

AUDIT COMMITTEE – 26TH February 2019

Report of the Head of Strategic Support

Part A

ITEM 9 INTERNAL AUDIT PROGRESS REPORT

Purpose of Report

The report summarises the progress against outstanding audits for the 2017/18 Audit Plan and progress in respect of the 2018/19 Audit Plan. Furthermore, it outlines the key findings from final audit reports and details of follow-up work completed since the previous progress report, considered by the Audit Committee at the meeting held 4th September 2018.

Recommendation

That the Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the approved Internal Audit Plan.

Policy Justification and Previous Decisions

The Accounts and Audit Regulations 2015 state (Regulation 5 (1)) that the relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and any appropriate guidance.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report:-

Financial Implications

None

Risk Management

There are no specific risks associated with this report

Background Papers:

None

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Part B

1. Progress against the 2017/18 and 2018/19 Audit Plans

1.1 Progress against the 2017/18 Audit Plan

General Audits – At the last Audit Committee, it was reported that five audits remained to be completed from the 2017/18 Audit Plan, these being three targeted audits of the main financial systems i.e. Payroll, Creditors and Capital Accounting, together with two service audits i.e. Markets & Fairs, and Asset Management.

It had been agreed with the Strategic Director of Corporate Services and Head of Strategic Support that the work planned to be undertaken in respect of the three financial systems audits would be deferred to be incorporated into the 2018/19 audits of these areas due to timing issues. Of the two remaining service audits, Markets & Fairs is in progress and the Asset Management audit has been deferred until 2019/20 so that it can incorporate a review of progress against the implementation of a new Asset Management Strategy for 2018/19 to 2020/21.

IT Audits – In addition, there were two IT Audits that remained outstanding from 2017/18. ICT audits are undertaken by an external contractor and these have now both been completed and details are as follows:-

The ICT Key Controls audit report was finalised in October 2018.

The Change Management audit report was finalised in January 2019.

Other Points to Note -

A procurement exercise has been completed for the future provision of Technical IT audit services, and the contract commenced on the 1st December 2018. A separate Audit Committee report requesting Committee's approval of the 2019 – 2022 Internal Audit IT Plan, provides further details of the proposed audit work under this contract.

1.2. Progress against the 2018/19 Audit Plan

Appendix A summarises progress against the 2018/19 Audit Plan.

As previously reported, there has been some slippage with the 2018/19 plan due to more resources being required to complete the 2017/18 audits than was anticipated at the time the 2018/19 plan was drafted and approved. Also, as previously reported to the Committee there was a case of sickness absence within the Audit team during July - September which impacted on completion of the carried over 2017/18 audits and progression with 2018/19 planned audits.

In addition, resources were required to complete unplanned audit work in respect of Disabled Facility Grants certification, where Internal Audit assurance was required.

Having previously reviewed the resources available for the remainder of the financial year and the audits remaining to be completed and following discussion with the Strategic Director of Corporate Services and the Head of Strategic Support, it was

decided to procure additional resources to undertake the audits listed below which amount to a total of 48 (revised from 50) days planned work.

This should assist in ensuring the completion of the Audit Plan by the end of the financial year and enable work on the 2019/20 Audit Plan to commence in April 2019.

Accounting & Budgetary Control – 10 days

Capital Accounting – 8 days

Enforcement – 20 days

Holiday Entitlement /Flexi/TOIL – 10 days (originally 12 days)

Since the last Audit Committee meeting, one of the Auditors and the Audit & Risk Manager have left the Council. An experienced Interim Audit & Risk Manager has been appointed, and the Head of Strategic Support is currently evaluating options for resourcing the delivery of the Audit Plan moving forwards.

3. Final Audit Reports Issued

The following final audit reports have been issued since the last update report to the Committee. Further detail in respect of these audits is attached in Appendix B, including a background section, the executive summary, and the agreed action plan listing recommendations made and the management responses.

| Audit | Field Work Completed | Draft Report Issued | Final Report Issued | Current Level of Assurance | Previous Audit Level of Assurance | Corporate Significance |
|--------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------------|---|-------------------------------|
| Anti-social Behaviour 2018/19 | Oct.18 | Nov.18 | Dec.18 | Moderate | Substantial (included in 2012/13 Safeguarding audit) | High |
| Corporate Credit Cards 2018/19 | Nov.18 | Dec-18 | Jan-19 | Moderate | No previous audit | Medium |

4. IT Audits

One final IT audit report has been issued since the last update report to the Committee. Further details in respect of this audit are included in Appendix B.

| Audit | Field Work Completed | Draft Report Issued | Final Report Issued | Current Level of Assurance | Previous Audit Level of Assurance | Corporate Significance |
|---------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------------|--|-------------------------------|
| Change Management 2017/18 | Dec-18 | Dec-18 | Jan 19 | Substantial | Substantial (2015/16) | High |

5. Follow Up of Recommendations

The table below summarises the follow-up status of recommendations which were due to be implemented during the quarter October 2018 – December 2018.

