

Internal Audit

Key Financial Controls

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1. Executive Summary

Introduction

The review of key financial controls has been agreed in the Internal Audit, CAFT and Risk Management Plan 2015-16.

This review focused on key controls in place across a number of financial systems that are integral to the Council's day to day operation.

Background & context

As part of this review we confirmed and updated our prior year understanding of the key controls operating within Barnet's key financial systems to ensure our work is up to date and relevant. We then devised an overarching programme of testing across the different systems and processes to give assurance on the effectiveness of these key controls.

This report summarises the key financial controls audit work undertaken covering the period from 1 August 2015 to 31 January 2016 across the following areas:

- Non-schools payroll – previously tested in 2014/15
- Treasury management – previously tested in 2014/15
- Cash and Bank – previously tested in 2014/15
- Pension admin (non-schools) – previously tested in 2014/15
- Teachers' pensions – not tested in 2014/15
- Fixed assets – not tested in 2014/15
- Budget monitoring (focus on Adults & Communities) – tested in 2014/15 but not as part of the Continuous Audit Methodology (CAM).

Our work has now been completed in line with the Terms of Reference dated 10 February 2016.

This report consists of three main sections:

- Part 2: Summary of Results sets out an overview of the number of findings and assurance ratings for each individual system;
- Part 3: Detailed Operating Effectiveness Results explains in detail the exceptions we found for each test area where we found non-compliance with the intended controls;
- Part 4: Control Design Recommendations highlights the areas where the design of controls could be improved to enhance the control environment or to improve efficiency; and
- Part 5: Follow up on 2014/15 control design recommendations sets out in detail a control design issue raised in 2014/15 and confirms if the recommendation has been implemented. All other control design issues identified in 2014/15 were addressed in a follow up review reported in October 2015.

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2. Summary of results and assurance ratings

Department	Overall Opinion 2015/16		Overall Opinion 2014/15		Direction of Travel	Number of controls tested	Controls where operating exceptions were found		Control design exceptions found		Comments
							2015/16	2014/15	2015/16	2014/15	
Non-schools payroll	Satisfactory	●	Satisfactory	●	↔	8	2	2	1	1	Operating exceptions relate to lack of supporting documentation for 6/20 (30%) starter forms and timeliness of form completion and authorisation for 2/20 (10%) leaver forms. Control design exception relates to review of employee access to Core, the Council's HR system.
Treasury management	Substantial	○	Satisfactory	●	↑	6	0	1	0	1	No exceptions noted.
Cash and Bank	Satisfactory	●	Satisfactory	●	↔	2	1	1	0	0	Operating exceptions relate to 3/5 (60%) reconciliations where the reconciling items were not matched to the general ledger promptly, resulting in them being more than three months old.
Teachers' pensions	Limited	●	N/A	N/A	N/A	4	1	N/A*	2	N/A*	Operating exceptions relate to lack of supporting documentation for 3/5 (60%) transfers out. Control design exceptions relate to reconciliation of payroll records to payment made to Teachers' Pension and lack of formal authorisation of the control sheets from schools.
Pension admin (non-schools)	Satisfactory	●	Substantial	○	↓	5	1	0	0	0	Operating exceptions relate to 6/25 (24%) instances where the employee records confirming the contribution rate and the salary of the employee could not be located on the payroll system Core.
Fixed assets	Satisfactory	●	N/A	N/A	N/A	2	2	N/A*	1	N/A*	Operating exceptions relate to lack of evidence of review of assets under construction balances for 1/2 (50%) months and the expected formal process for capturing revaluations not being followed in the year. Control design exception highlights the fact that all additions and disposals are processed at the year end.
Budget monitoring (focus on Adults & Communities)	Satisfactory	●	N/A	N/A	N/A	6	1	N/A*	1	N/A*	Operating exceptions relate to lack of evidence to demonstrate that the adults' expenditure meeting included a follow up of actions from the previous meeting. Control design exception relates to the fact that budget holders are not provided with a forecast of the budget allocation for CSG re-charges which will be applied to their budgets and lack of centralised guidance for budget holders with regards to the re-charges methodology.

* Not tested via Key Financial Systems methodology before 2015/16 therefore no comparative data.

