

AUDIT COMMITTEE

12 March 2015

INTERNAL AUDIT PROGRESS REPORT 2014 - 2015

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

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RECENT REFERENCES:

AUD082 - Internal Audit Plan 2014-15

AUD089 - Internal Audit Report and Opinion 2013-14

AUD097 - Internal Audit Progress Report 2013-14 – May 2014

AUD098 - Internal Audit Progress Report 2013-14 – September 2014

AUD107 - Internal Audit Progress Report 2013-14 – December 2014

EXECUTIVE SUMMARY:

The purpose of this paper is to provide the Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved plan and to provide an overview of the status of 'live' reports.

RECOMMENDATION:

- 1 The Audit Committee note the Internal Audit Progress Report 2014 -2015 attached as Appendix 1.

## AUDIT COMMITTEE

12 MARCH 2015

### INTERNAL AUDIT PROGRESS REPORT 2014 - 2015

#### REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

#### DETAIL:

##### 1 Introduction

- 1.1 The purpose of this paper is to provide the Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

##### 2 Summary

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council is responsible for:
- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk, and;
  - undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 2.2 In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:
- 'communications on the internal audit activity's performance relative to its plan.'*
- 2.3 Appendix 1 summarises the performance of internal audit for 2014 -2015. The 'Status of live reports' table in section 4 reflects the removal of 17 post 2011-2012 audit reports where all actions had been implemented (as reported to December 2014 Audit Committee reference report AUD107). All actions have now been implemented relating to further three audit reviews.

### OTHER CONSIDERATIONS:

#### 3 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

3.1 Internal audit plays a vital role in helping the organisation accomplish its objectives, strategies and change plans by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

#### 4 RESOURCE IMPLICATIONS:

4.1 None directly from this report.

#### 5 RISK MANAGEMENT ISSUES

5.1 The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

### BACKGROUND DOCUMENTS:

None

### APPENDICES:

Appendix 1 – Internal Audit progress report 2014 - 2015.

**Internal Audit Progress Report**

**January 2015**

**Winchester City Council**



**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

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## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

***‘Undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.***

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

## 2. Purpose of report

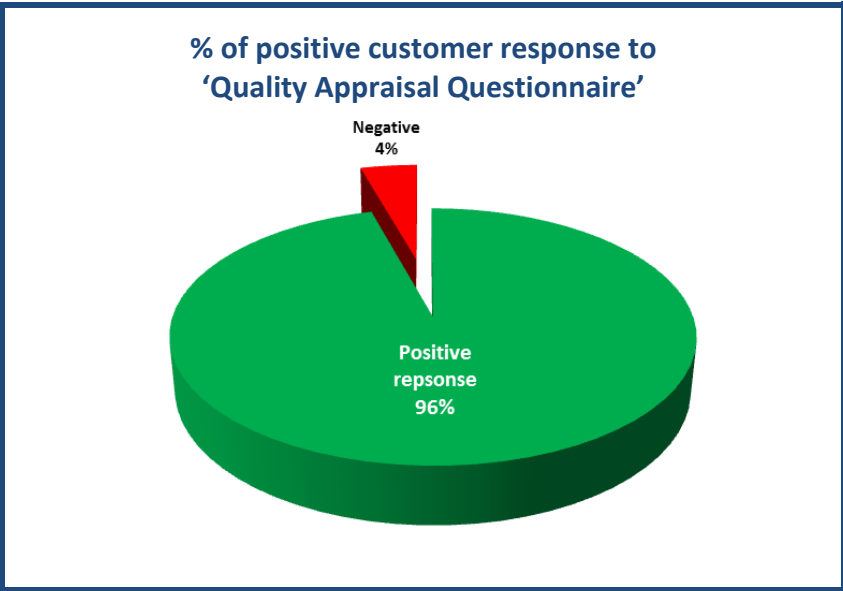
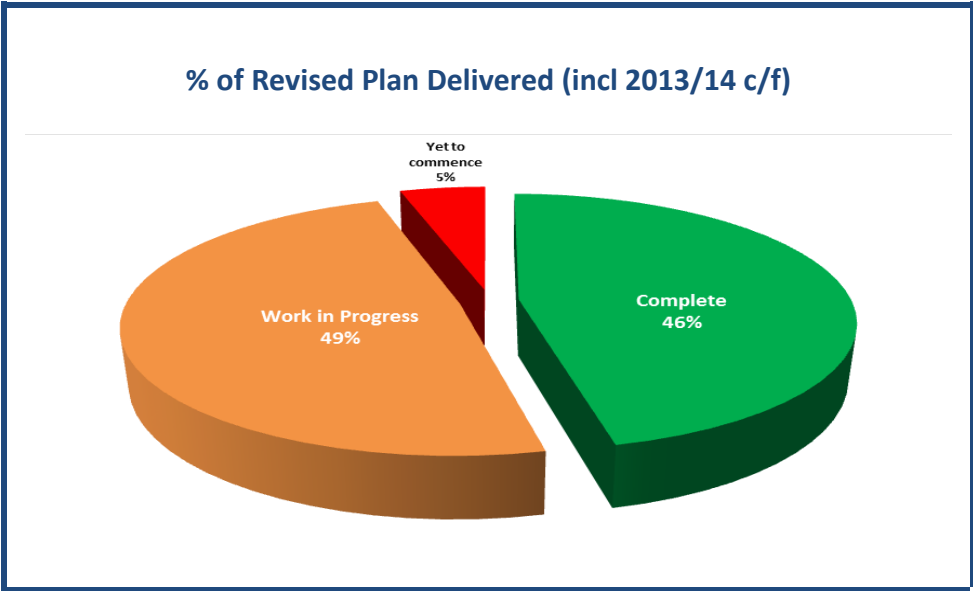
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

