

AUDIT COMMITTEE

20 MARCH 2014

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.2 REPORT ON INTERNAL AUDIT – November 2013 to February 2014

(Report prepared by Steve Blake)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period November 2013 – February 2014.

EXECUTIVE SUMMARY

- Progress continues regarding the development of processes and working practices to demonstrate compliance with the Public Sector Internal Audit Standards.
- There was one audit completed during the period where assurance given was less than adequate

RECOMMENDATION(S)

- (a) That the contents of the report be noted**
- (b) That the changes to the 2013/14 plan identified be approved**
- (c) That Members determine which, if any, of the audit reports completed in the period they wish to receive for detailed consideration at the next Audit Committee meeting**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The Internal Audit function is operating within the budget set.

Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Public Sector Internal Audit Standards require the Audit and Governance Manager, in his role as Chief Audit Executive, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

CURRENT POSITION

Public Sector Internal Audit Standards

The standards were introduced from 1st April 2013. A report was presented to the June meeting of this committee providing detail on the standards.

Work is ongoing regarding assessment of compliance with the standards, and updating the Internal Audit Manual to reflect the standards, changes in working practices to reflect the standards, and other recent changes in working practices. Concurrent with this the CIPFA Checklist for assessing conformance with the standards is being completed and evidence linked in to provide a suitable self assessment document pack for the periodic internal assessment that will be required in due course.

The current position regarding each standard is shown in the table below – this is based upon self-assessment, and compliance will need to be formally validated in accordance with the requirements of the standards at a later date. Based upon the self-assessment undertaken and modifications to processes applied to date, compliance is considered to have been achieved regarding a substantial proportion of the checklist, and the number of issues requiring resolution is progressively being reduced. There are no significant issues with the current position regarding delivery of an Internal Audit function, the position reflects the workload in adopting and demonstrating compliance with a new set of standards.

| Standard | Comments |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1000 – Purpose, Authority and Responsibility | Compliant |
| 1100 – Independence and Objectivity | <p>Compliance regarding arrangements for the approval of the Internal Audit budget remains outstanding.</p> <p>Arrangements providing an alternative, but practical and pragmatic, solution regarding conflicts of interest resulting from the Audit and Governance Manager's other operational responsibilities have previously been agreed by the Audit Committee.</p> |
| 1200 – Proficiency and Due Professional Care | <p>Self- assessment to be completed regarding Due Professional Care.</p> <p>Records regarding continuing development for staff require review.</p> |
| 1300 – Quality Assurance and Improvement Programme | This cannot be completed fully until independent internal and external assessments of the Internal Audit function as required by the Standards are undertaken. Currently it is intended that the internal assessment will follow after completion of the self-assessment and addressing of outstanding issues |
| 2000 – Managing the Internal audit Activity | Development work required regarding assurance mapping and review of the approach to using other sources of assurance, and liaising with other assurance providers outstanding. |
| 2100 – Nature of Work | Self-assessment regarding Governance to be completed |
| 2200 – Engagement Planning | Compliant |
| 2300 – Performing the Engagement | Compliant |
| 2400 – Communicating Results | Checklist items relating to overall conformance with Standards and Quality Assurance and Improvement Programme remain outstanding at this time. |
| 2500 – Monitoring Progress | Compliant |
| 2600 – Communicating the Acceptance of Risks | Compliant |

As referred to in Standard 1100 above the Committee's attention was previously drawn to a conflict of interest issue for the Audit and Governance Manager. The arrangements reported were for the Principal Auditor to undertake the Audit and Governance Manager role in such circumstances. This was considered to be a practical and effective solution to the issue, albeit a different solution from that indicated by the Standards. The Audit and Governance Manager has recently taken over responsibility for Risk Management, and the solution previously agreed is to also be applied to the current, and future audits, on Risk Management.

Internal Audit Plan 2013/14 Progress – The Internal Audit Plan approved by the Audit Committee in March 2013 continues to be kept under review.

Appendix A provides detail of the status of each audit as at February 2014. At this point

the Internal Audit function was marginally behind target regarding the percentage of the plan that had been achieved. Whilst the function remains fully staffed, and there are currently no known issues that impact on future service delivery, it is unlikely with the short period of time remaining in the financial year that the shortfall can be recovered.

The plan included for a Code of Connection audit that is no longer required to be undertaken as a separate audit. Any work necessary will now be included in the IT Governance Audit.