3. Detailed operating effectiveness results

1) Non-schools Payroll

Control Ref	Control Tested	Exceptions	Exception details
P1	<p>Payroll reconciliation between payroll and GL (control performed by the Finance team)</p> <p>Reconciliations are performed on a monthly basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	0	No exceptions identified.
P2	<p>Reconciliation of payment runs to BACS listings</p> <p>Each payment run is reconciled to the BACS / cheque listings and is authorised. The Payroll Supervisor then authorises release of the BACS transmission.</p>	0	No exceptions identified.
P3	<p>Starter form</p> <p>Starter forms with relevant information are fully completed and authorised by an appropriate member of staff (as per the scheme of delegation) who is different to the preparer.</p>	6	<p>A sample of 20 starters processed between 1 August 2015 and 31 January 2016 were tested. We identified the following exceptions:</p> <ul style="list-style-type: none"> In 4/20 cases (20%), there was no valid authoriser on the starter form. This was due to human error because the authoriser section of the form contained the new starter's information instead of that of the authoriser; In 1/20 cases (5%), a starter form could not be located by management; and In 1/20 cases (5%), the new starter form was completed and authorised after the start date of the employment <p>Recommendation to management:</p>

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Control Ref	Control Tested	Exceptions	Exception details
			<ul style="list-style-type: none"> Management should investigate the exceptions identified in this test and ensure that all starters were authorised prior to commencing employment. A clarifying comment should be added to the “requestor” section of the new starter form to ensure that it clearly states that the details of the line manager should be submitted.
P4	Leaver form Leaver forms have adequate backing information and are checked and authorised by the HR manager before being received by payroll and processed in the payroll.	2	<p>A sample of 20 leavers processed between 1 August 2015 and 31 January 2016 were tested.</p> <p>For 2/20 cases (10%), the leaver form was completed and authorised after the leaving date. Both leavers had been processed prior to receiving the form to avoid overpayment of their salaries.</p> <p>Recommendation to management:</p> <p>Management should remind officers of the importance of retaining leaver forms before processing the change on Core.</p>
P5	Standing data form Modifications to standing data are reviewed for completeness, accuracy and authorisation by an appropriate level of management.	0	No exceptions identified.
P6	System access Payroll system access is reviewed on a regular basis and access is only granted to appropriate members of staff.	Control design issue noted – not possible to test	Control design issue noted: control not currently in place. See control design recommendation System access in Section 4 below.

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Control Ref	Control Tested	Exceptions	Exception details
P7	Exception reports The system generated exception report indicating unusual payments (i.e. excessively large payments, multiple payments made to the same employee, etc.) is investigated and resolved prior to payment distribution on a monthly basis. Monthly checks are done by administrators, team leader and payroll manager.	0	No exceptions identified.
P8	Control total reports The system generated control total report showing cumulative amount payable to third parties (eg HMRC, give as you earn, Teachers' pension) is prepared each month and compared to payments made and the general ledger.	0	No exceptions identified.

2) Treasury Management

Control Ref	Control Tested	Exceptions	Exception details
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Control Ref	Control Tested	Exceptions	Exception details
TM1	<p>Budgets and cash flow are monitored each month</p> <p>Review reports of cash investments and budget monitoring reports are submitted quarterly.</p> <p>Review meetings are held on a quarterly basis to digest the budget monitoring report and to discuss any changes in the period that could affect the treasury management and cash flow going forward. Actions are agreed upon to address any issues raised which should be followed up at the next meeting.</p>	0	No exceptions identified.
TM2	<p>Restricted access to the Treasury management systems</p> <p>The electronic banking system can only be accessed via user log-in details and password which are unique to each member of staff granted access to electronic banking. Access to the system is monitored and staff that no longer require access are removed as soon as access is no longer necessary.</p>	0	No exceptions identified.
TM3	<p>Emergency CHAPS transactions</p> <p>Emergency Chaps transactions should be requested by an individual as per the signatory listing and in their authorisation limits. The payment should then be authorised by the Deputy/Head of Treasury before payment.</p>	0	No exceptions identified.

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Control Ref	Control Tested	Exceptions	Exception details
TM4	Dealing activities All transfers require authorisation on the deal sheet in line with the scheme of delegation with supporting documentation reviewed and retained on file.	0	No exceptions identified.
TM5	Broker listing The broker used for the deal is to be selected from the authorised broker listing. If a new broker is required to be used then it must be authorised by the Head of Treasury.	0	No exceptions identified.
TM6	System reconciliations A monthly reconciliation is performed between the amounts recorded in the treasury management system and the amounts recorded in the general ledger.	0	No exceptions identified.

