

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 27 June 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 THE 2014/15 AUDIT PLAN

2. The current status of the 5 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 one further report has been finalised.

DELIVERY OF 2015/16 AUDIT PLAN

3. There have been no further changes to the original plan set for 2015/16. Work has started on 95% of the audits in the 2015/16 plan as detailed in [Appendix Two](#) and ten of the nineteen audits have been finalised.

DELIVERY OF 2016/17 AUDIT PLAN

4. Work is just starting on delivery of the 2016/17 plan as detailed in [Appendix Three](#) so no audits have yet reached the draft report stage.

FINDINGS FROM COMPLETED AUDITS

5. Since the previous Audit and Governance Committee, six final reports have been 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
2014/15 Plan				
Corporate Data Protection	Reasonable	1	4	3
2015/16 Plan				
Local Taxation	Strong	-	1	2
Payroll	Strong	-	1	-
Capital Expenditure and Accounting	Reasonable	-	2	-
IT Disaster Recovery	Reasonable	-	5	-
Effectiveness of Ethics Related Activities	Not applicable			

6. The detail of the recommendations made and the actions to be taken is provided in [Appendix Four](#), with the exception of the "effectiveness of ethics related activities work" which will be fed back to members in the form of a presentation at the meeting.

RISK ASSESSMENT

7. 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 - Audits in the 2016/17 Audit Plan

Appendix Four - Findings from the Latest Completed Audits

Appendix Five – 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 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
Corporate Data Protection	Corporate, Specialist, Governance	5	Stage 10	Reasonable	1	4	2	4	3	3
Information Governance Opinion	Computer	6	Stage 8							
Income Collection & Banking	Fundamental	15	Stage 8							
Benefits	Fundamental (V)	30	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							

* 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 10	Strong	-	-	-	-	-	-
3	Local Tax Collection	Fundamental System	15	Stage 10 (new)	Strong	-	1	1	-	-	2
4	Capital Expenditure and Accounting	Fundamental System	10	Stage 10 (new)	Reasonable	-	2	-	-	-	-
5	Fixed Assets	Fundamental System	10	Stage 7							
6	Parking Enforcement	Service and Systems – HR (V)	15	Stage 9							
7	Contract Deeds Management	Thematic Review	15	Not started							
8	Land Charges	Service and Systems – HR	12	Stage 8							
9	Payroll and Staff Expenses	Fundamental System	15	Stage 10 (new)	Strong	-	1	2	-	-	-
10	Accounts Payable	Fundamental System	10	Stage 5							
11	Software Control	Computer	10	Stage 10	Limited	-	5	1	1	-	1
12	Recruitment and Selection	Corporate, Specialist, Governance (V)	15	Stage 7							
13	Right to Buy	Wider Work (change)	10	Stage 10	Not applicable	-	1	-	-	-	-
14	Effectiveness of Ethics Related Activities	Thematic Review	15	Stage 10 (new)	Not applicable						

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
	Vehicle Repairs Procurement	Wider Work – Follow Up	-8	Cancelled							
15	Recycling	Service and Systems – HR	10	Stage 6							
16	Household Waste Collection	Service and Systems – HR	10	Stage 6							
17	IT Disaster Recovery	Computer	15	Stage 10 (new)	Reasonable	-	5	2	4	-	-
	Data Protection	Wider Work – Follow Up	-7	Cancelled							
18	Protection of Trees	Service and Systems - Other	8	Stage 8							
19	Problem with Debt Repayment	Wider Work	8	Stage 10	Not applicable	-	2	2	-	-	-

* 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.

APPENDIX THREE

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 1							
2	Treasury Management		10	Not started							
3	Housing Rents		15	Not started							
4	Accounts Payable		10	Not started							
5	Payroll and Employee Expenses		10	Not started							
6	Sheltered Housing	Service and Systems – High Risk	15	Stage 2							
7	Trade Waste and Recycling		15	Not started							
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 1							
12	Air Quality and Pollution (V)		15	Not started							
13	Countryside Management		8	Not started							
14	Technology Forge	Computer	15	Not							

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
				started							
15	Cloud Based Computing		15	Not started							
	Contingency		10								
	In-house team support		50								
	Total Planned Time		250								
WIDER WORK											
16	Leaseholder Charges	Joint working project		Not started							
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		Not started							
21	Effectiveness of Ethics related activities (part 2)	Thematic Review		Stage 1							

