

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.

Following a recent establishment change in the Internal Audit team, a revision to the Internal Audit Plan 2018/19 is required to ensure that an appropriate level of performance and coverage can be achieved with the reduced resources available. There is flexibility within audit planning arrangements to allow for audit areas to be deferred, subject to approval by this Committee. The proposed revision for the Internal Audit Plan is considered in appendix 2.

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 follow-up work are included at appendix 3. 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 CONSIDER the report and to RESOLVE that the revisions to the Internal Audit Plan for 2018/19 as set out in appendix 2 be approved.

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	Cash Receipting	21/11/18	Reasonable	0	4
16	Bramcote Leisure Centre	23/11/18	Reasonable	0	4
17	Garden Waste Collection	30/11/18	Substantial	0	1
18	Financial Appraisal	03/12/18	n/a	-	-
19	Events	12/12/18	Substantial	0	1
20	Licensing (including Taxi Licences)	21/12/18	Substantial	0	0
21	Financial Appraisal	03/01/19	n/a	-	-
22	Section 106 Agreements	30/01/19	Substantial	0	0
23	NNDR	14/02/19	Substantial	0	1
24	Homelessness	15/02/19	Substantial	0	0
25	Information Governance	28/02/19	Substantial	0	1
26	Treasury Management	28/02/19	Substantial	0	1
27	Rents	28/02/19	Substantial	1	1
27a	Housing Evictions	28/02/19	Substantial	0	0

REMAINING INTERNAL AUDIT PLAN 2018/19

No	Audit Title	Progress
	Safeguarding	Draft report issued
	Council Tax	Draft report issued
	Payroll (including Officers Allowances)	File to be reviewed
	Tenancy Management (incl. ASB)	Ongoing (Nearing completion)
	Corporate Governance (incl. Ethics)	Ongoing (Nearing completion)
	Bank Reconciliation	Ongoing
	Key Reconciliations	Ongoing
	Lifeline (Aids and Adaptations)	Ongoing
	Electrical Testing	Ongoing
	Commercialisation/Business Strategy	Ongoing
	Risk Management (Risk Assessment)	Ongoing
	Beeston Town Centre Redevelopment	Expected to commence in Q4
	Computer/ICT	Expected to commence in Q4
	Choice Based Lettings	To be deferred to 2019/20 (see appendix 2)
	Benefits	To be deferred to 2019/20 (see appendix 2)
	Human Resources	To be deferred to 2019/20 (see appendix 2)

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. Financial Appraisal

Internal Audit produced a financial appraisal of companies expressing an interest to lease the 'incubator units' on The Square, Beeston. The request was received from the Senior Economic Development Officer, with management wanting consideration of the financial viability of the respective companies in order to assess the level of risk to the Council.

The specific findings and suitable recommendations were reported to senior management including the Head of Neighbourhoods and Prosperity, Planning Regeneration and Development Manager, Senior Economic Development Officer, Head of Property Services, and the Estates Manager.

2. Liberty Leisure Limited – Events Assurance Opinion – **Substantial**

Internal Audit reviewed the systems and procedures operating for Events. The terms of reference were agreed with the Liberty Leisure Limited Managing Director and the Cultural Services Manager prior to the commencement of the audit. The cost of this work will be recharged to Liberty Leisure Limited.

Internal Audit sought to confirm whether adequate management control exists to provide assurance that events are managed and planned in an appropriate and efficient manner; adequate insurance arrangements are in place with particular regard to public liability; and compliance is achieved with the Construction (Design and Management) Regulations.

It was pleasing to report that Liberty Leisure Limited continues to maintain an appropriate framework for the administration of operations for Events Management. One value for money recommendation was made regarding the procurement of a blanket all-risks policy for hired equipment used at events if such an annual policy is financially advantageous.

The proposed action was discussed and agreed by the Liberty Leisure Limited Managing Director and the Cultural Services Manager.

3. Licensing Assurance Opinion – **Substantial**

Internal Audit reported that there continues to be an appropriate framework in place for the administration of operations in respect of Licensing.

It was noted that reconciliations were being sporadically carried out between the Licensing system and the general ledger. Officers were in the process of completing the outstanding reconciliations and bringing these up to date. Internal Audit reminded management that reconciliations are considered a key control that should be undertaken regularly.

Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

4. Financial Appraisal – Property Developer

Internal Audit produced a financial appraisal of the two companies involved in a request to vary the terms of a s106 agreement that was due to be considered by Planning Committee on 9 January 2019. The request was received from the Senior Legal Executive on behalf of the Head of Legal Services, with management wanting consideration of the financial stability and viability of the respective companies in order to assess the level of risk to the Council.

The specific findings and suitable recommendations were reported to senior management including the Head of Legal Services, Senior Legal Executive, Head of Neighbourhoods and Prosperity, and the Planning Regeneration and Development Manager.

5. Section 106 Agreements Assurance Opinion – **Substantial**

Internal Audit was pleased to report that the Council has an appropriate framework in place for its arrangements in respect of S106 agreements.

It was pleasing to note that the previously agreed action to establish a suitable central management system to monitor the collection of amounts due under S106 agreements had been completed and maintained.

Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

6. NNDR Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of Business Rates.

One merits attention action was proposed after Internal Audit recommended that the need to retain hard copies of write-off reports (and potentially other documentation containing personal data) should be reviewed with a view to reducing the risk of a personal data breach. The arrangements for maintaining the necessary evidence to demonstrate an authorised write-off was reviewed by the Head of Revenues and Benefits Managed Service and these records will now be scanned and retained electronically rather than keeping a paper file.

7. Homelessness Assurance Opinion – **Substantial**

Internal Audit reports that the Council has an appropriate framework in place for the administration of operations in respect of Homelessness. It was pleasing to report that the service has adapted well to recent legislative changes that has brought about new duties to prevent and relieve homelessness. A matter raised regarding advices given to an applicant was discussed with the Homeless Manager who provided the necessary assurances.

Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

8. Information Governance Assurance Opinion – **Substantial**

The Council maintains an appropriate framework for Information Governance. Internal Audit was pleased to report that previously agreed actions relating to the Senior Information Risk Owner (SIRO) audit had been completed. It was apparent from the latest review of the material produced and disseminated by ICT Services and from discussions with management and employees across the Council that awareness of the GDPR is generally high.

Internal Audit recommended that as part of the ongoing implementation of the 'New Ways of Working' project, attention is given to ensuring that departments are aware of the need to maintain and develop responsibility for managing information.

A small number of issues were noted and suitable actions agreed with Chief Information Officer and the Information Governance Officer to ensure that matters remain up-to-date. The findings of the Internal Audit report will be considered by the Corporate Information Governance Group. The next SIRO audit is due to commence in March 2019.

9. Treasury Management Assurance Opinion – **Substantial**

The Council has an established framework in place for the administration of treasury management operations. The short and medium term cash flow forecasting processes were examined and found to be working sufficiently well on a day-to-day basis.

The review did indicate an area for improvement, with one 'Merits Attention – Necessary Control' action proposed to improve cash flow forecasting to take into account the best available data of known and estimated future income and expenditure, with the planning horizon extended to a rolling twelve months.

An action plan was agreed by the Head of Finance Services and the Chief Accountant.

10. Rents Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of operations in respect of Rents.

The audit did indicate areas for improvement and further recommendations were proposed to ensure that the processes and controls in place are effective. There was one 'Significant' action relating to the need to mitigate the risk and impact of the introduction of Universal Credit, as follows:

Objective

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

Findings – Impact of Universal Credit

Universal Credit (UC) was introduced at Beeston Job Centre in November 2018. The financial implications for the Council are potentially significant with increased rent arrears and decreased collection rates anticipated.

The situation is being adequately addressed and managed with a number of mitigation measures in place, including an increase in the capacity of the Rents team and the creation of the Financial Inclusion Officer post to improve tenant engagement. However, as the impact of UC remains a significant risk to the Council, the monitoring and mitigation measures will continue to be required.

Agreed Actions (Significant)

The risk and impact of UC on the Council remains a matter for continual and high priority monitoring and mitigation.

