of good practices to be shared across the Council.</p>	<p>Covalent training for managers was completed in early 2013. This coincided with the issuing of fresh guidance on the assessment and management of risk.</p> <p>This forms part of an on-going programme of measures, together which are aimed at improving consistency, knowledge and skills in managing risks across the Council.</p> <p>We will continue to evaluate and refine our methodology as it develops enabling the identification and sharing of good practices across the Council.</p>	3	Strategy and performance manager	31/03/14
<p>Control Objective 4 - A risk management culture covering all risks is embedded throughout the Council at all levels, including Members.</p>						

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.7	Training on risk management is currently being provided to officers at Team Leader level and above. However, our audit identified that more general training in risk for all staff has not been provided since 2008.	An extension of the on-going risk management training programme (i.e. risk awareness training) should be considered enabling staff across the organisation to benefit. . This would support the increasing of the awareness and knowledge of risk through all levels of the Council continuing the embedding of a risk management culture across the Council.	Further training for officers at Team Leader level will be provided. A review and assessment will be undertaken to establish how risk awareness training could be more generally rolled out across the Council (i.e. E-learning module).	3	Strategy and performance manager	31/03/14
Control Objective 5 - The risks facing the Council are identified, evaluated, managed and monitored timeously and effectively both at services and corporate level.						
6.8	Risk Management is not a regular standing agenda item at either most Service Management Team (SMT) meetings or at service team meetings.	Instructions should be issued to all services and teams that Risk Management should be a regular agenda standing item.	The revised Policy will set out the operational roles and responsibilities for managing risks. The guidance will be made available on CONNECT and further training sessions held with managers/team leaders. Compliance will be assessed through the governance panel process.	3	Strategy and performance manager	30/09/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.9	<p>Our review of the Council's Service Risk Register's identified the possibility of inconsistent application of risk management guidance, for example:</p> <ul style="list-style-type: none"> - There was a wide range in the number of identified risks - in range of 3 to 18. - There were apparent inconsistencies in the scoring of risks - Only 2 contained evidence as having been reviewed 2012-13. - 1 contained identified risks - that either did not have an assigned risk owner or where all staff was assigned as risk owners. 	<p>A review should be carried out of all Business Plans to identify inconsistencies and potential areas for additional training.</p> <p>This would assist in helping develop consistency and the sharing of good practices across the services.</p>	<p>Consideration will be given to including review of risk registers in future Governance Panel exercises.</p>	3	Governance Manager	14/01/14

Control Objective 6 – The risks facing the Council are routinely reported internally and to members and challenged appropriately

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.10	December 2012's "Revised Approach to Risk Management", outlines that services will provide quarterly updates on risk management to their service committee as part of the 2013/14 Business Planning year. This will be incorporated as part of their Service Performance Report.	<p>Consideration should be given to the issuing of guidance on the presentation and formatting of the risk management updates.</p> <p>This would enable a standardised and consistent approach to the reporting of risks to all Council Service Committees.</p>	Covalent templates will be prepared for service managers to include risk reporting as part of wider performance report templates.	3	Strategy and performance manager	31/05/13

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1. INTRODUCTION

- 1.1 This report details the recommendations and findings arising from the Internal Audit review of the Council's Non-Domestic Rates (NDRI) billing and income collection system. The review forms part of the Audit Plan for 2012-13, which was approved by the Resources and Audit Committee on 4 October 2012.
- 1.2 Responsibility for a sound internal control environment rests with management. The role of Internal Audit is to assess the adequacy of controls and provide an assurance on how effectively these are operating. The audit work undertaken is designed so that material irregularity has a reasonable probability of being uncovered; however, collusive fraud can override even sound control systems.
- 1.3 The matters raised in this report are only those which came to the attention of Internal Audit during the course of the review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

2. SCOPE AND AUDIT OPINION

- 2.1 The scope of the audit was to assess the adequacy and effectiveness of the controls, processes and procedures within the NDRI system to manage the risks affecting this area, with the objective of being able to provide assurance around these.
- 2.3 Four key controls were identified and tested and the adequacy of the internal controls was established. In our opinion there is strong control environment operating in relation to Non Domestic Rates Income and Collection. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix A. The key controls and assessments are as follows:

Key Control	Assurance Assessment	Number of Recommendations
Rates Assessment Roll is accurate and up to date.	Significant	0
Scottish Government Local Government Finance Circulars are being appropriately applied in a timely manner.	Significant	0
Accurate Bills are raised in a timely manner.	Significant	2
Suitable NDRI monitoring and management systems are in place including budgeted receipts and reconciliation of income received.	Reasonable	3

