

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **13 March 2017**

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

Subject: **QUARTERLY 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 6 audits remaining from the previous Audit Plans is detailed in [Appendix One](#) . Further work has been carried out on 2 of these which are close to be finalised.

DELIVERY OF 2016/17 AUDIT PLAN

3. There has been one change to the current plan since the last meeting. This has been the postponement of the Employee Performance Management audit to make time available to carry out some work on the Building Services invoice and stock process.
4. Significant progress has now been made to deliver the rest of the plan as detailed in [Appendix Two](#) and a further five audits have now reached the final report stage.

FINDINGS FROM COMPLETED AUDITS

5. The five latest final reports that have been issued are 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
Treasury Management 2016/17	Strong	-	2	-
Accounts Payable 2016/17	Strong	-	1	-
Trade Waste and Recycling 2016/17	Strong	-	-	-
Banking 2016/17	Reasonable	-	2	-
Risk Management Approach 2016/17	N/A	-	-	-

6. Detail of the recommendations made and the actions to be taken is provided in [Appendix Three](#). The revised policy arising from the Risk Management work is the subject of a separate report on the agenda.

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 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										
Income Collection & Banking	Fundamental	15	Stage 8							
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
2015/16										
Recruitment and Selection	Corporate, Specialist, Governance (V)	15	Stage 9							
Land Charges	Service and Systems – HR	12	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 - new	Fundamen- tal System	10	Stage 10	Reasonable	-	2	2	-	-	-
2	Treasury Management - new		10	Stage 10	Strong	-	2	3	-	-	-
3	Housing Rents		15	Stage 4							
4	Accounts Payable - new		10	Stage 10	Strong	-	1	-	1	-	-
5	Payroll & Employee Expenses		10	Stage 4							
6	Sheltered Housing	Service and Systems – High Risk	15	Stage 5							
7	Trade Waste and Recycling - new		15	Stage 10	Strong	-	-	1	-	-	-
8	Building Control		15	Stage 9							
9	Daedalus Project		12	Stage 4							
10	Outdoor Sport and Recreation		15	Stage 5							
11	Neighbourhood Working, Public Relations & Consultation	Service and Systems - Other	10	Stage 10	Strong	-	-	3	-	-	-
12	Air Quality & Pollution (V)		15	Stage 5							
13	Countryside Management		8	Stage 5							
14	Technology Forge	Computer	15	Stage 4							
15	Cloud Based Computing		15	Stage 6							
	Contingency		10								
	In-house team support		50								
	Total Planned Time		250								
WIDER WORK											

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
16	Leaseholder Charges	Joint working project		Stage 4							
17	Building Health and Safety Risks	Follow Up / Joint working project		Stage 4							
18	Data Protection	Joint working project		Stage 4							
	Employee Performance Management	Joint Working Project - Corporate System		Postponed							
19	Risk Management Approach - new	New Process		Stage 10	N/A	-	-	-	-	-	-
20	Effectiveness of Ethics related activities (part 2 – physical security)	Thematic Review		Stage 4							
21	Building Service Invoicing and Stock Control (new)	Service and Systems - Other		Stage 4							

Findings from the Latest Completed Audits

APPENDIX THREE

Audit Title	Treasury Management	Overview of Subject: Treasury Management's activities are defined as 'The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.' This audit reviews the treasury management processes in use, with particular focus on controls over making investments and taking out loans
Year of Audit	2016/17	
Type of Work	Opinion audit	
Assurance Opinion Given	Strong	
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
Treasury Management Strategy & Policy			-	-	1	-	-	-
Levels, Limits & Institutions			-	-	-	-	-	-
Compliance with Strategy			-	-	-	-	-	-
Investment & Borrowing Records			-	-	-	-	-	-
Authorisation Limits			-	-	1	-	-	-
Interest Receipts			-	-	-	-	-	-
Reporting			-	-	-	-	-	-
Cash Flow Monitoring			-	-	-	-	-	-
Contracts with Brokers & Advisers			-	1	-	-	-	-
Money Market Fund Controls			-	-	-	-	-	-
Rollover Loans/Investments			-	-	-	-	-	-
Borrowing			-	1	-	-	-	-
Contingency Planning			-	-	-	-	-	-
Declaration of Interests			-	-	1	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Contract with Treasury Management Advisers – The form of the agreement with the advisers for the provision of treasury management services does not contain a formal dispute resolution path to follow should there be an issue with the quality of the service. Also if FBC wanted to terminate the contract there are no defined methods or clauses that specify under what conditions this can occur. Work is proposed to strengthen the nature of the contract.
Important	Borrowing Decision Document - A document similar to the Counterparty Decision Document used for investments needs to be created to provide an audit trail and sign off of borrowing decisions.

