

Internal Audit Report

PATROL – Financial Management System

Report To:

Louise Hutchinson – Head of Service - PATROL

Report Status:

FINAL

Additional Report Distribution:

Sir Howard Bernstein – Chief Executive

Richard Paver – City Treasurer

Susan Orrell – City Solicitor

Dianne Dunn – Departmental Finance Officer, Chief Executives

Caroline Sheppard – Chief Adjudicator

Kelly Cornell – Finance Officer - PATROL

Auditor:

Darshna Mistry

Fieldwork Commenced:

10 November 2009

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Management Responses Requested By:

3 February 2010

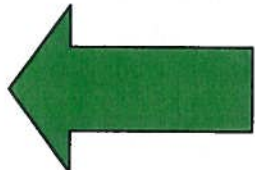
Final Report Issued:

19 March 2010



MANCHESTER
CITY COUNCIL

1. Executive Summary

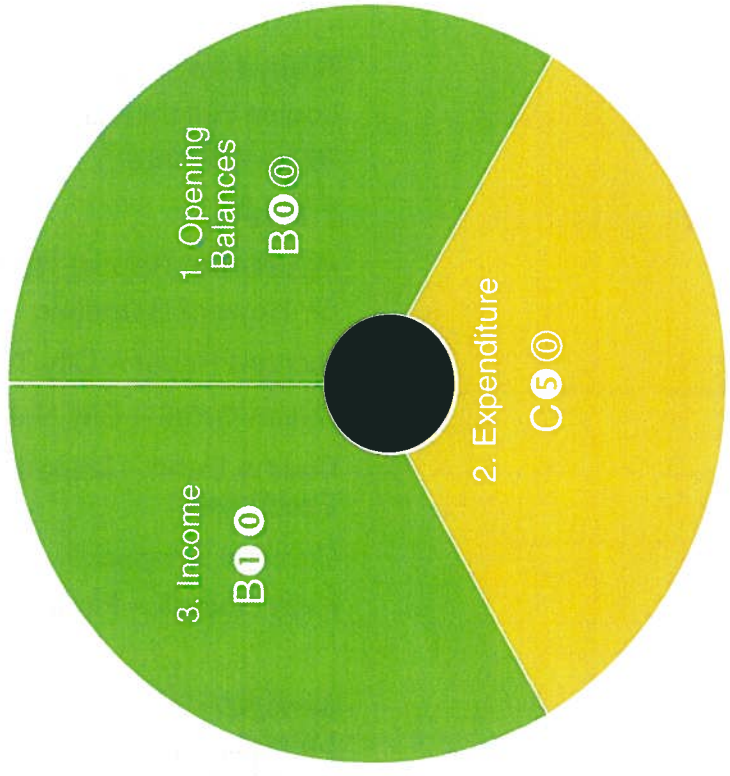
Overall Assurance Opinion (See Appendix 1) FULL ● SUBSTANTIAL ● MODERATE ● ✓ LIMITED ● NO ●	Capacity to Improve 	
	HIGH	

Number of control issues identified	Number of compliance issues identified
0 Critical	0 Critical
0 Major	0 Major
6 Significant	0 Significant
0 Moderate	0 Moderate
0 Minor	0 Minor

Audit Objective

To provide assurance to management that the key financial systems covering income and expenditure are operating effectively. Specifically:

- Opening balances for the current financial year have been accurately identified, agreed with the Lead Authority and input on to the QuickBooks ledger.
- Expenditure is for legitimate organisational purposes, properly authorised, supported by invoices and processed in a timely manner.
- Income is calculated correctly based on Council submissions, invoiced accurately and promptly and properly received and banked.



Each of the objectives for this review is shown as a segment of the wheel. The colours on the wheel represent an assessment of the risk for each audit objective based on the issues identified in the review

Context:

The PATROL Adjudication Joint Committee was established to enable councils having Civil Enforcement Area Orders to exercise their functions under Section 81 of the Traffic Management Act 2004 and Regulations 17 and 18 of the Civil Enforcement of Parking Contraventions (England) General Regulation 2007. These functions are exercised jointly with other councils in accordance with the requirement of Regulation 16 of the Civil Enforcement of Parking Contraventions (England) General Regulations 2007.

The Traffic Penalty Tribunal is an independent tribunal where impartial lawyers consider appeals by motorists and vehicle owners whose vehicles have been issued with:

- Penalty Charge Notices (or have been removed or clamped) by councils in England and Wales enforcing parking under the Road Traffic Act 1991 and the Traffic Management Act 2004.
- Penalty Charge Notices by councils in England undertaking civil bus lane enforcement under the Bus Lane Contraventions (Penalty Charges, Adjudication and Enforcement) (England) Regulations (2005 SI No 2757).

