

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO  
AUDIT & RISK COMMITTEE**

**Date 16 February 2015**

**HEADING** **INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2014/15**

**Submitted by:** Audit Manager

**Portfolio** Finance and Resources

**Ward(s) affected** All

**Purpose of the Report**

To report on the work undertaken by the Internal Audit section during the period 1<sup>st</sup> October to 31<sup>st</sup> December 2014. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

**Recommendations**

**That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.**

**Reasons**

The role of Internal Audit is to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

**1 Background**

1.1 The Internal Audit Plan for 2014/15 allows for 520 days of audit work.

1.2 This is the third progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;

- Actual against planned performance for the first quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non-audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 40% by the third quarter. Achievement of the 75% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 75% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences;

Classification: NULBC UNCLASSIFIED

as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

## 2 **Issues**

### 2.1 **Performance Indicators**

The indicators reported below relate to the end of the third quarter (December 2014).

### 2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of December 2014, 317 recommendations had been made of which 265 have been implemented, 84%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 84% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

### 2.3 **Percentage of clients who are satisfied or very satisfied with the service provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2014/15 is 85%.

Out of 6 surveys issued during quarter three, 3 satisfaction surveys were returned; the average for these was 94%.

#### **Progress made against the plan**

This is measured using three indicators;

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non-productive time covers aspects such as administration, training and leave. The target for productive time is 74%

Productivity at the end of quarter 3 is 84%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 47% of the planned audits had been completed by the end of quarter 3.

Classification: NULBC UNCLASSIFIED

- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 45% of the operational audit plan had also been completed against an expectation of 40%.

#### 2.4 Audit reviews completed and final reports issued between 1 October and 31 December 2014

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

|  |   |
|--|---|
| <b>Well Controlled</b>                 | Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm)                                  |
| <b>Adequately controlled</b>           | There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| <b>Less than adequately controlled</b> | Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.                  |
| <b>Poorly controlled</b>               | Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.  |

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1<sup>st</sup> October 2014. Appendix A provides fuller details of these audit reviews under each service area.

| AUDIT REVIEW                          | AUDIT OPINION         | Risk Category |
|---------------------------------------|-----------------------|---------------|
| <b>Chief Executives</b>               |                       |               |
| Elections                             | Well Controlled       | B             |
| Website Content                       | Poorly controlled     | B             |
|                                       |                       |               |
| <b>Resources and Support Services</b> |                       |               |
| Treasury Management                   | Well controlled       | A             |
| Sundry Debtors                        | Adequately Controlled | A             |
|                                       |                       |               |
| <b>Operational Services</b>           |                       |               |
| Refuse Collection                     | Adequately Controlled | B             |
|                                       |                       |               |
| <b>Regeneration and Development</b>   |                       |               |
| Pest Control                          | Adequately Controlled | B             |
|                                       |                       |               |

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

## **2.6 Consultancy and non-audit projects**

During quarter 3 there have been 38 days spent undertaking special projects at the request of other Directorates, these have involved both the Audit Manager and various members of the audit team.

## **3 Options Considered**

- 3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.
- 3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

## **4 Proposal**

- 4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

## **5 Reasons for Preferred Solution**

- 5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

## **6 Outcomes Linked to Corporate Priorities**

- 6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.
- 6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

## **7 Legal and Statutory Implications**

- 7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

## **8 Equality Impact Assessment**

- 8.1 There are no differential equality impact issues identified from this proposal.

**9 Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

**10 Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

**11 Key Decision Information**

11.1 Not applicable

**12 Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2014/15 (Audit and Risk Committee 17 February 2014).

**13 Recommendations**

13.1 That Members consider any issues that they may wish to raise with Cabinet and, or Chief Officers.

**14 List of Appendices**

14.1 Internal Audit Plan 2014/15: Progress to the end of Quarter 3 – 2014/15.

**15 Background Papers**

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2014/15

**16. Management Sign-Off**

Each of the designated boxes need to be signed off and dated before going to Executive Director/Corporate Service Manager for sign off.

