

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 2019/20 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 follow-up work are 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 2019/20.

Recommendation

The Committee is asked to NOTE the report.

Background papers

Nil

APPENDIX 1

INTERNAL AUDIT REPORTS ISSUED SINCE APRIL 2019

No	Audit Title	Report Issued	Assurance Opinion	Actions	
				Significant	Merits Attention
01	Erewhash BC – Risk Management	09/04/19	n/a	-	-
02	Financial Appraisal – Durban House	12/04/19	n/a	-	-
33	Commercialisation	29/04/19	Substantial	0	0
34	Bank Reconciliation	20/05/19	Substantial	0	0
35	Key Reconciliations	28/06/19	Substantial	0	1
36	Disabled Adaptations and Lifeline Service	28/06/19	Substantial	0	1
37	Payroll (including Officers Allowances)	28/06/19	Reasonable	1	0
38	Tenancy Management (incl. Housing ASB)	12/07/19	Substantial	0	0
01	Asset Register	12/08/19	Substantial	0	0
02	Financial Appraisal	15/08/19	n/a	-	-
03	Benefits	05/09/19	Reasonable	1	1
04	Sundry Debtors	06/09/19	Reasonable	0	3

REMAINING INTERNAL AUDIT PLAN 2019/20

No	Audit Title	Progress
	Choice Based Lettings	Draft report issued
	Creditors and Purchasing	Draft report issued
	Bramcote Crematorium	Draft report issued
	Asset Management (incl. Leisure Facilities)	Draft report issued
	CCTV	Draft report issued
	Electrical Testing	Draft report issued
	Beeston Town Centre Redevelopment	Ongoing (Nearing completion)
	Cash Receipting	Ongoing (Nearing completion)
	Human Resources	In progress
	Chilwell Olympia	In progress
	Local Elections	In progress
	Recycling	In progress
	Kimberley Depot (including Security)	In progress
	Financial Resilience (including MTFS/Capital)	Expected to commence in Q2
	Enforcement	Expected to commence in Q2
	Whistleblowing Policy and Complaints	Expected to commence in Q2
	Housing Repairs	Expected to commence in Q3
	Online Ticket Portal	Expected to commence in Q3
	Treasury Management	Expected to commence in Q3
	NNDR	Expected to commence in Q3
	Rents (including Evictions Protocols)	Expected to commence in Q3
	Planning and Building Control	Expected to commence in Q3

REMAINING INTERNAL AUDIT PLAN 2019/20 (continued)

No	Audit Title	Progress
	Information Governance (GDPR, FOI etc.)	Expected to commence in Q3
	Operational Risk Management	Expected to commence in Q3
	Procurement and Contract Management	Expected to commence in Q3
	Health and Safety	Expected to commence in Q3
	Computer/ICT (including Cyber Risk)	Expected to commence in Q4
	Local Authority Trading Company	Expected to commence in Q4
	Council Tax	Expected to commence in Q4
	Independent Living Service	Expected to commence in Q4
	Bank Reconciliation	Expected to commence in Q4
	Key Reconciliations	Expected to commence in Q4
	Corporate Governance	Expected to commence in Q4

COMPLETED AUDITS

A report is prepared for each audit assignment and issued to the relevant senior management 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.

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. Tenancy Management Assurance Opinion – **Substantial**

Internal Audit reports that the Council has an appropriate Tenancy Management framework in place. It was noted that the arrangements for assisting customers with additional support needs regarding Universal Credit and other financial issues are still relatively new. As such, a full assessment of their effectiveness was not carried out at this time but will be considered as part of the forthcoming Rents audit.

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

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

This audit sought to confirm that adequate controls exist to provide assurance that 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 held by the Council are maintained.

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

3. Financial Appraisal

Internal Audit produced a financial appraisal of a company being engaged to supply a new Combined Heat and Power Unit at Bramcote Leisure Centre.

The request was received from the Capital Works Projects Manager, with management wanting consideration of the financial viability of the company in order to assess the level of risk to the Council. This has been determined primarily on the basis of a review of publicly available financial information.

The result of the financial appraisal was satisfactory, with the findings being reported to senior management including the Head of Property Services; Capital Works Manager; Capital Works Projects Manager; and the Managing Director, Liberty Leisure Limited.

4. Benefits Assurance Opinion – **Reasonable**

The Council has an appropriate framework in place for the administration of Benefits. It was also pleasing to acknowledge the positive outcome of the last review of the Benefits Subsidy claim by the external auditors where an unqualified audit report was provided for the third consecutive year. The positive outcome provides further management assurance that the DWP are comfortable with the adequacy of the arrangements in place.