Internal Audit Plan 2014/15

This is the subject of a separate report to the Committee. As part of the process to create the new plan it is necessary to consider the progress made regarding the 2013/14 plan and operationally the need for any audits to be rolled forward into the new year. The following audits will now not be undertaken in 2013/14, but are now considered as part of the 2014/15 plan: -

Corporate / Cross Cutting Projects – the time included in the 2013/14 plan was originally intended for a follow up of the work undertaken on the Families with Complex Needs Project. The results of the 2012/13 audit didn't require a follow up exercise. Discussion with relevant senior officers has identified that other projects haven't reached an appropriate stage to warrant an audit at this time. This audit now appears in the 2014/15 plan under the revised title of Community Leadership Projects.

Elections / Electoral Registration – deferred to enable consideration of Individual Electoral Registration to be included in the scope of the audit.

Housing Strategy and Development – deferred to 2014/15 and scope expanded to encompass the building / acquisition of new Council housing stock.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the year to date 100% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

Outcomes of Internal Audit Work

The standards require the Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report 9 audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues. Appendix B provides brief details regarding the more significant issues identified.

| Assurance | Colour | Number this Period | Year to Date | |
|------------------|---------------|---------------------------|---------------------|------------|
| Minimal | Red | 0 | 0 | - |
| Limited | Pink | 1 | 7 | Appendix B |
| Adequate | Light Green | 6 | 30 | - |
| Substantial | Dark Green | 2 | 7 | - |

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances. Pink has been used for Limited Assurance due to amber not being in the range of colours available in the current version of the audit software in use.

Issues to draw to the attention of the Committee

The following issues are drawn to the attention of Members: -

Housing Rents

Issues had arisen regarding the wireless connectivity of the hand held device introduced to replace the Rent Collector's previously used manual system, that rendered the new process ineffective as a solution. A problem was identified with the regular reconciliation process for rent income between the Housing Rents and Main Accounting systems in that there were recent discrepancies between the two systems that at the time of audit had not been resolved.

Cash Handling Processes

Previously the Committee has raised concern regarding cash handling processes. At that time audits regarding Leisure Sites, Parking Services and the Seafront involving review of cash handling arrangements were in progress.

No significant issues were identified regarding the Leisure Sites audit.

The report on Parking Services has not been finalised in time for this meeting of the Committee, and will now be included in the report to the June meeting. Issues were identified and reported regarding the arrangements for the banking of cash, and corrective action identified and agreed.

Whilst the Seafront Follow Up audit has been completed, new cash handling / recording procedures had not been introduced in time for the summer 2013 season. Advice is to be provided to the Seafront function prior to the 2014 summer season, and a brief follow up cash audit has been included in the 2014/15 Internal Audit Plan to ensure effective implementation occurs.

Management Response to Internal Audit Findings – There are processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action has been taken. Where appropriate follow up audits have been arranged to revisit significant issues identified after an appropriate time.

The number of high severity issues outstanding was as follows: -

| Status | Number | Comments |
|----------------------------|--------|----------------------------------|
| Overdue more than 3 months | 0 | |
| Overdue less than 3 months | 1 | Finding raised in current period |
| Not yet due | 11 | |

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – Internal Audit Plan 2013/14 Progress Report
Appendix B - Internal Audit Reports Issued – Limited Assurance





Tendring District Council Internal Audit Plan
(Position at mid February 2014)

