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**Derry City & Strabane**  
District Council

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Comhairle  
**Chathair Dhoire &  
Cheantar an tSraitha Báin**

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**Derry Cittie & Stràbane**  
Destrìck Cooncil



## Internal Audit of the project of the transfer of the ILEX Strategy and Regeneration function to DCSDC

Final Report

November 2017

## Professional Standards

Internal Audit is committed to ensuring high standards of service to Derry City and Strabane District Council. Our work complies with the Public Sector Internal Audit Standards (PSIAS) which apply the Institute of Internal Auditors International Standards to the UK Public Sector. These standards are issued by the relevant Internal Audit standard setters such as the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).

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## Executive Summary

<p><b>System Priority:</b></p> <p style="text-align: center;">Refer to Appendix (i)</p>	<p style="text-align: center;"><b>B</b></p> <p>Failure to implement the recommendations could result in the failure of an important Council objective or could have some impact on a key Council objective.</p>	<p><b>Audit Opinion:</b></p> <p style="text-align: center;">Refer to Appendix (ii)</p>	<p style="text-align: center;"><b>Satisfactory</b></p> <p>Overall controls are adequate and effective to provide reasonable assurance that risks are managed. While there may be some issues identified and recommendations raised, this should not significantly impact on the achievement of objectives.</p>	<p><b>Implementation Priority:</b></p> <p style="text-align: center;">Refer to Appendix (iii)</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Category</th> <th style="text-align: center;">No of Recommendations</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><b>B1</b></td> <td style="text-align: center;">3</td> </tr> <tr> <td style="text-align: center;"><b>B2</b></td> <td style="text-align: center;">6</td> </tr> <tr> <td style="text-align: center;"><b>B3</b></td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;"><b>Total</b></td> <td style="text-align: center;"><b>10</b></td> </tr> </tbody> </table>	Category	No of Recommendations	<b>B1</b>	3	<b>B2</b>	6	<b>B3</b>	1	<b>Total</b>	<b>10</b>
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	<p><b>Introduction</b></p> <p>DCSDC have entered into a funding agreement with the Department for Social Development in relation to the transfer of the ILEX Strategy and Regeneration function to DCSDC. The objective of the project is to progress delivery of the community plan for the DCSDC area in line with the Local Government Act (2014) (NI) up until March 2019. The funding amount is £1,617,000 over a 3 year period. The agreement states that this is to cover the costs for 3 permanent staff currently in post and associated programme costs. As per the agreement the maximum grant awarded will not be above £539,000 each year and the full amount was claimed in year 1. As part of the funding agreement, one of the conditions required an internal audit to be undertaken after year 1.</p> <p>As such, this audit was requested by senior management within the Council to comply with this requirement within the funding agreement. The purpose of this review is to provide senior management with an assurance about the adequacy and effectiveness of the transfer of the Ilex Strategy and Regeneration function to DCSDC after year 1 of the project.</p> <p>The objectives and scope for this review were agreed with DCSDC Business Support and Change Manager and were agreed with the North West Development Office prior to the commencement of the audit.</p>														

	<p>The Audit work performed was as follows:</p> <ul style="list-style-type: none"> <li>• Establishing the system of controls.</li> <li>• Evaluating the adequacy of the controls.</li> <li>• Designing and completing the audit programme to test the effectiveness of the controls.</li> <li>• Reporting on the adequacy and effectiveness of the controls to achieve system objectives.</li> </ul>
	<p><b>Objectives</b></p> <p>The objectives of this audit were:</p> <ul style="list-style-type: none"> <li>• To ensure that the project is operating in compliance with the Letter of Offer and that expended resources are attributable to the Community Planning process;</li> <li>• To ensure that expenditure incurred by the project has been properly authorised and paid in compliance with the ‘guidance on eligibility of expenditure’;</li> <li>• To ensure that funding received matches expenditure incurred by the project in relation to the work performed.</li> </ul> <p>Audit testing was carried out on a sample basis to enable us to form an opinion about the adequacy of internal control over these objectives.</p>
	<p><b>Scope</b></p> <ul style="list-style-type: none"> <li>• Expenditure;</li> <li>• Income.</li> </ul>

	<p><b>Limitation of scope</b></p>
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No limitations to scope.

