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TO: Audit Committee

FROM: Head of Audit, Assurance & Procurement

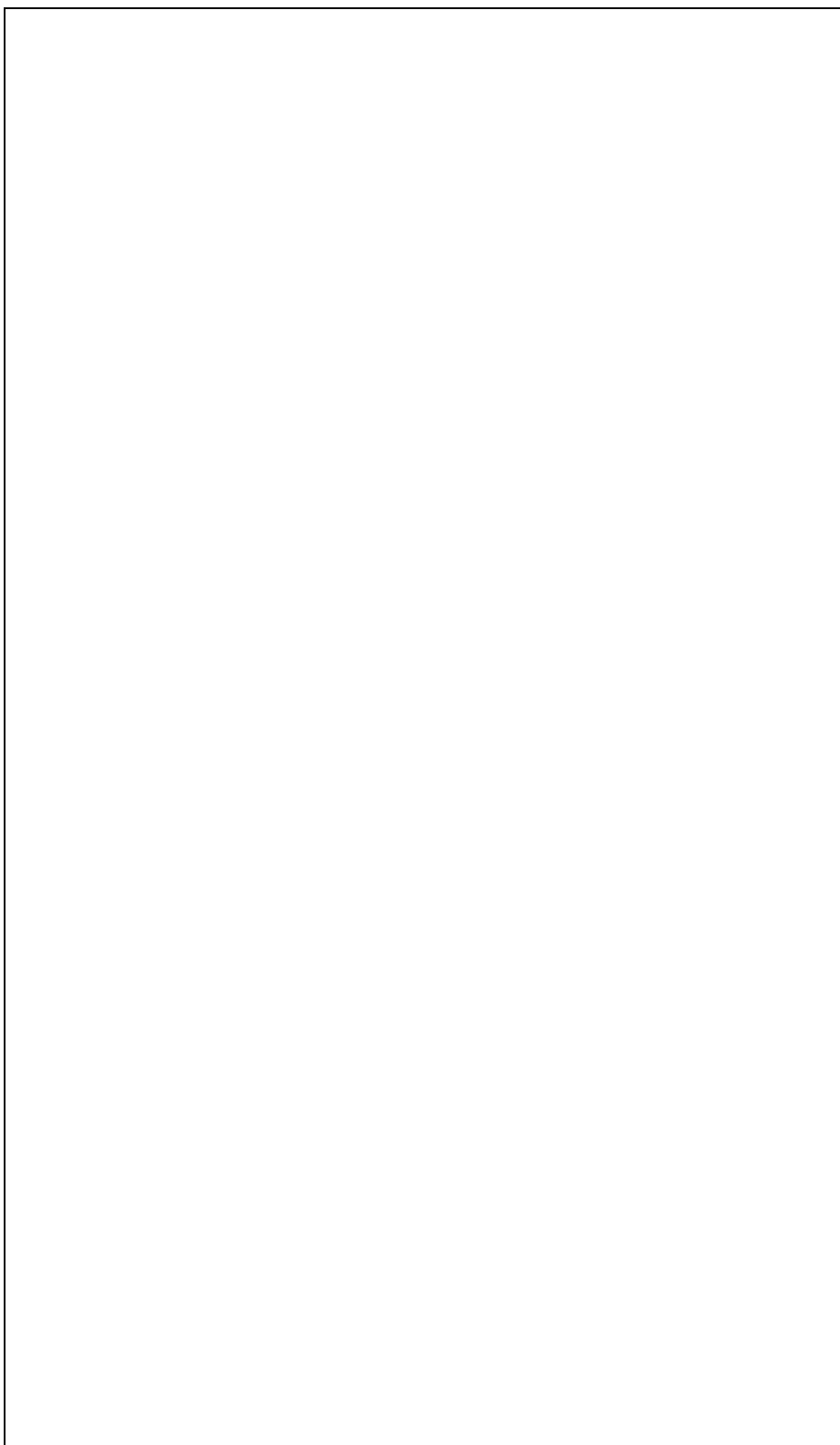
