

Audit and Corporate Governance Committee

Report of Audit Manager

Author: Adrianna Partridge

Telephone: 01491 823544 (SODC); 01235 547615 (VWHDC)

Textphone: 18001 01491 823326 (SODC); 18001 01235 540455 (VWHDC)

E-mail: adrianna.partridge@southandvale.gov.uk

Cabinet member responsible: Councillor David Dodds

Tel: 01844 216794

E-mail: david.dodds@southoxon.gov.uk

To: Audit and Corporate Governance Committee

DATE: 10 July 2012

AGENDA ITEM 13

Internal audit activity report quarter one 2012/2013

Recommendation

(a) That members note the content of the report.

Purpose of report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary.

Background

2. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the councils' objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.
3. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for

considering audit reports and taking the appropriate action to address control weaknesses.

4. Assurance ratings given by internal audit indicate the following:

Full Assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil Assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

5. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

Internal Audit Activity

6. Since the last audit and corporate governance committee meeting, the following audits have been completed:

Planned Audits

Full Assurance: 3

Satisfactory Assurance: 6

Limited Assurance: 3

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Sundry Debtors 11/12	Satisfactory	6	0	0	1	1	5	5
1. HR Pro 11/12	Limited	7	2	1	2	2	3	3
2. Capital Mgt and Accounting 11/12	Limited	9	1	1	2	2	6	6

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
3. Pro-active Anti-fraud 11/12	Limited	2	2	2	0	0	0	0
Housing & Council Tax Benefits 11/12	Full	3	0	0	0	0	3	2
Creditor Payments 11/12	Satisfactory	7	0	0	3	2	4	3
Treasury Management 11/12	Full	2	0	0	0	0	2	2
Verification of Pls 11/12	Satisfactory	7	0	0	1	1	6	5
Groupwise/ Exchange Procurements	Satisfactory	2	1	1	1	1	0	0
Leader Verification 12/13	Full	0	0	0	0	0	0	0
Emergency Planning 12/13	Satisfactory	4	0	0	1	1	3	3
Elections Payments 11/12	Satisfactory	6	0	0	3	3	3	3

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Grounds Maintenance 11/12	Satisfactory	14	6	0	7	1
Car Parks 11/12	Satisfactory	9	4	1	4	0
Planning Fees 11/12	Full	3	1	0	2	0

7. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.

8. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
9. A copy of each report has been sent to the appropriate head of service, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
10. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Systemic Control Weaknesses

11. **Appendix 2** of this report sets out weaknesses which have been identified within planned audits which internal audit consider to be systemic within the council. Every recommendation made by internal audit since April 2010 has been logged within a recommendation register according to an Institute of Internal Auditors control type definition, and a point system has been used - 1 point for a low risk recommendation, 2 points for a medium risk recommendation and 3 points for a high risk recommendation. The points have been totalled against each control type, and the top 10% control weaknesses which occur across a number of operational areas have been listed as a systemic control weakness. The table will be reviewed and updated by the audit manager, head of finance and the strategic director (section 151 officer) on an ongoing basis, and will be used to inform the annual audit plan and the scope of individual reviews

Financial Implications

12. There are no financial implications attached to this report.

Legal Implications

13. None.

Risks

14. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE
AUDIT MANAGER

1. HR PRO SYSTEM AND ANNUAL LEAVE 2011/2012

1. INTRODUCTION

- 1.1 The fieldwork for this audit was undertaken in March 2012 and the final report was issued on 26 March 2012.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- access and administration rights to the system are adequately controlled and appropriate;
 - an adequate and documented process is in place to ensure information on the system is kept up to date;
 - authorisation protocols and workflow audit trails are in place for all amendments to the system;
 - annual leave entitlement calculations are correct for full-time and part-time staff; and
 - variable leave years are being managed appropriately and carry forward entitlements are processed in a timely manner.

2. BACKGROUND

- 2.1 The HR pro system is supplied by Advanced Business Solutions and is a self-service system which officers can input any annual leave, sickness and other absences taken within the year. The HR pro system helps management monitor staff absence.

3. PREVIOUS AUDIT REPORTS

- 3.1 HR pro system and annual leave has not previously been subject to an internal audit review.

4. 2011/2012 AUDIT ASSURANCE

- 4.1 **Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Seven recommendations have been raised in this review. Two High risk, two Medium risk and three Low risk.

5. MAIN FINDINGS

5.1 Access and administration of HR pro system

- 5.1.1 Internal audit established that although the HR pro system is password protected, there are no controls in place whereby the system locks after a number of unsuccessful log on attempts and the system does not prompt users to change their password. Appropriate access is given to all users,

with system administration access given to officers in HR and one officer in ICT. However, it could not be confirmed that system administration training was given to the officer from ICT.

- 5.1.2 An HR pro self service user manual is available on the intranet for all users. Internal audit is satisfied that the user manual is sufficient in detail. Two recommendations have been made as a result of our work in this area (Rec 1 and 2).

