

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 November 2015**

Report of: **Head of Finance and Audit**

Subject: **QUARTERLY INTERNAL AUDIT REPORT**

SUMMARY

This report provides the assurances arising from the latest internal audit work and gives an update on progress being made with the delivery of the audit plans.

RECOMMENDATION

That the Committee notes the progress and findings arising from Internal Audit work.

INTRODUCTION

1. This report highlights the progress made to date on the delivery of the Internal Audit Plans and the assurances that can be obtained from the work now completed.

FINALISING THE 2014/15 AUDIT PLAN

2. The current status of the audits remaining from the 2014/15 Internal Audit Plan in the last report is detailed in [Appendix One](#). The table below shows the progress that has been made in finalising the plan of work.

2014/15 Plan	Last Committee	This Committee
Number of audits in plan	21	21
Audits finalised	12	16
Audits where draft report issued to service	1	0
Audits where exit meeting held	7	4
Audits in progress	1	1

DELIVERY OF 2015/16 AUDIT PLAN

3. Work has now started on over half of the audits in the 2015/16 plan as detailed in [Appendix Two](#) and one audit has now been completed.

FINDINGS FROM COMPLETED AUDITS

4. Since the previous Audit and Governance Committee, five reports have been issued in final version as listed below with the opinions given and level of recommendations made:

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2014/15 Plan				
VAT	Strong	-	-	-
PAYE	Strong	-	4	-
Accounts Receivable	Reasonable	-	2	-
Accounts Payable	Reasonable	-	3	-
2015/16 Plan				
Xpress Elections	Reasonable	1	-	-

5. The detail of the recommendations made and the actions to be taken is provided in [Appendix Three](#).

RISK ASSESSMENT

6. There are no significant risk considerations in relation to this report.

Appendices

Appendix One - Update on Outstanding Audits from the 2014/15 Plan

Appendix Two - Progress on Delivering the 2015/16 Plan

Appendix Three - Findings from the Latest Completed Audits

Appendix Four – Reference Tables

Background Papers: None

Reference Papers:

Report by the Director of Finance and Resources to the Audit and Governance Committee on 10 March 2014 on Contractor Annual Audit Plan 2014/15

Report by the Director of Finance and Resources to the Audit and Governance Committee on 16 March 2015 on Internal Audit Strategy and Annual Audit Plan 2015/16

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

APPENDIX ONE

Update on Outstanding Audits from the 2014/15 Plan

The following table shows those audits that were outstanding in the last quarterly report and shows the current position with finalising the work

Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
					Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
VAT	Corporate, Specialist, Governance	10	Stage 10	Strong	-	-	1	5	-	-
PAYE	Corporate, Specialist, Governance	13.5	Stage 10	Strong	-	4	1	1	2	-
Accounts Receivable	Fundamental	12	Stage 10	Reasonable	-	2	-	1	1	1
Accounts Payable (Light Touch)	Fundamental	9	Stage 10	Reasonable	-	3	2	3	-	-
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 7							
Benefits	Fundamental (V)	30	Stage 7							
Income Collection & Banking	Fundamental	15	Stage 5							
Data Protection	Corporate, Specialist, Governance	5	Stage 4							

* A key to the information in this column is given in Appendix 4.

** V denotes this audit was covering a service which had been subject to a Vanguard intervention

APPENDIX TWO

Progress on Delivering the 2015/16 Plan

No.	Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
1	Express (Electoral Register)	Computer	5	Stage 10	Reasonable	1	-	-	-	-	-
2	Individual Electoral Registration	Service and Systems - Other	7	Stage 4							
3	Local Tax Collection	Fundamental System	15	Stage 4							
4	Capital Expenditure and Accounting	Fundamental System	10	Stage 4							
5	Fixed Assets	Fundamental System	10	Stage 4							
6	Parking Enforcement	Service and Systems – HR (V)	15	Stage 4							
7	Contract Deeds Management	Thematic Review	15	Not started							
8	Land Charges	Service and Systems – HR	10	Stage 2							
9	Payroll	Fundamental System	10	Stage 1							
10	Accounts Payable	Fundamental System	10	Stage 1							
11	Software Control	Computer	10	Stage 1							
12	Recruitment and Selection	Corporate, Specialist, Governance (V)	15	Stage 1							
13	Right to Buy	Service and Systems - Other	10	Not started							

