



Fareham Borough Council

Audit & Governance Committee

Quarterly Audit Progress Report

June 2014

This report has been prepared on the basis of the limitations set out on page 16.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 13 April 2010 and subsequent Letter of Extension dated 01 April 2013 between Fareham Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Fareham Borough Council. This report must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

1. 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 and 2014/15 Internal Audit Plans.

2. 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.

3. 2013/14 & 2014/15 Progress

- 3.1 The current status of the agreed 2013/14 Internal Audit Plan to be delivered is detailed in Annex One along with the number of days delivered. 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 31st May 2014, progress against the 2013/14 plan is as follows:

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	31	31
Number of audits finalised	15 (45%)	20 (65%)
Number of reports issued at draft	2 (6%)	6 (19%)
Number of audits commenced	6 (19%)	5 (16%)*
Number of planned audit days delivered	171.25/235 (73%)	231.5/235 (98.5%)

* At this point, the audits noted as commenced are under quality review and the reports will be issued imminently.

- 3.3 At the time of this report, 98.5% of the 2013/14 Internal Audit Plan has been completed. Detailed progress is covered within Annex One.
- 3.4 Planning work on the initial Quarter 1 audits of the 2014/15 Audit Plan has commenced. Detailed progress is covered within Annex Two.

4. Changes to the plan

4.1 None to report since the last Audit and Governance Committee.

5. Detailed progress since the last Audit and Governance Committee

5.1 Since the previous Audit & Governance Committee, six reports are at draft stage from the 2013/14 plan; these relate to Training and Development, Ordering and Payment of Invoices, Invoicing and Collection of Income Receivable, Miscellaneous Democratic, Off-Street Parking and Financial Regulations Limited Compliance Testing. 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				
Treasury Management	Strong	-	-	-
Main Accounting	Strong	-	-	-
Housing Benefits including Council Tax Support Scheme	Strong	-	-	-
Revenues	Strong	-	1	1
Planning Contributions and Community Infrastructure Levy	Reasonable	-	1	1

It should be noted that for one of the audits listed above (Revenues), queries have been raised after the issue of the final report; consequently, the assurances and/or priorities may be subject to change following further provision of evidence.

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.

2013/14 Internal Audit Plan as at 31st May 2014

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 1											
1	Management of Tradesmen	7	7	Final	Reasonable	-	1	1	1	1	
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	6	Final	Strong	-	-	-	-	-	-
6	Insurance	5	5	Final	Reasonable	-	1	2	3	1	-
7	Planning Contributions and Community Infrastructure Levy	8	8	Final	Reasonable	-	1	1	-	-	1
8	Training & Development	8	8	Draft							
9	Licensing of Taxis & Alcohol	8	8	Final	Strong	-	1	2	7	5	-
10	Public Conveniences	6	6	Final	Reasonable	-	1	1	-	-	-
Quarter 3											
11	Ordering & Payment of Invoices	7	7	Draft							
12	Invoicing & Collection of Income	9	9	Draft							
13	Payroll	7	7	Final	Strong	-	-	-	1	-	1
14	Fixed Assets	6	6	Final	Strong	-	1	-	-	-	-
15	Revenues	12	12	Final	Strong	-	1	1	-	-	1
	Performance Management			Note 1							
16	Clean Borough Enforcement & Abandoned Vehicles	7	6.5	Started							
17	Cash Collection & Banking	9	9	Final	Strong	-	-	4	-	-	1
18	Housing Rents	6	6	Final	Strong	-	1	-	4	-	1
19	Ferneham Hall	9	9	Final	Reasonable	-	-	4	11	4	2

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 4											
20	Risk Management	6	5.5	Started							
21	Main Accounting	10	10	Final	Strong	-	-	2	-	-	-
22	Financial Regulations Limited Compliance Testing	2	1.5	Draft							
23	Miscellaneous Democratic Note 2	5	4.75	Draft							
24	Housing Benefits & Council Tax Support	10	10	Final	Strong	-	-	-	-	-	-
25	Planning Applications	6	5.5	Started							
26	Off-street Parking	6	5.75	Draft							
27	Homelessness	6	5.5	Started							
28	Data Protection Follow Up	4	3.5	Started							
Computer Audit											
29	Remote Access	8	8	Final	Reasonable	-	5	1	1	-	-
30	Main Accounting System (E-Financials) Application Review	7	7	Final	Reasonable	-	2	3	-	-	-
31	Website Content Management	10	10	Final	Reasonable	-	1	1	-	-	1
Other											
Audit Committee		4	4								
Audit Management		12	12								
TOTAL		235	231.5 (98.5%)			0 0%	17 39%	27 61%	28 60%	11 23%	8 17%

Note 1: The audit was postponed until the 2014/15 financial year to allow the new management system to embed.

Note 2: The audit had been deferred from 2012/13 to 2013/14.