5.2 Documented processes

- 5.2.1 Internal audit established that the HR business partner is responsible for the HR pro self service user manual and it is available on the intranet. The HR pro system administration manual is kept within the HR office and is available to all HR officers.
- 5.2.2 Internal audit established that templates for amendments to the HR pro system are available on the intranet and are required to be emailed to the HR inbox for action. From the testing undertaken of amendments made to the HR pro system, internal audit was satisfied that correspondences were received for all amendments and were all appropriately inputted onto the system. However, it was established that correspondences were received via email and the email was not kept as an audit trail to confirm authorisation from the line manager. One recommendation has been made as a result of our work in this area (Rec 3).

5.3 Authorisation protocols and workflow audit trails

- 5.3.1 Internal audit noted that a workflow within the HR pro system does exist, but only identifies when actions occur not the officer undertaking the action. From the testing undertaken, internal audit established that authorisation of annual leave workflow is appropriately set up as all officers are linked to their line manager for authorisation on the HR pro system. One recommendation has been made as a result of our work in this area (Rec 4).

5.4 Annual leave entitlement

- 5.4.1 Internal audit established that there is an annual leave and bank holiday policy in place, which was last reviewed in October 2011. It was determined that an annual leave calculation spreadsheet is in place to calculate part-time officers' annual leave entitlement.
- 5.4.2 From the testing undertaken of annual leave entitlement of both full-time and part-time officers, internal audit established control weaknesses as errors in calculation, carry forward and update of the HR pro system were evidenced. When amendments were made to an officers' annual leave entitlement on the system, it was established that the relevant officer was not notified. Delays were also found in updating an officers' annual leave entitlement. Three recommendations have been made as a result of our work in this area (Rec 5, 6 and 7).

5.5 Carry forward entitlement

- 5.5.1 Internal audit established that the annual leave year start dates are recorded on the HR pro system and also maintained on a spreadsheet, which is reviewed by the HR administration team on a weekly basis. It is noted that the HR administration team updates relevant officers' annual leave entitlement on the system on a weekly basis.
- 5.5.2 From the testing undertaken on updating officers' annual leave year entitlement promptly following their anniversary, internal audit was satisfied that all the system records are updated appropriately and efficiently. No recommendations have been made as a result of our work in this area.

6. CATEGORISATION OF RECOMMENDATIONS

- 6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High Risk	Fundamental control weakness for senior management action	Recs 3 and 6
Medium Risk	Other control weakness for local management action	Recs 1 and 7
Low Risk	Recommended best practice to improve overall control	Recs 2, 4 and 5

OBSERVATIONS AND RECOMMENDATIONS

ACCESS AND ADMINISTRATION OF HR PRO SYSTEM

1. Password Control

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The HR pro system locks users out of the system after a number of unsuccessful attempts.</p> <p><u>Findings</u> Internal audit established that users are not locked out of the HR pro system after a number of unsuccessful attempts.</p> <p><u>Risk</u> If the HR pro system does not lock out users, there is a risk of officers trying to log into their colleagues HR pro access and succeeding due to trying limitless</p>	Users should be locked out of the HR pro system after a number of unsuccessful attempts, and access rights should only be unlocked by a system administrator.	Shared HR Business Partner

combinations of passwords.		
Management Response		Implementation Date
<p>Recommendation Agreed in Principle IT has been asked to investigate whether HR Pro security options will allow this. Advice will be sought from ABS (software provider) if necessary.</p> <p>Management response: Shared HR Business Partner</p>		30 June 2012

2. System Administration Training

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All system administrators have received HR pro system admin training.</p> <p><u>Findings</u> HR could not confirm if one of the system administrators received HR pro system admin training.</p> <p><u>Risk</u> If training is not provided to all system administrators, there is a risk of system administrator having full access to the HR pro system and not using it appropriately.</p>	All members of the administrator user group should receive relevant training, or their access should be removed if considered no longer necessary.	Shared HR Business Partner
Management Response		Implementation Date
<p>Recommendation is Agreed Member of untrained staff removed from system admin group.</p> <p>Management response: Shared HR Business Partner</p>		Implemented

DOCUMENTED PROCESSES

3. Authorisation of Correspondences

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> For all correspondences received via email, the email is filed alongside the form so that an audit trail exists.</p> <p><u>Findings</u></p>	All correspondences received via email, HR should ensure that the email is saved within the hr drive alongside the correspondence to confirm that they are	Shared Business Support Manager

<p>In January and February 2012, there have been 118 amendments made and a sample of 10 amendments was selected. From the 10, internal audit found that all amendments were received via email, but for eight amendments, the email was not kept to confirm approval from the line manager, hence no audit trail.</p> <p><u>Risk</u> If there is no audit trail to confirm that correspondences are approved by the service manager, there is a risk of the forms not being signed or approved by the line manager.</p>	<p>signed by the line manager.</p>	
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed</p> <p>Management response: Shared HR Business Partner</p>		<p>30 June 2012</p>

AUTHORISATION PROTOCOLS AND WORKFLOW AUDIT TRAILS

4. Audit Trail

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> An audit trail exists within the HR pro system identifying when actions are occurred and by whom.</p> <p><u>Findings</u> Internal audit established that the HR pro system currently only identifies when an action occurred, but not by whom.</p> <p><u>Risk</u> If there is no audit trail, there is a risk of not determining which officer authorised/made amendments on the system</p>	<p>It should be investigated whether an audit trail can be established within HR pro which can identify and record which officers authorised/or made amendments on the system.</p>	<p>Shared HR Business Partner</p>

should it be contested.		
Management Response		Implementation Date
Recommendation is Agreed in Principle Advice to be sought from ABS (software provider). Management response: Shared HR Business Partner		30 June 2012