The risk mitigation measures include working in partnership with the DWP, Citizens Advice and Job Centre Plus; the Welfare Reform Working Group; employing a Financial Inclusion Officer and a Tenancy Sustainment Officer; the move of the Rents team into the Housing department and reviewing internal processes; introductory and fixed term tenancies; changing the terms of the tenancy agreement regarding payment of rent; Discretionary Housing Payment allocations; introducing Direct Debits for Rents; and working to reduce arrears (including an increase in the bad debt provision for rents in 2019/20). Recent reports (including the budget reports) that have been submitted to Policy and Performance Committee and Housing Committee in the last few months contain further details.

Managers Responsible

Interim Senior Housing Manager

Interim Rents Manager

Target Date: 31 May 2019

The review also indicated a further area for improvement, with a 'Merits Attention – Necessary Control' action being proposed regarding the need to establish new authorising officers for rent refund payments once the Rents team's move into the Housing Department is completed. This action was duly agreed by the Interim Senior Housing Manager and the Interim Rents Manager.

11. Rent Evictions

Assurance Opinion – **Substantial**

The annual review of the Pre-Eviction Protocol for Rent Arrears was also completed. It was pleasing to report that the Council has an appropriate framework in place for evictions, with the Protocol being compliant with legislation. A sample of five cases where eviction was considered on the grounds of rent arrears was reviewed. The findings were considered to be satisfactory, with the action taken being reasonable and compliant with the steps outlined in the Protocol.

Further reviews in respect of Bank Reconciliation; Commercialisation/Business Strategy; Corporate Governance and Ethics; Council Tax; Electrical Testing; Key Reconciliations; Lifeline (incl. Assisted Living/Aids and Adaptations); Payroll (including Officers Allowances); Risk Management; Safeguarding; and Tenancy Management (including Housing ASB) 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 78% of planned audits for 2018/19 are near to completion as at 1 March 2019. 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, subject to revisions to the plan considered in appendix 2 below.

APPENDIX 2

REVISION TO THE INTERNAL AUDIT PLAN 2018/19

An experienced Senior Internal Auditor has recently left the Council after being successfully recruited to a similar role at another local authority. This move had not been anticipated and the vacancy is not reflected in the Internal Audit Plan 2018/19. Whilst performance levels for the year to date are currently at expected levels, it is unlikely that the 90% target would be achieved without revising the Internal Audit Plan. The net audit days lost is around 35 days.

The Chief Audit and Control Officer has reviewed the remaining audits and identified the following planned work as being potential audits to defer. This would reduce the pressure on the current audit work programme:

- Benefits
- Choice Based Lettings
- Human Resources.

Whilst these service areas do present considerable risks, these audits are proposed for inclusion within the Internal Audit Plan 2019/20 (considered elsewhere on this agenda) and, if approved, these could be considered for an early review. The timing of this work for completion by 30 June 2019 should enable any relevant findings to be incorporated into the Chief Audit and Control Officer's Annual Internal Audit Review Report. **It is therefore recommended that the Internal Audit Plan 2018/19 is revised accordingly.**

The process to recruit a replacement internal auditor has already begun with an external advertisement placed at the existing salary grade. If this recruitment process should prove to be unsuccessful, the Chief Audit and Control Officer will reconsider the team's structure and profile, in conjunction with the Deputy Chief Executive (Section 151 Officer) and the Chair of the Governance, Audit and Standards Committee, in order to come up with a suitable approach for covering the vacancy in the short, medium and long term.