Findings from the Latest Completed Audits

APPENDIX FOUR

Audit Title	Corporate Data Protection	Overview of Subject: The Council is a recognised “Data Controller” under the Data Protection Act 1998. Therefore we have a number of obligations about how we manage the personal data we collect about living individuals. This audit focused on the Corporate arrangements in place to effectively manage these obligations across the Council. Further work is then proposed to look at Data Protection compliance at the department level.
Year of Audit	2014/15	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	↑ 2012/13	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴*)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Mandatory Areas								
Data Protection Policies and Guides			-	1	-	-	-	-
Key Roles			-	-	-	-	-	-
Training and Awareness			1	-	-	1	3	1
Information Commissioners Office Registration			-	-	-	-	-	-
Data Subject Requests			-	-	1	-	-	-
Complaints and breaches			-	1	-	-	-	-
Incident Reporting to Information Commissioner			-	-	-	-	-	-
Corporate Assurance			-	1	-	-	-	-
Cyclical Areas and Specific Tests								
Fair Processing Notices			-	1	-	1	-	-
Clear Desk Policy, Hub Retentions and T drive			-	-	1	1	-	1
External Disposal of Confidential Waste			-	-	-	1	-	-
Automatic Printing (follow up only)			-	-	-	-	-	1

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

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Essential	Training Records: Records need to be kept of the training and awareness provided to employees and councillors as this is a key piece of information that the Information Commissioner may request. The Council will be rolling out training using the Skillgate package and officers have confirmed that that this has the capability to produce management data of who completes the training modules. A register will also be kept of other training and awareness activity carried out.
Previous Important	Employee Training: Refresher training for employees is being developed using the Skillgate package. However, at the time of audit this had yet to be rolled out.
Important	Disposal Policy: Appropriate guidance is to be made available to employees on how long certain types of document should be retained before disposal.
Important	Incident Awareness: Managers will be briefed on the nature of data protection breaches and complaints which need to be reported to the Data Protection Officer (DPO), even if they do not result in a report to the Information Commissioner. This will allow the DPO to monitor the regularity and nature of incidents that are occurring and take any necessary action.
Important	Corporate Assurance: An annual Information Assurance report is being developed which will be presented to Senior managers to keep them informed of where we are with managing the risks associated with Information Governance. This includes compliance with the Data Protection Act and the Freedom of Information Act.
Important	Fair Processing Statements: A standard set of words will be developed for services to use and adapt on all documents where we collect personal information. This will improve consistency and help ensure that no information is missed from the statement. Issues were found in a sample of 17 forms currently available on the web.
Previous Important	Clear Desks: The Council is in the process of introducing a clear desk policy which should be fully in place once the office reorganisation of the Civic Offices is complete.
Previous Important	Automatic Printing: Problems were still found with prints containing personal information being generated by printers without the user being present. This only relates to printers located in the enclosed office space, however, the risk of it falling into the wrong hands increases as more organisations occupy the civic offices. Discussions are to be held with IT to try and understand the circumstances when this happens and whether there are any alternative methods of working.

Audit Title	Local Taxation	Overview of Subject: Local Taxation covers Council Tax (residential properties) and
--------------------	-----------------------	--

Year of Audit	2015/16	National Non Domestic Rates (non-residential properties). Fareham Borough Council collects these taxes for other bodies (Hampshire County Council, Hampshire Fire and Rescue, the Police and Crime Commissioner and Central Government) as well as a proportion for itself. The amount of tax to be collected each year is approximately £57million of Council Tax and £41million of NNDR.
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
Updating Rateable Values of Properties			-	-	-	-	-	-
Billing			-	-	-	-	-	-
Discounts, Reliefs, Exemptions and Reductions			-	1	1	-	-	2
Income Collection			-	-	-	-	-	-
Recovery			-	-	-	-	-	-
Payments to Precepting Authorities			-	-	-	-	-	-
Appeals Process			-	-	-	-	-	-
Hardship Fund			-	-	-	-	-	-

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

Previous Important	Discount, exemption and relief review schedule: The Council still needs to develop a schedule to document how continued entitlement to all discounts etc. will be monitored and the nature and frequency of any reviews that will be carried out. Although some reviews are being carried out it is not clear what schedule of reviews has been agreed and whether this is therefore being adhered to. A schedule is now being developed which will also show what other sources of assurance are being relied upon (e.g. the National Fraud Initiative).
Previous Important	Review and monitoring of student exemptions: 2/5 student exemptions over a year old had not been reviewed for continuing entitlement (last reviewed February 2014 and October 2014). Annual reviews of student exemptions are now to be carried out.
Important	Mismatch between Local Council Tax Support (LCTS) and Single Person Discount (SPD): 2/20 instances found where there was only one person recorded in the household for a claimant in receipt of LCTS but there was no SPD applied to their Council Tax account. The service are investigating these 2 cases to ascertain the reason for the mismatch and to establish if any further staff training is needed.