Internal Audit proposed a 'significant' action relating to the need to ensure that benefits claim assessments checks are undertaken regularly as prescribed and the performance monitored, as follows:

Checking of Claim Assessments

A module within the Benefits system automatically selects a sample of all claims for rechecking. The sampling interval is set at 1-in-25 assessments (i.e. 4%). The checked assessments are graded as *pass*, *fail* or *critical fail* (where the claim assessment contains errors that affect the benefit award).

A review of the records revealed that the checks are not being regularly completed, although performance has improved since previous audits.

Concerns about the lack of checking were raised previously and this remains a notable weakness in control. There is an obvious risk of errors being made that could lead to benefit claims being wrongly assessed.

Internal Audit recommends that the checking process for Benefit claim assessments should be monitored and the requisite action taken to ensure that the prescribed rechecking is completed on a regular basis.

Agreed Action (Significant)

The current regime of checking 4% of Benefit claims assessments is rigid and resource intensive. The methodology does not consider the experience and past performance of individual officers within the Benefits team. Some Benefits Assessors are experienced and established officers who are known to make very few errors. It seems to be counter-productive to check their work as frequently and intensely as others who might not be as accurate, efficient and/or experienced.

A review of the methodology of selecting cases for monitoring purposes will therefore be undertaken. Working with the Benefit Team Leaders, a new checking framework is being devised which will focus on a risk-based approach. This will allow the monitoring to be orientated more towards those officers that are likely to be making mistakes.

Managers Responsible

Head of Revenues, Benefits and Customer Services

Benefits Team Leaders

Target Date: 31 October 2019

A further 'Merits Attention - Necessary Control' action was proposed relating to enhanced performance reporting whereby overpayment errors would be identified as being 'administrative' or 'financial'. Where the error is financial the value will be determined to provide greater context for reporting purposes.

The proposed actions were agreed by the Head of Revenues, Benefits and Customer Services. 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

5. Sundry DebtorsAssurance Opinion – **Reasonable**

The audit objectives sought to confirm whether adequate management control exists to provide assurance that invoices are being raised correctly; invoiced amounts are efficiently collected and accounted for correctly; credit notes and write offs are valid and authorised; confirm adherence to information governance protocols and data retention periods.

Internal Audit is pleased to report that significant progress has now been made with the reconciliation between the Sundry Debtors system with the Civica Legal module and the two systems now has an identified, but insignificant variance due to interest accruals.

Three 'Merits Attention - Necessary Control' actions were proposed; namely to:

- Prepare a sundry debtor policy and procedure guidance for distribution to all those involved in producing debtor accounts and collecting monies to offer clarity and guidance on procedures for sundry debtors.
- Adopt a consistent process to ensure that VAT is appropriately identified in all instances; processed appropriately for write-offs; and reclaimed were permitted.
- Establish effective controls to remove personal data from the system at the end of defined retention periods.

A further observation was made regarding the ongoing review and modification of the procedures by which sundry debtors are passed to Legal Services for action. This has seen a reduction in the number of case referrals and there may be an opportunity to review the practicality and cost effectiveness of the Civica Legal module for legal recovery action.

The proposed actions were agreed by the Head of Revenues, Benefits and Customer Services and the Quality and Control Manager.

Further reviews in respect of Asset Management; Beeston Town Centre Redevelopment; Bramcote Crematorium; Cash Receipting; CCTV; Choice Based Lettings; Creditors and Purchasing; and Electrical Testing 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 33% of planned audits for 2019/20 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 January and December 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
21	Stores 2017/18	31/01/18	LIMITED	3 (2)	1 Outstanding
03	Procurement 2018/19	07/06/18	LIMITED	2 (1)	2 Outstanding
04	Cemeteries 2018/19	25/06/18	Substantial	1	1 Outstanding
37	Serious and Organised Crime 2017/18	05/09/18	Reasonable	6	2 Outstanding
08	Legionella Prevention and Testing	11/09/18	Reasonable	5	5 Outstanding
11	Commercial Props/Industrial Units	04/10/18	Substantial	1	1 Outstanding
14	Energy (including Procurement)	16/11/18	LIMITED	2 (1)	1 Outstanding
15	Cash Receipting	21/11/18	Reasonable	4	Completed
23	NNDR	14/02/19	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 (2 'Significant')
1.1 Procurement of Stores Items	Progressing
<p><u>Agreed Action</u> (Significant)</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><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 procurement legislation and the Council's Contract Standing Orders.</p> <p>A benchmarking exercise has been carried out and all current pricing is in-line with established procurement framework pricing. The Council is trialling materials from alternative suppliers through the Efficiency East Midlands (EEM) framework which is due to be completed by October 2019.</p> <p>In the meantime, the Council obtains materials competitively from major merchants with a local presence. Prices are checked each time an order is placed to ensure value for money but unfortunately this is both non-compliant and time consuming.</p>	