ANNUAL LEAVE ENTITLEMENT

5. Update of HR pro system

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The annual leave entitlement is updated efficiently on the HR pro system.</p> <p><u>Findings</u> As at 31 December 2011 SODC had 270 officers, and internal audit selected a sample of 10 officers and established for one officer the HR pro system was not updated efficiently in relation to their annual leave entitlement.</p> <p><u>Risk</u> If annual leave entitlement is not updated efficiently on the HR pro system, there is a risk of officers not being able to plan their leave year.</p>	The HR pro system should be updated efficiently.	Shared Business Support Manager
Management Response		Implementation Date
Recommendation is Agreed Management response: Shared HR Business Partner		30 June 2012

6. Annual leave calculation form review

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All annual leave calculation forms are reviewed by an HR officer, independent from calculation.</p>	All annual leave calculation forms and the HR pro system should be reviewed by an officer within HR, independent from calculation and	Not Applicable

<p><u>Findings</u> As at 31 December 2011, there were 67 part-time officers and a sample of five officers were selected. From the five, their annual leave entitlement was reviewed and internal audit established that four annual leave calculation forms were not reviewed by a HR business partner.</p> <p>As at 31 December 2011, there were 270 officers working at SODC and a sample of 10 officers were selected. From the 10, their annual leave entitlements were reviewed and internal audit found that two annual leave entitlements were updated incorrectly on the HR pro system.</p> <p>From a sample of 10 annual leave entitlements reviewed, internal audit found that for one officer, their outstanding annual leave amount was not carried forward.</p> <p><u>Risk</u> If the annual leave entitlement forms are not reviewed by an HR officer, independent from the calculation, there is a risk of the annual leave entitlement incorrectly calculated and not being spotted.</p>	<p>update, to confirm accuracy. The form should also be signed to confirm that the review for both the form and system has been undertaken.</p>	
<p>Management Response</p>	<p>Implementation Date</p>	
<p>Recommendation is Not Agreed We agree to continue checking the spreadsheet calculation but there is insufficient resource in the HR business support team to double check what is entered on HR Pro.</p> <p>Management response: Shared HR Business Partner</p>	<p>Not Applicable</p>	

7. Amendment notifications

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All officers receive an email from HR when adjustments are made to their annual leave entitlement on the HR pro system.</p> <p><u>Findings</u> During testing of annual leave entitlement, internal audit established that HR is not notifying officers when amending their annual leave entitlement outside of their annual leave year update.</p> <p><u>Risk</u> If officers are not aware of adjustments being made on the HR pro system regarding their annual leave entitlement, there is a risk of officers not knowing the amount of leave they are entitled to.</p>	<p>All officers should be notified via email when an amendment within HR pro has been made outside of their annual leave update.</p>	<p>HR business support manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle The HR business support team amend a small number of hr pro annual leave records for part year calculations or calculations reflecting change of hours and we will continue to do this and email officers.</p> <p>If we had a single annual leave year for all south and vale employees the HR business support team would not need to send individual emails to employees to alert them to hr pro amendments at the start of their leave year as everyone's leave year would be updated at the same time and therefore HR Pro would be amended at the same time.</p> <p>Management response: Shared HR Business Partner</p>		<p>30 June 2012</p>

2. CAPITAL MANAGEMENT AND ACCOUNTING 2011/2012

1. INTRODUCTION

- 1.1 The fieldwork for this audit was undertaken in March 2012 and the final report was issued on 4 April 2012.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- there has been adequate control over the migration of data from the excel based system to Agresso;
 - the council has an up-to-date capital strategy and asset management plan in order to develop and manage the capital programme;
 - adequate monitoring is undertaken in relation to capital contracts and approved budgets;
 - appropriate capital accounting arrangements are in place;
 - there is adequate authorisation of additions, disposals, write-offs, transfers and amendments of the asset register;
 - the asset register is regularly reconciled to other sources and adequate controls are in place over the completeness of the register; and
 - to review preparations for international financial reporting standards (IFRS) and the acquisition of a new IFRS compliant asset register Computer system.

2. BACKGROUND

- 2.1 The council prepares annual financial statements which are subject to external review by the Audit Commission. The financial statements include details of the council's capital assets and related capital expenditure.
- 2.2 The council's capital assets are recorded on an asset register. The responsibility of accounting for capital items is shared between the principal accountant and accountant. The duty of managing each capital programme is allocated to a responsible officer. Capital monitoring reports are made available to cabinet quarterly. The statement of accounts for 2010/11 stated the property, plant and equipment is £28,765,000 and £225,000 for intangible assets.

3. PREVIOUS AUDIT REPORTS

- 3.1 Capital accounting was last subject to an internal audit review in April 2011 and eight recommendations were raised. A satisfactory assurance opinion was issued.
- 3.2 Internal audit reviewed the progress against the recommendations of which six had been agreed and two had been agreed in principle. Two recommendations had been implemented, four had not been implemented and two are no longer in relevant. Recommendations not implemented have been restated in this report.

