

Internal Audit Report

GMITA: Financial Systems

Report To:

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Report Status:

FINAL

Additional Report Distribution:

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Stephen Cooke

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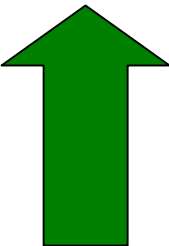
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MANCHESTER
CITY COUNCIL

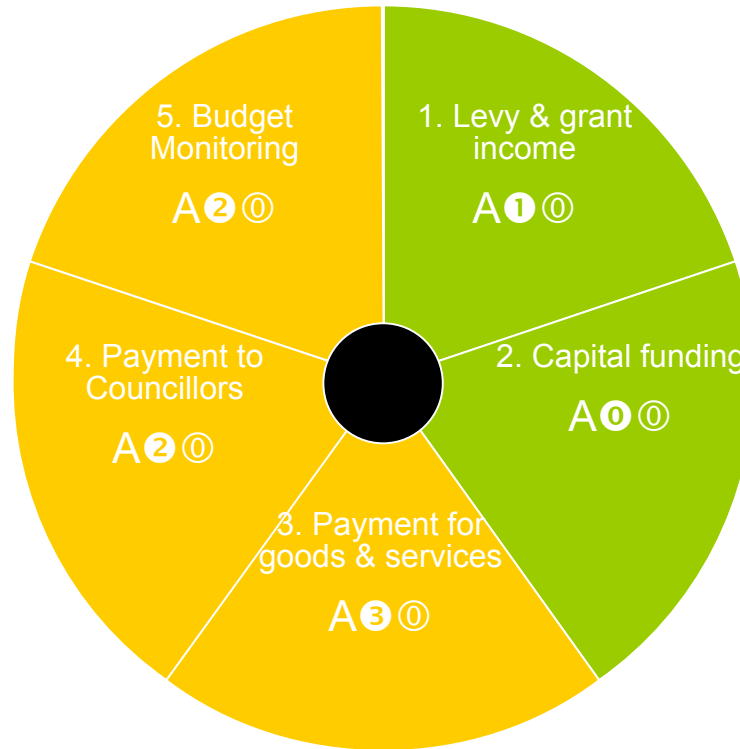
1. Executive Summary

Overall Assurance Opinion (See Appendix 1) FULL ● SUBSTANTIAL ● MODERATE ● ✓ LIMITED ● NO ●	Capacity to Improve	Number of control issues identified 0 Critical 0 Major 3 Significant 5 Moderate 0 Minor	Number of compliance issues identified 0 Critical 0 Major 0 Significant 0 Moderate 0 Minor
	HIGH 		

Audit Objective

To provide assurance that financial systems and controls are being operated effectively to support delivery of the Greater Manchester Integrated Transport Authority's (ITA) responsibilities. Specifically the audit will focus on whether:

- levy and grant income is correctly collected, recorded and accounted for;
- capital budget funding is approved and allocated in accordance with agreed protocols;
- payments for goods and services are legitimate, approved and supported by evidence;
- payments to Councillors follow agreed protocols and are supported by evidence; and
- budget monitoring operates effectively.



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

A	No or Minor
B	Moderate
C	Significant
D	Major
E	Critical

Context:

The Greater Manchester Integrated Transport Authority (ITA) is the body established to assess the public transport needs of the sub-region and make policy decisions about public transport provision. It does not directly provide bus, train or tram services but provides funding to the Greater Manchester Passenger Transport Executive (PTE) as the body responsible for implementing the ITA's policies.

Manchester City Council has lead district responsibility for the ITA and Council officers are responsible for managing the ITA's financial and accounting systems. The Council also provides an Internal Audit service to the ITA which delivers an annual programme of audit work. Two areas were identified for review in 2009/10: committee re-structure and financial systems. This audit report covers the financial systems review.

Overall we can provide moderate assurance that financial systems and controls are designed and operating effectively. Whilst we acknowledge that the ITAs own administration costs are small compared to the expenditure incurred on its behalf by the PTE, there are opportunities to develop procedures to improve financial control. In particular, we consider that arrangements should be developed to improve purchasing and budget monitoring procedures, processes for the recharging of Councillor allowances and expenses and the control of credit cards. We made one recommendation designed to improve clarity over grant income that has been rejected by management. Whilst we consider that the proposed grant register would help to minimise the risk of confusion between the ITA and PTE we classified this as a minor priority and as such do not consider that non-implementation presents an ongoing risk to the effective financial management within the ITA.

