

**AUDIT COMMITTEE
19TH JANUARY 2016**

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.

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 31 December 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 either cover the Council's key financial controls or the level of income is material in the context of the Council's annual accounts. These audits are allocated a larger number of days, as part of the risk based audit planning process, so they are carried out annually. Trade Waste and Car Park Income are carried out biennially for the same reason; this year we are due to do Trade Waste (in January).

2.2.2 As at the end of December 7 Core audits for 2015/16 have been completed; Housing Rents, Ctax/NNDR & Recovery, Creditors, Treasury Management, Income & Cash Collection and Housing Benefits, the opinions for 5 of these are included in section 3 below.

2.2.3 Recovery was included with Ctax/NNDR this year as there is so much overlap with these audits and Income & Cash Collection.

2.2.4 The last 3 Core Audits; ICT Core, Main Accounting and Trade Waste will be reported on at the final Audit Committee for 2015/16 on 15 March 2016.

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 Systems work will re-commence in January with Freedom of Information and Appraisals & Training.

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. The 2 Auditors attended PDGs in November in preparation for them taking over the reporting to 2 of the PDGs in March 2016.

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 attended a 4 day Institute of Internal Auditors (IIA) course on Information Systems Auditing.

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

2.5 Performance Indicators

2.5.1 As at the end of December 2015 the Internal Audit PIs are as follows:

	Current	Target
Core	91%	100%
System	45%	45%

2.5.2 Nine post-audit surveys were sent out, 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 Council Tax/NNDR & Recovery

3.1.1 There are areas within Council Tax/NNDR and the Recovery section that are well run; in addition, collection rates are very good. The Revenues Manager carries out a monthly reconciliation between the Northgate system and AIM to ensure that all income is accounted for accurately and consistently between the two systems. There is a good process for monitoring and chasing of non-payers and missed payments and this is followed very well by staff who address issues as quickly as possible. There is also adequate separation of duties in place.

3.1.2 However areas where attention is required are

- that the valuation alteration and amendments need to be carried out in line with the recommended 5 working days of the download being available.
- proof of posting annual bills needs to be more accurate to ensure that we are able to easily prove posting in court.
- reports of outstanding debt/bad need to be more meaningful for Managers and Managers need to view the report as a useful tool and act where necessary to obtain outstanding debt or resolve ongoing issues.
- Users seem to have the appropriate access to the Northgate system but there are a couple of users where access needs to be removed.

3.1.3 The Council Tax and NNDR section are currently going through a restructure so are in the process of change. Some of the areas highlighted as an area of improvement will hopefully be addressed with the implementation/finalisation of the new structure.

3.1.4 It is the overall opinion of the auditor that the Revenues system is poorly controlled at present. This is partly because recommendations have been escalated to the Head of Service due to the fact that they have been carried forward for a number of years, once these are resolved the service will be at least adequate.

Summary of Recommendations		
High	Medium	Low
0	6	0

3.2 Treasury Management

- 3.2.1 It is evident that Treasury Management is well managed with due regard to the security of the Council's financial assets, but also trying to improve upon the rate of return on investments as reported in the Annual Treasury Report 2014/15 presented to Cabinet on 4 June 2015. The Accountant and Head of Finance actively look for better (but safe investment opportunities) however there is always some remaining level of risk with investments.
- 3.2.2 On 30 July 2015 Cabinet agreed to the Investment Strategy being varied to allow up to £2.5M to be invested with the CCLA commercial property fund which has had an average return of over 4% for the last 3 years compared to the bank rate of 0.5% for the last 6 years and our return of 0.64% for 2014/15. This was duly done from 1 September 2015.
- 3.2.3 It is the overall opinion of the auditor that Treasury Management is well controlled.

Summary of Recommendations		
High	Medium	Low
0	1	0

3.3 Creditors

- 3.3.1 The Creditors section continues to be proactive in keeping the payment of suppliers within terms. One recent improvement in the payment process is that the supplier statements are now regularly monitored to ensure that all invoices have been received. Where there are any missing invoices, duplicates are requested from the supplier to ensure that payments are not late. In the first 6 months of 2015/16, the Creditors section has paid 99.57% of invoices within terms, above the target set of 97.5%, which is excellent.
- 3.3.2 There are 3 recommendations which refer to the process before the invoice actually reaches the Creditors section for payment. So these need to be reinforced via the Procurement User Group. The other recommendation relates to a Housing Service procedure.
- 3.3.3 It is the overall opinion of the auditor that the Creditor payments system is well controlled.

Summary of Recommendations		
High	Medium	Low
0	4	0

3.4 Income & Cash Collection

- 3.4.1 There are a number of areas within the cash receipting process that are well controlled, including the promptness and accuracy of invoicing by the Debtors section. However, service departments are still raising invoice instructions after the service has been provided. This increases the risk that the debt may not be paid although the service has been delivered.

The cash receipting process is also very good and extremely accurate.

- 3.4.2 One area of weakness identified is the procedure for topping up the hoppers in the kiosk. At present the topping up of hoppers is done on an ad hoc basis rather than being replenished in full on a daily basis.
- 3.4.3 The price list for the external hire of the meeting rooms in Phoenix House has not been reviewed since 2012, and the responsibility for booking meeting rooms is currently managed by Member Services. The Head of Housing was due to review the prices, although this has not yet been addressed. It would seem prudent for the responsibility for room hire be transferred to the Estates section to manage and also to raise the invoices and utilise the meeting room space more to generate extra income for the Council, where possible.
- 3.4.4 It is the overall opinion of the auditor that there are elements of the Cash Receipting system that are well controlled, and other elements of the invoicing which are adequately controlled.

Summary of Recommendations		
High	Medium	Low
0	4	0

3.5 Housing Benefits

3.5.1 Most of the areas of the Housing Benefit section are well managed, these being:

- Reconciliation and provision against bad debt.
- Debts are regularly monitored and written off at the point where collection is unlikely or uneconomical.
- There is a good process to monitor and chase overpayments making use of the workflow system.

3.5.2 There are a few areas of weakness which need to be addressed:

- Invoices are saved in line with the document retention policy. However, they are saved on the S drive at present but it would be more consistent for them to be saved to DMS.
- NFI is a mandatory requirement that is not currently being fully carried out.

3.5.3 It is the overall opinion of the auditor that the Housing Benefit system is well controlled.

There were no recommendations on this audit.

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 13 recommendations have been added to SPAR. 15% of all recommendations are overdue the same as at the end of October 2015.
- 4.3 The Chairman of the Audit Committee requested that service managers be reminded about the number of outstanding medium priority core audit recommendations; this was done before the November meeting and significant inroads made bringing the number of overdue recommendations down from 39% in September. Where there are insurmountable issues making achieving targets impossible then managers needed to bring these issues to the attention of the Chief Executive.
- 4.4 High Priority deadlines may only be extended with the Audit Committee's agreement. None have been made since the last meeting and none became overdue so there are no overdue high priority recommendations again this time and therefore no Appendix 2.
- 4.5 As reported at the last meeting the Internal Audit Work Plan has had a little slippage with the Core audits still being below and the System audits on target. It is now necessary to delay a couple of the smaller, lower risk System audits i.e. Voids and Cemeteries, please note the revised work plan at Appendix 3.
- 4.6 Both the delayed audits will be picked up in 2016/17 with the Committee's agreement. The draft Internal Audit Work Plan for 2016/17 is a separate item on this agenda.

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

List of Background Papers: None