

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28th January 2016

THE INTERNAL AUDIT PROGRESS REPORT OF THE SERVICE MANAGER OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Sam Morgan, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

To present the progress report of internal audit work with regard to the 2015/16 audit work.

2. RECOMMENDATIONS

The Committee is asked to RESOLVE that the report be noted.

3. KEY ISSUES

Financial Implications

3.1 There are no direct financial implications arising out of this report.

Legal Implications

3.2 The Council is required under the Accounts and Audit Regulations 2015 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

Service / Operational Implications

3.3 The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council’s Annual Governance Statement.

This section of the report provides commentary on Internal Audit’s performance for the period 01st April 2015 to 31st December 2015 against the performance indicators agreed for the service and further information on other aspects of the service delivery.

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AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (24th SEPTEMBER 2015):

Member's Allowances

The outcome of this review found generally there is a sound system of control in place over the annual review and approval of the Members Scheme operating in Redditch and also the subsequent implementation of Members Allowances. Members Allowances were found to be compliant with the Scheme and Members are remunerated at the appropriate rate and in respect of eligible duties only.

The review found the following areas of the system were working well:

- Planning and execution of the annual review cycle
- Communication and guidance to Members on their Allowances Scheme, as part of a programme of Members induction.
- Compliance with the Members Allowances Scheme and its eligibility rules
- Payment of Members Allowances Basic and Special Responsibility Allowances in accordance with the Members Scheme.
- Processing of Travel Allowances, with modest expenditure evidenced and checks consistently applied.

The review found the following areas of the system where controls could be strengthened:

- Inclusion of Broadband Allowances within the scope of the main Scheme of Allowances to provide greater transparency.
- Greater transparency over payments for data and mobile phone charges associated with Members use of iPads and mobile phones.
- Improved control of changes in allowances data as a basis for Payroll input

There were two 'medium' and no 'high' priority recommendations reported.

Audit Type: Full System audit

Final Report Issued: 2nd October 2015

Assurance: Significant

Leisure – consumables, equipment and goods for resale

The audit reviewed and critically appraised the systems and processes in place in the following areas:

- Policies and procedures in place for procuring consumables, equipment and goods for resale;
- Procurement arrangements including where applicable, collaborative procurement exercises across all sites to ensure the council is obtaining value for money and fit for purpose products;

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- Current arrangements in place for undertaking the smaller daily maintenance jobs including cost review where applicable;
- Stock control procedures in place for consumables, equipment and goods for resale including stock takes/reconciliations; ascertain whether a consistent approach is applied across all sites and if not would this be beneficial;
- Stores and supplies monitoring and arrangements in place to ensure that stock levels match/meet business demand throughout various times of the year and do not tie up unnecessary resources;
- Management reviews undertaken of goods for resale across all sites to ensure there is true customer demand and business need; an effective authorisation process is in place prior to replenishing stock and buying 'new lines';
- Process for agreeing the sale price of goods for resale; including consideration to supply and demand when setting 'mark up' where appropriate.

A comprehensive action plan has been agreed with management in regard to procurement, stock control and budgetary control.

Audit Type: Critical Review

Final Report Issued: 4th January 2016

Assurance: N/a

Treasury Management

The review found there is a generally sound system of internal control in place but our testing has identified isolated weaknesses in the design of controls and inconsistent application of controls in a small number of areas.

The review found the following areas of the system were working well:

- Investments and borrowing are being made in line with the agreed Treasury Management Strategy.
- Investments and borrowings are being made appropriately to suitable institutions which comply to the agreed list of criteria.
- Interest is being received and paid on a timely basis.
- All monies not immediately required are being invested prudently
- All investments are being electronically authorised correctly.

The review found the following areas of the system where controls could be strengthened:

- The reconciliation process is not being appropriately performed or authorised by a senior officer
- The audit trail for all transactions is not always complete.
- There is incorrect coding by Cashiers relating to the Treasury Management ledger codes.

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There were two 'medium' and no 'high priority' recommendations reported.