3) Cash

Control Ref	Control Tested	Exceptions	Exception details
CA1	Cash Collections Cash deposits made by collection agent are reconciled to records of cash takings on a regular basis.	0	No exceptions identified.

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Control Ref	Control Tested	Exceptions	Exception details
CA2	<p>Daily reconciliation between sub ledger and GL</p> <p>Reconciliations are performed on a daily basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	Control not tested. Mitigating control in place.	<p>It was confirmed with Head of Treasury Management that this control no longer occurs due to the transfer from SAP to Integra in 2014.</p> <p>The AIMS cash management system automatically feeds into the Integra General Ledger. As cash is also received to AIMS in line with what is received in the bank, the mitigating control is the bank reconciliation whereby the amount in Integra is reconciled to the Bank statements directly.</p> <p>If any reconciling items are identified as cash in transit, then these would be investigated by management. The bank reconciliation control has been tested in CA3.</p>
CA3	<p>Bank Reconciliations</p> <p>Reconciliations are performed on a monthly basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	3	<p>A sample of five reconciliations performed between 1 August 2015 and 31 January 2016 were tested.</p> <p>In 3/5 cases (60%), reconciliations were performed and authorised appropriately but we found reconciling items that were not matched to the general ledger promptly, resulting in them being more than three months old. The value is estimated to be an aggregate of over £2m in each of the three tested months.</p> <p>Recommendation to management:</p> <p>Management should investigate the exceptions identified in this test and ensure that all reconciling items older than 3 months are cleared.</p>

4) Teachers' Pensions

Control Ref	Control Tested	Exceptions	Exception details
TP1	<p>Policies and procedures</p> <p>Guidance is available to staff which sets out:</p>	0	No exceptions identified.

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Control Ref	Control Tested	Exceptions	Exception details
	<p>1) Barnet's responsibilities with regards to administration of teachers' pension contributions;</p> <p>2) Process of compiling the monthly and annual Teachers' Pension return ("TP return").</p> <p>The guidance includes the list of schools that the Council is covering in its Teachers' pension return which is a form sent to the TP which sets out contributions by tier.</p> <p><i>Note: The TP annual return only covers teachers employed by the local authority. Other authorities (eg academies, colleges) complete their own returns, even where the local authority provides their payroll services.</i></p>		
TP2	<p>Control sheets from schools</p> <p>Monthly Teachers' Pension "control sheets" from the Council's schools are received via the "Peer systems inbox", a shared inbox that is used by the teachers' pension administrators.</p> <p>"Control sheets" for each month are stored on the shared drive to ensure ease of access and are clearly labelled.</p> <p>Reconciliations are prepared on a monthly basis which reconcile payment made to the TP with respect to each school to the figures reported on the "control sheet" for the school.</p>	0	<p>No exceptions identified. Controls sheets have been retained for all of the 20 tested items.</p> <p>Control design issue noted: control partially effective. There is no sign off by the CSG team of the returns from schools and there is no reconciliation to the Teacher's pension amount.</p> <p>See control design recommendation Monthly reconciliation of payroll records to payment made to Teachers' Pension in Section 4 below.</p>

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Control Ref	Control Tested	Exceptions	Exception details
TP3	<p>Monthly reconciliation of payroll records to payment made to Teachers' Pension (TP)</p> <p>Figures reported by all payrolls and schools are compiled into a monthly report.</p> <p>Reconciliations are prepared on a monthly basis which reconcile payment made to the TP to total contributions and deductions reported by all payrolls. Supporting documentation is retained which confirms the balances. Reconciling items are investigated and resolved.</p> <p>Reconciliations are prepared and reviewed by two separate individuals.</p> <p>Reconciliations are prepared and reviewed within one month of the period being reconciled</p>	<p>Control design issue noted – not possible to test</p>	<p>Control design issue noted: control not currently in place. See control design recommendation Monthly reconciliation of payroll records to payment made to Teachers' Pension in Section 4 below.</p>
TP4	<p>Transfers in</p> <p>Transfers in to the scheme require consent from the member unless they are eligible for auto-enrolment and have not previously opted out.</p> <p>Opting in form or auto enrolment template is prepared and authorised prior to being sent to the TP.</p>	<p>Control not tested as there were no Transfers In.</p>	<p>N/A - Control not tested as there were no Transfers In during the testing period.</p>