<p><b>Basis of Audit Opinion</b></p>	
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Internal Audit is satisfied that the internal systems and controls are adequate and were operating effectively at the time of the audit review.

Overall Internal Audit are satisfied that all claims submitted relate to community planning spend, and overall the council is compliant with the majority of terms and conditions within the 'Letter of Offer' and 'guidance on eligibility of expenditure'. Internal Audit is also satisfied that the funding received matches expenditure incurred by the project in relation to the work performed.

However, a small number of issues were identified and Internal Audit have made a number of recommendations to improve the control environment. The key recommendations relate to the following areas:

- Ensuring that signed copies of the claim forms by the Chief Executive are retained on the file by DCSDC for audit trail purposes;
- Ensuring that a complete and full audit trail is maintained of all procurement exercises undertaken and all procurement is undertaken in compliance with DCSDC procurement processes; and
- Ensuring all documentation to support invoice payments are attached to the invoice prior to passing to finance section for payment.

As a result of this audit 10 recommendations have been made to improve the control environment. However, the audit has been given the audit opinion of 'Satisfactory'.

## Summary of Key Recommendations

The key recommendations made in this audit are as follows:

- Ensuring that signed copies of the claim forms by the Chief Executive are retained on file by DCSDC for audit trail purposes;
- A complete and full audit trail should be maintained of all procurement exercises undertaken and all procurement should be in compliance with DCSDC procurement processes.
- All Managers should be reminded of the importance of ensuring that all relevant evidence is attached to the invoice to demonstrate that procurement limits have been adhered to, prior to passing invoices to finance for payment;
- The Business and Change Manager should be responsible for authorising all spend on the project to help ensure effective budgetary control;
- Job descriptions for the staff who transferred from ILEX should be developed as soon as possible. DCSDC should also liaise with the funding department to confirm whether any further information is required in relation to the seconded employees working on the project;
- A number of recommendations have been raised regarding staff costs recoupment;
- Arrangements to be considered to manage and deal with conflicts of interest e.g. develop policy on this area to clearly stipulate how conflicts should be declared and managed, and ensure this policy is communicated to all relevant parties. DCSDC has recently updated a conflicts of interest policy which could be used as a reference point;
- Care should be taken to ensure invoices are registered on Agresso promptly;
- A number of improvements have been recommended to the process for dealing with spend on hospitality to ensure it is in compliance with the 'Eligibility of spend' conditions.

## Audit Tests Undertaken

### Test 1 Compliance with the Letter of Offer

#### Test Description

Ensure there is a signed letter of offer by both parties in place and staff involved in the project are aware of the letter of offer and conditions therein.

Ascertain what authorisation processes are in place to ensure project expenses all relate to the community planning process.

Review the project after year 1 and ensure it is operating in compliance with the terms and conditions within the letter of offer.

#### Findings

Internal Audit are satisfied that there is a signed letter of offer in place and that the key staff involved in the project i.e. the Business and Change Manager from an operational perspective and Directorate Accounting from a financial perspective are aware of the letter of offer and conditions therein.

Internal Audit reviewed the project to ensure it was operating in compliance with the terms and conditions within the letter of offer. Internal Audit noted that all 4 quarterly claims in year 1 had been submitted together with the required profile of expenditure for the year, including the progress report for the period. From quarter 2, detailed information on expenditure in the form of spreadsheets had also been provided to the department.

