



## Governance Committee

Item  
**12**

24 November 2015

Report of

Assistant Chief Executive

Author

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Title

Mid Year 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 April and 30 September 2015.**

### 1. Decision Required

#### 1.1 To note and comment on:

- Internal audit activity for the period 01 April – 30 September 2015.
- 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

- The Council provided an effective internal audit service during the first half of the 2015/16 financial year.
- The discretionary housing payments process was audited for the first time and received a full assurance rating.
- Two priority 1, 32 priority 2 and five 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. All audits now generate an assurance level and these are set out in appendix 1.

4.2 This report has been designed to show:

- Summary information concerning audits finalised in the period receiving a 'Full' or 'Substantial' assurance rating.
- For audits receiving a 'Limited' or 'No' assurance rating additional information is provided in appendix 2.
- 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 01 April 2015 to 30 September 2015 a total of sixteen audits have been finalised.

Of the sixteen audits – seven had not been previously rated, eight remained at the same assurance rating and one had a decreased rating.

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
923 – Lion Walk Activity Centre	Limited	N/A	1	4	1	6
101 – CCTV	Substantial	►	0	2	0	2
102 – Building Control Fees	Limited	▼	1	5	0	6
103 – Community Zones	Substantial	►	0	5	1	6
104 – Food Control	Substantial	►	0	4	0	4
106 – Sickness/ Leave/Flexitime and Flexible Working	Substantial	N/A	0	5	3	8
107 – Discretionary Housing Payments / Exceptional Hardship Payments	Full	N/A	0	0	0	0
108 – Cash Up – Visitor Information Centre	Substantial	►	0	1	0	1
112 – Benefit Overpayments	Substantial	►	0	1	0	1
115 – Performance Management of Staff	Substantial	►	0	2	0	2
117 – Cash Up – Christchurch Mansion	Full	N/A	0	0	0	0
118 – Cash Up – Ipswich Museum	Full	N/A	0	0	0	0
119 – Cash Up – Tiptree Sports Centre	Substantial	N/A	0	1	0	1
120 – Cash Up – Highwoods Sports Centre	Full	N/A	0	0	0	0
138 – Cash Up – Castle Museum	Substantial	►	0	1	0	1
139 – Cash Up – Leisure World	Substantial	►	0	1	0	1

## 5.2 Use of Audit Resources:

	<b>Days</b>	<b>%</b>
Audit days delivered April – September 2015	100	26%
Audit days remaining	285	74%
	<b>385</b>	<b>100%</b>

In addition 42 days carried over from 2014/15 at the request of management, to meet operational requirements, have been delivered during the period.

The audit days completed for the 2015/16 period is in line with the profiled plan with a weighting of audits in Quarters 3 and 4.

## 6. Status of all recommendations as at 30 September 2015:

- 6.1 Following the completion of each audit, a report is issued, 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 September 2015.

	<b>Outstanding Recommendations That Are:</b>			
<b>Date</b>	<b>Implemented &amp; Verified</b>	<b>Awaiting Verification</b>	<b>Not Due</b>	<b>Overdue</b>
30/09/15	79	127	18	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 127 audits that are awaiting verification 38 of them relate to annual audits and, in accordance with the agreed protocol, will be followed up at the time of the next annual audit. There are also 71 that relate to IT.
- 6.6 The Council is reviewing all the recommendations at the moment and will meet with IA to discuss whether they have been superseded / still relevant as systems / processes updates are made.

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

<b>KPI</b>	<b>Target</b>	<b>Actual</b>
<b>Efficiency:</b>		
Percentage of annual plan completed (to at least draft report stage)	<b>25%</b>	<b>26%</b>
Average days between exit meeting and issue of draft report	<b>10 max</b>	<b>4</b>
Average days between receipt of management response and issue of final report	<b>10 max</b>	<b>1</b>
<b>Quality:</b>		
Meets CIPFA Code of Practice – per Audit Commission	<b>Positive</b>	<b>Positive</b>
Results of Client Satisfaction Questionnaires (Score out of 10)	<b>7.8</b>	<b>9.38</b>
Percentage of all recommendations agreed	<b>96%</b>	<b>100%</b>

7.1 The key performance indicators show that the internal audit provider is successfully meeting or exceeding the standards set.

7.2 All of the recommendations raised have been agreed.

## **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 There are no joint audits to report for this period.

## **9. Proposals**

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

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

## **10. Strategic Plan Implications**

The audit plan has been set with due regard to the identified key strategic risks to the Council. The strategic risk register reflects the objectives of the strategic plan. Therefore, the audit work confirms the effectiveness of the processes required to achieve the strategic objectives.

## **11. Risk Management Implications**

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.

