

Fareham Borough Council
Audit & Governance Committee
Quarterly Audit Progress Report
September 2013

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INTRODUCTION AND BACKGROUND

- 1.1 This report has been prepared for the Members of the Audit & Governance Committee at Fareham Borough Council. This report highlights the progress made to date for delivery of the 2013/14 Internal Audit Plan and the progress made finalising the 2012/13 plan.

PROMOTING INTERNAL CONTROL

- 2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:
- An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;
 - Report back on the specific audits finalised since the last meeting of the Audit & Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Four of this report; and
 - Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

2012/13 & 2013/14 PROGRESS

- 3.1 The current status of the agreed 2012/13 Internal Audit Plan is detailed in Annex One along with the number of days delivered. The corresponding information relating to the 2013/14 Internal Audit Plan is detailed within Annex Two. Audits have been completed in accordance with the timings agreed with the Head of Audit & Assurance, and as approved by the Audit & Governance Committee.
- 3.2 As at the 31st August 2013, progress against the 2012/13 plan is as follows:

2012/13 Plan	Last Committee	This Committee
Number of audits in plan	30*	30*
Number of audits finalised	27 (90%)	29 (97%)
Number of reports issued at draft	2 (7%)	0 (0%)
Number of audits commenced	30 (100%)	30* (100%)
Number of planned audit days delivered	219/230 (95%)	229/230 (99%)

* Statistics have been calculated on 30 audits as Misc. Democratic Services has been deferred following management request.

3.3 At the time of this report, 99% of the 2012/13 Internal Audit Plan has been completed. Detailed progress is covered within Annex One. The one remaining internal audit of 2012/13, Legal Services Contract, is currently under management review; details of which will be reported in full to the next Audit & Governance Committee.

3.4 As at the 31st August 2013, progress against the 2013/14 plan is as follows:

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	30	30
Number of audits finalised	0 (0%)	3 (10%)
Number of reports issued at draft	0 (0%)	2 (7%)
Number of audits commenced	2 (7%)	9 (30%)
Number of planned audit days delivered	14/230 (6%)	60.5/230 (26%)

3.5 At the time of this report, 26% of the 2013/14 Internal Audit Plan has been completed. Detailed progress is covered within Annex Two.

CHANGES TO THE PLAN

4.1 There are a number of changes to report in respect of the 2013/14 Internal Audit Plan. At the request of the auditees, Treasury Management has been deferred from Quarter Two to Quarter Three; and the deferred Miscellaneous Democratic audit from the 2012/13 audit plan has been rescheduled to Quarter Four.

4.2 It has now been agreed to defer the audit of Performance Management (8 days) to the 2014/15 audit plan to allow the new management system to embed. This time will then be used to complete additional work for Ferneham Hall (3 days) due to the limited assurance opinion provided in 2012/13 and to carry out the follow up for Data Protection (4 days) which also received limited assurance in 2012/13. The remaining day has been added to the Cash Collection & Banking audit to cover arrangements for income collection by the Building Control service which has moved to the depot.

DETAILED PROGRESS SINCE THE LAST AUDIT AND GOVERNANCE COMMITTEE

5.1 Since the previous Audit & Governance Committee, two reports have been issued at draft stage from the 2013/14 plan; these relate to Management of Tradesmen and Public Conveniences. The assurance levels will be confirmed to the next Audit and Governance Committee upon finalisation.

5.2 Five reports have been issued in final version as listed below with the opinions given and level of recommendations made.

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2013/14 Plan				
Town Centre Management	Strong	-	-	-
Leisure Centre Trust	Strong	-	-	-
Coastal Protection & Land Drainage	Strong	-	1	-
2012/13 Plan				
CSC processes – Disabled parking swipe cards	Reasonable	-	5	-
Payroll	Reasonable	1	1	1

The above presents the key highlights. However, to enable Management and Members to focus on the areas of concern, we have provided a summary of all finalised reports since the last Committee, as detailed within Annex Three.

