



Thurrock Council

Internal Audit Progress Report

Standards & Audit Committee meeting on 16th July 2015

Introduction

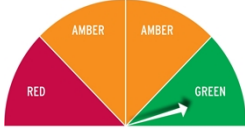
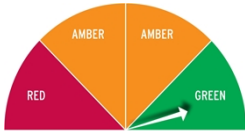
The internal audit plan for 2014/15 was presented to the Standards & Audit Committee on 5th March 2014. This report provides an update on progress against that plan since the last progress report on 17th March 2015.

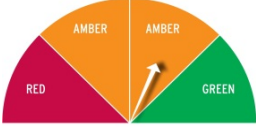
Summary of Progress against the Internal Audit Plan

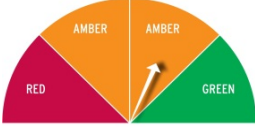
Assignment	Status	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Audits to address specific risks					
St Thomas of Canterbury RC Primary School	Final	Green	0	2	2
Deneholm Primary School	Final	Green	0	1	2
Procurement Cards	Final	Amber/Red	1	2	3
Contract Review - (Manor School – now Tilbury Pioneer Academy)	Final	Amber/Green	0	3	0
Little Thurrock Primary School	Final	Amber/Green	0	3	3
Stifford Clays Primary School	Final	Amber/Green	0	3	0
Core Assurance					
Accounts Payable	Final	Green	0	1	3
Accounts Receivable	Final	Green	0	1	2
Advisory					
Key Performance Indicators	Final	Advisory	2	1	0

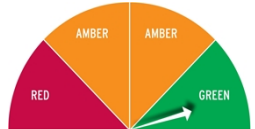
The report on Procurement Cards, which received an Amber/Red assurance opinion, has been included in more detail at the end of this progress report.

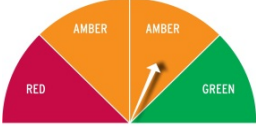
Key Findings from Internal Audit Work

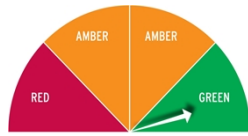
Assignment: St Thomas of Canterbury RC Primary School	Opinion: Green	
Headline Findings: Our review of St Thomas of Canterbury RC Primary School identified 2 medium and 2 low recommendations around the adequacy of the control framework. The 1 recommendation from the previous review had been implemented.		
Action and Response	Responsible Officer	Date
<p>Action - All Purchase Orders raised which are in excess of £5k must be signed by the Chair of Finance in addition to the Headteacher's signature as per the school's financial regulations. To ensure appropriate authorisation of expenditure is taking place, all items must be supported by an official authorised order before the purchase is made. This will ensure management reports are kept up to date and accurately reflect the school's financial position.</p> <p>Response - All purchase orders over £5k will be passed to the Finance Committee for a signature from the Chair. More controls are to be put in place to ensure the office staff are aware of orders placed.</p>	Finance Manager Headteacher	April 2015
<p>Action - The Overtime form completed by the Deputy Headteacher needs to be made clearer to show exactly how many hours the teachers have worked. Assumptions are made that the Finance Manager is aware of the normal hours of members of staff.</p> <p>Response - The Headteacher and the Deputy will look at developing and producing a clearer document such as a new spread sheet exclusively for the overtime claims.</p>	Headteacher	April 2015
Assignment: Deneholm Primary School	Opinion: Green	
Headline Findings: Our review of Deneholm Primary School identified 1 medium and 2 low recommendations around the adequacy of the control framework. The 4 recommendations from the previous review had all been implemented.		
Action and Response	Responsible Officer	Date
<p>Action - The IT inventory needs to be signed as accurate on an annual basis. All IT equipment should be included on the inventory. This ensures the school have an up to date record in the event of a claim for theft, damage or loss of equipment.</p> <p>Response - All IT equipment will be added to the inventory.</p>	IT Technician	April 2015

