

Report of the Chief Audit and Control Officer**INTERNAL AUDIT PROGRESS REPORT****1. Purpose of report**

To inform the Committee of the recent work completed by Internal Audit.

2. Detail

Under the Council's Constitution and as part of the overall corporate governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

A summary of the reports issued and progress against the agreed Internal Audit Plan for 2018/19 is included at appendix 1. A brief narrative of the work completed by Internal Audit since the previous meeting of this Committee is also included.

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the respective audits. Details of this follow-up work is included at appendix 2. Where agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

Further progress reports will be submitted to each future meeting of this Committee. A final report will be prepared for Members' consideration after the end of the financial year detailing the overall performance and productivity of Internal Audit for 2018/19.

Recommendation

The Committee is asked to NOTE the report.

Background Papers

Nil

APPENDIX 1

INTERNAL AUDIT REPORTS ISSUED SINCE APRIL 2018

No	Audit Title	SIA	Report Issued	Opinion	Significant Actions	Merits Attention	IA Plan 2018/19 Complete
29	Gas Safety Servicing and Maintenance	CF	20/04/18	Substantial	0	1	-
01	Erewash BC – Risk Management	CF	24/04/18	-	-	-	-
02	Erewash BC – Crematorium	CF	04/05/18	-	-	-	-
30	Financial Resilience	CF	14/05/18	Substantial	0	0	-
31	CDM Regulations	CF	18/05/18	Reasonable	1	0	-
32	Human Resources	CF	22/05/18	Substantial	1	1	-
03	Procurement	CF	07/06/18	LIMITED	1	1	3%
33	Benefits	WL	12/06/18	Reasonable	1	0	-
34	Risk Management	CF	25/06/18	Substantial	0	3	-
04	Cemeteries	CF	25/06/18	Substantial	0	1	5%
4a	Erewash BC – Cemeteries	CF	25/06/18	n/a	-	-	-
35	Parks and Grounds Maintenance	WL	28/06/18	Substantial	0	1	-
36	Choice Based Lettings	CF	30/06/18	Substantial	0	1	-
05	LAHS Return	WL	31/08/18	n/a	-	-	-
37	Serious and Organised Crime	WL	05/09/18	Reasonable	0	6	-
06	Right to Buy	CF	06/09/18	Substantial	0	3	8%
07	Asset Register	CF	06/09/18	Substantial	0	0	11%
08	Legionella Prevention and Testing	WL	11/09/18	Reasonable	0	5	14%
09	Sundry Debtors	WL	14/09/18	Reasonable	1	0	16%
10	Creditors and Purchasing	CF	14/09/18	Reasonable	0	2	19%

REMAINING INTERNAL AUDIT PLAN 2018/19

No	Audit Title	SIA/ Days	Progress	IA Plan Complete
	Payroll (including Officers Allowances)	WL	Draft report issued	22%
	Cash Receipting	WL	Draft report issued	24%
	Transport (Fleet Management)	CF	Draft report issued	27%
	Commercial Properties (All)	CF	Draft report issued	30%
	Garden Waste Collection	CF	Ongoing (Nearing completion)	32%
	Electrical Testing	CF	Ongoing	35%
	Computer/ICT	WL	Ongoing	38%
	Section 106 Agreements	WL	Commenced	41%
	Bramcote Leisure Centre	CF	Commenced	43%
	Events (including Play Leadership)	CF	Commenced	46%
	Licensing (including Taxi Licences)	WL	Commenced	49%
	Safeguarding	8	Expected to commence in Q2	51%
	Commercialisation/Business Strategy	8	Expected to commence in Q3	54%
	Information Governance	8	Expected to commence in Q3	57%
	Corporate Governance (incl. Ethics)	8	Expected to commence in Q3	59%
	Tenancy Management (incl. ASB)	10	Expected to commence in Q3	62%

REMAINING INTERNAL AUDIT PLAN 2018/19 (CONTINUED)

