

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 29 September 2008

Report Title: Chief Auditors Summary Audit and Risk Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of Internal Audit Findings. The summary Audit and Risk Report attached contains the results of; Payroll, Debtors and Risk review of White Rock Theatre.

Recommendation(s)

1. That the report is noted.

Reasons for Recommendations

To be made aware of current risks that have been evaluated.

Background

The summary reports of recently conducted audits are attached below.

Report to Audit Committee

Payroll

Background Information

The Council employs over 500 staff with an annual salary cost amounting to £16.5 million.

This review was undertaken as part of the agreed audit plan for 2007/8. The audit approach has been to confirm compliance with statutory requirements and identification of Best Practice and operational efficiency.

An audit of the implementation of the Midland-Trent human resources/payroll system was undertaken in 2006/7. A full audit of the payroll system was last carried out in 2004//2005.

Overall Audit Assessment: "A" Good

Controls are in place and are working. Recommendations made in the 2006/2007 review have been implemented.

Key Findings

The Midland-Trent database is used by both the human resources and the payroll sections of the Personnel Department. The audit has confirmed that there are the required division of responsibilities and internal checks necessary to provide an assurance on the accuracy of the payroll.

The Hastings site is used as a centre of good practice by Midland-Trent who recommends new potential customers to visit the site.

On 2 occasions in the past year salaries had been incorrectly paid to staff who have left and these monies have had to be recovered. This was as a result of managers not following the agreed leavers' procedures which have resulted in the payroll staff being unaware the employee has left.

Management Response

The findings are accepted and management are progressing the recommendations.



Payroll Audit Recommendations

Rec No	Recommendation	Priority	Target Date	Responsible Officer	Management Comment
1	Overtime reports are produced and issued on a monthly basis to the appropriate managers to highlight high levels of overtime working.	Medium	Dec-08	TRENT Management Information Officer	Accepted
2	Managers are made aware of their responsibilities with regard to notifying personnel/payroll of all terminations of employment. This will include placing a comprehensive copy of the process and procedure for all aspects of a member of staff's termination	Medium	Dec-08	Head of Personnel and Organisational Development	Accepted

High = Fundamental System Weakness - Action essential
 Medium - Potential Control Weakness - action required
 Low - Advised for Best Practice



Report to Audit Committee

Debtors

Background Information

The Debtors system is an integrated module of the Agresso Financial Management System and is used to process invoices in relation to property rents, foreshore rents, allotments, and other ad hoc billings for services such as building control and crematoria. Executive Directors are responsible for maintaining adequate records to identify amounts due to the council. Information is then passed to the Revenues Division who organise collection. In the case of regular recurring payments e.g. factory rents a periodic income record is set up, which automatically generates invoices and highlights rent review dates or end dates on contracts. The income officer pursues outstanding debts. Where necessary, debts are referred to the authority's legal department for recovery through the courts.

This review was undertaken as part of the 2008/9 agreed audit plan. The level of Invoices raised and Income received is substantial but inevitably varies from year to year. For the year ended 31.3.2008 income received amounted to £11 million. The service plays a vital role in the economy of the Borough; therefore it is imperative that the service is carried out effectively, efficiently and economically.

The last systems audit of this activity was undertaken in 2006/7 followed by a compliance review in 2007 following the introduction of International Auditing Standards. The 2006/7 review graded the service as B: Satisfactory. 5 recommendations for improvement were made and accepted by management.

Audit Approach

The audit approach has been to confirm compliance with statutory requirements, operational economy, effectiveness and efficiency. The audit was conducted in accordance with International Standards for the Professional Practice of Internal Audit (Institute of Internal Auditors 2003) and CIPFA System Based Auditing Control Matrices.

Overall Audit Assessment: "A" – Good

Controls are in place and are working effectively.

Key Findings

There is strong stewardship of this area by senior management who meet regularly. A revised risk assessment for the service is being undertaken.

Separation of duties between raising of invoices and receipt of cash is considered to be good

Procedures for collecting outstanding debts were considered to be satisfactory.

Performance targets for factory rental arrears as a percentage of income and level of aged indebtedness have been set. Performance has exceeded targets.

Most recommendations made in the previous review have been implemented. However the recommendation for an independent review of Agresso system security remains outstanding.

Management Response: Report agreed



Debtors Audit Recommendations

Rec No	Recommendation	Priority	Target Date	Responsible Officer	Management Comment
1	An independent review should be carried out across the shared platform to ensure confidentiality, integrity and availability of the system.	High	Nov-08	Chief Auditor	Accepted. An IT audit is planned to begin at the end of September 2008 to which the Chief Auditor has had an input to its scope
2	The level of risk should be considered and documented using the GRACE system to identify those departments most at risk and appropriate action considered.	Medium	Dec-08	Head of Revenues / Chief Auditor	Accepted. Risk Assessment planned to start in September 2008
3	Contingency arrangements should be in place to ensure that a monthly reconciliation can be carried out when the income officer is absent or at other times under her supervision when considered necessary.	Medium	Dec-08	Head of Revenues	Accepted

High = Fundamental System Weakness - Action essential
 Medium - Potential Control Weakness - action required
 Low - Advised for Best Practice



Report to Audit Committee

Risk review of White Rock Theatre

Background Information

A review of White Rock Theatre was last undertaken in March 2006. The audit approach at that time was a risk based one, which met the requirements of the Risk Management Framework introduced in 2003. As part of the authorities ongoing commitment to improvement and adoption of Best Practice a revised risk management framework is being introduced in 2008.