<p>Assignment: Contract Review (Manor School – now Tilbury Pioneer Academy)</p>	<p>Opinion: Amber/Green</p>	
<p>Headline Findings: Our contract review of Manor School – now Tilbury Pioneer Academy, identified 3 medium recommendations around the application of the control framework. There had been no previous contract review in this area.</p>		
<p>Action - Strategy group meetings need to be evidenced to record key decisions and any critical actions undertaken. Whether this is by email or through formal minutes, the evidence needs to be retained on the electronic or paper file. This will enable the Authority to have a clear audit trail of its actions and those actions can be implemented, monitored and resolved in a timely manner.</p> <p>Response - Strategy group meetings were held throughout the project but actions were recorded through emails and were not subsequently stored electronically. In future all meeting notes (whether formally recorded or emails) will be held as a pdf in the electronic project file.</p>	<p>Strategic Lead - Operational, Resources and Libraries Unit</p>	<p>April 2015</p>
<p>Action - A more comprehensive risk assessment is required to breakdown the risk areas into more specific categories to identify project related risks. This will help the project team to monitor specific issues that may arise and instigate early intervention and an escalation processes when necessary, more effectively.</p> <p>Response - A risk register was compiled for the project and was regularly reviewed albeit that this was not routinely recorded within meeting notes. In future risk registers should be expanded to include all commercial and project related risks together with the technical risks related to the building.</p>	<p>Strategic Lead - Operational, Resources and Libraries Unit</p>	<p>April 2015</p>
<p>Action - Document retention improvements are required to ensure that the final versions of the tender documents and supporting procurement paperwork are available centrally and easily accessible, in line with the Authority’s document retention policy. This will ensure that the Authority has the confidence that the winning tender was correctly assessed and not open to legal challenge.</p> <p>Response - The documents in question were anticipated to have been held by procurement colleagues who had overseen the selection process for the contractor. In future the project team should hold an electronic copy of all relevant documentation and consider the need to hold a separate hard copy as permitted through the document retention policy.</p>	<p>Strategic Lead - Operational, Resources and Libraries Unit</p>	<p>April 2015</p>

<p>Assignment: Little Thurrock Primary School</p>	<p>Opinion: Amber/Green</p>	
<p>Headline Findings: Our review of Little Thurrock Primary School identified 3 medium and 3 low recommendations around the adequacy of the control framework. Of the 5 recommendations from the previous review, 4 had been implemented, with 1 being repeated in this review.</p>		
<p>Action and Response</p>	<p>Responsible Officer</p>	<p>Date</p>
<p>Action - To ensure appropriate authorisation of expenditure is taking place, all items must be supported by an official authorised order before the purchase is made This will ensure management reports are kept up to date and accurately reflect the school’s financial position. Response - Staff will be made aware that items must not be ordered until a purchase order is raised by the office.</p>	<p>Primary School Manager</p>	<p>April 2015</p>
<p>Action - Copies of Disclosure and Barring Service clearance (DBS) or the entry number must be recorded and kept on file. This ensures staff are not employed who have not been cleared. Response - An application will be made for the missing DBS clearance.</p>	<p>Primary School Manager</p>	<p>April 2015</p>
<p>Action - It is recommended that either another member of staff is trained in the administration of the school dinner money processes. This will help ensure arrears do not build up as they did in the absence of the Finance Officer. Response - Training will be given to other members of staff.</p>	<p>Primary School Manager</p>	<p>April 2015</p>

<p>Assignment: Accounts Receivable</p>	<p>Opinion: Green</p>	
<p>Headline Findings: Our review of Accounts Receivable identified 1 medium and 2 low recommendations around the adequacy of the control framework. The 1 recommendation from the previous review had been implemented.</p>		
<p>Action - Budget Holders should be made aware of their responsibility to raise Debt Recovery Single Invoice Request Forms in a timely manner. In the Council’s Constitution, this is stated as 5 working days from the service being provided. If the situation does not improve, the Debt Recovery team should consider monitoring problem areas and escalating through Heads of Service. If invoices for debts are not raised promptly by departments, there could be an increased risk of disputes and bad debts. Response - Agreed. The Debt Manager will contact the Head of Corporate Finance and ask for a reminder to be circulated to all budget holders.</p>	<p>Debt Manager</p>	<p>End of March 15</p>