4. 2011/2012 AUDIT ASSURANCE

- 4.1 **Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Nine recommendations have been raised in this review, including four restated from the previous review. One is high risk, two are medium risk and six are low risk.

5. MAIN FINDINGS

5.1 Data migration

- 5.1.1 The shared accountancy manager (revenue) is managing the migration of fixed asset register data from the current Excel spreadsheet to a module within the Agresso financial system. Implementation of the module is to be deferred until after final accounts 2011/12 has been completed. It is planned to migrate from spreadsheet to the Agresso based system in the second quarter of 2012/13. However, a detailed task list and allocation of duties has not been established. One recommendation has been made as a result of our work in this area (Rec 1).

5.2 Capital strategy and asset management plan

- 5.2.1 The council has a capital strategy (2010/11 to 2014/15) and asset management plan (2009-2012). However, these documents have not been updated since that time. The head of finance has stated the capital strategy is no longer a corporate priority; in addition, the asset management plan and medium term financial strategy (MTFS) should fulfil the role of a capital strategy. One recommendation has been raised as a result of our work in this area (Rec 2).

5.3 Capital monitoring

- 5.3.1 Internal audit reviewed the capital programme list for 2011/2012 and found each project had a responsible officer allocated. Cabinet receive budget monitoring reports (which include capital spending) every quarter, where the capital spent is outlined by programme. The shared strategic property team leader confirmed an appropriate post-project appraisal was not carried out on one project by the shared property team leader. One recommendation has been raised as a result of our review in this area (Rec 3).

5.4 Accounting arrangements

- 5.4.1 On review of the intranet, the web pages clearly state the responsible officers for capital accounting. However, there are no guidance notes in place over the duties of the accountant and principal accountant over capital accounting. One recommendation has been raised as a result of our work in this area (Rec 4).

5.5 Additions, disposals and other accounting adjustments

5.5.1 Internal audit checked a sample of 20 capital additions (of a total sum £110,293 approximately), the capital spend as at audit date is £1.82 million (two decimal places). Approximately £870,000 has been spent on grants and associated schemes (i.e. flood prevention). Grants are not capitalised on the council balance sheet and therefore have been omitted from sample testing. Based on additions testing, no recommendations were raised. Internal audit checked all two disposals, which had a total book value of £10,192, and internal audit noted the constitution needed to be updated to reflect current practices.

5.5.2 Depreciation and write offs are administered at the end of the financial year. Internal audit therefore checked a sample of 20 depreciation charges and all write offs from the previous financial year to gain assurance over processes. Based on the sample testing, internal audit identified no issues of note. One recommendation has been raised as a result of our work in this area (Rec 5).

5.6 Fixed asset register reconciliation

5.6.1 The accountant carries out an annual reconciliation from the fixed asset register to a valuation report commissioned each year. This check is performed at the end of the financial year and therefore has not as yet been performed for the financial year 2011/2012. Internal audit reviewed the reconciliation for 2010/2011 and checked every item on the asset register and valuation report had been included appropriately on the reconciliation totals; in addition, explanations were sought where there were variances. No recommendation has been raised as a result of our work in this area.

5.7 IFRS preparations

5.7.1 International Financial Reporting Standards (IFRS) for local government were adopted for the first time for the 2010/2011 financial year. Internal audit reviewed the outcome of this preparation for the accounting of capital items. Internal audit has established the new asset register is not in place – however authorisation has been given to purchase the module. The component accounting standard (where capital items are recorded by component based on set criteria) has been adopted prospectively. Hence, when new items are acquired which meet the set criteria they will be accounted for in this manner. As at the audit date, there are no such assets. The procurement process for a new property database, which the strategic property team leader stated hoped to be completed on the 1 April 2012, will allow the council to record a level asset detail to comply with the new accounting standard. No recommendations have been raised as a result of our work in this area.

6. CATEGORISATION OF RECOMMENDATIONS

6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Rec 5
Medium risk	Other control weakness for local management action	Recs 2 and 3
Low risk	Recommended best practice to improve overall control	Recs 1, 4, 6 to 9

OBSERVATIONS AND RECOMMENDATIONS

DATA MIGRATION

1. Specification

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There is a timetable and set of duties allocated for any transfer of data.</p> <p><u>Findings</u> The council is to transfer fixed assets data from the Excel spreadsheet to a module within Agresso (the council's finance system). However, whilst a provisional high level timetable has been formulated, a detailed task list and allocation of duties has not yet been established.</p> <p><u>Risk</u> All roles and responsibilities are not completed in good time, leading to delays in the overall process.</p>	Establish a detailed task breakdown and allocation for the migration of data to the new Agresso module.	Shared accountancy manager (revenue)
Management Response		Implementation Date
Recommendation is Agreed		31 July 2012
Management response: Shared accountancy manager (revenue)		

CAPITAL STRATEGY AND ASSET PLAN

2. Asset Management Plan

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The capital strategy and asset management plan are reviewed and approved annually.</p> <p><u>Findings</u> The strategy covers the time period from financial year 2010/11 to 2014/15. The plan covers the period 2009 – 2012. Since its formulation there has been no</p>	Update the council Asset Management Plan (including Capital Strategy elements) on a regular basis.	Strategic property team leader and shared accountancy managers (revenue and technical)

