

AUDIT COMMITTEE

12 MARCH 2013

INTERNAL AUDIT PROGRESS REPORT TO 28 FEBRUARY 2013

REPORT OF INTERNAL AUDIT MANAGER

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RECENT REFERENCES:

AUD046 – Internal Audit Progress Report to 31 October 2012

AUD039 – Internal Audit Progress Report to 31 August 2012

AUD029 – Internal Audit Plan 2012/13 – 12 March 2012

EXECUTIVE SUMMARY:

This report sets out the Internal Audit coverage, findings and performance in the year to 28 February 2013.

57 percent (16 audits, includes two follow up audits) of the 28 programmed audits in the audit plan have been completed to final or draft report stage. In addition to this ten audits from the 2011/12 plan that were at draft stage were finalised as part of the 2012/13 audit plan.

Three pieces of work have been requested by the S151 Officer (contingency budget) and three pieces of work undertaken using the Special Investigation (contingency budget).

The Internal Audit Plan for 2012/13 is shown in tabular format at Appendix A of this report and provides details on the progress of this year's plan.

The Executive Summaries for the audit of Benefits (2012/13); Creditors (2012/13);

Environmental Services / Grounds Maintenance Contract (2012/13) have been completed since the last Audit Committee meeting are shown in Appendix C. The Executive Summary for Cheque Fraud Notification (Special Investigation) is shown in Appendix D. In this case as the matter was detected there was no financial loss to the Council but it is appropriate to consider procedural improvements in exempt session for security reasons.

RECOMMENDATIONS:

That the matters raised by Internal Audit and action taken by Management are noted.

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INTERNAL AUDIT PROGRESS REPORT TO 28 FEBRUARY 2013

REPORT OF INTERNAL AUDIT MANAGER

DETAIL:

1 Introduction

- 1.1 Appendix A indicates the progress against the Internal Audit Plan 2012/13 to 28 February 2013.
- 1.2 57 percent (16 audits, includes two follow up audits) of the 28 programmed audits in the audit plan have been completed to final or draft report stage. In addition to this ten audits from the 2011/12 plan that were at draft stage were finalised as part of the 2012/13 audit plan.
- 1.3 Three pieces of work have been requested by the S151 Officer (contingency budget) and three pieces of work undertaken using the Special Investigation (contingency budget).
- 1.4 The Audit Plan for 2012/13 is shown in tabular format at Appendix A of this report and provides details on the progress of this year's plan.

2 Partnership Progress

- 2.1 The Audit Manager up to 28 January 2013 has spent 33.3% of his time on Winchester City Council audit matters, 33.3% on Havant Borough Council audit matters and 33.3% on Test Valley Borough Council audit matters.

3 Anti Fraud and Corruption (Training and Communication)

- 3.1 A training workshop is planned for Senior Management Team in May which will focus on communicating the Anti Fraud and Corruption Policy and provide guidance on the prevention and detection of fraud.

4 Other Matters

- 4.1 Internal Audit has an overall productive time (chargeable days) target of 90%. Performance is below this target currently running at 85.36% to 28 February 2013. Contributing factors are the recruitment for the vacant auditor post in quarter 1 and subsequent induction of the new post holder.

OTHER CONSIDERATIONS:5 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS
(RELEVANCE TO):

- 5.1 Internal Audit contributes through the annual audit plan to the corporate governance arrangements of Winchester City Council, which in turn supports the achievements of the Community Strategy and Change Plans.

6 RESOURCE IMPLICATIONS:

- 6.1 Completion of the Internal Audit Plan 2012/13 is currently outside the target of 95%; 27 of 28 audits completed to draft or final stage at the end of March 2013. A budget overrun of 17.5 days on completing 2011/12 audits to final report stage together with a number of audits taking more days to complete than originally budgeted will mean that the target of 95% will not be achieved. A risk based approach has been taken to assess which audits will not now be undertaken in 2012/13. As a result of this assessment in consultation with Corporate Management Team five audits have now been removed from the plan. It is now anticipated that 82% of Audit Plan will be completed.
- 6.2 Four of the five audits removed from the Internal Audit Plan 2012/13 are now included in the Internal Audit Plan 2013/14. The audit of Developers Contributions will not be completed in 2013/14 however elements of the process will be incorporated into the review of the Community Infrastructure Levy project.

