

28 June 2016

Report of	Assistant Chief Executive	Author	Hayley McGrath 508902
Title	Year End Internal Audit Assurance Report 2015/16		
Wards affected	Not applicable		

This report summarises the performance of internal audit, and details the audits undertaken, between 1 October 2015 and 31 March 2016.

1. Decision Required

1.1 To review and comment on:

- Internal audit activity for the period 01 October 2015 – 31 March 2016
- Performance of internal audit by reference to national best practice benchmarks.

2. Reason for Decision

- 2.1 The Accounts and Audit Regulations 2006 require that ‘a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices’.
- 2.2 Internal audit is a key element of the Council’s corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- An effective internal audit service was provided during the 2015/16 financial year.
- The assurance ratings for the Creditors and Museums audits have increased from ‘substantial’ to ‘full’.
- The assurance rating for the Payroll and Parking Services Partnership audits have decreased from ‘substantial’ to ‘limited’.
- Seven priority 1, 51 priority 2 and 10 priority 3 recommendations have been made. All recommendations have been accepted by management.
- There continues to be good progress made in implementing and verifying outstanding recommendations.

4. Supporting Information

- 4.1 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits.
- 4.2 This report has been designed to show:
- Summary information concerning audits finalised in the period receiving a ‘Full’ or ‘Substantial’ assurance rating and more detailed information on those audits receiving a ‘Limited’ or ‘No’ assurance rating.

- The effectiveness of the Internal Audit provider in delivering the service

5. Internal Audit Performance

5.1 Summary of Audits Finalised During the Period

During the period 1 October 2015 to 31 March 2016 a total of 25 audits have been finalised. No audit opinion was given for four of these audits (Waste Management Follow Up, Markets, Helpline - Mobile Response Services audit checklist and the pre-audit review of Health and Safety). There was no previous audit against which a change of level could be assessed in three of the audits. The assurance rating, for the remaining audits, improved in 11% of the audits, declined in 11% of the audits carried out and remained the same in 78%.

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
105 – Animal / Pest Control	Limited	►	0	9	0	9
109 – Council Tax	Substantial	►	0	1	0	1
110 – NNDR	Substantial	►	0	3	0	3
111 – Housing Benefit / Local Tax Support Scheme	Substantial	►	0	2	0	2
113 – Management of Expenditure	Substantial	►	0	3	1	4
114 – S106 Monies	Substantial	►	0	3	0	3
116 – IT Inventories	Limited	N/A	2	3	0	5
123 – Payroll	Limited	▼	1	1	0	2
124 – Creditors	Full	▲	0	0	1	1
125 – Risk Management	Substantial	►	0	2	0	2
126 – Treasury Management	Substantial	►	0	0	2	2
127 – Housing Rents	Substantial	►	0	1	1	2
128 – Debtors	Full	►	0	0	0	0
129 – Parking Services Partnership including Income	Limited	▼	1	5	0	6
130 – Corporate Governance	Substantial	►	0	1	1	2
132 – General Ledger	Substantial	►	0	4	0	4
133 – Museums	Full	▲	0	0	0	0
134 – Leisure World – Core Functions	Substantial	►	0	4	1	5
135 – Leisure World – Other Functions	Substantial	N/A	0	3	2	5
141 – Contract Management	Limited	►	3	6	1	10
143 – Health & Safety Follow Up	Substantial	N/A	0	0	0	0

5.2 Whilst the follow-up audit of Waste Management did not receive a formal audit opinion the auditor commented as follows:

‘Although, it is not usual to provide an audit opinion for follow up work, providing the controls introduced / implemented as a result of our previous audits continue to operate effectively coupled with the outcomes of our follow up work, if we were undertaking an audit with similar coverage and the testing supported the improved controls environment, we would consider that our overall audit opinion would be “Substantial Assurance”.’

5.3 Use of Audit Resources:

	Days	%
Audit days delivered April – September 2015	100	26%
Audit days delivered October 2015 – March 2016	244	64%
Audit days remaining	40	10%
	384	100%

The 40 audit days remaining relate to the audits of the PSU, Accounting for Commercial Activities and the IT Civica Application, which have been carried over at the request of management.

The 40 days carried over from the 2014/15 period have been delivered in addition to the number of days detailed above and as a result Internal Audit have delivered 384 days during the 2015/16 period.

6. Status of all recommendations as at 31 March 2016:

- 6.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management's response to those recommendations.
- 6.2 The table below provides a breakdown of the outstanding recommendations as at the 30 March 2016.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
31/03/16	77	75	6	0

- 6.3 Progress in following up recommendations has continued throughout the period with revised lists of recommendations provided to Heads of Service to enable them to confirm that they have been implemented and for Internal Audit to verify.
- 6.4 Priority continues to be given to those awarded a higher priority rating and/or those that have been outstanding the longest, and work continues with management to arrange for them to be verified and cleared down.
- 6.5 Of the 75 recommendations that are awaiting verification 71 of them relate to IT audits. Internal audit have received updates from Corporate ICT and are currently working through the information with their Computer Audit Manager to ascertain whether recommendations can be closed down.