No.	Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
14	Effectiveness of Ethics Related Activities	Thematic Review	15	Stage 1							
15	Vehicle Repairs Procurement	Wider Work – Follow Up	8	Not started							
16	Recycling	Service and Systems – HR	10	Not started							
17	Household Waste Collection	Service and Systems – HR	10	Not started							
18	IT Disaster Recovery	Computer	15	Not started							
19	Data Protection	Wider Work – Follow Up	7	Not started							
20	Protection of Trees	Service and Systems - Other	8	Not started							
	Contingency		20								
	In-house team support		50								
	Total Planned Time		285								

* A key to the information in this column is given in Appendix 4.

** V denotes this audit is covering a service which has been subject to a Vanguard intervention. HR denotes this audit was assessed as meeting the High Risk criteria so is a priority for completion this year.

Findings from the Latest Completed Audits

APPENDIX THREE

Audit Title	VAT	Overview of Subject: This audit covers the Council's VAT tax risk management and compliance and was carried out by a specialist tax auditor. The council recovers between £200,000 and £384,000 in VAT each month and accounts for between £25,000 and £297,000 per month in output tax. No significant weaknesses were found in the processes adopted by the Council.
Year of Audit	2014/15	
Assurance Opinion Given	Strong	
Direction of Travel	No previous opinion given	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation		
			Essential (🚨*)	Important (▲)	Advisory (ℹ️)	Implemented	Cancelled	Not Implemented
Responsibilities, training and guidance			-	-	-	-	-	-
Record Keeping			-	-	-	-	-	-
Completion of returns			-	-	-	-	-	-
Voluntary Disclosures			-	-	-	-	-	-
Claims and Rulings			-	-	-	-	-	-
Input and output tax treatment			-	-	1	-	-	-
Treatment of Bad Debts			-	-	-	-	-	-
Partial exemption calculation (including premises lettings)			-	-	-	-	-	-
Contract payment instalments			-	-	-	-	-	-
SLA's / partnerships			-	-	-	-	-	-
Theatre Hirings			-	-	-	-	-	-
Sports activity lets			-	-	-	2	-	-
Overseas transactions			-	-	-	1	-	-
Council garages			-	-	-	1	-	-
Mud moorings			-	-	-	1	-	-

Audit Title	PAYE	Overview of Subject: This audit covered the procedures and controls in place over employment tax (PAY AS YOU EARN) compliance and was carried out by a specialist tax auditor.
Year of Audit	2014/15	
Assurance Opinion Given	Strong	
Direction of Travel	No previous opinion given	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Employment Status			-	2	-	-	-	-
Expense Payments			-	-	-	-	1	-
Employee Loans			-	-	-	-	-	-
Long Service Awards			-	-	-	-	-	-
Settlement Agreements			-	1	-	-	-	-
Follow Up Cycle scheme, Relocation scheme, P11D dispensation			-	1	1	1	1	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)

Important	Wider Awareness of Recruitment implications – Although human resources and finance are aware of the tax implications of different types of employment (e.g. consultants), processes could be strengthened so that these teams are involved early on in decisions being made by services. A number of ways this could be achieved have been discussed.
Important	Temporary Work Policy Wording – It has been agreed that the wording in the Temporary Workers policy will be altered to clearly differentiate between contractors being employed and those being engaged.
Important	Settlement Agreements – The wording in the Redundancy Policy and Procedures need to be clear as to when Payments in Lieu of Notice are subject to PAYE and National Insurance Contributions. This is being looked at along with the wording in contracts.
Important	Cycle Scheme – The payslip entries for the Cycle scheme need to be amended to clearly show the gross pay being reduced by the salary sacrifice. This has now been done.

