

**AUDIT COMMITTEE
17TH NOVEMBER 2015**

INTERNAL AUDIT PROGRESS REPORT

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader

Reason for Report: To update the Committee on the work performed by Internal Audit for the 2015/16 financial year.

RECOMMENDATION(S): The Committee notes the contents of this report and agrees the changes to the deadlines referred to in Section 4.5.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications: None arising from the report

Legal Implications: None arising from the report

Risk Assessment: The role of Internal Audit is providing assurance that the risk management and internal control framework are operating effectively.

1.0 Introduction

1.1 The four-year strategic audit plan for 2015/16 to 2018/19 and annual work plan for 2015/16 were presented to the Audit Committee at its meeting on 24 March 2015, where they were approved.

1.2 The purpose of this report is to provide the Committee with a progress report on performance against the 2015/16 Internal Audit work plan for the period from 1 April 2015 to 30 October 2015.

2.0 Progress to date and scope of audit activities

2.1 The Audit Plan is split into the following sections:

- Core Audits
- Systems Audits
- Other Work (including fraud/ irregularity/ consultancy/contingency)

2.2 Core Audits

2.2.1 The Core Audits are given priority as they cover the Council's key financial controls or are areas where the level of income is material in the context of the Council's annual accounts. As these audits are allocated a larger number of days, as part of the risk based audit planning process, they are carried out annually. Trade Waste and Car Park Income are carried out biennially; this year we are due to do Trade Waste (in December).

2.2.2 The Core audits for 2015/16 were started in August; so far Payroll and Housing Rents have been completed and are included in section 3 below.

2.2.3 Council Tax/NNDR & Recovery is completed but the exit interview will not be until just before this meeting, Income & Cash Collection has also been commenced.

2.3 Systems Audits

2.3.1 Systems Audits have been completed for Emergency Planning, Vehicles & Fuel, Listed Buildings & Conservation, Recruitment, Selection & JE, Legal Services, Culm Valley Sports Centre, Insurance, Grants & Donations and Gifts & Hospitality.

2.3.2 The audit opinions on Grants & Donations and Gifts & Hospitality are reproduced below in full.

2.4 Other Work

2.4.1 The Internal Audit team report on performance and risk using the Spar system and present the quarterly corporate performance and risk reports to PDGs and Committees. This work will be divided between the Audit Team Leader and the Auditors from the November meetings in order to give the 2 Auditors a new development opportunity.

2.4.2 Data quality checks are carried out on committee and other reports as requested. Tender documents have been verified as usual.

2.4.3 The Audit Team have assisted with 1 investigation and sat on 2 job evaluation panels so far this year. The annual appraisals are all completed and training needs reviewed.

2.4.4 The Audit Team Leader attends the Corporate Health & Safety Committee as Risk Advisor. The 2 Auditors attend the ICT and Procurement User groups.

2.4.5 The Audit Team Leader has also attended a 4 day Institute of Internal Auditors (IIA) course on Information Systems Auditing the briefing on this for the Audit Committee as part of the item "Current Audit Issues" proposed has been delayed until January.

2.4.6 One Auditor has completed an IIA Certificate in Internal Audit and Business Risk, the other is working on a distance learning course from Petroc College about Team Leading.

2.5 Performance Indicators

2.5.1 As at the end of September the Internal Audit PIs are as follows:

	Current	Target
Core	35%	40%
System	43%	38%

2.5.2 Nine post-audit surveys have been sent out so far, six have been returned, and were scored by the client as 4-5 for all questions meaning they were satisfied or very satisfied with the process.

3.0 Audit Opinions

The following opinions have been issued since the last report:

3.1 Payroll

3.1.1 There are areas and processes within the Payroll system which are well controlled; the BACs payment system ensures clear separation of duties and authorisation at every stage, access to the Aurora payroll and HR system is well controlled and since the introduction of Real Time Information (RTI) submissions, all have been made to HMRC on time.

3.1.2 There are a number of employees who now work flexible hours which means that they may concentrate hours at the start or end of a week. This adds another complication to salary calculations which will be kept under review to ensure MDDC remains in accordance with common practice in the public sector.