Audit Type: Full System audit

Final Report Issued: 4th December 2015

Assurance: Significant

Gas Servicing and Maintenance Contract

An investigation was concluded in regard to the contract delivery with several recommendations being reported. Subsequent actions are continuing and Members are being informed of developments.

Summary of assurance levels:

2015/16	
Member's Allowances	Significant
Leisure	Critical Review
Treasury Management	Significant

2015/16 AUDIT WORK WHICH IS ONGOING

Although work on the following audits is continuing draft reports have been issued. As soon as a management response is received and the audits finalised notification of their outcome will be brought before committee for consideration. Audits include:

Stores intervention
Safeguarding
Section 106s
CCTV

Audit work is also continuing but drawing to a close in respect of the following audits:

Leisure – banking
Reconciliation process
Council Tax
Non Domestic Rates (NNDR)
Benefits
Website Security
Performance Management Framework
ICT
Corporate Governance

The outcomes of these audits will be reported in summary to the next available Committee after finalisation.

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3.4 AUDIT DAYS

The table in Appendix 1 shows the progress made towards delivering the 2015/16 Internal Audit Plan and achieving the targets set for the year. As at 31st December 2015 a total of 319 days had been delivered against an overall target of 400 days for 2015/16. The target days to the end of the quarter are in line with the target figure for the year as part of the key performance indicators for the service.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Committee on the 23rd April 2015 for 2015/16 and include an additional two indicators and management indicators.

Appendix 3 shows the tracking of completed audits.

Appendix 4 shows the 'high' and 'medium' priority recommendations for finalised which are reported to the Committee for information.

3.5 OTHER KEY AUDIT WORK

Much internal audit work is carried out "behind the scenes" but is not always the subject of a formal report. Productive audit time is accurately recorded against the service or function as appropriate. Examples include:

- Governance for example assisting with the Annual Government Statement
- Risk management
- Transformation review providing support as a 'critical appraisal'
- Dissemination of information regarding potential fraud cases likely to affect the Council
- Drawing managers' attention to specific audit or risk issues
- Audit advice and commentary
- Internal audit recommendations: follow up review to analyse progress
- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative.
- Investigations

The Worcestershire Internal Audit Shared Service (WAISS) is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards.

We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's

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operations. Where possible we will seek to place reliance on such work thus reducing the internal audit coverage as required.

WIASS confirms it acts independently in its role and provision of internal audit.

Customer / Equalities and Diversity Implications

3.6 There are no implications arising out of this report.

4. RISK MANAGEMENT

The main risks associated with the details included in this report are:

- Failure to complete the planned programme of audit work within the financial year; and,
- The continuous provision of an internal audit service is not maintained.

These risks are being managed via the 4Risk risk management system within the Finance and Resources risk area.

5. APPENDICES

Appendix 1 ~ Internal Audit Plan delivery 2015/16

Appendix 2 ~ Key performance indicators 2015/16

Appendix 3 ~ Tracking analysis of previous audits

Appendix 4 ~ 'High' and 'Medium' priority recommendations

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2015/16
1st April 2015 to 31st December 2015

Audit Area	DAYS USED TO 31/12/15	Forecasted days to the 31 st March 2016	2015/16 PLAN DAYS
Core Financial Systems (see note 1)	38	94	94
Corporate Audits(see note 2)	64	60	60
Other Systems Audits	190	192	192
TOTAL	292	346	346
Audit Management Meetings	15	20	20
Corporate Meetings / Reading	4	9	9
Annual Plans and Reports	5	12	12
Audit Committee support	3	13	13
Other chargeable	0	0	0
TOTAL	27	54	54
GRAND TOTAL	319	400	400

Note 1

Core Financial Systems are audited in quarters 3 and 4 in order to maximise the assurance provided for the Annual Governance Statement and Statement of Accounts.