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Control Ref	Control Tested	Exceptions	Exception details
TP5	<p>Transfers out</p> <p>Transfers out require written consent from the member.</p> <p>Correspondence is prepared and authorised prior to being sent to the TP.</p> <p>System records for the member are checked on the payroll system and the TP portal – updates are processed where required and authorised separately by the Senior Administrator or Assistant Manager.</p>	3	<p>A sample of five transfers out between 1 August 2015 and 31 January 2016 were tested. We identified the following exceptions:</p> <ul style="list-style-type: none"> • In 1/5 cases (20%) there has been no evidence provided of written consent from the employee transferring out of the pension scheme; • In 3/5 cases (60%) there has been no evidence of transfers out correspondence being prepared or authorised; • In 3/5 cases (60%) there has been no evidence of updates on system records being processed and authorised separately by the Senior Administrator or Assistant Manager; • In 2/5 cases (40%) the date of the transfer out could not be found on the Teachers' pension portal. <p>Recommendation to management:</p> <p>Management should investigate the exceptions identified in this test and ensure that appropriate documentation for all transfers out was prepared and authorised.</p>

5) Pension admin (non-schools)

Control Ref	Control Tested	Exceptions	Exception details
PA1	<p>Contribution rates</p> <p>The pension information is provided by the Government Actuaries Department (GAD), which is sent to the Pensions team before they submit it to Payroll for them to process on the payroll system. This is then used in the enrolment of new joiners to the Council's pension scheme.</p>	<p>6</p>	<p>A sample of 25 employees who joined the pension scheme between 1 August 2015 and 31 January 2016 were tested to confirm that the contribution rate matches the contribution rate set by GAD for their salary bracket.</p> <p>In 4/25 cases (16%), employee records confirming the contribution rate and the salary of the employee could not be located on the payroll system Core. Testing could not be performed.</p> <p>The issue was discussed with management in the payroll team but an explanation could not be obtained for the missing information at the time of the audit.</p> <p>In 2/25 cases (8%), employee records could be located but stated that the employee opted out of the scheme. The opting out date per the payroll system was before the date of joining per the pension administration system. The issue was discussed with management but an explanation could not be obtained at the time of the audit.</p> <p>In 1/25 cases (4%), the contribution rate per the payroll system did not match the contribution rate from GAD for the employee's salary bracket. The issue was discussed with management but an explanation could not be obtained at the time of the audit.</p> <p>Recommendation to management:</p> <p>Management should investigate the exceptions identified in this test to ensure that all employee records could be located.</p>
PA2	<p>Final Salary</p> <p>Pension benefits are calculated automatically on the administration system, Hartlink. The</p>	<p>0</p>	<p>No exceptions identified.</p>

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Control Ref	Control Tested	Exceptions	Exception details
	<p>final salary is calculated at the time of calculation, since it is required for the final pension figures.</p> <p>All calculations are calculated and then checked and authorised by a different administrator.</p>		
PA3	<p>Payments</p> <p>Payments to retirees are processed once the Pensions team become aware of an employee's impending retirement.</p> <p>The Pensions team then send the standard retirement forms to the employee for them to complete.</p> <p>A pensionable pay calculation pro-forma is completed for all new retirees - this is a standard form to ensure consistency in the process.</p> <p>This form is reviewed by a senior officer in the Pensions Team, whereby the salary input data is verified and the accuracy of the calculation is confirmed.</p>	0	No exceptions identified.

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Control Ref	Control Tested	Exceptions	Exception details
PA4	<p>Transfers in</p> <p>Transfers in to the scheme require consent from the member. A check of the transfer value information is performed to ensure it can be accepted.</p> <p>System records for the member are checked – updates are processed where required and authorisation separately by the Senior Administrator or Assistant Manager.</p>	0	No exceptions identified.
PA5	<p>Transfers out</p> <p>Transfers out require written consent from the member.</p> <p>Correspondence is prepared and authorised prior to being sent to the new provider.</p> <p>Transfers out of the scheme require a cash equivalent transfer value (CETV) to be calculated. This is referred to an actuary unless a transfer value has been provided within the last 12 months.</p>	0	No exceptions identified.