No	Audit Title	SIA/ Days	Progress	IA Plan Complete
	Beeston Town Centre Redevelopment	6	Expected to commence in Q3	65%
	Lifeline (Aids and Adaptations)	5	Expected to commence in Q3	68%
	Treasury Management	6	Expected to commence in Q3	70%
	Energy (including Procurement)	8	Expected to commence in Q3	73%
	Homelessness	10	Expected to commence in Q3/4	76%
	Risk Management (Risk Assessment)	8	Expected to commence in Q3/4	78%
	NNDR	10	Expected to commence in Q3/4	81%
	Rents (including Evictions)	12	Expected to commence in Q3/4	84%
	Choice Based Lettings	12	Expected to commence in Q4	86%
	Bank Reconciliation	3	Expected to commence in Q4	89%
	Key Reconciliations	2	Expected to commence in Q4	92%
	Benefits	20	Expected to commence in Q4	95%
	Council Tax	12	Expected to commence in Q4	97%
	Human Resources	8	Expected to commence in Q4	100%

COMPLETED AUDITS

A report is prepared for each audit assignment and issued to the relevant senior managers at the conclusion of a review that will:

- include an overall opinion on the adequacy of controls within the system to provide assurance that risks material to the achievement of objectives are adequately managed – the opinion being ranked as either ‘Substantial’, ‘Reasonable’, ‘Limited’ or ‘Little’ assurance;
- identify inadequately addressed risks and non-effective control processes;
- detail the actions agreed with management and the timescales for completing those actions, and;
- identify issues of good practice.

The recommendations made by Internal Audit are risk assessed, with the agreed actions being categorised accordingly as follows:

- Fundamental – urgent action considered imperative to ensure that the Council is not exposed to high risks (breaches of legislation, policies or procedures)
- Significant – action considered necessary to avoid exposure to significant risk.
- Merits Attention (Necessary Control) – action considered necessary and should result in enhanced control or better value for money.
- Merits Attention – action considered desirable to achieve enhanced control or better value for money.

The following audit reports have been issued with key findings as follows:

1. Local Authority Housing Statistics Return

Internal Audit has reviewed the Local Authorities Housing Statistics return to independently examine and confirm that the statistics had been appropriately and accurately compiled and verified prior to submission to the Ministry of Housing, Communities and Local Government (MHCLG).

Overall, the review concluded that the methods used to produce the data were appropriate and that the figures presented provided a true and fair view of the Council's position. Internal Audit made two recommendations which, if implemented, should improve the efficiency and accuracy of data collected.

2. Serious and Organised Crime Assurance Opinion – **Reasonable**

Internal Audit has reviewed the procedures operating to mitigate the risk of serious and organised crime being perpetrated against the Council.

The Local Government Association (LGA) produced a document entitled 'Tackling Serious and Organised Crime – A Local Response' and established a number of local pilot studies to examine the effects of serious and organised crime on local authorities. Following these studies, a guide was produced for local authorities to use to audit their processes for the prevention and detection of serious and organised crime.

Using the LGA guidelines, Internal Audit has evaluated the approaches taken to mitigate the risk of serious and organised crime being perpetrated against the Council. The report identified a number of actions that, if addressed, should help with the following:

- Raising awareness of the ways that criminals can target local authorities and the methods used; helping officers to identify vulnerabilities in processes that could be exploited by criminals and assist in identifying suspicious activity that will improve prevention and detection.
- Providing clear pathways for reporting concerns and guidance for the collection and preservation of evidence that could be of use in an investigation or criminal prosecution.

Internal Audit proposed six 'Merits Attention' recommendations (including five 'Necessary Control' actions) namely to:

- Produce a Serious and Organised Crime Policy which identifies key risk areas and sets out the process for the investigation, evidence gathering and preservation, intelligence sharing and reporting of such cases.
- Provide further targeted awareness training for managers and front-line staff in service areas that are at the highest risk and for updates/warnings to be provided via email and/or the Intranet by the Community Safety team.

- Complete a risk and impact assessment of serious and organised crime to determine whether the risk should be included on operational risk registers and/or the Strategic Risk Register.
- Consider the risk of serious and organised crime as part of the ongoing reviews of the procurement and commissioning strategy and procedures.
- Update the Whistleblowing Policy to include the Chief Audit and Control Officer as an independent person who can receive complaints under the Policy.
- Review recruitment processes to ensure that the appropriate checks are made for all appointments in relation to references and clearances.

