

AUDIT COMMITTEE

25 September 2014

INTERNAL AUDIT PROGRESS REPORT 2014-15

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

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RECENT REFERENCES:

AUD080 – Internal Audit Progress Report 2013-14 – January 2014, 11 March 2014

AUD082 – Internal Audit Plan 2014-15, 11 March 2014

AUD089 – Internal Audit Report and Opinion 2013-14, 26 June 2014

AUD097 - Internal Audit Progress Report 2013-14 – May 2014, 26 June 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.

The requirement for an Internal Audit Progress report (Appendix 1) is outlined in the Public Sector Internal Audit Standards and the Council's Internal Audit Charter.

RECOMMENDATION:

- 1 That the Audit Committee note the Internal Audit Progress Report 2014-15 attached as Appendix 1.

AUDIT COMMITTEE

25 SEPTEMBER 2014

INTERNAL AUDIT PROGRESS REPORT 2014-15

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 2014-15.

OTHER CONSIDERATIONS:

3 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 3.1 The Internal Audit work supports the Council's strategies and portfolio plans.

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 2014-15.

<u>SUBJECT:</u>	<u>Internal Audit: Progress Report</u>
<u>MEETING:</u>	<u>Audit Committee</u>
<u>DATE OF MEETING:</u>	<u>25 September 2014</u>
<u>REPORT OF:</u>	<u>Head of Southern Internal Audit Partnership</u>
<u>REPORT DATE:</u>	<u>2 September 2014</u>

1 SIAP opinion definitions (apply to reviews undertaken after 1 July 2013)

Opinion	Framework of governance, risk management and management control
Substantial assurance	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate assurance	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 assurance	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 assurance	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks.

2 Status of 'live' reports:								
Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Covalent is currently showing 31 outstanding actions (32 outstanding actions previously reported 26 June 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.								
Performance Management & Risk Management	2011-12	CX	Limited*	Limited*	12 (0)	11 (0)	0 (0)	1 (0)
Flexible / Smarter Working	2011-12	CX	Limited*	Limited*	10 (3)	8 (3)	0 (0)	2 (0)
ICT Security Policy Audit	2011-12	CFO	Limited*	Limited*	13 (1)	10 (1)	0 (0)	3 (0)
Cash Collection	2011-12	CFO	Substantial*	Substantial*	6 (0)	4 (0)	0 (0)	2 (0)
Creditors	2011-12	CFO	Substantial*	Substantial*	4 (0)	1 (0)	0 (0)	3 (0)
Asset Management	2011-12	COO	Limited*	Limited*	8 (2)	7 (2)	0 (0)	1 (0)
Housing Benefits	2011-12	CFO	Substantial*	Substantial*	4 (0)	3 (0)	0 (0)	1 (0)
Cash Collection	2012-13	CFO	Substantial*	Substantial*	10 (0)	9 (0)	0 (0)	1 (0)
Debtors	2012-13	CFO	Substantial*	Substantial*	10 (0)	7 (0)	0 (0)	3 (0)
Environmental Services Contract	2012-13	CD	Limited*	Limited*	8 (0)	2 (0)	0 (0)	6 (0)
Treasury Management	2012-13	CFO	Substantial*	Substantial*	2 (0)	1 (0)	0 (0)	1 (0)
Fraud Prevention	2012-13	CFO	Substantial*	Substantial*	5 (0)	2 (0)	0 (0)	3 (0)

Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Budgetary Control	2012-13	CFO	Substantial*	Substantial*	2 (0)	2 (0)	0 (0)	0 (0)
Housing Rents	2012-13	CD	Substantial*	Substantial*	8 (0)	2 (0)	0 (0)	6 (0)
Performance Management & Risk Management	2012-13	CX	Substantial*	Substantial*	6 (0)	5 (0)	0 (0)	1 (0)
Main Accounting	2012-13	CFO	Substantial*	Substantial*	2 (0)	1 (0)	0 (0)	1 (0)
Staff Recruitment	2012-13	CX	Substantial*	Substantial*	7 (0)	6 (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)	4 (0)	0 (0)	3 (0)
Asset management (Hyde House project)	2012-13	COO	Substantial*	Substantial*	3 (0)	1 (0)	0 (0)	2 (0)
Code of conduct	14/11/13	COO	Adequate	Adequate	3 (0)	3 (0)	0 (0)	0 (0)
Fraud Prevention (Proactive fraud initiatives)	21/01/14	CFO	N/A	N/A	5 (0)	1 (0)	0 (0)	4 (0)
Data Protection and Freedom of Information	19/02/14	COO	Limited	Limited	8 (1)	0 (0)	1 (0)	7 (1)
Health and Safety at Work	05/03/14	CX	Adequate	Adequate	6 (0)	5 (0)	0 (0)	1 (0)
Car Parks	14/04/14	CD	Adequate	Adequate	2 (0)	2 (0)	0 (0)	0 (0)
Telecommunications	02/06/14	CFO	Limited	Adequate	7 (3)	6 (2)	1 (1)	0 (0)
Housing rents	03/06/14	CD	Adequate	Adequate	2 (0)	1 (0)	1 (0)	0 (0)

Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Benefits	03/06/14	CFO	Adequate	Adequate	1 (0)	0 (0)	1 (0)	0 (0)
Cash Collection	03/06/14	CFO	Adequate	Adequate	10 (0)	1 (0)	2 (0)	7 (0)
Performance and risk management	16/06/14	CX	Limited	Limited	12 (0)	7 (0)	4 (0)	1 (0)
Accounts Payable	16/06/14	CFO	No	No	12 (5)	5 (5)	7 (0)	0 (0)
Payroll	17/07/14	CX	Substantial	Substantial	2 (1)	0 (0)	0 (0)	2 (1)
Commissioning	18/07/14	CX	Adequate	Adequate	5 (0)	2 (0)	3 (0)	0 (0)
Main accounting (bank reconciliations)	18/07/14	CFO	Limited	Limited	11 (5)	6 (4)	4 (1)	1 (0)
Housing Voids	30/07/14	CD	Adequate	Adequate	1 (0)	0 (0)	0 (0)	1 (0)
Software Licensing and management of ICT assets	01/08/14	CFO	Adequate	Adequate	8 (0)	0 (0)	7 (0)	1 (0)
Waste Management Contract (joint with EHDC)	11/08/14	CD	Limited	Limited	30 (5)	11 (1)	19 (4)	0 (0)
IT Shared Service	15/08/14	CFO	Adequate	Adequate	5 (1)	0 (0)	5 (1)	0 (0)
Guildhall – income	03/09/14	COO	Limited	Limited	4 (1)	4 (1)	0 (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 8 of this appendix for reference.

Key to Sponsors:

Key to Audit Sponsors	
Corporate Director	CD
Chief Executive	CX
Chief Operating Officer	COO
Chief Finance Officer	CFO

3 Internal Audit Performance

The internal audit service is measured against the following key performance targets:

Performance Targets 2014-15		
	Target for Year (%)	Actual to Date (%)
% of revised plan delivered (including 2013/14 c/f)	95	31.5
Compliant with the Public Sector Internal Audit Standards	Yes	Yes
Positive customer response to quality appraisal questionnaire	90	87.6

4 Planning and Resourcing

The internal audit plan for 2014-15 was prepared following meetings with the senior management and Service Managers and presented to the Audit Committee in March 2014. The audit plan remains fluid to ensure internal availability to react to the changing needs of the Council. Progress against the plan is detailed within section 7.

5 Issues arising

Main Accounting (Bank Reconciliations):

- The reconciliation of the main bank account, and the clearance of the suspense account had not been completed on a regular basis through 2013/14.
- Although there are effective controls in place for the management of user access and manual journals, these have not been consistently applied.
- Supporting evidence to manual journals and their independent authorisation is not all retained on Civica Financials.
- The corporate on-line 1Form has not been used consistently for amendments to user access to Civica Financials.

Performance & Risk Management:

- There are inconsistent levels of awareness and compliance by managers with respect to how they identify, evaluate and report on risks, and heavy reliance is placed on the Corporate Business Manager rather than the individual managers taking responsibility and ownership for managing their performance and risks.
- Although the monitoring and reporting of key performance indicators provides a forum of identifying areas of poor performance, the reporting process focuses on an explanation of why the target has not been met, rather than including action plans to demonstrate the corrective action.
- Gaps were identified in the performance measure data published on the internet, as either no results are shown, or the results are out of date.

