

AUDIT COMMITTEE

18 DECEMBER 2014

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.1 REPORT ON INTERNAL AUDIT – SEPTEMBER 2014 TO NOVEMBER 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 September 2014 – November 2014.

EXECUTIVE SUMMARY

- A self assessment regarding the Public Sector Internal Audit Standards has been undertaken. One time critical issue has been identified requiring addressing at this time, relating to the budget for the Internal Audit function. Other issues will form part of the required Quality Assurance and Improvement Programme in due course.
- Plan adjustments identified are required taking account of Council needs and Internal Audit resource availability.
- Six audits were completed in the period, of which two were classified as Improvement Required.

RECOMMENDATION(S)

- (a) That the contents of the report be noted**
- (b) The Committee determines if it has any comments regarding the draft Internal Audit budget**
- (c) That the deferral of audits as detailed in the report be approved**

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 March 2014 meeting of this committee providing an update regarding the work undertaken to move towards compliance with the standards.

A self assessment has recently been undertaken to establish the current position regarding compliance with the standards, and a Quality Assurance and Improvement Programme (QAIP) is in the process of being drawn up. In accordance with the requirements set by the standards this will be presented to a future meeting of the Committee.

One issue identified is time critical if it is to be resolved in the current financial year, and is therefore being presented to the Committee in advance of the QAIP. Standard 1110 Organisational Independence includes a requirement for the Audit Committee to “**approve the internal audit budget and resource plan**”. Guidance issued subsequently by CIPFA regarding Audit Committees indicates that the Committee could have a role, but does not indicate that it is mandatory.

The Council’s Constitution does not provide the Committee with any delegated role in setting the Internal Audit function’s budget, the Cabinet having responsibility for the formulation of budgets for submission to Council. A pragmatic local solution regarding this issue that is considered would satisfy the requirements of the Standards is for the Committee to determine at each of its December meetings whether it has any comments regarding the draft budget for Internal Audit that it wishes to make to Cabinet.

The proposed draft budget for Internal Audit for 2015/16 is currently £160,200. This figure could change as a result of decisions made by Cabinet or Council. If there is any significant change made, this will be drawn to the Committee’s attention in the Annual

Internal Audit Plan report at its March 2015 meeting. The comparable figure for 2014/15 was £169,020. The difference relates to lower staffing costs arising from the turnover of staff in 2014/15 with new appointees commencing at the lower end of the career grades applicable to their posts. Whilst the work required to establish the audit needs assessment for 2015/16 has not yet been undertaken, the budget available is sufficient to enable an Internal Audit Plan of similar size to that for 2014/15 to be undertaken, and is expected to provide sufficient audit coverage.

Internal Audit Plan Progress – The Internal Audit Plan approved by the Audit Committee in March 2014 continues to be kept under review.

As reported to the last meeting of the Committee progress has been affected by the impact of vacancies and recruitment of staff over the summer period, and by preparatory work regarding the forthcoming upgrade to a more modern Internal Audit computer application. Whilst the former issue is now resolved, the system upgrade will continue to impact for the foreseeable future. The 2014/15 Internal Audit Plan did not make provision for either issue, and as a result the function is currently behind profile in its work, with remedial actions proposed as set out below.

It is appropriate to review the work planned periodically during the year to ensure that the plan remains appropriate to the Council's needs. In addition it is necessary to consider the impact on available resources of the issues above regarding the work due for the remainder of the year. Following a review of unallocated audits, it is proposed that the following audits be deferred to the 2015/16 Annual Internal Audit Plan at this time: -

Fraud Investigation Team (10 Days)

The role of this team is currently evolving from investigation primarily of Housing Benefit fraud to other areas where the Council is exposed to fraud risk, and is part of an ongoing review regarding the Revenues and Benefits functions. The undertaking of an audit at this time is now considered inappropriate.

