

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	25th November 2013
Subject:	Internal Audit Plan 2013/14 – Monitoring Report		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager		
	Email:	Terry.Rodway@gloucester.gov.uk	Tel: 396430
Appendices:	A: List of the audits completed - September to October 2013		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the audits completed as part of the approved Internal Audit Plan 2013/14.

2.0 Recommendations.

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that:-

- (1) Members endorse the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

3.0 Background and Key Issues

- 3.1 At the Audit & Governance Committee meeting held on 18th March 2013, Members approved the Internal Audit Plan 2013/14. In accordance with the Public Sector Internal Audit Standards, this report details the outcomes of internal audit work carried out in accordance with the approved Plan.
- 3.2 This report includes the audits completed during the period September 2013 to October 2013. The performance monitoring information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the 7 month period ending 31st October 2013 is 83% (15 out of 18 planned audits completed) compared to a target of 90%. These figures do not include 1 audit that was substantially complete as at the end of October 2013.
- 3.3 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix A**. This should provide Members with a view on the adequacy of the controls operating within each area audited.
- 3.4 It has previously been agreed that Members would be notified of all 'Rank 1 Fundamental' recommendations that have not been implemented within the agreed

timescale. Subject to the comments made in para. 4.0 below re the Markets Audit, there were none identified during the period covered by this report.

4.0 Markets Audit – Follow up to Audit Recommendations

4.1 At the previous meeting of the Audit & Governance Committee, Members received an update from the Markets Manager on the implementation of internal audit recommendations. It was agreed that the Audit, Risk and Assurance Manager would provide a further update at the next meeting of the Committee.

4.2 A follow-up audit has not been able to be undertaken due to the Markets Manager having recently left the organisation as a result of the on-going management re-alignment exercise. The post of Markets Manager, along with other posts in the Directorate, is the subject of a consultation exercise which is due to end on 13th November 2013. Therefore, a follow-up audit will be planned for early January 2014 when it is envisaged that an agreed structure should be in place.

5.0 Alternative Options Considered

5.1 No other options have been considered as the purpose of the report is to inform the Committee of the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

6.0 Reasons for Recommendations

6.1 The Public Sector Internal Audit Standards state that the Audit, Risk & Assurance Manager should report on the outcomes of internal audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

7.0 Future Work and Conclusions

7.1 The role of the Audit & Assurance service is to examine, evaluate and report upon the adequacy of internal controls. Where weaknesses have been identified, recommendations have been made to improve the level of control.

8.0 Financial Implications

8.1 As detailed in this report.

(Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

9.1 None specific to this report.

(Legal Services have been consulted in the preparation this report).

10.0 Risk & Opportunity Management Implications

10.1 Delays in response to acceptance/implementation of audit recommendations lead to weaknesses continuing to exist in systems, which has the potential for fraud and error to occur.

11.0 People Impact Assessment (PIA):

- 11.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 11.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

- 12.1 There are no community safety implications arising out of the recommendation in this report.

Sustainability

- 12.2 There are no sustainability implications arising out of the recommendation in this report.

Staffing & Trade Union

- 12.3 There are no staffing and trade union implications arising out of the recommendation in this report.

Background Documents:

Internal Audit Plan 2013/14
Public Sector Internal Audit Standards

APPENDIX A

List of the audits completed – September 2013 to October 2013

Audit	Comments	Level of Assurance
Development Control	<p><u>Audit Objective</u></p> <p>The objectives were to ensure that: -</p> <ul style="list-style-type: none"> • Legislation changes are relayed to members of the Service Unit in a timely manner. • Fees charged are in-line with those laid down in statute by Central Government. • Applications are appropriately recorded and processed with decisions being made within legislative timeframes. • There is adequate separation of duties within the process for determining a planning application. • Declarations of interest are being made in line with council, professional or legislative requirements. <p><u>Audit Opinion</u></p> <p>On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
Benefits Reconciliations	<p><u>Audit Objective</u></p> <ul style="list-style-type: none"> • Periodic reconciliation of benefits system to the general ledger. • Periodic reconciliation of Council Tax Benefits per the Council Tax system to Benefits system. • Periodic reconciliation of Rent Rebates as per the Rents system to Benefits system. • Periodic reconciliation of Rent Allowances per the Creditors system to Benefits system. • Exception Reporting. <p><u>Audit Opinion</u></p> <p>On the basis of the work carried out during this audit, and the level of error identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance over the operation of the key controls.</p> <p>The main areas of weakness identified, for which two 'Medium' Priority recommendations have been made related to:-</p> <ul style="list-style-type: none"> • The lack of documentary evidence of management review of reconciliations to ensure that the reconciliations are complete, accurate and agree to supporting system reports. • Payment 'exceeds' reports not being produced in 	Satisfactory