The status of recommendations is as follows:-.

| | Priority Level | Implemented | Not Implemented | No Further Action |
|--------------------|-----------------------|--------------------|------------------------|--------------------------|
| Oct - Dec 2018 | High | 0 | 0 | 0 |
| | Medium | 11 | 1 | 4 |
| | Low | 16 | 8 | 2 |
| Percentages | | 65% | 21% | 14% |

6. Special Investigations

There have been no special investigations undertaken during the reporting period.

7. Performance Indicators for Internal Audit

The following summary outlines the results against the local performance indicators for Internal Audit for 2018/19.

| Indicator | Target | Result | Notes |
|--|-----------------|---------------|--|
| Percentage of clients that rated the performance of Internal Audit as satisfactory or higher. | 90% (Annual) | 100% | Based upon the number of Head of Service responses received (4/10) April 2018. |
| Percentage of the agreed 2018/19 Internal Audit plan delivered (as at 31/12/2018). | 48% | 30% | See commentary in Section 1.2 of report. Percentage completed based upon actual time spent on 2018/19 planned audits by the in-house team. As noted in the report, 48 days of work have been outsourced, which represents a further 16% of the agreed Audit plan. |
| Percentage of agreed recommendations arising from internal audit reviews implemented by the agreed date (as at 31.12.18) | 80% | 65% | October – December 2018 (27/42 recommendations) |

Appendices

Appendix A – Summary of progress against the 2018/19 Audit Plan as at the 31st December 2018

Appendix B – Summary of Final Audit Reports Issued

Appendix C – Summary of Final IT Audit Reports Issued

Appendix D – Summary of Recommendations not Implemented

PROGRESS AGAINST THE 2018/19 AUDIT PLAN

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|--|-----------|--------------------------|---|-----------------|---------------------------|
| Key Financial Systems | | | | | |
| <i>Full Systems Audit</i> | | | | | |
| <i>Accountancy & Budgetary Control</i> | 10.00 | n/a | Outsourced – started January 2019 | | |
| Payroll | 10.00 | 0.00 | Scheduled for Q4 – timetabled for March 2019 | | |
| <i>Capital Accounting</i> | 8.00 | n/a | Outsourced - started January 2019 | | |
| Non Domestic Rates | 8.00 | 0.30 | Scheduled for Q4 - timetabled for February 2019 | | |
| | | | | | |
| <i>Targeted Testing:</i> | | | | | |
| Creditors | 3.00 | 0.00 | Scheduled for Q4 – timetabled for March 2019 | | |
| Debtors | 2.00 | 0.00 | Scheduled for Q4 – timetabled for March 2019 | | |
| Income Collection | 2.00 | 0.00 | Scheduled for Q4 - timetabled for February 2019 | | |
| Housing Benefits | 3.00 | 0.00 | Scheduled for Q4 | | |
| Council Tax | 3.00 | 1.66 | In Progress - draft report to be | | |

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|--|--------------|-----------------------|---|-----------------|------------------------|
| | | | issued in February 2019 | | |
| Housing Rents | 3.00 | 0.00 | Scheduled for Q4 - timetabled for March 2019 | | |
| | | | | | |
| <i>Quarterly Testing:</i> | | | | | |
| Treasury Management | 2.00 | 0.50 | Q3 checks completed – Q4 due April 2019 | | |
| Bank Reconciliation | 2.00 | 0.75 | Q3 checks completed – Q4 due April 2019 | | |
| | | | | | |
| Sub Total – KFS Reviews | 56.00 | 1.25 | Work generally planned for Q4 and 18 days outsourced | | |
| | | | | | |
| Strategic & Service Risk Audits | | | | | |
| NFI/Counter Fraud | 10.00 | 5.00 | Ongoing – results due in February 2019 | | |
| Homelessness | 12.00 | 11.00 | In Progress – final report to be issued February 2019 | | |
| Decent Homes Contract | 15.00 | 0.50 | Scheduled for Q4 - timetabled for March 2019 | | |
| Grants to Community Groups (Landlord Services) | 8.00 | 5.50 | Completed | Moderate | Low |
| Licensing | 10.00 | 0.00 | Scheduled for Q4 - timetabled for | | |