Remaining 2012/13 Internal Audit Plan as at 31st August 2013

Annex One

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 3											
14	Payroll	7	6.5	Final	<i>Reasonable</i>	1	1	1	-	-	1
Quarter 4											
23	CSC Processes	5	4.5	Final	<i>Reasonable</i>	-	5	-	1	-	-
24	Misc Democratic	-	-	Note 1	<i>TBC</i>	-	-	-	-	-	-
25	Legal Services Contract	8	7.5	Under review	<i>TBC</i>	-	-	-	-	-	-

Note 1: The audit will be postponed until Q4 of the 2013/14 financial year as requested by the Manager and previously reported to the Audit & Governance Committee.


No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 1											
1	Management of Tradesmen	7	7	Draft		-	-	-	-	-	-
2	Town Centre Management	7	7	Final	Strong	-	-	1	-	-	-
3	Coastal Protection & Land Drainage	6	6	Final	Strong	-	1	-	-	-	-
4	Leisure Centre Trust	6	6	Final	Strong	-	-	3	-	-	-
Quarter 2											
5	Treasury Management	6		Q3 audit							
6	Insurance	5	4.5	Started							
7	Planning Contributions	8	7.5	Started							
8	Training & Development	8	7.5	Started							
9	Licensing of Taxis & Alcohol	8	7.5	Started							
10	Public Conveniences	6	5.5	Draft		-	-	-	-	-	-
Quarter 3											
11	Ordering & Payment of Invoices	7		Q3 audit							
12	Invoicing & Collection of Income	9		Q3 audit							
13	Payroll	7		Q3 audit							
14	Fixed Assets	6		Q3 audit							
15	Revenues	12		Q3 audit							
16	Performance Management			Note 2							
17	Clean Borough Enforcement & Abandoned Vehicles	7		Q3 audit							
18	Cash Collection & Banking	9		Q3 audit							
19	Housing Rents	6		Q3 audit							
20	Ferneham Hall	9		Q3 audit							
Quarter 4											
21	Risk Management	6		Q4 audit							
22	Main Accounting	10		Q4 audit							

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
23	Financial Regulations Limited Compliance Testing	2		Q4 audit							
24	Housing Benefits & Council Tax Benefits	10		Q4 audit							
25	Planning Applications	6		Q4 audit							
26	Parking Strategic Management & Policy Services	6		Q4 audit							
27	Homelessness	6		Q4 audit							
28	Data Protection Follow Up	4		Q4 audit							
Computer Audit											
29	Remote Access	8		Q2 audit							
30	Main Accounting System (E-Financials) Application Review	7		Q3 audit							
31	Website Content Management	10		Q1 audit							
Other											
Audit Committee		4									
Audit Management		12	2								
TOTAL		230	60.5 (26%)			0 0%	1 20%	4 80%	0 0%	0 0%	0 0%

Note 2: The audit will be postponed until the 2014/15 financial year to allow the new management system to embed.

2012/13 Payroll

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:				↔ 2011/12		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policy, Procedures and Legislation	-	-	-	-	-	1
Reliability and Integrity of Transactions and Records	-	-	-	-	-	-
Segregation of Duties	-	-	-	-	-	-
Starters	1*	-	-	-	-	-
Leavers and Transfers	-	-	-	-	-	-
Variations and Adjustments to Pay	-	-	-	-	-	-
Statutory and Voluntary Deductions	-	-	1	-	-	-
Overpayments	-	-	-	-	-	-
Payruns, including BACS Transmissions and Urgent Payments	-	-	-	-	-	-
Management Information, including Establishment Management	-	1	-	-	-	-
Salary Calculations	-	-	-	-	-	-


Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Essential (New)	Testing undertaken for the sample of 20 new starters confirmed that 16 had evidence on file in line with the prescribed documents to prove eligibility to work in the UK, 4 did not. These all related to TUPE transferees. The Council will now ensure they carry out their own checks on these.	Yes
Important (New)	We were advised that the Annual Establishment Report due to go to the Directors to agree had been delayed slightly to allow for the change in structure with the Head of Street Scene becoming a Director.	Yes
Important (Previous)	There are currently no guidance notes on what expenses can be claimed when employees use hire cars on behalf of the Council to ensure that taxable benefits are being handled correctly.	Yes

*An essential recommendation has been made relating to an issue identified outside of the scope of the main part of the audit. As such this has not impacted on the overall Audit Opinion but is a fundamental weakness which presents immediate risk to the Council.

