

Report of the Chief Internal Auditor

PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY FOR 2014/15

1 Purpose of Report

The purpose of this report is to brief the Audit Committee on the work carried out by the Internal Audit service for the first eleven months of the 2014-15 financial year to the end of February 2015.

2 Executive Summary

The attached report provides details on a number of audit assignments that have been completed since the date of the last Audit Committee and confirms that Internal Audit Operational Plan remains on target to be fully complete by the end of the 2014-15 financial year.

3 Appendices

Appendix 1 – CW Audit Services Internal Audit Progress Report – March 2015

4 Proposed Action:

- 4.1 The Committee is invited to consider, comment upon and note this report as part of its role in ensuring that sufficient progress is being made against the agreed internal audit plan for the 2014-15 year.**

5 Background

5.1 The terms of reference for the Audit Committee state that it should “review the effectiveness of internal control across the organisation and the adequacy of action taken to address any weaknesses or control failures”.

5.2 The Committee is also required “to approve and review the annual Internal Audit Plan”.

6 Legal Powers

Not applicable.

cw audit services

Borough Council of Wellingborough

Internal Audit
Progress Report 2014/15

March 2015



1. Introduction

This report summarises the work of Internal Audit for the period to the end of February 2015. The purpose of the report is to update the committee on progress made in delivering the 2014/15 audit plan.

2. Progress summary

The agreed internal audit plan for the 2014/15 year totals 232 days, with an additional 20 days carried forward from the 2013/14 year. Appendix A provides details of all the audit assignments included in the 2014/15 year, together with details of the quarter in which the assignments are planned for delivery and an update on progress where assignments have commenced. We have delivered 208 days of work against the plan to the end of February 2015, which is in line with our expected profile of work.

3. Summary of reviews completed

| Review | Summary | Level of assurance | | | | |
|---|---|--------------------|-------------|----------|---------|----|
| Financial Management & Budgetary Control | <p>The audit highlighted that the Council has a robust process for setting and managing revenue budgets and for this reason we are able to provide significant assurance over the design and operation of the system for setting and monitoring performance against budgets.</p> <p>Whilst routine budgetary control process are operating as expected, the opinion we have provided on the system should be considered in the context of the serious financial pressures faced by the Council, as outlined in the commentary to the MTFS. In recent years the Council has met its revenue commitments by supporting the budget through use of reserves. The MTFS highlights that unless additional savings are identified, reserves will continue to be utilised to meet budget shortfalls and that the total level of reserves will fall below the Council's stated minimum requirement of £1.75m by 2018/19. We would therefore reiterate the strong message contained in the MTFS that robust savings plans are identified and we have recommended that these should be developed through a comprehensive corporate/service planning exercise that runs concurrently with the MTFS.</p> <p>The individual level of assurance for each system control objective reviewed is provided below.</p> | Significant | | | | |
| System control objective | | Level of Assurance | | | | |
| | | Full | Significant | Moderate | Limited | No |
| 1. The Authority prepares a Medium Term Financial Strategy (MTFS) which is designed to deliver strategic priorities and contains robust key assumptions which is reviewed and approved at an appropriate level. | | | | ✓ | | |
| 2. Budgets are set in a structured, comprehensive and robust manner in accordance with the organisation's plans, objectives and MTFS. | | ✓ | | | | |
| 3. Changes to the startpoint budget are appropriately authorised, recorded and reported. | | ✓ | | | | |
| 4. Income and expenditure is effectively managed in accordance with budgetary constraints. | | ✓ | | | | |
| 5. Budgetary performance is reported at monitored at an appropriate level within the organisation. | | ✓ | | | | |

| Review | Summary | Level of assurance | | | | |
|-------------------------------------|---|--------------------|--|--|--|--|
| Capital Accounting and Fixed Assets | This review sought to ensure that capital assets are recorded and accounted for accurately and in accordance with recognised accounting practice. The audit did not highlight any weaknesses that would materially impact on the achievement of the system's key objectives and full assurance was therefore provided, although it should be noted that there are some year end transactions that still need posting. These will be reviewed as part of external audit's final accounts process. | Full | | | | |