<p>subsequent review of the plan to reflect any changes which may have taken place. The council no longer intend to use the capital strategy and the asset management plan will be used instead.</p> <p><u>Risk</u> If the capital strategy and asset management plan are not updated annually it may not reflect current needs.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed It is intended that a new asset management plan will be developed within the year 2012/13 by the strategic property team. However, matters relating to capital strategy will continue to be the primary responsibility of the finance team.</p> <p>Management response: Strategic property team leader</p>		31 March 2013

MONITORING

3. Project appraisals

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All projects are subject to a timely appraisal on completion.</p> <p><u>Findings</u> The Shared Strategic Property Team Leader stated that the Moorlands capital project which was completed in May 2011 did not have a post project review.</p> <p><u>Risk</u> If project appraisals are not carried out – the council may not be adopting best practice which could lead to an inefficient allocation of resources.</p>	Complete a project appraisal for all capital programmes, where appropriate, on a timely basis.	Project managers, heads of service and service managers
Management Response		Implementation Date
<p>Recommendation is Agreed Project managers are responsible for their individual projects and this includes post-completion appraisals.</p> <p>Schemes for which post-completion appraisals have been carried out are denoted in the year end outturn capital programme report. Budget holders are responsible for advising accountancy once a post-completion appraisal has been completed.</p> <p>Management response: Head of finance</p>		30 July 2012

ACCOUNTING ARRANGEMENTS

4. Guidance notes

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There are appropriate, up-to-date, guidance notes for the responsibilities and duties over the accounting of capital items.</p> <p><u>Findings</u> On discussion with the accountant, there are no guidance notes in place for the discharge of roles and responsibilities over capital accounting. However, there is a copy of CIPFA guidance "Module 4 – 'non-current assets'" which is a financial reporting guide.</p> <p><u>Risk</u> If best practice is not be adhered to, particularly in the absence of key officers, it may lead to inappropriate accounting treatment of capital items.</p>	<p>Ensure there are appropriate guidance notes covering capital accounting requirements.</p>	<p>Shared accountancy manager (revenue)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed This will be incorporated into the implementation of the fixed asset accounting module</p> <p>Management Response: Shared accountancy manager (revenue)</p>		<p>31 March 2013</p>

CAPITAL CHANGES

5. Constitution

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The constitution reflects all current practices at the council.</p> <p><u>Findings</u> On review of the constitution, internal audit noted there is no clear authorisation path for book value of less than £5,000 and estimated value greater than £10,000.</p> <p>The constitution also states, for land, "all disposals an initial valuation must be provided by a qualified valuer: " However, no initial valuation was carried for all disposals. Instead, a previous valuation report dated (31/03/09) was relied upon to attain the value for the disposal items.</p> <p>The Shared Strategic Property Team Leader has stated the need for a need to refresh this section of the</p>	<p>Ensure the Constitution is updated to reflect current practices.</p>	<p>Strategic property team leader and shared democratic & electoral services manager</p>

constitution.		
<u>Risk</u> Current practices do not comply with own council procedures.		
Management Response		Implementation Date
Recommendation is Agreed There will be a review of the council's constitution during 2012/2013, and this issue will be raised with democratic services as part of the review unless it can be dealt with more quickly. Management response: Strategic property team leader		Subject to timing of changes to constitution.

PREVIOUS RECOMMENDATIONS 2010/2011

6. Asset management action plan

(Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Action plan is reviewed and progress recorded against actions to demonstrate that adequate monitoring arrangements are in place. <u>Previous Findings (2010/2011):</u> Internal audit noted that the asset management action plan had not been reviewed or updated to reflect what progress had been made since the plan was written at 1 April 2009. <u>Current Findings (2011/2012):</u> There has been no change to the asset management plan since the last review. <u>Risk</u> Failure to review implementation of the action plan could undermine the efforts of heads of service and their ability to develop their strategies to incorporate and consider asset management.	The Asset Management Plan 2009-2012: Action Plan is reviewed on a regular basis to reflect any changes required.	Strategic property team leader
Management Response 2010/2011		Implementation Date
Recommendation is Agreed The action plan will be discussed with the cabinet member following the forthcoming elections to incorporate their views. Management Response: Shared Strategic Property Team Leader		31 December 2011
Management Response 2011/2012		Implementation Date
Recommendation is Agreed The action plan will be reviewed as part of the production of the next asset management plan and will be updated as necessary. Officers		31 March 2013

will seek to put in place more robust arrangements to ensure regular review of the action plan occurs over the next asset management plan period.	
Management response: Strategic property team leader	