7. Performance of Internal Audit 2015/16 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
<i>Efficiency:</i>		
Percentage of annual plan completed (to at least draft report stage)	100%	100%
Average days between exit meeting and issue of draft report	10 max	3
Average days between receipt of management response and issue of final report	10 max	1
<i>Quality:</i>		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	9.3
Percentage of all recommendations agreed	96%	100%

- 7.1 The key performance indicators show that the internal audit provider is successfully meeting or exceeding the standards set.
- 7.2 The Client Satisfaction Questionnaires show a high level of satisfaction with the Internal Audit service.

8. Colchester Borough Homes Limited

- 8.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered by Mazars Public Sector Internal Audit Limited, who are also the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and in general the audits do not affect the systems operated by the Council.
- 8.2 However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.
- 8.3 The Housing Rents audit has been completed, it retained a substantial assurance rating with one priority two recommendation and one priority three recommendation.

9. Internal Audit Contract

- 9.1 The Internal Audit contract was renewed on 31 March 2016 following a tender exercise, for a period of three years with an option to extend for a further two. The delivery of the audit service was reviewed as part of the tender and as a result the number of contracted audit days has been slightly reduced to 360 to enable flexibility to allocate specialist support for specific projects.

10. Proposals

To review and comment upon the Council's progress and performance relating to:

- Internal Audit activity during the second half of 2015/16.
- Performance of Internal Audit by reference to national best practice benchmarks.

11. Strategic Plan Implications

- 11.1 The audit plan has been set with due regard to the identified key strategic risks to the Council and the objectives of the strategic plan to be vibrant, prosperous, thriving and welcoming. Therefore, the audit work ensures the effectiveness of the processes required to achieve the strategic objectives.

12. Risk Management Implications

- 12.1 The failure to implement recommendations may have an effect on the ability of the Council to control its risks and therefore the recommendations that are still outstanding should be incorporated into the risk management process.

13. Other Standard References

- 13.1 Having considered consultation, equality, diversity and human rights, health and safety and community safety implications there are none that are significant to the matters in this report.

Key to Assurance Levels

Assurance Gradings

Internal Audit classifies internal audit assurance over four categories, defined as follows:

Assurance Level	Evaluation and Testing Conclusion
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
No	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Recommendation Gradings

Internal Audit categories recommendations according to their level of priority as follows:

Priority Level	Staff Consulted
1	Major issue for the attention of senior management and the Governance Committee.
2	Important issues to be addressed by management in their areas of responsibility
3	Minor issues resolved on site with local management.

Summary of Audits with a Limited Assurance Rating:

105 – Animal / Pest Control	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		0	9	0	9

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Scheduling of Work;
- Collection of Income;
- Raising of Sundry Debtor Accounts;
- Monitoring of Contractors Works Undertaken;
- Stock Control and Ordering;
- Vehicle Usage;
- Health and Safety; and
- Management Information.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The Pest / Animal Control procedures should be regularly reviewed and a version control page should be added to confirm when: - they were reviewed; the date of the next review; and who completed the review. (2)
- Job-sheets should be scanned and attached to the Civica record so that they can be easily referred to in the event of a query over the work undertaken. (2)
- Management should investigate as to whether a report can be produced which details the expected income for each case, so that this can be reconciled with actual income. If a report cannot be produced, then random sample checking should be undertaken to confirm that income is being received and coded to the ledger. (2)
- Stray dog's forms should be attached to the Civica record to provide a full audit trail of action taken. (2)
- Fees should be charged for all stray dogs recovered. Where cash is received, the receipt number issued to the customer should be recorded to enable payments to be traced back to the individual case. (2)
- Management should consider actively seeking customer feedback, so that issues and potential areas for improvement can be identified. (2)
- Vehicle usage information should be reviewed by management on a regular basis. (2)
- Risk and COSHH assessments should be completed annually to identify potential risks and actions to mitigate them. (2)
- Consideration should be given to implementing and monitoring key performance indicator (KPI) e.g. jobs completed within the target timescale, to enable management to monitor service delivery. (2)

116 – IT Inventories	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
			2	3	0	

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Maintenance of Inventories;
- Security Arrangements;
- Asset Loss Management Procedure; and
- Disposal Procedures.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The ICT Hardware Asset Management Policy (the Policy) should be formally approved by senior management and then communicated to all staff. (2)
- Assets should be reviewed annually in-line with the Policy and any amendments required should be reported to ICT so that issues with lost items / items that have been transferred but where Capita have not been informed etc. can be identified and appropriate action taken. The issues identified from the audit testing completed should also be investigated and resolved. (1)
- Following completion of the asset verification exercise management should consider whether to introduce a reconciliation of the Inventory. The reconciliation should monitor the IT stock plus the purchases minus any disposals. The Inventory detail recorded should be further improved to include, for example: the value of the assets; and the date of their acquisition. (1)
- All returned signify tokens should be removed from the user in the Signify service within two days of return to either ICT or Capita; or alternatively the user account deleted. (2)
- Capita should be requested to obtain detailed lists, showing the asset numbers, of all items destroyed on their behalf by a third party provider. (2)