<b>Substantial</b>	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.
<b>Adequate</b>	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
<b>Limited</b>	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
<b>No</b>	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

3. Performance dashboard



<b>Compliance with Public Sector Internal Audit Standards / Local Government Application Note</b>	
	<p>During 2013 – 14 The Head of the Southern Internal Audit Partnership undertook a self-assessment concluding overall compliance against the Standards and the LGAN. To provide independence to the process the self–assessment was reviewed by Hampshire County Council’s Monitoring Officer to ensure it presented a true and fair view.</p> <p>Independent analysis confirmed that the self-assessment provided <i>‘a fair assessment of the internal audit activity’</i>.</p>



## 4. Status of 'Live' Reports

Audit title	Report date	Audit Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Covalent is currently showing 13 outstanding actions (unchanged since previously reported 04 December 2014) relating to audit reports issued prior to 2011-12. Management are currently reviewing these actions to ensure Covalent has been appropriately updated or establish continued relevance.								
Flexible / Smarter Working	2011-12	CX	Limited*	Limited*	10 (3)	9 (3)	0 (0)	1 (0)
<b>Cash Collection</b>	<b>2011-12</b>	<b>CFO</b>	<b>Substantial*</b>	<b>Substantial*</b>	<b>6 (0)</b>	<b>6 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Housing Benefits	2011-12	CFO	Substantial*	Substantial*	4 (0)	3 (0)	0 (0)	1 (0)
Debtors	2012-13	CFO	Substantial*	Substantial*	10 (0)	8 (0)	0 (0)	2 (0)
Environmental Services Contract	2012-13	CD	Limited*	Limited*	8 (0)	5 (0)	0 (0)	3 (0)
Fraud Prevention	2012-13	CFO	Substantial*	Substantial*	5 (0)	4 (0)	0 (0)	1 (0)
Housing Rents	2012-13	CD	Substantial*	Substantial*	8 (0)	7 (0)	0 (0)	1 (0)
Payroll	2012-13	CX	Substantial*	Substantial*	8 (0)	7 (0)	0 (0)	1 (0)
Housing Term Contracts	2012-13	CD	Limited*	Limited*	7 (0)	6 (0)	0 (0)	1 (0)
Data Protection and Freedom of Information	19/02/14	COO	Limited	Adequate	8 (1)	6 (1)	0 (0)	2 (0)
Housing rents	03/06/14	CD	Adequate	Adequate	2 (0)	1 (0)	0 (0)	1 (0)
<b>Cash Collection</b>	<b>03/06/14</b>	<b>CFO</b>	<b>Adequate</b>	<b>Adequate</b>	<b>10 (0)</b>	<b>10 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>