7. Annual property report

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The annual property report should form an integral part of the reporting framework for the Council's asset management arrangements.</p> <p><u>Previous Findings (2010/2011):</u> As part of the Asset Management plan arrangements the first annual property report (2009/10) had been produced in August 2010. At this stage the report has only been shared with the Head of Leisure, Economy and Property and the Economic Development Officer.</p> <p><u>Current Findings (2011/2012):</u> The Strategic Property Team Leader has stated the property report was not produced.</p> <p><u>Risk</u> Failure to monitor and report on property as an inclusive part of the asset management arrangements could result in projects which include the councils assets not delivering to specification.</p>	<p>Circulation of the annual property report should be considered, to ensure a comprehensive reporting framework which keeps officers and members informed of all issues relating to asset management and capital expenditure.</p>	<p>Strategic property team leader</p>
Management Response 2010/2011		Implementation Date
<p>Recommendation is Agreed The annual report will be discussed with the Shared Head of Economy Leisure and Property to establish the circulation requirements.</p> <p>Management Response: Shared Strategic Property Team Leader</p>		<p>31 July 2011</p>
Management Response 2011/2012		Implementation Date
<p>Recommendation is Agreed Whilst there is value in the production of an annual property report and its circulation to appropriate officers and members, this was not undertaken after the year ending 2010/11 due to other priorities and the resources available. However with the strategic property team in place a report will be provided in 2012/13, albeit in a shortened format.</p> <p>Management response: Strategic property team leader</p>		<p>31 March 2013</p>

8. Date and ownership - asset management plan

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Plans are published with an effective date for quoted statistics and clearly state the owner and approver of the plan.</p> <p><u>Previous Findings (2010/2011):</u> The Asset Management Plan contained statistics, such as 'the council holds an estate of 266 properties with a value in the order of £47.2 million', but did not state an effective date. The owner and authoriser of the plan was not stated.</p> <p><u>Current Findings (2011/2012):</u> There has been no change to the Asset Management Plan since the last review.</p> <p><u>Risk</u> If dates are not clearly provided then the information may be mistakenly interpreted as current.</p>	<p>Where the Asset Management Plan refers to statistics, it clearly states when these are valid. The plan should also include details of the plan owner and approver.</p>	<p>Shared Strategic Property Team Leader</p>
Management Response 2010/2011		Implementation Date
<p>Recommendation is Agreed This will be incorporated into the next Asset Management Plan. The date this will be prepared is expected to be during 2011/2012 as the current plan is valid to 2012.</p> <p>Management Response: Shared Strategic Property Team Leader</p>		<p>31 March 2012</p>
Management Response 2011/2012		Implementation Date
<p>Recommendation is Agreed This will be incorporated into the next Asset Management Plan. The date this will be prepared is expected to be during 2011/2012 as the current plan is valid to 2012.</p> <p>Management Response: Shared Strategic Property Team Leader</p>		<p>31 March 2012</p>

9. Valuation listings

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Where assets are listed such as lease but no value is attributed, an explanatory note should be provided.</p> <p><u>Previous Findings (2010/2011):</u> A listing of assets and valuations is produced annually but does not provide explanation where some of the items listed have no value attached. For example Burcot</p>	<p>Explanatory notes are provided in the asset register valuation to explain listings which do not have a value stated.</p>	<p>Shared Strategic Property Team Leader</p>

<p>Farm leased to SODC listed as non operational land/property has no value listed but garages leased at Gillots Hill Harpsden do have a value.</p> <p><u>Current Findings (2011/2012):</u> Internal audit on review of the fixed asset register - identified 97 cases where a nil value had no explanatory notes.</p> <p><u>Risk</u> If explanations are not provided where data appears inconsistent it may appear that there has been an omission or error in the details presented.</p>		
Management Response 2010/2011		Implementation Date
<p>Recommendation is Agreed</p> <p>Management Response: Strategic Property Officer</p>		31 March 2011
Management Response 2011/2012		
<p>Recommendation is Agreed</p> <p>Officers consider this is a minor matter but accept that it was overlooked in the 2010/11 valuation report. We will incorporate explanatory notes into the 2011/12 end of year valuation report.</p> <p>Management response: Strategic property team leader</p>		30 April 2012

3. PRO-ACTIVE ANTI-FRAUD REVIEW 2011/2012

1. INTRODUCTION

- 1.1 The fieldwork for this audit was undertaken in March 2012 and the final report was issued on 3 April 2012.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- anti-fraud and corruption controls within council systems and associated functions are sufficient to identify and reject false transactions/exceptions/data entry errors.
 - upon a data entry being identified as inappropriate/unauthorised, management review the data and the appropriate action is taken within the system.
 - any remedial action is taken promptly by management, clearly documented and where appropriate reported to the Section 151 Officer and internal audit.
 - management are taking action to enhance the anti-fraud and controls within the system where ongoing issues are identified.

2. BACKGROUND

- 2.1 The council has a joint anti-fraud, bribery and corruption policy with the Vale of White Horse District Council, which was approved by Cabinet on 8 February 2010. The policy was reviewed and updated last in November 2011. This is supported by an anti-fraud and corruption response plan covering how the council should respond to suspected or apparent irregularities, fraud or corruption.

3. PREVIOUS AUDIT REPORTS

- 3.1 Pro-active anti fraud review was last subject to an internal audit review in May 2011 and one recommendation was raised. A satisfactory assurance opinion was issued.
- 3.2 The one recommendation raised in the 2010/2011 review was found to be implemented based on the checks made in the current review.

4. 2011/2012 AUDIT ASSURANCE

- 4.1 **Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Two High risk recommendations have been raised in this review.