3. SYSTEM OVERVIEW AND FINDINGS

- 3.1 In Scotland, The Scottish Assessors give all non-domestic properties a rateable value. This is a legally-defined valuation of a property, broadly based on an analysis of annual rental values. The amount of rates paid is assessed on a percentage of a property's rateable value. This is set annually by Scottish Ministers and is called the 'poundage.' This is a uniform rate which is applied across Scotland. The rate for 2012-13 was 45p, increasing to 46.2p for 2013-14.
- 3.2 Income from Non Domestic Rates is collected by Scottish Local Authorities on an agency basis on behalf of the Scottish Government. This income is then notionally placed in a national 'Rates Pool', which is redistributed among local authorities as part of their annual Revenue Support Grant Settlement. Historically, redistribution was based on an authority's resident population. However, from 2011-12, this was amended so that redistributed amounts are now based on an authority's collection level.
- 3.3 For financial year 2011-12, Clackmannanshire Council was responsible for billing 1546 business premises with a combined rateable value of £39.25m. The Council contributed £13.429m to the National Rates Pool while receiving £12.284m. This equates to around 10% of the Council's total income of £120m. In 2011-12, the Council achieved an annual collection rate of 96.9% for NDRI. This was comparable to prior years and in line with the Scottish average.
- 3.4 The Sundry Debtors and Rates team, within the Revenues and Payments Service, are responsible for carrying out the NDRI Billing, collection and recovery function on the Council's behalf.
- 3.5 Significant assurance can be derived from the arrangements in place to ensure that the Council's NDR Assessment Roll is accurate and up-to date. Regular updates are received from the Central Scotland Assessor of additions and amendments. These are processed timeously by the Sundry Debtors and Rates Team to update the Assessment Roll. Reconciliation between the Assessment Roll and the Valuation Roll is undertaken as part of the annual billing process to ensure the accuracy and completeness of the information held within it, prior to the issuing of bills.
- 3.6 The Council are informed of changes in NDRI Legislation through the issuing of Local Government Finance Circulars from the Scottish Government. We are able to provide significant assurance that the arrangements the Council has in place for implementing updates are satisfactory:
- Legislative changes requiring changes to system parameters are timeously communicated to the Council's Software providers enabling updates to make through the release of software updates.
 - Changes are communicated to relevant Council officers and training given where required.
 - Business Owners are informed of changes that impact on them through the issuing of periodic letters and announcements on Clacks Web.

- 3.7 We are satisfied that the processes and procedures for the issuing of bills to liable parties are in general adequate. In some instances NDRI procedural guidance is out-of date. This could give rise to inconsistencies in either the awarding of reliefs and/or discounts or the levels of information being recorded on which an award decision is made.
- 3.8 The Council are vulnerable to certain types of NDR avoidance. The Council are restricted in the action they are able to undertake due to the constraints of existing legislation. The Revenues Team actively consult with the Scottish Government and other relevant organisations, including the Institute of Revenue, Rates and Valuation (IIRRV), to explore ways of reducing this vulnerability.
- 3.9 There are limited electronic links between the NDRI System and the Council's other main financial systems. We undertook comprehensive audit testing which provides assurance around the accuracy and completeness of information being recorded on the systems. However, the current manual nature of a number of daily and monthly processes increases the administrative time and resource required to complete them.
- 3.10 A reasonable level of assurance can be provided on the NDRI billing, income collection and recovery monitoring and management systems. There has been an on-going issue with the preparation of reconciliations, which is currently being addressed through the imminent restructuring of the Revenues Team. Once complete, this will provide an increased level of assurance around the accuracy and completeness of NDRI income within both systems.
- 3.11 Regular reports are prepared and reported to management highlighting NDRI performance. These include monthly performance reports to the Revenues and Payments Manger and an annual report presented to the Resources and Audit Committee outlining the NDRI aged debt position, actions taken to improve the position and proposed amount of debt to be written off.
- 3.12 From the testing completed, the following areas were identified for consideration as development opportunities:
- Development of an electronic interface between the Council and the Assessor to enable automatic updates to be made to the Council's Assessment Roll. This was agreed with the Assessor as part of the March 2013, Internal Audit review of their Valuation Roll – Valuation of Non-Domestic Properties. The establishment of an electronic interface would reduce the current administrative time taken to update the Assessment Roll.
 - The Council are currently working with several other Local Authorities to develop a best practice methodology for the review and awarding of empty property relief. The development and implementation of a revised good practice methodology, outlining the evidence required to be submitted by a liable party, could help reduce the risk of a relief being incorrectly awarded.

- Due to the small size of the Sundry Debtors and Rate Team, there is the risk that on occasions, appropriate segregation of duties / responsibilities may not always be practical when officers are carrying out their roles. Following the imminent Revenues restructure consideration should be given to how the segregation of duties could be improved.
- The Council assesses its NDRI collection and recovery performance using 4 KPIs, recorded as part of the Revenue and Payment Service's Balanced Scorecard. We noted that that these KPIs are not reported within the quarterly Support Service Performance Report to the Resources and Audit Committee. Consideration should be given for their inclusion as it would improve effective scrutiny by members while enabling examples of good performance to be suitably acknowledged and recognised.

The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from this audit is included in a Management Action Plan in Appendix B. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix B.

Priority Assessments	Number
Priority 1	0
Priority 2	2
Priority 3	1
Priority 4	2

5. HISTORY OF THE AUDIT REPORT

- 5.1 The table below sets out the history of this report.

Issue of Draft Report	April 2013
Receipt of Management Comments	April 2013
Issue of Final Report	May 2013

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with consistently. Risks are being controlled or mitigated. Good practice is in operation.
Reasonable Assurance	There are controls operating within the system. Some improvements could be made to further enhance the control environment. Significant risks are being adequately controlled/mitigated.
Limited Assurance	There are only minimal controls operating and the control environment requires to be improved. Risks are not being controlled/mitigated adequately.
No Assurance	There are no controls operating within the system or no reliance can be placed on the controls and a control environment must be established.