## **12. Other Standard References**

Having considered consultation, equality, diversity and human rights, health and safety and community safety and risk management 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:

<b>Assurance Level</b>	<b>Evaluation and Testing Conclusion</b>
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:

<b>Priority Level</b>	<b>Staff Consulted</b>
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:

923 – Lion Walk Activity Centre	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	8		1	4	1	6

**Scope of Audit:** This review examined the following areas:

- Policies and Procedures;
- Community Services;
- Fees and Charges;
- Income Collection;
- Memberships;
- Banking and Reconciliation of Income;
- Stock Control;
- Food Hygiene; and
- Volunteers.

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

- The LWAC Manager should complete an assessment of all existing guidance held on site to ascertain the continued relevance of guidance held. Following this assessment, a Policies and Procedures Log should be implemented, subject to ongoing monitoring by the LWAC Manager. The Log should be used to identify all relevant policy and procedure documents that relate to the operations of the LWAC. Each included guidance document should have a future date of review recorded and it is advised that deadlines are Red/Amber/Green (RAG) rated to help monitor upcoming due dates. The LWAC Manager should then ensure that all staff can freely access the necessary guidance in the most appropriate form, whether this is electronic or hard-copy, and ensure that all documented guidance includes a clear version history section to verify that the guidance remains current. (2)
- Consideration should be given to whether it is necessary for the LWAC Manager to more robustly monitor the receipt of room hire fees (charged at 10 percent of takings). In addition, it is recommended that the LWAC Manager maintains a record of all sessions run, mapped against: when to expect the monies in and from whom. Once received, the log should be updated as verification that no expected payments have been missed. The introduction of this control may need to be considered against the low value of expected income from the services operated i.e. whether the additional use of the LWAC Manager's time exceeds the value of any missed payments (only usually around £10). (3)
- Rationale / evidence should be retained to support the pricing structure for items sold as part of the snack menu. (2)
- The LWAC Manager should maintain a log of daily till discrepancies for monitoring purposes. Trends or significant variances should be investigated as and when required. In addition, any cash differences over £50 (and or non receipt of banked income) should be reported to the Corporate Governance Manager and Internal Audit as soon as it is identified. (2)
- The following controls should be implemented in respect of the memberships process:
  - Supporting evidence should be held to justify any discounts awarded for individual memberships. This could be achieved through retaining a copy of the Guaranteed Pension Credit certificate (signed as checked) for each qualifying member, to be stored with the member's application form.
  - A fully completed membership form should be retained for each member, specific to each financial year (whether a new membership or a renewal). These should be retained on file and replace any historic membership forms held (retention period needs to be agreed for membership forms relating to past financial years).
  - When taking cash membership payments, there should be an evident audit trail to confirm which individual has taken receipt of the monies, with a signed receipt being attached to the completed membership form.

- The LWAC Manager should carry out a monthly reconciliation of total membership income received and banked, against the number of new memberships created to provide assurance that all expected membership fees have been collected, or otherwise investigated. (1)
- Once the new stock processes have been fully embedded, regular stock checking controls should be implemented at the LWAC to reflect the new processes. The following caveat applies: this may be easier to implement once the LWAC moves to a set-menu approach which will make it much easier to identify how much stock is required (for the purposes of efficient ordering) as well as helping to monitor the reasonable usage of stock (as the same volume of food items will likely be required each week/month etc.). (2)

102 – Building Control Fees	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		1	5	0	6

**Scope of Audit:** This review examined the following areas:

- Fee Setting;
- Application Processing;
- Collection, Recording and Banking of Income;
- Income Reconciliation;
- Refunds; and
- Management Information Including Reporting of Performance Targets.

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

- A comprehensive review of the standard charges should be completed to ensure they are appropriate and competitive in the current market. This should be completed to inform the Portfolio Holder decision as part of the annual charges setting process and help ensure that the Council collects all income due and at the same time remains competitive. (2)
- Management should implement a system to verify that the correct fees are entered accurately into Civica, in accordance with the job type. (2)
- Applications should be processed and pre-validated by the PSU within three working days of receipt in accordance with the internal targets set. (2)
- Payment allocation reports should be run from Civica and saved sequentially with the relevant Income Sheet and receipt. It should be evident on the report that cheques have been confirmed as being present (i.e. by ticking them off). Any missing cheques should be identified and any additional cheques received due to timing issues noted on the report. (2)
- Procedures should be developed for the processing of refunds; these should include the requirements for the evidencing of an appropriate segregation of duties, authorisation and the maintenance of a clear audit trail. (2)
- There should be a segregation of duties present in the processing of credit adjustments to confirm that they have been independently verified. (1)