

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **19 September 2016**

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 PREVIOUS AUDIT PLANS

2. The current status of the 4 audits remaining from the 2014/15 Internal Audit Plan in the last report is detailed in [Appendix One](#). A draft report has been received by the in-house audit team for all of these audits and we have made some progress reviewing these but have not yet issued a final report for these audits.
3. The current status of the 9 audits remaining from the 2015/16 Internal Audit Plan in the last report is also detailed in [Appendix One](#) which shows that 4 of these have now been finalised.

DELIVERY OF 2016/17 AUDIT PLAN

4. Work has started to deliver the 2016/17 plan as detailed in [Appendix Two](#) but no audits have yet reached the draft report stage. There has been a delay in starting some of the work due to a health issue with one of the key contractor auditors.

FINDINGS FROM COMPLETED AUDITS

5. Since the previous Audit and Governance Committee, four final reports have been issued as listed below with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2015/16 Plan				
Parking Enforcement	Reasonable	-	3	-
Fixed Assets	Reasonable	-	2	1
Tree Management	Reasonable	-	2	-
Accounts Payable	Reasonable	-	-	1

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

RISK ASSESSMENT

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

Appendices

Appendix One - Update on Outstanding Audits from Previous Plans
Appendix Two - Audits in the 2016/17 Audit 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 the 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 the Internal Audit Strategy and Annual Audit Plan 2015/16

Report by the Head of Finance and Audit to the Audit and Governance Committee on 14 March 2016 on the Internal Audit Plan 2016/17

Enquiries:

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

APPENDIX ONE

Update on Outstanding Audits from the Previous Plans

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
2014/15										
Benefits	Fundamental (V)	30	Stage 8							
Information Governance Opinion	Computer	6	Stage 8							
Income Collection & Banking	Fundamental	15	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
2015/16										
Parking Enforcement	Service and Systems – HR (V)	15	Stage 10	Reasonable	-	3	-	-	-	-
Fixed Assets	Fundamental System	10	Stage 10	Reasonable	-	2	-	-	-	1
Tree Management	Service and Systems - Other	8	Stage 10	Reasonable	-	2	-	-	-	-
Accounts Payable	Fundamental System	10	Stage 10	Reasonable	-	-	-	1	-	1
Recruitment and Selection	Corporate, Specialist, Governance (V)	15	Stage 8							
Land Charges	Service and Systems – HR	12	Stage 8							
Recycling	Service and Systems – HR	10	Stage 8							
Household Waste Collection	Service and Systems – HR	10	Stage 8							
Contract Deeds Management	Thematic Review	15	Not started							

* 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

Audits in the 2016/17 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
OPINION AUDITS											
1	Banking	Fundamental System	10	Stage 4							
2	Treasury Management		10	Stage 1							
3	Housing Rents		15	Stage 1							
4	Accounts Payable		10	Not started							
5	Payroll and Employee Expenses		10	Not started							
6	Sheltered Housing	Service and Systems – High Risk	15	Stage 3							
7	Trade Waste and Recycling		15	Stage 1							
8	Building Control		15	Not started							
9	Daedalus Project		12	Not started							
10	Outdoor Sport and Recreation		15	Not started							
11	Neighbourhood Working, Public Relations & Consultation	Service and Systems - Other	10	Stage 4							
12	Air Quality & Pollution (V)		15	Stage 1							
13	Countryside Management		8	Not started							
14	Technology Forge	Computer	15	Stage 1							
15	Cloud Based Computing		15	Stage 1							

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
	Contingency		10								
	In-house team support		50								
	Total Planned Time		250								
WIDER WORK											
16	Leaseholder Charges	Joint working project		Stage 1							
17	Building Health and Safety Risks	Follow Up / Joint working project		Not started							
18	Data Protection	Joint working project		Not started							
19	Employee Performance Management	Joint Working Project - Corporate System		Not started							
20	Risk Management Approach	New Process		Stage 4							
21	Effectiveness of Ethics related activities (part 2)	Thematic Review		Stage 1							

Findings from the Latest Completed Audits

APPENDIX THREE

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 trade supplier invoices are processed a year.
Year of Audit	2015/16	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2014/15	

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
Annual Coverage								
Approval of Purchase Orders and Payments			-	-	-	1	-	-
Goods Receipting and Invoice Payment			-	-	-	-	-	-
Coding of Expenditure			-	-	-	-	-	-
Reconciliation of Invoice Batches & Payment Runs			-	-	-	-	-	-
New Suppliers & Supplier Bank Account Changes			-	-	-	-	-	1
Cyclical Coverage								
Payments by CHAPS			-	-	-	-	-	-
Payments via on-line banking			-	-	-	-	-	-
Payments by direct debit			-	-	-	-	-	-

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

Previous 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 three instances, out of ten tested, there was no documented evidence to support that staff had carried out the required check. Audit provided a template last year to standardise the documentation of the
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Weaknesses identified during the audit and the proposed action (Essential and Important only)	
	checks carried out and this is now being adopted by the exchequer service.
Issue noted	Delays in paying invoices – There were a number of invoices (21%) paid in the year which were found to take more than 30 days to pay. Five of these were examined and no adequate explanation was found for the late payment in three cases. The Council is taking a fundamental review of the technology it uses to pay invoices which should improve the control and speed of paying invoices.