Cemeteries and Crematorium (5 Days)

The audit included in the plan was intended to be limited to the contract for replacement cremators, and business continuity arrangements regarding this project (Corporate Risk 2g). Whilst the contract has been let for the building works, it is understood that construction works are not due to commence until 2015. Therefore it is proposed to reschedule this audit to early 2015/16.

Office Rationalisation and Modernisation (10 Days)

The audit was intended to cover aspects of the Transforming Tending project that were not covered elsewhere in the Audit Universe with regards to the use by the Council of its office accommodation (Corporate Risk 2f). At the current time this audit is awaiting further reporting on the project by Officers to Members, and subsequent progress being made. Therefore it is proposed to reschedule this audit to 2015/16.

Health and Safety (10 Days)

This audit was included in the plan based upon its risk assessment, and is not linked to any current entry in the Corporate Risk Register. There is no perceived additional risk arising if this audit is deferred to 2015/16.

Seafront (1 Day)

This audit was intended to provide a cash handling spot check during the summer season. The opportunity to undertake this audit was missed due to limited availability of Internal Audit staff at the time. However a member of the team had involvement in seeking

assurance that appropriate control systems were put in place prior to the 2014 summer season. The audit as originally planned cannot now take place until 2015/16.

The plan will continue to be reviewed over the remaining part of the financial year, and any further adjustments will be taken into account in preparing the 2015/16 plan which will be subject of a report to the next meeting of the Committee.

Appendix A provides detail of the status of each audit as at November 2014.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the period under review 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 6 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.

Assurance	Colour	Number this Period	Year to Date	
Substantial	Dark Green	1	6	
Adequate	Light Green	3	11	
Improvement Required	Pink	2	3	Appendix B
Significant Improvement Required	Red	0	0	

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

Regarding the audits completed since the last periodic report, the following issues are drawn to the Committee's attention regarding the audits where the assurance level was Improvement Required: -

Clacton Leisure Centre

The audit identified the need to put in place a process to reconcile cash income between the Leisure Management system and the Council's Accounting system. Testing did not identify any undetected cash discrepancies.

In addition a number of control improvements were identified as being required relating to cash and stock processes.

Theatres and Entertainments Follow Up

The audit undertaken was to follow up on the issues reported at the previous audit on this area, where the assurance was identified as being limited. Whilst there have been areas of improvement, there remain some issues where further improvement is required. The significant issues remaining relate to: -

- Having robust controls in place to ensure that all checks and actions required regarding each show have occurred and are sufficiently documented
- Evidencing that adequate Public Liability insurance is in place for shows and hires

- Improving the reconciliation process to ensure that show income can be accounted for.

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	5	Regular reminders are issued to relevant managers to establish that corrective action has been taken / encourage resolution of each issue
Not yet due	6	

BACKGROUND PAPERS FOR THE DECISION

Audit Reports



APPENDICES

Appendix A – Internal Audit Plan 2014/15 Progress Report
 Appendix B - Internal Audit Reports Issued – Improvement Required

Audit Subject	Status November 2014	Opinion	Comments
<u>2013/14 Internal Audit Plan</u> (Audits where Final Report not issued as at 31 st March 2014)			
<u>Assurance Work – Key Systems</u>			
Cashiers / Income Control	Completed	Adequate Assurance	Reported June 2014
Corporate Governance	Completed	Adequate Assurance	Reported September 2014
Housing Benefits	Completed	Adequate Assurance	Reported June 2014
Main Accounting System	Completed	Substantial Assurance	Reported June 2014
National Non Domestic Rates	Completed	Adequate Assurance	Reported June 2014
<i>Procurement</i>			
Public Experience Procurement	Completed	Improvement Required	Reported June 2014
Planning Procurement Follow Up	Completed	Adequate Assurance	Reported September 2014
Sundry Debtors	Completed	Adequate Assurance	Reported June 2014
<u>Assurance Work - Other Systems</u>			
Grants / Financial Assistance	Completed	Substantial Assurance	Reported September 2014
Member and Civic Support	Completed	Substantial Assurance	Reported September 2014
Risk Management	Completed	Adequate Assurance	Reported September 2014
Theatres and Entertainments	Completed	Improvement Required	
<u>Assurance Work - Computer Audit</u>			
Northgate Housing Application Review	Completed	Adequate Assurance	Reported June 2014
IT Governance	Completed	Substantial Assurance	Reported September 2014
<u>2014/15 Internal Audit Plan</u>			
<u>Assurance Work – Key Systems</u>			
Bank Account	Fieldwork		