Under these new arrangements Heads of Service enter Risk details into a computerised Risk Register (known as GRACE). Data entered comprises, potential impact if the risk should occur, likelihood of occurrence, and measures (controls) in place to mitigate the risk to an acceptable level. The system then calculates the Net Risk Score. Heads of Service are required to update information when significant change occurs and, where appropriate, improve upon existing controls.

Audit and Investigations administer GRACE, monitor quality of data entered and the Net Risk Score. Risk Scores are then prioritised and the results inform the Audit plan.

Audit and Investigations are also responsible for following up improvement recommendations made in previous reviews. The 2006 review rated the management of the White Rock Theatre service as "Good", and no improvement recommendations were made. Whilst this would normally place the service in a lower risk category, risk has remained high due to premature notice of termination by the contractor in November 2006. This review has therefore been undertaken to ensure continued effectiveness of contract management arrangements during the termination period and to provide assurance on the new contract tendering arrangements.

The current contract was let to Clear Channel in 2002; who subsequently changed their title to Live Nation. For the purposes of this report the new title of Live Nation is used.

Audit Approach

The Audit approach has been to:

Examine the Risk Assessment for adequacy and completeness.

Test Mitigating controls for adequacy and effectiveness.

Discuss assessments with appropriate officers.

Examine documents.

Discuss tendering arrangements for the new contract

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit (Institute of Internal Auditors, 2003).

Overall Audit Assessment: "B" – Satisfactory.

This aspect of the Council's activities was last audited in 2006. The service was then graded as A: Good.



Precise comparison of the current audit assessment with the earlier assessment is not possible due to many changes brought about by improvements to the Risk Management Framework and audit approach. The new risk assessment framework is more robust and provides a more useful base line against which to measure control and improvement opportunities.

Internal Audit is satisfied that the new risk assessment requirements are understood by the risk owner and are generally effective. Most significant risks in establishing a new contract have been identified, impact and likelihood effectively considered and adequate and effective controls are being established. A small number of additional risks were identified by the review and provided opportunity for further control improvement. These were discussed with the risk owner and where possible implemented during the audit.

Key Findings

Audit and Investigations believe that the Client Officer is taking reasonable action to ensure:

Adequacy of the current contractor's performance during the difficult final period of the contract.

Improved documentation for the new contract.

Timely appointment of a new contractor.

Continuity of service during the handover period.

Audit and Investigations believe however that under the current contract, management has not carried out sufficient checks to ensure the current contractor holds important annual certificates. These have now been obtained, however if checks are not undertaken in a timely manner there could be significant risk if an incident were to occur. The Client Officer should ensure timely receipt of certificates by introducing a system of periodic quality checks.

Management Response

Report and recommendations have been agreed and the action plan is being progressed.



Risk Review of White Rock Theatre Recommendations Action Plan

Rec No	Recommendation	Priority	Target Date	Responsible Officer	Management Comment
1	That the Risk Assessment for the service considers the risk of inadequate resources to ensure contractor compliance.	High	Sep-08	Head Of Leisure Services	Accepted and implemented
2	That the Client Officer maintains quality check data, undertakes regular quality checks and retains the results of quality checks on file.	Medium	Dec-08	Head Of Leisure Services	Accepted
3	That responsibility for undertaking inspections and maintaining the register and making it available to contractors undertaking work should be clarified within the new contract.	High	Sep-08	Head Of Leisure Services	Accepted and implemented
4	That the Client Officer ensures recommendations arising from external inspections are implemented in a timely manner.	Low	Jun-09	Head Of Leisure Services	Accepted
5	That the new contractor periodically provides an updated inventory list to the Client Officer who should undertake checks to ensure completeness and accuracy.	Low	Jun-09	Head Of Leisure Services	Accepted
6	That the Client Officer ensures details of current key holders are obtained from the current / new contractor.	Medium	Dec-08	Head Of Leisure Services	Accepted
7	That the new contractor meets regularly with the Friends of the Theatre and minutes of meetings are copied to the Client Officer for monitoring purposes.	Low	Jun-09	Head Of Leisure Services	Accepted
	High = Fundamental System Weakness - Action essential				
	Medium - Potential Control Weakness - action required				
	Low - Advised for Best Practice				



Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No

Supporting Documents

Internal Audit Reports of Payroll, Debtors and White Rock Theatre.

Officer to Contact

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