Appendix A

| Audit Subject | Status Mid February 2014 | Opinion | Comments |
|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------|-------------------------|
| <u>2012/13 Internal Audit Plan</u> (Audits where Final Report not issued as at 31 st March 2013) | | | |
| <u>Assurance Work – Key Systems</u> | | | |
| Cashiers / Income Control | Completed | Adequate Assurance | Reported June 2013 |
| Corporate Governance | Completed | Adequate Assurance | Reported September 2013 |
| Council Tax | Completed | Adequate Assurance | Reported June 2013 |
| Planning Department Procurement | Completed | Limited Assurance | Reported June 2013 |
| Housing and Council Tax Benefits | Completed | Adequate Assurance | Reported June 2013 |
| Housing Rents | Completed | Adequate Assurance | Reported June 2013 |
| National Non Domestic Rates | Completed | Substantial Assurance | Reported June 2013 |
| <u>Assurance Work - Other Systems</u> | | | |
| Corporate / Cross Cutting Projects – Families with Complex Needs | Completed | Substantial Assurance | Reported September 2013 |
| Contract Final Account Audit - Dovercourt Toilets | Completed | Substantial Assurance | Reported December 2013 |
| Development Management | Completed | Adequate Assurance | Reported September 2013 |
| Emergency Planning | Completed | Adequate Assurance | Reported September 2013 |
| Household Waste and Recyclable Materials | Completed | Adequate Assurance | Reported September 2013 |
| Housing Allocations | Completed | Adequate Assurance | Reported September 2013 |
| Housing Repair and Maintenance Contract Audit - Crooked Elms Stair Tower Extension | Completed | Adequate Assurance | Reported June 2013 |
| Human Resources | Completed | Adequate Assurance | Reported September 2013 |
| Information Management | Completed | Limited Assurance | Reported September 2013 |
| Performance Management | Completed | Adequate Assurance | Reported September 2013 |
| Regeneration | Completed | Adequate Assurance | Reported June 2013 |
| Telephony / Switchboard | Completed | Substantial Assurance | Reported June 2013 |
| Theatres and Entertainments | Completed | Limited Assurance | Reported September 2013 |



Tendring District Council Internal Audit Plan
(Position at mid February 2014)

Appendix A

| Audit Subject | Status Mid February 2014 | Opinion | Comments |
|-----------------------------------------------------------------------|---------------------------------------------|------------------------------|---------------------------------------------------------------------------------------|
| <u>Assurance Work - Computer Audit</u> | | | |
| Computer Audit Follow Up | Completed | Adequate Assurance | Reported September 2013 |
| Disaster Recovery | Completed | Adequate Assurance | Reported September 2013 |
| <u>Proactive Anti Fraud Audits and Initiatives</u> | | | |
| Housing Tenancy Fraud | Completed | Limited Assurance | Reported December 2013 |
| <u>2013/14 Internal Audit Plan</u> | | | |
| <u>Assurance Work – Key Systems</u> | | | |
| Bank Account | Completed | Substantial Assurance |  |
| Cashiers / Income Control | Draft Report | | |
| Corporate Governance | Fieldwork | | |
| Council Tax | Draft Report | | |
| Creditors | Fieldwork | | |
| <i>Housing and Council Tax Benefits</i> | | | |
| Local Council Tax Benefits Scheme – Post Implementation Review | Completed | Adequate Assurance |  |
| Housing Benefits | Fieldwork | | |
| Housing Rents | Completed | Limited Assurance |  |
| Main Accounting System | Fieldwork | | |
| National Non Domestic Rates | Draft Report | | |
| Payroll | Completed | Substantial Assurance |  |
| <i>Procurement</i> | | | |



Tendring District Council Internal Audit Plan
(Position at mid February 2014)

Appendix A

| Audit Subject | Status Mid February 2014 | Opinion | Comments |
|----------------------------------------------------------------|---------------------------------------------|---------------------------|-------------------------------------------------------------------------------------|
| Life Opportunities Procurement | Completed | Adequate Assurance |  |
| Public Experience Procurement | Draft Report | | |
| Planning Procurement Follow Up | Allocated | | |
| Sundry Debtors | Fieldwork | | |
| Treasury Management | Completed | Adequate Assurance |  |
| <u>Assurance Work - Other Systems</u> | | | |
| Asset Management | Draft Report | | |
| BACS | Completed | Adequate Assurance | Reported September 2013 |
| Big Society Fund | Completed | Adequate Assurance | Reported December 2013 |
| Building Control | Completed | Adequate Assurance | Reported September 2013 |
| Cemeteries and Crematorium | Completed | Adequate Assurance | Reported December 2013 |
| Cheques | Completed | Adequate Assurance | Reported September 2013 |
| Coast Protection | Completed | Substantial Assurance | Reported December 2013 |
| Corporate / Cross Cutting Projects | Deferred | | |
| Credit and Debit Card Payments | Completed | Limited Assurance | Reported December 2013 |
| <i>Departmental Staffing</i> | | | |
| Planning Staffing | Completed | Adequate Assurance | Reported September 2013 |
| Life Opportunities Staffing | Completed | Adequate Assurance | Reported December 2013 |
| Elections / Electoral Registration | Deferred | | |
| Grants / Financial Assistance | Allocated | | |
| <i>Housing Repairs and Maintenance</i> | | | |
| Housing Repairs and Maintenance – Contracts | Completed | Adequate Assurance | Reported December 2013 |
| Housing Repairs and Maintenance – Contract Final Account Audit | Cancelled | | Content originally intended for this audit covered within audit above |
| Housing Strategy and Development | Deferred | | |

