

For publication

Summary of Internal Audit Reports Issued 2016/17

Meeting:	Standards and Audit Committee
Date:	24th May 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

1.1 To present for members' information a summary of Internal Audit Reports issued during the period 14th January 2017 – 5th May 2017 in respect of reports issued relating to the 2016/17 internal audit plans. This is the last progress report in relation to the 2016/17 internal audit plan.

2.0 Recommendations

2.1 That the report be noted.

3.0 Report details

3.1 The Public Sector Internal Audit Standards require that the Internal Audit Consortium Manager reports periodically to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.

3.2 Attached, as Appendix A, is a summary of reports issued covering the period 14th January 2017 to 5th May 2017, for audits included in the 2016/17 internal audit plan.

- 3.3 As requested previously, Members have been provided with copies of the marginal reports issued in respect of accounts payable, payroll and housing repairs. A summary of the key issues for each of these reports is detailed in Appendix B.
- 3.4 Appendix A shows for each report a summary of the scope and objectives of the audit, the overall conclusion of the audit and the number of recommendations made / agreed where a full response has been received.
- 3.5 The conclusion column of Appendix A gives an overall assessment of the reliability of the internal controls examined in accordance with the following classifications:

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

- 3.6 In respect of the audits being reported, it is confirmed that there were no issues arising relating to fraud that need to be brought to the Committees attention.

4.0 **Human resources/people management implications**

- 4.1 There are no Human Resources Implications.

5.0 **Financial implications**

- 5.1 There are no financial implications.

6.0 **Legal and data protection implications**

6.1 There are no legal or data protection implications.

7.0 **Consultation**

7.1 Not Applicable

8.0 **Risk management**

8.1 The production of this report ensures that Members charged with governance are aware of any internal control weaknesses or fraud identified by internal audit.

9.0 **Equalities Impact Assessment (EIA)**

9.1 Not applicable.

10.0 **Alternative options and reasons for rejection**

10.1 The report is for information.

11.0 **Recommendations**

11.1 That the report be noted.

12.0 **Reasons for recommendations**

12.1 To inform Members of the internal audit reports issued in order that the strength of the internal controls in place can be assessed.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix A	Summary of Internal Audit Reports Issued
Appendix B	Summary of the key issues in relation to marginal reports

Chesterfield Borough Council – Internal Audit Consortium**Report to Standards and Audit Committee****Summary of Internal Audit Reports Issued 2016/17– Period 14th January 2017 – 5th May 2017**

Report Ref No.	Report Title	Scope & Objectives	Overall Opinion	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
25	Payroll	To ensure that the Council's Payroll is processed promptly and accurately	Marginal	20/02/17	13/03/17	24/3/17	9	9
26	Accounts Payable	To ensure that orders are raised and that invoices are paid promptly and accurately	Marginal	7/03/17	28/3/17	24/3/17	11	11
27	Commercial Waste	To ensure that fees and charges are charged and collected promptly	Good	24/3/17	14/4/17	2/05/17	1	1
28	Agresso FMS and Budgetary control	To ensure that main accounting and budgetary control procedures are operating effectively	Good	27/03/17	17/04/17	N/A	0	0
29	Housing Repairs Responsive	To ensure that the systems and procedures in place are operating.	Marginal	7/4/17	3/5/17		12	Note 2

Note 1 The response had not been received at the time of writing the report

Note 2 The response was not due at the time of writing the report

Summary of the key issues in relation to marginal reports

Payroll

The marginal conclusion in respect of payroll was based mainly on the volume of errors identified during testing. Errors related to:-

- Initial pay calculations being incorrect for new starters
- Inaccurate sickness records
- Incorrect overtime payments
- Incorrect pay changes
- Third party deductions not being paid over promptly or accurately (AVC Prudential and Ashgate Hospice).

The level of errors if reflective over the whole Payroll calls in to question the accuracy and integrity of payroll data and the payments made.

In addition to the above not all requests for payment were made by an authorised signatory and Payroll do not hold an up to date signatory list. The risk is that payment requests could be made by a person without the authority to do so or falsified claims may be submitted and paid.

A detailed positive response has been received from the HR Manager. Some of the issues arose due to staff shortages within Payroll that it is stated have now been resolved and that staff training has been/is taking place. Some of the issues relate to CBC as well as Arvato.

Accounts Payable

The key issue here is that there was no evidence that all requests to change suppliers bank details were being properly verified before actioned. It is a common

scam for there to be fraudulent attempts to change bank details thereby diverting payments to an illegitimate payee. This fraud has been attempted previously at CBC but the controls in place at that time prevented it however these controls appear to have lapsed on occasions.

The risk is that a large payment could inadvertently be made to a fraudster and the wrong bank account.

It is also important that any errors that would have or have resulted in an incorrect payment be recorded so that this can be used as a learning/training tool.

Another key risk identified was that the Microfax system is being used for around 20 hours a week to complete remittance faxing. This system currently runs on Windows XP. The Council was granted PSN compliance in 2014/15 on the condition that all Windows XP machines were removed. There is a risk that this could endanger the Council's achievement of PSN compliance in the future.

A comprehensive response has been received from the HR Manager and further discussions have taken place with internal audit and the client officer as to the best means to reduce the risks identified.

Housing Repairs

The key issue here is that the Council introduced the COINS system as a new housing repairs system however it cannot yet produce comprehensive job costing details. This is significant in terms of being able to monitor the profit/loss made on both internal and external jobs. The budget for introducing the system has already greatly overrun and further investment could well be required to ensure that the system can produce the required information.

The new Commercial Services Manager has placed the development of the COINS system on hold whilst a review is undertaken.

The risk is that the Council has a system that is not fit for purpose if it cannot produce the required information.

At the time of writing this report a response had not yet been received from the Commercial Services Manager.