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|--|-----------|-----------------------|---|-----------------|------------------------|
| | | | February 2019 | | |
| Car Parking fees | 12.00 | 0.25 | Scheduled for Q4 - timetabled for February 2019 | | |
| Enforcement (Cross cutting) | 20.00 | n/a | Outsourced – started February 2019 | | |
| Revenues & Benefits Contract | 12.00 | 9.25 | In Progress – Draft report due February 2019 | | |
| Performance Management | 10.00 | 7.50 | In Progress – Draft report due February 2019 | | |
| Staff Allowances & Expenses | 10.00 | 10.25 | Completed | Moderate | Low |
| Garden Waste Scheme | 10.00 | 11.00 | Completed | Moderate | Medium |
| Sport & Active Recreation | 10.00 | 1.00 | In Progress – draft report to be issued February 2019 | | |
| CCTV | 8.00 | 0.00 | Scheduled for Q4 | | |
| Mayoralty | 8.00 | 4.50 | Completed | Substantial | Medium |
| Holiday pay/flexi/toil policies and application. | 12.00 | 0.00 | Outsourced – started February 2019 | | |
| ASB (cross cutting use of Sentinel etc) | 9.00 | 10.00 | Completed | Moderate | High |
| Corporate Credit Cards | 10.00 | 10.00 | Completed | Moderate | Medium |
| Sub Total – Strategic & Services Audits | 184.00 | 71.75 | Number of audits due in Q4 and 32 Days outsourced | | |
| Other Work | | | | | |
| Recommendations - Follow Ups | 20.00 | 10.00 | On - going | | |

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|---|------------------|----------------------------------|----------------------------------|------------------------|-----------------------------------|
| Ad Hoc Investigations/ Contingency | 30.00 | 7.50 | n/a | | |
| Allowance to complete 2017/18 Audits | 10.00 | 50.00 | n/a | | |
| Sub Total – Other work | 60.00 | 67.50 | | | |
| TOTAL – Audit Plan (not including IT externally resourced audit) | 300.00 | 140.50 | | | |

SUMMARY OF FINAL AUDIT REPORTS ISSUED

Anti-social Behaviour 2018/19

1. Background

Tackling anti-social behaviour is a key priority for Charnwood Borough Council. The Council has signed up to a countywide approach between community safety partners across, Leicester, Leicestershire and Rutland (LLR) called the Incremental Approach. Its aim is to ensure that anti-social behaviour enforcement measures are used consistently and proportionately in relation to an individual's involvement in anti-social behaviour.

To capture, record, manage and report incidents of anti-social behaviour a web-based, incident management system called Sentinel is currently used across LLR so that data is accessible to a range of partner organisations. However, management are aware that other systems are used within the Council, e.g. Flare and Lagan.

2. Executive Summary

2.1 Overview

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|--|--|
| ASSURANCE RATING – MODERATE ASSURANCE | CORPORATE SIGNIFICANCE – MEDIUM |
|--|--|

Assurance

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

Although Service Areas all demonstrated that they have processes in place for managing Anti-Social Behaviour (ASB) cases, there are no consistent procedures in place for identifying, recording, assessing of risk, monitoring and reporting of incidences of anti-social behaviour across all services. Discussions with each service area revealed that there are a number of different methods and systems being used. With the current processes in place a number of concerns have been identified:

- Officers may not identify the difference in the level of seriousness between general ASB and specific harassment if risk assessments are not completed.
- Without completing a risk assessment the impact of the victim/community and the victim's vulnerability is not assessed and victims may not receive the appropriate help, as cases may not be referred to the Joint Action Group.
- With there being a tendency for incidents to be closed without any record of action taken on Sentinel repeat victimisation and ASB 'hotspots' may not be identified. Partners are unaware if documents such as warning letters or acceptable behaviour contracts are being issued by the authority.