Areas of Good Practice:

- Levy income was correctly and promptly collected and accounted for.
- Bank reconciliations were carried out accurately and promptly.
- Capital funding was released based on authorised PTE claims, with the Treasurer certifying Department for Transport claims.
- Good written procedures were in place for purchasing and petty cash procedures and good control had been exercised over petty cash transactions.
- Protocols were in place for the payment of Councillor allowances and travel and subsistence.


Areas for Improvement:

- Development of arrangements to ensure clarity of roles and responsibilities between the ITA and PTE for the receipt of revenue and capital grants.
- Strengthening purchasing controls to ensure there is evidence of advance approval of expenditure.
- Enhancing the system for Councillor payment recharges, to ensure that payments are recharged on a timely basis, are supported by required documentation and are checked for accuracy.
- Strengthening credit card controls, to ensure that expenditure is approved and supported by relevant receipts.
- Improving budget monitoring to help manage expenditure more effectively and allow Members greater opportunity to scrutinise and challenge ITA spend.


2. Detailed Findings Recommendations and Action Plan


	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Audit Objective 1: Levy and grant income is correctly collected, recorded and accounted for.					
1	<p>There was a lack of clarity over the respective responsibilities of the ITA and PTE for receipt of grant income. This had been compounded by the Department for Transport (DfT) paying grants direct to the PTE rather than the ITA, which had necessitated a number of banking and accounting adjustments by the Senior Finance Manager.</p> <p>For example, a number of instalments of the Integrated Transport Block (ITB) grant, had been paid direct to the PTE this year, despite historically having been paid direct to the ITA. We acknowledge that after sustained effort by the Senior Finance Manager this had now been resolved.</p>	<p>Increased risk of incorrect / inconsistent accounting records for the ITA / PTE, due to the number of banking and accounting adjustments made.</p> <p>Increased risk of incorrect releases of money to the PTE, due to confusion arising from the number of banking and accounting adjustments made.</p> <p>Impact on ITA agreed practice of agreeing grant releases to the PTE against revenue / capital programmes and potential treasury management implications.</p> <p>Administrative time and costs associated with resolving issues with the DfT and PTE and making the necessary banking and accounting adjustments.</p>	<p>The ITA Policy Manager should ensure that a grant register is developed and agreed with the PTE which sets out:</p> <ul style="list-style-type: none"> • grant details; • values; • responsible body / officer for the receipt of each grant; • planned and actual date of receipt; and • planned and actual release / transfer amount and date. 	<p style="text-align: center;">●</p> <p style="text-align: center;">Minor (Control)</p>	<p>Agreed: No</p> <p>Action to be taken: This conclusion has been drawn on the basis of a number of 2008/09 instalments of the Integrated Transport Block (ITB) grant, which had been incorrectly paid direct to the PTE. DfT have now acknowledged this was an error and have agreed to revert back to paying the grant into the GMITA bank account as is standard practice. Officers are not aware of any other such issues. Information referring to specific grant details does exist and is contained within a summary sheet for each individual scheme.</p> <p>Responsible Officer: Richard Paver GMITA Treasurer</p>