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MANAGEMENT ACTION PLAN

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
Control Objective 3 – Accurate Bills are Raised in a timely manner						
6.1	<p>Existing procedural guidance for the NDRI Billing, Collection and Income System is not complete and reflective of current processes and procedures; specifically:</p> <ul style="list-style-type: none"> - No written guidance exists for the application of the Council's policy for the awarding of discretionary relief to charities. - No written procedure exists to confirm arrangement with a local property services company whereby applications for property reliefs are accepted by e-mail rather than using the appropriate Council form. - No guidance exists for the range of checks carried out on an application for NDRI relief / discount. <p>There is a risk that reliefs / applications may be awarded incorrectly or in contravention of the Council's policy.</p>	<p>Procedural Guidance to be reviewed and updated to ensure that it adequately covers the gaps highlighted opposite.</p>	<p>Guidance note written.</p> <p>Application forms will be issued to this company in future. This is a non profit making philanthropic company and only receive discretionary relief which has now been reduced to 80% per the Council's budget meeting in February 13</p> <p>All information required for evidence is detailed on the form. Local knowledge would be used to determine if relief was applicable. A visit would be carried out if required.</p>	3	Revenues Controller	Implemented

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.2	Currently, while it is possible for NDR payments to be made via Clacks Web, it is not possible for Business Premises Liable Parties to download NDR application and/or relief forms from Clacks Web.	The opportunity should be taken to make relevant forms available for the public to download from Clacks Web to enable online applications to be made.	New forms being prepared by Corporate Communications and will be added to web pages when complete	4	Revenues Controller	30/09/2013
Control Objective 4 – Suitable NDRI monitoring and management systems are in place including budgeted receipts and reconciliation of income received						
6.3	No electronic links exist between the NDR System and the Financial Ledger. This results in processes being administratively time-consuming and an increase in the risk of transpositional errors resulting in the inaccurate and/or incomplete recording of income.	<p>The Council has medium-term plans for the replacement of its financial ledger system. The project scoping for this system, should include consideration of the links required between the ledger and the NDR System to automate existing manual processes.</p> <p>In the interim, we would recommend consideration be given to reviewing existing processes to enable opportunities for improvements to be identified. A possible example would be the development of an electronic interface allowing the automatic transfer of NDR internet payments into NDR System. IT has recently completed this for council tax internet payments.</p>	<p>NDR System requirements will be communicated to new financial system project team</p> <p>Revenues and Payments and IT are working together to explore ways of integrating systems.</p> <p>They are currently looking at the automation of rates for internet but due to the very low levels of payments made by this method of payment this is not a high priority.</p>	2	Revenues Controller	31/12/2013

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.4	<p>Long term sick leave of system administrators for the online Banking Website has resulted in locked username and password not being reset. This has led to staff sharing log in and password details. While the access only relates to starting an automated process that staff cannot alter this is still against accepted best practice.</p>	<p>Consideration should be given to how this issue can be resolved.</p>	<p>Revenues and Payments and Treasury are working together to implement solution.</p>	2	<p>Revenue and Payments Manager and Accounting Services Manager</p>	30/06/13

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Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.5	<p>Our audit identified monthly control reconciliation, agreeing the NDR System to daily cash receipts, is prepared by a member of the Sundry Debtors / Rates Team. In the absence of a regular reconciliation between the NDR System and the Financial Ledger, this has been valuable tool to identify exceptions; however, its on-going requirement has been superseded by the reinstatement of regular reconciliations between the NDR System and the Financial Ledger.</p> <p>There is the risk of duplication and unnecessary administrative time being spent on it.</p>	<p>To review the continued requirement for this reconciliation in light of revised arrangements for the regular preparation of the NDR System to Financial Ledger Reconciliations.</p>	<p>New structure when in place will resolve this issue</p>	4	Revenues Controller	31/07/13

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1. INTRODUCTION

- 1.1 This report details the recommendations and findings arising from the Internal Audit review of the Council's income collection and cash receipting system. The review forms part of the Audit Plan for 2012-13, which was approved by the Resources and Audit Committee on 4 October 2012.
- 1.2 Responsibility for a sound internal control environment rests with management. The role of Internal Audit is to assess the adequacy of controls and provide an assurance on how effectively these are operating. The audit work undertaken is designed so that material irregularity has a reasonable probability of being uncovered; however, collusive fraud can override even sound control systems.
- 1.3 The matters raised in this report are only those which came to the attention of Internal Audit during the course of the review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

2. SCOPE AND AUDIT OPINION

- 2.1 The scope of the audit was to assess the adequacy and effectiveness of the controls, processes and procedures within the Council for managing its income collection, cash receipting and debt recovery and the risks affecting this area, with the objective of being able to provide assurance around these.
- 2.3 Seven key controls were identified and tested and the adequacy of the internal controls was established. While only limited electronic links exist between the associated income systems and the ledger; increasing the manual nature of income processing and receipting, which makes it administratively time consuming and increases the risk of error and inaccurate recording of information. In our opinion, however, there is a reasonable control environment operating in relation to income collection, cash receipting and debt recovery. Therefore we can provide reasonable assurance in relation to the completeness and accuracy of information and figures recorded in the Council's main income systems and financial ledger. We have identified a number of areas where there is opportunity for improvement and these are detailed in the report.

