

AUDIT COMMITTEE

Internal Audit Monitoring Report 20th January 2016

Report of Internal Audit & Assurance Manager

PURPOSE OF REPORT

To advise Members of the latest monitoring position regarding the 2015/16 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 proposed rolling programme of Internal Audit work attached as appendix B is noted.**
- (4) That the results of recent audit activity (section 3 of the report) are noted.**

1.0 Audit Plan Monitoring to 31st December 2015

- 1.1 The 2015/16 Internal Audit Plan was approved by the Audit Committee at its meeting on 17th June 2015 with a number of revisions approved at the meeting on 16th September 2015. This report is based on the monitoring position up to 31st December 2015 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 31st December 2015

Area of work	Resources (audit days)					
	Actuals to 31/12/15	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	14	0	14	40	26	30
Revenues & Benefits Shared Services	26	0	26	35	9	26
Core Management Arrangements	26	24	50	40	-10	50
Risk Based Assurance Audits	50	21	71	135	64	108
Follow-Up Reviews	54	10	64	55	-9	64
Sub-Total, Assurance	170	55	225	305	80	278
Consultancy Work						
Support Work	19	4	23	35	12	25
Ad-Hoc Advice	51	9	60	60	0	60
Sub-Total, Consultancy	70	13	83	95	12	85
Other Work						
Other Duties (Non-Audit)	39	9	48	35	-13	48
Audit Management	60	8	68	50	-18	68
Sub-Total, Other Work	99	17	116	85	-31	116
Contingencies						
Investigations	28	3	31	30	-1	31
General Contingency	0	0	0	20	20	0
Sub-Total, Contingencies	28	3	31	50	19	31
Total	367	88	455	535	80	510

1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 455 days compared with the current plan of 535 days, giving an uncommitted resource of 80 days. This includes the remaining general contingency of 20 days.

1.4 Proposals for the future resourcing and scope of Internal Audit, submitted as part of the Council's 2015/16 budget review, are covered in a report elsewhere on this agenda. Pending the outcome of these considerations, the section is continuing with a vacant post for the remainder of 2015/16. The impact of this is to reduce available resources by a further 25 days, giving a new plan total of 510.

Proposals

1.5 The Proposed Plan column in the above summary sets out changes to bring audit activity in line with this new resource target. The main implication from the Audit Committee's viewpoint is a proposed reduction of 27 days in the Assurance Work section of the plan. This is in addition to the reduction of 55 days approved by the Committee at the September meeting. In total, the revised allocation of 278 days to Assurance Work represents a 23% reduction against the originally planned level of 360 days.

1.6 The proposals include application of the remaining 20 days of the General Contingency to support the planned activity.

2.0 Rolling Internal Audit Plan

2.1 An updated rolling programme of Internal Audit work is attached to this report as Appendix B. Members' attention is particularly drawn to the list of potential areas for audit coverage during the final quarter of the year. This list has been developed through consultation meetings with Chief Officers. The actual programme and timing of work will be subject to the development of detailed scoping exercises.

3.0 Results of Internal Audit Work to 31st December 2015

3.1 This report covers audit work and reports issued since the last update report to Committee on 16th September 2015. 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				
15/0953	Value Added Tax	02/11/15	Substantial	✓
15/0952	Housing Benefit Subsidy - Overpayment Classifications (Lancaster)	24/12/15	Substantial	✓
15/0955	Public Health Funerals	22/12/15	Limited	⚠
Follow-Up Reports				
13/0885	Environmental Health Income Streams	29/07/15	Substantial	✓
13/0896	Grounds Maintenance, Nursery and Cleansing Income Streams	18/11/15	Substantial	✓
14/0920	Council Housing Tenancy Fraud	21/12/15	Substantial	✓
14/0921	Outdoor Events Management	10/09/15	Substantial	✓

Matters Arising from Audit Reviews

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

3.3 15/0955 – Public Health Funerals

3.3.1 A limited assurance opinion has been given on the basis that although the Council is fulfilling its statutory responsibilities, measures to avoid incurring avoidable expenditure/resource need to be strengthened. There is also scope to improve documentation in order to provide a comprehensive audit trail for each public health funeral administered. Implementation of the agreed action plan will enable a Substantial level of assurance being achieved in this area. Headline messages include:

- The risk of the Authority failing to fulfil its statutory responsibilities per the Public Health (Control of Disease) Act is minimal.
- Every effort is made to establish whether the deceased's next of kin/family/friends is willing to take pay for the funeral prior to the council accepting responsibility for the arrangements.
- Arrangements for the sale of the deceased person's possessions are to be strengthened through the production of formally agreed and documented procedures.
- Actions have been agreed to strengthen information sharing arrangements with other council services and Freedom of Information data relating to public health funerals is to be published on the Council's Website.

