

REPORT TO: AUDIT & STANDARDS COMMITTEE

DATE: 17 JUNE 2015

TITLE: INTERNAL AUDIT ACTIVITY REPORT

LEAD OFFICER: SARAH MARSH, INTERNAL AUDIT MANAGER (01279)
446884

RECOMMENDED that the Committee notes the contents of this report.

PROGRESS AGAINST AUDIT PLANS

2014/15 Audit Plan

1. The majority of the Audit Plan for 2014/15 has been completed and sufficient work has been undertaken in order for the Internal Audit Manager to give her annual report and assurance opinion (which is reported elsewhere in the agenda). The only outstanding audits are Data Protection Act (External Data Transfers), Kier Harlow and Energy Management with fieldwork in progress for all three.
2. Work has commenced on the 2015/16 Audit Plan as detailed in Appendix A and timings have been agreed with CMT/HoS to ensure a steady flow of reports throughout the year.

INTERNAL AUDIT REPORTS

3. The following reports have been issued since the Committee received its last update in March 2015:

Reports Given Substantial Assurance

- *Project Management* – Overall, projects are well managed by the Council with a documented project methodology in place. Further work is required to enhance risk management processes and ensure lessons are learnt from post implementation reviews.
- *ICT Strategy Arrangements* – A comprehensive ICT Strategy has recently been prepared and approved with key actions identified. Some of the actions flowing from the Strategy have commenced whilst some are yet to be approved. The proposed governance structure is still being determined but once implemented ought to provide a framework for successful delivery (however, this will need to be tested again once the implementation process has progressed).

- *Key Financial Controls: General Ledger* – Recommendations made were minor in nature. Robust controls are in place regarding system access and security, use of and change to account codes, journal postings and reconciliations.
- *Latton Bush Centre (room hirings)* – Room hirings are well managed with robust controls to ensure all income due is collected on a timely basis, although there is a need to ensure greater transparency regarding discretionary discounts.
- *Disability Facility Grants* – Robust controls in place over grant applications and contractor payments including management arrangements for financial monitoring.
- *Community Safety* – The Safer Harlow Partnership has clear strategies to reduce crime, anti-social behaviour and domestic abuse but requires a formal strategy for combatting drug misuse in the area, as required by Section 6 of the Crime and Disorder Act 1998.

Reports Given Moderate Assurance

- *Procurement (Compliance with Financial Regulations and Contract Standing Orders)* – There is a requirement to reinforce with staff, the need to comply with Council rules and to challenge purchasing behaviours, especially around market testing, to ensure value for money can always be demonstrated.
- *Key Financial Controls: Creditors* – Similar findings to the procurement audit above, plus a need to tighten up supplier set up processes to reduce the risk of fraud.
- *Rent Deposit Guarantee Scheme (and Homelessness follow up)* – An external review of the Rent Deposit Guarantee Scheme took place in October 2014 and process changes required are either still being embedded or at the development stage. Immediate priorities are to encourage more landlords (and therefore more available properties) to register and to establish robust processes to initiate prompt action to recover the deposits paid.
- *Business Planning, Budget Monitoring and Performance Management Arrangements* – This audit examined the *golden thread* between the Corporate Plan and Operational Service Plans and the relationship with financial planning and risk management. Prior to this audit a project had been initiated to upgrade the service planning database and to ensure better linkages to risk management and performance management processes. This will strengthen the overall process.
- *Capital Expenditure & Fixed Assets* – The functionality of the Council's fixed asset system needs to be improved (also see Commercial Rents below).

Reports Given Limited Assurance

- *Commercial Rents*–The robustness and quality of data used to manage commercial properties is at risk of being compromised as the Council’s Asset Management System is not always being used as a primary record source, but this is now being addressed.
- *ICT Change Programmes* – The Implementation Plan and associated project governance controls (both the ICT Strategy and IT Operational Board) were not sufficiently developed to provide positive assurance on its success.

Follow Up Reports

- *Business Continuity Planning*–Progress has been slow in implementing recommendations raised in the last audit (2013) due to staffing shortages. However, in recent months activity has intensified to ensure business continuity arrangements at operational level are documented and these will be scrutinised by CMT/HoS. A revised timetable for testing these has now been agreed.
- *Void*s–Of the three recommendations made in the last void report only one related to void processes and this has been completed (updating the Void Management policy). Work is in progress for the other two recommendations regarding electronic filing systems and ensuring compliance with Contract Standing Orders which do not impact on the void performance indicators, which remain better than target.
- *Development Management (Section 106s)*– The number of S106 agreements remains low at five. All previous recommendations made have either been completed or superseded and a Section 106 Group has been convened to oversee agreements made with developers and includes four Heads of Service and the Planning and Building Control Manager.
- *Playhouse (cash security)*–Since the original audit in October 2014 there have been significant improvements in the internal control environment reducing the risk of further cash thefts to an acceptable level.

RECOMMENDATION TRACKER

4. The Audit and Standards Committees receives details of all overdue recommendations, plus any fundamental recommendations from final reports, regardless of whether they are overdue or not. This Tracker does not feature those recommendations made in very recent reports as these are in the process of being finalised.

