

AUDIT COMMITTEE

Internal Audit Monitoring Report 17 September 2014

Report of Internal Audit Manager

PURPOSE OF REPORT

To advise Members of the latest monitoring position regarding the 2014/15 Internal Audit Plan, seek approval for proposed variations to the plan, and update Members on the results of recent audits.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.**
- (2) That the proposed revisions to the audit plan, as set out in the table in §1.2, are approved.**
- (3) That the results of recent audits (sections 3 - 5 of the report) are noted.**

1.0 Audit Plan Monitoring to 18th August 2014

- 1.1 The 2014/15 Internal Audit Plan was approved by the Audit Committee at its meeting on 18th June 2014. This report is based on the monitoring position up to 18th August 2014 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the position at that date was as shown in the following table.

1.2 Summary of monitoring position at 18th August 2014

Area of work	Resources (audit days)					
	Actuals to 18/08/14	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	15	8	23	60	37	50
Revenues & Benefits Shared Services	3	32	35	40	5	60
Core Management Arrangements	18	22	40	50	10	50
Risk Based Assurance Audits	92	7	99	180	81	155
Follow-Up Reviews	18	32	50	50	0	50
Sub-Total, Assurance	146	101	247	380	133	365
Consultancy Work						
Support Work	21	7	28	15	(13)	35
Corporate service review work	13	12	25	50	25	50
Ad-Hoc Advice	41	39	80	65	(15)	80
Sub-Total, Consultancy	75	58	133	130	(3)	165
Other Work						
Other Duties (Non-Audit)	5	5	10	10	0	10
Work for Other Bodies	9	41	50	50	0	50
Audit Management	18	32	50	50	0	50
Sub-Total, Other Work	32	78	110	110	0	110
Contingencies						
Investigations	6	2	8	30	22	30
General Contingency	0	0	0	40	40	20
Sub-Total, Contingencies	6	2	8	70	62	50
Total	259	239	498	690	192	690

- 1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 498 days compared with the current plan of 690 days, giving an uncommitted resource of 192 days. This includes both the general contingency of 40 days and the unallocated balance of the contingency for investigation work (22 days).
- 1.4 The Internal Audit section currently has a vacant post, the Principal Auditor having recently been appointed to the post of Exchequer Manager. Options for the future scope and structure of the Internal Audit service are currently being reviewed; the outcomes from this review, and the implications for the Audit Committee in terms of the reliance it can place on Internal Audit, will be reported to the Committee in due course. At this stage it is too early to estimate the impact on audit resources available for the remainder of the year.







Proposals

- 1.5 Within the Assurance Work section, a programme of audits under the Revenues and Benefits Shared Service arrangements has been developed at the request of Preston City Council to provide assurance on controls surrounding their highest rated risks. This programme of work is estimated as requiring 35 days out of a total 40 days allocated in the plan to the Shared Service. It is estimated that inclusion of a corresponding programme of audits in relation to Lancaster City Council's arrangements would require 25 days, i.e. an increase of 20 days on the current plan budget.
- 1.6 Under the heading of Consultancy, 28 days have already been committed to support work regarding: development of the Council's Complaints Policy; the review of Financial Regulations; and development of the Council's Procurement Strategy. To cover these commitments and allow for a small amount of future work, it is proposed that the plan budget be raised by 20 days to 35 days.
- 1.7 Current indications are that the amount of 'Ad-Hoc Advice' provided by the service will be around 15 days greater than budgeted for.
- 1.8 These variances total 55 days which have to be found from within the plan. It is proposed to meet these demands by:
- a reduction of 10 days to assurance work on 'Core Financial Systems';
 - a reduction of 25 days to assurance work on "Risk Based Audits;" and
 - applying 20 days (i.e. half) of the General Contingency.