|                               |              |  |
|-------------------------------|--------------|--|
|                               | <b>Dated</b> |  |
|                               | Signed       |  |
| <b>Financial Implications</b> |              |  |

|  |  |  |
|--|--|--|
| <b>Discussed and Agreed</b>  |  |  |
| <b>Risk Implications Discussed and Agreed</b>                        |  |  |
| <b>Legal Implications Discussed and Agreed</b>                       |  |  |
| <b>H.R. Implications Discussed and Agreed</b>                        |  |  |
| <b>ICT Implications Discussed and Agreed</b>                         |  |  |
| <b>Report Agreed by:<br/>Executive Director/<br/>Head of Service</b> |  |  |

**Internal Audit Plan 2014/15****Progress to the end of Quarter 3 – 2014/15****Chief Executives Directorate**

The following areas have been completed in quarter 3

| Audit Area      | Risk Category | Level of Assurance | Number of Recommendations and Classification |        |     | Total |
|-----------------|---------------|--------------------|--|--------|-----|-------|
|                 |               |                    | High   | Medium | Low |       |
| Elections       | B             | Well Controlled    | 0  | 2      | 0   | 2     |
| Website Content | B             | Poorly Controlled  | 10   | 5      | 2   | 17    |

The main objectives of the **Elections Review** were to ensure that;

- all expenditure incurred relating to Electoral Registration and Elections is authorised and processed in accordance with Financial Regulations,;
- canvassing of the district is completed in a timely and thorough manner,;
- canvassing staff are appointed so as to ensure that only appropriate, honest, reliable people are employed by NULBC and that all payments to canvassing staff are accurately calculated and appropriately authorised,;
- income received from sale of Electoral Registration details is accurately charged, fully recorded and promptly banked., and
- suitable quantitative performance data is gathered regarding electoral registration to enable the performance of the function to be measured.

Overall the findings from this review concluded an overall audit opinion of **Well Controlled**.

There were just two recommendations made these are summarised below;

- The operational risks identified for European and Local Government Elections and Individual Electoral Registration should be recorded / monitored via the Council's GRACE risk management system.
- Health and Safety risks in relation to Elections (including canvassing and polling stations) should be recorded on the Council's Target 100 system.

**Website Content** – This review was undertaken by the Councils appointed Computer Audit specialist, Terry Day from Information Security Advice Ltd. The main objectives of this review are to ensure that;

- the information held on the councils website is accurate and up to date
- the website properly reflects the services of the Council,.
- there is security against unauthorised links to malicious, immoral or reputation damaging external sites,
- any personal information collected via the website is protected and held securely,
- there is compliance with regulatory and legislative requirements including, Payment Card Industry Standards (PCI) requirements, Accessibility / Disability, Cookies and Privacy,
- the Councils website meets the requirements of the PCI code of practice.

This audit review has an overall audit opinion of Poorly Controlled. A number of recommendations were made as a result of this review, these are summarised below;

Classification: NULBC UNCLASSIFIED

## Classification: NULBC UNCLASSIFIED

- The website should have a separate strategy which all departments should be consulted on to ensure it reflects their requirements.
- Given the proposed commercial arrangement between the Council and new Ltd Company being formed by the Communications Team it is suggested that if the management and support of the Council's website is to fall within the new service level agreement, ownership of the website and approval processes should be tightly defined.
- Meetings of the Web Authors and Web Board should be arranged with an initial remit of proposing their terms of reference for Executive Management Team approval. A schedule of future meetings should also be on the initial agendas as should the choosing of a Chair Person for the groups. All meetings of the Web Board and Web Authors should be minuted with any actions arising from the meeting.
- A clear development brief for the new website / Drupal Content Management System (CMS) should be documented and approved to ensure the development meets the Councils requirements and avoid any inefficient use of development resources.
- The Web Board along with the Head of Leisure and Cultural Services should consider the observations contained in this report on the omissions within the design of the Jubilee2 web site and the potential efficiencies of incorporating its content into the development of the new Council web site.
- Management should ensure that all edits / amendments to the web pages follow a defined workflow review and change control process against a "best fit" to the ITIL principles already adopted within ICT.
- Management should consider the skill set required for the day to day on-going support of the new Drupal CMS and whether the technical skills required to meet the Councils Service Level Agreement (SLA) expectations for this aspect of Communications support are available with the Communications team.
- A revised list of reviewers should be compiled by the Web Authors Group and approved by the Web Board. Guidance on the review process and expectations placed on the nominated reviewers should be drafted and circulated to all nominated reviewers.
- The new CMS should be configured to restrict access by web author to review and edit only the pages relevant to their department / section.
- The E-Communications officer should provide a formal monthly performance report for the website to the Web Board and Web Authors group.
- The presentation of key regulatory information (data protection, Freedom of Information (FOI) and Environmental Information Regulations (EIR) ) should be more clearly signposted and accessible within the new website CMS. The inclusion of a disclosure log for FOI and EIR responses made by the Council should be considered.
- The Web Board and Web Authors groups may wish to consider alternative methods of making their key page information available in languages other than English to ensure it conveys the correct message to the "non English" reader.
- Management should consider allocating an overarching responsibility for Payment Card Industry Standards (PCI) to a senior member of staff. This role should be supported by a defining PCI policy to be followed by all staff dealing with payment card information.
- Management should review the security in place for the access to card data provided by customers to the Councils automated call manager.
- Gladstone Health & Leisure should be requested to provide the Council with a current PCI certificate for the chip and pin card devices and processing of payment data through the Gladstone leisure management system.