2014/15 Internal Audit Plan as at 31st May 2014


Annex Two

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	Legionella and Gas Safety Risks Follow Up	5	1.5	Started							
2	Contract Completion (Final Accounts)	10		Q1 Audit							
3	Tenancy Management	7	1	Planning							
4	Parks and Open Spaces	6	1	Planning							
5	Foreshore (Beach Hut Income)	4	1	Planning							
6	CHRIS 21	10		Q1 Audit							
TOTAL		42	4.5 11%			0 0%	0 0%	0 0%	0 0%	0 0%	0 0%

Summary of Findings from Completed Audits

2013/14 Treasury Management

Audit Opinion and Direction of Travel

Strong						
						
Direction of Travel:			⇄2012/13			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🚨)	Important (▲)	Advisory (⚠️)	Implemented	Cancelled	Non Implemented
Policies and procedures	-	-	-	-	-	-
Levels, limits and institutions that can be dealt with for both lending and borrowing are clearly stated	-	-	-	-	-	-
Agreements with investment managers and brokers used	-	-	-	-	-	-
Authorisation limits to borrow and lend	-	-	-	-	-	-
Compliance with the Treasury Management Strategy	-	-	-	-	-	-
Cash flow monitoring, maximising and forecasting	-	-	-	-	-	-
Investment and borrowing records	-	-	-	-	-	-
Risk exposure of investments	-	-	-	-	-	-
Timeliness of transactions	-	-	-	-	-	-
Interest payments and receipts	-	-	-	-	-	-
Monitoring and reporting of performance	-	-	-	-	-	-
Reconciliations	-	-	-	-	-	-

2013/14 Main Accounting

Audit Opinion and Direction of Travel

Strong						
☺☺						
Direction of Travel:			↔2012/13			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (☹)	Important (▲)	Advisory (⚠)	Implemented	Cancelled	Non Implemented
Policies and Procedures	-	-	-	-	-	-
Completeness, Accuracy, Reliability and Integrity.	-	-	1	-	-	-
Ledger Coding Structure, Feeder Systems and Control Accounts.	-	-	-	-	-	-
Virements, Journal Entries and Manual Adjustments	-	-	-	-	-	-
Processes for the Production of the Statement of Accounts	-	-	-	-	-	-
Financial Feeder System Reconciliation	-	-	-	-	-	-
Year End Procedures	-	-	-	-	-	-
Internal Recharging and Holding Accounts	-	-	-	-	-	-
Production of Financial Returns	-	-	1	-	-	-
Capital Programme Setting	-	-	-	-	-	-
Capital Programme Monitoring and Budgetary Control	-	-	-	-	-	-
Follow Up	-	-	1	-	-	-
Budget Setting and Adjustments	-	-	-	-	-	-
Budgetary Responsibilities and Training	-	-	-	-	-	-
Budget Monitoring and Commitment Accounting	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
	None	

2013/14 Housing Benefits and Council Tax Support

Audit Opinion and Direction of Travel


Strong						
☺☺						
Direction of Travel:				↔2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies and Procedures	-	-	-	-	-	-
Post Receiving Procedures	-	-	-	-	-	-
Segregation of Duties	-	-	-	-	-	-
Timeliness and Accuracy of Assessments, Amendments, Payments and Cancellations	-	-	-	-	-	-
Backdated Claims	-	-	-	-	-	-
Overpayments and Recovery	-	-	-	-	-	-
Reliability of Records	-	-	-	-	-	-
Accuracy and Timeliness of Performance Monitoring	-	-	-	-	-	-
Follow up	-	-	1	-	-	-
Reconciliations	-	-	-	-	-	-
Controls over Bank Account Changes	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
	None	

2013/14 Revenues

Audit Opinion and Direction of Travel


Strong						
						
Direction of Travel:				↑2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies and Procedures	-	-	-	-	-	-
Convenient Methods of Payment	-	-	-	-	-	-
Reconciliations Between Debit and Valuations Lists	-	-	-	-	-	-
Discount and Reductions Applications (including voids)	-	-	-	-	-	1
Billing	-	-	-	-	-	-
Receipts	-	-	-	-	-	-
Suspense Accounts	-	-	-	-	-	-
Recovery Action, including Write Offs	-	1	-	-	-	-
Monitoring Collection Rates	-	-	-	-	-	-
Refunds	-	-	-	-	-	-
Amendments to Standing Data	-	-	1	-	-	-
System Calculation of Amounts Due	-	-	-	-	-	-
Cyclical Coverage	-	-	-	-	-	-
Reconciliations End of Year and Daily Cash Processes	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important [New]	There were five accounts where the debt was deemed to be irrecoverable and needed to be written off.	Yes
Important [Outstanding Previous]	A discount and reduction review schedule needs to be established and monitored.	Yes

2013/14 Planning Contributions and Community Infrastructure Levy

Audit Opinion and Direction of Travel





Reasonable						
						
Direction of Travel:			↔2008/09			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies, procedures and publicly available information	-	-	1	-	-	-
Identification and recovery of contributions	-	1	-	-	-	1
Section 106 expenditure and CIL expenditure plans	-	-	-	-	-	-
Development and Completion	-	-	-	-	-	-
Management Information	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)




Priority	Weakness	Action Agreed?
Important [New]	Instances were found of legal agreement payments which had been held in suspense for some time.	Yes
Important [Outstanding Previous]	Quarterly reconciliations between the planning system and accounting system had not been undertaken since June 2012.	Yes

Summary of Assurance Opinions Used

Annex Four

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 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 our 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

June 2014

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.