2.0 Results of Internal Audit Work to 18th August 2014

- 2.1 This report covers audit work and reports issued since the last update report to Committee on 22nd January 2014. Summary reports have been issued to Members for consideration and are also posted on the Council's Intranet. The reports issued have been:

Audit Title		Report Date	Assurance Level	
New Audit Reports				
13/0871	HR Systems Replacement	25/04/14	Substantial	✓
13/0885	Environmental Health Income Streams	11/02/14	Substantial	✓
13/0895	Trade Waste and Recycling, Bulky Waste and Litter Enforcement Fees and Charges	28/01/14	Substantial	✓
13/0896	Grounds Maintenance, Nursery and Cleansing Income Streams	21/01/14	Limited	⚠
13/0906	Revenues and Benefits - Operational Support and Performance (Lancaster)	07/04/14	Substantial	✓
13/0908	Commercial Property Leases & Licences	30/05/14	Limited	⚠
13/0911	Officer Gifts, Hospitality and Register of Interests	24/04/14	Limited	⚠
14/0916	Fleet Management	02/06/14	Limited	⚠
14/0918	Planning – Strategic Housing Market Assessment	21/08/14	Substantial	✓
14/0920	Council Housing Tenancy Fraud	21/07/14	Limited	⚠
14/0921	Outdoor Events Management	02/07/14	Limited	⚠
14/0922	Salt Ayre - Financial Procedures	01/07/14	Limited	⚠

Follow up Reviews				
12/0861	Debt Management - Council Housing	23/07/14	Limited	
12/0864	NNDR 2012/13	12/03/14	Substantial	
13/0886	Planning and Building Control Income	15/08/14	Substantial	
13/0889	Debtors 2013/14	23/07/14	Substantial	
13/0890	Private Housing and Cemeteries Income Streams	07/05/14	Substantial	
13/0902	Housing Benefit (Welfare Reforms)	08/05/14	Maximum	

3.0 Matters Arising from Audit Reviews

3.1 The key conclusions and action points in relation to those reports where a “Limited” or “Minimal” assurance opinion has been given are:

3.2 12/0896 – Grounds Maintenance, Nursery and Cleansing Income Streams (Limited)

A ‘limited’ assurance opinion was given on the basis that there was a heavy reliance on manual systems, officer knowledge and experience. Whilst arrangements are in place to calculate grounds maintenance charges which are in accordance with the Local Government Act 2003, actual charges are generally higher. There is a need to review and recalculate some charges to bring them up to date. There is also a need to strengthen systems and procedures in relation to the nursery, the cash receipting system and stock management arrangements being underdeveloped.

Follow-up review is scheduled for January 2015

3.3 13/0908 - Commercial Property Leases & Licences (Limited)

The assurance opinion was given as ‘limited’ on the basis the council did not have a comprehensive record of its property holdings, there are no effective links between the asset management and billing systems and no effective reporting on key dates within agreements due to incomplete records and a failure to fully utilise the property database. Work is ongoing to strengthen arrangements through the population and better utilisation of the asset management system, the aims and objectives of the system to be formally documented and a project plan developed to ensure priorities are effectively achieved. Arrears management and insurance arrangements are also to be strengthened.

Follow-up review is scheduled for December 2014

3.4 13/0911 - Officer Gifts, Hospitality and Register of Interests (Limited)

Current arrangements effectively demonstrate the council’s commitment to high standards of conduct, this being clearly stated in the Officers’ Code of Conduct. Systems and procedures are in place, however staff need to be made more aware of their responsibilities, with standards and expectations being more effectively communicated. Effectiveness of the Code is difficult to measure, compliance with standards set being dependent on the awareness and integrity of employees. However, feedback obtained indicates that understanding and compliance with the Code varies across the council. Strengthening the role of managers in current arrangements, and increased awareness of the standards in place, should address the issues identified in this review and help to ensure that the requirements of the Code are met.

Follow-up review is scheduled for February 2015

3.5 14/0916 - Fleet Management (Limited)

The assurance opinion given was 'limited' primarily on the basis of non-compliance found with the Operator's Licence rules on drivers' hours where drivers have a second job outside the council. The council is in the process of reallocating Transport Manager responsibilities following the resignation of the previous Transport Manager. Those officers taking on the responsibilities already demonstrate a good understanding of their role and the requirements to ensure compliance with the terms of the Licence. A review of current arrangements is already underway and implementation of the action plan resulting from this review should ensure compliance and result in an assurance opinion of 'Substantial'.