Audit	Comments	Level of Assurance
	<p>accordance with the contractors agreed procedures.</p> <p>The Civica Service Delivery Manager has confirmed that all the agreed recommendations would be implemented by the end of December 2013.</p>	
Benefits Overpayments	<p><u>Audit Objective</u></p> <p>The audit involved a review of the process being followed in 2013-14 ensuring overpayments are being dealt with in accordance with the Council's policy, standing orders and financial regulations.</p> <p>The audit covered the overpayments for the financial year 2013/14 however, due to the lack of administrative penalties in 13/14, testing of this area also covered 2012/13.</p> <p><u>Audit Opinion</u></p> <p>The findings from the testing have resulted in the control environment operating over the Benefits Overpayments system being rated as Satisfactory. The main areas of weakness identified, for which two 'Medium' Priority recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • Ensure that the two identified errors, one relating to the value of an overpayment and the other to its classification, are corrected. • On signing of the Administrative Penalty Agreement, in all cases this document needs to be sent immediately to the overpayments officer. <p>The Civica Service Delivery Manager has confirmed that all the agreed recommendations would be implemented by the end of February 2014.</p>	Satisfactory
Homelessness	<p><u>Audit Objective</u></p> <p>The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • The allocation of rent in advance payments. • Rent deposit and Tenancy Rescue loans from the Homelessness Housing Options Fund provided by the DCLG for homelessness prevention. • Repayment of loans and reimbursement of rent in advance payments through Housing Benefits. • Allocation of Discretionary Housing Payments. • Management of the relevant budgets. <p>The audit entailed a review of compliance with policy and procedures in relation to the above activities.</p>	Good/Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u></p> <p>In respect of <i>policy and procedures</i>, the number and classification of recommendations made has resulted in an assurance level of Satisfactory. This means that the framework of controls is sufficient, providing adequate assurance that the associated risks are mitigated. Two Medium Priority recommendations have been made. The main issues identified related to:-</p> <ul style="list-style-type: none"> • Housing Options Fund Policy, Procedures and Guidance notes document needs to be fully reviewed and updated in order to better reflect the accepted practices. • The Housing Options Checklist should be used in all instances in order to help achieve and maintain consistency and compliance in respect of the documentary evidence received for homeless interventions. <p>In the areas of <i>policy compliance</i> and <i>reimbursements</i>, the number and classification of recommendations made has resulted in an assurance level of Limited. This means that there are identified lapses in control or that the effectiveness of controls in place is weak, providing partial assurance that the associated risks are mitigated. The main areas of weakness identified for which two High Priority recommendations have been made relate to:-</p> <ul style="list-style-type: none"> • Payments from the Housing Options Fund should not be released until all of the necessary documents have been received and scanned onto the appropriate computer system. • Tenancy rescue payments should be recovered from clients in accordance with the Housing Options Fund Policy, Procedures and Guidance notes document. <p>In respect of <i>budget management</i>, the results of the audit findings have resulted in an assurance level of Good. This means that the framework of controls is robust, providing substantial assurance that the associated risks are mitigated.</p> <p>The Housing Services Manager has confirmed that all the agreed recommendations would be implemented by the end of December 2013.</p>	
Streetcare Contract –Client Monitoring	<p><u>Audit Objective</u></p> <p>The main objective of the audit was to ensure that controls are in place and operating effectively in the monitoring of the Contract. The detailed objectives set</p>	Unsatisfactory

