

Report of the Chief Audit and Control Officer

INTERNAL AUDIT PROGRESS REPORT1. 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	Report Issued	Assurance Opinion	Actions Significant	Merits Attention
29	Gas Safety Servicing and Maintenance	20/04/18	Substantial	0	1
01	Erewash BC – Risk Management	24/04/18	-	-	-
02	Erewash BC – Crematorium	04/05/18	-	-	-
30	Financial Resilience 2017/18	14/05/18	Substantial	0	0
31	CDM Regulations 2017/18	18/05/18	Reasonable	1	0
32	Human Resources 2017/18	22/05/18	Substantial	1	1
03	Procurement	07/06/18	LIMITED	1	1
33	Benefits 2017/18	12/06/18	Reasonable	1	0
34	Risk Management 2017/18	25/06/18	Substantial	0	3
04	Cemeteries	25/06/18	Substantial	0	1
4a	Erewash BC – Cemeteries	25/06/18	n/a	-	-
35	Parks and Grounds Maintenance 2017/18	28/06/18	Substantial	0	1
36	Choice Based Lettings 2017/18	30/06/18	Substantial	0	1
05	LAHS Return	31/08/18	n/a	-	-
37	Serious and Organised Crime 2017/18	05/09/18	Reasonable	0	6
06	Right to Buy	06/09/18	Substantial	0	3
07	Asset Register	06/09/18	Substantial	0	0
08	Legionella Prevention and Testing	11/09/18	Reasonable	0	5
09	Sundry Debtors	14/09/18	Reasonable	1	0
10	Creditors and Purchasing	18/09/18	Reasonable	0	2
11	Commercial Props/Industrial Units	04/10/18	Substantial	0	1
12	Special – Right to Buy Application	05/10/18	n/a	-	-
13	Transport (Fleet Management)	16/11/18	Substantial	0	2
14	Energy (including Procurement)	16/11/18	LIMITED	1	1
15	Garden Waste Collection	16/11/18	Substantial	0	1
16	Cash Receipting	16/11/18	Reasonable	0	4
17	Bramcote Leisure Centre	21/11/18	Reasonable	0	3

REMAINING INTERNAL AUDIT PLAN 2018/19

No	Audit Title	Progress
	Payroll (including Officers Allowances)	Draft report issued
	Safeguarding	Draft report issued
	Events (including Play Leadership)	Draft report issued
	Treasury Management	Draft report issued
	Licensing (including Taxi Licences)	Ongoing (Nearing completion)
	Information Governance	Ongoing (Nearing completion)
	Section 106 Agreements	Ongoing (Nearing completion)
	Electrical Testing	Ongoing
	Computer/ICT	Expected to commence in Q3

REMAINING INTERNAL AUDIT PLAN 2018/19 (CONTINUED)

No	Audit Title	Progress
	Commercialisation/Business Strategy	Expected to commence in Q3
	Corporate Governance (incl. Ethics)	Expected to commence in Q3
	Tenancy Management (incl. ASB)	Expected to commence in Q3
	Beeston Town Centre Redevelopment	Expected to commence in Q3
	Lifeline (Aids and Adaptations)	Expected to commence in Q3
	Homelessness	Expected to commence in Q3/4
	Risk Management (Risk Assessment)	Expected to commence in Q3/4
	NNDR	Expected to commence in Q3/4
	Rents (including Evictions)	Expected to commence in Q3/4
	Choice Based Lettings	Expected to commence in Q4
	Bank Reconciliation	Expected to commence in Q4
	Key Reconciliations	Expected to commence in Q4
	Benefits	Expected to commence in Q4
	Council Tax	Expected to commence in Q4
	Human Resources	Expected to commence in Q4

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. Commercial Property and Industrial Units Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of its commercial property, industrial units and craft workshops portfolio. It was pleasing to note that previous recommendations made in respect of the letting of retail units at The Square, Beeston had been actioned as agreed.

One 'Merits Attention' recommendation was suggested in respect of the efficiency of the annual billing process for insurance recharges. The Estates Manager agreed that combined rent and insurance bills will be established for new tenancies and for existing tenants at the point of periodic rent reviews. This action will be reviewed in 12 months to consider whether turnover has created an opportunity for implementing a wholesale change.

2. Special Investigation – Right to Buy Application

Internal Audit investigated a significant credit balance on a rent account in advance of completing a 'Right to Buy' sale. This investigation was undertaken at the request of the Chief Solicitor and Deputy Monitoring Officer.

Internal Audit assessed the risk of fraud and money laundering activity in this case and sought to ensure that controls were in place to mitigate these risks. A review of the financial history of the tenant's rent account and related notes was undertaken, in addition to discussing the case with the relevant officers.

The overall conclusion was that no further investigation was deemed necessary and the sale should be allowed to proceed towards completion. The findings were reported to senior management including the Interim Senior Housing Manager, Head of Revenues and Benefits Shared Service and the Chief Solicitor and Deputy Monitoring Officer.