Note 2

A number of the budgets in this section are 'on demand' (e.g. consultancy, investigations) so the requirements can fluctuate throughout the quarters

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APPENDIX 2

Key Performance Indicators (KPIs) for 01st April 2015 to 31st December 2015

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2015/16 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Redditch Borough Council.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Year End Position	2014/15 Year End Position	2015/16 Position (as at December 2015)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	12	21	3	None to report to date	Quarterly
2	No. of 'moderate' or below assurances	Downward	10	12	9	None to report to date	Quarterly
3	No. of customers who assess the service as excellent	Upward	2	5 (8 returns; 5 excellent & 3 good)	4 (7 returns; 4 excellent & 3 good)	1 (2 returns; 1 excellent & 1 good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 29 Delivered = 29	Target = 29 Delivered = 29	Target = 24 Delivered = 24	Target = 16 (minimum) Delivered = 3 (4 are at draft stage)	Quarterly
5	Percentage of plan delivered	100% of the agreed annual plan	N/A	N/A	N/A	80%	Quarterly
6	Service Productivity	Positive direction year on year (Annual target 74%)	N/A	N/A	N/A	73%	Quarterly

WAISS operates within and seeks to conform to the Public Sector Internal Audit Standards.

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Planned Follow Ups:

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports is logged. The table provides an indication of the action that is planned going forward in regard to the more recent audits providing assurance that a programme of follow up is operating.

To provide the Audit, Governance & Standards Committee with assurance we are following a comprehensive 'follow up' programme to ensure recommendations and risks have been addressed from previous audits. Commentary has been provided on audits as part of the normal reporting process. Previous audit year updates in regard to 'follow ups' will be provided every six months to avoid duplication of information. Any exceptions will be reported to the Committee immediately.

For some audits undertaken each year 'follow-ups' may not be necessary as these may be undertaken as part of the full audit. Other audits may not be time critical therefore will be prioritised as part of the over all work load and are assessed by the Team Leader.

Follow up in connection with the core financials is undertaken as part of the routine audits that were performed during quarter 3/4.

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Land Charges	18th July 2014	Head of Legal, Democratic and Equality Services	Moderate	2 "high" priority recommendations in relation to fees and charges and income reconciliation	Due to preparation of final accounts and training required on main ledger this has been delayed. 06/07/2015	Followed up 22nd September 2015. Still awaiting training but this is not considered to be a material risk to the Council	
Data Security, Publication and Disposal	9th September 2014	Head of Transformation and Organisation Development/ Executive director (Finance and Resources)	Moderate	1 "medium" priority recommendation re local government transparency code	Currently being undertaken as part of a further audit in this area		
DFGs and HRA grants	12th November 2014	Housing Strategy Manager	Significant	1 "medium" priority recommendations re the need to ensure documents are stored correctly	Followed up in September 2015. Implementation of the 1 medium priority recommendation is still in progress, whereby an electronic HIA filing system has been integrated, and paper files are being transferred to a single location for managing more effectively, completion expected end of October 2015 as part of the move to the new Parkside office.	Dec 15	

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Rent Arrears	27th October 2014	Head of Housing Services	Significant	1 "medium" priority to ensure procedure manual is updated to reflect change in procedures.	Followed up in June 15. The 1 medium recommendation is on-going, due to significant developments in working arrangements within the service. These are expected to be completed early 2016, with procedural guidance updated to cover the new working arrangements by March 16.	Mar-16	
Procurement	18th November 2014	Financial Services Manager	Significant	3 "medium" priority recommendations made in relation to ensuring value for money is obtained, contracts are relate at the appropriate times and that there is a clear procurement protocol in relation to procurement rules.	Followed up in June/ July 15. 1 medium priority recommendation concerning the updating of the contracts register has been implemented. 2 medium priority recommendations concerning the updating of the procurement guidance and the provision of training to staff on good procurement practice have not yet been implemented. Expected implementation of recommendations will be December 15.	Jan-16	
Reddicard concessions	11th February 2015	Leisure Services Manager	Moderate	2 "medium" priority recommendations made to ensure there is effective stock control of all concession cards and that independent checks are carried out when fees are updated at the start of each financial year.	Followed up. Awaiting Management confirmation Dec 2015		