## **Resources and Support Services Directorate**

### **Areas completed in Quarter 3 of the 2014/15 Audit Plan**

Classification: NULBC UNCLASSIFIED



The following areas have been completed in quarter 3

| Audit Area          | Risk Category | Level of Assurance    | Number of Recommendations and Classification |        |     | Total |
|---------------------|---------------|-----------------------|--|--------|-----|-------|
|                     |               |                       | High   | Medium | Low |       |
| Treasury Management | A             | Well Controlled       | 0  | 0      | 0   | 0     |
| Sundry Debtors      | A             | Adequately Controlled | 1  | 4      | 1   | 5     |

**Treasury Management** - The main objectives of this review are to ensure that;

- Borrowing and investing only takes place in line with the authority's requirements and is subject to its policies and regulations,
- All borrowing undertaken by the authority is strictly controlled and adequately recorded. Decisions to borrow are justifiable,
- The investment of funds by the authority is subject to adequate control and detailed records are maintained of all investments made by the authority,
- There is regular monitoring and reporting regarding the performance of the investment portfolio,
- Adequate authorisation procedures exist regarding borrowing and investing activities. Transactions are capable of being traced back to the originating officer,
- Loan and investment amounts are properly controlled, recorded and valued,
- There are clearly defined procedures regarding the appointment and use of brokers and fund managers.

This audit review has an overall audit opinion of **Well Controlled**. No recommendations were made as a result of this review.

**Sundry Debtors** - The main objectives of this review are to ensure that;

- the responsibility for raising sundry debtor accounts has been clearly defined and that accounts are only used where appropriate;
- sundry debtor accounts are raised in accordance with the Authority's policies;
- there are records to support all funds received and that the organisation's financial records are updated to reflect all payments made;
- there is a laid down policy for the treatment of bad and outstanding debts and that debt collection is monitored;
- write offs are performed in accordance with the Authority's policies and that all accounts are correctly updated to reflect all write offs;
- appropriate and effective use is made of computer technology regarding the administration of the sundry debtors function;
- all significant risks have been identified and documented within the relevant risk register and are appropriately managed.

This audit review has an overall audit opinion of **Adequately Controlled**. A number of recommendations have been made with a view to assist management in further improving the Sundry Debtors function, these are summarised below;

- The write-off schedules and corresponding director/member approvals should be provided to Internal Audit for the 2013/14 financial year.
- The main day to day procedures within the Debtors section should be documented to ensure the uninterrupted operation of the service should key members of staff become unavailable
- The IT issues preventing officers from raising day books electronically should be resolved as soon as possible

Classification: NULBC UNCLASSIFIED

- A decision should be made as to whether the Council needs to have a policy in place relating to the consistent treatment of aged debt. If so, this should be documented at the earliest opportunity
- The anomaly whereby aged debts are showing on the Civica system (as per the Aged Debtor Report), where no debt is outstanding (as per the individual Debtor Transaction Reports) should be addressed and measures put in place to correct this at the earliest opportunity
- The day books used across the Council should be updated to include a field for the inclusion of the date completed, with responsible members of staff requested to date the document. This template should then be forwarded to all sections so that all departments across the Council are using the same day book form
- Staff should be reminded that debtors' accounts should only be raised for items of £40 or more