6) Fixed Assets

Control Ref	Control Tested	Exceptions	Exception details
FA1	<p>Additions</p> <p>All additions that have been registered on the fixed asset register (FAR) have been authorised through the capital program approval process.</p>	Control not tested	<p>No additions in the testing period hence control not tested. The additions are only processed at the year-end as it is deemed more efficient. Control design issue noted: see control design recommendation Additions and disposals in Section 4 below.</p>
FA2	<p>Disposals</p> <p>The sales docket from each disposal of the asset is matched to the Capital receipt before the asset is removed from the fixed asset register.</p> <p>The disposals are reconciled to the estates schedule on a monthly basis.</p>	Control not tested	<p>No disposals in the testing period hence control not tested. The disposals are only processed at the year end.</p> <p>Control design issue noted: see control design recommendation Additions and disposals in Section 4 below.</p>
FA3	<p>Revaluation and Impairment</p> <p>Property services prepare a list all the properties to be valued. Finance also produce a list of what they expect to be valued. The two lists are compared by property services, differences are discussed with finance and a plan of action is agreed.</p> <p>For every asset revalued, there is a review process in place to check that the revaluation methodology is appropriate and the revaluation is accurate.</p>	1	<p>Property Services have not yet prepared a list of all properties to be valued. This is due to a change in of the asset management system used by Property Services to Atrium Enterprise asset management.</p> <p>The list of properties from Finance has been used for valuation. We were informed by management that Property Services met with Finance to discuss the list and check if additions are needed based on their information but this review process was not documented. The control will be reinstated in 2016/17 and will operate annually.</p> <p>Recommendation to management:</p> <p>N/A – the control will be reinstated in 2016/17.</p>

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Control Ref	Control Tested	Exceptions	Exception details
FA4	<p>Fixed asset register</p> <p>The Closing team review the Asset Under Construction (“AUC”) code on a monthly basis and challenge teams regarding the construction/expenditure of the asset.</p> <p>All Capital expenditure over £50,000 is capitalised under the Barnet Council Capitalisation accounting policy.</p>	<p>1</p>	<p>For a sample of two months we examined the extract for the AUC code and checked evidence to confirm that review of the code has been performed.</p> <p>For October 2015, evidence of review could not be obtained. The AUC analysis spreadsheet includes figures for the sampled month but there is no evidence of the date when the review was performed or follow-up emails sent to the project managers.</p> <p>Management stated that the challenge and chasing process does not start until the end of November as it is inefficient to start earlier. Changes are often made towards the end of the year leading to reversals of the entries that the Finance team has previously posted.</p> <p>Recommendation to management:</p> <p>Management should retain evidence of review of the AUC code, including name of the person who has performed the review and date of the review.</p>

7) Budget Monitoring (focus on Adults & Communities)

Control Ref	Control Tested	Exceptions	Exception details
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Control Ref	Control Tested	Exceptions	Exception details
BM1	<p>Budget Development Module sign-off</p> <p>Budget forecasts are prepared by budget holders 10 times a year, on a monthly basis for the periods 2-11. Budget forecasts are signed off by the directors of delivery units (DU) within the budget development module (BDM) of Integra.</p> <ul style="list-style-type: none"> Budgets are signed off on BDM within 10 days after the general ledger is closed for the previous period. 	0	No exceptions identified.
BM2	<p>Budget monitoring report</p> <p>Budget monitoring report is prepared on a monthly basis which includes consolidated position of the delivery unit, comparison of actual and forecasted activity to date and explanations of variances.</p> <p>The report is prepared in a standardised format. The director of the delivery unit signs off the report.</p>	0	No exceptions identified.
BM3	<p>Quarterly reporting</p> <p>Budget information for each quarter is included in the performance management pack that is reported to members.</p>	0	No exceptions identified.

