

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 12 March 2018

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

It is recommended 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 9 audits remaining from the previous Audit Plans is detailed in [Appendix One](#). Further work has been carried out on another 2 (Leaseholders and Contract Deeds) to facilitate finalisation of the work but we are not yet at the draft report stage.

DELIVERY OF 2017/18 AUDIT PLAN

3. **Changes to the plan**

There have been a number of changes made to the current year's plan as summarised below:

Change	Audit Title	Reason
Additional Work	Ferneham Hall Stock and Wastage	Assist with action implementation In the main audit in 2017/18 an issue was identified that the stock checks were recording a high level of wastage. Further detailed analysis was therefore carried out to understand the significance of this and any action that could be taken.
Additional Work	Effectiveness of Ethics Related Activities – follow up surveys	Assist with action implementation Work carried out in 2016/17 resulted in some findings which we have been requested to explore further by use of focus groups and a follow up survey.
Additional Work	Tree Work Costs – additional analysis	Assist with action implementation Work carried out in 2016/17 confirmed that work was needed to understand the reasons for overspending on Tree budgets. Some analysis has therefore been carried out to provide the managers with additional information.
Additional Work	Mobile Phone Billing	New risk identified It was noted that the Council was incurring some unnecessary mobile phone charges. Analysis has therefore been carried out to identify the nature of these and actions that can be taken to reduce costs.
Work postponed	Building Service Invoicing and Stock Control (part 2)	Given the changes being implemented with the Fareham Housing service it has been agreed that this work should be postponed to Q3 in 2018/19
Work postponed	Use of depot storage areas and security of plant, equipment and materials	This was a low risk audit added to the plan at a manager's request. Some work has already been carried out by the service such that this work can now be postponed to later in 2018/19.

Completion of Plan

4. Work is progressing on the delivery of the revised audit plan, as noted in Appendix Two, such that a further 5 audits have now been finalised.

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
Homelessness	Strong	-	1	1
Main Accounting System and Budgetary Control	Reasonable	-	1	-
Ferneham Hall & Databox	Limited	2	10	2
Ferneham Hall Stock and Wastage	N/A	12	23	-
Tree Work costs	N/A	-	-	-

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

RISK ASSESSMENT

7. A number of areas where controls could be strengthened at Ferneham Hall have been identified. Managers are working through the recommendations made and substantial improvement is expected to be found when internal audit next visit in 2018/19.

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two - Audits in the 2017/18 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

Report by the Head of Finance and Audit to the Audit and Governance Committee on 17 March 2017 on the Internal Audit Plan 2017/18

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										
Land Charges	Service and Systems – HR	12	Stage 8							
Contract Deeds Management	Thematic Review	15	Stage 4							
2016/17										
Daedalus Project	Service and Systems – High Risk	12	Stage 8							
Cloud Based Computing	Computer	15	Stage 8							
Leaseholder Charges	Joint working project		Stage 5							
Building Health and Safety Risks	Follow Up / Joint working project		Stage 5							

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

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

APPENDIX TWO

Audits in the 2017/18 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	Main Accounting System and Budgetary Control (NEW)	Fundamental System	11	Stage 10	Reasonable	-	1	2	-	-	-
2	Accounts Receivable		15	Stage 5							
3	Income Management		12	Stage 1							
4	Housing Benefits		10	Stage 5							
5	Leisure Centre Contracts	Corporate /contract	10	Stage 4							
6	Ferneham Hall & Databox (NEW)	Service and Systems – High Risk	20	Stage 10	Limited	2	10	3	-	-	2
7	Commercial Estates		15	Stage 9							
8	Property Maintenance & Inspections at Non-Housing Buildings		15	Stage 1							
9	Developers Contributions		15	Stage 1							
10	Homelessness (V) (NEW)		15	Stage 10	Strong	-	1	-	-	-	1
11	Dog Control	Service and Systems - Other	6	Stage 10	Limited	-	7	1	-	-	-
12	Pest Control		6	Stage 10	Reasonable	-	3	2	1	1	2
13	Street Furniture		5	Stage 10	Strong	-	1	-	-	-	-
14	Pensions		10	Stage 4							
15	Chipside (Parking IT system)	Computer	12	Stage 3							
16	Multiple Parking Permits at Single Person Discount Properties		3	Stage 10	Not applicable	-	-	-	-	-	-
17	Outdoor Recreation Follow Up	Follow Up	5	Stage 3							
	Contingency / In-house support		45								
	Total Planned Time		230								