- Record keeping is to be strengthened in order to provide an appropriate audit trail with regard to each individual case.
- Good arrangements are in place to ensure the safety of officers conducting property searches.

Updates on Tracked Items

3.4 13/0877 – Corporate Property Related Service Contracts (Limited as at November 2014)

3.4.1 Following the original review an action plan was agreed which sought to ensure a consistent, co-ordinated and efficient approach to the management of property related service contracts. Due to the long term sickness absence of a key member of staff, progress with implementation of the action plan had been delayed at the time of the post audit review. The Senior Property Officer has confirmed that significant progress has now been made with implementation of the actions agreed, and that a considerable amount of work has been carried out with a view to centralising management of service contracts. However, as work is still ongoing in some areas the assurance opinion cannot be raised to Substantial at this time.

3.4.2 A substantial amount of information has been gathered regarding current arrangements with a view to identifying any gaps and ensuring compliance with statutory regulations. Comprehensive documentation has been developed which identifies service contracts currently in place, their associated costs, and contract renewal dates. Designated officers with responsibility for ensuring compliance with property related matters have also been identified for each council property. To ensure smooth delivery of activities, a Service Level Agreement (SLA) has been signed with Lancashire County Council covering 30 key planned maintenance activities. Lancashire County Council have undertaken a full tendering exercise to identify competent contractors and value for money. The SLA allows the City Council to build a full programme of planned maintenance using these contractors to ensure that the council is compliant with statutory obligations. Each building within the council's portfolio has been assessed to identify where planned maintenance is required. The new arrangements are scheduled to go live from 1st April 2016 with contractors being advised of changes during December 2015. Where like for like services are being undertaken, the new arrangements will represent savings. However, this exercise has identified where required activities have not been completed and so it is anticipated that maintenance costs will increase for some sites.

3.4.3 As part of the property collaboration agreement, Lancashire County Council are currently carrying out risk assessments in relation to three key areas, these being the management of asbestos, fire and legionella. These are due to be finalised by the end of January 2016 and will inform roles and responsibilities and which duties can be carried out in-house and those which need to be carried out by a specialist contractor. The property asset management database is currently being populated with assessment data as it is obtained with a view to the database being used to corporately manage and monitor compliance. The establishment of efficient and effective monitoring arrangements is key to the council being able to clearly evidence compliance with statutory regulations. The Senior Property Officer is working towards full monitoring arrangements being in place by the end of March 2016.

3.5 13/0897 – CCTV (Limited as at December 2014)

3.5.1 The Commercial Centre Manager has reported that whilst a significant amount of progress has been made in addressing the issues identified in the audit, work is still ongoing in some areas and therefore the assurance opinion cannot be raised to Substantial at this time.

3.5.2 In January 2015, security consultants appointed to advise the council on its Public Space CCTV system carried out a Technical, Management and Compliance Audit.

The audit was performed with a view to assessing the system's performance, operation and compliance with relevant legislation, British Standards and Best Practice Guidelines. The results of the audit, including the required improvements, have been assessed and also been discussed with the company with which the council has a contact for operation of the Public Space CCTV system. In addition to the report, the consultant has also produced a draft Code of Practice, Privacy Impact Assessment and Operation Procedures Manual.

3.5.3 The Commercial Centre Manager has reported that the condition of the present Public Space CCTV system has continued to be a problem in recent months and managing this issue has taken priority. Therefore, there is still a significant amount of work required to finalise the Code of Practice and the Procedures Manual, and to implement revised procedures where necessary. However, the Commercial Centre Manager has confirmed that this should be addressed within the next six months, subject to changing priorities.