More generally, whilst a tenant may build up a small credit balance on a rent account, the build-up of significant credit balances is not considered reasonable and unnecessarily exposes the Council to the risk of money laundering activity and related offences. As such, Internal Audit recommended that a regular and detailed review of all rent accounts (*and other accounts such as council tax, business rates etc.*) with consistently high credit balances should be conducted. This risk of fraud and money laundering activity should be assessed and, where the risk is considered low, a refund should be made in order to return the rent account balance to a more reasonable position.

3. Transport (Fleet Management) Assurance Opinion – **Substantial**

In addition to providing assurance that operations are properly accounted for in line with the appropriate legislation and the Council's Standing Orders and Financial Regulations, the specific audit objectives sought to confirm whether adequate management control exists to provide assurance that:

- Driver hours are adequately and accurately recorded, monitored and controlled
- Provision of transport services to departments is accurately costed and recharged
- Driver records (including licences and insurance details) are maintained for all employees who drive as part of the Council's business operations
- Material fleet acquisitions and disposals are appropriately authorised.

Internal Audit reported that the Council has an appropriate framework in place for the administration of operations in respect of its transport fleet. The review did indicate areas for improvement. Two 'Merits Attention – Necessary Control' actions were proposed relating to fleet drivers completing a fresh declaration regarding any additional driving duties and to thoroughly review the 'grey fleet', with a view to ensuring that all employees who use their own vehicles whilst driving on Council business submit a Car User Database form.

The actions were duly agreed by the Head of Environment and the Transport and Stores Manager.

4. Energy Assurance Opinion – **Limited**

This was the first separate review of energy. Internal Audit sought to confirm whether adequate management control exists to provide assurance that:

- Contracts for the supply of energy were subject to appropriate procurement processes
- Billing and metering processes were appropriately monitored and subject to scrutiny
- All external reporting obligations are met
- Performance management processes are operating effectively.

Whilst the Council has an energy management framework in place, the review did indicate areas for improvement and further recommendations were proposed in order to ensure that the processes and controls in place are effective. There was one 'Significant' action relating to the need to make operational improvements in terms of the risk-based prioritisation of meter reading, bill checking and analysis and payment processes, as follows:

Objective

Internal Audit sought to ensure that the billing and metering processes are appropriately monitored and subject to scrutiny; that all external reporting obligations are met; and that performance management processes are in place and operating effectively.

Findings – Efficiency Improvements

Presently, most of the Energy Officer's time is dedicated to checking energy bills, negotiating with suppliers and obtaining meter readings. This has resulted in a number of areas falling behind, including the update and implementation of the Council's Carbon Management Plan.

A review of processes in place for meter readings, bill checking and payment of energy supplies has given rise to a number of potential efficiency improvements which would free up time for the Energy Officer to devote to other key areas. These improvements could include:

- Adoption of a risk-based approach to individual meters. The majority of the energy meters within the Council attract low value monthly bills. Only a small number of meters (such as those for the Council Offices, leisure centres and the crematorium) generate significant monthly bills.
- Analytical review of monthly billing. The initial high-level review of bills as they are received to ascertain consistency with previous bills, bills from comparable sites and similar analytical techniques, would lead to greater efficiency by precluding the need to check every bill as it is received. This would also assist in quick identification of potential credit balances and refunds. A dedicated Energy Database (and/or developed spreadsheets) would prove an excellent tool for such work and would provide improved reporting functionality beyond the current database.
- Devolution of meter reading duties. Where meters are located at various sites, arrangements could be made with the appropriate officers at relevant sites to provide meter readings to the Energy Officer.

Agreed Actions (Significant)

A risk-based approach will be considered for the billing and checking process adopting the potential improvements outlined above.

The analytical review of monthly billing could be facilitated by the procurement of an Energy Database, which would enable a greater and faster analysis and payment of the incoming invoices. Analysis of usage and charges on each site could be undertaken for both abnormal usage and comparison previous years bills and weather conditions, enabling greater efficiency of identifying potential refunds and credits, and helping to prevent overpayment.

This greater efficiency will free up some of the current time spent on bill checking and processing by the Energy Officer to progress other proactive tasks such as updating the Carbon Management Plan, looking at further ways to reduce energy consumption and CO₂ emissions.

Managers Responsible

Head of Property Services

Estates Manager, Energy Officer

Target Date: 31 March 2019

The review also indicated an area for improvement, with a 'Merits Attention' action being proposed in respect of the need to review the current procurement framework for the supply of electricity (including consideration of alternative frameworks/suppliers) prior to the renewal of the contract.

The actions were agreed by the Head of Property Services, the Estates Manager and the Energy Officer.

5. Garden Waste Collection Assurance Opinion – **Substantial**

The specific audit objectives sought to confirm whether adequate management controls exist to provide assurance that the garden waste scheme is appropriately priced and charged to service users; collections are only made at properties with a current subscription; collection routes are calculated to ensure efficient use of vehicles and employees; adequate arrangements exist for the storage and transfer of garden waste; and income reconciliations are completed in an accurate and timely manner.

Internal Audit reported that the Council has an appropriate framework in place for operating the garden waste collection scheme. The review indicated an area for improvement with one 'Merits Attention – Necessary Control' action proposed relating to the need to reinstate the income reconciliation process.