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Asset Management	20th November 2014	Head of Customer Access and Financial support	Significant	1 "medium" priority re terms of reference for Joint Asset Management Group	Followed up in October 2015. The 1 'medium' priority recommendation relating to the terms of reference has been implemented. No further follow ups are required.		
Housing Repairs and Maintenance	22nd January 2015	Head of Housing Services	Moderate	4 "medium" priority recommendations to ensure that sufficient stock control, outstanding jobs are monitored, contractor performance is reviewed and retention is held back where applicable.	This has been followed up within a special request 2015/16 review. No further follow -ups of this report will therefore be required.		
Forge Mill	6th February 2015	Leisure Services Manager	Moderate	7 "medium" priority recommendations made re the need to ensure that stock is controlled, inventories are up to date, there are sufficient controls and separation of duties around receipting of income and access to safes are restricted.	Follow up undertaken 6 th August. 3 Recommendations implemented, 3 recommendations in progress in relation to stock reconciliation, inventory and fees& charges. One recommendation is not currently actioned; this is in relation to separation of duties in cashing up process. A second follow up to be undertaken in 3 months	November 2015 - *Forge Mill closes end of November due to seasonal trading* therefore will be followed up when it reopens for business	
Cash Receipting	29th January 2015	Head of Customer Access and Financial support	Moderate	1 "high" and 1 "medium priority recommendations re the need to ensure a PCIDSS certificate is obtained and that the suspense account is reviewed and cleared.	Followed up. Awaiting management information Dec 2015.		

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Payroll	15th May 2015	Financial Services Manager and Human resources & Organisational Development Manager	Significant	2 "medium" priority recommendations were made in relation to leaver's forms authorisation and submission to the payroll section.	Will be followed up as part of the 2015/16 Payroll Audit		
Corporate Governance - to appointments outside Bodies	16th July 2015	Head of legal Equalities and Democratic Services and Democratic Services Manager	Significant	1 "medium" priority recommendation re reporting of Members Appointment to Outside Bodies via the Members Annual Report.	Dec-15		
Risk Management	30th June 2015	Executive Director (Finance and Resources)	Critical Review	Action Plans were agreed and progress feedback will be sought in line with agreed implementation dates.	Follow-up of 2013/14 and 2014/15 audit being undertaken fourth quarter 2015/16		
Budget Setting	30th June 2015	Executive Director (Finance and Resources)	Critical Review	Action Plans were agreed and progress feedback will be sought in line with agreed implementation dates.	Dec-15		
Main Ledger	1st July 2015	Financial Services Manager	Moderate	3 "medium" priority recommendations were made in relation to VAT returns, Reconciliations and Feeder Systems	Will be followed up as part of the 2015/16 Main ledger Audit		
ICT	16th July 2015	Head of Transformation and Organisational Development, ICT Transformation Manager, ICT Operations Manager	Critical Review	Action Plans were agreed and progress feedback will be sought in line with agreed implementation dates.	Dec-15		

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Members Allowances	2nd October 2015	Head of Legal Equalities and Democratic Services and Democratic Services Manager	Significant	2 "medium" priority recommendations were made in relation to Broadband/Data Allowances and Change control process for Members Data	Apr-16		
Treasury Mngt	4th December 2015	Financial Services Manager	Significant	2 'medium' & 1 'low' priority recommendations were made in regard to coding errors, formal regular reconciliation and forms filled in for transactions	To be followed up with core financials Q2/3 2016/17		

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APPENDIX 4

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet it's objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