Follow-up review is scheduled for December 2014

3.6 14/0920 - Council Housing Tenancy Fraud (Limited)

Whilst arrangements in place are proportionate to the perceived level of risk exposure, limited assurance is given on the basis that there is scope to strengthen procedures in relation to the prevention and detection of tenancy fraud. 'Gateway checks' to verify the identity of tenants need to be reviewed to ensure they are as robust as possible. Procedures for verifying that the lawful tenant remains in occupation of the property also need to be strengthened through improved arrangements in relation to post allocation visits and tenancy audits. With a view to ensuring that the priority given/level of resources assigned to council housing tenancy fraud is properly informed, careful monitoring of the results of work carried out to detect tenancy fraud also needs to take place with a view to ensuring that arrangements in place remain appropriate.

Follow-up review is scheduled for December 2014

3.7 14/0921 - Outdoor Events Management (Limited)

The audit found a lack of clarity regarding roles, responsibilities and the extent of the council's input to future outdoor events. An inconsistent approach was being taken to event management, and there is a need to standardise systems, procedures and documentation in place. Improvements are also required to ensure that the council's interests are more effectively protected by ensuring that agreements are in place which set the terms and conditions of events bookings.

Follow-up review is scheduled for January 2015

3.8 14/0922 - Salt Ayre - Financial Procedures (Limited)

The review has highlighted a number of areas where current arrangements can be streamlined and procedures and processes can be made more efficient and effective, therefore a limited assurance opinion has been given. However, the fact that the Service is keen to implement the agreed actions within the next two months, should result in a substantial level of assurance being achieved fairly quickly.

Follow-up review is scheduled for October 2014

3.9 In all the above areas, action plans have been developed, setting out measures to address the issues arising from these audits. Progress will be reviewed and reported to the Audit Committee at the times indicated, in line with normal follow-up arrangements.

3.10 12/0861 - Debt Management - Council Housing Follow-up Review (Limited)

Progress against the action plan from the original review is ongoing, the Service carrying out a comprehensive review of its debt management arrangements with a view to improving efficiency and effectiveness. Whilst there are still issues to be addressed and the assurance opinion remains 'Limited', procedures are compliant with Financial Regulations and Procedures.

Given the current position on this review, it is proposed that Internal Audit continues to track progress over the coming year and report developments to future meetings of the Audit Committee.

4.0 Updates on Tracked Items

4.1 11/0833 – Asset Management

The original review concluded that the majority of office inventories were out of date, and checks to verify the existence of assets had not been performed for some time. The standard, format and value of items included in inventories also varied between Services. Therefore, a limited level of assurance was provided at that stage, with improvements being required in relation to the arrangements for maintaining and managing inventories.

Resources have now been identified within the Property Group and Financial Services to take forward the required actions, including a review of the IT systems used by the two services in order to provide efficient and effective recording of assets. Reconciliation of the two systems is planned to take place by the end of October 2014, at which point the guidance regarding inventories is to be revisited with a view to it being issued by December 2014.

5.0 Investigations

5.1 Internal Audit is currently involved in an internal investigation relating to the income management and banking arrangements at one of the Council's establishments. Following conclusion of the investigation, members of the Committee will be provided with a report into the issues arising and any action taken.

6.0 Details of Consultation

6.1 Management Team continues to be consulted in developing the plan.

7.0 Options and Options Analysis (including risk assessment)

7.1 Regarding the Internal Audit Plan, the options available to the Committee are either to approve the proposed changes or to propose an alternative course of action.

8.0 Conclusion

8.1 Some realignment of plan allocations is proposed to reflect additional/changing demands on audit resources during the first half of the year, whilst retaining a reasonable proportion of the contingency provisions to cater for any unforeseen demands during the final quarter of the year. The outcomes and implications of an ongoing review of Internal Audit provision will be reported to the Audit Committee in due course.

8.2 The programme of audits for the rest of the year continues to be developed in consultation with senior management.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Internal Audit Plan 2014/15

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