<p>Assignment: Stifford Clays Primary School</p>	<p>Opinion: Amber/Green</p>	
<p>Headline Findings: Our review of Stifford Clays Primary School identified 3 medium recommendations around the adequacy of the control framework. There were no previous recommendations as this was the first review since the junior and infant schools were amalgamated into a primary school.</p>		
<p>Action and Response</p>	<p>Responsible Officer</p>	<p>Date</p>
<p>Action - All Governors and applicable members of staff must sign a declaration of interest upon appointment. The Headteachers form should include a declaration around his son's roles in the school. This ensures all business transactions are transparent. Response - These were newly appointed. The records will be updated.</p>	<p>Clerk</p>	<p>April 2015</p>
<p>Action - If the mentoring role is to be made permanent, the school should consult with, and seek guidance from, their HR Advisors to determine the correct process is being followed, including whether the job has to be advertised. Due to the relationship between the Headteacher and the current mentor, he should remove himself from the decision making process. This will ensure the process is transparent and not open to challenge. Response - This is all being managed by HR Team. This role has never existed within the school previously. Once job spec is agreed, will go out to advert, in line with the recruitment policy. Headteacher will not be involved as Deputy's appoint at this level.</p>	<p>Headteacher/ Deputy Headteacher/ Finance Manager</p>	<p>April 2015</p>
<p>Action - Budgets must be submitted to the Finance team within a maximum of 2-3 weeks after month end. This ensures they can provide additional support if necessary, in a timely manner. Response - The Finance Team have been busy with the work required to go to Academy</p>	<p>Finance Manager</p>	<p>April 2015</p>

<p>Assignment: Accounts Payable</p>	<p>Opinion: Green</p>	
<p>Headline Findings: Our review of Accounts Payable identified 1 medium and 3 low recommendations around the adequacy of the control framework. The 4 recommendations from the previous review had all been implemented.</p>		
<p>Action - It is recommended that the Accounts Payable team continue to highlight non-compliance and make recommendations to the Council via reporting and communication with the relevant Business Relationship Manager for the service. The Accounts Payable Team should continue to work with the Council to put controls in place where possible to ensure orders are raised before invoices are received and the correct receipting process is being followed, including educating suppliers, training Requisitioners and switching off express receipting. Any decision made to change the process should be discussed and agreed with the client.</p> <p>Response - The Creditors Team remain committed to identifying non-compliance, and regularly highlight and take actions to rectify this where within our control. We are currently working closely with Dionne Knight in the Commercial Team (Thurrock) to re-implement the Oracle iProcurement module. This will bring additional controls and exception reporting in this area. A programme for training requisitioners and other key Procurement staff is also planned as it is within the scope of this work.</p>	<p>Accounts Payable Section Manager / Procurement Strategy, Policy and Compliance Manager</p>	<p>April 15</p>

<p>Assignment: Key Performance Indicators</p>	<p>No Opinion</p>	<p>Advisory</p>
<p>Headline Findings: The review of Key Performance Indicators identified 2 high and 1 medium recommendation. In total, 4 new indicators were reviewed and 5 were followed up from the previous report. The review identified the following issues:</p> <ul style="list-style-type: none"> • Checks were not carried out on the accuracy of the data relating to the adoption indicators prior to submission, particularly around the dates entered for the “Average time between a local authority receiving court authority to place a child and the local authority deciding on a match to an adoptive family (days)”; • The treatment of outstanding arrears for people moving to smaller properties was not in line with the Council’s own policy and a signed return was not submitted to the Performance Officer; and • There was no formal clear definition of the term “Apprentice” (previous recommendation). There were inaccuracies in the numbers quoted and a signed return was not submitted to the Performance Officer. <p>All of the recommendations were accepted by management and it was stated that actions had been put in place for 2 of the recommendations, with the 3rd having already been actioned. These will be checked as part of the follow up process in 2015/16.</p>		

PROCUREMENT CARDS

1 Executive Summary

1.1 Introduction

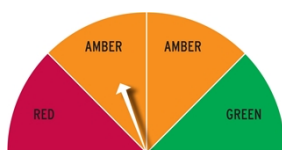
An audit of Procurement Cards (P-Cards) was undertaken as part of the approved internal audit periodic plan for 2014/15.

Procurement Cards are issued to all employees with a job role that identifies that they have a business need. All cards are subject to approval from the Head of Service and the Head of Corporate Finance. Transactions are uploaded onto the Royal Bank of Scotland's online system – Smart Data Online (SDOL) on a daily basis. All reviews and approvals of transactions are input into the system. Each employee is responsible for their card and is assigned a monthly and single transaction limit.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	The Council has appropriate processes in place to ensure that the setting up and use of purchase cards is authorised, controlled and monitored.
Risk	Failure to properly authorise, control and monitor the setting up and use of purchase cards could result in inappropriate expenditure not being identified and challenged.