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Control Ref	Control Tested	Exceptions	Exception details
BM4	<p>CSG recharges (across the Council)</p> <p>Budget managers are provided with an accurate forecast of the CSG re-charges which will be applied to their budgets.</p> <p>The CSG re-charges are supported by valid and appropriate evidence which allow variances to be identified and investigated promptly.</p> <p>CSG re-charges are allocated based on a documented methodology which is available to budget holders.</p>	0	<p>We have selected a sample of 20 cost centres with costs operating in the period between 1 August 2015 and 31 January 2016 to confirm that the budget holders have received the total recharge amount for their budget. No exceptions noted.</p> <p>Control design issue noted: control partially effective. See control design recommendation CSG recharges in Section 4 below.</p>
BM5	<p>Adults expenditure</p> <p>A meeting is held between the senior management of the commissioning and the delivery units on a monthly basis to discuss how to reduce expenditure of the service in the future. Actions are agreed upon at the end of each meeting to be followed up as part of the next meeting.</p>	2	<p>We have selected a sample of two meetings in the period between 1 August 2015 and 31 January 2016 to confirm that the meeting has been held, minutes of the meeting have been retained and actions agreed are followed up in future meetings.</p> <p>Minutes of the meeting are retained but for both meetings selected, we could not obtain evidence to demonstrate that the meeting included a follow up of actions from the previous meeting.</p> <p>Recommendation to management:</p> <p>Management should include actions from the previous meeting in the agenda to ensure that actions are discussed.</p>

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Control Ref	Control Tested	Exceptions	Exception details
BM6	<p>Adults financial sustainability group (FSG)</p> <p>The purpose of the Financial sustainability group (FSG) is to track how the delivery unit is performing against its savings targets. The group meets on a quarterly basis. Actions are agreed upon at the end of each meeting to be followed up as part of the next meeting.</p>	0	No exceptions identified.

4. Control design recommendations

P	Detailed finding	Recommendation	
2	<p>P6: System access to Core</p> <p>We reviewed a report of employees who have access to Core, the Council's payroll system. The report was dated 17 February 2016. The payroll system access report is not regularly reviewed to ensure that access has only been granted to appropriate members of staff.</p>	Payroll system access reports, showing all employees who have access to Core, should be run on a regular basis and reviewed by the service to ensure that access is only granted to appropriate members of staff and where necessary access to the system should be removed.	
Management response		Responsible Officer	Deadline
New Monthly User Report has been created and saved – This is reviewed for every new starter and leaver in the month on the Barnet Contract.		Service Delivery Manager HR Team Leader Payroll Team Leader	1/04/2016

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P	Detailed finding	Recommendation	
1	<p>TP2 and TP3: Monthly reconciliation of payroll records to payment made to Teachers' Pension</p> <p>Monthly Teachers' Pension "control sheets" from the Council's schools include details of the pension contributions for employees of each specific school. The contributions figures should then be collated into a monthly report by the Council and reconciled to the payment made to the Teachers' Pension.</p> <p>We found that there is no authorisation or formal record of the control sheets from schools recorded on the Teachers' Pension return and there is no reconciliation to the payroll records or payment amount.</p> <p>We requested monthly reconciliations of payroll records to Teachers' Pension ("TP") payments for the period 1 August 2015 to 31 January 2016. The reconciliations were not provided at the time of the audit.</p> <p>We could not obtain evidence to ensure that the payment made to the Teachers' Pension is reconciled to the total contributions and deductions reported by all payrolls. As the Council collects the contributions on behalf of the TP, inaccurate records may result in reputational risk for the Council.</p>	<p>a) There should be monthly payroll reconciliations demonstrating that payment made to the TP can be reconciled to total contributions and deductions reported by all payrolls as per payroll record.</p> <p>b) Amounts recorded on the schools returns should be formally logged and included in the monthly reconciliation.</p> <p>c) Supporting documentation on the monthly reconciliation should be retained.</p> <p>d) Any reconciling items should be investigated and resolved.</p>	
Management response		Responsible Officer	Deadline
<p>A new process was implemented in March 2016 whereby the Controls and processing team now obtain the total deductions from the Payroll System in month for the Teachers' pension. These figures are provided to Payroll team who reconcile with the Teachers Contributions. Any differences are investigated and corrected to ensure completeness.</p> <p>Once reconciled, the deductions are paid over by Controls and processing team to the Payroll team who complete the Pensions Returns. All documentation to complete this exercise is independently kept each month by both teams.</p>		Operations Director, CSG	Implemented

