

28 November 2017

Report of	Assistant Director, Policy and Corporate	Author	Hayley McGrath
Title	Mid-Year Internal Audit Assurance Report 2017/18		508902
Wards affected	Not applicable		

This report summarises the performance of Internal Audit, and details the audits undertaken, between 1 April 2017 and 30 September 2017.

1. Decision Required

1.1 To review and comment on:

- Internal audit activity for the period 01 April 2017 – 30 September 2017
- Performance of internal audit by reference to national best practice benchmarks.

2. Reason for Decision

- 2.1 The Accounts and Audit Regulations 2015 require that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'
- 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 first half of the 2017/18 financial year.
- The assurance rating for the audit of Service Charges improved from 'limited' to 'substantial'.
- The assurance rating for the Museums audit changed from 'full' to 'substantial', and the assurance rating for the Houses of Multiple Occupation (HMO) audit changed from 'substantial' to 'limited'.
- Four further audits have also been rated with a 'limited' assurance; Land Charges Contracting with Third Parties, Security of Premises – Colchester Leisure World and the Professional Support Unit (PSU).
- Nine priority 1, 47 priority 2 and 21 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 April 2017 to 30 September 2017 a total of 21 audits have been finalised. There was no previous audit against which a change of level could be assessed in 12 of the audits. The assurance rating, for the remaining audits, improved in one case (11%), stayed the same in six cases (67%) and declined in two cases (22%).

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
205 – Land Charges	Limited	N/A	3	3	0	6
210 – Sickness /Leave / Flex	Substantial	►	0	5	2	7
214 – Procurement – Follow Up	N/A	N/A	0	0	0	0
219 – Museums Merged Service	Substantial	▼	0	2	2	4
220 - Contracting With Third Parties	Limited	N/A	1	2	0	3
226 – Security of Premises	Limited	N/A	2	0	0	2
232 – Houses of Multiple Occupation	Limited	▼	1	3	1	5
235 – Risk Mapping	N/A	N/A	0	0	0	0
237 – Strategic Risk Register	N/A	N/A	0	0	0	0
301 – Market –Site Visit	Substantial	N/A	0	3	2	5
303 – Health and Safety	Substantial	N/A	0	2	2	4
304 – Commercial and Investment Properties	Substantial	►	0	1	0	1
305 – Cemetery and Crematorium	Substantial	►	0	2	0	2
307 – Right To Buy	Substantial	N/A	0	4	2	6
308 – Planning Fees	Substantial	►	0	1	1	2
310 – Freedom of Information	Substantial	►	0	1	1	2
312 – IT Office 365 Post Implementation Review	Substantial	N/A	0	3	2	5
315 – High Wood Country Park	Substantial	►	0	2	1	3
333 – Professional Support Unit	Limited	N/A	1	4	1	6
334 – Events	N/A	N/A	1	7	4	12
335 – Service Charges	Substantial	▲	0	2	0	2

5.2 Use of Audit Resources:

	Days	%
Audit days delivered April – September 2017	123	38
Audit days remaining	203	62
	326	100%

5.3 Completion of the plan is in line with the profiled plan with the majority of audits due for completion in quarters 3 and 4.

5.4 In addition, 40 days were carried over from 2016/17, where audits were delayed at the request of management to meet operational business needs (IT Office 365 Post Implementation Review, Professional Support Unit and Events).

6. Status of all recommendations as at 30 September 2017:

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 September 2017.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
30/09/17	85	113	6	0

6.3 Progress in following up recommendations has continued throughout the period with revised lists of recommendations provided to Assistant Directors 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 113 recommendations that are awaiting verification 45 of them relate to IT audits whilst a further 40 will be covered as part of the 2017/18 audit.

7. Performance of Internal Audit 2017/18 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
<i>Efficiency:</i>		
Percentage of annual plan completed (to at least draft report stage)	40%	34%
Average days between exit meeting and issue of draft report	10 max	5.5
Average days between receipt of management response and issue of final report	10 max	1.5
<i>Quality:</i>		
Meets CIPFA Code of Practice	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 in the majority of the KPIs.
- 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 LLP, 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 have been two joint audits, Right to Buy and Service Charges, carried out this period. Both received a substantial assurance rating.

10. Proposals

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

- Internal Audit activity during the first half of 2017/18.
- 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 Council's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the Council's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the Council's objectives at risk. The level of non-compliance puts the Council'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 and Audit 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:

205 – Land Charges	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	7		3	3	0	6

Scope of Audit: This review examined the following areas:

- Policies and procedures;
- Fee setting and notification;
- Local land charge searches;
- Income;
- Reliability of source information;
- Register management; and
- Complaints and litigation.

