

CITY OF LONDON
CHAMBERLAIN'S DEPARTMENT
INTERNAL AUDIT SECTION



LONDON COUNCILS
LONDON COUNCILS - KEY FINANCIAL CONTROL
FINAL REPORT

Date Issued: 16 December 2015

Issued to: John O'Brien, Chief Executive
Frank Smith, Director of Corporate Resources
David Sanni, Head of Financial Accounting



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 Audit Fieldwork completed	 September
Draft Report Issued	23 October 2015
Management Response Received Agreeing Recommendations	16 November 2015
Final Report Issued	16 December 2015



SECTION A: EXECUTIVE SUMMARY

Introduction

1. This review is being undertaken as part of the agreed 2015-16 internal audit plan.
2. The Corporate Resources Division is responsible for the financial management arrangements for London Councils. The finance office has six staff, including the Director of Corporate Resources, who undertake a full range of duties including: budget management; financial and management accounting; payment of creditors; income collection; and reimbursing staff for out of pocket expenses incurred in the course of their duties. The annual budget for expenditure (excluding employee costs) for the financial year 2015-16 is £390.9 million and estimated income for 2015-16 is £396 million.
3. Financial Regulations provide London Councils staff with guidance concerning the correct procedures to be followed in terms of incurring expenditure and raising income. All staff are made aware of the regulations and they are available on-line to employees, Members and the public.
4. The objectives of this Internal Audit review were to:
 - Ascertain if approved policies and standard operating procedures are in place covering key financial processes, which are subject to regular review, approval and are made available to all relevant staff.
 - Evaluate the adequacy of key controls over the billing, collection and reconciliation of invoiced income.
 - Assess whether the level of outstanding debts are identified and monitored on a regular basis.
 - Ascertain if irrecoverable debts are written off following correct authorisation and reported where appropriate to Committee.
 - Evaluate the adequacy of controls over expenditure including purchase ordering, authorisation and invoice payment processes, and the use of procurement cards.
 - Petty Cash - a probity check on management, usage and claims, will be undertaken
 - Assess whether an up to date inventory is in place, ensuring adequate management of assets.

Assurance Statement

Assurance Level	Description
Substantial Assurance 'Green'	There is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern.

Key Conclusions

- 5. Based on testing performed, adequate key financial controls are operated by London Councils' to control and safeguard income and expenditure, and therefore, reducing the risk of fraud and error. Financial activities are regulated by current Financial Regulations, with additional guidance to staff in the form of standard operating procedures. Sample testing confirmed compliance for those areas within the scope of this review. An amber priority recommendation has been made in terms of the information captured on the inventory records.**

Policies and Procedures

6. Financial Regulations and standard operating procedures cover key financial processes and are understood to be widely available to relevant staff. There is an annual programme of review of Financial Regulations to ensure they are current. Any updates are subject to approval by the Leaders Committee. Standard operating procedures provide clear guidance on how to perform specific transactions, and support compliance with overarching Financial Regulations.

Invoiced Income Procedures

7. Audit testing of a sample of transactions (totalling £475,562) found that adequate controls are in operation in relation to the billing, collection and reconciliation of income. The City of London Corporation (CoL) issues invoices raised by London Councils in CBIS and collects the corresponding income on behalf of London Councils. It was noted that the Head of Financial Accounting undertakes a monthly balance sheet reconciliation to identify income movement and it is understood that this is subject to external audit as part of the end of year process. Monthly debt monitoring is used to good effect to identify any discrepancies between amounts invoiced, collected and pursued.

Debt Management

8. A robust process was evidenced for the recovery and monitoring of outstanding debts. A clear escalation procedure was found to be in operation for debt recovery and Member level scrutiny was noted. As at 28 August 2015, debt over 90 days old amounted to £515k, representing only 0.13% of total budgeted annual income of £396,063 million. It was noted that approximately 40% of this debt relates to London Boroughs, 40% to the British Parking Association and 10% to a charity organisation. Sample testing of a sample of recovery cases indicated that appropriate action was being taken in respect of each case.
9. Write offs are understood to be infrequent – one debt of £19.83 was written off during 2014-15. There are clear arrangements for the authorisation, processing and reporting of write-offs.

