

GWYNEDD COUNCIL

COMMITTEE	AUDIT COMMITTEE
DATE	27 SEPTEMBER 2012
TITLE	OUTPUT OF THE INTERNAL AUDIT SECTION
PURPOSE OF REPORT	TO OUTLINE THE WORK OF THE INTERNAL AUDIT SECTION FOR THE PERIOD TO 31 JULY 2012
AUTHOR	DEWI MORGAN, SENIOR MANAGER AUDIT AND RISK
ACTION	TO RECEIVE THE REPORT, COMMENT ON THE CONTENTS AND SUPPORT THE RECOMMENDATIONS THAT HAVE ALREADY BEEN PRESENTED TO SERVICES FOR IMPLEMENTATION

1. INTRODUCTION

- 1.1 The following report summarises the work of the Internal Audit Section for the period from 01 April 2012 to 31 July 2012.

2. WORK COMPLETED DURING THE PERIOD

- 2.1 The following audit work was completed in the period to 31 July 2012:

Description	Number
Reports on Audits from the Operational Plan	9
Other Reports (memoranda etc)	4
Grant Reviews	5
Follow-up Audits	1

Further details regarding this work are found in the body of this report and in the enclosed appendices.

2.2 Audit Reports

2.2.1 The following table shows the audits completed in the period to 31 July 2012, indicating the relevant opinion category and a reference to the relevant appendix.

TITLE	DEPARTMENT	SERVICE	OPINION	APPENDIX
School Milk Service	Education	Resources	B	Appendix 1
Recruitment - Identity Checks	Corporate		C	Appendix 2
Main Accounting System - Review of Key Controls	Finance	Accountancy	A	Appendix 3
Payroll System Exception Reports	Finance	Pensions and Payroll	B	Appendix 4
Payroll - BACS runs	Finance	Pensions and Payroll	A	Appendix 5
NNDR System - Review of Key Controls	Finance	Revenue	A	Appendix 6
Supported Housing - Imprest Accounts and Income	Provider and Leisure	Residential and Day	B	Appendix 7
New Work Connections Scheme	Economy and Community	Community Regeneration	B	Appendix 8
Licencing Unit	Regulatory	Public Protection	C	Appendix 9

2.2.2 The opinion categories within the reports affirm the following:

- Opinion "A" Assurance of financial propriety can be expressed as the controls in place can be relied upon and have been adhered to.
- Opinion "B" Controls are in place, and partial assurance of financial propriety can be expressed as there are aspects where some procedures can be strengthened.
- Opinion "C" Assurance of financial propriety cannot be expressed as the controls in place cannot be relied upon, but losses/fraud due to these weaknesses were not discovered.
- Opinion "CH" Assurance of financial propriety cannot be expressed as acceptable internal controls are not in place; losses / fraud resulting from these weaknesses were discovered.

2.2.3 In addition to the above, the following audits were undertaken where a memorandum was produced, rather than a full report, and an opinion category was not given:

- **Contribution to preparation of the Annual Governance Statement** (Corporate). The draft statement was presented to the Audit Committee on 12 July.
- **Undertaking Company Financial Assessment - NMWTRA Framework PQQ2** (Corporate). Officers from Gwynedd Consultancy were assisted in assessing the financial situation of companies that had expressed an interest in being on the contractor framework of the North and Mid Wales Trunk Road Agency.
- **"Potential" Project** (Economy and Community). The Potential project is a Regional Strategic project that has been developed and led by Gwynedd Council in joint sponsorship with three other Local Authorities, two Further Education Colleges and Careers Wales. The project is aimed at those at those 11-19 year olds that are at risk of disengagement, under-achieving, or failing in schools and Colleges. A grant towards the project is provided by the Welsh Government, and the special conditions of the grant required written confirmation from the Sponsor, the Economy and Community Department, that any acquisition will be done through Buy4Wales where necessary in accordance with WEFO guidelines, and that systems are in place to ensure that those involved in the development and management of Project Potential, and those responsible for conducting any procurement exercise, are separate to those who may tender for services as set out in the Business Plan. Internal Audit was asked to conduct a review to ensure that the Partners are working in accordance with special conditions. This encompassed enquiring with partners, checking any amendments to business plans and reviewing expenditure with external suppliers. We were able to confirm that the independent review work completed by Internal Audit shows that the services being acquired have, or will be acquired, through Buy4Wales where WEFO guidance insist on it. The audit work has also shown that arrangements are in place to ensure that those responsible for the procurement process are independent of those who have the potential to apply for the work, in accordance with to the second point in the special conditions.
- **Comparison of Final Accounts with Original Tender** (Gwynedd Consultancy). The 2012/13 Internal Audit Plan included the review "Comparison of Final Accounts with Original Tender". The purpose of the audit was to examine final accounts by comparing the final price of contracts with the tendered prices for contracts administered by Gwynedd Consultancy. The objective of the audit was to test the hypothesis that the final account amount of contracts that are awarded on the basis of both price and quality is closer to the tender price than the final account amount of contracts awarded on the basis of price alone. During the audit, we reviewed a total of 25 contracts. The contracts had all been based on price only, because they have been selected from North Wales Framework, with quality aspects having been considered when setting up the framework. It was not possible therefore to test the hypothesis since contracts awarded on the basis of price and quality were available for audit. When comparing the prices of contracts awarded on the basis of price alone, no pattern was seen in the variance between the tender price and the final account.

