

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2019

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

**Subject:** INTERNAL AUDIT PROGRESS REPORT

#### SUMMARY

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

*The Audit and Governance Committee's areas of responsibility for Internal Audit include:-*

- a) to approve significant interim changes to the internal audit plan and resource requirements.*
- b) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.*
- c) to review updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.*

#### 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.

## PROGRESS OF 2018/19 AUDIT PLAN

2. The original plan for the year contained 25 audits. As previously reported there have been 3 changes to the plan resulting in one audit being added, one being removed and another being postponed until next year's plan.
3. A further change to the plan has been made in that an extra piece of wider work has been added which will look at the control framework around the schemes available to the Housing Options team to help prevent people becoming homeless, and how this feeds in the debt recovery processes. To accommodate this audit, we will postpone the work on the "Deceased Persons list" until the 2019/20 audit plan.
4. We are also now proposing to change the "Use of depot storage areas and security of plant, equipment and materials" audit to a reactive rather planned audit. This is because this audit is not in our control to deliver and the latest estimates are that our advice will not be needed until the summer when the depot refurbishment contract is in place.
5. Work has started to deliver the rest of the plan such that 17 of the remaining 23 audits are at least at the fieldwork stage and the first 9 audits have now been finalised, as detailed in Appendix Two. We have now completed the recruitment of additional resources in the two teams which should assist our target of 20 audits being ready to support the Annual Audit Opinion in July 2019.

## FINALISING PREVIOUS AUDIT PLANS

6. The current status of the 9 audits remaining from the previous Audit Plans is detailed in Appendix One. Work has continued on the two 2017/18 audits in particular which should get them to a final report in the coming months.

## FINDINGS FROM COMPLETED AUDITS

7. The four 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
Accounts Payable	Strong	-	-	-
Vehicle Management	Strong	-	2	-
Capital Expenditure & Accounting	Reasonable	-	-	2
Housing Communal Services	Reasonable	1	-	-

8. Detail of the recommendations made and the actions to be taken is provided in Appendix Three.

## **RISK ASSESSMENT**

9. 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 2018/19 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

Report by the Head of Finance and Audit to the Audit and Governance Committee on 18 March 2018 on the Internal Audit Plan 2018/19

### **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
<b>2014/15</b>										
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
<b>2015/16</b>										
Land Charges	Service and Systems – HR	12	Stage 8							
<b>2016/17</b>										
Daedalus Operating Contracts	Service and Systems – HR	12	Stage 9							
Cloud Based Computing	Computer	15	Stage 8							
Leaseholder Charges	Joint working project		Stage 5							
Building Health and Safety Risks	Follow Up / Joint working		Stage 9							
<b>2017/18</b>										
Commercial Estates	Service and Systems – HR	15	Stage 9							
Risk Inspections of Public Areas	Thematic Review		Stage 4							