3.1.3 The process for ensuring that employees return Council property on the cessation of their employment needs to be monitored more closely by Line Managers.

3.1.4 There seems to be a lack of knowledge on how to produce some reports from the Payroll system, which could be addressed by providing extra training.

3.1.5 It is the overall opinion of the auditor that the Payroll System is adequately controlled, with some elements being well controlled.

Summary of Recommendations		
High	Medium	Low
1	5	1

3.2 Housing Rents

3.2.1 It is worth noting that the previous audit of this area was carried out in February 2015, but due to the timetable for published Accounts being brought forward and the new regime since the General Election the review has been carried out now; there have not been any significant changes to the systems of control since then.

3.2.2 The separation of duties between raising the rent debit and collection process continues to be well controlled and the process of writing off former tenant bad debts was also found to be well controlled and documented.

3.2.3 However, as pointed out in the previous Audit, there are still a small number of users of the Orchard System who have changed roles, no longer require access and have not had that access removed.

3.2.4 It is the overall opinion of the auditor that the Housing Rent system is adequately controlled.

Summary of Recommendations		
High	Medium	Low
0	5	0

3.3 Grants & Donations

3.3.1 The Grants & Funding Officer is located within the Communities & Governance Service; the budget for Strategic Grants is £189,250 and for Seed Funding £23,500. There is an additional “pot” of money administered from this area by the Communities & Governance Officer; this is the Town and Parish Community (TAP) Fund. For 2014/15 the budget was £66,354; this is funded by MDDC to the tune of 10% i.e. £6,635 and the remaining 90% is financed by DCC.

3.3.2 The application processes and assessments by this Service are very thorough and carefully scrutinised by CWB PDG and Cabinet; there is also a robust appeals process.

3.3.3 The concern is that other service areas are also making payments, sometimes to the same organisations, and services may be unaware of each other’s contributions to these groups, which may lead to the terms of certain funding being breached. These payments will be for contributions to organisations whose services are used and valued by MDDC but which are made regardless of the level of use i.e. not as a fee for services rendered but by their nature more generally as a support to the service. They too however are likely to meet corporate plan priority criteria like the CDR ones.

3.3.4 The absence of a central log or database means the overall position cannot be monitored readily.

3.3.5 It is the opinion of the auditor that the area of Grants & Donations is adequate.

Summary of Recommendations		
High	Medium	Low
1	0	0

3.4 Gifts & Hospitality

3.4.1 As at the time of the audit the revised constitution had not gone back to the Standards Committee, this was scheduled to be discussed at the meeting on 19 October 2015 (the original target was 30 April 2015). The recommendations below were addressed by the Constitution Working Party review.

3.4.2 As was observed last year it remains difficult to monitor the area of gifts and hospitality as it relies on staff and Members declaring fully any items/hospitality received. A lack of disclosure would probably only be

apparent if for example there was an instance of whistle-blowing. This highlights the importance of regular reminders.

- 3.4.3 It is the overall opinion of the auditor that gifts & hospitality is adequately controlled.

Summary of Recommendations		
High	Medium	Low
2	1	0

4.0 Conclusion

- 4.1 We will continue to monitor and report on our progress at each Audit Committee meeting.
- 4.2 Outstanding audit recommendations are summarised at Appendix 1. Since the last progress report 16 recommendations have been added to SPAR. 20% of all recommendations are overdue compared to 39% last time.
- 4.3 High Priority deadlines may only be extended with the Audit Committee's agreement. At the last meeting it was agreed to extend the deadline for 2 overdue high priority recommendations, 4 have been made since the last meeting but none became overdue so there are no overdue high priority recommendations at this time and therefore no Appendix 2.
- 4.4 The Chairman of the Audit Committee requested that service managers needed to be reminded about the number of outstanding medium priority core audit recommendations. If there are insurmountable issues making achieving targets impossible then managers needed to bring these issues to the attention of the Chief Executive.
- 4.5 Overall the Internal Audit work plan has had a little slippage; with the Core audits being below and the system audits above target as at the end of October. It may be necessary to delay a couple of the smaller system audits in the plan to 2016/17, the position will be clearer by the next meeting in January 2016.

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Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: None