An action plan was duly agreed by the Head of Environment and the Environmental and Business Development Manager.

6. Cash Receipting (Payment Kiosk) Assurance Opinion – **Reasonable**

Internal Audit sought to confirm whether adequate management controls exist to provide assurance that policies and procedures are in place in respect of the payment kiosk; security is robust; monies paid through the kiosk are appropriately accounted for, banked and reconciled; and the ongoing usage of the facility is reviewed.

The Council has an appropriate framework in place for cash receipting (payment kiosk). The review did indicate areas for improvement and recommendations were made in order to ensure that processes and controls in place are effective. Four 'Merits Attention – Necessary Control' actions were proposed relating to the need to:

- Produce internal procedural guidance for reference, including business continuity arrangements in the event of the unit malfunctioning.
- Further improve security arrangements including an updated risk assessment, review of the physical security of the kiosk and back-office; and providing panic alarms and improved glass filter/roller blind for the access door.

- Further strengthening of key controls associated with cash handling, supported by the procedural guidance, to reduce the risks associated with the lack of direct supervision.
- Review usage of the kiosk to identify regular users and encourage those customers into using alternative cost efficient and effective provisions (with management reconsidering alternative external solutions).

An action plan was duly agreed by the Head of Administrative Services, the Head of Revenues, Benefits and Customer Services, the Business Support Team Leader and the Senior Support Officer.

7. Liberty Leisure – Bramcote Leisure Centre Assurance Opinion – **Reasonable**

Internal Audit reviewed the systems and procedures operating at Bramcote Leisure Centre. The terms of reference were agreed with the Liberty Leisure Managing Director and the Centre Manager prior to the commencement of the audit. The cost of this work will be recharged to Liberty Leisure.

Internal Audit sought to confirm whether adequate management control exists to provide assurance that:

- Cash receipting and reconciliation processes are sufficiently robust and efficient.
- Amounts due for the hire of sporting facilities and similar services are efficiently collected.
- Purchasing is undertaken in an appropriate and efficient manner.
- Lifeguards are appropriately qualified.
- Recharges for services provided to the company are prepared and presented in an appropriate manner.
- Legionella testing procedures are carried out in the correct manner.

It was pleasing to report that Liberty Leisure continues to maintain an appropriate framework for the administration of operations at Bramcote Leisure Centre. The review did identify areas for improvement and four recommendations were made for management's consideration. These actions related to the need to:

- Conduct a review of the processes for raising debtor invoices and the collection of monies due, including the systems for monitoring and recording progress with debt recovery.
- Fully utilise the corporate purchasing system to ensure that all purchase ordering is carried out electronically and in accordance with the company's Financial Regulations.
- Consider the findings of Internal Audit when reviewing the cashing-up and banking process at all Liberty Leisure sites to improving efficiency.

The proposed actions were agreed by the Liberty Leisure Managing Director and the Leisure Centre Manager.

Further reviews in respect of Events (including Play Leadership), Electrical Testing, Information Governance, Licensing, Payroll (including Officers Allowances), Safeguarding, Section 106 Agreements and Treasury Management are ongoing and the reports have yet to be finalised. These will be included in the next progress report to the Committee.

Current Audit Performance

Overall 54% of planned audits for 2018/19 are near to completion. This level of performance slightly improved 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 October 2016 and May 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
12	Members Allowances 2016/17	06/10/16	Substantial	3	Completed
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
29	Gas Servicing and Maintenance 2017/18	20/04/18	Substantial	1	Completed
31	CDM Regulations 2017/18	18/05/18	Substantial	1 (1)	Completed
32	Human Resources 2017/18	22/05/18	Substantial	2 (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. HOUSING REPAIRS		January 2018, Reasonable Assurance, Agreed Actions – 3 (including 1 ‘Significant’)
1.1 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; and Housing Repairs Manager</p>	<p><u>Management Progress Report of the Interim Senior Housing Manager</u></p> <p>The target remains to implement the new Performance Management Framework 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 early December 2018.</p>	
1.2 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; and Housing Repairs Manager Procurement and Contracts Officer</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.</p> <p>The new Cleaning contract is in place and the procurement of the minor works contract has been progressed using the Efficiency East Midlands Procurement Framework.</p>	

2. HOUSES IN MULTIPLE OCCUPANCY LICENCES **January 2018, Substantial Assurance, Agreed Actions – 4**

2.1 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</p> <p style="text-align: right;">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. The Housing Committee has considered a report on new legislation relating to Houses in Multiple Occupancy that will require more properties to be licensed. A new appointment will support the additional work that will be required. A review of licence fees is underway and this will be completed in time for the review of fees and charges as part of the annual budget setting process.</p>
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3. STORES **January 2018, Limited Assurance, Agreed Actions – 3 (including 2 ‘Significant’)**

3.1 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 style="text-align: right;">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 Stores related procurement activity and to retender contract opportunities where appropriate to ensure compliance with the Council’s Standing Orders and procurement regulations. The Interim Procurement and Contracts Officer is currently benchmarking the top ten stores item pricing with current ESPO framework agreements.</p>
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