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

## APPENDIX TWO

### Audits in the 2018/19 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
<b>OPINION AUDITS</b>											
1	<b>Council Tax and NNDR</b>	Fundamental System	15	<b>Stage 10</b>	Strong	-	1	-	2	-	1
2	<b>Capital Expenditure &amp; Accounting</b>		10	<b>Stage 10</b>	Reasonable	-	-	-	2	-	2
3	<b>Accounts Payable</b>		10	<b>Stage 10</b>	Strong	-	-	1	1	-	-
4	Fixed Assets		10	Stage 4							
5	Cemeteries & Closed Churchyards	Service and Systems – High Risk	15	Stage 4							
6	<b>Housing Grants &amp; Home Improvements</b>		10	<b>Stage 10</b>	Reasonable	1	1	-	-	2	-
7	<b>Parking Strategy and Income</b>		15	<b>Stage 10</b>	Reasonable	-	2	-	4	1	2
8	<b>Vehicle Management</b>		15	<b>Stage 10</b>	Strong	-	2	-	5	2	-
9	<b>Housing Communal Services</b>		10	<b>Stage 10</b>	Reasonable	1	-	-	3	-	-
10	Planning Applications		15	Stage 1							
11	Markets Contract	Service and Systems - Other	5	Stage 1							
12	Out of hours service		12	Stage 1							
13	Orchard (Housing Rents IT system)	Computer	15	Stage 1							
14	Software Control Follow up		8	Stage 5							
15	Ferneham Hall Follow up	Follow Up	10	Stage 5							
16	<b>Dog Control Follow up</b>		5	<b>Stage 10</b>	Limited	-	-	-	1	-	6
	Contingency / In-house support		50								
	Total Planned Time		<b>230</b>								
<b>WIDER WORK</b>											
17	<b>Insurance claimants who have been the subject of fraud investigations</b>	Computer - data analytics		<b>Stage 10</b>	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
18	Review of compliance with new CIPFA guidance on Audit Committees (ADDED)	Publication review		Stage 6							
19	Housing Maintenance invoicing and stock control - part 2	Post investigation systems work		Stage 5							
20	Write Offs History Analysis & Interest charges	Thematic review		Stage 4							
21	Housing Options Debtors (ADDED)	Thematic Review		Stage 4							
22	Review of all outstanding IT audit recommendations	Follow Up		Stage 1							
23	Review of all other outstanding audit recommendations	Follow Up		Stage 1							
	Use of depot storage areas and security of plant, equipment and materials.	Joint working project		To now be treated as reactive work							
	Deceased persons list	Thematic Review		Postponed to next year							
	Contract Management	Corporate / Contract - joint working		Postponed to next year							
	General Data Protection Regulations - Responding to database search requests	Corporate - joint working		Deleted							

## APPENDIX THREE

### Finding from the Latest Completed Audits

<b>Audit Title</b>	<b>Accounts Payable Audit</b>	<p><b>Overview of Subject:</b> The Exchequer team are responsible for approval and payment of invoices owed by the Authority.</p> <p>The Authority received 16,458 invoices with a value of £206,451,769 between December 2017 and December 2018. Payment of invoices is managed through a two-tier authorisation process including line managers and finance officers. The service dealt with 7,875 unique suppliers in the year reviewed and has sought to streamline the way that it pays its creditors by reducing the use of cheques in favour of BACS payments.</p>
<b>Year of Audit</b>	<b>2018/19</b>	
<b>Type of Work</b>	Opinion Audit – Fundamental	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↑ 2016/17	

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
<b>Payment Performance</b>			-	-	-	-	-	-
<b>Duplicate payments</b>			-	-	-	-	-	-
<b>Segregation of duties</b>			-	-	-	-	-	-
<b>Management of Masterfile data</b>			-	-	1	-	-	-
<b>Invoice Processing</b>			-	-	-	-	-	-
<b>ICT Controls System Access</b>			-	-	-	-	-	-
<b>Prompt payment discounts</b>			-	-	-	-	-	-
<b>Methods of Payment</b>			-	-	-	-	-	-
<b>VAT coding</b>			-	-	-	-	-	-
<b>Invoice Scanning</b>			-	-	-	-	-	-
<b>Credit Notes</b>			-	-	-	-	-	-
<b>Suppliers paid via direct debit</b>			-	-	-	-	-	-
<b>Aged Creditors Management</b>			-	-	-	1	-	-

<b>Audit Title</b>	<b>Vehicle Management</b>	<b>Overview of Subject:</b> The Fareham Borough Council Asset Register details 116 Vehicles as at 31 March 2018, with a total net book value of £1.542M  The management of these vehicles is the responsibility of the Transport Manager. Vehicle information including servicing, MOT tests and maintenance is consolidated into one spreadsheet which provides an overview of how much work is carried out on each vehicle.
<b>Year of Audit</b>	<b>2018/19</b>	
<b>Type of Work</b>	Opinion Audit – High Risk	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↑ 2006/07	

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
Inspections Maintenance and MOT			-	-	-	2	-	-
Vehicle and Plant Replacement Programme			-	-	-	-	-	-
Order and Invoice Process			-	-	-	1	2	-
Vehicle Asset Register			-	-	-	-	-	-
Record Keeping of works to vehicle			-	-	-	-	-	-
Imprest Stock/Stock			-	2	-	2	-	-