1.2 Conclusion



Taking account of the issues identified, whilst the Council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

- There is a Purchasing Card Policy but it was not signed or reviewed on a regular basis.
- All application forms had either been signed by the Head of Corporate Finance or an email authorisation had been received.
- Purchase cards request forms were not always completed correctly.
- There were procurement card forms, signed by the cardholder, retained on the file.
- Individuals can view and check their monthly statements on-line. However, transactions were not always reviewed and approved.
- Transaction limits were not being monitored to determine if they were appropriate.
- Bank Statements were not signed to indicate that they had been checked.
- Cards cannot be used to withdraw cash.
- Reports were not presented to Directors on a regular basis.
- A check of leavers revealed they had been removed from the system and cards returned.

1.3 Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- The scope of this audit was limited to reviewing processes in place and conclusions are based upon results of sample-testing.

- We did not carry out detailed testing on the appropriateness of purchases. This will be undertaken as a separate review in 2015/16.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	1	0
Application of control framework	1	1	3
Total	1	2	3

The recommendations address the risks within the scope of the audit as set out below:

Risk	Priority		
	High	Medium	Low
Inappropriate expenditure on procurement cards	1	2	3
Total	1	2	3

1.5 Additional Feedback

The following staff gave their time and co-operation during the review, and we would like to record our thanks:

Treasury Management Officer
Finance Assistant

2 Action Plan

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	The policy should be signed off by a Senior Manager within the Council to demonstrate that it has been reviewed and approved. It should be version controlled with the date of last review and the date the next review is due.	Low	Y	Reviews will take place and H.O.S will sign	A.S.A.P	Treasury Management Officer (TMO) and Head of Corporate Finance
1.2	Purchase cards should only be issued where the Treasury Management Team has received a fully completed procurement card request form. Forms not completed correctly or where no authorisation is received should be returned to the applicant.	Medium	Y	Agreed	From Now On	T.M.O
1.3	It is recommended that transaction limits are periodically reviewed by the authorising managers and Finance Department and adjusted according to need. This reduces the risk of the cards being used to by-pass the ordering process.	Low	Y	This will be investigated	T.B.A	T.M.O
1.4	All transactions must be reviewed by the cardholder approx. 2 days after the transaction took place, which will enable	High	Y	Managers will be made aware to approve all transactions.	A.S.A.P	T.M.O All Manager's with staff with

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
	the Manager to approve the transaction. The cardholder must also ensure the scanning facility is used to record receipts as this makes it easier for Manager's to review and approve the expenditure.					Purchase Cards
1.5	The Treasury Management Officer should sign bank statements received to confirm that they have been reviewed and analysed.	Low	Y	Agreed Bank Statements will be signed in the future	From now on	T.M.O
1.6	Cardholders and Line Managers must be made aware of their responsibilities for reviewing and approving transactions. It is recommended that the Treasury Management Team produce regular reports to Directors/Heads of Service detailing the unapproved transactions. These reports should then be used to inform cardholders of their responsibilities and make them aware that the cards can be withdrawn if they fail to comply.	Medium	Y	Agreed, appropriate report will be developed for Directors. The Executive Assistant will be reintroducing checks on procurement cards to ensure there is an appropriate description and notify the Director/Head of Service if there is persistent non-compliance.	A.S.A.P	T.M.O/Executive Assistant

3 Findings and Recommendations

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Risk 1: Inappropriate expenditure on procurement cards					
1.1	The Council has a Purchasing Card Procedure guide for Cardholders. The Policy includes: Manager's responsibilities; Cardholder's responsibilities; Administrator responsibilities; Purchasing Card Process; Supplier and Categories of Spend; Transactional Limits and Monthly Spend Limits; Billings; Card Security; and Unwanted Cards and Leavers.	Yes	Internal Audit obtained a copy of the Purchasing Card Policy. It was confirmed with the Treasury Management Officer that this had been developed in December 2013 in consultation with the Corporate Finance but it is not dated. In discussion with the Treasury Management Officer it was confirmed that the document was produced by a staff member of Serco. The policy had not been signed off by a senior member of the Council to show that it had been reviewed and approved.	The policy should be signed off by a Senior Manager within the Council to demonstrate that it has been reviewed and approved. It should be version controlled with the date of last review and the date the next review is due.	Low
1.2	Budget holders must request purchasing cards by completing a procurement card request form. These are available from the Treasury Management Team. The Purchasing Card request forms includes: - Organisation Details. - Cardholder details. - Authorisation details.	Yes	Initially, there were 36 cardholders when the new system came into effect in December 2013. Since then, others have been added following completion of the application process. Internal Audit obtained the lists of cardholders provided by the Council's bank and a sample of 25 was selected. The file held by the Treasury Management Team was checked to ascertain if each sampled employee had a Purchasing Card Cardholder request form completed and retained. The following was found: <ul style="list-style-type: none">• Cardholders do not have a facility to make cash withdrawals.• 24 cardholders had a £1000 limit and 1 had a £3000 limit. However, it was noted that those with higher limits were located off site (4 in total – 2 at Grangewaters and 2 at Collins House).• The procurement card request forms do not require a signature from either the person	Purchase cards should only be issued where the Treasury Management Team has received a fully completed procurement card request form. Forms not completed correctly or where no authorisation is received should be returned to the applicant.	Medium