DATE: 23 September 2014

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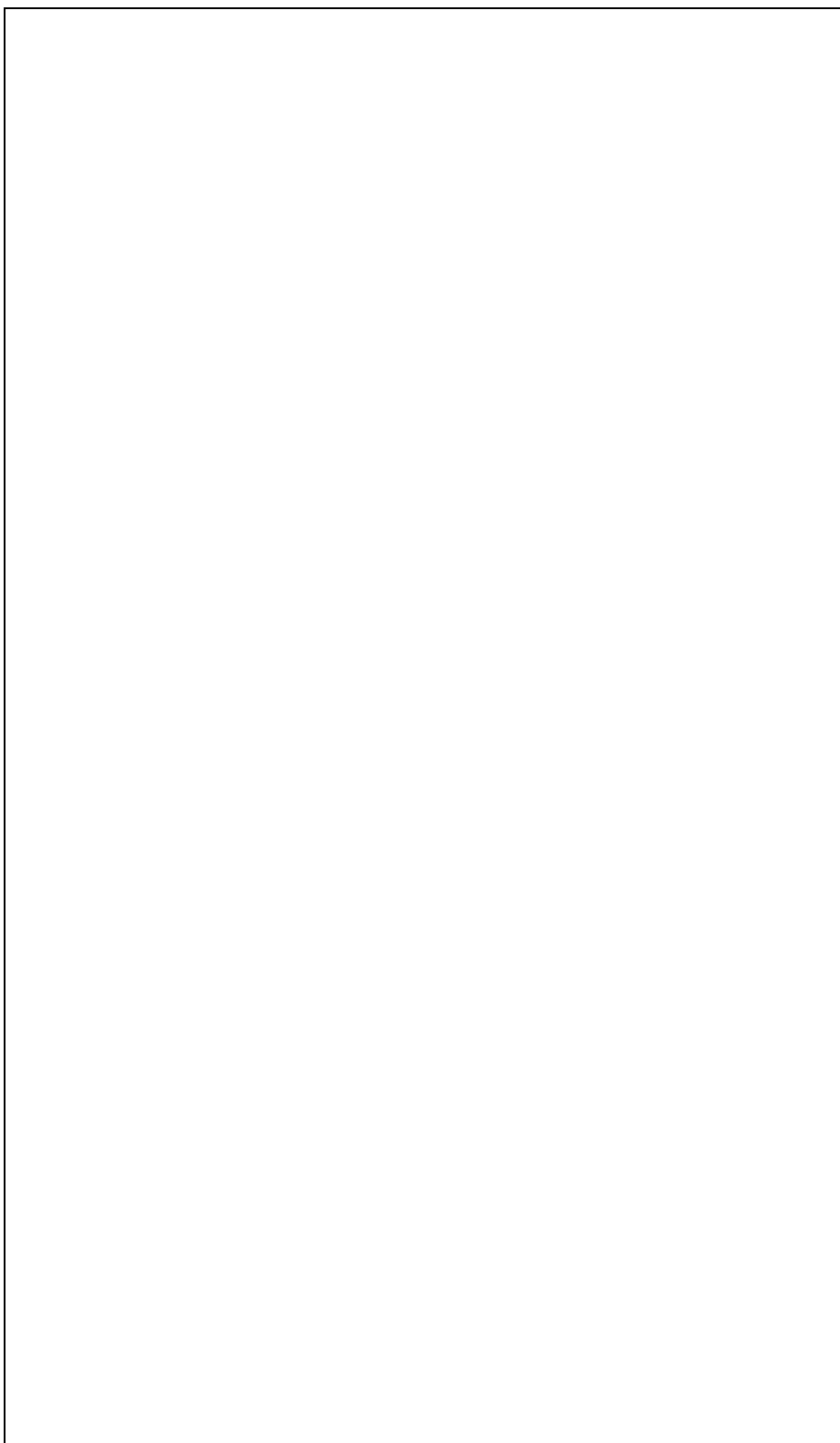