Corporate Significance

The area reviewed has been rated as being of high corporate significance, on the basis of:

- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)
- Major health and safety risk (serious injury or death)
- Direct link to identified strategic risks

2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- There is a Corporate Enforcement Policy in place which makes reference to ASB.
- Most cases of ASB are initially recorded on the Customer Relationship Management System (LAGAN) which provides complainants/victims with a consistent approach and Customer Service advisors are able to see previously interactions.

However, from the work undertaken during the review, we have also identified the following areas where the mitigation of the risk could be improved:

- Risk Assessments on complainants/victims are only completed by Community Safety and Landlord Services.
- There is no Lead Officer or Lead Service Area to ensure a consistent approach is in place and being maintained.
- Different IT systems are being used across the organisation for monitoring cases and recording actions that have taken place

- Reporting lines such as the Scrutiny Management Board are not getting a complete picture as data is missing on Sentinel for some Service Areas.
- There is a general lack of understanding as to the importance of recording ASB on Sentinel, what the systems capabilities are and to what level the data being input was being used by the partnership.
- Issues were raised around the interfaces between Flare and Sentinel where manual intervention was required, resulting in a duplication of work.

3. Action Plan

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|---|--|---|----------|---|------------------------------------|-------------|
| 1. Risk Assessments on complainants/victims are only completed by Community Safety and Landlord Services. | The Council do not fulfil the responsibilities under the Incremental Approach and fail to be a good partner. | 1.1 Management nominate a lead officer(s) or service to monitor the use of Sentinel to ensure cases are appropriately recorded, all victims are risk assessed, all data is being captured and reported and cases are closed when appropriate action has been taken. | High | A working group will be created. The group will produce a work programme which will look at the recommendations made following the audit and at the definition of ASB and deliberate what cases need to be recorded on Sentinel whilst considering the impact any changes may have on Corporate Information Technology. | Anti-Social Behaviour Co-Ordinator | March 2019 |
| There is no Lead Officer or Lead Service Area to ensure a consistent approach is in place and being maintained. | Repeat victims/locations are not identified. | 1.2 Services find a way to work together to find an appropriate process that considers services individual statutory and legislative responsibilities whilst ensuring we fulfil our responsibilities under the Incremental | High | Members of the group will be nominated by Heads of Service. | | |
| Different IT systems are being used across the organisation for monitoring cases | Inappropriate action is taken due to missing or out of date information. Decision making rationale is not appropriately | | | | | |

| | | | | | | |
|---|--|--|--------|--------------------------|--|--|
| <p>and recording actions that have taken place.</p> <p>Reporting lines such as the Scrutiny Management Board are not getting a complete picture as data is missing on Sentinel for some Service Areas.</p> | <p>recorded should the Authority be challenged.</p> <p>Cases are not referred to Victim First or the Joint Action Group where necessary.</p> | <p>Approach.</p> <p>1.3 Management consider whether all Environmental Health and Street Management cases need to be recorded on Sentinel or whether only persistent cases of fly-tipping, noise etc. should be recorded.</p> | Medium | | | |
| <p>2. Issues were raised around the interfaces between Flare and Sentinel where manual intervention was required, resulting in a duplication of work.</p> | <p>Inefficient use of resources.</p> <p>Information on Sentinel is inaccurate.</p> | <p>2. The interfaces between systems are improved to prevent manual intervention having to be undertaken.</p> | Medium | As for Recommendation 1. | | |
| <p>3. There is a general lack of understanding as to the importance of recording ASB on Sentinel, what the systems capabilities are and to what level the data being input was being used by the partnership.</p> | <p>Sentinel is not used due to a lack of understanding.</p> | <p>3. Training is given to appropriate officers to raise awareness of the importance of data sharing and on the use of the Sentinel system.</p> | Medium | As for Recommendation 1. | | |

| | | | | | | |
|--|--|--|--------|--------------------------|--|--|
| 4. Not all information is being reported to the Scrutiny Management Board. | Particular areas of concern/interest are not being monitored and progress is not overseen. | 4. Services put procedures in place to ensure all information (e.g. interventions undertaken during the period etc.) is reported to the Scrutiny Management Board. | Medium | As for Recommendation 1. | | |
|--|--|--|--------|--------------------------|--|--|

Corporate Credit Cards 2018/19

1. Background

The Council currently holds nine Corporate Credit Cards which are available to settle accounts where payment by card is necessary or where it is deemed appropriate to pay for goods in advance of purchase. Credit limits on the cards vary between £2,500 and £10,000, with a total credit limit of £32,500 over all nine cards.