Tendring District Council Internal Audit Plan
(Position at November 2014)

Appendix A

Audit Subject	Status November 2014	Opinion	Comments
Cashiers / Income Control	Allocated		
Corporate and Ethical Governance	Unallocated		
Council Tax	Fieldwork		
Creditors	Fieldwork		
Departmental Procurement – Corporate Services	Completed	Adequate Assurance	
Housing Benefits	Allocated		
Housing Rents	Allocated		
Main Accounting System	Allocated		
National Non Domestic Rates	Fieldwork		
Payroll	Unallocated		
Sundry Debtors	Allocated		
Treasury Management	Allocated		
<u>Assurance Work – Other Systems</u>			
Cemeteries and Crematorium	Deferred		Deferral sought to 2015/16 Audit Plan
Clacton Leisure Centre	Completed	Improvement Required	
Coast Protection	Unallocated		
Community Infrastructure Levy / S106	Allocated		
Community Leadership Projects	Unallocated		
Credit and Debit Card Payments	Fieldwork		
Departmental Staffing – Public Experience	Unallocated		
Elections and Electoral Registration	Deferred		Deferral agreed by Audit Committee September 2014
Financial Strategy / Resilience	Fieldwork		
Fixed Penalty Notices	Fieldwork		
Fraud Investigation Team	Deferred		Deferral sought to 2015/16 Audit

Tendring District Council Internal Audit Plan
(Position at November 2014)


Appendix A

Audit Subject	Status November 2014	Opinion	Comments
Frinton Walton Pool	Unallocated		Plan
Health and Safety	Deferred		Deferral sought to 2015/16 Audit Plan
Housing Allocations	Draft Report		
Housing Repairs and Maintenance	Unallocated		
Housing Strategy and Development	Unallocated		
Information Management	Fieldwork		
Insurance	Completed	Adequate Assurance	
Land Charges	Completed	Substantial Assurance	Reported September 2014
Leisure Services Development Programme	Unallocated		
Licensing	Fieldwork		
Office Rationalisation and Modernisation	Deferred		Deferral sought to 2015/16 Audit Plan
Parking Services	Allocated		
Private Sector Housing	Allocated		
Regeneration	Unallocated		
Risk Management	Unallocated		
Sale of Council Houses	Fieldwork		
Seafront	Deferred		Deferral sought to 2015/16 Audit Plan
Tendring Careline	Allocated		
VAT	Completed	Substantial Assurance	
Workforce / Succession Planning	Fieldwork		

Assurance Work – Computer Audit

Tendring District Council Internal Audit Plan
(Position at November 2014)

Appendix A

Audit Subject	Status November 2014	Opinion	Comments
Firewalls, Device and Data Security	Completed	Adequate Assurance	
ICT Project Management	Unallocated		
IT Governance	Unallocated		
Payroll / Human Resources Computer Application Review	Unallocated		
<u>Proactive Anti Fraud Audits</u>			Audits to be determined following publication of Protecting the Public Purse

Internal Audit Reports Issued September 2014 - November 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**

Improvement Required

Clacton Leisure Centre (2014/15)

2 - High

F Use of Facilities and Income Collection Cash recorded on the Leisure Management system was not being fully reconciled to the Council's accounting system. Liaison to take place between Leisure and Finance functions to identify a solution.

3 - Medium

F Use of Facilities and Income Collection Many examples identified where One cards had not been linked to a photo of the holder, thus increasing risk that cards may be misused. Staff to be reminded to take and link photos to cards, including retrospective action regarding cards in circulation.