#### Issues

##### Approval of spend

Internal Audit were advised that the Business Support and Change Manager is responsible for the approval of all spend. Testing of a sample of 10 transactions showed that the Business and Change Manager approved the majority of payments. However some payments made in the earlier stages of the community planning process had been signed off by the Director of Legacy and some other payments e.g. relating to marketing / publicity spend had been signed off by a senior representative within that Section. These payments were approved without the oversight of the Business Support and Change Manager.

[See recommendation 1 below](#)

Internal Audit reviewed the terms and conditions within the letter of offer and guidance on eligibility of expenditure and noted the following issues:

## **1. Staffing:**

### **Job Descriptions for funded staff**

- The Contract for funding section 4i states:

*‘Prior to the release of Grant under this Contract for Funding, the Organisation shall:*

*Provide written confirmation and associated evidence to the Department of the TUPE arrangements in place for the three Strategy and Regeneration staff. This documentation should confirm that the Organisation are the employer’.*

Internal Audit viewed letters that had been issued to the three Strategy and Regeneration Staff dated April 2016 which confirmed that they transferred to DCSDC with effect from 1 April 2016 and their contract of employment transferred in accordance with TUPE legislation. However Internal Audit note that DCSDC job descriptions are still in development for these 3 staff.

### **Arrangements for seconded staff**

- Section xxvi of the contract for funding states:

*‘The Applicant shall be the employer of staff required for the Project and shall be responsible for all matters in connection with their employment’*

In addition section 3.1 of the Guidance on eligibility of expenditure ‘staffing costs’ states:

*‘Staffing costs are eligible in relation to posts directly engaged in the management of the DCSDC Community Plan, whether full time or part time. Specific supporting documents required to evidence staffing costs include job descriptions for the funded posts, timesheets for part-time staff, P1 forms and bank statements’.*

Internal Audit note that DCSDC have seconded 2 statisticians to undertake work on the community plan and these staff costs are recouped via this funding. However Internal Audit note that DCSDC do not have the job descriptions for these employees. No specific guidance is provided within the ‘Guidance on eligibility of expenditure’ for seconded employees working on the project.

[See recommendation 2 below](#)

## **2. Recoupment of staff costs**

- Internal Audit noted that in the first year of the project, 2 staff members salary within DCSDC were recouped on a 50% basis and another staff member’s cost was recouped dependent upon the number of days worked on the project, with the number of days changing throughout the year. However no supporting timesheets were maintained as a clear trail to

show the percentage of staff member's time that was spent on the community plan. This is contrary to the funding agreement which states at section 3.1:

*'There should be a clear audit trail created for staff costs from timesheet to payroll record'.*

- Section 3.1 of the Guidance on eligibility of expenditure states:

*'Staff costs are calculated on the basis of actual payroll costs which include gross salary, national insurance, PRSI contributions and may include employer's pension costs where there is an established pension scheme which applies to all staff.'*

Internal Audit noted that some staff costs reclaimed included salary and national insurance costs and others just included salary cost. The same principle should be applied to all staff costs being claimed.

- Internal Audit also note that there has been staff changes throughout the first year of the project, one staff member has changed the number of days they worked on the project, and, also there has been other additions and changes to staff throughout the period. These changes have not been specifically highlighted to the department. Section 7ii of the contract for funding states:

*'Immediately inform the Department in writing of any circumstances which will or may affect the ability of the Organisation to carry out the Project'.*

Although these changes in staff are unlikely to negatively impact the delivery of the project, Internal Audit would recommend that the department are kept informed of staff changes to reduce the risk of non-payment of recoupment of staff costs.