Audit title	Report date	Audit Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Performance and risk management	16/06/14	CX	Limited	Adequate	12 (0)	10 (0)	0 (0)	2 (0)
Accounts Payable	16/06/14	CFO	No	No	12 (5)	9 (5)	0 (0)	3 (0)
Commissioning	18/07/14	CX	Adequate	Adequate	5 (0)	2 (0)	0 (0)	3 (0)
Main accounting (bank reconciliations)	18/07/14	CFO	Limited	Adequate	11 (5)	10 (5)	1 (0)	0 (0)
Software Licensing and management of ICT assets	01/08/14	CFO	Adequate	Adequate	8 (0)	6 (0)	2 (0)	0 (0)
Environmental Services Contract (joint with EHDC)	11/08/14	CD	Limited	Limited	30 (5)	25 (5)	2 (0)	3 (0)
IT Shared Service	15/08/14	CFO	Adequate	Adequate	5 (1)	2 (1)	0 (0)	3 (0)
<b>Project Management</b>	<b>05/09/14</b>	<b>CD</b>	<b>Adequate</b>	<b>Adequate</b>	<b>5 (3)</b>	<b>5 (3)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Asset Management	02/10/14	COO	Adequate	Adequate	3 (0)	1 (0)	0 (0)	2 (0)
Contract Management	25/11/14	CD	Limited	Limited	13 (0)	2 (0)	5 (0)	6 (0)

\*NB The audit opinions for reports issued during or before 2012/13 reflect the definitions in place prior to 01 July 2013\*. The pre 01 July 2013 definitions are listed in section 9 of this appendix for reference.

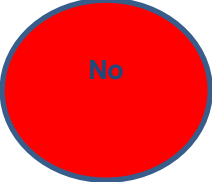
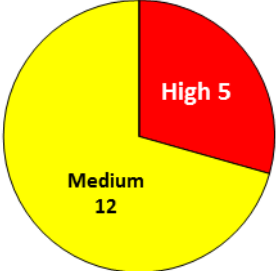
Audit Sponsor	
Corporate Director	CD
Chief Executive	CX
Chief Operating Officer	COO
Chief Finance Officer	CFO


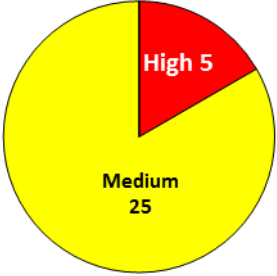
**5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion**


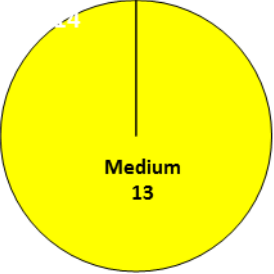
**New issues arising**

There have been no new reports with limited or no assurance opinions.

**Issues previously reported**

<b>Accounts payable</b>								
<p><b>Audit Sponsor:</b> Chief Finance Officer</p> <p><b>Key Contacts:</b> Alexis Garlick - Chief Finance Officer; Stephen Whetnall - Chief Operating Officer</p> <p><b>Final Report Issued:</b> 16 June 14</p>	<p><b>Assurance opinion:</b></p> <div style="text-align: center;">  <p>No</p> </div>	<p><b>Management Actions:</b></p> <div style="text-align: center;">  <table border="1"> <caption>Management Actions Risk Distribution</caption> <thead> <tr> <th>Risk Level</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>5</td> </tr> <tr> <td>Medium</td> <td>12</td> </tr> </tbody> </table> </div>	Risk Level	Count	High	5	Medium	12
Risk Level	Count							
High	5							
Medium	12							
<p><b>Summary of key observations:</b></p> <p>Our review of accounts payable highlighted a significant breakdown in controls to ensure invoices were accurately scanned and validated giving rise to a number of duplicate payments going undetected throughout the year. This was compounded through ineffective payment authorisation practices by budget holders throughout the Council. Analysis further identified a number potential duplicate payments where ‘key fields’ have been matched that require further investigation.</p> <p>Additionally audit observations noted substantial non-compliance in the raising of purchase orders and certification of goods received as part of the accounts payable process.</p> <p>It is recognised that resource implications may have had an adverse impact on the continuity and regularity of key controls and processes operating throughout the course of the year.</p> <p>We are reassured by the additional resource that has since been assigned to review the ‘Procure to Pay’ procedures and in the on-going work to investigate the potential duplicate payments highlighted as part of our data analysis.</p> <p><i>Current position - Significant progress is being made with implementing the identified actions with ten actions implemented including all high priority actions. Three actions remain overdue. Follow-up testing has commenced in quarter 4, the results of which will be reported to the Audit Committee.</i></p>								