The procedure rules in respect of Credit Cards are documented in Section 20 of the Council's Financial Procedure Rules.

The processing of credit card applications and reconciliation of expenditure against VAT receipts is undertaken by Accountancy Control, within Finance and Property Services.

2. Executive Summary

2.1 Overview

| | |
|--|--|
| ASSURANCE RATING – MODERATE ASSURANCE | CORPORATE SIGNIFICANCE – MEDIUM |
|--|--|

Assurance

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

At the time of audit there were 9 corporate credit cards in circulation. During the period April to September 2018 total expenditure incurred was £39,997.

Based on the testing undertaken during this audit it was found that there are adequate arrangements in place for the monitoring of expenditure incurred on credit cards. However, the authorisation of card applications and transactions is not considered robust as Heads of Service/budget holders are just being copied in to application and procurement requests and are not required to give formal approval.

The Council's Financial Procedure Rules refers to procurement rules in respect of credit cards however there is currently no specific corporate credit card policy/guidance in place and no expectation for card holders to sign a user acceptance policy.

Corporate Significance

The area being audited has been rated as being of medium corporate significance, on the basis of:

- General risk of financial loss between £10,000 and £100,000
- Suspected cases of fraud or corruption up to £10,000
- Risk of moderate reputational damage
- Direct link to identified corporate risks

2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- In general there are adequate arrangements in place for the monitoring of expenditure incurred on credit cards.

However, from the work undertaken during the review, we have also identified the following areas where there is scope for improvement to ensure that the system operates more effectively and efficiently:

- There is currently no specific corporate credit card policy/guidance in place and no expectation for card holders to sign a user acceptance policy.
- The procedures in place for authorising monthly expenditure and procurement categories are inadequate.
- The Head of Finance and Property Services receives no documentation to support the online card application before authorising.
- In 23% of cases VAT receipts/invoices had not been obtained in respect of purchases. Of the total value of the sample selected (£17,092.31) VAT receipts were not obtained for £3189.26 of the expenditure.

3. Action Plan

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|--|---|--|----------|---|---------------------------------------|----------------|
| 1. There is currently no specific corporate credit card policy/guidance in place and no expectation for officers to sign a user acceptance policy. | Inappropriate use of Council Resources and/or financial loss to the Council. | 1. A policy is put in place which provides guidance to users, clearly defining the terms and conditions of being a card holder and clearly states the organisation's procedures regarding lost/stolen cards and misuse. All cards holders should sign the policy as their acceptance of the terms. | Medium | A policy will be written covering all the points raised in the recommendation. All of the 9 existing users will be asked to read and sign the policy as their acceptance of the terms. | Head of Finance and Property Services | September 2019 |
| 2. The procedures in place for authorising monthly expenditure and procurement categories are inadequate. | Breach in the Financial Procedure Rules. Process is open to error and fraud. | 2. The authorisation of monthly expenditure and procurement categories is documented by the applicant completing an e-form which automatically goes to the relevant Head of Service for approval. | Medium | The set-up of an e-form will be explored. If the cost and resource required outweighs the benefit it will bring an alternative process for the Head of Service approval will be introduced. | Head of Finance and Property Services | September 2019 |
| 3. The Head of Finance and Property receives no | Process is open to error and fraud. | 3. The Head of Finance and Property receives a copy of the application e- | Medium | Agreed as per recommendation. | Head of Finance and Property | September 2019 |

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|--|---|---|----------|---|---------------------------------------|----------------|
| documentation to support the online application before authorising. | | form to ensure that the authorised limits have been correctly input on the online HSBC application form before authorising. | | | Services | |
| 4. In 23% of cases VAT receipts/invoices had not been obtained in respect of purchases. Of the total value of the sample selected (£17,092.31) VAT receipts were not obtained for £3189.26 of the expenditure. | <p>Breach of Financial Procedure Rules.</p> <p>The Council are unable to reclaim VAT.</p> | 4. Card holders are reminded that not obtaining VAT receipts, where appropriate, is a breach of Financial Procedure Rules and if not produced the service will be charged at gross. | Medium | Cardholders will be reminded about obtaining VAT receipts. The Financial Procedure Rules will be reviewed to see if they need clarifying and strengthening on this point as they do not state that VAT receipts must be obtained, only that they should be obtained. Also it is acknowledged that it is not always possible to get a VAT receipt so there will be cases where services are charged gross. | Head of Finance and Property Services | September 2019 |