2. Procurement	June 2018, Limited Assurance, Agreed Actions – 2 (1 'Significant')
2.1 Procurement e-Learning Package	Outstanding
<p><u>Agreed Action</u> (Merits Attention)</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>Managers Responsible</u> Chief Audit and Control Officer Procurement and Contracts Officer</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 31 December 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/Update of Procurement Activity

Progressing

Agreed Action (Significant)

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:

- 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.

Managers Responsible

Head of Finance Services

Chief Audit and Control Officer

Procurement and Contracts Officer

Management Progress Report of the Head of Finance Services

The updated Procurement and Commissioning Strategy was approved by the Policy and Performance Committee in July 2019. The Interim Procurement and Contracts Officer continues to make progress towards achieving a fully compliant position in terms of procurement legislation and Financial Regulations (Contract Standing Orders) across the whole business.

Progress is being monitored through updates reports on procurement activity to GMT. Going forward, the Council will review its needs and consider 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.

3. Cemeteries		June 2018, Substantial Assurance, Agreed Actions – 1
3.1	Digitisation of Cemetery Records	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>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.</p> <p><u>Manager Responsible</u> Head of Property Services</p> <p>Revised target date – 31 December 2019</p> <p><u>Management Progress Report of the Head of Property Services</u></p> <p>This action has recommenced and is progressing, in conjunction with the ICT and Procurement teams. Tender documents are being prepared for advert, with submissions to be evaluated thereafter.</p>		

4. Serious and Organised Crime		Sep 2018, Reasonable Assurance, Actions – 6
4.1	Training	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>Further targeted training to raise awareness of Serious and Organised Crime and its impact will be provided to managers and front-line staff in service areas that are at highest risk. This will include a briefing to a meeting of Senior Management Team. As part of the awareness programme, the latest updates and warnings will be provided via email and/or the Intranet by the Community Safety team.</p> <p><u>Manager Responsible</u> Head of Public Protection</p> <p>Revised target date – 31 December 2019</p> <p><u>Management Progress Report of the Head of Public Protection</u></p> <p>The Serious Organised Crime Policy has been submitted to the Community Safety Committee for approval. A targeted training programme will be prepared following adoption of the policy. In the meantime, relevant updates and advice has been provided by the Community Safety team.</p>		
4.2	Risk Registers	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>A risk assessment of serious and organised crime will be completed to identify all serious threats of criminal activity which could impact upon the Council’s ability to provide services, its finances and its reputation. The outcome of this risk assessment will determine its inclusion on operational risk registers and/or the Strategic Risk Register.</p> <p><u>Manager Responsible</u> Head of Public Protection</p> <p>Revised target date – 31 December 2019</p> <p><u>Management Progress Report of the Head of Public Protection</u></p> <p>Risk assessments will be completed in conjunction with the policy will inform any inclusion in operational and/or strategic risk registers.</p>		

5. Legionella Prevention and Testing

September 2018, Reasonable Assurance, Agreed Actions – 5

5.1 Legionella Policy

Progressing

Agreed Action (Merits Attention – Necessary Control)

The Legionella Policy will be reviewed. The Health and Safety Manager will update the list of Responsible Persons when a nominated officer leaves the Council or when changes are made to organisational structures. In order to support this process, the Health and Safety Manager has been added to the distribution list for the 'leavers' notice email.

In completing annual audits of Legionella prevention and detection processes, the Health and Safety Manager will require Heads of Service to notify changes to of Responsible Persons.

Nominated Responsible Persons will be made aware of the Legionella Policy requirements and how it affects them in terms of their responsibilities.

Managers Responsible

Head of Property Services; Health and Safety Manager

Management Progress Report of the Head of Property Services

Only limited progress has been made on these actions due to staff turnover, vacancies and absence. The use of temporary external resources is being considered to deliver this strategic work. It is proposed to extend the target date to 31 December 2019.

Day-to-day checks and compliance is unaffected.