7 RISK MANAGEMENT ISSUES

- 7.1 The Internal Audit Plan 2012/13 is linked to the Corporate Risk Register to ensure, where possible and appropriate, Internal Audit review those areas considered to be of the most significant risk. The annual plan was approved by the Audit Committee and is reviewed throughout the year ensuring it is line with the Corporate Risk Register. As a consequence the audit plan is closely linked to Community Strategy and Change Plans.

BACKGROUND DOCUMENTS:

Working papers and Audit Reports held within the Governance Group (some exempt).

APPENDICES:

Appendix A: Progress of the 2012/13 Audit Plan to 28 February 2013

Appendix B: Assurance Opinions and Action Risk Levels

Appendix C: Executive Summaries for Benefits (2012/13); Creditors (2012/13); Environmental Services / Grounds Maintenance Contract (2012/13)

Appendix D: Exempt item Cheque Fraud Notification (Special Investigation)

Appendix A

Progress of 2012/13 Audit Plan to 28 February 2013

Audit Assignment	Planned Days	Actual Days	Outstanding Days	Stage / Comment
Core Audits (Compulsory)				
Asset Management	11.5	12.5	2	Work in Progress
Benefits	11.5	10	0	Completed (please see Item C1 for the Executive Summary)
Car Parks	11.5	11	2	Work in Progress
Budgetary Control	11.5	14.5	1.5	Draft Report Stage
Cash Collection	17	17	0	Completed
Council Tax	6	6	0	Completed
Creditors	6	5	0	Completed (please see Item C2 for the Executive Summary)
Debtors	11.5	13	0	Completed
Housing Rents	33	23	10	1. Draft Report Stage 2. Self Financing Element scheduled Quarter 4
Main Accounting	11.5	2.5	9	Work in Progress
NNDR	6	6	0	Completed

Audit Assignment	Planned Days	Actual Days	Outstanding Days	Stage / Comment
Payroll	16.5	13	3.5	Work in Progress
Treasury Management	11.5	4	2	Work in Progress
Follow Up Reviews on the implementation of Internal Audit Agreed Actions	11.5	10	0	Completed 1. First Review completed and reported to the Audit Committee on 26 June 2012 2. Second Review completed and reported to Audit Committee on 4 December 2012
Corporate / Cross Departmental Audits				
Code of Conduct	8.5	0	0	Removed from Internal Audit Plan 2012/13 (included in Audit Plan 2013/14)
Commissioning	17	0	11.5	Quarter 4
Corporate Governance	11.5	11.5	0	Completed
Developers Contributions	11.5	0	0	Removed from Internal Audit Plan 2012/13 (Community Infrastructure Levy included in Audit Plan 2013/14 under Role on Projects)
Fraud Prevention	11.5	11	0.5	Draft Report Stage
Environmental Services / Grounds Maintenance Contract	11.5	21	0	Completed (please see Item C3 for the Executive Summary)
ICT Shared Service	11.5	0	0	Removed from Internal Audit Plan 2012/13 (included in 2013/14)

Audit Assignment	Planned Days	Actual Days	Outstanding Days	Stage / Comment
Housing Term Contract – Responsive Maintenance and Void Repairs	11.5	15	3	Work in Progress
Leisure Contract	11.5	0	0	Removed from Internal Audit Plan 2012/13 (included in 2013/14)
Performance and Risk Management	17	23	1	Draft Report Stage
Software Licensing and Management of ICT Assets	6	0	0	Removed from Internal Audit Plan 2012/13 (included in 2013/14)
Staff Recruitment	11.5	21	1	Draft Report Stage
Contingencies				
S151 Requests	15	12	3	1. Fraud Survey (1 day) 2. Mayor's Charity Account (2 days) 3. Telephone Billing (9 days)
Special Investigations	30	20	0	1. Additional work arising from Fraud Prevention Audit (9 days) 2. Data Analysis in support of a management case (5 days) 3. Cheque Notification (6 days) – please see Appendix D for the Executive Summary
Ongoing Activities				
Advice and Assurance to Customers	22	21	1	24 items to 28 February 2013
Anti Fraud and Corruption Policy (training and communications)	5	2	0	Training workshop scheduled for May on Anti Fraud and Corruption Policy

Audit Assignment	Planned Days	Actual Days	Outstanding Days	Stage / Comment
Audit Planning and Reporting	25	27	1	n/a
External Audit Liaison	6	3	1	n/a
NFI Co-ordinator	11.5	12.5	1	n/a
Role on Governance Group	3	2.5	1	n/a
Service or Activity Audits				
Guildhall	17	1.5	10	Work in Progress
Completion of 2011/12 Audit Plan	10	27.5	0	Completed
Total	461.5	379	65	Expected number of audit days delivered in 2012/13 is 444 against planned of 461.5. Contributing factors to shortfall are recruitment of the vacant auditor post in quarter 1 and subsequent induction of the new post holder.