2.3 Grants

2.3.1 The administrative procedures for the following grants were reviewed during the period:

- Welsh Government Development Programme Extension for Thinking and Assessment for Learning Grant (*Education*)
- Foundation Stage 2011-12 Revenue Grant (*Education*)
- Primary Schools Free Breakfast Initiative Grant (*Education*)
- Youth Club Grants - Revenue Grant (*Economy and Community*)
- First Steps Improvement Package Grant (*Social Services*)

2.3.2 Although these grants have been reviewed by Internal Audit, this does not mean that external auditors from the Wales Audit Office or other agencies may undertake audits of these grants. However, it is expected that the work that Internal Audit has undertaken, and the assurance that can be stated with regards to the control environment, means that less audit work will be needed by these organisations. This, in turn, should mean a reduction in the fees that the Council will have to pay for an external audit.

2.4 Follow-up Audits

2.4.1 The following table summarises the follow-up work completed during the period:

TITLE	DEPARTMENT	SERVICE	FOLLOW-UP OPINION
Employment Status	Corporate		Acceptable

2.4.2 The conclusion of follow-up work is placed in one of four categories:

Excellent – all recommendations implemented as expected.

Acceptable – most recommendations, including the majority of “essential” recommendations, implemented as expected.

Unsatisfactory – several recommendations not implemented.

Unacceptable – most recommendations (including essential recommendations) not implemented, and no evidence of efforts to improve internal controls.

2.4.3 The list below shows the ‘C’ or ‘CH’ opinion category reports presented to the Audit Committee as appendices to the quarterly reports, where a report to the Committee regarding the follow-up remains outstanding. The list shows the target completion date for each of these follow-up audits:

Completion Target: Quarter ending 31 December 2012

Joint Commissioning with BCULHB
IT Security in Schools
Recruitment - Identity Checks

Completion Target: Quarter ending 31 March 2013

Information Security
Reducing Teacher Workload
Licencing Unit

3 WORK IN PROGRESS

3.1 The following work was in progress as at 1 August 2012.

3.2 Draft reports released

- Barclaycard Credit Cards (*Corporate*)
- Functions within the Capital Expenditure Monitoring Process (*Strategic and Improvement*)