Audit Title	Parking Enforcement	Overview of Subject: The Council employs a team of Civil Enforcement Officers (CEOs) who patrol the Council car parks and on-street parking areas to check there are no parking contraventions. They also enforce the resident permit zones. CEOs issue PCNs (Parking Contravention Notices) for £70 or £50 depending on the level of the offence. This service was one of those in the year which had been selected for audit as it had been subject to a vanguard review.
Year of Audit	2015/16	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2010/11	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🚨)	Important (▲)	Advisory (ℹ)	Implemented	Cancelled	Non Implemented
Issue of Penalty Charge Notices			-	-	-	-	-	-
Collection of Income			-	-	-	-	-	-
Appeals and Challenges			-	-	-	-	-	-
Recovery Processes			-	2	-	-	-	-
Refunds			-	1	-	-	-	-
Void PCNs			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Recovery on Hold: Sample testing on cases in recovery highlighted some cases (2/10) sitting at the 'no default progression' stage and therefore the recovery process had stopped. The service is currently drawing off reports of all 'key stages' and working through all PCNs at each stage to progress any that are identified as not being progressed which should be.
Important	Timeliness with Court Proceedings. Testing of 15 PCNs subject to recovery action noted that no cases had been progressed to court action stage within six months of the date of the contravention. This was found to relate to a period of a vacancy at the Council. An arrangement had been put in place with the IT Supplier to carry out this function whilst the post was vacant but there had been a misunderstanding as to how regularly this was required. The post has since been filled and recovery action is being carried out promptly.
Important	Authorisation of Refunds: Whilst refunds via cheques are authorised by the Head of Parking and Enforcement, refunds via BACS are authorised by the Parking Support Officer. The Head of Parking and Enforcement has now arranged for the Parking Support Officer to be an authorised signatory, so they can now authorise all refunds in line with Financial Regulations.

Audit Title	Tree Management	Overview of Subject: The Council is responsible for maintaining around 14,500 trees on more than 250 hectares of public open space and housing areas. A survey was completed of all amenity trees within community parks, informal green spaces, cemeteries, housing sites and certain trees in woodlands. A programme of proactive tree inspections is used to manage the health and safety of tree stock and to prioritise remedial tree surgery identified during the inspections.
Year of Audit	2015/16	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	No Previous comparable audit	

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
Managing Council Owned Trees and Woodland			-	1	-	-	-	-
New Tree Preservation Orders (TPO)			-	-	-	-	-	-
Approving Works to Protected Trees			-	1	-	-	-	-
Enforcement of TPOs			-	-	-	-	-	-
Reviewing and Assessing Trees with Historic TPOs								
Trees in Conservation Areas			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Managing Council Owned Trees and Woodland: From discussions it was noted that there are sometimes a delay in the Tree Team becoming aware of new developments and hence land which may contain trees for which they may be responsible. The Principal Tree Officer is therefore being added to all distribution lists which identify new land coming into the Council's ownership.
Important	Budgetary Control: The management of the various tree maintenance budgets is currently not clear in terms of accountability for effective budgetary control. A working party is being set up to review actual expenditure and agree the level of service and budget provision which is appropriate going forward, and the nature of monitoring reports that will be used.

Audit Title	Fixed Assets	Overview of Subject: The Fixed Assets at Fareham Borough Council are summarised
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Year of Audit	2015/16	as council dwellings, other land and buildings, infrastructure, vehicles, plant, furniture and community assets. There is a de-minimis limit of £10,000 for capitalisation; individual items below this amount do not appear on the Fixed Assets Register. As at 31/03/16 the Fixed Assets Register showed over 3,000 assets with a net book value of approximately £162 million. At the end of 2012/13, approval was given for the Council to acquire assets as a new investment opportunity to attract a better return than just investing the money.
Type of Work	Opinion Audit	
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
Policy and Strategy			-	-	-	-	-	-
Asset Management Plans			-	-	-	-	-	1
Investment Portfolio			-	-	-	-	-	-
Maintenance of Asset Register			-	-	-	-	-	-
Asset Maintenance Programme			-	1	-	-	-	-
Acquisitions and Enhancements			-	1	-	-	-	-
Disposal of Assets			-	-	-	-	-	-
Balance Sheet Valuation and Depreciation			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Asset Maintenance Programme: Although there are maintenance programmes in place these are localised to services/departments and there is no centralised clear asset maintenance programme in place with a direct relationship with budget provision. A specific Property team has now been set up who will be reviewing how we are approaching asset maintenance at the council with the aim of developing a maintenance programme with a sound basis and an appropriate budget allocation.
Important	Acquisitions and Enhancements: Financial Regulation 13.2.2 needs clarification as to the expected role of the Council's Procurement Officer in relation to negotiations for the purchase of land or buildings; or whether this is solely a role for the Head of Estates.
Previous Important	Asset Management Plans: The Asset Management Plan had not been updated since 2012 although the principles of the plan are

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
	understood to have remained the same. The Asset Management Plan and it's strategies for property, disposals and repairs and maintenance are to be reviewed and updated to distinguish between property for which the Council has a repairing obligation and that which is being maintained to maximise income.

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 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	The work completed by the Auditor is being reviewed by their manager.
Stage 6	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
Stage 7	Any additional testing identified has been completed.
Stage 8	The draft report has been received by the in-house audit team.
Stage 9	The draft report has been issued to the Service Sponsor and is awaiting their response.
Stage 10	The final report has been issued.