Appendix B

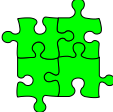
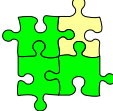
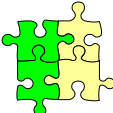
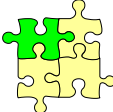
Section 1 – Assurance Opinions and Action Risk Levels

In order to assist management in using our reports:

- a) We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls. For each audit, we arrive at a conclusion that assesses the audit assurance in one of four categories. These arise from:

Our evaluation opinion: we assess the system of controls, which are in place to achieve the system of objectives.

Our testing opinion: we check whether the controls said to be in place are being consistently applied.

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

- b) We categorise our Actions according to their level of risk.

High (1)	Major issues for the attention of senior management.
Medium (2)	Other recommendations for local management action.
Low (3)	Minor matters.

Appendix C1**Item C1 – Housing and Council Tax Benefits 2012/13**

This report covers a walkthrough review of the system processes and controls in respect of Housing and Council Tax Benefits at Winchester City Council. System documentation has been updated and key controls identified and agreed with management. The internal audit has been undertaken in accordance with the 2012/2013 agreed Internal Audit plan. The internal audit approach and summary of the work undertaken is provided in the audit framework in Appendix A.

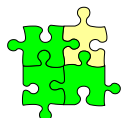
Audit Objectives

This audit was a walkthrough review of the system processes and controls only, as opposed to a full systems review which is conducted every three years. System documentation has been updated and key controls identified and agreed with management.

Areas Covered

Audit work was undertaken to cover the following areas: -

- reviewing the existing system documentation with management
- confirming that the system documentation accurately reflects the system as at the time of the audit
- updating system documentation where appropriate
- identifying where the system/control environment has significantly changed and consulting the Audit Manager/Principal Auditor regarding revised key control testing
- sample testing was taken from the current Financial Year's population of transactions

Audit Opinion**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.

Conclusions

1. This audit has found that all of the key controls as listed in the below table (section 2) were found to be in place as documented.
2. There have been no significant changes to the system since the last audit and any changes to the key controls have been agreed with management.

Previous Recommendation Follow Up

No previous actions are outstanding.

Acknowledgement

We would like to thank the management and staff of the Revenues and Finance teams for their assistance during the audit.

Appendix C2**Item C2 – Creditors 2012/13**

This report covers a walkthrough review of the system processes and controls in respect of Creditors at Winchester City Council. System documentation has been updated and Key controls identified and agreed with management. The internal audit has been undertaken in accordance with the 2012/2013 agreed Internal Audit plan. The internal audit approach and summary of the work undertaken is provided in the audit framework in Appendix A.

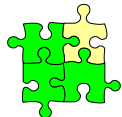
Audit Objectives

This audit was a walkthrough review of the system processes and controls only, as opposed to a full systems review which is conducted every two years. System documentation has been updated and key controls identified and agreed with management.

Areas Covered

Audit work was undertaken to cover the following areas: -

- reviewing the existing system documentation with management
- confirming that the system documentation accurately reflects the system as at the time of the audit
- updating system documentation where appropriate
- identifying where the system/control environment has significantly changed and consulting the Audit Manager/Principal Auditor regarding revised key control testing
- sample testing was taken from the current Financial Year's population of transactions

Audit Opinion**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.

Conclusions

1. This audit has found that all of the key controls as listed in the below table (section 2) were found to be in place as documented.
2. There have been no significant changes to the system since the last audit and any changes to the key controls have been agreed with management.

Previous Recommendation Follow Up

There are no previous actions outstanding.

Acknowledgement

We would like to thank the management and staff of the Exchequer team for their assistance during the audit.