| System control objective | Level of Assurance | | | | |
|--|--------------------|-------------|----------|---------|----|
| | Full | Significant | Moderate | Limited | No |
| 1. There is a fixed asset register in place which is regularly updated and reconciled to the general ledger and other property records. | ✓ | | | | |
| 2. The integrity of the planning system is maintained. | ✓ | | | | |
| 3. The confirmation of ownership and existence of assets is verified and acquisitions and disposals are updated to the asset register. | ✓ | | | | |
| 4. There is a valuation programme in place in accordance with CIPFA guidance and impairments and depreciation are correctly applied to the asset register. | ✓ | | | | |

| Review | Summary | Level of assurance | | | | |
|-----------------------------|---|--------------------|--|--|--|--|
| Receipt & Banking of Income | The purpose of this review was to ensure that sundry debt income is collected and banked in full. A Significant Assurance opinion has been provided, with one medium level recommendation made to remove access to the cash system to a member of staff who had left. The individual level of assurance for each system control objective reviewed is provided below. | Significant | | | | |

| System control objective | Level of Assurance | | | | |
|--|--------------------|-------------|----------|---------|----|
| | Full | Significant | Moderate | Limited | No |
| 1. Comprehensive, up to date policies and procedures are in place and available to all relevant staff. | ✓ | | | | |
| 2. Processes are in place to ensure that all sundry income is receipted, banked and posted to the ledger promptly and in full. | ✓ | | | | |
| 3. Regular bank reconciliations are carried out and reviewed by management. | ✓ | | | | |
| 4. The integrity of the cash receipting system is maintained. | | ✓ | | | |
| 5. Insurance is in place which is adequate to cover loss due to theft or manipulation of records and employees handling cash/remittances are aware of any limits it may contain. | ✓ | | | | |

| Review | Summary | Level of assurance | | | | |
|--------------------------|--|--------------------|-------------|----------|---------|----|
| Creditors | The purpose of this review was to ensure that payments to creditors are accurate, timely and valid. A Significant Assurance opinion has been provided, with three medium level recommendations made to improve the ordering and invoice certification processes. The individual level of assurance for each system control objective reviewed is provided below. | Significant | | | | |
| System control objective | | Level of Assurance | | | | |
| | | Full | Significant | Moderate | Limited | No |
| 1. | Creditor payment system information is accurate, valid and secure. | ✓ | | | | |
| 2. | Payments to suppliers are accurate, timely, properly accounted for and only made in respect of authorised invoices and for goods and services received. | | ✓ | | | |
| 3. | All payment runs are subject to independent review and appropriately authorised before processing. | ✓ | | | | |
| 4. | Regular payment information is reported to and reviewed by management and committee. | | ✓ | | | |

| Review | Summary | Level of assurance | | | | |
|--------------------------|---|--------------------|-------------|----------|---------|----|
| Procurement | The purpose of this review was to ensure that the Authority has appropriate arrangements in place to procure goods and services at the most cost effective rates possible and that it complies with relevant procurement legislation. A Significant Assurance opinion has been provided, with five medium level recommendations made. The main issue remains the need to produce an up-to-date Procurement Strategy. This is dependent on the Constitution Contract Procedure rules first being reviewed. A working party has been set up to do this. The individual level of assurance for each system control objective reviewed is provided below. | Significant | | | | |
| System control objective | | Level of Assurance | | | | |
| | | Full | Significant | Moderate | Limited | No |
| 1. | The Council has a procurement strategy and policies in place which provide clear guidance to officers undertaking procurement practices. | | | ✓ | | |
| 2. | Goods and services are obtained in accordance with the Council's Financial Procedure Rules and where possible local, regional or regional frameworks and agreements are used to ensure best value. | | ✓ | | | |
| 3. | Procurement performance is regularly monitored and reported upon and performance information meets the Corporate Data Quality Policy and Standards | ✓ | | | | |
| 4. | The service received from the Welland Procurement Unit is in accordance with a signed and properly documented agreement that meets the Council's procurement needs. | | ✓ | | | |