[See recommendation 3 below](#)

### **3. Managing Conflicts of Interest**

Section xxvii of the Contract for funding deals with conflict of interest and states:

*'Declare any actual or potential Conflicts of Interest which could exist as a direct consequence of the Organisation's use of the funding to be provided by the Department and record same in a Register of Conflicts'.*

Section 15.0 of the Guidance on eligibility of expenditure deals with project employees contracting with the Project and states:

*" ..... Arrangements must be in place within an organisation delivering a project for Board Members and executive officers to disclose any potential conflicts of interest relating to transactions involving the project. Furthermore, an individual whose full time salary is being funded with the DSD grant*

*cannot receive additional payment from the DSD grant for the supply of services on a self-employed basis'.*

In relation to the mechanism for managing conflicts of interest Internal Audit were provided with a Partnership agreement that had been developed at the commencement of the project. However review of this document showed that it provides guidance on governance arrangements for the partners as to how the partnership will operate, however it does not specifically mention how conflicts of interest would be dealt with, declared, managed etc.

[See recommendation 4 below](#)

#### **4. Fully Authorised Claim Forms**

Of the 4 claim forms available to Internal Audit for review, only 1 had been signed by the Chief Executive. One claim had been signed by a Director on behalf of the Chief Executive and the remaining 2 claim forms had the Chief Executive's name written on them but they were not signed. The Business and Change Manager advised that all forms had been signed prior to submission to the Department, however on some occasions a copy of the signed claim form had not been retained by DCSDC. Therefore, from an audit perspective there was a weakness in the audit trail.

[See recommendation 5 below](#)

#### **5. Retention of Records**

Section xvii of the Contract for Funding states:

*'Ensure that all records and information relating to the implementation of the Project and its financing are retained for a period of not less than 7 years following the last payment of Grant under this letter'.*

This means that potentially some of the information relating to the first year of the grant may need to be retained for 10+ years. As 10 years is longer than DCSDC retention policy, Internal Audit would recommend that appropriate arrangements are put into place to ensure the records are retained for this period of time.

[See recommendation 6 below](#)

**Test Description**

Select a sample of invoices and ensure that expenditure is in compliance with DCSDC payment processes.

**Findings**

Internal Audit noted some non-compliance in relation to the date stamping of invoices, completion of purchase orders and a small number of transactions where the sequencing of purchasing activities were incorrect and these were discussed with management and will be addressed going forward.

From the sample of 10 payments examined, segregation of duties was applied in the payment process and all calculations on invoices and payments made were correct.

However Internal Audit noted the following areas of concern:

**Issues****Registering invoices**

The sequence of payment of invoices is that invoices are received, date stamped, registered on Agresso then issued from finance to the relevant Department for authorisation to pay. These are returned to finance from the department with a completed coding slip showing the approval to pay.

The Late Payment of Commercial Debts (Amendment) Regulations 2015 clarifies that the statutory limit set for payment periods for public authority debts is a maximum of 30 days if no other payment day has been agreed. As such it is important that the sequence of payment for processing of invoices has no delays.

Audit testing showed that two of the 10 invoices reviewed had not been paid within the 30 day time period. For one there was a delay of 80 days between the invoice register date and date paid and this was mainly because there was 2 month delay between the invoice register date and the date on which the invoice was date stamped. In the other instance there was a delay of 40 days between the invoice register date and the date paid, though only 14 days between the date stamp and date paid.

[See recommendation 7 below](#)

**Tendering procedures**

Of the sample of 10 transactions reviewed, Internal Audit noted that in 3 instances the limit requiring quotations / tenders had been exceeded.

In 1 of these instances a Single Tender Action form had been completed and in 1 instance the relevant quotations had been obtained, scored and the contract awarded. However in 1 instance the evidence

of the procurement exercise undertaken was insufficient. The value required 3 written quotations and Head of Service / Lead Officer approval and Internal Audit viewed evidence to confirm that the invitation to quote was submitted to 4 companies with 3 returns. However there was a poor audit trail of the criteria for scoring, justification for award of the contract and an incomplete procurement file. The procurement checklist on file had only been partially completed and had not been signed. Internal audit also noted that there was an exceptionally short timescale for the return of quotations i.e. invitation to quote was issued on 07/06/16 with a request for return by 10/06/16.