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Priority	Definition
High	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.</p>
Medium	<p>Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.</p>
Low	<p>Control weakness that has a low impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation is desirable as it will improve overall control within the system.</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Member's Allowances 2015/16					
Assurance: Significant					
Summary: The audit was a risk-based audit of the system of Members Allowances operated by the Council.					
1	Medium	<p>Broadband/ Data Allowances</p> <p>Expenditure on Broadband Allowances, Data Allowances and Mobile Phone Allowances and the allocation of phones and iPads for members all sit outside of the Scheme of Members Allowances and are therefore less transparent than Allowances paid through the main Scheme.</p>	<p>Potential for weak financial control of this area of Members' activity leading to reputational damage in the event of excessive expenditure.</p>	<p>To include Broadband Allowances within the scope of the Members' Schemes and publish information on payments for data and mobile phone charges associated with Members use of iPads, Blackberry and other mobile phones.</p>	<p>Agree that bringing broadband payments into the scheme from the IT provision policy will increase their transparency. Council reviews the allowances scheme each year and proposals to include this will be made at the same time as Council considers the IRP report with recommendations for next year's scheme (2016-17 with effect from 1st April)</p> <p>If it is proposed to merge the broadband allowance with the basic allowance to simplify payment this will need to be considered by the IRP and their recommendations, if any, taken into account.</p> <p>Information on payments made each financial year is already published, and includes data above that required by law to be published. This information will be extended to include the details about iPads and telephones etc. as recommended.</p> <p>Responsible Manager: Democratic Services Manager</p> <p>Implementation date: April 2016</p>
2	Medium	<p>Change control process for Members Data</p> <p>In 100% of cases sampled, Members received allowances appropriate to their</p>	<p>Potential for start and end dates of Members appointments to be</p>	<p>To implement a more formal change request process for starters/movers/leavers. This would</p>	<p>Legal and Democratic Services will explore with Managers identified below, the potential to notify payroll of changes to allowances whilst</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		office, at the correct rate. The process for tracking changes to member appointments and notifying Payroll of the Allowances due to members is ad hoc and not always authorised.	overlooked with Members' remaining on the Payroll and in receipt of allowances they are no longer eligible/due. Consequent financial loss.	ensure change is captured accurately and on a timely basis and authorised in Legal and Democratic Services for Payroll input This could form part of a flow management process incorporating other Human Resources and IT Procurement activity linked to new or departing members.	ensuring efficient inputting of data (i.e. no duplication or requirements to complete multiple forms) Responsible Manager: Democratic Services Manager, Financial Services Manager and IT Services Manager, ICT Transformation Manager Implementation date: By April 2016
Audit: Treasury Management					
Assurance: Significant					
Summary: The audit was a risk based systems audit of Treasury Management as operated by Redditch Borough Council.					
1	Medium	<u>Coding errors</u> Audit testing highlighted errors by the Cashier staff in allocating codes in regards to Treasury Management. The audit testing found that out of a sample of 8 borrowings, 7 of the payments of interest were allocated to interest received rather than interest paid. This impacts the Finance team as it adds time to reconciliations and filling in journals to correct the coding.	Potential misallocation of funds which could lead to over / under spend on budgets. Increased use of Finance staff's time, leading to waste of Council's resources.	Finance to work with Cashiers to undertake procedures to ensure coding issues are resolved.	Responsible Manager: Financial Services Manager Implementation date: 19/11/15 Advice issued to Cashiers. Should further monitoring detect any more miscodings, this shall be escalated accordingly.
2	Medium	<u>Formal regular reconciliation</u> Formal reconciliations are not taking place and are not being undertaken by a separate officer. When reconciliations do occur, which tends to be on a monthly basis, they are solely being undertaken by the Treasury Management Officer and not being signed off by another officer.	Financial loss and Reputational damage to the council if regular reconciliations are not being performed.	Monthly reconciliations to continue to take place. On a quarterly basis an independent reviewer to review the reconciliations. Consideration for this is to be evidenced in a password protected cell on the reconciliation spreadsheet	Responsible Manager: Financial Services Manager Implementation date: ongoing Agreed. The TMO is best equipped to carry out reconciliation. Reconciliations are to be reviewed quarterly by the Technical Accountant, signed and dated. Any issues for

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
				with the name of the reviewer and date of the review.	concern will be pursued.
end					