| Review | Summary | Level of assurance | | | | |
|--------------------------|--|--------------------|-------------|----------|---------|----|
| Business Rates | The purpose of this review was to ensure that the Authority collects Business Rates in a timely, complete and accurate manner in accordance with relevant legislation. A Significant Assurance opinion has been provided, with one low level and two medium level recommendations made, relating to some teething problems experienced this year within a new method for reconciling the Business rates system to the ledger, and also some errors on the system in the reporting of empty properties flagged up for review. The individual level of assurance for each system control objective reviewed is provided below. | Significant | | | | |
| System control objective | | Level of Assurance | | | | |
| | | Full | Significant | Moderate | Limited | No |
| 1. | There are processes in place to ensure the security of the business rates system and data including regular reconciliation to the general ledger and feeder systems. | | ✓ | | | |
| 2. | All taxable properties and liable persons are identified, assessed, recorded and accurately maintained. | | ✓ | | | |
| 3. | Amounts due are accurately calculated taking into account any business rate relief granted and account adjustments and write offs are authorised and accurately recorded. | ✓ | | | | |
| 4. | Payments are promptly allocated and there is a process in place to ensure that arrears are promptly identified and pursued. | ✓ | | | | |
| 5. | There is regular management and Committee reporting on performance. | ✓ | | | | |

| Review | Summary | Level of assurance | | | | |
|--------------------------|---|--------------------|-------------|----------|---------|----|
| Benefits | The purpose of this review was to ensure that the Authority processes benefits payments in a timely, accurate and valid manner in accordance with relevant legislation. A Significant Assurance opinion has been provided, with one medium level recommendation made in respect of recovering a specific benefit overpayment. | Significant | | | | |
| System control objective | | Level of Assurance | | | | |
| | | Full | Significant | Moderate | Limited | No |
| 1. | All benefit claims are processed and payments made in accordance with regulations and relevant policies, and are legitimate and appropriate. | ✓ | | | | |
| 2. | The integrity of data on the benefits system is properly maintained. | ✓ | | | | |
| 3. | Processing times, accuracy, overpayment levels and other key performance indicators are regularly monitored. | | ✓ | | | |

| Review | Summary | Level of assurance |
|-----------------|--|--------------------|
| Risk Management | The purpose of this review was to ensure that there are robust processes in place to identify, document, treat and report on key strategic and operational risks faced by the Authority. A Significant Assurance opinion has been provided, with two medium level recommendations concerning the need update service risk registers and to report on top corporate risks to the Resources Committee. The individual level of assurance for each system control objective reviewed is provided below. | Significant |

| System control objective | Level of Assurance | | | | |
|---|--------------------|-------------|----------|---------|----|
| | Full | Significant | Moderate | Limited | No |
| 1. Risk Management roles and responsibilities have been clearly defined. | ✓ | | | | |
| 2. There is a robust Risk Management Strategy and Policy that have been effectively communicated and applied. | ✓ | | | | |
| 3. Risk Management is embedded throughout the organisation | | ✓ | | | |

| Review | Summary | Level of assurance |
|-----------------------|--|--------------------|
| Choice Based Lettings | The purpose of this review was to ensure that the Keyways system provides a fair and equitable basis for prospective social housing tenants to bid for properties. A Significant Assurance opinion has been provided, with two medium recommendations made. These relate to the need to tighten up access capabilities for a number of staff on the Keyways system and the need to draw up SLAs with Housing Associations to regulate the performance information that they should be submitting to the Council. | Significant |