	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Audit Objective 3: Payments for goods and services are legitimate, approved and supported by evidence.					
2	<p>From testing eight payments for goods and services, there were examples of non-compliance with the agreed procedure for the ordering and payment of goods/services. In particular:</p> <ul style="list-style-type: none"> • There was not always evidence that orders had been raised and approved by the Committee Services Manager; and • There was not always documentation on file to support actual receipt of goods and services. 	<p>In the absence of official approved orders there is an increased risk that expenditure will be incurred inappropriately and without adequate budget provision.</p> <p>In the absence of evidence to support receipt of goods and services, there is an increased risk that goods and services will be paid for which have not been received.</p> <p>Inability to check that invoiced costs are appropriate and accurate without approved orders and evidence of receipt.</p>	<p>The ITA Policy Manager should ensure that purchasing arrangements are developed to ensure that:</p> <ul style="list-style-type: none"> • official orders are always raised and approved; • evidence of receipt of goods and services is retained; and • invoices are checked to the order and delivery of goods and services before being approved. 	<p style="text-align: center;">●</p> <p style="text-align: center;">Minor (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: Interrogation of the tested payments has demonstrated that a number of these payments referred to related to invoices from the Audit Commission and charges to the lead district relating to salaried staff. These matters are agreed at aggregated budget level by the Authority on an annual basis, and were therefore out of the direct control of the administration of payments. In order to minimise such instances in the future the GMITA unit will re-establish internal processes, including the use of an official order book.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer: Stephen Clark, GMITA, Deputy Clerk</p> <p>Target Date: 1 April 2010</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
3	<p>The ITA constitution allowed Members to either use the Council's travel contract or make their own arrangements. As a result there was an inconsistent approach to the booking of travel and accommodation.</p>	<p>Value for money may not be obtained and effective control may not be exercised, due to approved Lead District contracts not always being used by members in respect of travel and accommodation.</p>	<p>The ITA Policy Manager, should determine whether the use of the Lead District travel contract provides optimum value for money.</p> <p>This should be used to inform a recommendation as to whether Members should be encouraged or even required to use the contract when booking travel and accommodation.</p>	<p style="text-align: center;"></p> <p>Moderate (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: There have been a limited number of instances whereby those Members, who held rail cards, had arranged their individual travel resulting in a reduced cost to the GMITA. Discussions with the travel contractor had now resulted in those discounts being made available via the GMITA office. This now means that all travel and accommodation will be arranged via the GMITA office.</p> <p>Additional Resources Required for Implementation: No</p> <p>Responsible Officer: Stephen Clark, GMITA Deputy Clerk</p> <p>Target Date: 1 April 2010</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
4	<p>Whilst there was separation of duties in the purchasing procedure and security around the storage of the cheque book, only one of three signatories was required to sign cheques and there were no cheque limits.</p>	<p>Increased risk of misappropriation of ITA funds due to only one signature being required to sign cheques and there being no cheque limits.</p>	<p>The ITA Policy Manager should ensure that cheque limits are established.</p>	<p style="text-align: center;">●</p> <p>Moderate (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: Following a review of cheque payments there has only been two instances where cheques in excess of £25K have been raised to pay for services from Manchester City Council. However, in line with good practice the GMITA bankers have been approached with a view to increase the required number of cheque signatories for each cheque from one to two of the three signatories.</p> <p>Responsible Officer: Richard Paver, GMITA Treasurer</p> <p>Target Date: July 2010</p>






	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Audit Objective 4: Payments to Councillors follow agreed protocols and are supported by evidence.					
5	<p>Procedures for basic and special responsibility allowances and travel and subsistence payments stated that they should be recharged to the ITA by District Councils on a quarterly basis.</p> <p>There was non-compliance with these agreed procedures as follows:</p> <ul style="list-style-type: none"> • Claims were not submitted on a timely basis by the Districts. Actual timescales ranged from six months to over a year. • Receipts were not provided to the ITA by the Districts to support expenditure claims • The one recharge we checked for accuracy included errors. Whilst this had been identified by the ITA Senior Finance Officer it had not been identified by the officers actually responsible for undertaking checks. 	<p>Administrative difficulties and costs will be incurred in verifying and approving recharges, due to the time elapsed between incurring expenditure and the submission of claims.</p> <p>The late submission of claims makes it more difficult to forecast likely costs for the year and impacts adversely on the ability to perform effective budget monitoring.</p> <p>Increased risk that recharges paid to the Districts are incorrect and/or not supported by appropriate documentation resulting in discrepancies between District and ITA records.</p>	<p>The ITA Policy Manager should ensure arrangements are established to provide assurance that payments are recharged on a timely basis, are backed up by supporting documentation and are checked for accuracy.</p> <p>We consider this process could include:</p> <ul style="list-style-type: none"> • a timetable for all Districts which includes expected dates for recharges; • travel and subsistence evidential requirements to enable payment; • a quarterly breakdown of expected payments for each Councillor, provided to each District for them to reconcile claims against and for the ITA to check the accuracy of District recharges. 	<p style="text-align: center;"></p> <p>Moderate (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken:</p> <p>To make the process more efficient a timetable will be produced and made available to the District Councils, which will advise when invoices for Members Allowances should be submitted.</p> <p>A quarterly breakdown of expected payments for each Councillor will also be produced and provided to each District Council to assist with the reconciliation of claims.</p> <p>A note will also be circulated to the District Councils, which will explain that all invoices, which claim travel and subsistence payments, will only be paid when supported by appropriate receipts.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer:</p> <p>Stephen Clark, GMITA Deputy Clerk and Richard Paver, GMITA Treasurer</p> <p>Target Date: 30 June 2010</p>