3.3 Work in progress

- Appetite for Life Grant (*Education*)
- Community Focused Schools Childcare Allocation (*Education*)
- Appointment of Management Consultants, Education Department (*Education*)
- Supply Appointments (*Education*)
- Administration of Car Loans (*Human Resources*)
- Trunk Road Agency - invoices between councils (*North and Mid Wales Trunk Road Agency*)
- NFI (National Fraud Initiative) (*Corporate*)
- "The Workforce" Project (*Corporate*)
- Discretionary Benefits (*Finance*)
- General IT Controls: Council Tax, Benefits and NNDR (Follow-up to WAO audit) (*Finance*)
- Benefits System - Review of Key Controls (*Finance*)
- Debtors System - Review of Key Controls (*Finance*)
- Payroll System - Deductions of Tax and National Insurance (*Finance*)
- Payroll System - Parameters and Algorithms (*Finance*)
- Supervision of Duty Managers (*Provider and Leisure*)
- Control of Unofficial Funds (*Provider and Leisure*)
- Youth Clubs (*Economy and Community*)
- Protection from Legionella (*Customer Care*)
- Broker Service (*Social Services*)
- Social Services - Implementing Savings (*Social Services*)
- Accommodation for Young Persons leaving care (*Social Services*)
- Social Services Performance Measures - Accuracy of Core Data (*Social Services*)
- Social Services Contracting Arrangements (*Social Services*)
- Follow-up - Traffic Orders (-)
- Workshops - Health and Safety Supervision (*Highways and Municipal*)
- Appointment of Engineering Contractors (*Gwynedd Consultancy*)

4. RECOMMENDATION

4.1 The Committee is requested to accept this report on the work of the Internal Audit Section in the period from 1 April 2012 to 31 July 2012, comment on the contents in accordance with members' wishes, and support the recommendations already presented to the relevant service managers for implementation.

SCHOOL MILK SERVICE Education

Purpose of the Audit

Check arrangements for administering the school milk subsidy scheme to ensure that the subsidy is not suspended for a period.

Scope of the Audit

Claims for the 2011 summer and autumn terms were reviewed because new arrangements were introduced during Spring 2011 to try to improve the accuracy of the information that is received from the schools. Milk claims for Key Stage 1 and Key Stage 2 were reviewed.

Main Findings

The main points raised in this audit was that there were errors in every PY17 form from one school in the sample and that the figures in orders and invoices did not correspond with the accompanying form.

Audit Opinion

(B) The audit opinion is that partial assurance of financial propriety can be expressed in the School Milk Service as controls are in place, but there are aspects where some procedures can be strengthened. The main recommendations of the report are as follows:

- **The school should be contacted or visited to ensure they are aware of and understand the appropriate arrangement for recording information for claiming grant money for the milk.**
- **It should be ensured that the staff responsible for completing the PY17 forms are aware that the actual figure for the volume of milk drank, not the amount bought, that should be noted. The figure on the PY17 should reconcile with the school's record of pupils receiving milk.**
- **Schools should be advised to modify the pink copy of the milk order if there are any amendments, and sign at the end of the week to confirm the amount of milk supplied.**

RECRUITMENT - IDENTITY CHECKS

Corporate

Purpose of the Audit

The purpose of the audit is to ensure that suitable arrangements exist for testing the identity of new appointments to the Council and that the arrangements are adhered to.

Scope of the Audit

Ensure that arrangements are in place for undertaking identity checking by testing a sample of 48 new appointments since April 2011 and ensuring that proof of identity has been obtained maintained in compliance with the Immigration, Asylum and Nationality Act 2006.

Main Findings

A sample was taken of personnel files of officers that were newly appointed during the 2011/12 financial year. Of the selected sample of 25 files were in the care of Support Services - Personnel Administration. It was found that only 10 of these files included evidence that identity tests have been carried out. In addition, the letters sent to applicants referred to the incorrect legislation - the Asylum and Immigration Act 1996 rather than the Immigration, Asylum and Nationality Act 2006.

For the remainder of the sample, clarification was received from the officials who had responsibility for the management and administration of personnel files within the services. These officers confirmed that copies of identity checks were not kept on personnel files and some expressed that they did not believe that these tests are conducted.

It appears from the audit that no clear guidelines have been established for managers and officers who administrate personnel files on the arrangements, responsibilities and the importance of implementing and testing identity. Due to lack of evidence and guidelines, the auditor considers the Council does not have appropriate controls in place for managing the risk of illegal appointments.