These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix A. The key controls and assessments are as follows:

Key Control	Assurance Assessment	Number of Recommendations
All Sources of Income are identified	Reasonable	2
Appropriate Charges are set and approved on a regular basis	Reasonable	3
The Debtors file is accurate and up-to date	Reasonable	5
Accurate invoices are raised in a timely	Significant	0

manner		
Appropriate segregation of duties is in place	Reasonable	1
Suitable debt monitoring and management systems are in place including budgeted receipts, write-off procedures and reconciliations of income receipted	Reasonable	0
All uninvoiced income is properly receipted and accounted for	Reasonable	1

3. SYSTEM OVERVIEW AND FINDINGS

3.1 Clackmannanshire Council receive its income from four main sources:

- Revenue Support Grant
- Council Tax
- Non Domestic Rates
- Fees and charges

3.2 Income from Revenue Support Grant, Council Tax and Non-Domestic Rates are subject to separate internal audit review and were not included in this review.

3.3 The Council has a statutory duty to provide certain services to the public which are provided free of charge. There are other services for which the Council has the discretion both around whether or not to provide them, and if so whether or not a charge is levied. For some discretionary services, charges are set at a national level resulting in a uniform Scotland wide fee; while for others, the Council are free to set the fees locally.

3.4 During 2011-12, the Council collected £6.65m from fees and charges for the provision of discretionary services. This represented around 5.5% of the Council's total income. Our review included 2012-13 income, however at the time of the audit, full year figures were not available.

3.5 Dependent on the service being provided, payment will either be collected in advance – uninvoiced income - or by the raising of an invoice once the service has been provided.

3.6 The Council offers customers several routes by which payment can be made, including:

- via Clacks Web
- in person at various Council locations including CAPs
- by Phone
- at a post office or bank
- BSO
- Direct Debit

- 3.7 Payment can be made using a variety of methods including: credit and/or debit card; BACs / CHAPs; cheques; postal order and cash.
- 3.8 Each Council service is responsible for the administration and collection of income for the discretionary services they provide. The Revenues and Payments Service are responsible for the recovery of outstanding debt owed to the Council.
- 3.9 We can provide a reasonable level of assurance that the Council have identified the significant sources of income available to it. Prior to autumn 2012, the Council did not have a comprehensive charging register in place, setting out its fees and charges. Improvements were made during the second half of 2012-13, including:
- a review of all Council fees and charges, as part of the 2013-14 Budget Challenge Process, leading to the establishment of a charging register;
 - a bench marking exercise comparing the Council's fees and charges with those set by other Scottish Local Authorities to enable comparisons to be made.
- 3.10 The Council Charging Policy states that fees and charges will be reviewed as part of the annual budget setting process. Responsibility for co-ordinating service reviews of income will be incorporated into the Corporate Accounting Team as part of their role to oversee corporate funding. This will support the continued development of the charging register and will facilitate closer working with the Council's services.
- 3.11 A reasonable level of assurance can also be given to how the Council ensures charges are appropriately set and are subject to regular review. Complementary to the work undertaken on preparing the charging register, for 2013-14, the Council have drafted a new charging policy which sets the context and rationale for Council fees and charges. To underpin the annual fee and charge reviews, a comprehensive analysis of the costs of providing services and the income generated will be undertaken. This will provide the Council with a greater understanding of the cost of providing the services, enabling greater accuracy in setting of fees and charges to ensure all costs are recovered.
- 3.12 We can provide reasonable assurance that the debtors file is accurate and up to date. We have already noted that there are limited links between the Council's electronic income systems and this creates risks. There are however, manual controls in place that partially mitigate these risks and we are aware that there are longer term plans to replace the Council's financial ledger systems. To strengthen the controls currently in place, there is a need to ensure that written instructions are up to date and available to staff and that access rights and permissions are regularly reviewed and kept up to date.
- 3.13 The Council's sundry debtors system is being replaced through a spend to save initiative. It would be prudent to ensure that a co-ordinated corporate approach is in place for the planned replacement of the Council's Sundry Debtor and Financial Ledger systems. The opportunity should also be taken to assess how to automate links between the various income systems enabling the improvement in effectiveness and efficiency.

- 3.14 Individual Council Services are responsible for the raising and inputting of their own income invoices onto the sales ledger system. Our testing provides significant assurance that income invoices are raised timeously and accurately.
- 3.15 Reasonable assurance can be given to the segregation of duties between officers involved in the raising of income invoices and debt recovery. It is noted that a restructuring is due to take place within the Revenues and Payments Service, centralising all debt recovery into one team. There is a need to ensure that specialised knowledge is maintained and shared. It would be prudent to ensure that there is a planned transition, including appropriate staff training, as officers will be using systems with which they are currently not familiar.
- 3.16 Reasonable assurance can be derived from the systems in place to monitor and manage debt. Regular income reconciliations have not been taking place. These are being addressed and are due to be completed to satisfy year-end arrangements for preparation of the Council's 2012-13 Financial Statements. This will provide an increased level of assurance around the accuracy and completeness of income within The Council's income systems and the financial ledger.
- 3.17 The Council monitors and assesses income collection and debt recovery performance using a suite of KPI's for all main income types. Performance is reported to Senior Management monthly with quarterly updates reported to members via the Resources and Audit Committee.
- 3.18 The Sundry Debtors Controller provides regular aged debt reports to senior officers within each of the Council's Services. Representatives from each Council service meet with Revenues and Payments officers together with representation from the Council's legal team to discuss recovery of outstanding debt. However, while improvements have been made in reducing the Council's proportion of debt greater than ninety days old; when compared to other Scottish Local Authorities, it remains greater than average.
- 3.19 We can provide reasonable assurance that there are adequate controls in place around ensuring that all uninvoiced income is properly receipted and accounted for, however there are issues with some subsystems.
- 3.20 Our review identified the following areas where development opportunities may exist:
- A review should be considered to identify Council services:
 - Where payment cannot currently be made via Clacks Web and/or
 - Where payment is currently not taken in advance