	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
6	<p>A credit card was used by the ITA Chairman to pay for lobbying expenses, as agreed by the Authority in setting its lobbying strategy. However there were a lack of controls over the use of this card and in particular:</p> <ul style="list-style-type: none"> • There was no credit card procedure outlining acceptable use, security and storage and authorisation of spend requirements; • Approved log books and receipts supporting £392.99 of expenditure for a four month period in 2009 had not been submitted to the ITA finance team; This has now been cleared to 0. • There was an outstanding approved log book covering April 2009, totalling £287.75. 	<p>Inability to demonstrate that credit card expenses have been appropriate incurred on ITA business, due to the absence of approved log books by the Lobbying Manager, Financial Director and Head of Transport and relevant receipts.</p> <p>Increased risk of reputational damage to the ITA / respective Councils in the event of public scrutiny of expenses.</p>	<p>The ITA Policy Manager should develop a credit card procedure. We consider this should include:</p> <ul style="list-style-type: none"> • Guidelines for acceptable use; • Security and storage arrangements; and • Arrangements for the authorisation of spending. <p>All users of credit cards should we asked to acknowledge their understanding and agreement to this procedure.</p>	<p style="text-align: center;"></p> <p>Moderate (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: Controls have been in place. However, they are being reviewed. To limit exposure to the Chair and Vice Chair of the Authority, an Agreement will be produced, which will include guidance for acceptable use and the requirement to provide supporting receipts with each statement.</p> <p>The process has already seen a significant improvement following the establishment of an agreed process to reconcile statements and receipts, which is owned by the GMITA.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer: Stephen Clark, GMITA Deputy Clerk and Richard Paver, GMITA Treasurer</p> <p>Target Date: 18 June 2010</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Audit Objective 5: Budget monitoring operates effectively.					
7	<p>Whilst the ITA monitored consolidated revenue and capital budgets there were opportunities to develop arrangements in this area. For example the existing controls did not extend to the following:</p> <ul style="list-style-type: none"> Recording or reporting of committed expenditure. Reporting against approved budget. Separate monitoring or reporting of the ITA budget, as distinct from the consolidated ITA / PTE budget. <p>The GMITA had limited involvement in the production of the consolidated revenue budget monitoring report, beyond the requirement for the GMITA Senior Finance Manager to liaise with the PTE Finance staff to provide the GMITA capital finance costs.</p>	<p>Expenditure could be incurred without appropriate budgetary provision as committed orders are not being considered within budget reports.</p> <p>Potential overspends / underspends may not be managed effectively as the reporting process does not include comparison to budget.</p> <p>Members are unable to adequately scrutinise and challenge GMITA spend, if it is not identified separately in budget monitoring reports. This also impacts on the ability to correlate in-year GMITA and consolidated spending to the outturn presented on this same basis in the GMITA annual Statement of Accounts.</p>	<p>The ITA Policy Manager should ensure that budget monitoring arrangements are developed.</p> <p>We consider budget monitoring should include:</p> <ul style="list-style-type: none"> recording and reporting of committed expenditure; reporting of actual spend against budget, variance and projected outturn; explanations for variances including remedial action plans where necessary; and separate reporting of the GMITA budget and spend in the consolidated ITA / PTE budget. <p>We also recommend clarification of the GMITA's role and responsibilities in production of the consolidated revenue budget monitoring report.</p>	<p style="text-align: center;"></p> <p>Moderate (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: Given the relatively low level of discretionary (ie, payroll) expenditure within its budgets, it is intended to maintain most monitoring at a senior officer level. However, appropriate reporting of year-end budgets will be established in response to this and this audit finding.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer: Richard Paver, GMITA Treasurer</p> <p>Target Date: 30 June 2010</p>






	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
8	<p>ITA finances were not administered through the Council's SAP accounting system. All financial management and reporting was done using the Quickbooks accounting system. In addition, Committee Services officers undertook purchasing processes outside of this system.</p>	<p>The functionality and enhanced controls of SAP are not being used.</p> <p>Continuity planning is compromised by the ITA Senior Finance Manager and his manager using different accounting systems in which other Council staff are not trained. In their absence there is a risk that other staff would not know how to use the current system.</p>	<p>The ITA Policy Manager should commission a formal evaluation from the finance team to evaluate the opportunities for transferring ITA financial management to SAP.</p> <p>This should include an assessment of potential timescales, risks, access and training requirements.</p>	<p style="text-align: center;">●</p> <p>Moderate (Control)</p>	<p>Agreed: Yes</p> <p>Action to be taken: To seek a formal evaluation of the potential transfer of GMITA financial management to SAP.</p> <p>Additional Resources Required for implementation: Potentially, it may be more appropriate for an independent member of the Internal Audit Team to undertake the evaluation.</p> <p>Responsible Officer: Stephen Clark, GMITA Deputy Clerk</p> <p>Target Date: 30 June 2010</p>

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	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 style="text-align: center;"></p> <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 style="text-align: center;"></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 style="text-align: center;"></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 style="text-align: center;"></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 style="text-align: center;"></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>