Audit Opinion

(C) The audit opinion is that assurance of propriety cannot be expressed in Recruitment - Identity Checks as the controls in place cannot be relied upon, but losses/fraud due to these weaknesses were not discovered. The main recommendations of the report are as follows:

- **Personnel letters should be updated to ensure they are current and reflect changes in legislation and ensure that this will be established across the Council.**
- **Good practice guidance for managers in relation to "Recruitment, Selection and Appointment" arrangements which includes the arrangements for verifying evidence of entitlement to work in the UK should be placed on the intranet.**
- **The action that should be taken before appointing new officers, including steps to check identity, should be publicised, ie the need to verify identity, provide a certified photocopy, together with noting who has the responsibility and accountability for maintaining these procedures.**

MAIN ACCOUNTING SYSTEM - REVIEW OF KEY CONTROLS

Finance

Purpose of the Audit

The Code of Audit Practice of the Auditor General for Wales, April 2010, states that the external auditors, when carrying out their audit of the Council's accounts will rely, where possible on the work of Internal Audit (and others). As a result, the Joint Protocol between External Audit and Internal Audit, approved by the Audit Committee on 17 November 2011, states:

As part of their key role in reporting upon the adequacy of internal control, and providing a basis for the authority's Annual Governance Statement, which is required to be published with the Council's annual statement of accounts, it is expected that Internal Audit will test key controls of the Council's major financial systems on an annual basis

The main accounting system is considered a "major financial system" in accordance with the Wales Audit Office's definition, and there is consequently an intention to perform a review of the key controls of this system.

Scope of the Audit

This review will focus on the controls for maintaining the main accounting system and the transactions of 2011/12 including the year-end processes and opening of year 2012/13.

Main Findings

We found that the key controls that were reviewed are in place for the main accounting system. Measures were found to be in place to segregate duties based on roles, services and authorisation levels. Access rights to the system is managed centrally.

Procedures are in place to monitor budgets and report on variances. We identified some examples of budgets being input after the deadline had been set by the system administrators but every item in our sample have been input by the time of the first quarter expenditure monitoring. End of period processes are in place to ensure the accuracy of balances and transaction transfer. Procedures are in place to reconcile the system with bank statements, transfers of feeder systems and management accounts to ensure accuracy and propriety.

Audit Opinion

(A) The audit opinion is that assurance of financial propriety can be expressed in Main Accounting System - Review of Key Controls as the controls in place can be relied upon and have been adhered to.

PAYROLL SYSTEM EXCEPTION REPORTS

Finance

Purpose of the Audit

The purpose of the audit was to ensure that the Payroll Unit produces and reviews standard exception reports to identify and act on any significant variation in pay, and to ensure that officers in the Payroll Unit have received training and that guidance is available to undertake the checks.

Scope of the Audit

Enquire what kind of exception reports are produced in the Payroll Unit and check that sensible parameters have been established for the reports. Check if significant variances have been identified and that prompt action had been taken on any discrepancies. Enquire what kind of training has been provided to officers from the Payroll Unit and check that the arrangements have been incorporated in written guidelines and ensure their availability to staff.

Main Findings

It was found that the Payroll Unit has a system that produces exception reports automatically following a payroll run, with the reports kept electronically. For some of these exception reports, the parameters were established by the provider of payroll system, but the auditor saw that the parameters of some reports have been amended to meet the needs of the Council. In addition, the IT Service, at the request of the Payroll Unit has established additional exception reports in order to meet further needs of the Unit and following recommendations made by Internal Audit in past reviews.

The "Payroll Checking Document" form has been established by the Payroll Unit, noting the exception reports that officers are expected to have reviewed following a payroll run. It is expected that officers complete the form and sign to confirm the action. From the sample selected for the audit, it was seen that the majority of the forms had been fully completed by the Payroll Unit officers but there were a few cases where it appeared that the form had not been completed fully and signed by officers and supervisors.

Audit Opinion

(B) The audit opinion is that partial assurance of financial propriety can be expressed in Payroll System Exception Reports as controls are in place, but there are aspects where some procedures can be strengthened. The main recommendations of the report are as follows:

- **Part 2.7 of the payroll manual should be updated to reflect the current needs of the Unit in relation to checking exception reports after running a payroll.**
- **Officers and Supervisors of the Payroll Unit should be reminded of the need to complete the "Payroll Checking Document" fully after checking exception reports following a payroll run.**

PAYROLL - BACS RUNS
Finance

Purpose of the Audit

The purpose of the audit is to review the arrangements that exist for the presenting and transferring BACS runs for various payrolls.

Scope of the Audit

The audit will include discussions with relevant officials and review of documentation and procedures in the Payroll Unit and the Information Technology Unit.