Audit	Comments	Level of Assurance
	<p>to confirm this was:</p> <ul style="list-style-type: none"> • Contractual arrangements are being monitored for compliance and are being effectively managed. • Risks relating to the management of the Contract have been correctly identified and are being effectively managed. • Payments made to the contractor are supported by an invoice, costs have been verified and agreed and correctly approved. • Recycling quantities and income have been verified, correctly accounted and any subsequent payments to the contractor agreed and correctly approved. • Effective budget monitoring is performed and variances have been identified and explained; • Complaints are being dealt with promptly and customer focus is a priority. • The transfer of the Streetcare Contract following the recent change of ownership of the company has been correctly approved by the Council in accordance with Contract Standing Orders. <p><u>Audit Opinion</u></p> <p>The assessment of the contract monitoring arrangements and controls over the Streetcare Partnership Contract has been performed and the audit opinion is that there is an Unsatisfactory level of assurance over this area.</p> <p>A total of six High Priority and nine Medium Priority recommendations have been made.</p> <p>The main issues are detailed below:</p> <p><u>High Priority</u></p> <ul style="list-style-type: none"> • The 'Contract Review' report written by the Environmental Service Manager in December 2012 which identified non compliance with certain contract conditions, which was issued to the Communities and Public Spaces Manager and Corporate Director Services & Neighbourhoods, remains in draft form. • There is no action plan within the draft report detailing action owners, planned implementation dates, how the actions will be implemented and reporting of progress resolution to management. • A full review of the Contract to identify the conditions and specifications has not yet been performed to determine how they are being managed and whether there are any gaps that require resolution. This exclusion was highlighted in the Environmental Service Manager draft Contract Review report as something that needs to be performed, but due to current timescale 	

Audit	Comments	Level of Assurance
	<p>constraints it was not performed at the time of his review.</p> <ul style="list-style-type: none"> • There are no central registers for Service Change Requests or Contract Variations between the Council and the Contractor and therefore it is difficult to confirm that all service changes have been identified approved, and, the request correctly implemented. • Inadequate checks are performed on the Annual Contract Sum costs and calculations to confirm they are correct and valid. • A difference in the application of the formula used by the Contractor in the 2011/12 and 2012/13 Annual Contract Sums against the method detailed in the Contract has identified a possible overpayment of £280k. This is currently being explored with the Contractor. <p><u>Medium Priority</u></p> <ul style="list-style-type: none"> • Additional work included in the 2012/13 Annual Contract Sum may have been incorrectly subject to the indexation calculation and therefore the Council may have been overcharged for these services. • There was no documentary evidence to support the change in the employers' pension contribution level paid by the Council or details of the checks performed by Finance to confirm the validity and accuracy of the Contractor's pension invoices. • Overpayments of approximately £13k were identified by Internal Audit indicating that the Contractor's invoices had not been thoroughly checked. • Work orders are being incorrectly raised and invoices approved by Service areas and functions separate to the Environmental Service Manager, who has been identified as the relationship manager for the Council with the Contractor. • The Contractor does not always provide a detailed breakdown of costs for additional work requested, particularly between labour and materials, to enable confirmation of value for money and that the costs are not already part of the Contract arrangements. • There is no documentary evidence that quarterly accounts meetings with the Contractor have been held to review a breakdown of costs of the Core Contract Services and to challenge spend. In addition whether profits over a set level stated in the Contract have been confirmed and a portion distributed to the Council if appropriate. • The level of checks on the Contractor's waste recycling spreadsheet detailing tonnage of waste recycled and that going to landfill is limited. The checks do not confirm the accuracy of the data 	

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	<p>and what financial value the Contractor receives on the sales and whether the Council is due a proportion of this.</p> <ul style="list-style-type: none"> • There is an unexplained difference in the recycle value recorded in the Annual Contract Sum for 2011/12 and 2012/13 against the equivalent Assume Recycle Value documented in the Contract. In addition there is no documentary evidence that the recycle value is subject to a reforecast. • Waste recycling credits and incentive invoices to the County Council are not being raised promptly. In addition duplicate incentive invoices are being raised and for incorrect amounts. <p>All recommendations have been agreed. Whilst the Head of Neighbourhood Services has confirmed a number of recommendations have already been implemented, the remaining are due to be implemented by the end of the financial year.</p>	

The report includes an 'opinion' on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority).
Limited	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations.
Unsatisfactory	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Ranking of Recommendations:-

RANK		DEFINITION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit key control.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.