Appendix C3**Item C3 – Environmental Services / Grounds Maintenance Contract 2012/13**

This report covers the internal audit of procedures and controls in place for the Joint Environmental Services Contract and joint working arrangements with East Hampshire District Council. The internal audit has been undertaken in accordance with the 2012/2013 agreed Internal Audit plan. The internal audit approach and summary of the work undertaken is provided in the audit framework in Appendix A.

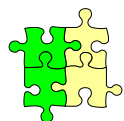
Audit Objectives

The audit was designed to ensure that management has implemented adequate and effective controls over the Joint Environmental Services Contract and the partnering arrangements with East Hampshire District Council.

Areas Covered

Audit work was undertaken to cover the following areas: -

- Governance arrangements, including how roles and responsibilities, rules and procedures have been defined
- Performance management framework, including performance setting, monitoring and reporting arrangements
- Risk management framework, including the process for identifying, monitoring and reporting risks associated with the contracts and partnering arrangements
- Value for money aspects, assessing the expected savings have materialised through the partnering arrangement with East Hampshire District Council
- Financial management and control processes including budget monitoring and reporting arrangements and payments to and income received from East Hampshire District Council

Audit Opinion**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.

Conclusions

1. There is an effective governance framework documented in Schedule 6 (Joint Environmental Services Committee – Constitution) which forms part of the Inter Authority Agreement. The Inter Authority Agreement sets out how the committee operates, how decisions are made and roles and responsibilities of committee members are defined. The Joint Environmental Services Committee (JESC) has not however elected a Chairman and Vice-Chairman which is an annual requirement of the Constitution.
2. The performance management framework currently in place requires further development and improvement. Initially the performance of the contractor, Biffa, was monitored focussing on the urgent issues that arose with the waste and recycling collection services from the commencement of the contracts. Performance monitoring has also been through monthly contract management meetings between Joint Client Team members and the respective contractor representatives and site visits by the Joint Client Team. More recently, since May 2012 this has also included reporting performance against the Strategic Performance Indicators (SPI's) which were included in the signed contracts. Ideally performance against indicators should have been monitored and reported from the commencement of the contract.
3. It is good that progress has been made by producing and reporting SPI data, however further improvements could be made to data quality controls built into the process for producing these figures.
4. The mechanisms for monitoring and reporting on the performance of the Joint Client Team have not been fully implemented. As with all client team functions consideration needs to be given on how assurances can be attained that they are consistently delivering the provision of their service effectively and equitably.
5. There is currently no comprehensive risk management framework which includes defined processes for managing any current and emerging risks to the delivery of the contracts with Biffa and The Landscape Group. In particular risks are not being reported to the JESC and are being managed only at an operational level through the Project Board.
6. Although there is no suggestion that reported financial savings figures are inaccurate there is a lack of transparency over these figures to supporting source data. At the JESC on 23 May 2012 the financial outturn for the Joint Environmental Services Contract was presented and reported that savings for Winchester City Council of £699,500 had been achieved against anticipated savings of £708,000. It has not been possible to verify these figures to source information as these records are held by EHDC and outside the scope of access of WCC Internal Audit services.

7. There are effective budget monitoring and reporting arrangements in place as these form part of the normal budget management processes adopted by Winchester City Council. This monitoring by the management accounting team did detect a miscoded invoice which included the annual Joint Client Team costs (value £257,955). With an invoice of this value it does raise concerns over the effectiveness of the checking and authorisation process. In addition an error was found in the original pricing schedule evaluation that was used to calculate the monthly contract payments to Biffa. This has lead to an ongoing overcharge on the amounts invoiced by Biffa, total value £8,726.32 in the first year of the contract.

Previous Recommendation Follow Up

There are no previous actions outstanding.

Acknowledgement

We would like to thank the management and staff of involved in joint working arrangements both at Winchester City Council and East Hampshire District Council for their assistance during the audit.