Main Findings

It was discovered that an agreed timetable has been established for the various stages of completing payroll BACS runs, with the Payroll and IT Units confirming that discussion took place before the start of financial year in order to establish a timetable. In addition, it was confirmed that the issue of the impact of statutory holidays was taken into account when establishing the schedule.

The Payroll Unit and IT Unit both explained that they have arrangements in place to ensure continuity of service during a period of officer absence to ensure that wages are paid timely.

Audit Opinion

- (A) The audit opinion is that assurance of financial propriety can be expressed in Payroll - BACS runs as the controls in place can be relied upon and have been adhered to.**

NNDR SYSTEM - REVIEW OF KEY CONTROLS

Finance

Purpose of the Audit

The Code of Audit Practice of the Auditor General for Wales, April 2010, states that the external auditors, when carrying out their audit of the Council's accounts will rely, where possible on the work of Internal Audit (and others). As a result, the Joint Protocol between External Audit and Internal Audit, approved by the Audit Committee on 17 November 2011, states:

As part of their key role in reporting upon the adequacy of internal control, and providing a basis for the authority's Annual Governance Statement, which is required to be published with the Council's annual statement of accounts, it is expected that Internal Audit will test key controls of the Council's major financial systems on an annual basis

The National Non-Domestic Rates system is considered a "major financial system" in accordance with the Wales Audit Office's definition, and there is consequently an intention to perform a review of the key controls of this system.

The purpose of the audit is to ensure that Non-Domestic Rates bills have been set correctly and in accordance with rateable values set by the Valuation Office and that there are appropriate processes for collecting, recording and monitoring the payments.

Scope of the Audit

Review and test that guidelines, records and procedures are in place for managing, collecting and recording the Non-Domestic Rates for 2011-12.

Main Findings

Appropriate procedures and processes we found to be in place for all key controls of the Non-Domestic Rates system. Appropriate reconciliations were found to be taking place to ensure the accuracy of Rateable Values of establishments in the system, along with the number of bills. It was found that system parameters complied with legislation and the relevant guidance for implementing the bill calculation multiplier and implementing abatements, where applicable. It was explained that procedures are in place to review cases where discretionary relief is being allowed and that appropriate processes are in place to contact organisations that miss payments and to refer them to the recovery process if this is not successful in recovering debts.

Separation of duties is in place in the process of creating refunds and it was found that a full audit trail shows the actions of individuals in this area and others. The auditor enquired about the income reconciliation procedures and found that reconciliations are undertaken on a daily, monthly and annual basis and that performance monitoring arrangements are in place and operational.

Audit Opinion

(A) The audit opinion is that assurance of financial propriety can be expressed in NNDR System - Review of Key Controls as the controls in place can be relied upon and have been adhered to.

SUPPORTED HOUSING - IMPREST ACCOUNTS AND INCOME

Provider and Leisure

Purpose of the Audit

To ensure that imprest account and house account arrangements for Supported Houses are appropriate and in accordance with rules and procedures of the Council.

Scope of the Audit

To audit the imprest accounts and house accounts in 2011/12 according to the financial ledger. A sample of five house from the Supported Housing service was selected, namely 106 Lon Abererch (Pwllheli), 25 Cefn Hendre (Caernarfon), 6 Llanberis Road (Caernarfon), 24 Cefn Cadnant (Caernarfon) and 4 Bryn Rhos (Caernarfon).

Main Findings

Following the re-structuring of the service it was seen that three Housing Support Managers are now responsible for the houses across Gwynedd. At the time of the audit it was seen that two of the managers were in post and that the department has appointed another manager following a resignation. Inconsistent arrangements were found across the homes in relation to house accounts as a number of different accounts exist for the clients with some of them managed by the Client Assets Management Unit. It was seen that the homes do not have house accounts, which increases the risk of inconsistency and error within the home. There are issues that have arisen with imprest accounts during the audit with claims going into debt and only one officer was authorised to sign the applications in some houses. For this reason, appropriate measures should be taken to strengthen the arrangements within the area audited.