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P	Detailed finding	Recommendation	
3	<p>FA1 and FA2: Additions and disposals</p> <p>The additions and disposals to the fixed assets are only processed at the year-end as it is aligned to the Council's depreciation policy.</p> <p>For additions, capital expenditure is recorded in the assets under construction ("AUC") during the year. Once the AUC balance for a specific project reaches the £50k capitalisation mark, the capital expenditure is capitalised at the year-end under the Council Capitalisation accounting policy.</p> <p>Total disposals as per the audited 2014/15 financial statements were £16.2m. Total additions as per the audited 2014/15 financial statements were £46m. It would be considered best practice to recognise the additions and disposals during the year, although it is recognised that no issues were identified around the accounting of Fixed Assets during the 2014/15 accounts audit.</p>	<p>a) In line with good practice, additions should be recognised during the financial year to ensure that capitalisation of assets is recorded in a timely manner in the general ledger and the depreciation figure is accurate; and</p> <p>b) In line with best practice, disposals should be recognised during the financial year to ensure that the Council's general ledger is up-to-date and the depreciation figure is accurate.</p>	
Management response		Responsible Officer	Deadline
<p>The Council's depreciation policy, as per the statement of accounts, is to charge a full year of deprecation in the year of disposal and none in the year of acquisition regardless of when the transaction takes place. There is therefore no impact on depreciation accuracy by only processing additions and disposals to the fixed asset register stored within the finance system at the end of the financial year. It is therefore not intended to change the current process.</p>		N/A	N/A

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P	Detailed finding	Recommendation	
2	<p>BM4: CSG recharges</p> <p>The cost of the support services provided to the Council by CSG are charged to cost centres based on usage during the year. We found that budget managers of the cost centres are not provided with a forecast of the CSG re-charges which will be applied to their budgets. They have no budget allocated to their cost centre at the start of the year against account 821105 'CSG Doc Solutions'.</p> <p>Guidance documents for the Procurement recharges could not be obtained hence were not reviewed.</p> <p>We have examined the guidance documents on the staff intranet with regards to the recharges for printing and post. The guidance documents are located in separate sections of the intranet and are not clearly grouped for the benefit of the budget holders.</p>	<p>a) A budget for CSG recharges should be provided to the budget holders at the beginning of the year. For example, for printing the estimate could be based on the printing activity in the prior year;</p> <p>b) The guidance documents for methodology for recharges calculation should be grouped on the staff intranet to enable ease of access for budget holders;</p> <p>c) Guidance documents for procurement recharges should be prepared and uploaded on the staff intranet.</p>	
Management response		Responsible Officer	Deadline
<p>Agreed. A review of the relevant recharges will be undertaken and guidance documents explaining all recharges will be made easily accessible on the intranet.</p>		Head of Finance, CSG	30 June 2016

5. Follow-up on 2014/15 control design recommendation

P	Detailed finding – October 2014	Recommendation	Management Response
2	<p>P1: Authorisation of Payroll to General Ledger reconciliation</p> <p>The reconciliation has only been performed once since April 2014 rather than on a monthly basis. This is due to the implementation of the Integra system that occurred at this time. It was noted that the reconciliation performed has not been reviewed and authorised by a suitable member of staff.</p>	Reconciliations should be performed on a monthly basis and should be authorised by a senior member of the finance team on a timely basis. Both preparer and authoriser should sign and date the reconciliation and archive it appropriately.	The reconciliation of the payroll postings have been delayed following the implementation of Integra (new finance system) and Core and Resource Link (two new payroll systems) as well as the transfer of functions between non finance and finance personnel. The reconciliations are now in progress and being completed. These will be completed on a monthly basis by a member of the Closing and Monitoring team and reviewed and authorised by the Finance Manager.
Follow-up work performed – January 2016			Conclusion
As part of testing for the control P1 for Non-schools Payroll, the monthly reconciliation for payroll to the GL for October 2015 and December 2015 have been examined. We confirmed that that the reconciliations were performed in a timely manner, all reconciling items were explained and the reconciliations were prepared and authorised by different members of staff.			Implemented
Management response			
N/A - recommendation fully implemented.			

Key Financial Controls

Timetable	
Terms of reference issued	10 February 2016
Fieldwork completed	15 March 2016
Draft report issued	24 March 2016
Management responses received	11 April 2016
Final report issued	11 April 2016





Appendix A: Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below:

- The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.
- Recommendations for improvements should be assessed by you for their full impact before they are implemented.
- The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.
- Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents.
- Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

	Substantial Assurance	There is a sound system of internal control designed to achieve the system objectives. The control processes tested are being consistently applied.
	Satisfactory Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.
	Limited Assurance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the system objectives at risk.
	No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Priorities assigned to recommendations are based on the following criteria:

1. **High** – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
2. **Medium** – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 – 6 months.
3. **Low** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.