<b>Environmental Services Contract</b>		
<p><b>Audit Sponsor:</b> Corporate Director</p> <p><b>Key Contacts:</b> Steve Tilbury – Corporate Director; Alexis Garlick – Chief Finance Officer; Jackie Bachelor (EHDC); Rob Heathcock (EHDC); Jane Eaton (EHDC); Gill Knellor (EHDC).</p> <p><b>Final Report Issued:</b> 11 August 14</p>	<p><b>Assurance opinion:</b></p> <div style="text-align: center;">  <p>Limited</p> </div>	<p><b>Management Actions:</b></p> <div style="text-align: center;">  <p>High 5</p> <p>Medium 25</p> </div>
<p><b>Summary of key observations:</b>                  This was a joint review with East Hants District Council.</p> <p>The audit identified that business processes had not been formally designed to support the Joint Client Team activities and had evolved to be inconsistent, inefficient, and insufficiently documented which was a factor in many of the issues identified by the review. Weaknesses were identified in contract monitoring; strategic and operational performance management; and with inconsistent performance reporting to both the Joint Environmental Services Board and Joint Environmental Services Committee.</p> <p>Work is underway to address the issues identified by the review with an action plan approved by the Joint Environmental Services Board on 07 August 2014, which will be presented to the next Joint Environmental Services Committee scheduled in the Autumn.</p> <p><i>Current position - Significant progress has been made with implementing the identified actions with 25 actions completed including all of the high priority actions. Three actions remain overdue and two remain pending since the last report. A follow-up review is planned for 2015/16.</i></p>		

<b>Contract management</b>		
<p><b>Audit Sponsor:</b> Corporate Director</p> <p><b>Key Contacts:</b> Amanda Ford - Head of Sport and Physical Activity; Richard Botham - Head of Housing; Steve Tilbury - Corporate Director; Alexis Garlick - Chief Finance Officer; Stephen Whetnall - Chief Operating Officer</p> <p><b>Final Report Issued:</b> 25 November 14</p>	<p><b>Assurance opinion:</b></p> <div style="text-align: center;">  <p><b>Limited</b></p> </div>	<p><b>Management Actions:</b></p> <div style="text-align: center;">  </div>
<p><b>Summary of key observations:</b></p> <p>This review focused on the Council’s contract monitoring arrangements in respect of River Park and Meadowside Leisure Centres.</p> <p>Observations identified a number of issues over the strength and effectiveness of the monitoring of the contract.</p> <p>Income due from the contractor is subject to an income sharing arrangement initiated when a pre-defined threshold is reached, as specified in the contract. Based upon information received from the contractor such payment has not been triggered since 2009. From testing undertaken, concerns were raised that the Council were not undertaking sufficient integrity checks on the income figures supplied by the contractor.</p> <p>There is no formal escalation policy in place, to ensure prompt action to address reports of repairs &amp; maintenance and to prevent continued deterioration, placing the timely resolution of works at risk and an absence of awareness with senior managers.</p> <p><i>Current position –progress is being made in the implementation of the management actions, with two of the 13 actions now cleared.</i></p>		

## 6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2014 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2014	01.04.14 – 31.01.15
<b>Part 2 Requirements - Fraud</b>	
<b>Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used</b>	Nil
<b>Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud</b>	2 fte*
<b>Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists</b>	3 fte*
<b>Total amount of time spent by the authority on the investigation and prosecution of fraud</b>	10 days*
<b>Total number of new fraud cases investigated</b>	0**

\*relates to internal audit staff within the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, departmental investigating officers, Housing Benefits etc.)

\*\*the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

### **Fraud Grant Funding**

The DCLG have made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud.

During the summer local authorities were invited to submit proposals for funding that would result in real financial savings through effective counter fraud activities. A successful bid from the Southern Internal Audit Partnership (one of only 59 approved from 164 applications) has resulted in funding of £72,000 being awarded to support initiatives in respect of fraud detection and prevention.

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks. This assessment will inform a programme of proactive fraud initiatives moving forward, targeting demonstrably high risk areas.