The review findings were supported and an action plan duly agreed with the Chief Executive and the Head of Public Protection.

3. Right to Buy Assurance Opinion – **Substantial**

This review sought to confirm whether adequate management control exists to provide assurance that Right to Buy applications/transactions are processed in an accurate and timely manner and that robust arrangements are in place for the prevention of fraud.

Internal Audit reports that the Council has an appropriate framework in place for the administration of Right to Buy applications. The review did indicate areas for improvement and three Merits Attention 'Necessary Control' actions were proposed relating to the documentation and review of the discount calculations; improvements to fraud prevention measures and updating privacy notices.

The actions were duly agreed and implemented by the Interim Senior Housing Manager and her team.

4. Asset Register Assurance Opinion – **Substantial**

Internal Audit sought to confirm that the assets held by the Council, including Housing Stock, are recorded and presented correctly in the Annual Statement of Accounts; and that adequate records of assets are maintained.

It was reported that the Council continues to maintain an appropriate framework for the administration of operations in respect of the Asset Register. An earlier issue relating to the registration of Cavendish Lodge had been resolved, with HM Land Registry accepting the Council's application as the proprietor and duly completing its registration.

Internal Audit also noted a recommendation from the external auditors, KMPG, regarding the engagement of an external valuer to assist with the preparation of the annual Statement of Accounts which will be adopted by management in order to ensure full compliance with the Royal Institution of Chartered Surveyors (RICS) Professional Standards.

No significant areas of concern were noted during the course of the audit. The findings arising from this review did not indicate any significant areas for improvement and, accordingly, Internal Audit issued a clearance report.

5. Legionella Prevention and Testing Assurance Opinion – **Reasonable**

Internal Audit has reviewed the systems and processes operating in respect of Legionella management. The audit sought to confirm whether adequate management control exists to provide assurance that:

- Proper policies are in place in relation to Legionella management to ensure compliance with legislative requirements.
- All relevant properties are identified and included in a suitable testing regime.
- Appropriate contractual and tendering arrangements are in place for contractors hired to carry out testing and their respective qualifications, safety procedures and insurance cover are reviewed.
- Arrangements in relation to properties managed by Liberty Leisure are defined and the responsibilities for testing clearly determined.
- Appropriate records of testing are maintained.
- Reporting and escalation processes in the event of detection of Legionella have been clearly determined.

Internal Audit is of the opinion that the Council has taken appropriate steps towards preventing outbreaks of Legionella and that officers are applying appropriate testing regimes locally. There were weaknesses noted in relation to policy and management that need to be addressed to ensure that the Council fully complies with the legislation, provides improved internal control and is consistently applying best practice in all cases. Five 'Merits Attention - Necessary Control' actions were proposed relating to:

- Updating the Legionella Policy, maintained by Health and Safety, and ensuring that the nominated 'Responsible Persons' are aware of policy requirements and how it affects them in terms of their responsibilities.
- Carrying out annual Health and Safety audits of Legionella prevention and detection processes and to report the findings to General Management Team and the Safety Committee.
- Defining responsibilities for arranging training courses and managing appropriate training records to ensure compliance.
- Reviewing the corporate approach for commissioning Legionella testing, risk assessment, cleaning, chlorination and training services, with a view to ensuring compliance with procurement regulations and obtaining value-for-money.

- Producing a Legionella Policy for Liberty Leisure which defines the responsible persons, risk assessment and testing procedures, reporting lines and escalation protocols.

The proposed actions were agreed by the Head of Property Services; Interim Senior Housing Manager; Health and Safety Manager; and the Managing Director – Liberty Leisure. Internal Audit will complete appropriate follow-up work at six months from the date of the audit report and will report back to Committee accordingly.

6. Sundry Debtors

Assurance Opinion – **Reasonable**

The Council has an appropriate framework in place for the administration of operations in respect of Sundry Debtors. It was pleasing to note that steps had been taken that should ensure that uncollectable debts are recognised and written off more efficiently than previously; and that attempts are being made to improve collection rates and reduce costs by using the Council's collection agents to pursue all debts before court action is contemplated.