The functions exercised by the PATROL Adjudication Joint Committee on behalf of its constituent councils are appointing independent adjudicators to the Traffic Penalty Tribunal, providing these adjudicators with administrative staff and accommodation and providing hearing venues. Its remit in relation to the Tribunal is limited to these matters.

Members of the Joint Committee defray expenses in such a proportion as they may decide. The Joint Committee has decided that expenses shall be shared between member authorities in proportion to the number of PCNs issued. Income received by the Joint Committee for the 2008/09 financial year was £2.3 million.

In April 2009 PATROL introduced a new financial management system, QuickBooks, to coincide with the introduction of a new PATROL bank account. Whilst the Lead Authority retained responsibility for the preparation of the final accounts other day to day accounting responsibilities, excluding payroll and treasury management, were undertaken by the PATROL Finance Team. The purpose of this audit was to provide a six-month health-check over current systems and practices and provide assistance in establishing an effective control framework.

The Joint Committee highlighted to External and Internal Audit the importance of receiving notification of final closing and opening balances from the Lead Authority's SAP system to PATROL's QuickBooks system. The Head of Service had been concerned about the time taken to notify balances but the position was fully resolved with the Lead Authority prior to publication of this audit report. With effect from January 2010 responsibility for preparation of PATROL's accounts had moved to the Lead Authority's External Client Team.

Our audit work also considered the effectiveness of controls over the processing of creditors and debtors. As the financial systems were only recently introduced systems and processes were still being established. This had been a period of considerable change and, as expected following the implementation of new systems, there was a need for controls to be developed, communicated and embedded to allow the Joint Committee to gain assurance over the effectiveness of PATROL's financial management activity. One of the reasons for moving to the QuickBooks system was to improve arrangements for monitoring income and expenditure. The introduction of the new financial system coincided with the decision to increase the role of individual budget holders and, in addition to the recommendations in this report designed to improve creditor controls, Internal Audit will review budget management arrangements as part of the 2010/11 audit plan.

Limitations:

Formal financial regulations were in development and we were therefore unable to test compliance against established, documented financial procedures. PATROL had recognised that initial plans to replicate the Lead Authority's financial procedures may not be appropriate for the Joint Committee and were considering arrangements in other similar organisations prior to producing draft procedures. It was agreed that Internal Audit would review and comment on the draft arrangements in April 2010 prior to submission to the Joint Committee for ratification.

Areas of Good Practice:

- PATROL's Finance Officer was in the process of compiling a set of policies and procedures governing financial management arrangements.
- Based on a sample of member authorities we confirmed that income was calculated, invoiced and received correctly.
- Detailed working papers were maintained to enable the projection and monitoring of income.
- An additional member of staff had been appointed to the Finance Section to facilitate segregation of duties and support the operation of the QuickBooks system.

Areas for Improvement:

- Controls over the safekeeping of cheques and maintenance of supporting financial records should be improved.
- A review process is required with regard to missing/cancelled cheques to minimise the risks of loss or misappropriation.
- Budget holder roles and responsibilities in relation to the authorisation of requisitions and verification of details to their budget allocation should be fully defined and communicated.

2. Review of Risks

Risk Register Updates

The work of Internal Audit should be informed by the Council's risk management arrangements and the assessment of Business Plan and Corporate risks (registered risks). During the performance of its work Internal Audit can also help identify risks that are not recorded on risk registers (unregistered risks).

This audit has considered registered risks and concluded, based on testing performed, whether they are fully ●, partially ● or not ● managed.

Risk Register	Risk Ref	Risk	Risk being managed
PATROL	1	Unforeseen fluctuations in income and assurance on service charge income	●
PATROL	2	Effective financial and resource management including spending within budgets.	●

There were no critical, major or significant issues identified in this audit that needed to be added to the risk registers.

