

AUDIT COMMITTEE

22 JUNE 2015

INTERNAL AUDIT PROGRESS REPORT 2014 - 2015

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

Contact Officer: Neil Pitman Tel No: 01962 845139 Email:
neil.pitman@hants.gov.uk

RECENT REFERENCES:

AUD082 - Internal Audit Plan 2014-15

AUD089 - Internal Audit Report and Opinion 2013-14

AUD097 - Internal Audit Progress Report 2014-15 – May 2014

AUD098 - Internal Audit Progress Report 2014-15 – September 2014

AUD107 - Internal Audit Progress Report 2014-15 – December 2014

AUD110 - Internal Audit Progress Report 2014-15 – March 2015

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

22 JUNE 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 2015, the Council must:

'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

- 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.

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

May 2015

Winchester City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

1.	Role of Internal Audit	6
2.	Purpose of report	7
3.	Performance dashboard	8
4.	Status of 'live' reports	9 - 11
5.	Executive summaries 'Limited' and 'No' assurance opinions	12 - 14
6.	Fraud and Irregularities	15
7.	Planning and resourcing	15
8.	Rolling work programme	16 - 19

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

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

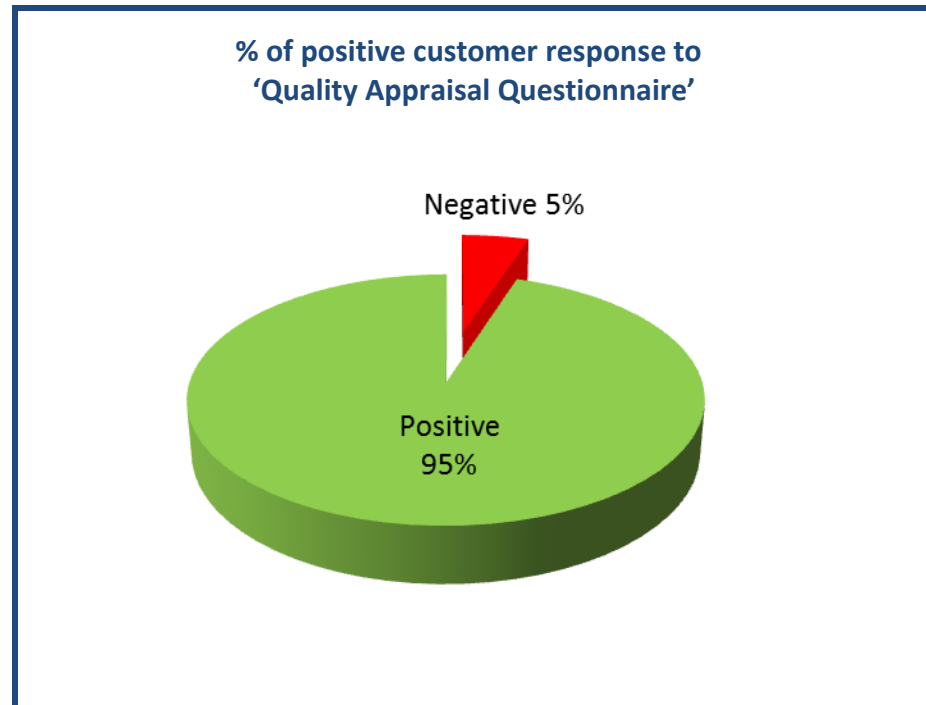
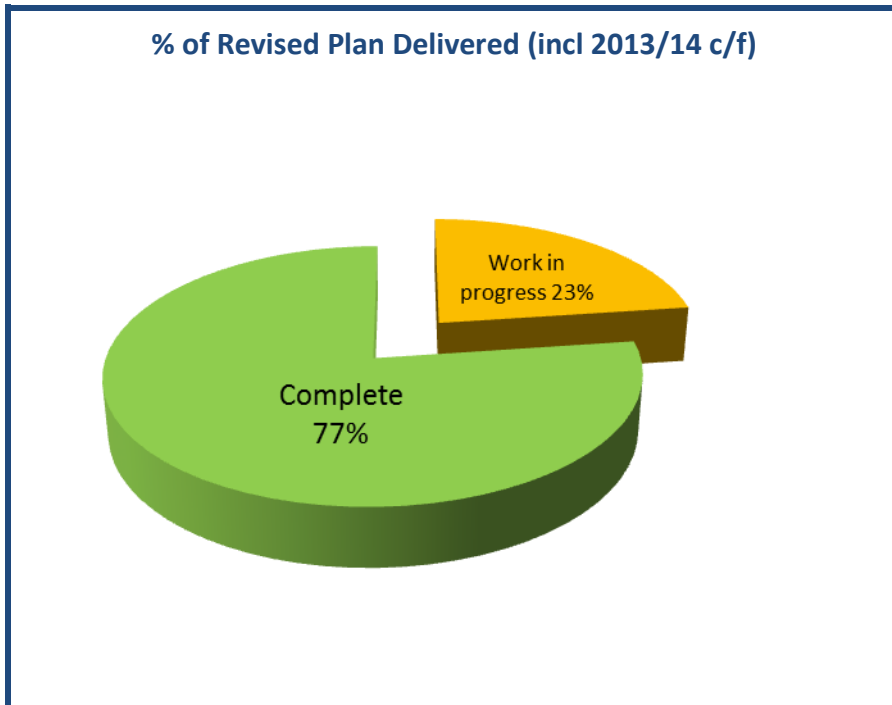
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- 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:

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.
Adequate	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.
Limited	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.
No	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



Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
✓	During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment concluding overall compliance against the Standards and the LGAN.

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 10 outstanding actions (13 outstanding actions previously reported 12 March 2015) 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)
Housing Benefits	2011-12	CFO	Substantial*	Substantial*	4 (0)	4 (0)	0 (0)	0 (0)
Debtors	2012-13	CFO	Substantial*	Substantial*	10 (0)	10 (0)	0 (0)	0 (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)
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)
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	Adequate	12 (5)	10 (5)	0 (0)	2 (0)
Commissioning	18/07/14	CX	Adequate	Adequate	5 (0)	2 (0)	0 (0)	3 (0)

Audit title	Report date	Audit Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Main accounting (bank reconciliations)	18/07/14	CFO	Limited	Adequate	11 (5)	11 (5)	0 (0)	0 (0)
Software Licensing and management of ICT assets	01/08/14	CFO	Adequate	Adequate	8 (0)	6 (0)	0 (0)	2 (0)
Environmental Services Contract (joint with EHDC)	11/08/14	CD	Limited	Limited	30 (5)	25 (5)	0 (0)	5 (0)
IT Shared Service	15/08/14	CFO	Adequate	Adequate	5 (1)	2 (1)	0 (0)	3 (0)
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)	0 (0)	11 (0)
Housing Benefits	03/06/14	CFO	Adequate	Adequate	1 (0)	0 (0)	0 (0)	1 (0)
Community Infrastructure Levy	25/03/15	CD	Adequate	Adequate	11 (2)	0 (0)	10 (2)	1 (0)
Partnerships	25/03/15	CX	Adequate	Adequate	4 (3)	4 (3)	0 (0)	0 (0)
Licensing	14/04/15	CD	Adequate	Adequate	1 (0)	1 (0)	0 (0)	0 (0)
New Homes Delivery	08/05/15	CD	Adequate	Adequate	6 (4)	0 (0)	6 (4)	0 (0)
Housing Responsive Repairs	26/05/15	CD	Adequate	Adequate	1 (1)	1 (1)	0 (0)	0 (0)
Accounts Payable – follow up	01/06/15	CFO	Adequate	Adequate	8 (4)	1 (0)	4 (1)	3 (3)
Accounts Receivable	01/06/15	CFO	Adequate	Adequate	3 (1)	0 (0)	3 (1)	0 (0)
Budgetary Control	01/06/15	CFO	Adequate	Adequate	5 (0)	1 (0)	4 (0)	0 (0)


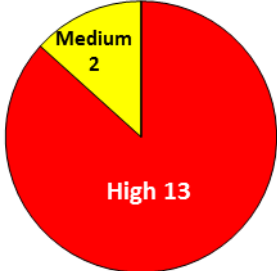
Audit title	Report date	Audit Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Housing options	28/05/15	CD	Limited	Limited	15 (13)	0 (0)	5 (3)	10 (10)
Procurement	01/06/15	CD	Adequate	Adequate	13 (1)	0 (0)	11 (1)	2 (0)
Network management	02/06/15	CFO	Adequate	Adequate	8 (0)	0 (0)	8 (0)	0 (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.

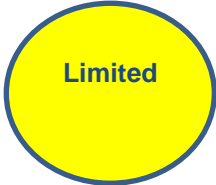
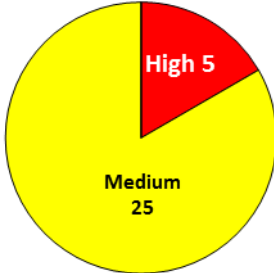
Audit Sponsor	
Corporate Director	CD
Chief Executive	CX
Chief Operating Officer	COO
Chief Finance Officer	CFO


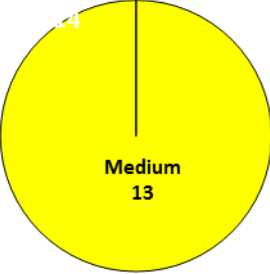
5. Executive Summaries of new reports published concluding a 'Limited' or 'No' assurance opinion