| System control objective | Level of Assurance | | | | |
|---|--------------------|-------------|----------|---------|----|
| | Full | Significant | Moderate | Limited | No |
| 1. The system is operated in accordance with legislation and appropriate controls are in place to ensure that access is restricted and updates are prompt and accurate. | | ✓ | | | |
| 2. Applications to join the Keyways system are processed promptly and accurately in accordance with policy. | ✓ | | | | |
| 3. The bidding process is run in a fair and consistent manner and offers are made promptly to winning bidders on the basis of a fully validated bid. | ✓ | | | | |
| 4. The Keyways system is subject to appropriate levels of management review and monitoring and information is regularly reported to senior management and committee. | | ✓ | | | |

| Review | Summary | Level of assurance |
|---|---|--------------------|
| Housing Renewals (Disabled Facilities Grants) | The purpose of this review was to ensure that Disabled Facilities Grant applications are dealt with in a fair and equitable basis in accordance with legislation and that cost of works undertaken are controlled within budgetary constraints. A Significant Assurance opinion has been provided, with two medium level and one high level recommendations made. The key issues raised related to pressures on the budget, with the potential for overspends to occur and additional financial uncertainty caused by the 'Better Care' funding arrangements to be introduced from 15/16 onwards. The individual level of assurance for each system control objective reviewed is provided below. | Significant |

| System control objective | Level of Assurance | | | | |
|--|--------------------|-------------|----------|---------|----|
| | Full | Significant | Moderate | Limited | No |
| 1. Applications are properly assessed, processed, and recorded. | | ✓ | | | |
| 2. Payment of grants is only made on receipt of appropriate authorisation and evidence of work completed to a satisfactory standard, and for work originally approved. | ✓ | | | | |
| 3. Budgetary control is maintained | | | ✓ | | |

Capital Audit – Crematorium Project

We continue to provide independent advice and support to the Crematorium Project Board build project. We can confirm that good governance and risk management processes have continued to operate and that effective arrangements have been put in place to manage delivery of the project.

Glamis Hall

In early September 2014 the Council commissioned CW audit to undertake an independent assessment of the clinical care being provided at Glamis Hall. Through its host organisation (NHS Arden Commissioning Support Unit), CW Audit provided a team of nurse clinicians, including an Infection Control Nurse, to conduct a review of the services and facilities provided at Glamis Hall using a tailored version of the Care Quality Commission's (CQC) checklist for care homes. The results of this review were reported to the Resources Committee In September 2014.

Leisure Services Contract

The Council is currently in the process of agreeing a new contract with DC Leisure to run the Waendel and Redwell Leisure Centres. We have reviewed the draft specification and contract documents to ensure that they clearly outline what is expected from the contractor in terms of service delivery and provide a framework for contract monitoring arrangements. We have confirmed that both documents include clauses that will enable the Council to performance manage the contract. We have provided management with a summary of what we believe should be included in the performance monitoring process.

4. Implementation of Recommendations

The on-line recommendation tracking system indicates that a total of 84 recommendations have been raised since April 2013 that fall due for implementation by the end of February 2015. Managers responsible for taking action update the system when recommendations have been implemented, or provide updates where action remains ongoing. A summary of the current information held on the recommendation tracking system for these recommendations is as follows:

| Recommendations due for implementation by 28 th February 2015 | | | | |
|--|-----------|-------------|----------|-----------|
| Priority* | Number | Implemented | Ongoing | Pending |
| 1 | 0 | 0 | 0 | 0 |
| 2 | 12 | 7 | 2 | 3 |
| 3 | 58 | 44 | 5 | 9 |
| 4 | 14 | 12 | 0 | 2 |
| Totals | 84 | 63 | 7 | 14 |