2012/13 CSC Processes – Disabled Parking Swipe Cards

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:				↔ 2011/12		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Roles and responsibilities between the Customer Service Centre (CSC) and the front line service (Parking)	-	1	-	1	-	-
Control of swipe card stocks	-	2	-	-	-	-
Issuing new swipe cards	-	1	-	-	-	-
Renewal replacement and reprogramming of cards	-	1 (linked to recommendation above)	-	-	-	-
Control over returned and cancelled cards	-	1	-	-	-	-

Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Important (New)	Procedure notes, along with a small number of blank swipe cards and blank and completed application forms were located in an insecure area, together with information required to access the swipe card system	Yes
Important (New)	It was not possible to confirm the number of swipe cards in circulation or compare the figures over time.	Yes
Important (New)	There are no formal stock control measures in place for blank swipe cards giving rise to a risk that swipe cards could be fraudulently programmed and distributed to unauthorised persons.	No - Risk Accepted
Important (New)	The requirement to conduct checks to ensure that a valid swipe card has not already been issued for the same details was stated within the procedure notes but was not documented on the on the application checklist.	Yes
Important (New)	There is no pro-active identification of deceased swipe card holders or those moving out to the borough, particularly from Hampshire County Council who issue the blue badges. Reliance is instead placed on relatives to advise the Council that a swipe card holder has deceased or has moved out of the borough.	No - Risk Accepted

2013/14 Town Centre Management

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:				↔ 2008/09		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Partnership Agreements	-	-	-	-	-	-
Partnership Management	-	-	-	-	-	-
Income collection – including for the partnership and individual events	-	-	-	-	-	-
Control of expenditure including tendering where appropriate	-	-	-	-	-	-
Budgetary control and forward planning	-	-	-	-	-	-
Internal recharges	-	-	-	-	-	-
Communication and event management	-	-	1	-	-	-

2013/14 Coastal Protection & Land Drainage

Audit Opinion and Direction of Travel


Strong						
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Direction of Travel:				No previous audit		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Coastal Protection Strategy	-	-	-	-	-	-
Contract arrangements for Coastal Protection Services	-	-	-	-	-	-
Contract monitoring processes including governance	-	-	-	-	-	-
Monitoring of private and public coastal and flood defences	-	-	-	-	-	-
Land drainage and flooding advice services	-	1	-	-	-	-
Performance management and budget monitoring processes including coding of expenditure	-	-	-	-	-	-





Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Important (New)	It was noted that there are currently no formal responsibilities allocated regarding land drainage and flooding advice. Rainwater and river flooding is stated in the contract as not covered within the Partnership, although informal advice and assistance is provided.	Yes




2013/14 Leisure Centre Trust

Audit Opinion and Direction of Travel

Strong						
						
Direction of Travel:				⇒2008/09		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Contract and governance arrangements including monitoring procedures and contract variations	-	-	-	-	-	-
Operational performance monitoring including usage analysis	-	-	1	-	-	-
Financial performance monitoring including accounting verification, collection of monthly management fees and payment of invoices	-	-	-	-	-	-
Annual contract management including review of management fees, setting of fees & charges and profit share where appropriate	-	-	1	-	-	-
Capital programme including backlog maintenance	-	-	1	-	-	-
Forward options analysis.	-	-	-	-	-	-

Assurance Level	Symbol	Description
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.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

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 Audit 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 Audit 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. We will not track actions taken to address these recommendations unless at the manager's request.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

September 2013

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