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
WIDER WORK											
18	IT Procurement and budgets	Thematic Review		Stage 1							
19	Employee Performance Management	Joint working project		Stage 5							
20	Data Protection	Joint working project		Stage 5							
21	Contract Procedure Rules	Joint working project		Stage 4							
22	Risk Inspections of Public Areas	Thematic Review		Stage 1							
	Use of depot storage areas and security of plant, equipment and materials.	Joint working project		Postponed							
	Building Service Invoicing and Stock Control (part 2)	Post investigation systems work		Postponed							
23	Ferneham Hall Drink and Food Wastage (extra) (NEW)	Assistance with action		Stage 10	Not applicable	12	23	3	-	-	-
24	Effectiveness of Ethics Related Activities – follow up surveys (extra)	Assistance with action		Stage 4							
25	Tree Work Costs (extra) (NEW)	Assistance with action		Stage 10	Not applicable	-	-	-	-	-	-
26	Mobile Phone Billing (extra)	Thematic Review		Stage 4							

Findings from the Latest Completed Audits

APPENDIX THREE

Audit Title	Main Accounting System and Budgetary Control	Overview of Subject: The finance section at Fareham Borough Council lead on maintaining the Councils accounts and aiding sound budgetary control. The Council has recently adopted the Finance Business Partner (FBP) model in which the accountants are required to understand the service they support and tailor what they do to meet the needs of the manager they are supporting. A Finance Vanguard review has taken place which included challenge of the budget setting and monitoring process from the services perspective. The E-Financials accounting software is currently used which was upgraded during 2017/18. The Council carried out a dry run in 2017/18 of meeting the new deadlines for closing the accounts that will be required for next year.
Year of Audit	2017/18	
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	Non Implemented
Suspense Accounts			-	-	-	-	-	-
Budget Uploads			-	-	-	-	-	-
High Value Journal Postings			-	-	1	-	-	-
Cost Centres			-	-	1	-	-	-
Validation Checks on Journals			-	-	-	-	-	-
Unexpected Expenditure			-	-	-	-	-	-
Budget Monitoring			-	-	-	-	-	-
Unexpected Income Collection Deficits			-	1	-	-	-	-
Access to Efinancials			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	<p>Review of budget income shortfalls - Testing of 10 budgets where income was less than 75% than the budget (and above £250) found that 5 were downward trends in some income types which may need to be fed into the revised budgets.</p> <p>Action: Discussions are to be held at the Finance Business Partner meetings to establish how Income Budgets are looked at on a rolling basis and how those of material value can be fed in the revised budgets.</p>

Audit Title	Homelessness	Overview of Subject: Applicants at risk of homelessness can present at the Council Offices housing drop in, or can request advice via email or telephone. If possible, advice is provided in the first instance, which can sometimes resolve the situation. Where advice does not help, and where there is an immediate need the client is placed in Bed & Breakfast accommodation pending enquiries into the situation.
Year of Audit	2017/18	
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	Non Implemented
Homelessness applications & eligibility			-	-	-	-	-	-
Bed & Breakfast			-	1	-	-	-	1
Private sector leasing			-	-	-	-	-	-
Tenant Rescue Fund			-	-	-	-	-	-
Payments out (to Property Owners)			-	-	-	-	-	-
Debt Collection (from tenants)			-	-	-	-	-	-
Housing Options Advice			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	There are three main Bed and Breakfast establishments used by the Council to accommodate homelessness cases. The primary establishment is in Fareham, with two further establishments in Gosport being used as and when required due to demand or for other specific reasons. There have been no benchmarking or comparison exercises to confirm that these establishments remain fit for purpose and provide value for money. This will now be undertaken.
Previous Important	Only one of the establishments used for homelessness cases had a current DBS check on record, with others used being out of date or not recorded. Outstanding DBS checks will now be obtained for Bed & Breakfast establishments, and recorded and monitored to ensure that they remain current.