*Level 1 is the highest level of risk we attach to a recommendation

These results indicate that 75% of the recommendations made over the last two years that were due for implementation by the end of February 2015 have been fully actioned and that progress is being made on a further 8% of these recommendations. The three level 2 recommendations that remain pending relate to actions that can only be implemented once the Agresso Financial system upgrade has been delivered by Kettering Borough Council. Four of the level 3 recommendations that remain pending relate to actions that have been placed on hold with regard to the Castle Theatre whilst effort was concentrated on achieving more robust financial monitoring controls. The remainder of recommendations where action remains pending largely relate to occasions where managers need to log-on and update the recommendation tracking system. Reminders will be sent out to ensure that updates are provided by the end of April 2015 so that accurate recommendation tracking figures can be included in the Internal Audit Annual Report.

Appendix A - 2014/15 Internal audit plan

| Description of audit | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Current Status | Assurance level |
|--|-------|-------|-------|-------|----------------------------------|-----------------|
| Core Financial Systems | | | | | | |
| Financial Management and Budgetary Control | | | | ✓ | Final Report | Significant |
| Capital Accounting & Fixed Assets | | | | ✓ | Final Report | Full |
| Creditors | | | ✓ | | Final Report | Significant |
| Capital Programme | | | | ✓ | Fieldwork complete | |
| Receipt & Banking of Income | | ✓ | | | Final Report | Significant |
| Procurement | | | ✓ | | Final Report | Significant |
| Business Rates | | | ✓ | | Final Report | Significant |
| Benefits | | | ✓ | | Final Report | Significant |
| High Level Controls | | | | ✓ | Fieldwork ongoing | |
| Environment | | | | | | |
| Contract Monitoring – NORSE | | | | ✓ | To be delivered in 15/16* | |
| Community | | | | | | |
| Crematorium Project | ✓ | ✓ | ✓ | ✓ | Ongoing advice & support | |
| Food Safety | ✓ | | | | Final Report | Significant |
| Leisure Services | | | | ✓ | Final Report | N/A |
| Emergency Planning | | | | ✓ | Fieldwork ongoing | |
| Glamis Hall | | ✓ | | | Final Report | N/A |
| Resources | | | | | | |
| Risk Management | | | | ✓ | Final Report | Significant |
| Corporate Governance | | | | ✓ | Fieldwork ongoing | |
| Corporate Health & Safety | | | | ✓ | Fieldwork ongoing | |
| Planning & Local Development | | | | | | |
| Choice Based Lettings | | ✓ | | | Final Report | Significant |
| Planning & Development | ✓ | | | | Final Report | Significant |
| Local Land Charges | ✓ | | | | Final Report | Significant |
| Housing Renewals (Disabled Facilities Grants) | | ✓ | | | Final Report | Significant |
| Other | | | | | | |
| Computer Audit | | | ✓ | ✓ | Draft Report & Fieldwork ongoing | |
| Recommendation Tracking | ✓ | ✓ | ✓ | ✓ | Ongoing throughout year | |
| Follow Up | ✓ | | | | Castle Theatre – Final Report | N/A |
| Management & Planning | ✓ | ✓ | ✓ | ✓ | Ongoing throughout year | |

*Agreed with Head of Finance. Audit delayed due to retirement of current NORSE Contract Manager.

7 Financial and Value For Money Implications

None

8 Risk Analysis

| Nature of risk | Consequences if realised | Likelihood of occurrence | Control measures |
|--|---|---------------------------------|--|
| Non completion of the Audit Plan for 2014-15 | Control weaknesses may not be identified and addressed. Chief Internal Auditor may not be able to provide a balanced annual audit opinion. | Low | Regular reporting on progress to the Director of Resources and Audit Committee. CW Audit staff plan in place to ensure sufficient resources are in place for full delivery of plan. |

9 Implications for Resources

None

10 Implications for Stronger and Safer Communities

None

11 Implications for Equalities

None

12 Author and Contact Officer

Mark Watkins, Chief Internal Auditor.

13 Consultees

Liz Elliott, Head of Finance

14 Background Papers

None