1. Detailed Findings Recommendations and Action Plan

Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<p>Audit Objective 2: Expenditure is for legitimate organisational purposes, properly authorised, supported by invoices and processed in a timely manner.</p>				
1	<p>Without adequate controls regarding the retention and use of cheques there remains the risk of loss or fraud which would have a detrimental effect on the organisation's financial position and reputation.</p>	<p>The Finance Officer should ensure that a record is maintained of cheques removed from the safe. Details should include:</p> <ul style="list-style-type: none"> • Cheque number or sequence of numbers; • Date removed; • Purpose; and • The name of the officer removing and therefore taking responsibility for cheques. 	<p>● Significant (Control)</p>	<p>Agreed: Yes Action to be taken: The recommendations to be fully implemented. Additional Resources Required for implementation: No Responsible Officer: Kelly Cornell Target Date: 1 February 2010</p>
2	<p>Without an audit trail to support and evidence the verification and authorisation of individual payments there is a risk that errors in relation to individual payments or details of missing cheques will not be identified.</p>	<p>The Finance Officer should ensure that each payment run is supported by a report from QuickBooks detailing the individual payments to be made. Specifically:</p> <ul style="list-style-type: none"> • The amount; • Creditor details; • Invoice number; and • Cheque number for each transaction. <p>Report details should be verified against individual cheques produced and the officer responsible for authorising individual</p>	<p>● Significant (Control)</p>	<p>Agreed: Yes Action to be taken: The recommendations to be fully implemented. Additional Resources Required for implementation: No Responsible Officer: Kelly Cornell Target Date: 1 February 2010</p>

Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
		<p>cheques should sign off the report. Any discrepancies should be noted on the report, investigated and referenced where appropriate to other monitoring records.</p>		
<p>3 A folder had recently been established for the retention of cancelled/void cheques. In addition to this a coversheet had been introduced for recording details of cheques as they were cancelled with the bank.</p> <p>The Finance Officer stated that cancelled cheque reports had been produced and reviewed on an ad-hoc basis however no records had been maintained to support the work undertaken.</p> <p>A review of the missing cheques report dated 18 October 2009 established 16 cheque numbers recorded as missing or void. From this five cheques were unaccounted for and officers could find no record of related expenditure or supporting information. These were</p>	<p>Current methods to record and account for missing cheques may result in lost activity not being identified and investigated on a timely basis, if at all.</p> <p>In the absence of robust controls over cheque security, monitoring of cheque numbers and in particular the identification of non-allocated expenditure there is a risk of incorrect or inaccurate cheques not being cancelled in a timely manner and instead being cashed inappropriately.</p>	<p>The Head of Service should ensure that a robust system for the investigation and monitoring of missing cheques is in place. This should include:</p> <ul style="list-style-type: none"> • The production of missing cheque reports on a monthly basis; • The need for supporting documentation to be obtained and held centrally within the cancelled/void cheques file; • Segregation of duties between officers responsible for processing payment runs and handling cheques and the investigation of missing cheques; • A review process to verify the appropriateness of actions taken; and 	<p>● Significant (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: The recommendations to be fully implemented.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer: Kelly Cornell</p> <p>Target Date: 1 March 2010.</p>






Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<p>subsequently cancelled with the bank at the time of the audit. The Finance Officer confirmed the cancelled cheques file had not been reconciled to the missing cheques report.</p>		<ul style="list-style-type: none"> A process for the investigation and reporting of missing cheques both internally and with the bank. 		
<p>4 There were three purchase cards in use. Two were used by individuals responsible for venue hire bookings and one was used by the Finance Section. None of the cards had PIN numbers or were removed from PATROL's offices. The Finance Officer stated that, due to the nature of venue hire bookings, requisitions were not applicable to these transactions. However, to improve the level of control, she was seeking to bring the cards under the control of the Finance Section, which should improve card security. While the remaining purchase card was held securely in the safe when not in use there was no system in place to record its removal and return.</p>	<p>The current arrangements increase the risk that expenditure will be incurred without appropriate authorisation, budgetary provision or maintenance of proper records. This increases the risk of inappropriate use of funds and of misappropriation or error.</p>	<p>The Head of Service should ensure that purchase card procedures are developed and put in place to require:</p> <ul style="list-style-type: none"> The completion, where appropriate, of official requisitions for purchase card transactions prior to the purchase being made; Appropriate separation of duties in the process between the approval of the order and making payment; and A record of when cards were removed from the safe and by whom they were held, requiring individuals to sign to accept responsibility for the card. 	<p>● Significant (Control)</p>	<p>Agreed: Yes Action to be taken: Recommendations to be fully implemented Additional Resources Required for implementation: No Responsible Officer: Louise Hutchinson/Kelly Cornell Target Date: Specific procedures to support these recommendations will be developed by 31 March 2010 and will be included in financial regulations to be submitted for approval by the Joint Committee in June 2010.</p>
<p>5 Whilst authorised by the Head of Service or Finance Officer, purchase requisition forms did</p>	<p>Without budget holder authorisation prior to the placement of orders there</p>	<p>The Head of Service, in preparing for devolved budget holder responsibility,</p>	<p>● Significant</p>	<p>Agreed: Yes Action to be taken: Training for Budget</p>




Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<p>not require a budget holder's signature and there was therefore no audit trail to confirm whether the budget position had been checked prior to commitment to spend. Following the first year of operation of the new financial system there will be a move to devolved budget responsibility for 2010/11. Devolved budget monitoring will require an audit trail to confirm the budget position had been checked prior to a commitment to spend.</p> <p>Unsupported invoices received in the Finance Section were referred back to the relevant department to complete a requisition. We found a £2,800 duplicate payment where two separate requisitions were completed for the same expenditure. The cheque had been returned by the supplier and cancelled. The Finance Officer stated that requisitions may be completed after an order was placed.</p> <p>Goods received notes were</p>	<p>is a risk that unnecessary or inappropriate expenditure may be incurred or may not be supported by budget provision.</p> <p>If budget holders are not responsible for verification and authorisation of invoices for payment there remains a risk of duplicate payments.</p> <p>An unstructured approach to purchasing would have an adverse affect on the recording and reporting of committed expenditure and therefore the quality of budget monitoring.</p>	<p>should develop controls over the processing of expenditure and in particular ensure that:</p> <ul style="list-style-type: none"> • The pro-forma purchase requisition form is amended to include fields for the name and signature of both the requisitioning officer and authorising budget holder; • Budget holders maintain sufficient monitoring records to enable the appropriateness and accuracy of invoices to be verified prior to authorising payment; • Goods received notes are attached to requisitions as evidence of receipt of goods or services; and • Ongoing assurance is obtained over compliance with the controls. 	(Control)	<p>Holders and staff with responsibility for purchasing will reflect the recommendations. Specific procedures will be included in the financial regulations to be submitted for approval by the Joint Committee in June 2010.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer: Louise Hutchinson</p> <p>Target Date: 31 March 2010 / June 2010</p>

Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
not attached to requisitions prior to payments being processed.				
Audit objective 3: Income is calculated correctly based on Council submissions, invoiced accurately and promptly and properly received and banked.				
<p>6 External Audit's 2008/09 Annual Report, dated 16 September 2009, recommended that the Joint Committee seek further corroboration of PCN figures submitted by member authorities. The Head of Service confirmed this had not been addressed at the time of the audit however it is anticipated that Department for Transport collated statistics on PCN issue will be produced in March 2010.</p> <p>We acknowledge the difficulties and in reality PATROL's ability to validate figures is limited. For example it seems impractical, given likely access issues and available resources, that visits could be made to member authorities to agree figures to system records.</p> <p>Action had been taken to address previous concerns.</p>	<p>As charges are based on notification by member authorities of the number of PCN's they have issued any inaccuracy in the production and reporting of these figures may lead to over or under charging.</p>	<p>The Head of Service should develop a response to External Audit recommendations designed to improve the corroboration of PCN figures notified by member authorities through:</p> <ul style="list-style-type: none"> • Sign-off of annual certificates by the Chief Finance Officer or Internal Audit; and • Using Department of Transport statistics on local authority PCN's to validate returns. 	<p>● Significant (Control)</p>	<p>Agreed: Yes Action to be taken: The self-certification audit process takes place in May each year and External Audit's recommendation in relation to signatories will be implemented in May 2010 as reported to the Joint Committee at their January 2010 meeting.</p> <p>Other recommendations will be considered by the Advisory Board in May with a further report being presented to the Joint Committee in June 2010.</p> <p>Additional Resources Required for implementation: No Responsible Officer: Louise Hutchinson Target Date: May/June 2010.</p>

Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Annual certificates carried a statement that PCN systems were subject to internal audit and returns were signed by parking managers. However, we agreed with External Audit that there was scope to strengthen arrangements.				

Appendix 1. Basis of our opinion and level of assurance

Level of assurance	Description
Full 	Full assurance – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
Substantial 	Substantial assurance – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system’s overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment,
Moderate 	Moderate assurance – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
Limited 	Limited assurance – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No 	No assurance – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
High 	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
Medium 	
Low 	

Risk Type	Description
Control	There are areas for development and improvement in the design of the system of internal control
Compliance	There is need to improve compliance with the existing system of internal of control, processes or procedures.

Risk	Assessment rationale
<p>● E. Critical</p>	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMT required to intervene. Large increase on project budget/cost: (Greater of £1.0M of the total budget or more than 15 to 30% of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
<p>● D. Major</p>	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of £0.5M of the total Budget or more than 6 to 15% of the departmental budget).</p>
<p>● C. Significant</p>	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of £0.3M of the total Budget or more than 3 to 6% of the departmental budget). Handled within the team</p>
<p>● B. Moderate</p>	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of £0.1M of the total Budget or up to 3% of the departmental budget). Handled within the team</p>
<p>● A. Minor</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>