[See recommendation 8 below](#)

### **Supporting documentation to invoice**

Although in some instances evidence of e-mail quotations had been attached to the invoice, in the majority of instances Internal Audit had to source back up documentation from the relevant section in Council.

[See recommendation 9 below](#)

## **Test 3 Compliance with the guidance on eligibility of spend**

### **Test Description**

Ensure expended resources are attributable to the Community Planning process, appropriately authorised and paid in compliance with the guidance on eligibility of expenditure.

### **Findings**

Internal Audit were advised that all invoices would be approved by the Business Support and Change Manager, however testing of 10 invoices showed that this was not always the case. Internal Audit have already made a recommendation that the Business Support and Change Manager should have oversight of all invoices for budgetary control purposes.

Internal Audit reviewed 10 invoices relating to various categories of spend i.e. agency spend, travel and subsistence, hospitality, ICT, consultancy, publicity and marketing spend. Internal Audit are satisfied that the spend all related to the community plan and complied with the conditions within the eligibility of expenditure with the following exceptions:

### **Issues**

#### **Hospitality spend**

The guidance on eligibility of spend has a number of conditions in relation to hospitality spend. Two of the invoices selected by audit related to hospitality. Internal Audit noted the following non-compliance with hospitality conditions:

- The guidance on eligibility of expenditure requires a realistic estimate of costs and numbers attending to be provided before authorisation. One of the hospitality purchase orders contained this information however the other provided only a cost per person but did not provide any indication as to numbers attending or the estimated overall level of spend.
- Internal Audit noted that section 13.6 of the guidance on eligibility of expense states that:

*‘Approval for all hospitality must be obtained at Director level prior to hospitality being offered or provided. The actual outturn expenditure should also be signed off at this level before the costs are included in a grant claim. An approval and authorisation form should be used .....’*

Internal Audit noted that neither purchase order reviewed for hospitality had been authorised. The authorisation to proceed with payment had been given on the coding slip by the Business and Change Manager and not a Director.

[See recommendation 10 below](#)

## Test 4 Income

### Test Description

Ascertain what income is received for Community Planning and from what sources.

Review the accuracy of grant submissions based upon the excel spreadsheet source documentation and ensure that monies have been received for all grant claims submitted.

### Findings

This grant funding from the department is the only grant monies received for the community planning process.

Internal Audit reviewed the spreadsheet of expenditure for each claim and is satisfied with the accuracy of all calculations and amount of claims submitted based upon the supporting information.

Internal Audit reviewed bank statements for DCSDC and confirmed that monies had been received for the grant claims submitted in year 1 of the project.

### Conclusion

Satisfactory

## **Acknowledgements**

Internal Audit would like to take this opportunity to thank DCSDC Business and Change Manager and the Directorate Accountant for their assistance in compiling this report.