This will be supported by the use of data analytics to more strategically analyse higher risk areas in the identification and investigation of data giving rise to irregular activity or conflicts with other sources of information.

The legacy from funding will strengthen measures for both fraud detection and prevention through provision of a clear understanding and assessment of fraud threats and the establishment of data analytics as preventative measures to combat fraud through the real time sharing and matching of data and fraud intelligence.

### **7. Planning & Resourcing**

The internal audit plan for 2014-15 was prepared following meetings with the senior management and Service Managers and was presented to the Audit Committee in March 2014. The audit plan remains fluid to ensure audit resource is effectively aligned to the Council's needs. Progress against the plan is detailed within section 8.



## 8. Rolling Work Programme

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
<b>2013-14 Carry Forward Reviews</b>							
Commissioning	✓	✓	✓	✓	18/07/14	Adequate	
Data security and management	✓	✓	✓	✓	10/11/14	Adequate	
Asset management	✓	✓	✓	✓	02/10/14	Adequate	
ICT shared service	✓	✓	✓	✓	15/08/14	Adequate	
Performance and risk management	✓	✓	✓	✓	16/06/14	Limited	
Software Licensing and management of ICT assets	✓	✓	✓	✓	01/08/14	Adequate	
Main accounting (bank reconciliations)	✓	✓	✓	✓	18/07/14	Limited	
Payroll	✓	✓	✓	✓	17/07/14	Substantial	
Guildhall – income	✓	✓	✓	✓	03/09/14	Limited	
Contract management	✓	✓	✓	✓	25/11/14	Limited	
Environmental Services Contract (joint with EHDC)	✓	✓	✓	✓	11/08/14	Limited	

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
Accounts Payable	✓	✓	✓	✓		16/6/14	No
<b>Corporate cross cutting</b>							
Information management	✓	✓	✓				
Asset management	✓	✓	✓	✓			
National Fraud Initiative (NFI)	N/A	✓	N/A	N/A		N/A	N/A
Procurement	✓	✓	✓	✓			
Project management	✓	✓	✓	✓		05/09/14	Adequate
Recruitment							
Absence management	✓	✓	✓				
Partnerships	✓	✓	✓	✓			
Grant Award	✓	✓	✓	✓			
<b>Corporate governance</b>							
Proactive fraud initiatives, and anti fraud & corruption	N/A	✓					

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
Corporate governance - Self Assessments	✓	✓	✓	N/A	N/A	N/A	
Annual review of effectiveness of Internal Audit	✓	✓	✓	✓	26/06/14	Substantial	
Mayor's Charity Account	✓	✓	✓	N/A	N/A	N/A	
<b>Financial management</b>							
Accounts receivable	✓	✓					
Budgetary control	✓	✓	✓				
Treasury management	✓	✓	✓				
National Non-Domestic Rates (NNDR)	✓	✓	✓	✓	18/11/14	Adequate	
Housing options	✓	✓					
Income collection	✓	✓	✓	✓			
Follow up – Accounts Payable	✓	✓					
<b>Information technology</b>							
Network management	✓						

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
Orchard application	✓	✓	✓				
<b>Corporate priorities / Service audits</b>							
New homes delivery	✓	✓	✓				
Housing - reactive repairs	✓	✓	✓				
Housing - voids	✓	✓	✓	✓	30/07/14		Adequate
Community Infrastructure Levy (CIL)	✓	✓	✓	✓			
Licensing	✓	✓					
Street care and drainage	✓	✓	✓				
Museums Trust – transfer of assets							

### 9. WCC opinion definitions for reviews completed prior to 01 July 2013

Opinion	Framework of governance, risk management and management control
<b>Full</b>	System Effectiveness opinion - There is a sound system of control designed to achieve the system objectives, and Testing opinion – The controls are being consistently applied.
<b>Substantial</b>	System Effectiveness opinion– While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/or Testing opinion – There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>	System Effectiveness opinion – Weaknesses in the system of controls are such as to put the system objectives at risk, and/or Testing opinion – The level of non-compliance puts the system objectives at risk.
<b>No assurance</b>	System Effectiveness opinion – Control is generally weak leaving the system open to significant error or abuse, and/or Testing opinion – Significant non-compliance with basic controls leaves the system open to error or abuse.