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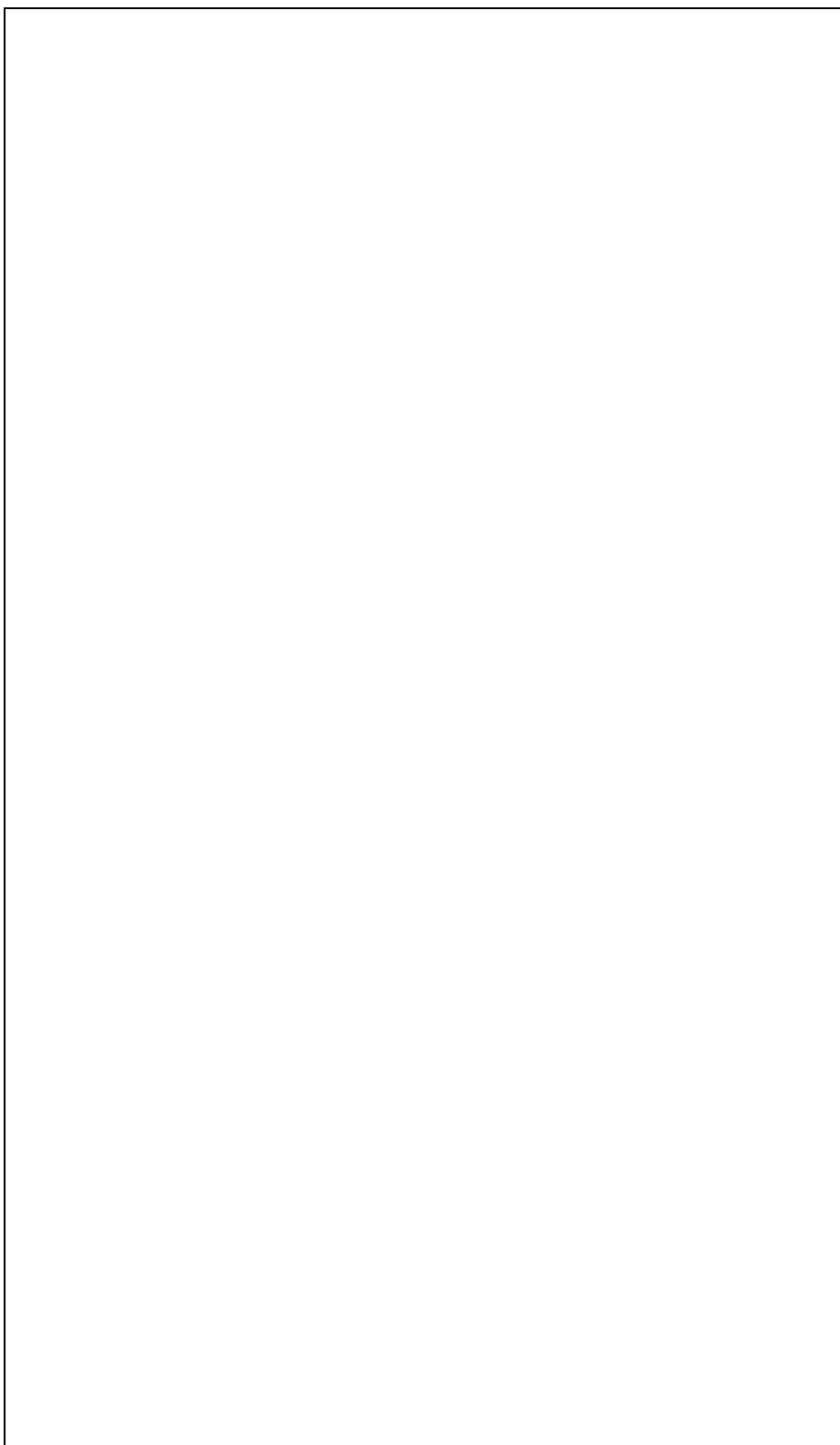


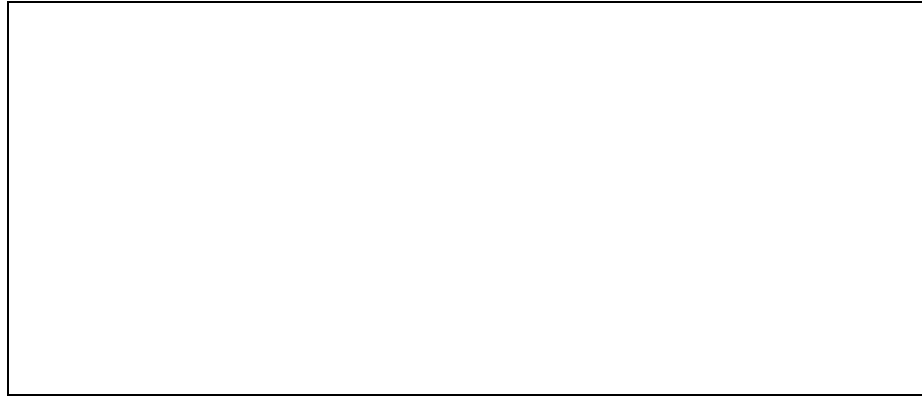
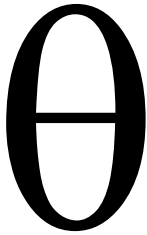
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PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 31 August 2014