123 – Payroll	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
			1	1	0	

Scope of Audit: This review examined the following areas:

- Compliance with Policy, Procedures and Legislation, including Submission of HMRC Returns;
- Starters and Leavers;
- Deductions;
- Variations and Adjustments to Pay;
- Changes of Circumstances;
- System Security; and
- Payroll Checks and Management Information.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- A User Access Request form should be put in place for staff requiring access to the Payroll system. All user requests should be approved by the member of staff line manager to help ensure that there is an appropriate independent approval process to help ensure that segregation of duties is enforced. (2)
- An officer independent of the payroll processing should review the monthly exception reports and also approve the payroll prior to it being run. The Council should agree a set of exception reports to be produced and reviewed every month. (1)

			Priority of Recommendations			
129 – Parking Services Partnership including Income	Days	Assurance Limited	1	2	3	Agreed
	15		1	5	0	6

Scope of Audit: This review examined the following areas:

- Parking Partnership;
- Policies and Procedures;
- Accounting for Income;
- Season Tickets;
- Partnership Costs;
- Joint Committee;
- Management Information;
- Procedures for the Collection of Car Park Fees;
- Security and Accuracy of Car Park Income Collection;
- Production and Review of Management Information including Variance Reporting;
- Access to Car Park Pay Point Keys; and
- Debt Management including Bailiffs and Write Offs.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Documentation in support of the Business Manager's monthly reconciliations of PCN and season ticket income should be retained as evidence of the completed reconciliation and subsequent independent review. (2)
- Documentation in support of the Parking Business Officer's daily reconciliations of car park income should be signed and dated as evidence of completion and be subject to an independent review. (2)
- Arrangements should be made to re-introduce the matching of car park income received in the bank account with the amounts advised by G4S on a daily basis as soon as possible. (1)
- The approval method for parking write-offs should be formally agreed to help ensure that a standard approach is adopted in writing-off debts. This issue was raised as part of the previous audit. (2)
- Confirmation of the Council's membership of the Rotherham Framework Agreement should be obtained and retained by the Partnership. (2)
- Documentation in support of the Parking Systems Team Leader's daily allocation of funds received from bailiffs to the relevant PCN accounts should be retained in evidence of the work carried out. (2)

141 – Contract Management	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	15		3	6	1	10

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Compliance with Contract Procedure Rules;
- Supplier Lists;
- Quotations;
- Tenders; and
- Retention of Documentation.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The Procurement Strategy should be updated to include the details of when and who it was approved by and the date of the next review. (3)
- Guidance should be developed which clearly specifies what information should be obtained when undertaking a procurement process, making reference to standard pro-formas which are available on the Hub. Once developed the Procurement Team should attend service team meetings across the Council to provide training where appropriate, to help ensure that staff are aware of the processes and who to contact for procurement queries. (1)
- In accordance with the CPR, tender exercises should be undertaken where the total expenditure with the supplier exceeds or could reasonably have been foreseen to exceed £50k. In addition, lower value contracts should be subject to ongoing review to enable the Council to identify jobs and/or the supply of services that subsequently breach the limits. In these circumstances, future work should be subject to a formal tender to help ensure that the Council is seen to be open and transparent in the tender process and also receives best value for money. (1)
- Contracts let should be reviewed to verify that the process has been conducted in accordance with the CPR and that sufficient information / records has been retained. (2)
- The Framework Supplier List should be updated to include current details of preferred suppliers. Once this has been completed, staff should be advised that this information is available to assist in identifying appropriate suppliers. The List should then be reviewed and updated periodically to help ensure that it contains up to date information. (2)
- The Quotation Record of Decision form should be completed for all cases where the procurement process is through the quotation process. (2)
- Tender Opening Forms should be fully completed and retained on file for all contracts let by tender. (2)
- Tender evaluation documentation should be retained for all tenderers / successful tenderer. In addition a Summary Report covering the bid should be completed detailing the member(s) of staff who were involved in the evaluation process and have completed the scoring. The Summary Report should confirm the reasoning for selecting the preferred supplier and be signed by each member of staff involved with the tender evaluation, including an appropriate member of staff authorising the selection and expenditure. (2)
- A central file should be created on the shared drive for staff to file documentation relating to goods / services procured via a quotation or tender process. A separate file should be created for each contract, which includes all of the relevant documentation (i.e. quotes / tenders submissions received, evaluation forms, tender opening documents etc.). (2)
- The Contracts Register should be updated with the details of all contracts in place at the Council. Staff should be reminded to inform the Procurement Team of any contracts so that the Register can be updated. (1)