Guildhall :

- The service has undergone a substantial amount of change, and many key processes have been reviewed and revised, and continue to be fully embedded. Weaknesses were identified in the till and float reconciliation processes regarding the investigation, monitoring, checking and reporting of overs and unders, and the process for accounting for till errors leaves the Guildhall vulnerable.
- The Guildhall is not fully complying with the Payment Card Industry Data Security Standards, for the storage and retention of the merchant copy of payment card receipts.

- The Rendezvous booking system can not produce reports to show due dates for the creation of a sales invoice which are raised on the Council's Financial system. The service is currently reliant on the Events Manager remembering to create a task on the system as a prompt. Improvements to this system are being investigated by management.
- As a result of a significant change during the previous 12 months the service's business plan is based on initiatives and ideas that are yet to be fully realised. Therefore, the 2013/14 plan does not include fully costed details, but this work will be used to inform the 2014/15 business plan.

Environmental Services Contract:

- This was a joint review with East Hants District Council.
- 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.
- 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.

6 Fraud and Irregularities

There have been no potential fraud and irregularity investigations undertaken to date during 2014/15.

7 Rolling work programme 2013/14 audit plan

Audit title	Audit Sponsor	Audit progress						
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	Assurance opinion
Commissioning (13/14)	CD	✓	✓	✓	✓	✓	✓	Adequate
Data security and management (13/14)	CFO	✓	✓	✓	✓			
Asset management (13/14)	COO	✓	✓	✓	✓	✓		
ICT shared service (13/14)	CFO	✓	✓	✓	✓	✓	✓	Adequate
Performance and risk management (13/14)	CX	✓	✓	✓	✓	✓	✓	Limited
Software Licensing and management of ICT assets (13/14)	CFO	✓	✓	✓	✓	✓	✓	Adequate
Main accounting (bank reconciliations) (13/14)	CFO	✓	✓	✓	✓	✓	✓	Limited
Payroll (13/14)	CX	✓	✓	✓	✓	✓	✓	Substantial
Guildhall – income (13/14)	COO	✓	✓	✓	✓	✓	✓	Limited
Contract management (13/14)	CD	✓	✓	✓	✓	✓		
Waste Management Contract (joint with EHDC) (13/14)	CD	✓	✓	✓	✓	✓	✓	Limited
Corporate cross cutting								
Information management	CX	✓	✓					
Asset management	COO							
National Fraud Initiative (NFI)	CFO	N/A	N/A	✓				

Audit title	Audit Sponsor	Audit progress						
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	Assurance opinion
Procurement	CD	✓	✓	✓				
Project management	CD	✓	✓	✓	✓	✓		
Recruitment	CX							
Absence management	CX							
Partnerships	CX	✓	✓	✓				
Grant Award	CD	✓						
Corporate Governance								
Proactive fraud initiatives, and anti fraud & corruption	CFO	✓	N/A					
Special investigation(s)	CFO							
Corporate governance - Self Assessments	CFO	✓	✓	✓	✓	N/A	N/A	-
Annual review of effectiveness of Internal Audit	CFO	✓	✓	✓	✓	✓	✓	Substantial
Mayor's Charity Account	CFO							
Financial Management								
Accounts receivable	CFO							
Budgetary control	CFO							
Treasury management	CFO	✓	✓					
National Non-Domestic rates (NNDR)	CFO	✓	✓	✓				
Rent and service charges	CD							

Audit title	Audit Sponsor	Audit progress							Assurance opinion
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued		
Income collection	CFO	✓	✓	✓					
Follow up – Accounts Payable	CFO								
Information technology									
Network management	CFO								
ICT shared service, IT Strategy and assurance mapping	CFO								
Orchard application	CD	✓	✓						
Corporate priorities / Service Audit									
New homes delivery	CD								
Housing - reactive repairs	CD								
Housing - voids	CD	✓	✓	✓	✓	✓	✓	Adequate	
Community Infrastructure Levy (CIL)	CD								
Licensing	CD								
Street care and drainage	CD								
Museums Trust – transfer of assets	CFO								

Key to Audit Sponsors	
Corporate Director	CD
Chief Executive	CX
Chief Operating Officer	COO
Chief Finance Officer	CFO

8 WCC opinion definitions (apply to reviews completed prior to 1 July 2013)
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Opinion	Framework of governance, risk management and management control
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>