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 9,000 trade supplier invoices are processed a year.
Year of Audit	2016/17	
Type of Work	Opinion audit	
Assurance Opinion Given	Strong	
Direction of Travel	↑2015/16	

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 Yellow Sticker Payments			-	-	-	-	-	-
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 BACS (including on-line BACS)			-	-	-	-	-	-
Manual / Urgent Payments			-	-	-	-	-	-
Aged Creditor Management			-	1	-	-	-	-
Control of POPs Advances			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	<p>Monitoring of Aged Suppliers: The aged suppliers report highlights accounts that have been in debit (monies due to the supplier) or credit (monies due to the Council) for a period of time. Although a weekly report was being produced and was being reviewed by the Management and Financial Accounting Manager, the Finance Officer was not actively investigating all the entries on the report to get them resolved. This has now been addressed and monitoring is being actively carried out.</p>

Audit Title	Trade Waste	Overview of Subject: Waste Savers is the FBC business waste and recycling service. Trade waste has been collected in Fareham for over 40 years and the recycling service began in 2009. It is at businesses' discretion as to whether they use the service or not. At the time of audit, FBC had 934 live trade waste customers. Trade waste agreements have increased on average by 5% per annum since 2013 and the gross income generated in 2015/16 was approximately £730,000.
Year of Audit	2016/17	
Type of Work	Opinion audit	
Assurance Opinion Given	Strong	
Direction of Travel	↔ 2011/12	

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
New Customer Administration			-	-	-	-	-	-
Direct Debit Process			-	-	-	-	-	-
Fees and Charging			-	-	-	-	-	-
Debt Monitoring			-	-	-	-	-	-
Issue of Waste Transfer Notices			-	-	-	-	-	-
Departing Customers			-	-	-	-	-	-
Income and Disposal Costs Budgeting and Monitoring			-	-	1	-	-	-
Scheduling of collections & Vehicle Tracking			-	-	-	-	-	-

Audit Title	Banking	Overview of Subject: The Council has its bank accounts with NatWest. There are two main accounts - the BP account (income) and the No 1 account (expenditure) and four other accounts. The Council utilises an online banking system (Bankline) which requires at least two authorised officers to make changes to user rights. Users use a smartcard, Card reader and passwords to log onto online banking.
Year of Audit	2016/17	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔ 2004/05	

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
Maintaining Bank Mandate			-	-	-	-	-	-
Monitoring Bank Charges			-	-	-	-	-	-
Reconciliations			-	1	-	-	-	-
Procurement/Value for Money of Banking Services			-	1	-	-	-	-
Access control to On-Line Banking			-	-	1	-	-	-
Transfers Between Bank Accounts			-	-	1	-	-	-
Unidentified Cash Receipts			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Documentation of Reconciliations - Testing identified some improvements that could be made to the documentation of some of the bank reconciliations that are undertaken. This included inconsistencies in the records of the person carrying out the reconciliation and the date it was completed, documentation of the independent review of the completed reconciliations, retaining evidence of balances at the time of the reconciliation, and following through subsequent adjustments made to completed reconciliation.
Important	Service Level Agreement - There is no agreement in place between the Council and NatWest Bank plc which sets out the service standards expected, the dispute resolution process and exit strategy.

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.