5.2 Health and Safety Audits

Progressing

Agreed Action (Merits Attention – Necessary Control)

In accordance with the policy, Health and Safety will carry out annual audits of the processes relating to Legionella prevention/detection and report its findings to the Safety Committee. This process will include seeking assurances from Responsible Persons that appropriate testing has been undertaken and completing a sample of substantive reviews linked to the areas of highest risk.

The review will cover all relevant Council properties, including premises being managed by Liberty Leisure Limited and the community facilities that are presently being tested by Property Services.

Managers Responsible

Head of Property Services; Health and Safety Manager

Management Progress Report of the Head of Property Services

Only limited progress has been made on these actions due to staff turnover, vacancies and absence. The use of temporary external resources is being considered to deliver this strategic work. It is proposed to extend the target date to 31 December 2019.

Day-to-day checks and compliance is unaffected.

5. Legionella Prevention and Testing (continued)	
5.3 Training	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>The Legionella Policy will specify that Health and Safety should arrange training courses, prompt refresher training and manage training records on behalf of the Council.</p> <p>The Responsible Persons shall be required to identify and provide details of required training, which will be recorded on a definitive central record. Health and Safety will monitor this list as part of the annual audit and confirm with Responsible Officers that the list and associated training records are up to date. Particular emphasis shall be placed upon ensuring that relevant new employees, agency workers and those involved in shared service arrangements are made aware of their responsibilities and considered for training as appropriate.</p> <p><u>Managers Responsible</u> Head of Property Services; Health and Safety Manager</p>	
<p><u>Management Progress Report of the Head of Property Services</u></p> <p>A list of Responsible Persons and their training has been compiled and is being reviewed. It is proposed to extend the target date to 31 December 2019.</p>	
5.4 Tendering and Contracts	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>A corporate review of the way that Legionella testing, risk assessment, cleaning, chlorination and training services are procured is being undertaken with a view to ensuring consistency, value-for-money and compliance with procurement regulations.</p> <p><u>Managers Responsible</u> Head of Property Services; Health and Safety Manager; Interim Senior Housing Manager</p>	
<p><u>Management Progress Report of the Head of Property Services</u></p> <p>Only limited progress has been made on these actions due to staff turnover, vacancies and absence. The use of temporary external resources is being considered to deliver this strategic work. It is proposed to extend the target date to 31 December 2019.</p>	
5.5 Liberty Leisure Limited (LLL)	Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>Liberty Leisure Limited (LLL) will review its own Legionella arrangements including policy and procedures documents, responsible persons, risk assessment, testing process, reporting lines and escalation protocols.</p> <p><u>Manager Responsible</u> Managing Director, Liberty Leisure</p>	
<p><u>Management Progress Report of the Managing Director, Liberty Leisure Limited</u></p> <p>The support of the Council's Health and Safety Manager will be useful for this review. A procedure document is followed, with records maintained of flushing and testing and duty managers understanding the need to report to the responsible person of any concerns or incidents. LLL also hosted a Legionella awareness training session, provided by an external party, at which identified key officers attended.</p>	

6. Commercial Property and Industrial Units

October 2018, Substantial Assurance, Actions – 1

6.1 Invoices – Combined Rent and Insurance**Progressing**Agreed Action (Merits Attention)

The potential to combine the annual billing process for rental and insurance recharges was considered. A wholesale change for all existing tenants was not considered appropriate at this stage as the action would require changing up to 60 system generated invoices as well as disrupting pre-arranged Direct Debits/ Standing Orders for tenants.

Instead, combined rent and insurance bills will be established for new tenancies and for existing tenants at the point of periodic rent reviews. The Estates Manager will liaise with the Insurance team to calculate a suitable fixed annual premium within the new lease term.

This action will be reviewed in 12 months to consider whether turnover has created an opportunity for implementing a wholesale change.

Manager Responsible

Estates Manager

Revised Target Date: 31 October 2019

Management Progress Report of the Estates Manager

Combined rent and insurance bills have now been established for new tenants and existing tenants at the point of periodic rent reviews following discussions with the Insurance and Risk Management team to fix a suitable premium. This process will be reviewed in October 2019 to consider whether to revise the remaining tenants to create a uniform approach across all premises.

7. Energy

November 2018, Limited Assurance, Actions – 2 (including 1 'Significant')

7.1 Efficiency Improvements**Progressing**Agreed Action (Significant)

A risk-based approach will be adopted for the billing and checking process. This will consider 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 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

Revised Target Date: 31 October 2019

Management Progress Report of the Estates Manager

This action is ongoing. The Council has considered a number of potential databases but has yet to fully evaluate a suitable option that meets with its requirements.