5. MAIN FINDINGS

5.1 Overall

- 5.1.1 Internal audit identified eight tests that would be appropriate to carry out and submit fraudulent activity into the council's systems, in order to check that systems are in place to identify and appropriately manage fraudulent activity. The tests were checked and approved by the audit manager and the strategic director (s151 officer) prior to their initiation.
- 5.1.2 One test regarding expenses claim was not carried out as internal audit discovered that a claim form is not required to be submitted to HR, only a receipt.
- 5.1.3 The seven tests carried out included three fraudulent invoices for payments made through the accounts payable module of Agresso, a dummy member and officer expense claim, a false request to change an officer's bank details on the payroll system and a dummy request for a new IT user.
- 5.1.4 Of the seven tests undertaken, internal audit established that five were appropriately checked and identified as suspicious and were not fulfilled. Of the other two tests, one was for a dummy accounts payable invoice which was authorised and registered within the Agresso accounts payable module, and payment was made to the supplier. The other test was for an officer's bank details being changed on the payroll system without confirmation from the officer, which was done.

5.2 Specific findings

- 5.2.1 A dummy invoice for a fictitious business was submitted directly to Capita. During the review, internal audit monitored the Agresso accounts payable module to check any activity for the dummy invoice. After one month of monitoring no details were found on the module regarding this fictitious business. Internal audit was satisfied that the invoice was not processed by Capita. No recommendations have been made as a result of our work in this area.
- 5.2.2 An invoice was submitted to the service area using a current supplier's invoice which was reproduced with changes to the bank details and address. The invoice was not checked and processed and authorised by the service area. Payment was subsequently made to the supplier. As internal audit contacted the supplier prior to undertaking the test, the supplier subsequently refunded the payment. One recommendation has been made as a result of our work in this area (Rec 1).
- 5.2.3 A duplicate of a recent invoice was submitted directly to Capita. During the review internal audit monitored the Agresso accounts payable module to check if the duplicate invoice was registered. After one month of monitoring no details were found on the module regarding any duplicate invoices being registered. Internal audit was satisfied that the invoice was not processed by Capita. No recommendations have been made as a result of our work in this area.

- 5.2.4 Testing of submitting a fraudulent payment voucher for sight test was not carried out as it was established that officers are not required to fill in a payment voucher, they are required to take the receipt to HR after the test. No recommendations have been made as a result of our work in this area.
- 5.2.5 In order to test checks made on members' claims, the chairman of the audit and corporate governance committee agreed to submit an expense item for a meeting which was not attended. The fraudulent claim was queried by democratic services with the member and referred to internal audit. Internal audit was satisfied that the expense claim was queried and not authorised by democratic services. No recommendations have been made as a result of our work in this area.
- 5.2.6 In order to test checks made on officers' claims, a non-finance officer agreed to submit an expense item without a receipt. The fraudulent claim was queried with their line manager and subsequently rejected. Internal audit was satisfied that the expense claim was not authorised by the line manager. No recommendations have been made as a result of our work in this area.
- 5.2.7 A paper request to change an officers bank details was submitted to payroll with a scanned signature. The request was not verified with the officer who it appeared to be from and the details were changed on the payroll system. Internal audit contacted Capita and the bank details were changed back. One recommendation has been made as a result of our work in this area (Rec 2).
- 5.2.8 A request to create a fictitious new IT user within internal audit was submitted to the helpdesk. The IT team checked with both the head of service and the audit manager to establish if the request was valid and was subsequently identified as an audit test. Internal audit was satisfied that the user was not created. No recommendations have been made as a result of our work in this area.

6. CATEGORISATION OF RECOMMENDATIONS

- 6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High Risk	Fundamental control weakness for senior management action	Recs 1 and 2
Medium Risk	Other control weakness for local management action	
Low Risk	Recommended best practice to improve overall control	

OBSERVATIONS AND RECOMMENDATIONS

PRO-ACTIVE ANTI FRAUD REVIEW

1. Service area checks appropriate

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Service areas carry out appropriate checks prior to authorising the invoice for payment.</p> <p><u>Findings</u> Internal audit submitted a dummy invoice via the post to the council. The invoice was sent to the relevant service area (ICT), whom processed and authorised the invoice for payment on the Agresso accounts payable module. Payment was made to the supplier.</p> <p><u>Risk</u> If service areas authorise invoices without carrying out appropriate checks, there is a risk of invoices being paid for products/services not received.</p>	<p>All service areas should carry out appropriate checks prior to authorising payment of invoices.</p>	<p>Finance & Systems Manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed An email highlighting the result of this exercise will be sent to Management Team, Heads of Service and Service Managers reminding them of the need to be diligent when coding and approving invoices and not to just accept them at face value.</p> <p>Management Response: Finance & Systems Manager</p>		<p>30 April 2012</p>

2. Change request verification

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Capita verify all change requests received through the post, if an electronic signature is used.</p>	<p>When bank detail change requests are received through the post using an electronic signature, Capita should contact the relevant</p>	<p>Business Manager (Capita)</p>

<p><u>Findings</u> Internal audit submitted a fraudulent bank detail request through the post using an officers' electronic signature. Capita changed the bank details on the payroll system without verifying with the relevant officer.</p> <p><u>Risk</u> If change requests are not verified, there is a risk of fraudulent requests being undertaken and salaries being paid into the wrong bank account.</p>	<p>officer and request confirmation of the change via email.</p>	
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed A control is now in place that bank details should only be accepted if we are notified by South/Vale HR. If bank details are received by any other method we will contact the relevant officer to check the validity.</p> <p>Management Response: Business Manager (Capita)</p>		<p>Implemented</p>