APPENDIX 3

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 January and July 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
18	Housing Repairs 2017/18	22/01/18	Reasonable	3 (1)	Completed
20	HiMO Licences 2017/18	23/01/18	Substantial	4	Completed
21	Stores 2017/18	31/01/18	LIMITED	3 (2)	1 Outstanding
03	Procurement 2018/19	07/06/18	LIMITED	2 (1)	2 Outstanding
33	Benefits 2017/18	12/06/18	Reasonable	1 (1)	Completed
34	Risk Management 2017/18	25/06/18	Substantial	3	Next audit
04	Cemeteries 2018/19	25/06/18	Substantial	1	1 Outstanding
35	Parks and Grounds Maintenance 2017/18	28/06/18	Substantial	1	Completed
36	Choice Based Lettings 2017/18	13/07/18	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. STORES		January 2018, Limited Assurance, Agreed Actions – 3 (including 2 ‘Significant’)	
1.1 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>The use of established procurement frameworks will be considered for these contracts. The support of the 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 continues to review all stores related procurement activity and to re-tender contract opportunities where appropriate to ensure compliance with the Council’s Standing Orders and procurement regulations.</p> <p>A benchmarking exercise has been carried out and all current pricing is in-line with established procurement framework pricing except for Personal Protective Equipment (PPE). A review is being undertaken with alternative suppliers for PPE to be concluded by April 2019.</p>	
2. PROCUREMENT		June 2018, Limited Assurance, Agreed Actions – 2 (including 1 ‘Significant’)	
2.1 Procurement e-Learning Package		Outstanding	
<p><u>Agreed Action (Merits Attention)</u></p> <p>A procurement e-Learning package will be developed to raise awareness of the legislation, regulations and other matters surrounding procurement and the systems and procedures in place at the Council. This will complement the existing support and guidance that is available on the intranet and website.</p> <p><u>Manager Responsible</u> Chief Audit and Control Officer Procurement and Contracts Officer</p> <p>Target Date: 31 March 2019</p>		<p><u>Management Progress Report of the Chief Audit and Control Officer</u></p> <p>This action has been delayed to focus upon high priority outstanding actions relating to procurement. A revised target date is set for 30 September 2019. The risk is largely mitigated by the existing support and guidance that is available on the intranet and website.</p>	

2. PROCUREMENT (Continued)	
2.2 Comprehensive Review and Update of Procurement Activity	Progressing
<p><u>Agreed Action (Significant)</u></p> <p>An Interim Procurement and Contracts Officer was appointed with significant experience in public sector procurement and contract management. The key priorities and tasks in the medium term are:</p> <ul style="list-style-type: none"> • Refreshing the Commissioning and Procurement Strategy to ensure compliance with regulations and corporate requirements and refreshing associated procurement guidance documents on the intranet and website. • Reviewing the Contracts Register to ensure that it is transparent and that there is a robust tendering work schedule covering all significant value transactions (and strategically important) for all activities – initial focus will be on expired/soon to expire contracts. • Ensuring the Contracts Register is comprehensive; with analysis of management data to evaluate potential efficiencies and identify areas which should be awarded under contract following tender. • Supporting the review of the Council's Constitution, in particular relating to Financial Regulations and Contract Standings Orders. • Establishing a suitable framework for contract management, including liaising with senior management to identify key contracts over £25,000 and advice how the monitoring of these and operational performance management could be improved. • Promoting the most efficient means of procurement activity, including development of e-procurement systems and processes. <p><u>Managers Responsible</u> Head of Finance Services Chief Audit and Control Officer Procurement and Contracts Officer</p> <p>Target Date: 31 October 2018</p>	<p><u>Management Progress Report of the Head of Finance Services</u></p> <p>A progress report was presented to this Committee in December 2018 for consideration. The Interim Procurement and Contracts Officer has been working to bring the Council back up-to-date in terms of its compliance with procurement legislation and the Council's Financial Regulations (Contract Standing Orders) across the whole business.</p> <p>Progress continues to be made to bring the Council back towards a fully compliant position. Management are monitoring this progress through regular updates reports on procurement activity to GMT.</p> <p>Going forward, the Council will be reviewing its needs and considering the most effective way of providing suitable procurement expertise. This work will include benchmarking procurement arrangements with other authorities across the region and considering the adequacy of the current established Procurement and Contracts Officer post in terms of its job description, person specification and salary grade.</p>

3. CEMETERIES		June 2018, Substantial Assurance, Agreed Actions – 1
3.1 Digitisation of Cemetery Records		Progressing
<u>Agreed Action</u> (Merits Attention – Necessary Control) A timetable for developing an efficient solution for maintaining a 'one-stop' effective and accurate electronic cemetery records will be produced. The progress made against this plan will then be monitored as appropriate by management (and Bereavement Services Committee). The replacement of the current software solution is considered to be a key part in this medium-term project. <u>Manager Responsible</u> Head of Property Services	<u>Management Progress Report of the Head of Property Services</u> This action is behind schedule. The revised target date is set for 30 September 2019	
Target Date: 31 October 2018		