Agreed Action Table

<u>No</u>	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	Responsible Officer and Deadline
		Medium		
1	<p>An error was found in the pricing schedule evaluation that was used to calculate the monthly contract payments. This has led to an ongoing overcharge on the amounts invoiced by BIFFA.</p> <p>NB: Value per month £727.19, totalling £8,726.32 in first year (October 2011 to September 2012).</p>	Payments in excess of contractor pricing schedule	<p>(1) The monthly contract payment amounts will be corrected to reflect the pricing schedule included in the contract also taking account of any inflationary increases which were effective on 1 October 2012.</p> <p>(2) The total value of any overcharge will be recovered from BIFFA.</p> <p>(3) Any overcharge found will be reimbursed to WCC through an adjustment in a future monthly recharge invoice raised by EHDC</p>	<p>Responsible Officer: Accountant Finance and Governance (EHDC)</p> <p>Target Date: 31 March 2013</p>

No	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	Responsible Officer and Deadline
2	The JESC has not elected a Chairman or Vice-Chairman as required by the Inter Authority Agreement. The Constitution for the JESC has specific requirements for the election of both these roles on an annual basis.	Poor decision making by the JESC through diluted leadership and direction	The election of the Chair and Vice-Chairman will take place at the JESC at its next meeting on 20 March 2013. NB: Re-elections to then be completed annually, in line with the Inter Authority Agreement	Responsible Officer: Joint Environmental Service Committee / Democratic Officer (EHDC) Target Date: 20 March 2013
3	There is no established performance management framework in place which defines and identifies:- <ul style="list-style-type: none"> • Roles and responsibilities for performance management • SPI's and KPI's for the appointed contractors, Joint Client Team, Admin Authority and Customer Service Centre • Quality control process for data integrity • The arrangements for monitoring and reporting performance for the appointed contractors, Joint Client Team, Admin Authority and Customer Service Centre 	Poor performance leading to failure in delivery of contract / resident complaints	The overall process for managing performance will be reviewed and a proposed framework will be reported to the JESC for approval covering aspects of the contract (including performance of the appointed contractors, Joint Client Team, Admin Authority and the Customer Service Centre).	Responsible Officer: Assistant Director – High Quality Environment (WCC) / Executive Head Environment and Neighbourhood Quality (EHDC) Target Date: 31 July 2013

<u>No</u>	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	Responsible Officer and Deadline
4	KPI data produced from the WCC's Lagan system showing the performance of the appointed contractors, Biffa and The Landscape Group, is not subject to any data quality controls.	Challenge on integrity of data.	Quality control checks are taking place prior to and as part of the contract management meetings of the data produced from Lagan. Evidence of an example of the latest checks will be provided as confirmation of the process and its completion.	Responsible Officer: Joint Client Team Manager (EHDC) Target Date: 31 March 2013
5	The JESC has not adopted a risk strategy / framework which includes a defined process for managing risk, including: <ul style="list-style-type: none"> • Identification • Assessment • Mitigation • Recording, monitoring and reporting • Ownership 	Inability to react when risks materialise or recognise when the risk ratings increase	The overall process for managing risk will be reviewed as part of a planned workshop involving JCT and contractors. A proposed strategy and monitoring framework will be reported to the JESC for approval.	Responsible Officer: Assistant Director – High Quality Environment (WCC) / Executive Head Environment and Neighbourhood Quality (EHDC) Target Date: 30 September 2013

No	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	Responsible Officer and Deadline
6	The value of savings made in 2011/12 reported to the JESC for operating under the joint contract arrangements could not be verified to source data.	Potential misreporting of financial performance	A full breakdown of the savings figures for 2011/12 will be produced, including source data / calculations. NB: Any saving figures calculated for future years will be supported by source data / audit trail.	Responsible Officer: Accountant Finance and Governance (EHDC) Target Date: 31 July 2013
7	The value of Admin Authority and Joint Client Team costs for 2011/12 could not be verified to source data. (NB: The invoice presented was originally coded incorrectly and treated as recharge of monthly contract charges, therefore putting into question the effectiveness of the checking and authorisation process)	Payments made in excess of agreed amounts	A full breakdown of the JCT costs, including source data / calculations will be produced to support the annual fee charged. NB: Any figures for future years will be provided with source data / audit trail.	Responsible Officer: Accountant Finance and Governance (EHDC) Target Date: 31 July 2013
8	Additional / adhoc works included on the monthly invoices could not be traced to an authorised works order or invoice from the contractor.	Payments made for work unauthorised works or for works not completed	A formalised procedure will be written and presented to the JESC which defines the process required for approving adhoc works or those works outside the agreed schedule of works shown in the original contract.	Responsible Officer: Assistant Director – High Quality Environment (WCC) Target Date: 31 July 2013