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 June to 31 August 2014.

2. RECOMMENDATIONS

The Committee is asked:

- to note the outcomes achieved to 31 August 2014 against the Audit & Assurance Plan, which was approved by Committee on 15 April 2014.

3. BACKGROUND

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit Committee during the year. This Progress and Outcomes report complies with the requirements of the PSIAS by communicating any significant issues that are identified during the year.

4. RATIONALE

The Council is required under the Accounts and Audit (England) Regulations 2011 to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice as defined within the mandatory PSIAS.

The work undertaken throughout the year is intended to ensure that:

- at the year end, an objective and independent opinion can be provided that meets the statutory governance requirements;
- it also demonstrates the effectiveness of the internal audit function; and

- throughout the year, support is provided to Members, Directors and managers in their particular areas of responsibility.

5. **KEY ISSUES**

Outcomes achieved in the year thus far:

Counter Fraud

Housing Benefit:

The team received 216 referrals from various sources during the period 1 April 2014 – 31 August 2014, which is more than the number received in the equivalent period in 2013/14 when 200 were received.

In relation to the relevant performance indicators, the team has performed as indicated below:

Performance Indicators:

PM1 – Number of closed investigations:

2014/15 target 170, actual 180 (106% of pro-rata target)

PM2 – Number of investigations with a positive outcome:

2014/15 target 75, actual 68 (91% of pro-rata target)

PM3 – Number of prosecutions/sanctions:

2014/15 target 22, actual 14 (64% of pro-rata target)

During this period the team has continued its work targeting suspected landlord fraud within the Borough. This has been a resource intensive activity which has affected the team's performance in other areas. However, the potential deterrent effect that could be generated by publicity of successful prosecutions would be significant. A number of cases have reached a conclusion and files are being prepared for prosecution proceedings.

A Blackburn woman was recently prosecuted by the Council and received a suspended prison sentence for fraudulently claiming almost £9,000 in benefits. An investigation followed a tip-off by a member of the public that the woman had failed to declare savings of £60,000. This was confirmed by investigators. As well as having to repay the overpayment the woman was ordered to pay court costs of £1,070.

National Fraud Initiative

The team has continued to progress the NFI data matches over the period. The identified total outcomes from the exercise are now £99,648, which is comparable with the Audit Commission's near neighbour average of £100,000. Additionally the NFI recovery now amounts to £89,371, which is much greater than the Audit Commission's near neighbour average of £50,000.

Counter Fraud Training

The training package has been accessed by 960 employees (previously 891 employees to May 2014). Audit & Assurance will continue to promote the interactive package and provide support to increase fraud awareness within the Council.

Risk and Corporate Governance

Management Accountabilities Framework (MAF) Quarter 1 Update

The table below lists the ten “red” priority areas of concern across the departments, by key themes, identified in the summary MAF reports for Quarter 1 of 2014/15. In summary, 2 areas of concern previously identified as “red” have been downgraded this quarter to an “amber” rating. Three new “red” priority areas have been identified where these appeared on the MAF for the first time this quarter or were escalated from amber ratings. Further action is being undertaken to address these concerns.

		2014/15	2013/14
Themes	Description	Quarter 1	Quarter 4
Demand Management	Admissions to long-term residential and nursing care (Adults)	Red	Red
	Insufficient resources (ITMG)	Amber	Red
	High Risk & Challenging Teenagers (Children’s)	Red	Amber
Government Reform	Relationships with schools (Education)	Red	Red
	School improvement (Education)	Red	Red
IT Resilience	ITMG prioritisation of Leisure & Culture requests (CLS & YP)	Red	Red
	Security threats & vulnerabilities (ITMG)	Red	Red
Budgets & Finance	Budget Pressures (Adult & Commissioning & Personalisation)	Red	Amber
Staffing/HR	Staffing Capacity in Public Protection (Environment, Housing & Neighbourhoods)	Red	Amber
	Sickness Absence (Adults)	Red	Red
	Social worker workloads (Children’s)	Red	Red
Health	Smoking Cessation Services (Public Health)	Amber	Red

Internal Audit

A summary of the 15 audits completed and finalised since the last report to Committee are detailed below.