Audit Opinion

(B) The audit opinion is that partial assurance of financial propriety can be expressed in Supported Housing - Imprest Accounts and Income as controls are in place, but there are aspects where some procedures can be strengthened. The main recommendations of the report are as follows:

- **Dated and signed records of who change the codes of the safes in the houses should be kept.**
- **House Managers should be aware of the cash retention insurance policy, that a copy of the insurance policy is kept in the houses and record that staff have read and understand this policy and that it is adhered to in the future.**
- **In the absence of the manager, another responsible and relevant officer should check the supported housing finance reports.**
- **An independent officer should review and sign the financial records at random.**
- **There should be a written record of client contributions to the house accounts which have been agreed with the client / appointee.**
- **Officers should meet and agree on the appropriate way forward to automate the process of paying utility bills and to come to a definite decision on having a house account.**

NEW WORK CONNECTIONS SCHEME

Economy and Community

Purpose of the Audit

To ensure that the New Work Connections project is administrated appropriately and in accordance with WEFO requirements.

Scope of the Audit

To check arrangements for administering the project, ensuring that the arrangements comply with the terms and conditions of the grant. Check also that the expected controls are in place to mitigate any risk relating to such grant.

Main Findings

Neat and orderly arrangement were found to be in place for the administration of this project with appropriate provision for the majority of the requirements in the terms and conditions of the grant. However there are some requirements in the terms that have been missed, such as the need to include the percentage of grant money used to pay for assets and what will happen to the assets at the end of the project. It would also be advantageous if the Economy and Community Department and the Housing and Social Services Department were aware of their responsibilities.

The special conditions that are included in the terms of the grant specifies the need to include the element of environmental sustainability within the training that is provided through the grant. Although there is some complexity about how to achieve this in a way that is understandable to clients, work is in progress to seek to achieve this.

Audit Opinion

(B) The audit opinion is that partial assurance of financial propriety can be expressed in New Work Connections Scheme as controls are in place, but there are aspects where some procedures can be strengthened. The main recommendations of the report are as follows:

- **There should be a record of agreed responsibilities and expectations for the Economy and Community Department and Housing and Social Services Department, or a service level agreement be established.**
- **Discussions should be held with the Regional Group on adapting the informations sharing permission forms so that the client indicates Yes or No rather than tick the box, which is open to the risk of being filled by an unauthorised person after the form has been signed.**
- **The list of assets should include all the information required by the terms and conditions of the grant.**
- **WEFO should be contacted to find out what should be done with assets that have been funded by the grant once the project ends.**

LICENCING UNIT Regulatory

Purpose of the Audit

Ensure that arrangements within the Public Protection Unit are sufficient and reliable for the processing of applications and licence fees in accordance with industry rules and standards.

Scope of the Audit

Audit the service's arrangements for the preparation, processing, and recording of operating licenses at the request of the Operational Systems Manager and the Public Protection Service.

Main Findings

Tests were undertaken on 18 internal controls. The tests showed that good internal controls were present in 7 of these areas. The main weaknesses identified during the audit was that it was not possible to give complete reliance on the procedures that are currently in place within the Public Protection Service and the service has not prepared for the changes in the Licensing Act 2003 which came into force on 25 April 2012. The service in the development of the Civica (Flair) system.

Audit Opinion

(C) The audit opinion is that assurance of financial propriety cannot be expressed in Licencing Unit as the controls in place cannot be relied upon, but losses/fraud due to these weaknesses were not discovered. The main recommendations of the report are as follows:

- **Ensure that statements of the policies relevant to the Licensing Act 2003 and Gambling Act 2005 will be dated with the date on which the policy was reviewed and published.**
- **There should be a statement of the Gambling Policy on the Council's public website.**
- **The total fees and the date of receipt should be entered onto the "Civica" system.**
- **Where a payment received contains more than one fee it should be possible to see the cost of each individual item.**
- **The revised fees should be approved by the Central Licensing Committee or the relevant Portfolio Leader.**
- **The fee list should differentiate between fees and the cost of a CRB check and the fee for administering the application.**
- **The Licensing Officers should produce reports from the Civica (Flair) system on a regular basis.**
- **The reports should be reviewed and any error identified corrected to ensure that Civica (Flair) system is current.**
- **The reports should be used to remind the holders of licenses of the need to renew their licence.**