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			requesting the card or their authorising manager. Authorisation from the manager is normally by way of email. However, 5 of the forms had not been authorised either by email or signature. All the original cards had been authorised by the Head of Corporate Finance, by way of an e-mail.		
1.3	The Council sets reasonable limits for monthly spending and individual transactions for each Purchase card.	Yes	<p>Internal Audit examined the transaction limits for the sample of 25 cardholders. All transaction limits were equal to the monthly credit limit. The transactions for this sample were scrutinised for the months of April and October 2014. Internal Audit found that:</p> <ul style="list-style-type: none"> • 3 transactions were for over £500. • 4 transactions were between £200 and £500. • 5 transactions were between £100 and £200. • 16 transactions were under £100. <p>This shows that 57% of the transactions were below £100.</p> <p>It would seem that transaction limits are assigned to a cardholder without any consideration as to how the card will be used, or amount required.</p>	It is recommended that transaction limits are periodically reviewed by the authorising managers and Finance Department and adjusted according to need. This reduces the risk of the cards being used to bypass the ordering process.	Low
1.4	In discussion with a member of the Finance Department, it was confirmed that the details of the expenses should be reviewed by the individual cardholders following input into the system. At this review stage the individual must go into the system and include the description. In addition the receipts or VAT invoices should be scanned, using the facility within the Banking system. Once reviewed the Manager should approve. RBS sends reminders to everyone following	Yes	<p>Internal Audit examined the Approver Summary Report, covering the period from 1st Jan to 9th Nov 2014, which was generated from the online banking system. It was found that 12.2% of transactions had not been reviewed and 36% had not been approved. The Finance Department assume that when a manager approves the expenses, they have seen the receipt. However, it was noted that the scanning facility was not being used.</p> <p>A transactions report covering the period 11th Oct to 9th Nov 2014 was also reviewed to determine the details of the expenditure. There were 72 transactions during the period and 27 (37%) had no description showing what the card had been used to purchase. Therefore, it could not be confirmed that</p>	All transactions must be reviewed by the cardholder approx. 2 days after the transaction took place, which will enable the Manager to approve the transaction. The cardholder must also ensure the scanning facility is used to record receipts as this makes it easier for Manager's to review and approve the expenditure.	High

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	month-end to review their transactions.		all expenditure was appropriate. All transactions were within the agreed limits.		
1.5	The Treasury Management Team receives an overarching statement each month from the bank for the value of transactions for each card that was used during the reported period. The statement enables the Treasury Management Team to monitor excessive expenditure and lack of use of P-Cards.	Yes	Three months bank statements relating to overall spend per card were randomly selected and checked to ensure they were regularly received and expenditure was reviewed and analysed. However, the statements were not annotated by a signature to demonstrate that there had been a review.	The Treasury Management Officer should sign bank statements received to confirm that they have been reviewed and analysed.	Low
1.6	The Council do not produce quarterly procurement card spend reports for the attention of Senior Management.	No	In discussions with the Treasury Management Officer, it was confirmed that no escalation reports are produced for Senior Managers to notify them of potential non-compliance with the Council's Purchasing Card Policy. During this review, it was found that cardholders do not include a description, transactions are not always approved by the manager and spending limits are not periodically analysed and reviewed.	Cardholders and Line Managers must be made aware of their responsibilities for reviewing and approving transactions. It is recommended that the Treasury Management Team produce regular reports to Directors/Heads of Service detailing the unapproved transactions. These reports should then be used to inform cardholders of their responsibilities and make them aware that the cards can be withdrawn if they fail to comply.	Medium

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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