There was one 'Significant' action relating to the need to complete a regular, prompt and adequate reconciliation between the Sundry Debtors system and the Civica Legal module, as follows:

Objective

Internal Audit sought to ensure that invoiced amounts are efficiently collected and accounted for correctly.

Findings – Reconciliations

Internal Audit has previously expressed concerns regarding the failure to complete an adequate formal reconciliation between the Civica Legal module and the Sundry Debtors system.

The failure to reconcile the number of cases and the value of individual debt on the two systems could result in a case not being identified where recovery action has been suppressed. It could also lead to a failure to identify cases where costs and receipts have not been allocated to the correct accounts.

Internal Audit is still not satisfied that the number of cases and the total value of outstanding debt on both systems align. The continuing failure to complete a formal reconciliation means that the affected cases have not been identified and corrected.

There are clearly issues with individual accounts, some of which date back to the implementation of the Civica Legal module. The current difference in the total outstanding debt figure between the systems is around £1,500. This variation is likely to include individual cases where:

- Legal costs included within Civica Legal are not being fully recognised in individual accounts in Sundry Debtors
- The value of individual write-offs in Sundry Debtors not being fully replicated in Civica Legal (likely due to the costs allocation issues)
- There were potentially errors in the original transfer of data from the former legal ARMS system.

It is noted that work has restarted in earnest to resolve these matters. Going forward, there should be a reduction in caseload appearing on Civica Legal as a result of the decision to now refer all cases to collection agents as part of recovery action. More cases may now be written-off at this stage, without referral to Legal Services for court action to be considered. A major case review is ongoing and write-offs are now being proposed for approval on a quarterly basis. Any differences should be highlighted and actioned as part of this review work and the ability to reconcile the two systems thereafter should be an easier process.

Agreed Actions (Significant)

A full review of outstanding debt on the Civica Legal module is currently being undertaken by the Business Support Team Leader with co-operation from the recovery team. Progress is being made with any remaining differences between the Civica Legal module and the Sundry Debtors system should be identified, investigated and corrected.

Thereafter, a regular monthly reconciliation should be promptly completed by the Business Support Team with the statements being reviewed and approved by an appropriate senior officer in Legal Services.

Managers Responsible

Chief Solicitor and Deputy Monitoring Officer
Sundry Debtors Performance Group

Target Date: 31 March 2019

The actions were agreed by the Chief Solicitor and Deputy Monitoring Officer and the Sundry Debt Performance Monitoring Group.

7. Creditors and Purchasing

Assurance Opinion – **Reasonable**

The Council has an established framework in place for the administration of operations in respect of creditors and purchasing. The audit did indicate areas for improvement and further recommendations were proposed in order to ensure that the processes and controls in place are effective. Two 'Merits Attention – Necessary Control' actions were proposed in respect of:

- The need to ensure that the appropriate officers are approving orders and authorising invoices for payment; and
- The requirement to ensure that orders are issued as appropriate and in a timely manner in accordance with Financial Regulations.

These proposed actions also link in with the external auditors recommendations regarding 'three-way match' control to ensure that expenditure is tightly controlled in line with best practice approval principles.

The Council is currently progressing with new project to introduce intelligent scanning that will refine the processes relating to purchase ordering and invoice payment systems. This should help to resolve the issues relating to the matching of purchase orders and the prompt and consistent scanning of invoices.

The actions were duly agreed by the Head of Finance Services and the Chief Accountant.

Further reviews in respect of Cash Receipting, Commercial Properties, Computer, Garden Waste Collection, Electrical Testing, Payroll (including Officers Allowances) and Transport (Fleet Management) are ongoing and the reports have yet to be finalised. These will be included in the next progress report to Committee.

Current Audit Performance

Overall 32% of planned audits for 2018/19 are near to completion. This level of performance is similar to what was achieved at this stage in the previous year and the target of 90% is expected to be achieved.

APPENDIX 2

INTERNAL AUDIT FOLLOW-UP

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit.

The table below provides a summary of the progress made with agreed actions for internal audit reports issued between September 2015 and February 2018 (i.e. within six months of completion), excluding clearance reports. Those audits where all actions have previously been reported as completed have also been excluded from this list.