3.5.4 Whilst the scope of the work carried out by the consultant did not extend to other council CCTV systems, work is currently ongoing with a view to improving management of these systems. Furthermore, since specialist advice is required, the same consultant is to be used to assist in this area to ensure consistency across all council CCTV installations

3.6 14/0922 - Salt Ayre Financial Procedures (Substantial)

3.6.1 The original audit carried out in July 2014 found that there were a number of areas where arrangements needed to be streamlined and more efficient and effective procedures and processes needed be introduced in relation to:

- Stock management;
- Security arrangements;
- Ordering and creditor payment processes;
- Income managements; and
- Wages and overtime recording

3.6.2 Many of these areas have now been fully addressed and improved procedures and processes are in place. As a result the assurance opinion has been raised to 'Substantial'.

3.6.3 A number of actions that were agreed to streamline the wages and overtime recording process are currently being addressed. Good progress has been made to rationalise pay across the Centre, bringing pay in line with corporate pay scales and spinal column points across all posts. A number of posts have been job evaluated and re-graded as a result, pay now taking into account acting up responsibilities and therefore reducing the number of overtime claims being submitted.

3.6.4 A suite of additional element codes have been developed and are in the process of being set up in the Payroll system/on-line claim form, the use of which will significantly improve financial monitoring and reporting capabilities. An on-line timesheet has been developed by Exchequer Services which seeks to streamline current processes through reducing the number of manual calculations and the level of checking and authorising that is currently required. A manual version of the timesheet is due to be trialled by the Centre following the receipt of appropriate training and guidance etc. This manual timesheet will be used at the Centre until the on-line form is phased in with a view to going live with the online form on 1st April 2016.

3.7 14/0941 – Fuel Cards

3.7.1 Fuel cards are a relatively simple payment method used in place of conventional credit/debit card or cash payment methods to purchase fuel. The majority of the council's fleet is based at White Lund Depot and most of the vehicles run on diesel.

Consequently, diesel tanks are located at the Depot and systems and procedures are in place to control and monitor their use. However many of the items of machinery in use by the grounds maintenance team run on petrol, for example mowers.

- 3.7.2 In November 2014 a review was carried out by the Procurement Manager with a view to establishing whether the current fuel card arrangement was providing the best value for money. The review established that switching to another provider could result in savings for the council. Therefore, an arrangement was entered into with another provider for the use of fuel cards. This arrangement was made under the Crown Commercial Services framework agreement, and does not tie the council into a contract for any specified length of time. Given the change in provider, the Financial Services Manager requested that Internal Audit carried out a review to establish the robustness of arrangements in place.
- 3.7.3 The review established that arrangements in place at that time required significant improvement in order to ensure an acceptable level of control. Responsibility for management of the system had not been defined; there were no mechanisms in place to monitor or control spend, or to minimise the potential for misuse of the cards and there were no procedures in place to verify that invoices received agree to actual spend.
- 3.7.4 Therefore, following a number of meetings with those concerned an action plan was developed which sought to ensure a robust system was introduced in relation to the management of fuel cards. Actions agreed were in relation to responsibilities being clearly defined; appropriate separation of duties being in place; systems and procedures documented; those with responsibilities being given appropriate guidance and support in relation to the correct use of cards; and the issue of cards being properly controlled. It was also agreed that effective use would be made of management information with a view to verifying expenditure and monitoring fuel usage. Mechanisms were also agreed to reduce the risk of error and/or misuse of the system.
- 3.7.5 Internal Audit have continued to monitor progress with implementation of the action plan and as part of a review carried out in October 2015 established that appropriate arrangements are in place for effective management of the fuel card system, these being proportionate to the level of potential risk exposure.

3.8 Other Activity

- 3.8.1 Work associated with the establishment of the shared corporate fraud team is covered in a separate update elsewhere on this agenda.
- 3.8.2 In line with an action in response to the Local Government Association's Peer Review in 2015, work is ongoing to develop arrangements for a new corporate approach to the management of risk, this being combined with the development of a wider Assurance Framework. Implementation of these arrangements is key to proposals for the future resourcing and deployment of Internal Audit, also elsewhere on this agenda.

4.0 Details of Consultation

- 4.1 Management Team continues to be consulted in developing the plan.

5.0 Options and Options Analysis (including risk assessment)

- 5.1 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.

6.0 Conclusion

- 6.1 Reductions in audit plan allocations are being proposed to reflect post vacancies and proposals being made regarding future internal audit needs and staffing, which are reported elsewhere on this agenda.
- 6.2 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 2015/16

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