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b>1. <u>Budgetary Control</u></b></p> <p>Internal Audit recommends that the Business Support and Change Manager should be responsible for authorising all spend on the project. This would ensure more effective budgetary control over the project.</p>	<p>Roles and responsibilities are now defined. The Business Support and Change Manager will now authorise all spend on this project to ensure that all spend continues to be in accordance with Council policies and procedures and the department's eligibility criteria.</p>	<p>December 2017</p>	<p>2</p>
<p><b>2. <u>Job Descriptions</u></b></p> <p>Internal Audit recommends that job descriptions for the three Strategy and Regeneration staff who transferred from ILEX should be developed as soon as possible, to clearly demonstrate that they are DCSDC employees.</p> <p>Internal Audit recommends that DCSDC should liaise with the department to confirm whether the department requires any further information in relation to the 2 seconded statisticians.</p>	<p>Organisational structures have been agreed and formalised. DCSDC's Human Resources section have been (and are currently) working on developing and agreeing job descriptions in liaison with the Chief Executive. It is expected that the job descriptions will be agreed and finalised by the end of 2017.</p>	<p>January 2018</p>	<p>2</p>
<p><b>3. <u>Staff costs recoupment:</u></b></p> <p>Internal Audit recommends that DCSDC liaise with the department to confirm that they are satisfied with the current</p>	<p>The approach in relation to timesheets for part time staff will be clarified with the Department. Staff</p>	<p>December 17</p>	<p>2</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p>arrangements re reimbursement of part time wages of staff, in the absence of timesheets.</p> <p>Internal Audit recommends that the same principle should be applied to reclaiming staff costs, i.e. either just the salary proportion or else the total costs should be reclaimed (including national insurance, pension etc.).</p> <p>Internal Audit recommends that the department are kept informed on an ongoing basis of changes to staff responsible for delivery of the project.</p>	<p>costs are set out, profiled and agreed annually at the start of the financial year with the Department for Communities. Part time staff were allocated to this project only within the first financial year of funding.</p> <p>Management will also engage with finance, and confirm with the Department for Communities to ensure and clarify that the same principle is applied to reclaiming staff costs, i.e. either just the salary proportion or total costs (including national insurance, pension etc.)</p> <p>The Department shall also be kept informed on an ongoing basis of any changes to staff responsible for the delivery of the project. It is unlikely that this shall be the case for the remainder of the project.</p>		
<p><b>4. <u>Conflicts of interest</u></b></p> <p>Internal Audit recommends that the Business Support and Change Manager should consider the arrangements that should be put into place to manage and deal with conflicts of interest e.g. develop a policy on this area to clearly stipulate how conflicts should be declared and managed. This policy should be communicated to all relevant parties. DCSDC has</p>	<p>Agreed. The existing DCSDC conflict of interest policy applies to the staff who have transferred and they have submitted their declaration of interest forms.</p> <p>Moreover, work will commence in 2018 to further</p>	December 17	2

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
recently updated a policy on conflicts of interest and this could be used as a reference point.	develop and reinforce the partnership agreement and reinforce controls in relation to conflicts of interests at Strategic Partnership/Governance level.		
<p><b>5. <u>Fully Authorised Claim Forms</u></b></p> <p>Internal Audit recommends that all claims forms are provided to the Chief Executive for signature and approval prior to submission, and a copy of the signed claim form should be retained by DCSDC for audit trail purposes.</p>	All claim forms are signed by the Chief Executive – or in the absence of the Chief Executive by a Director. Original copies are posted to the Department for Communities for release of quarterly grant in arrears. A copy of the signed copy by the Chief Executive will now be retained on files in future.	December 2017	1
<p><b>6. <u>Retention of records</u></b></p> <p>Internal Audit recommends that appropriate arrangements are put into place to ensure the records relating to expenditure on this grant are retained for the required period of time i.e. 10 years plus.</p>	Appropriate arrangements will be put in place to ensure records relating to expenditure on this grant are retained for the required period of time.	December 2017	3
<p><b>7. <u>Registering of invoices</u></b></p> <p>Internal Audit recommends that care is taken to ensure all invoices are registered on Agresso promptly and therefore there should be minimal difference between the date stamps and the date of invoice register on Agresso. Internal Audit</p>	Agreed. Will ensure prompt issue of invoices to Finance.	November 2017	2

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
recommend that invoices are then promptly issued to departments with a date of return.	The Council is currently working to develop a more centralised procurement system which will assist in adherence to this recommendation.	Ongoing	
<p><b>8. <u>Tendering procedures</u></b></p> <p>Internal Audit recommends that a complete and full audit trail is maintained of the procurement exercise undertaken and all procurement should be in compliance with DCSDC procurement processes. Internal Audit recommends that all recommendations made in the previous council wide audit on procurement should be complied with e.g. complete procurement file with fully completed checklist, clear audit trail over invitation to quote, evaluation criteria, scoring, members of panel, award of contract, and notification to unsuccessful bidders etc.</p>	The Community Planning team attended procurement training to ensure compliance with the purchasing policy on the 05 May 2016. Quotations were sought from suppliers with a quick turnaround time and the audit issues identified were due to deadline and time constraints. Going forward a full and complete audit trail shall be maintained of any procurement exercise undertaken and all procurement shall be in compliance with DCSDC procurement processes. All documentation will be included within the filing system established within the Chief Executive's Office.	December 17	1
<p><b>9. <u>Supporting documentation to invoice</u></b></p> <p>Internal Audit recommends that managers are reminded of the importance of ensuring that all relevant documentation is attached to the invoice to demonstrate that procurement limits had been adhered to, prior to returning the invoice to finance to process payment.</p>	The Council is currently working to develop a more centralised procurement system which will assist in adherence to this recommendation. In the interim all relevant documentation shall be attached to the invoice.	December 17	1