No	Audit Title	Report Issued	Opinion	Number of Actions (Significant in brackets)	Progress
10	CCTV 2015/16	09/09/15	LIMITED	3 (2)	See below
36	Household Refuse/Bulky Waste 2015/16	06/06/16	Reasonable	5 (1)	Completed
12	Members Allowances 2016/17	06/10/16	Substantial	3	1 Outstanding
33	Information Management 2016/17	12/05/17	Reasonable	4	Completed
06	Creditors and Purchasing 2017/18	15/09/17	Reasonable	3 (1)	Next Audit
18	Housing Repairs 2017/18	22/01/18	Reasonable	3 (1)	2 Outstanding
20	HiMO Licences 2017/18	23/01/18	Substantial	4	1 Outstanding
21	Stores 2017/18	31/01/18	LIMITED	3 (2)	1 Outstanding
24	Council Tax 2017/18	20/02/18	Substantial	1	Completed

Further details of progress being made with agreed actions that have not yet been fully implemented are included below along with comments from management reflecting any updates on progress. Evidence of implementation will not be routinely sought for all actions as part of this monitoring process. Instead, a risk-based approach will be applied to conducting further follow-up work.

Where the agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

OUTSTANDING ACTIONS

1. CCTV	September 2015, Limited Assurance, Agreed Actions – 3 (with 2 Significant)
1.1 CCTV Management and Control	Progressing
1.2 CCTV Policy	Progressing
<p><u>Agreed Actions</u> (Significant)</p> <p>There is consideration of establishing a central management and control function in respect of CCTV at Broxtowe, with the proposal to create this expertise under the revised remit of the Parking Manager.</p> <p>A comprehensive policy/guidance document covering the operation of CCTV systems across the Council will be created having due regard to the relevant legislation, regulations and codes of practice.</p> <p>To support this process, the Parking Manager will initially complete a schedule of visits to all satellite sites with CCTV systems to offer guidance and support. These visits will include a summary review of the respective systems in place and, where appropriate, immediate restrictions will be applied if found to be necessary. Whilst the Parking Manager will be the direct contact for advice and support, a responsible officer will be identified for individual systems at each site.</p> <p><u>Managers Responsible</u> Head of Property Services Parking Manager</p>	<p><u>Management Progress Report of the Head of Property Services</u></p> <p>Centralised management has taken place for 90% of the Council's camera surveillance stock. All sites have been visited with the purpose and need for each system being reviewed. Recommendations have been made regarding the appropriateness, centralisation and continued monitoring responsibilities of each system. All officers associated with surveillance systems have received guidance on appropriate use in line with the Government's Camera Surveillance Commissioner's principles.</p> <p>The Council is working in accordance with Government guidance, but policies need updating to reflect changes in circumstances.</p> <p>The Parking Manager has made progress with centralisation and has advised Liberty Leisure on its operations. Centralising all systems is difficult and will require further dedicated resources to fully complete this process. A lack of officer resources does not allow an alternative site visit-based monitoring and enforcement option. Some savings have been achieved by reducing monitoring costs for the shared service. Negotiations in relation to shared control room and CCTV maintenance management is taking place. This will hopefully secure funding for additional resource to support CCTV, Security and Parking Services.</p> <p>The process of developing updated and more accurate comprehensive policies to reflect surveillance activities has been delayed.</p> <p>Internal Audit recommends that this action has been completed as far as practically possible and the risks should be reconsidered as part of a proposed audit of CCTV in 2019/20.</p>