Interim cash checks not undertaken during day. Agreed that these would be reintroduced at manager shift changes thus enabling any issues to be identified and investigated at an earlier stage than end of day

End of day cash sheets not always signed off by Cashier and Duty Manager increasing risk that errors not detected. Reminder to be issued to staff regarding correct process to be followed.

Till X readings are being run, thus negating the blind end of day cashing up control. Staff to be reminded of correct process.

The Leisure Management software produces different figures for levels of activity and takings depending upon which report is used. Software provider to be approached to seek solution.

Only one officer undertakes certain finance related functions. If officer absent work is stockpiled pending return to work. Training of staff to provide cover to be undertaken.

Refund records maintained were incomplete and did not always match end of day records. Refund book to be discontinued and alternate system trialed.

G Inventory Control Layout of sheets inconsistent and relevant information not recorded. Inventory sheets to be redesigned and a standard layout adopted across all Leisure sites.

Counting methods used resulted in inaccurate records of items held, some duplications being identified. A full inventory check to be undertaken to correct records.

Sales of merchandise did not match due to incorrect set up of items on system, and current configuration of system restricting number of till buttons available to record sales. Agreed that methods of stock recording and till configuration be investigated

Audit Opinion / Area	Issues Raised In Report
F Use of Facilities and Income Collection	<p>Stocktakes undertaken have not included all items for resale. Stocktakes to include all such stock in future.</p> <p>Evidence of checks undertaken not retained. Records to be retained in future.</p> <p>No reconciliation between web bookings and web card payments. Reconciliation to be introduced.</p>
6 - Efficiency	
F Use of Facilities and Income Collection	Additional software available to increase the efficiency of direct debit set up. New process to be adopted.
Theatres and Entertainments Follow Up (2013/14)	
2 - High	
F Princes Theatre and Essex Hall	<p>Information recorded on three different forms of checklist for each show, but none fully complete. In future checklist on show file to be treated as prime document and fully completed to demonstrate that all checks and actions required are undertaken</p> <p>Evidence that Public Liability insurance cover had been checked for all shows / hires to be kept in future. Two cases where cover below the limit set accepted - investigations to be undertaken into feasibility of acceptability of lower level of cover</p> <p>Review of the reconciliation process to be undertaken to ensure that show income is successfully reconciled. Journal transfers to be adequately narrated, and care taken regarding their completion to eliminate problems identified.</p>
3 - Medium	
F Princes Theatre and Essex Hall	<p>Records regarding complimentary tickets were inconsistent. Complimentary tickets to be agreed with promoters, and arrangements / agreement regarding any variances to be documented. The number of complimentary tickets issued to be accurately recorded.</p> <p>The receipt book used was missing pages, and contained an amended receipt. New process, including the use of official receipts, to be put in place.</p> <p>One hire agreement not found. Testing identified incomplete or missing paperwork on files. In future greater care to be taken to ensure Hire Agreements adequately completed, and a checklist completed to ensure all documentation held and all checks / actio</p> <p>Delays found in raising of invoices. The Terms and Conditions and Hire Agreement to be modified to clarify when payments are due from hirers. Procedures to be amended to reflect the processes required to ensure the income is collected.</p>
H Licenced Bar Facilities	<p>Overs and unders of cash not always identified and recorded correctly. Training of bar staff to be undertaken to ensure correct processes followed.</p> <p>Bar reconciliation records did not take account of all transactions. A control sheet to be introduced to ensure that reconciliation has been undertaken, and any discrepancies recorded and investigated.</p> <p>Bar cash float had been used for petty cash purposes. In some instances inadequate records regarding this were held. Arrangements to be made for a separate petty cash float, to be used in accordance with the Council's petty cash procedures.</p>

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

E Box Office System

Occasional problems with system when taking card payments. Log of issues with system to be maintained and reported to IT.

A controlled solution regarding the issue of refunds where payment had been by card had not been established. Receipting system for returned tickets to be put in place as functionality not currently available to make card refunds at Box Office.