to enable the identification of services whose payment options could be extended to offer the above routes. By promoting and increasing their uptake, this would provide the opportunity to possibly reduce the cost of the service.

- Our review of the reconciliations prepared by the Housing Rents Income team found no evidence of a supervisory check being completed. This control should be introduced as it would be in line with good practice and would enable any exceptions and/or errors to be identified.
- A monthly reconciliation is prepared between the Council's Housing Rents system and the financial ledger. While no issues or exceptions were identified from the reconciliations prepared during 2012-13, it was noted that the reconciliation is administratively time-consuming and complex. Consideration should be given to reviewing how the reconciliation is prepared to identify whether its preparation could be made more efficient.
- There are no documented authorisation limits set for approving refunds or credits to customers, this should be addressed.
- Quarterly budget monitoring reports are presented to the Resource and Audit Committee providing an update on the Council's out-turn against budget figures for the current financial year. Included is a top-level summary of income, however, it does not itemise the amount of sundry income collected. With separate disclosure, it would increase the profile and importance of this category of income, enabling improved scrutiny and challenge of performance.

The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from this audit is included in a Management Action Plan in Appendix B. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix B.

Priority Assessments	Number
Priority 1	0
Priority 2	2
Priority 3	9
Priority 4	1

5. HISTORY OF THE AUDIT REPORT

- 5.1 The table below sets out the history of this report.

Issue of Draft Report	April 2013
Receipt of Management Comments	April 2013
Issue of Final Report	May 2013

Assurance Assessments

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with consistently. Risks are being controlled or mitigated. Good practice is in operation.
Reasonable Assurance	There are controls operating within the system. Some improvements could be made to further enhance the control environment. Significant risks are being adequately controlled/mitigated.
Limited Assurance	There are only minimal controls operating and the control environment requires to be improved. Risks are not being controlled/mitigated adequately.
No Assurance	There are no controls operating within the system or no reliance can be placed on the controls and a control environment must be established.

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MANAGEMENT ACTION PLAN

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
Control Objective 1 – All Sources of Income are identified						
6.1	The review undertaken to prepare the 2013-14 Charging Register was time consuming as the required information was difficult to obtain from some services.	A review should be completed of the 2013-14 charging register project to identify issues and learning's from it's preparation to assist with future exercises.	A review will be undertaken and will include seeking to identify responsible officers within services.	3	Senior Support Services Manager	30/09/13
6.2	Responsibility for co-ordinating service reviews of income will be incorporated into the Corporate Accounting Team role of overseeing corporate funding	This responsibility should be formally documented to provide clarity around roles and responsibilities.	Responsibilities will be documented.	3	Accountancy Manager	30/09/13
Control Objective 2 – Appropriate Charges are set and approved on a regular basis						

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.3	<p>The Council's "Charging Policy", introduced in 2013 states:</p> <p><i>"Charges of less than £20 will cost the Council more to process than the income generated."</i></p>	<p>The project to analyse costs of providing services and the income generated should include an assessment to reach a more accurate figure.</p>	<p>The project to analyse costs will include identification of any fees and charges where payment for less than £20 is not being invoiced and will identify a more accurate figure.</p> <p>Consideration will also be given to whether payments for low value services should be taken in advance.</p>	3	Revenues and Payments Manager	30/09/13
6.4	<p>There are 3 sets of charges, detailed within the charging register, which should have been changed from 1st April 2013. For each set of charges, approval is being sought from the relevant Council Service Committee. However, this approval is not required as all charges are approved with annual budget.</p> <p>There is the risk that a service's budgeted 2013-14 income figure may not be achieved due to the delay in implementation of increase in charges.</p>	<p>Fee changes should be implemented as soon as possible.</p>	<p>Changes to be implemented.</p>	3	Service Managersy	30/06/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.5	<p>Legislation came into effect on 1st October 2012 appointing the Council as the Property Factor for all blocks of council houses, where one or more properties is now privately owned.</p> <p>The Council are currently in process of developing a strategy and policy for administering the scheme; however, there is a lack of documented implementation plan.</p>	Clarity should be given on implementation of the policy to ensure the Council are in place to be able to start to recover costs of the service as soon as possible.	A programme of actions are being developed to enable the Council to deliver the service and recovery the costs.	2	Service Manager, Regeneration Services	31/08/13
Control Objective 3 - The Debtors file is accurate and up-to date						
6.6	There are a number of users of the Council's Leisure Booking and Income collection system, who have significant access rights, which may not be in line with their current roles and responsibilities.	The access rights of users of the Leisure Booking System and income collection system should be reviewed to ensure they are set an appropriate level for their function.	<p>The FM Service Co-Ordinator and the Facilities Support Officer for Leisure Services will take the review forward and access rights will be adjusted accordingly.</p> <p>This will involve staff training on site at all venues and Scuba cashup will be introduced on-line which will eliminate staff being able to adjust the banking sheets manually</p>	3	FM Service Manager	30/06/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.7	<p>Some of the existing procedural guidance for income collection and debt recovery is not complete and reflective of current processes and procedures, in particular:</p> <ul style="list-style-type: none"> - Section 11, of the Council's 2008 Financial Regulations - Rent arrears procedures - Former tenant rent arrears procedures - Recovery of Housing Benefit overpayments - Rental Income procedural guidance <p>There is a risk that a new member of staff may read and implement guidance that is not reflective of current practices.</p>	<p>Procedural Guidance to be reviewed and updated to ensure that it adequately reflects current roles and responsibilities and is aligned to relevant Corporate Policies.</p>	<p>Will be reviewed and updated.</p>	3	Revenues and Payments Manager	31/03/14

