Internal audit work undertaken during 2015/16

1 Introduction

1.1 In June 2015 the Audit and Governance Committee noted the *Annual report of the Head of Internal Audit for the year ended 31 March 2015* that stated, "During 2015/16 the Internal Audit Service will work to support management and in particular a number of members of the team will be seconded into the finance teams. It will not therefore undertake work that will support an overall opinion in 2015/16."

1.2 In January 2016 the committee also noted the *Strategic internal audit plan: 2015/16, 2016/17 and beyond* that stated, "The Internal Audit Service will not complete a risk-based programme of work to support an overall opinion on the council's framework of governance, risk management and control for 2015/16 but will focus its assurance work solely on the council's centrally managed key financial systems:

- The general financial ledger;

- Cash and banking;

- Accounts payable system;

- Accounts receivable and debt management system;

- Payroll;

- Treasury management; and

- VAT."

1.3 This report therefore provides an update on the progress made on each of these areas of work, and the outcomes where appropriate. At this point audit work on the treasury management system is ongoing, and work on the general financial ledger, accounts payable central system, payroll and VAT is complete. At management's request other work has been scheduled for after the end of the financial year end: work on cash and banking started in April; and the audit of the amended accounts receivable and debt management system will begin during May.

1.4 It also provides an indication of the planned improvements that the council may wish to reflect in its annual governance statement.

2 Overall opinion on the effectiveness of the council's risk management, control and governance processes

2.1 As has been noted by the Audit and Governance Committee during the course of the year the Internal Audit Service has, by agreement with the council's Management Team and the committee, undertaken insufficient audit work during 2015/16 to obtain the evidence to support an overall opinion on the council's risk management, control and governance.

3 Implications for the annual governance statement

3.1 The decision to refocus the resources of the Internal Audit Service during 2015/16 was taken in the context of the significant challenges facing the

council, the need for resources to respond to these challenges and in light of the council's recognition that improvements were required to its risk management, control and governance framework. Since the administration and senior management team are aware that controls require strengthening and are working to achieve those improvements, the annual governance statement will reflect only management's own assurances and those provided by external organisations, such as Ofsted, where such assurance is available.

3.2 In January 2016, as part of the audit planning process, the Management Team identified a number of areas where control improvements are intended to be made during 2016 and 2017. Whilst this list may not be exhaustive, it provides an indication of the improvements the council is planning to make;

- Implementation of a new approach to corporate performance monitoring;

- Implementation of a new, systematic, framework for risk management;

- Revisions to the quality assurance systems for both adults' and children's social care case management;

- Alignment of children's and adults' social care, and the transition of care users between them;

- Revised operating policies arising from both the Care Act and in relation to children with special educational needs and disabilities;

- Operation of personal social care budgets and direct payments to service users;

- Compliance with legislation relating to the deprivation of adult social care users' liberty;

- Improvements to the processing of payments to suppliers of social services through Controcc, the finance module of Liquidlogic's social care services software;

- Alignment of the delivery of the capital programme by services across the Programmes and Project Management, Corporate Commissioning and Community Services teams;

- Revised highways asset management following the implementation of software provided by Symology;

- Revised property asset management following the implementation of software provided by Technology Forge;

- Revised property programme and project management supported by the implementation of Cora Project Vision software;

- Implementation and operation of Oracle Financial's project and costing modules;

- Changes to the service provided by the waste management company following adjustments to its governance arrangements and structure.

4   Internal audit work completed during 2015/16

4.1   The Internal Audit Service has taken the opportunity provided during this year to reassess its operation and professional practice in light of the changes to the council's operating structure. The team has worked together to ensure that the audit methodology remains relevant and fit for purpose within the new and changing organisation, and is consistently applied. The last of the team members who were seconded into finance roles returned on 3 May, and the whole team has been involved in reassessing our methodology and working practices.

4.2   As part of this drive to reconsider and restart our work for the council, the Audit and Governance Committee will be asked to approve a revised Internal Audit Charter, which was last updated in June 2013, a Quality Assurance and Improvement Programme, and a revised Protocol for the relationship between Grant Thornton and the Internal Audit Service.

4.3   As noted above, work has been undertaken on the council's centrally managed key financial systems, and the outcomes of that work are as set out below.

The general financial ledger: (substantial assurance)

4.4   We assessed the adequacy and effectiveness of the controls in place to manage the following risks:

- Transactions recorded on the general ledger are miscoded, incomplete or do not balance due to posting/ calculation error, omission, duplication, data loss or corruption;

- Transactions originating from feeder systems recorded on the general ledger do not balance, are incomplete or inaccurate;

- Sub-ledgers do not reconcile;

- Journals are miscoded, do not balance or unauthorised journal transfers are input;

- Items in suspense are not cleared and there is inadequate review of control accounts.

4.5   We confirmed that the controls in place were operating effectively, with only very minor exceptions arising from staff turnover.

Accounts payable system: (substantial assurance)

4.6   We assessed the adequacy and effectiveness of the controls in place to manage the following risks:

- Unauthorised, inappropriate or illegitimate payments are made;

- Inaccurate or duplicated payments are processed;

- Invoices are not paid in a timely manner;

- Unauthorised, inappropriate changes to supplier details, potentially resulting in fraudulent payments;

- Payments are not accurately recorded and coded in the Oracle system.

4.7 The controls in place are operating effectively to control the central processing of payments through Oracle.

Payroll: (substantial assurance)

4.8 We assessed the adequacy and effectiveness of the controls in place to manage the following risks:

- Unauthorised or invalid pay grades or honorariums are input;

- Unauthorised or invalid persons (starters, leavers or ghost employees) are included in the payroll;

- Unauthorised or invalid payroll payments are made, whether regular, one-off or duplicated;

- Incorrect statutory or voluntary deductions are taken;

- Sickness and maternity pay are incorrect or invalid.

4.9 In the previous year we identified a number of non-BTLS payroll staff with system access enabling them to edit payroll data, and a number of BTLS staff with system access that was not commensurate with their role. During this year Payroll Services has reviewed and, through ICT Services, replaced some of the standard system access permissions with more appropriate access rights. However this work is ongoing and is part of a wider issue that is being addressed within systems across the council.

4.10 As in previous years we found examples of incorrect salary payments in respect of changes to basic pay, starters and leavers arising from both calculation and input errors. Similarly honoraria payments have been incorrectly made due to the council's calculation errors, non-compliance with policy and use of outdated information. In addition to more closely checking the information provided by the council, BTLS intends to provide more direct feedback to the council's managers and staff through focussed training and through a bulletin of commonly occurring errors. We also understand that a team has been set up within the council's Human Resources Service to control establishment hierarchies.

VAT: (substantial assurance)

4.11 We assessed the adequacy and effectiveness of the controls in place to manage the following risks:

- Input and output VAT (on supplies received and made) is not fully and accurately recognised and accounted for;

- Applicable exempt/ zero/ standard rates on input and output supplies are incorrectly applied and accounted for;

- VAT invoices are not received/ issued to support input and output tax recorded and included on VAT returns;

- VAT returns are not made on time or are inaccurate.

4.12 The controls in place are operating effectively.