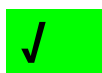
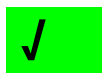
Tendring District Council Internal Audit Plan
(Position at mid February 2014)

Appendix A

| Audit Subject | Status Mid February 2014 | Opinion | Comments |
|------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Member and Civic Support Parking Services Planning Policy | Allocated Draft Report Completed | Adequate Assurance |  |
| Risk Management <i>Seafront</i> Seafront Seafront Follow Up | Allocated Completed Completed | Limited Assurance Adequate Assurance |  |
| Theatres and Entertainments | Allocated | | Reported September 2013 |
| <u>Assurance Work - Computer Audit</u> | | | |
| Cash Receipting Application Review Code of Connection IT Procurement and Disposals | Draft Report Cancelled Cancelled | | No longer required Audit Committee agreed to replacement with IT Governance Audit – December 2013 |
| Northgate Housing Application Review IT Governance | Fieldwork Allocated | | |
| <u>Assurance Work – Major Council Projects</u> | | | |
| Coast Protection – Holland – on - Sea | Completed | | Incorporated into Coast Protection above |
| Jaywick – Empty Homes Grants Office Accommodation Rationalisation | Allocated Draft Report | | Incorporated into Asset Management audit |

Tendring District Council Internal Audit Plan
 (Position at mid February 2014)

Appendix A

| Audit Subject | Status Mid February 2014 | Opinion | Comments |
|-----------------------------------------------------------|---------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------|
| <u>Proactive Anti Fraud Audits and Initiatives</u> | | | |
| Council Tax Discounts and Exemptions | Completed | Adequate Assurance | Reported September 2013 |
| <i>Procurement</i> | | | |
| Life Opportunities Procurement | Completed | Adequate Assurance |  |
| Public Experience Procurement | Draft Report | | |
| Sports Sites Cash / Income | Completed | Adequate Assurance |  |
| NNDR Reliefs / Exemptions | Draft Report | | |

Internal Audit Reports Issued November 2013 - February 2014 (Appendix B)

This appendix lists only those Internal Audit reports with findings of a medium or higher risk

Audit Opinion / Area **Issues Raised In Report**

Limited Assurance

Housing Rents (2013/14)

2 - High

| | |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| G Collection of Rent Income | Problem identified with regular reconciliation of rent income between systems. Unresolved recent discrepancies at time of audit Recently introduced hand held device used to record rent income collected by the Rent Collector had proved ineffective due to poor 3G signal in many locations. Use of device to be discontinued and manual system used pending finding more effective solution |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

3 - Medium

| | |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| E Housing Rents Database | Account adjustments are authorised manually when an online authorisation facility is available. The online facility to be enabled. |
| G Collection of Rent Income | Receipts currently not provided where Rent Collector collects non rent income, eg from Sheltered Units for guest rooms. Receipts to be provided in future. |
| H Arrears Management and Recovery | Reports of current and former tenants arrears were not being produced and used to regularly monitor the debt position. Monitoring to be undertaken in future. Regular statements of rent accounts not being sent to tenants. Statements to be issued agreed intervals. There had been no write off of irrecoverable former tenant debts in the period covered by the audit. The last filed write off request (December 2012) had not been actioned as it had not at the time of audit been authorised. |
| G Collection of Rent Income | Regular reviews of all outstanding entries on the rent suspense account not undertaken. To be reviewed in future on a monthly basis. Clearance of entries from the rent suspense account was not monitored by management. Regular monitoring to be undertaken in future. |

6 - Efficiency

| | |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| E Housing Rents Database | A difference between two system reports in the number of void properties had not been identified and resolved. Checks need to be undertaken to establish the validity of a reconciliation between system reports. |
| H Arrears Management and Recovery | Correspondence was held as hard copy when document imaging was available. |

Audit Opinion / Area

Issues Raised In Report

Letters had been issued in a number of instances to attempt to recover small outstanding debts, when given the debt size write off may have proved a more viable approach. Unviable to collect debts to be considered for write off in future.