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.8	<p>Long term sick leave of system administrators for the online banking website has resulted in the rents income team having to wait around ten days to receive a paper copy of a fortnightly bank statement to enable income to be inputted.</p> <p>This delay can result in a tenant being categorised in arrears on the rents system, despite payment having been received. This results in reminder letters being issued unnecessarily to tenants.</p>	<p>Consideration should be given to how this issue can be resolved.</p>	<p>Solution will be found within the Revenues Team.</p>	3	Revenues and Payments Manager	30/06/13
6.9	<p>The sundry debtors' team are responsible for setting up new customers and making amendments to existing ones on the Sundry Debtors System.</p> <p>Our testing found on a number of occasions, new customers and amendments are being made where either limited information or no explanation is being provided.</p>	<p>Consideration should be given to the value of the information required and if still required then accounts should not be set up until it has been received.</p>	<p>Information requirements will be reviewed and new procedures will be applied to prevent accounts from being set up if required information is not provided if appropriate.</p>	4	Revenues Controller	30/06/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.10	<p>The Council has no formal process for reviewing the credit status of new business customers.</p> <p>The absence of these controls, increases the risk of a customer defaulting on payments, resulting in increased levels of debt owed to the Council.</p>	<p>Consideration should be given to the drafting of corporate policy clarifying the circumstances when credit checks and stops on a business customer account are required to be undertaken to reduce likelihood of bad debt being incurred by the Council.</p>	<p>Consideration will be given to introducing a de minimis value above which credit checks will be carried out.</p>	3	Revenues and Payments Manager	30/09/13
Control Objective 5 - Appropriate segregation of duties is in place						
6.11	<p>A restructuring of the revenues team is imminently due to take place. One key aspect will be the centralisation of responsibility for recovery of all types of debt into one team.</p>	<p>Actions should be put in place to ensure existing specialist knowledge is retained and shared.</p>	<p>Actions are being considered to ensure that knowledge is retained.</p>	3	Revenues and Payments Manager	30/06/13
Control Objective 7- All uninvoiced income is properly received and accounted for						

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.12	<p>A number of issues were identified within each of the following Council income subsystems:</p> <ul style="list-style-type: none"> - Rechargeable Housing Repairs - Leisure booking and cash receipting - Income Collection <p>These issues are specific to each system, therefore they are detailed in individual supplementary reports for the attention of local management,</p>	<p>An action plan to be drafted to address the issues and risks identified within each Council Income Subsystem.</p>	<p>Action plan will be drawn up and implemented up by relevant service manager.</p>	2	Relevant Service Managers	31/12/13

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1. INTRODUCTION

- 1.1 This report details the recommendations and findings arising from the Internal Audit review of the Council's Purchasing system. The review forms part of the Audit Plan for 2012-13, which was approved by the Resources and Audit Committee on 4 October 2012.
- 1.2 Responsibility for a sound internal control environment rests with management. The role of Internal Audit is to assess the adequacy of controls and provide an assurance on how effectively these are operating. The audit work undertaken is designed so that material irregularity has a reasonable probability of being uncovered; however, collusive fraud can override even sound control systems.
- 1.3 The matters raised in this report are only those which came to the attention of Internal Audit during the course of the Internal Audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit included a review of the key controls in place for purchases, including maintenance of the creditors ledger, access and authorisation, segregation of duties and compliance with the Council's purchasing procedures. The review was designed to assess the adequacy and effectiveness of the controls, processes and procedures within the Council for purchases to manage the risks affecting this area, with the objective of being able to provide assurance around these.
- 2.2 We also reconsidered outstanding issues from the 2009/10 Purchasing and Payments review. The bulk of our work was carried out on a compliance basis as controls have not significantly changed since the last review. The audit testing was carried out using a Computer Assisted Audit Tool (CAATs), namely a data analysis and file interrogation package called Interactive Data Extraction and Analysis (IDEA). Using IDEA we subjected all invoices paid by the Council during 2012-13 to analysis including identifying potential duplicate payments and stratifying and summarisation of the data.
- 2.3 Five key controls were identified and tested and the adequacy of the internal controls was established. In our opinion there is a reasonable control environment operating in relation to purchase orders to payment of suppliers.

