

AUDIT COMMITTEE

4 December 2014

INTERNAL AUDIT PROGRESS REPORT 2014-15

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

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.

Significant progress has been made in implementing agreed actions since the last progress report in September 2014.

RECOMMENDATION:

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

## AUDIT COMMITTEE

4 DECEMBER 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 change 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.

<b><u>SUBJECT:</u></b>	<u>Internal Audit: Progress Report</u>
<b><u>MEETING:</u></b>	<u>Audit Committee</u>
<b><u>DATE OF MEETING:</u></b>	<u>4 December 2014</u>
<b><u>REPORT OF:</u></b>	<u>Head of Southern Internal Audit Partnership</u>
<b><u>REPORT DATE:</u></b>	<u>25 November 2014</u>

<b>1 SIAP opinion definitions (apply to reviews undertaken after 1 July 2013)</b>
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<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>
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.

<b>2 Status of 'live' reports:</b>								
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 13 outstanding actions (31 outstanding actions previously reported 24 September 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.								
<b>Performance Management &amp; Risk Management</b>	2011-12	CX	Limited*	Limited*	<b>12 (0)</b>	<b>12 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Flexible / Smarter Working	2011-12	CX	Limited*	Limited*	10 (3)	9 (3)	0 (0)	1 (0)
<b>ICT Security Policy Audit</b>	2011-12	CFO	Limited*	Limited*	<b>13 (1)</b>	<b>13 (1)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Cash Collection	2011-12	CFO	Substantial*	Substantial*	6 (0)	5 (0)	0 (0)	1 (0)
<b>Creditors</b>	2011-12	CFO	Substantial*	Substantial*	<b>4 (0)</b>	<b>4 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
<b>Asset Management</b>	2011-12	COO	Limited*	Limited*	<b>8 (2)</b>	<b>8 (2)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Housing Benefits	2011-12	CFO	Substantial*	Substantial*	4 (0)	3 (0)	0 (0)	1 (0)
<b>Cash Collection</b>	2012-13	CFO	Substantial*	Substantial*	<b>10 (0)</b>	<b>10 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Debtors	2012-13	CFO	Substantial*	Substantial*	10 (0)	7 (0)	0 (0)	3 (0)
Environmental Services Contract	2012-13	CD	Limited*	Limited*	8 (0)	5 (0)	0 (0)	3 (0)
<b>Treasury Management</b>	2012-13	CFO	Substantial*	Substantial*	<b>2 (0)</b>	<b>2 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Fraud Prevention	2012-13	CFO	Substantial*	Substantial*	5 (0)	3 (0)	0 (0)	2 (0)

Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Housing Rents	2012-13	CD	Substantial*	Substantial*	8 (0)	7 (0)	0 (0)	1 (0)
<b>Performance Management &amp; Risk Management</b>	2012-13	CX	Substantial*	Substantial*	<b>6 (0)</b>	<b>6 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
<b>Main Accounting</b>	2012-13	CFO	Substantial*	Substantial*	<b>2 (0)</b>	<b>2 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
<b>Staff Recruitment</b>	2012-13	CX	Substantial*	Substantial*	<b>7 (0)</b>	<b>7 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
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)
<b>Asset management (Hyde House project)</b>	2012-13	COO	Substantial*	Substantial*	<b>3 (0)</b>	<b>3 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
<b>Fraud Prevention (Proactive fraud initiatives)</b>	21/01/14	CFO	N/A	N/A	<b>5 (0)</b>	<b>5 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Data Protection and Freedom of Information	19/02/14	COO	Limited	Adequate	8 (1)	6 (1)	0 (0)	2 (0)
<b>Health and Safety at Work</b>	05/03/14	CX	Adequate	Adequate	<b>6 (0)</b>	<b>6 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
<b>Telecommunications</b>	02/06/14	CFO	Limited	Adequate	<b>7 (3)</b>	<b>7 (3)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Housing rents	03/06/14	CD	Adequate	Adequate	2 (0)	1 (0)	0 (0)	1 (0)
<b>Benefits</b>	03/06/14	CFO	Adequate	Adequate	<b>1 (0)</b>	<b>1 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Cash Collection	03/06/14	CFO	Adequate	Adequate	10 (0)	8 (0)	0 (0)	2 (0)
Performance and risk management	16/06/14	CX	Limited	Adequate	12 (0)	9 (0)	1 (0)	2 (0)

Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Accounts Payable	16/06/14	CFO	No	No	12 (5)	9 (5)	0 (0)	3 (0)
<b>Payroll</b>	17/07/14	CX	Substantial	Substantial	<b>2 (1)</b>	<b>2 (1)</b>	<b>0 (0)</b>	<b>0 (0)</b>
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)
<b>Housing Voids</b>	30/07/14	CD	Adequate	Adequate	<b>1 (0)</b>	<b>1 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Software Licensing and management of ICT assets	01/08/14	CFO	Adequate	Adequate	8 (0)	6 (0)	2 (0)	0 (0)
Waste Management Contract (joint with EHDC)	11/08/14	CD	Limited	Limited	30 (5)	17 (5)	10 (0)	3 (0)
IT Shared Service	15/08/14	CFO	Adequate	Adequate	5 (1)	1 (1)	4 (0)	0 (0)
Project Management	05/09/14	CD	Adequate	Adequate	5 (3)	4 (3)	1 (0)	0 (0)
Asset Management	02/10/14	COO	Adequate	Adequate	3 (0)	1 (0)	1 (0)	1 (0)
<b>Data Security and Management</b>	10/11/14	CFO	Adequate	Adequate	<b>14 (0)</b>	<b>14 (0)</b>	<b>0 (0)</b>	<b>0 (0)</b>
Contract Management	25/11/14	CD	Limited	Limited	13 (0)	0 (0)	13 (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:**

<b>Key to Audit Sponsors</b>	
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:

<b>Performance Targets 2014-15</b>		
	Target for Year (%)	Actual to Date (%)
% of revised plan delivered (including 2013/14 c/f)	95	63
Compliant with the Public Sector Internal Audit Standards	Yes	Yes
Positive customer response to quality appraisal questionnaire	90	91.8



## **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**

### **New issues arising**

#### **Contract management**

- This review focused on the Council's contract monitoring arrangements in respect of River Park and Meadowside Leisure Centres.
- Observations identified a number of issues over the strength and effectiveness of the monitoring of the contract.
- 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.
- 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.

### **Issues previously reported**

#### **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.

*Current position - Significant progress is being made with implementing the identified actions with a further six actions implemented, four of which were high priority. Three actions have become overdue and ten remain pending since the last report.*

**Accounts payable:**

- 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.
- 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.
- 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.
- 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.

*Current position - Significant progress is being made with implementing the identified actions with nine actions implemented including all high priority actions. Three actions have become overdue. Follow-up testing is planned for quarter 4, the results of which will be reported to the Audit Committee.*

## **6 Fraud and Irregularities**

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

On going advice and support has been provided to the Council when required.

**7 Rolling work programme 2014/15 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	✓	✓	✓	✓	✓	✓	Adequate
Asset management (13/14)	COO	✓	✓	✓	✓	✓	✓	Adequate
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	✓	✓	✓	✓	✓	✓	Limited
Waste Management Contract (joint with EHDC) (13/14)	CD	✓	✓	✓	✓	✓	✓	Limited
<b>Corporate cross cutting</b>								
Information management	CX	✓	✓	✓	✓			
Asset management	COO	✓	✓	✓				
National Fraud Initiative (NFI)	CFO	N/A	N/A	✓	N/A	N/A	N/A	N/A

Audit title	Audit Sponsor	Audit progress							Assurance opinion
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued		
Procurement	CD	✓	✓	✓	✓				
Project management	CD	✓	✓	✓	✓	✓	✓	Adequate	
Recruitment	CX								
Absence management	CX								
Partnerships	CX	✓	✓	✓	✓				
Grant Award	CD	✓	✓	✓					
<b>Corporate Governance</b>									
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	✓	✓	✓	✓	N/A	N/A	-	
<b>Financial Management</b>									
Accounts receivable	CFO								
Budgetary control	CFO	✓	✓	✓					
Treasury management	CFO	✓	✓	✓					
National Non-Domestic rates (NNDR)	CFO	✓	✓	✓	✓	✓	✓	Adequate	
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								
<b>Information technology</b>									
Network management	CFO								
ICT shared service, IT Strategy and assurance mapping	CFO								
Orchard application	CD	✓	✓	✓	✓				
<b>Corporate priorities / Service Audit</b>									
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	✓							

<b>Key to Audit Sponsors</b>	
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)**

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