## **Operational Services Directorate**

### **Areas completed in Quarter 3 of the 2014/15 Audit Plan**

The following areas have been completed in quarter 3

| Audit Area        | Risk Category | Level of Assurance    | Number of Recommendations and Classification |        |     | Total |
|-------------------|---------------|-----------------------|--|--------|-----|-------|
|                   |               |                       | High   | Medium | Low |       |
| Refuse Collection | B             | Adequately controlled | 0  | 5      | 0   | 5     |

The main issues arising from the above audit can be summarised as follows;

**Refuse Collection-** the main objectives from this review were to ensure that;

- Health and Safety issues have been addressed and that all staff have been made aware of Health and Safety requirements,
- clear lines of communication exist between management and operatives.
- staffing arrangements are adequate,
- time recording, overtime and additional payments are recorded as necessary and have been authorised and approved.

Overall the findings from this review concluded an overall audit opinion of **Adequately controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM).

As a result of the audit review a number of recommendations were made in order to improve systems, processes and controls, these have been summarised below;

- The incident reporting system currently being developed by the Waste Operations Manager should allow for the formal documented reporting of operational risks / difficulties encountered by operatives.
- A full record of reported incidents, subsequent reviews and further actions implemented should be maintained in a central log along with any advised safe systems of work.
- A formal record of specific practical 'on the job' training undertaken by new employees throughout the induction phase should be maintained (possibly via checklist). This should also include the results of any assessments undertaken (pass/fail).
- The Human Resources section should ensure that leave entitlements for the Waste Management service are input to the Mitrefinch system in order that the recording

Classification: NULBC UNCLASSIFIED

Classification: NULBC **UNCLASSIFIED**

and monitoring of leave within the absence profile module of the system can be commenced.

- In order that a full record of attendance is held on the Mitrefinch system, days off taken in respect of annual leave should be logged.

## **Regeneration & Development Services**

### **Areas completed in Quarter 3 of the 2014/15 Audit Plan**

The following areas have been completed in quarter 3

| Audit Area   | Risk Category | Level of Assurance    | Number of Recommendations and Classification |        |     | Total |
|--------------|---------------|-----------------------|--|--------|-----|-------|
|              |               |                       | High   | Medium | Low |       |
| Pest Control | B             | Adequately Controlled | 0  | 5      | 1   | 6     |

**Pest Control** - The main objectives of this review were to ensure that;

- safe and secure working procedures are in place and that any health and safety requirements are met,
- work is adequately allocated and recorded,
- there is a suitable stock control procedure in place,
- contractual obligations between the Council and third parties are met and adequately monitored,
- relevant performance review and reporting is in place,
- risks relevant to the service have been identified, documented and are monitored accordingly.

This audit review has an overall audit opinion of **adequately controlled**. A number of recommendations were made in order to further enhance and improve the existing controls, these are summarised below;

- The Authority Public Protection (APP) system should be updated to provide the current situation with regards to each open case.
- The Environmental Wardens (Pest Control) should provide the Environmental Health Team Manager – Dog and Pest Control at Team Briefings with documentary evidence substantiating any job which has been open for a period exceeding 4 months.
- Suitable lone working procedures should be in place.
- A 10% sample of customers claiming free rat treatment should be sampled each month to verify their entitlement to the free treatment. The ability to make payments on line with regards to Pest Control bills should be made available as soon as possible.
- The risk assessments held on Target100 should be reviewed, with any historical assessments which are no longer in use, being removed.

### **Note on recommendations**

*Recommendations fall into one of three categories;*

**High (H):** *action that is considered imperative to ensure that the authority is not exposed to high risks;*

**Medium (M):** *action that is considered necessary to avoid exposure to significant risks;*

**Low (L):** *action that is considered desirable and which should result in enhanced control or better value for money.*

Classification: NULBC **UNCLASSIFIED**