Key Control	Assurance Assessment	Number of Recommendations
Creditors ledger is accurate and up to date.	Reasonable	1
Payments are made only for goods and services received, which were the subject of authorised orders.	Reasonable	2
Appropriate access and authorisation levels are in place and are being adhered to.	Limited	2

Segregation of duties is assured.	Reasonable	1
Council purchasing procedures, including purchasing card procedures, are being adhered to	Reasonable	2

3. SYSTEM OVERVIEW AND FINDINGS

- 3.1 Around 35% of invoices are processed by officers within Creditors in Revenues and Payments, while 65% are input by other Services who process their own invoices. The payments processed in 2012-13 for trade creditors through the purchase ledger was around £44m. The number of invoices processed in 2012-13 was 25,225 with around 83% paid within 30 days. The audit testing verified that suppliers are being paid in a timely manner. However, within the purchase ledger system there were some instances where the incorrect invoice dates and/or credit notes had been recorded. While we are happy that in all instances tested payment was within the required period, incorrect recording of dates could impact on payment statistics.
- 3.2 We can provide reasonable assurance that the Creditors Ledger is accurate and up to date. The Creditors Ledger holds a large number of inactive older creditor accounts including a number of duplicate supplier codes and codes with redundant addresses. These issues are caused by the inflexibility of the ledger system which does not allow appropriate deletions to be made. Testing however confirmed that active ledger accounts have current supplier details in them.
- 3.3 There is reasonable assurance that payments are made only for goods and services received. Agreements are generally made with the relevant suppliers for the goods or service provided. However, authorised purchase orders are regularly not completed for goods and services as testing a sample of 51 payments found that:
- Job lines rather than the Council's order forms are completed for repairs and maintenance work arranged by Services within Facilities Management and Community and Regularity Services. These job lines are completed by Maintenance Officers who are not designated authorised signatories. However, the Authorised Signatories Database does not reflect the delegated authority these officers have been given.
 - Eight percent of orders tested (four invoices) were placed over the phone without subsequent written confirmation being given. The need to place verbal orders could be justified in each instance found as requirements were urgent.
 - Six percent of the sample (electronic orders under the Council's stationary contract) were not certified by an authorised signatory.
 - Placement agreements were used in place of order forms for 12% of the sample for Social Services adult and child care clients.
 - In addition to the above, for 23% (12) of the sample there was no record of purchase in any form.

- 3.4 Limited assurance can be provided that appropriate access and authorisation levels are in place and are being adhered to. The Creditors Ledger allows officers who process invoices access to add or amend suppliers. We have been advised that system limitations mean that this cannot be changed. While officers have been instructed that suppliers can only be added or amended by named officers who do not process invoices, this still presents a significant risk.
- 3.5 Testing of purchase card transactions found the following authorisation issues:
- Monthly purchase card statements for one service were not all subjected to the required line manager check and authorisation.
 - Two Purchase Cardholder's are not listed as authorised signatories for either purchase order or invoice authorisation.
 - No limits on single transaction purchases for two Purchase Cardholder's.
 - One Purchase Cardholder whose delegated purchasing authorising limit is less than their purchase card transaction limit.
- 3.6 A reasonable level of assurance can be given that segregation of duties is practised with 96% of orders and invoices tested being authorised by different officers. For the remaining 4% of the sample, where the same officer from a small team had authorised the order and invoice, a separate officer had arranged the purchase and checked the invoice, however did not have delegated authority to formally authorise. Evidence was also found that where no written order was completed, a separate officer was involved in the payments process.
- 3.7 We can provide reasonable assurance that council purchasing procedures are being adhered to. There are areas of non-compliance, for example there are no proper contracts, as required by Contract Standing Orders, for some providers of homecare services and supported accommodation for Social Services clients. The Service Manager, Assessment Care Management, is currently reviewing this. Further to this it was also identified that a number of payments to suppliers were for repairs arranged by Facilities Management under contracts now ended. A new Framework Agreement is being arranged by the Head of Facilities Management. We will be following this up as part of the 2013-14 audit of procurement.
- 3.8 Testing of purchase card transactions found instances where Purchase Card Guidance on the cardholder's responsibility and security of a card was not being complied with:
- An officer, other than the cardholder was aware of the purchase card's pin number.
 - Officer's other than the cardholder have access to the purchase card when held in an office safe.
 - Credit card details of officers retained by suppliers when agreements put in place with suppliers.
- 3.9 The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from this audit is included in a Management Action Plan in Appendix B. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix B.

Priority Assessments	Number
Priority 1	-
Priority 2	4
Priority 3	4
Priority 4	-

5. HISTORY OF THE AUDIT REPORT

- 5.1 The table below sets out the history of this report.

Issue of Draft Report	2 May 2013
Receipt of Management Comments	
Issue of Final Report	

Assurance Assessments

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with consistently. Risks are being controlled or mitigated. Good practice is in operation.
Reasonable Assurance	There are controls operating within the system. Some improvements could be made to further enhance the control environment. Significant risks are being adequately controlled/mitigated.
Limited Assurance	There are only minimal controls operating and the control environment requires to be improved. Risks are not being controlled/mitigated adequately.
No Assurance	There are no controls operating within the system or no reliance can be placed on the controls and a control environment must be established.