Audit Title	Ferneham Hall & Databox	Overview of Subject: Ferneham Hall is an entertainments venue managed and subsidised by Fareham Borough Council. Various types of shows and events are put on and the annual income from ticket sales is in the region of £0.5m. The venue has three rooms available for hire which brings in additional income of around £180k plus bar sales in the region of £173k. The Databox IT system is used in the Box Office at Ferneham Hall to record sales of tickets and other sources of income.
Year of Audit	2017/18	
Type of Work	Opinion audit	
Assurance Opinion Given	Limited	
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
Events Policy and Performance			-	-	-	-	-	-
Budget Performance			-	1	-	-	-	-
Income Controls			-	2	1	-	-	-
Internal Recharging			-	1	-	-	-	-
Refunds and Complimentary Tickets			-	2	-	-	-	-
Petty Cash and Floats			-	-	-	-	-	-
Expenditure Control			-	1	-	-	-	-
Use of Procurement Cards			-	1	-	-	-	-
Payphone and Vending Machine			-	1	-	-	-	-
Equipment Control			1	-	-	-	-	-
Drink and Food Stocks			Additional actions arising from further testing in this area reported separately	1	1	-	-	-

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (●*)	Important (▲)	Advisory (P)	Implemented	Cancelled	Not Implemented
Building Security			-	-	-	-	-	-
Management of Volunteers			1	-	-	-	-	-
Management of Casuals			-	-	1	-	-	-
Transfer of Income for Leisure Card			-	-	-	-	-	-
Insurance Provision			-	-	-	-	-	-
Databox Actions and Sign Off			-	-	-	-	-	2

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Essential	Inventory Records – The equipment inventories were found to be out of date and no stock checks had been carried out for 3 years. 2/5 items tested from the inventory could not be found. An exercise will now be carried out over the next months to bring the inventories up to date and annual stock checks will be re-introduced.
Essential	DBS Checks – Volunteers at Ferneham Hall are required to have a DBS check. There were a large number of volunteers found where the check had not been carried out in the last 3 years. Managers are working to get these in place now.
Important	Show Performance – Limited management information was being produced to ascertain how profitable shows were. The new Head of Service had introduced a requirement that this will be carried out after each show and discussed in the monthly meetings.
Important	Room Hire Charges – There were a number of hirings where the fee charge was not the standard rate and there were no records of the reduced rate having been authorised. Copies of letters and emails will now be used to show the reason and authorisation for reduced charges being offered.
Important	Internal Recharges – There was a poor audit trail of internal room bookings and catering requests so we were unable to confirm that the amount charged through internal recharging and the coding was correct.
Important	Food Sales Profits – Financial analysis during the audit indicated that some food lines are not making a profit and some lines could be more profitable if the cost of supplies were reduced. A system is now being set up to analysis the profits made on food lines so that management decisions can be taken on whether to continue.
Important	Box Office Cashups – There were a high number of unders and overs arising from the daily box office cashups albeit the net total was small. These are going to be monitored for a period to understand what is causing the imbalances and more investigation of larger imbalances will be carried out.
Important	Vending machines – Reconciliations were not always being carried out of the cash emptied from the vending machines and the expected income readings from the machines. These are to be re-introduced.