New issues arising

Housing options		
<p>Audit Sponsor: Corporate Director</p> <p>Key Contacts: Steve Tilbury – Corporate Director; Alexis Garlick – Chief Finance Officer; Stephen Whetnall – Chief Operating Officer; Tracey Hendren – Head of Housing Options & National Support; Gillian Knight- Housing Options Manager; Richard Botham-Head of Housing; Simon Howson-Corporate Business Manager</p> <p>Final Report Issued: 28 May 2015</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  <p>High 13 Medium 2</p> </div>
<p>Summary of key observations:</p> <p>This review focussed on the allocation and monitoring of loan payments. At the present time, there is no formal debt recovery policy or procedures in place.</p> <p>For five of the nine cases tested, there was no evidence of an independent review of the approval of the loan. In one case, there was no independent evidence from the landlord of the deposit and rental amounts, and for two cases there was no evidence to support the landlord eligibility checks for energy.</p> <p>In two cases, the monthly loan payments paid differed to the amount that had been agreed to be paid, and we found one tenant who has two loans, neither of which is being repaid.</p>		

Issues previously reported

Environmental Services Contract		
<p>Audit Sponsor: Corporate Director</p> <p>Key Contacts: Steve Tilbury – Corporate Director; Alexis Garlick – Chief Finance Officer; Jackie Bachelor (EHDC); Rob Heathcock (EHDC); Jane Eaton (EHDC); Gill Knellor (EHDC).</p> <p>Final Report Issued: 11 August 14</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  <p>High 5</p> <p>Medium 25</p> </div>
<p>Summary of key observations: 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><i>Current position - Significant progress has been made to address the issues identified by the review, with the majority of actions (identified in an action plan approved by the Joint Environmental Services Board and Joint Environmental Services Committee) implemented. A follow-up audit is currently in progress to assess the effectiveness of the implemented actions.</i></p>		

Contract management		
<p>Audit Sponsor: Corporate Director</p> <p>Key Contacts: 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>Final Report Issued: 25 November 14</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  </div>
<p>Summary of key observations:</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 & 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 –some progress has been made in the implementation of the management actions, but 11 of the 13 actions are now overdue. This is unchanged since the position reported in March 2015</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
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	3 fte
Total amount of time spent by the authority on the investigation and prosecution of fraud	10 days
Total number of new fraud cases investigated	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.'*

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. The internal audit plan for 2015-16 was presented to the Audit Committee in March 2015, progress against which will be reported in future progress reports.

8. Rolling Work Programme

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
2013-14 Carry Forward Reviews							
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
Corporate cross cutting							
Information management	✓	✓	✓	✓			Adequate
Asset management	✓	✓	✓	✓			
National Fraud Initiative (NFI)	N/A	✓	N/A	N/A		N/A	N/A
Procurement	✓	✓	✓	✓		01/06/15	Adequate
Project management	✓	✓	✓	✓		05/09/14	Adequate
Absence management	✓	✓	✓	✓			
Partnerships	✓	✓	✓	✓		25/3/15	Adequate
Grant Award	✓	✓	✓	✓			Adequate
Corporate governance							
Proactive fraud initiatives, and anti fraud & corruption	N/A	✓	N/A	N/A		N/A	N/A
Corporate governance - Self Assessments	✓	✓	✓	N/A		N/A	N/A

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
Annual review of effectiveness of Internal Audit	✓	✓	✓	✓		26/06/14	Substantial
Mayor's Charity Account	✓	✓	✓	N/A		N/A	N/A
Financial management							
Accounts receivable	✓	✓	✓	✓		01/06/15	Adequate
Budgetary control	✓	✓	✓	✓		01/06/15	Adequate
Treasury management	✓	✓	✓	N/A		N/A	N/A
National Non-Domestic Rates (NNDR)	✓	✓	✓	✓		18/11/14	Adequate
Housing options	✓	✓	✓	✓		28/05/15	Limited
Income collection	✓	✓	✓	✓			Limited
Follow up – Accounts Payable	✓	✓	✓	✓		01/06/15	Adequate
Information technology							
Network management	✓	✓	✓	✓		02/06/15	Adequate
Orchard application	✓	✓	✓	✓			Adequate

Audit title	Audit Progress					Final report issued	Opinion
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued			
Corporate priorities / Service audits							
New homes delivery	✓	✓	✓	✓	8/5/15	Adequate	
Housing - reactive repairs	✓	✓	✓	✓	26/5/15	Adequate	
Housing - voids	✓	✓	✓	✓	30/07/14	Adequate	
Community Infrastructure Levy (CIL)	✓	✓	✓	✓	25/3/15	Adequate	
Licensing	✓	✓	✓	✓	14/4/15	Adequate	
Street care	✓	✓	✓	✓		Adequate	
Museums Trust – transfer of assets	✓	✓	✓	✓		Limited	
2015/16 reviews							
Training and development	✓	✓					
Environmental Services Contract (joint with EHDC)	✓	✓					

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

Opinion	Framework of governance, risk management and management control
Full	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.
Substantial	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.
Limited	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.
No assurance	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.