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MANAGEMENT ACTION PLAN

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
Control Objective 1 - Creditors ledger is accurate and up to date						
6.1	There are historic issues within the Strategix ledger system which holds a large number of inactive older creditor accounts still in the Creditors Ledger.	As part of the introduction of the new finance system, inactive old supplier codes should be archived from the Creditors Ledger.	Agreed, this will be included in the specification for the new finance system. In the short term Creditors will run monthly extracts to identify old trade creditors and flag these on the Creditors Ledger	3	Revenues and Payments Manager	31/03/14
Control Objective 2 - Payments are made only for goods and services received, which were the subject of authorised orders						
6.2	Purchase order forms are not being regularly completed.	Consideration should be given to approving other documented methods of raising orders as official orders.	Agreed, this will be actioned as part of the current review of Financial Regulations being undertaken by the Corporate Accountancy Team Leader.	3	Corporate Accountancy Team Leader	31/10/13
6.3	Purchase order forms are not being regularly completed.	There should be a requirement within the new finance system for a system of electronic matching of invoices to orders prior to payment.	Electronic matching of invoices to orders prior to payment will be included in the specification for the new finance system.	3	Revenues and Payments Manager	31/03/14
Control Objective 3 - Appropriate access and authorisation levels are in place and are being adhered to.						
6.4	It was identified that not all Purchase Cardholder's were authorised signatories for either purchase order or invoice authorisation. It was also found that the delegated purchasing limit for a Purchase Cardholder was less than their purchase card limit.	The Authorised Signatory Database should be updated to include all purchase card holders. The Authorised Signatory Database should then be regularly reconciled to the Purchase Cardholder's Database to identify differences including authorisation limits.	Agreed	2	Revenues and Payments Manager	31/12/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.5	There are significant issues around access levels for making changes to creditors masterfile. System limitations mean that this situation cannot be adequately addressed.	Issue should be re-visited to confirm whether any further changes can be made to limit officers ability to add or amend supplier details. Consideration should also be given to increased monitoring of the ledger to assure against inappropriate changes.	Issue will be re-visited. Creditors team will run audit reports to identify any changes made which will be reviewed.	2	Procurement Manager Revenues and Payments Manager	30/09/13 30/09/13
Control Objective 4 - Segregation of duties is assured.						
6.6	In some small teams one person is raising and approving orders so no segregation of duties exist although there are other members of staff who have no delegated authority.	Consideration should be given to extending delegated authority if other members of staff are available.	Agreed. The new finance system would enforce the segregation of the order and invoice. In the short term, the services identified in the review will be reminded directly of this requirement. In addition, an instruction will be cascaded to staff through SMF.	3	Revenues and Payments Manager	31/03/14 30/06/13
Control Objective 5 - Council purchasing procedures, including purchasing card procedures, are being adhered to						
6.7	Not all monthly purchase card statements were subject to the required line manager check and authorisation.	The Corporate Purchasing Cards Procedures clearly state that "Cardholder's must not authorise their own purchase card statements. This should always be done by their Line Manager." Heads of Services should be instructed to ensure that this is complied with in line with their accountabilities.	Agreed. Specific officers identified in the review who were authorising their own purchase card statements will be reminded of requirements. A briefing will also be presented to CMT to remind officers of this.	2	Revenues and Payments Manager	30/09/13 31/08/13

Ref	Finding	Recommendation	Agreed Management Action	Priority	Assigned Officer	Target Date
6.8	Testing of purchase card transactions found instances where the Purchase Card Guidance on the cardholder's responsibility and security of a card was not complied with.	Heads of Service, in line with their accountabilities, should remind their Purchase Cardholder's that failure to retain the card securely could result in the card being withdrawn, or could result in disciplinary action. This should then be followed up in spot checks undertaken by the Procurement Manager.	Specific officers identified in the review will be reminded of security responsibilities surrounding cards. An instruction will also be issued to all purchase card holders.	2	Revenues and Payments Manager	31/08/13 30/09/13

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PROGRESS OF FOLLOW UP OF INTERNAL AUDIT REPORTS TO 31 MARCH 2013

APPENDIX G

Report Title	Priority				Number of Recommendations	Recommendations Implemented	Recommendations In Progress	Recommendations Not Applicable Now	Recommendations Outstanding	Priority	
	1	2	3	4						1 - 2	3 - 4
Adoption and Fostering	-	2	-	-	2	-	2	-	-	-	-
Allocation of Council Housing	-	1	1	-	2	-	2	-	-	-	-
Arm's Length External Organisations	3	6	1	-	10	-	10	-	-	-	-
Council Tax	-	1	-	-	1	1	-	-	-	-	-
Data Protection - Corporate	1	9	2	1	13	7	5	1(a)	-	-	-
Data Protection - Housing	1	-	-	-	1	1	-	-	-	-	-
Information Security	-	1	-	-	1	-	1	-	-	-	-
Licensing Arrangements	-	-	1	2	3	-	3	-	-	-	-
Management of PPP Contracts	-	1	-	-	1	-	1	-	-	-	-
Purchase Cards	-	4	-	-	4	-	1	3(b)	-	-	-
Trading Standards	2	-	1	-	3	1	2	-	-	-	-
TOTAL	7	25	6	3	41	10	27	4	0	-	-

(a) - No longer relevant as other events have overtaken this.

(b) - Taken forward as part of the 2012/13 Review of Purchase Orders to Payment of Suppliers