2. MEMBERS ALLOWANCES		October 2016, Substantial Assurance, Agreed Actions – 3
2.1 Motor Insurance – Business Use		Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>Members will be asked to provide annual confirmation to the Council that their motor insurance policy provides cover for 'business use' wherever appropriate. This will be provided via Democratic Services.</p> <p><u>Managers Responsible</u> Head of Administrative Services/Chief Audit and Control Officer</p>		<p><u>Management Progress Report of the Head of Administrative Services</u></p> <p>This matter is being considered as part of a wider review of the Driving at Work Policy. Any requests for information will be supported by Democratic Services.</p>
3. HOUSING REPAIRS		January 2018, Reasonable Assurance, Agreed Actions – 3 (including 1 'Significant')
3.1 Performance Management Framework		Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>The new Performance Management Framework produced for Housing Repairs is being considered for wider adoption by the Housing department to support the link into its business planning processes.</p> <p>Whilst some points have already been adopted by Housing Repairs, it is anticipated that the new framework will be finalised, approved and scheduled for implementation by the target date.</p> <p><u>Managers Responsible</u> Interim Senior Housing Manager Housing Repairs Manager</p> <p>Target Date: 30 April 2018</p>		<p><u>Management Progress Report of the Interim Senior Housing Manager</u></p> <p>There have been some delays in fully implementing all aspects of the performance management framework, following the departure of the Housing Repairs Manager. It is expected that full implementation will be achieved across the department by the end of Quarter 3.</p> <p>The implementation of an upgraded Open Housing system will greatly assist performance monitoring across the repairs service. Phase 1 of the project, which includes Repairs Total Mobile, is due for completion in December 2018.</p>

3. HOUSING REPAIRS (Continued)	
3.2 Overdue Contract Tenders	Progressing
<p><u>Agreed Action (Significant)</u></p> <p>All expired and soon-to-be expiring contracted works will be reviewed and subject to the appropriate tender at the earliest opportunity.</p> <p>Significant progress has been made in priority areas in terms of contract/ design specification, schedule of rates and consultations on the suitability of tending through established frameworks. The support of the new Procurement and Contracts Officer will be important for the priority and high-complexity tenders. A suitable timetable for completing the review and renewal of these contracts will be agreed with the Procurement team.</p> <p><u>Managers Responsible</u> Interim Senior Housing Manager/Housing Repairs Manager Procurement and Contracts Officer Target Date: 30 June 2018</p>	<p><u>Management Progress Report of the Interim Senior Housing Manager</u></p> <p>Progress has been made and a corporate timetable for contract procurement is being developed in partnership with the Interim Procurement and Contracts Officer. The Cleaning and Voids Works contract has been procured and the new contract is effective from September 2018.</p>
4. HOUSES IN MULTIPLE OCCUPANCY LICENCES	
January 2018, Substantial Assurance, Agreed Actions – 4	
4.1 Licence Fees - Charging Regime	Progressing
<p><u>Agreed Action (Merits Attention)</u></p> <p>The current cost of providing the service will be ascertained and the appropriate licence fee determined. This review will be linked to the changes to legislation that are anticipated during 2018.</p> <p><u>Managers Responsible</u> Head of Public Protection Senior Private Sector Housing Officer Target Date: 31 December 2018</p>	<p><u>Management Progress Report of the Head of Public Protection</u></p> <p>Benchmarking of fees charged has been undertaken against other local authorities.</p> <p>A report has been prepared for the Housing Committee that will consider new legislation relating to Houses in Multiple Occupancy. This will require more properties to be licensed. A new appointment will support the additional work that will be required. This will include completing the review of costs and licence fees in 2018/19.</p>

5. STORES		January 2018, Limited Assurance, Agreed Actions – 3 (including 2 ‘Significant’)
5.1 Procurement of Stores Items		Progressing
<p><u>Agreed Action (Significant)</u></p> <p>Management will review all procurement and purchasing activity relating to Stores with a view to establishing a programme of retendering work to ensure that requirements are met in full.</p> <p>There will be consideration of using established procurement frameworks for these contracts. The support of the new Procurement and Contracts Officer will be important for the priority and high-complexity tenders. A suitable timetable for completing the review and renewal of these contracts will be agreed with the Procurement team.</p> <p><u>Managers Responsible</u> Head of Environment Transport and Stores Manager</p> <p>Target Date: 30 June 2018</p>		<p><u>Management Progress Report of the Transport and Stores Manager</u></p> <p>Work is ongoing to review all procurement activity relating to the Stores. Contract opportunities are being retendered as appropriate to ensure compliance with the Public Contract Regulations (PCR) and the Council’s Standing Orders. The Interim Procurement and Contracts Officer is supporting this process and has supplied details of relevant framework agreements to support this activity.</p>