PRO-ACTIVE ANTI-FRAUD TESTING MATRIX

	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8
System or Application:	Agresso/Capita	Agresso/Capita	Agresso/Capita	Paper-Based Expenses	Members' Expense Claim	Officers' Expense Claim	Payroll Bank Details	Dummy ICT User Access
Process	Accounts Payable	Accounts Payable	Accounts Payable	HR Monitoring	Democratic Monitoring	Online Expenses	Payroll	ICT Security
Area:	Finance	Finance	Finance	HR/Payroll	Democratic/Payroll	HR/Payroll	HR/Payroll	ICT
Specific Test (Including any associated documentation, date of entry and initial contacts for the transactions)	<p>a) To submit to Capita, a dummy invoice for a new company to generate a fraudulent payment.</p> <p>b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.</p>	<p>a) To submit a dummy invoice for a slight variant on an existing supplier with different address and bank details.</p> <p>b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.</p>	<p>a) To submit to Capita, a duplicate invoice on a current supplier/invoice.</p> <p>b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.</p>	To submit to HR, a dummy payment voucher for sight test/other.	As part of the monthly members' expense claim process, internal audit is to ask the Chairman of Audit & Corporate Governance to submit a fraudulent expenses claim for travelling and/or subsistence. Claim to be in line with mileage rates but for a ghost meeting/ event.	A non finance officer to submit fraudulent claim with no supporting receipts.	<p>Internal audit to submit a dummy paper request for a change of officers bank details. Document to look as if Steve Bishop has made the request.</p> <p>Ensure processing well before pay run.</p> <p>Check for:</p> <p>a) HR check and Approval</p> <p>b) Payroll check.</p>	Internal audit to submit a dummy email request for a new ICT user.
Process controls and/or point in the process that the fraudulent transaction was identified?	The invoice was posted via royal mail to Capita's exchequer services on 12 January 2012. Internal audit monitored the Agresso accounts payable module and after one month of monitoring no details were found on the module regarding this fictitious business. Internal audit was satisfied that the invoice was not processed by Capita.	The invoice was posted via Royal mail to SODC on 12 January 2012. Internal audit was advised by accounting manager (revenues) that he received a phone call from the supplier regarding a payment they received. It was established that the invoice was processed and authorised by the service area on the Agresso accounts payable module. Payment was refunded by the supplier on 8 March	The invoice was posted via royal mail to Capita's exchequer services on 12 January 2012. Internal audit monitored the Agresso accounts payable module and after one month of monitoring no details were found on the module regarding duplication of invoice. Internal audit was satisfied that the invoice was not processed by Capita.	Testing of submitting a fraudulent payment voucher for sight test was not carried out as it was established that officers are not required to fill in a payment voucher, they are required to take the receipt to HR after the test.	The claim was checked by democratic services and queried with the member as there was no record of attendance at the meeting.	The claim was checked by the line manager and the officer was asked to submit a receipt.	A paper request to change bank details was submitted to payroll with the scanned signature of the officer. The request should not be accepted on paper only by email from the officer or through HR Pro system.	The request was logged with a helpdesk reference as expected. The request was emailed to the head of service and audit manager to check for authorisation to proceed. At this point it was established that the request was a part of the anti fraud tests.

		2012.						
	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8
Management review of transaction and actions taken?	The invoice was rejected and not processed by Capita.	The invoice was processed and authorised by the service area and subsequently payment was made to the supplier. Internal audit warned the supplier about the test being undertaken. The supplier notified accountancy that payment that they received payment and was refunded.	The invoice was rejected and not processed by Capita.	Not Applicable	The fraudulent claim was identified and enquiries made.	The fraudulent claim was identified.	Confirmation from the officer was not sought from Capita and bank details were changed on the payroll system. Internal audit contacted Capita to explain it was a test and requested that the bank details be changed back on the system.	The helpdesk officer carried out appropriate checks with the service area involved.
Remedial action taken by management, documented and reported accordingly?	The invoice was not processed so in that respect was managed appropriately.	Payment was made to the supplier; hence controls in checking invoices within service areas prior to authorisation are weak.	The invoice was not processed so in that respect was managed appropriately.	Not Applicable	The verification of the claim details was recorded via email and copied to internal audit.	The claim form was rejected as the a receipt was not presented.	The request was not verified and was actioned within the payroll system.	The Head of Finance identified the request as being an anti fraud test as the user request to be set up was not genuine. The communication is covered by emails.
Any enhancement actions to the control mechanism?	None - checks were made and appropriate actions taken.	Appropriate checks were not carried out payment was made to the supplier.	None - checks were made and appropriate actions taken.	Not Applicable	None needed - the claim was queried and not passed for payment.	None needed - the claim was queried and rejected.	The request to change bank details was not verified and was actioned within the payroll system.	None needed - the request was verified with the Head of Service and appropriate action taken.
Conclusion	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	Recommendation 1	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	Not Applicable	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	Recommendation 2	From the test undertaken, appropriate checks appear to be made which would identify potentially fraudulent adjustment requests.

This page is intentionally blank