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

- The Council's compliance with Local Land Charges legislation should be reviewed. At the time of the audit, evidence could not be provided to demonstrate the Council's compliance with its obligations to: publish information yearly relating to unit charges; publish a yearly summary of the total income and costs relating to access to property records; and publish a summary of the total income from answering enquiries. (1)
- An exercise should be undertaken, in conjunction with the appropriate departments, to confirm that all new land charges requested in the previous 12 months have been added to the register. In future departments requesting new land charges to be added to the register should seek assurance from the Land Charges Team that they have been added. (1)
- The Local Land Charges Team should prioritise adding new charges to the register over searches. (1)
- All Fees and Charges relating to Local Land Charges, which received approval by Cabinet, should be published on the Council's website. (2)
- When the Land Charges Team have sufficient capacity they should index the documentation which has been scanned onto IDOX (the Council's Imaging Management system). (2)
- The Council should undertake an exercise with system providers ARCUS to ensure all necessary data has been migrated to the new system. (2)

220 – Contracting with Third Parties (16/17)	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	8		1	2	0	3

Scope of Audit: This review examined the following areas:

- Formation and Retention of Signed Contracts; and
- Award of Contract Requirements.

1

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

- A contract tender submission checklist should be implemented by the Council. The checklist should detail the required documentation / evidence received as part of the candidates' contract tender submission e.g. financial accounts, insurance details, skills and training, accredited references and Disclosure and Barring Service (DBS) checks. The contract should not be signed until all the required checks have been completed and the contract tender submission checklist should be subject to independent authorisation such as by the relevant Head of Service and/or Legal Services Manager. (1)
- Scanned copies of the contracts signed by representatives from both the Council and the contractors / supplier should be retained on a central drive to enable contractual documentation to be efficiently located in the event of a query. In addition, all contracts should be provided to the Governance Team for retention of the signed hard copy. (2)
- A summary of exceptions identified with the documentation checks completed in respect of new contractors, plus any lessons learned as part of the contract tender process should be incorporated into the training and guidance provided to managers responsible for letting of contract. (2)

226 – Security of Premises	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	2		2	0	0	2

Scope of Audit: This review examined the following areas:

- Leisure World – Colchester.

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

- The barriers at the entrance to the facilities should remain closed so that only visitors with a valid membership card or paying guests can gain access. (1)
- Memberships and guest passes should be checked at the Activa Gym entrance before access is granted. In addition, ad-hoc checks should be undertaken by staff to confirm that those using the various facilities, have paid the appropriate fee for doing so. (1)

232 – Houses of Multiple Occupation	Days	Assurance Limited	Priority of Recommendations			
			1	2	3	Agreed
	7		1	3	1	5

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- HMO Identification;
- Licence Application Processing;
- Income;
- Complaints; and
- Enforcement

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

- Where applicants fail to apply for licences for licensable properties the Council should take action, through the Courts if appropriate. The Council's Enforcement Policy should be reviewed and updated to ensure that it reflects legislative requirements and taking of reasonable and proportionate action in the event of an unlicensed, licensable HMO. (1)
- All documentation relating to the licensing process should be obtained and retained for evidence purposes. Sample checking should be performed and signed-off by management to confirm that the correct processes are being followed and appropriate documents obtained. (2)
- Systems should be implemented which allow payments taken to be traced back to individual accounts. (2)
- Complaints and enforcement action should be dealt with promptly. In addition, management should undertake sample checking and evidence the check. (2)
- Properties that were identified as Suspect HMO complaints should be followed up following the recruitment of the new team member. (3)

333 – Professional Support Unit	Days	Assurance Limited	Priority of Recommendations			
			1	2	3	Agreed
			1	4	1	6

Scope of Audit: This review examined the following areas:

- Structure including Roles and Responsibilities;
- Process Mapping;
- Promotion of the PSU and Liaison with Services;
- Performance Monitoring and Feedback.

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

- Monthly reconciliation reports should be produced for the Local Government Pension Scheme (LGPS). An action plan should be established, which includes milestones to be achieved to ensure the submission deadline date is achieved. Progress towards the submission should be reported to Executive Management. (1)
- The PSU should consider utilising the intranet site to promote the services that it can offer to the wider Council. The services offered by the PSU and its capabilities should also be raised at the various service meetings. (2)
- Finance meetings should occur on a periodic basis and these Service meetings should have agreed agendas, detailing areas to be discussed. The meeting minutes should record attendees with action plans (detailing responsible officer and due date) produced as a result of discussions. Progress against the action plans should be monitored via the service meetings. (2)
- The performance indicators included in the PSU Dashboard should be reviewed in consultation with service areas to ensure that they capture relevant, useful information that meets service area objectives. The performance indicators should be reported on a periodic basis. (2)
- The PSU should consider establishing SLAs with service areas. The SLAs should clearly set out roles and responsibilities. (2)
- PSU should introduce a standard format for procedures that requires both the date of the review and the next scheduled review date to be recorded. (3)