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

<b>Important</b>	<b>Documentation of Imprest Stock Orders:</b> On discussion with the Transport Manager it was ascertained that both suppliers of imprest stock visit the depot on a regular basis. At these visits the stock levels and suitability are reviewed and amended where necessary. Paperwork was sighted in relation to the visits from one supplier but not the other. Whilst the paperwork was requested it has not yet been received, which implies that documentation is not being supplied or retained as a matter of course. It was agreed that documents will now be obtained from the suppliers to confirm the stock levels and items ordered during the regular visits.
<b>Important</b>	<b>Obsolete Stock:</b> On discussion with the Transport Manager it was ascertained that there are some items held in stock which are now deemed obsolete and have been held for several years. The Transport Manager is currently working through these to dispose of them. It was also noted during the conversation that when some vehicles are beyond economic repair they are "cannibalised" for parts which can be used by vehicles still in service. These parts are not currently recorded as stock. It was agreed that these will now be recorded so that a full audit trail of parts used in the repair of vehicles is in place.

<b>Audit Title</b>	<b>Capital Expenditure &amp; Accounting</b>	<b>Overview of Subject:</b> 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 and covers the period 2017/18 to 2021/22. The provision for 2018/19 was approximately £12.5 million.
<b>Year of Audit</b>	<b>2018/19</b>	
<b>Type of Work</b>	Opinion Audit – Fundamental System	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↔ 2015/16	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Capital Strategy and Policies			-	-	-	-	-	-
New Capital Projects Appraisal & Approval			-	-	-	-	-	1
Financing of Schemes			-	-	-	-	-	-
Capital Programme Setting and Phasing			-	-	-	-	-	-
Capital Programme Monitoring & Budgetary Control			-	-	-	2	-	1
Capital Charges/depreciation/MRP			-	-	-	-	-	-

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

<b>Previous Important</b>	<b>New Capital Projects Appraisal &amp; Approval:</b> In the previous audit it was noted that the Council wanted to move to the accountants taking the lead on project appraisals by having conversations with the services, using a checklist to help carry out the evaluation. This checklist has only recently been launched with the accountants and still needs to be tested on new capital schemes coming along. The revised Prudential Code 2017 requires the Council to have a Capital Strategy in place and future versions of the Strategy will make reference to the check list use by Finance Business Partners (FBPs) to discuss with the service managers.
<b>Previous Important</b>	<b>Transparency of Capital Programme Overspends where projects cover more than 1 year:</b> 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. Therefore, overspends on these projects are not so clear. The way in which this will be reported in the future is being reviewed.

<b>Audit Title</b>	<b>Housing – Communal Services</b>	<p><b>Overview of Subject:</b> There are currently 2,404 housing properties. Due to many of these being in blocks of flats, there are communal services, such as lighting, caretaking, cleaning and maintenance of lawns, provided to the block which are then recharged to individual tenants as an additional service charge to their housing rent.</p> <p>2,029 properties currently attract service charges, and 721 are charged a sum in excess of 5% of their total rental payment.</p> <p>Housing Communal Services was reclassified as a high-risk audit in the 2017/18 risk assessment based on the level of the fees and charges income exceeding £250,000 per year.</p>
<b>Year of Audit</b>	<b>2018/19</b>	
<b>Type of Work</b>	Opinion Audit – High Risk	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↓2002/03	

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
Confirmation that processes are in place			-	-	-	-	-	-
Accuracy of utility bills			-	-	-	2	-	-
Calculation of Service Charges			-	-	-	1	-	-
Recovery of Service Charges			-	-	-	-	-	-
Accuracy of Refunds			-	-	-	-	-	-
Level of Service			1	-	-	-	-	-

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

<b>Essential</b>	<p><b>Accurate Charging for Services:</b> Although not identified during testing, complaints were reported to have occurred due to errors occurring in service charges, particularly where alarms had been removed. Documentation available also didn't make dealing with the complaints easy leading to delays in issuing the refunds due. The new manager of the service is to set up a process to make the incidents visible to understand where the processes are failing and take appropriate action.</p>
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**Reference Tables**

**1. Scale of Assurance Opinions**

<b>Strong</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>Minimal</b>	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**

<b>Essential</b>	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.
<b>Important</b>	A significant control weakness 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.
<b>Advisory</b>	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**

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