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b>10. <u>Hospitality Spend</u></b></p> <p>All purchase orders for hospitality should clearly show a realistic estimate of cost per person, numbers attending and overall estimated spend to be provided prior to authorisation.</p> <p>In compliance with the eligibility of spend conditions approval for all hospitality must be obtained at Director level prior to hospitality being offered or provided. The actual outturn expenditure should also be signed off at this level before the costs are included in a grant claim.</p> <p>The Business and Support Manager should liaise with the department to confirm if the DCSDC normal purchase order process and authorisation of coding slips is sufficient or whether a specific hospitality approval and authorisation form should be developed.</p>	<p>All purchase orders will estimate cost per person, numbers attending and estimated spend.</p> <p>Authorisation shall be given by the Chief Executive or available director.</p> <p>The Business Support and Change Manager shall liaise with the department to confirm if the DCSDC normal purchase order process and coding slips is sufficient or whether a specific hospitality approval and authorisation form should be developed.</p>	<p>December 17</p> <p>December 17</p> <p>December 17</p>	<p>2</p>

## Appendix (i)

## System Priority Level

Internal Audit have recently introduced a 'System Priority level' to audit reports. The system priority level identifies the significance of the system under review towards achievement of the Council's objectives.

This will help management to easily identify significant issues at an organisational level.

There are 3 ratings as follows:

Rating	Description
<b>A</b>	Failure to implement the recommendations is likely to result in a major failure of a key Council objective, significant damage to the reputation of the Council or the misuse of public funds.
<b>B</b>	Failure to implement the recommendations could result in the failure of an important Council objective or could have some impact on a key Council objective.
<b>C</b>	Failure to implement the recommendation could lead to an increased risk exposure.

**Appendix (ii)****Classification of Audit Assurance**

Internal Audit have recently reviewed the classification of audit assurance levels. These continue to be based upon the system under review. The 3 new Assurance levels are 'Satisfactory', 'Improvement needed' and 'Major Improvement needed'. The definitions have been reworded to match the new Assurance levels.

The new assurance levels and definitions are as follows:

<b>Level of Assurance</b>	<b>Definition</b>
Satisfactory	<i>Evaluation opinion:</i> Overall controls are adequate and effective to provide reasonable assurance that risks are managed. While there may be some issues identified and recommendations raised, this should not significantly impact on the achievement of objectives.
Improvement needed	<i>Evaluation opinion:</i> Significant control weaknesses were noted and recommendations raised. There is considerable risk that the system will fail to meet its objectives.
Major Improvement needed	<i>Evaluation opinion:</i> Numerous significant control weaknesses were noted and recommendations raised. The system has failed or there is a real risk that the system will fail to meet its objectives.

## Appendix (iii)

## Implementation Priority

Implementation priorities are based upon Internal Audit's opinion on how quickly the recommendations should be implemented, relevant to their importance in the system under review.

There are 3 different priority ratings as follows:

Priority	Description
1	Weakness which should be addressed immediately.
2	Weakness, which is not fundamental but should be addressed in the short term (6 months).
3	Improvement, which represents best practice.

The Action Plan contains the priority both of the system and the recommendation.