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important x2	Refunds and Complimentary Tickets – There is an unclear policy on the use of complimentary tickets and one refund tested had not been authorised. Managers are now developing a clear policy for complimentary tickets and a log book is being set up to record the authorisation of refunds and complimentary tickets.
Important	Procurement card closedown – Delays were occurring with the Ferneham Hall confirmation that their procurement card transactions were genuine and coding them up, so that the monthly closedown and entry onto the financial ledger across the Council was being delayed. One officer has now been tasked with carrying out this process for all the procurement cards in a timely manner.
Important	FBC Supplier endorsement – It was noted that Ferneham Hall were endorsing a supplier they use on the supplier's website. A clearer policy is needed for the Council on when this is permitted and who should be consulted before proceeding.
Previous Important	Databox access – All staff currently use the same generic logon to use the Databox system so transactions cannot be attributed to one person. No discussions have been held with the suppliers to see if there is a way to improve user access in future upgrades, but it is now planned to hold a meeting with them.
Previous Important	Databox restore – There has been no testing of Databox to confirm that the backup system can be used to restore the system should it fail. Discussions will now be held with IT as to how this can be tested.
There were also some findings from a review of monthly bar stock checks that indicates that there was a high level of wastage being recorded. This led to further audit testing to understand why and was the subject of 2 extra reports.	

Audit Title	Ferneham Hall Stock & Wastage	Overview of Subject: In the main Ferneham Hall audit an issue was identified that the monthly bar and food stock checks were recording a high level of wastage. Further detailed analysis was therefore carried out to help identify the causes of the wastage. Other process issues were also explored as they were identified.
Year of Audit	2017/18	
Type of Work	Wider work to assist managers	

Weaknesses identified during the audit and the proposed actions

This work identified a number of weaknesses in processes covering:

- The need to produce management information on why wastage has occurred to identify any corrective action that needs to be taken.
- Improvements that could be made to move away from a manual system of recording income taken and provide better management information.
- Improvements needed to the stock check process to improve the accuracy of the information being generated and to understand the reason behind imbalances being recorded.
- A clearer audit trail is needed of multi buys, free items, use of loyalty points and gifts being received from suppliers and how they get used. Clarity has been given on what should also be recorded on the Gifts and Hospitality register.
- Improvements needed to the security of stock held.
- Monitoring of slow moving lines and stock in hand.
- Accounting for movements in ice cream stock.
- Improvements needed to ensure any stock used for other events are recharged appropriately and these are accounted for correctly in the stock check process.
- Improvements needed to how the tills are being used to record the operators, the nature of the sales and errors being recorded
- Improving the security of lunch time bar takings after the tills have been cashed up.

The managers at Ferneham Hall, including the new Head of Service, have been proactive in responding to the issues arising from this work and a detailed action plan is in place, with good progress being made on implementing the actions agreed.

Audit Title	Tree Work Costs	Overview of Subject: The audit of the “Protection of Trees” carried out in 2015/16 concluded that, given the current level of overspending, some project work was needed to understand the nature of the tree costs being incurred and to decide what level of service the Council wishes to resource. This piece of audit work aimed to provide more information on the nature of the spend, to feed into the wider corporate project in progress.
Year of Audit	2017/18	
Type of Work	Wider work to assist managers	

Conclusions from the audit and the proposed actions

The total spend on trees in 2015/16 was approximately £285,000.

This work identified that there were the following 6 sources of cost:

Enquiries from the public	35%
Programmed Inspection work	34%
Other costs e.g. tree planting	17%
Other incidental works identified by FBC/HCC officers	8%
Insurance claim works	4%
Emergency works	3%

Most of the costs were for works on Parks and Open Spaces followed by Whitely, then Housing locations; with spend starting to come through for the cold east site.

This information has been fed back to the project group who are then working on the following actions:

- Review the basis of the risk assessments that govern the inspection regime and how these relate to remedial works undertaken, emergency works and insurance claims.
- Develop thinking on what level of tree service the Council wants to continue to fund.
- Follow through the legal agreement on the maintenance contributions for the cold east site, to the actual spend on the site to date and projected for the future.

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.