5. The current Tracker (see Appendix B) contains 18 recommendations. It should be noted that managers and Heads of Service now demonstrate a greater commitment to implementing recommendation as reflected in the tracker.

Recommendation type	Number
Fundamental not passed its due date	0
Fundamental passed its due date	1
Significant passed its due date	15
Requires Attention passed its due date	2

PERFORMANCE INDICATORS

6. Performance indicators for 2014/15 are detailed in Internal Audit Manager's annual report. The table below sets out the performance indicators for 2015/16, as agreed at the March 2015 Audit and Standards Committee.
7. It is too early in the year to report progress against most of these as no final reports have been issued, although productivity of the team is currently 72% and should increase as the new auditors settle into their roles.

Aspect of Service	Performance Indicator	Target
Cost of service	<ul style="list-style-type: none"> Planned days delivered Financial budget Productivity of staff 	<ul style="list-style-type: none"> 100% Within financial budgets 85%
Internal Audit processes	<ul style="list-style-type: none"> Achievement of the annual Plan Issue of draft report after closing meeting Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> 95% minimum 10 working days 5 working days
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> 10 working days Within agreed timescales
Compliance with professional standards	Public Sector Internal Audit Standards	<ul style="list-style-type: none"> 100% compliant

OTHER INTERNAL AUDIT ACTIVITIES

Risk Management

8. In May 2015 the Internal Audit Manager, in conjunction with the Senior Insurance Officer, facilitated a risk management workshop with CMT/HoS in order to develop and refine the current Corporate Risk Register. This work is still on-going and the updated Corporate Risk Register will be reported at the next Audit and Standards Committee.

Project Groups

9. Internal Audit sits on a number of project groups in order to provide advice and challenge on internal controls, risk management and governance arrangements. These include:
 - Risk Management Task and Finish Group which is looking at a system solution for a more integrated service planning and risk management process.
 - Technology Forge Task and Finish Group to increase the functionality of the Council's asset management system.
 - IT Operations Board which has been set up to oversee implementation of the Council's IT Strategy.
 - Oversight during the Agresso finance system upgrade

National Fraud Initiative

10. Internal Audit continues to co-ordinate the Council's responses to data matches coming out of the National Fraud Initiative (an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud).
11. In June Internal Audit submitted the Council's responses to the Annual Fraud Survey which is co-ordinated by the European Institute for Combatting Corruption and Fraud (TEICCAF). This was previously undertaken by the Audit Commission's Counter Fraud Team, where previous surveys achieved a 100% response rate from councils. TEICCAF will publish the survey results in a 2015 'Protecting the Public Purse' report.

INTERNAL AUDIT SHARED SERVICE: BOROUGH OF BROXBORNE AND HARLOW DISTRICT COUNCIL

12. Since the last meeting an Auditor and Senior Auditor have been appointed to replace the vacancies in both Broxbourne and Harlow Councils. Broxbourne is the employing Authority with costs of the Shared Internal Audit function being shared equally across both Councils. Both auditors have settled in quickly and are working equally across both Councils.

13. Epping Forest District Council's Chief Internal Auditor retired at the end of May and the Internal Audit Manager took on this role from the 1 June 2015. To begin with Epping Forest will share the costs of the Internal Audit Manager with the Internal Audit Manager's time split equally across all three Councils.
14. Epping Forest District Council has made a commitment to join the shared service with the creation of one audit team across the three Councils over the coming year. The situation will be closely monitored by all three Councils to ensure there is no detrimental effect on the quality of internal audit services provided.

PUBLIC SECTOR AUDIT APPOINTMENTS

15. Following the Audit Commission's closure on 31 March 2015 some of the functions of the Commission have been transferred to Public Sector Audit Appointments Limited (PSAA). The Secretary of State for Communities and Local Government has delegated statutory functions to PSAA under powers contained in the Local Audit and Accountability Act 2014.
16. From 1 April 2015, until the current EY external audit contract ends in three years time, the PSAA is responsible for:
 - appointing auditors to local public bodies, including councils
 - setting scales of fees, and charging fees, for the audit of accounts
 - making arrangements for the certification of claims or returns from local authorities in respect of housing benefit subsidy
 - overseeing the delivery by its appointed auditors of consistent, high-quality and effective external audit services to local public bodies
 - ensuring effective management of contracts with audit firms for the delivery of external audit services to local public bodies, and
 - publishing the Value for Money profile tools which bring together data about the costs, performance and activity of councils and fire authorities.

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

It is important that the organisation responds to and implements the recommendations flowing from the internal audit process in order to protect and improve the overall internal control environment of the Council.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, (Acting) Head of Community Wellbeing**

Governance (includes HR)

Internal Audit provides a key element of assurance within the overall Governance framework within the Council and it is important that recommendations flowing from internal audit recommendations are acted upon and implemented within reasonable timescales if reliance on internal controls and procedures is to continue.

Author: **Brian Keane, Head of Governance**

BACKGROUND PAPERS

Internal Audit Plan and Internal Audit monitoring reports

Glossary of terms/abbreviations used

CMT – Corporate Management Team

HoS – Heads of Service

PSAA - Public Sector Audit Appointments Limited

Appendices

Appendix A – Audit Plan Monitoring

Appendix B – Audit Recommendations Tracker