Expenditure

10. Adequate controls were observed for purchase ordering and the authorisation of invoices for payment, as well as procurement card usage. It was noted that a high proportion of London Councils' expenditure is committed through contracts. Compliance with



established procedures was observed during testing of a sample of six expenditure transactions totalling £1.9 million and five corporate card transactions totalling £2,692. Sample testing confirmed that purchase orders had been raised and authorised, invoiced payments had been authorised appropriately, payments had been made promptly (within 30 days), and an adequate separation of duties was enforced throughout.

11. Administration of the petty cash imprest was found to be compliant with Financial Regulations and supporting standard operating procedures. The established level of £500 is considered appropriate. Testing of ten petty cash claims confirmed that petty cash claims had been completed and signed by the claimant in each case, were supported by receipts and had been appropriately authorised.

Inventory

12. Discussion with staff indicated that a satisfactory mechanism has been determined for updating the inventory of assets. Independent testing was not carried out on the accuracy of information contained within the inventory record as an update was in progress by the Information, Communications and Facilities Management Department at the time of the audit fieldwork. A review of the format of the inventory record identified that this was not fully compliant with Financial Regulation 14.9, 'Control of Assets', in terms of the information captured and an amber priority recommendation has been made accordingly.

Recommendations	Red	Amber	Green	Total
Number Made:	0	1	0	1
Number Accepted:	0	1	0	1



SECTION B: AUDIT FINDINGS

Inventory

Priority	Issue	Risk
Amber	The inventory record is not fully compliant with Financial Regulation paragraph 14.9 related to the control of assets.	Non-compliance with Financial Regulations. Insurance arrangements may be compromised by poor/incomplete information related to assets. Assets cannot easily be accounted for due to poor / incomplete management information.

Recommendation 2:

Inventory maintenance should be undertaken in accordance with Financial Regulation 14.9.

Management Response and Action Plan

The omitted information will be incorporated into the inventory listing if available. There are instances where items such as the date and cost of purchase are unavailable due to the age of the items some of which were acquired prior to the creation of the organisation in its current form. However, an estimated replacement value will be assigned to each item for insurance purposes.

Responsibility: Roy Stanley, ICT and Facilities Manager

Target Implementation Date: February 2016

APPENDIX 1: AUDIT DEFINITIONS AND RESPONSIBILITIES

Assurance levels

Category	Definition
Nil Assurance 'Dark Red'	There are fundamental weaknesses in the control environment which jeopardise the achievement of system objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited Assurance 'Red'	There are a number of significant control weaknesses and/or a lack of compliance which could put the achievement of system objectives at risk and result in error, fraud, loss or reputational damage.
Moderate Assurance 'Amber'	An adequate control framework is in place but there are weaknesses and/or a lack of compliance which may put some system objectives at risk.
Substantial Assurance 'Green'	There is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern.

Recommendation Categorisations

Priority	Definition	Timescale for taking action
Red - 1	A serious issue for the attention of senior management and reporting to the appropriate Committee Chairman. Action should be initiated immediately to manage risk to an acceptable level	Less than 1 month or more urgently as appropriate
Amber - 2	A key issue where management action is required to manage exposure to significant risks, action should be initiated quickly to mitigate the risk.	Less than 3 months
Green - 3	An issue where action is desirable and should help to strengthen the overall control environment and mitigate risk.	Less than 6 months

Note:- These 'overall assurance level' and 'recommendation risk ratings' will be based upon auditor judgement at the conclusion of auditor fieldwork. They can be adjusted downwards where clear additional audit evidence is provided by management of controls operating up until the point of issuing the draft report.



What Happens Now?

The final report is distributed to the relevant Head of Department, relevant Heads of Service, and those involved with discharging the recommended action.

A synopsis of the audit report is provided to the Chamberlain, relevant Members, and the Audit & Risk Management Committee. Internal audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The ongoing progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit & Risk Management Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible, Martha Brewster for the review or Chris Harris, Head of Audit & Risk Management via email to chris.harris@cityoflondon.gov.uk.