Audit Title	Accounts Receivable	Overview of Subject: This audit covers the procedures the Council uses when collecting income due to it by sending out debtor accounts. It excludes major income sources such as council tax and current housing rents and covers a wide range of other income sources such as licences, trade waste and the Community Infrastructure Levy. Approximately 5000 accounts had been raised over 5 months in the year totalling £3.6m. These then need to be tracked and recovery processes instigated if they are not paid.
Year of Audit	2014/15	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2013/14	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Raising of Invoices and Credit Notes			-	1	-	-	1	1 (risk accepted)
Income Collection			-	-	-	-	-	-
Debt Monitoring and Recovery			-	1	-	1	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)

Important	Accounts on Hold – Although very few accounts had been put on hold (i.e. recovery action was suspended) there was insufficient detail on one account to explain why it was on hold and a lack of evidence to confirm that these accounts were being reviewed. The use of the hold code is now to be discontinued.
Important	Date of Supply – Invoices were found which did not contain sufficient information about the service delivery date. The form used by services is now to be clear that this information is mandatory and to provide some guidance on how to calculate the date.
Previous Important	Changes to Customer Standing Data – No written record is maintained for amendments to Customer standing data received over the phone. The service has accepted the risk that there might be a future challenge or discrepancy on an account which cannot be defended by information recorded at the time. It is noted that debtors standing data is not at the same risk of fraud as creditors standing data.

Audit Title	Accounts Payable	Overview of Subject: This audit covers the procedures the Council uses to order goods and services and pay invoices due to the supplier or contractor. Approximately 11,000 invoices are processed a year.
Year of Audit	2014/15	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2013/14	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Approval of Purchase Orders and Yellow Sticker Payments			-	1	-	1	-	-
Goods Receipting and Invoice Payment			-	1	1	-	-	-
Coding of Expenditure			-	-	1	-	-	-
Reconciliation of Invoice Batches and Payment Runs			-	-	-	1	-	-
New Suppliers and Bank Account Changes			-	1	-	1	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Changes to Bank Accounts – Checks are carried out on supplier’s changes to bank account details to confirm that the changes are genuine and haven’t come from a fraudulent party. In one instance, out of ten tested, there was no documented evidence to support that staff had carried out the required check. Audit have provided a template which could be used to standardise the documentation of the checks carried out.
Important	Counter-signing High Value Payments – The expectations in respect to counter–signing payments over £50,000 need to be clarified as current practice, although not necessarily a weakness, does not match what is stipulated under Financial Regulations.
Important	Delays in Paying Invoices – Two out of twenty five invoices were found to have taken more than 30 days to pay. These have been brought to the attention of the services concerned where possible.

Audit Title	Xpress Elections	Overview of Subject: The Xpress system is used to manage the Council's Electoral Register. It is used by 225 councils across the country and has recently been adapted to handle individual electoral registration. This audit was carried out by a specialist computer audit to look at the procedures and controls present in the system.
Year of Audit	2015/16	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2004/05	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (🔴*)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Application Management and Governance			-	-	-	-	-	-
System Security			1	-	-	-	-	-
Data Output			-	-	-	-	-	-
Support Arrangements			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)

Essential	System Audit Trail – No-one at the Council was aware if the system had an audit trail facility which could provide information about user activity on the system should an irregularity occur in the system data. Subsequent enquiries have concluded that audit trail information is available on request from the supplier and they are considering making it accessible to users in future releases. Work has also started to increase the Council's understanding of how to use the information contained in the audit trail.
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Reference Tables

1. Scale of Assurance Opinions

Strong	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

2. Scale of Recommendation Priorities

Essential	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the A&G Committee and implementation of proposed actions are monitored.
Important	A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the A&G Committee and implementation of proposed actions are monitored.
Advisory	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions are not tracked.

3. Stages of An Audit Assignment

Stage 1	The Audit teams have started drawing up the scope of coverage for the assignment.
Stage 2	A scoping meeting has been held with the Audit Sponsor in the client service.
Stage 3	The Terms of Reference for the Assignment have been finalised.
Stage 4	The Auditor has started to deliver the agreed scope of work.
Stage 5	An exit meeting has been held with the Audit Sponsor giving the preliminary feedback from the work.
Stage 6	Any additional testing work identified has been completed.
Stage 7	A draft report is with the Audit Manager(s).
Stage 8	The draft report has been reviewed by the in-house team and comments fed back to the lead team.
Stage 9	The draft report has been issued to the Audit Sponsor and is awaiting their response.
Stage 10	The final report has been issued.