Audit Title	Payroll & Staff Expenses	Overview of Subject: The Payroll service is currently operated in-house and produces 4 sets of pay runs: FBC Employees, FBC members, Portchester Crematorium Employees and Election Staff. An audit of the service is carried out each year and some of the coverage is designed to be used by the external auditors.
Year of Audit	2015/16	
Type of Work	Opinion audit	
Assurance Opinion Given	Strong	
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	Non Implemented
Establishment Management			-	-	-	-	-	-
Standing Data			-	-	-	-	-	-
Basic Salary Calculations			-	-	-	-	-	-
Allowances, Expenses and Variations to Pay			-	1	1	-	-	-
Payroll Run Control			-	-	-	-	-	-
Ledger Postings and Interfaces			-	-	1	-	-	-
Sick Pay			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Reviewing Employees in receipt of Essential User Allowance: A review was carried out of the employees in receipt of the essential user allowance and a few cases were found where the post may no longer be meeting the criteria for the allowance, or may now be entitled to it. These cases are now being reviewed by personnel with the managers of the services concerned. An annual review of this allowance is now also to take place.

Audit Title	Capital Expenditure and Accounting	<p>Overview of Subject: Capital expenditure is an amount spent to acquire or improve a long-term asset. The cost is then charged through depreciation over the useful life of the asset, rather than charging it immediately as an expense to the revenue account. The capital programme is included in the Financial Strategy of the Council. The provision for 2015/16 was approximately £8million.</p>
Year of Audit	2015/16	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2012/13	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation		
			Essential (●*)	Important (▲)	Advisory (P)	Implemented	Cancelled	Non Implemented
Capital Strategy and Policies			-	1	-	-	-	-
New Capital Projects Appraisal and Approval			-	As above	-	-	-	-
Capital Programme Setting and Phasing			-	-	-	-	-	-
Capital Programme Monitoring & Budgetary Control			-	1	-	-	-	-
Use of Capital Charges			-	-	-	-	-	-

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

Important	<p>New Capital Projects Appraisal & Approval: In the previous audit it was found that that there were no formal procedures/templates in place to support adding a project to the capital programme. A template and guidance was drafted and piloted with a service but the conclusion was drawn that this was not the best approach to take. Instead the Council wants to move to the accountants taking the lead on the appraisal by having conversations with the services, using a checklist to help carry out the evaluation. However, this process has yet to be fully defined and rolled out.</p>
Important	<p>Transparency of Capital Programme Overspends where projects cover more than 1 year: Whilst monitoring of the Capital programme occurs regularly, the reports presented to the Executive are not clear as to the total cost of projects which span more than one year, which means overspends on these projects may not be highlighted. The current reporting of the spending on the Capital Programme to the Executive is therefore to be reviewed to identify when whole project life monitoring needs to be included in the report.</p>

Audit Title	ICT Disaster Recovery	Overview of Subject: Disaster Recovery (DR) planning enables the recovery of ICT systems in the event of disruption impacting the data centre or server room hosting the Council's IT systems. Any event that prevents or interrupts an organisation's ability to perform its work tasks is considered a disaster. The moment that ICT becomes unable to support mission-critical processes is the moment that a pre-established Disaster Recovery plan should be invoked to manage the restoration and recovery procedures.
Year of Audit	2015/16	
Type of Work	Opinion audit	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2012/13	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Critical Business Functions			-	1	-	-	-	-
Disaster Recovery Assessment			-	1	2	-	-	-
Contact Details			-	-	-	-	-	-
Disaster Escalation Procedures			-	-	-	-	-	-
Emergency Action Procedures			-	1	-	-	-	-
Salvage Procedures			-	1	-	-	-	-
Disaster Recovery Procedures			-	-	-	3	-	-
Temporary Arrangements			-	-	-	-	-	-
Disaster Recovery Test Plan			-	1	-	1	-	-

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

Important	Priority of Services to be reinstated: The Disaster Recovery Plan does not include any priority schedule for services to be reinstated. Instead the IT section will be responding to instructions from the Disaster Management Team according to the local circumstances at the time. However, the plan does need to make reference to the Telephone system always being the first system to be reinstated and is to be expanded to contain the details of the individual system administrators who IT will need to liaise with when each system is being reinstated.
Important	Document Names: The Plan is to be renamed as the Disaster Recovery Procedures to clearly distinguish it during an emergency from

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
	the ICT services own Business Continuity Plan.
Important	Officer Crib lists: The Disaster Recovery Plan is to be expanded give more detail on the roles and responsibilities of the key personnel identified with responsibility for Disaster Recovery. This will more detail on how to carry out the process should the named person not be available.
Important	Salvage Procedures: There are no currently procedures in place to ensure that, where necessary, high priority IT Assets can be salvaged from the Disaster site, upon authorised personnel regaining access to the building. Work will start to develop some procedures appropriate to our needs.
Important	Reporting Results of Testing: Whilst restore and recovery testing have been carried out and formally documented, there is currently no process to report the results to the Council's senior management team. This will now happen following the planned 2016 testing.

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.