Title	Assurance Opinion		Recommendations
	Environment	Compliance	Agreed
Resources			
Coroner’s Service	Limited	Adequate	7

Partnership Governance	Adequate	Adequate	8
PC & Inventory Controls	Adequate	Limited	14
Public/Volunteer Access	Limited	N/A	6
Long Service Awards	Limited	Limited	9
People			
Adults Governance	Adequate	Adequate	3
Adult Establishments	Adequate	N/A	3
Personal Budgets	Adequate	Adequate	10
Disabled Facilities Grant	Adequate	Adequate	9
Adoption Reform Grant	Adequate	N/A	0
Pub Health Governance	Adequate	Adequate	6
Blackburn Central High	Limited	Limited	28
Place			
Regenerate	Adequate	Adequate	5
Building Maintenance	Substantial	Substantial	4
Cash – Darwen Theatre	N/A	Limited	10

Unless stated below for all of the above management has completed the action plans to confirm that each stated recommendation will be implemented within a reasonable timescale.

We have provided a brief commentary on those 6 audit assignments where we have provided a limited assurance opinion.

Corner's Service

Limited Assurance was provided for the control environment, which is an improvement from the 2012/13 audit review where limited assurance was provided for both the control environment and compliance. The reasons for this decision are: (i) EU and local procurement rules are not being followed in respect of all services procured; (ii) the Service does not use P2P to ensure that there is a full segregation of duties in the ordering of goods and services; and (iii) the Coroner does not demonstrate compliance with the Council's data protection policy.

PC & Inventory Controls

Limited assurance was provided for compliance because: (i) two assets were identified without an asset tag or profile on HEAT; (ii) discrepancies were identified within the HEAT asset records e.g. incorrect owner and location details; (iii) records were not marked appropriately following asset disposals; and (iv) data centre assets are not logged on the HEAT system.

Public/Volunteer Access To Network

Limited assurance was provided for the control environment because: (i) there is no adequate and effective separation of the public access network from the

internal network; (ii) personal information could be accessed by unauthorised members of the public; (iii) there is no approved corporate volunteers strategy in place; and (iv) volunteers are not adequately monitored by the Council.

Long Service Awards

We provided **limited assurance** for this unplanned audit. The reasons for his decision were that: (i) quality checks should be undertaken to confirm that only eligible employees receive an award; (ii) records should be maintained to account for the receipt, issue and cancellation of cards; and (iii) should utilise The Mall's Corporate Gift Card Portal to reduce the risk of loss or theft.

Blackburn Central High School

We provided **limited assurance** for both the control environment and compliance because we identified a total of 28 recommendations. This included 12 "must" recommendations in relation to SFVS, school policies, publication of information, register of business interests, pupil premium grant, contract documentation, debit card, safe storage, health & safety, fire evacuation and first aid.

Cash Handling – Darwen Library Theatre

Limited assurance was provided for compliance because of the 8 "must" recommendation in relation to cash counting, access request, safe key security, office combination codes, safe insurance limits, banking intact, cash handling and cash transportation.

Current internal audit reviews

In addition to the above completed audits, the following reviews are ongoing:

- Budget Setting/Control
- Creditors
- Council Tax
- Insurance
- VAT
- Business Continuity Planning
- Information Governance
- Payroll
- Performance Indicators
- Members Allowances
- Adult Services Budget Monitoring
- Fleet Maintenance & Fuel
- Major Contracts – Freckleton Street
- LTP/Pinch Point Grants
- Waste/Recycling Contracts
- Audit Committee Guidance

Internal Audit Performance

The Departmental Business Plan 2014/15 includes targets to achieve our strategic aims. The defined targets and actual performance for the latest period (June to August 2014) are as follows:

1. Delivery of Priority 1 Audit Plan Topics

Target 100% Actual: 75% (2014/15 – Q1: 60%)

The approved 2014/15 Audit & Assurance Plan contains 7 priority 1 audit assignments and there was 1 priority 1 audit assignment from the 2013/14 Plan. The current status of these assignment shows that 6 (75%) are being delivered (fieldwork, draft issued or final issued):

Audit Assignment	Current Status (12 September)
2014/15 Plan	
Emergency Planning	Planning
Payroll	Fieldwork
Information Governance	Fieldwork
Business Continuity Planning	Fieldwork
Budget Setting	Draft Issued
Budgetary Control	Draft Issued
Capita Partnership	Planning
2013/14 Plan	
Partnership Governance	Final Issued

2. Percentage Of Planned Assignments Completed Within Budget

Target: 90%. Actual: 60% (2014/15 – Q1: 60%)

Audit & Assurance has completed 15 audit assignments and 9 (60%) were completed on or within budget. The 6 assignments delivered over budget were: Partnership Governance (18 days over), Personal Budgets (5 days over), Adult Establishments (4 days over), PC & Inventory Controls (3 days over), Disabled Facilities Grants (2 days over) and Cash –Darwen Theatre (2 days over). The reasons for the extra time being required were:

1. Partnership Governance - This review was undertaken by the new member of staff who required additional time to meet the required audit standards.
2. Personal Budgets – The auditor was required to undertake scheduled school visits and grant claim certification work during the course of this review. Consequently this review was stopped and started on several occasions leading to addition time being expended.
3. Adult Establishments – The auditor was required to complete two unplanned investigations during the course of the audit. This audit was restarted on several occasions leading to addition time being spent.
4. PC & Inventory Controls – This review was used to identify if audit work could be exclusively performed without paper files. Consequently extra time was required for the scanning of documentation and the duplicate recording of working papers.
5. Disabled Facilities Grants – Management responsibility for the service area changed during the review, which necessitated further discussion

before the final report could be issued.

6. Cash – Darwen Theatre – This type of audit is designed to be a short visit and report write up (2 days). Unfortunately two visits were required because initial access could not be gained. The findings also necessitated further investigation and provision of guidance to the client.

3. Percentage of Final Reports Issued Within Deadline

Target: 90%. Actual: 100% (2014/15 – Q1: 85%)

Of the 15 completed audit assignments all 15 (100%) final reports were issued within deadline.

4. Percentage of Follow Ups Undertaken Within Deadline

Target: 90%. Actual: 88% (2014/15 – Q1: 100%)

Audit & Assurance were required to undertake follow up reviews of 16 completed assignments. We received a response in respect of 14 (81%) reviews. The two assignments where a complete follow up response were not forthcoming were:

1. Cash Handling – Waves
2. Car Parks

5. Percentage of Agreed Recommendations Implemented By Clients

Target: 90%. Actual: 77% (2014/15 – Q1: 75%)

For the 14 assignments where we were able to undertake a follow up response, there were 81 recommendations, which were due for implementation on or before 31 August 2014. It was identified that 62 (77%) of these recommendations had been implemented. The 19 recommendations not implemented relate to:

- Payroll (8): The five “should” recommendations requiring that file evidence is obtained for the tested new starters, leavers and amendments will be actioned when additional information is supplied during the current payroll audit. Management have stated that they will review the numbers of users with full access when the new system is implemented, from October 2014. Management further stated that they will review the overtime policy and associated guidance in early 2015.
- E-Procurement (4): The “should” recommendation of “amend the system so that orders are submitted direct to the relevant approver and not through subordinate approvers” has been tested within the P2P system and will be implemented once the authorised signatory lists are revised. The “consider” recommendations of (i) reduce number of authorisation levels; (ii) self-authorise orders below £50: and (iii) review the role of departmental administrators will also be actioned when the authorised signatory review is completed.
- HR & Legal Governance (2): For the following recommendations, which were due for implementation on 30 April 2014 management have stated that: (i) “a Scheme of Delegation framework document which sets out the responsibilities delegated to named officers or posts, together with

any limits placed on their authority”; will be drafted and made available for consultation on 30 September 2014 and (ii) “a Scheme of Delegation document for the HR and Legal department” will be completed from 30 September 2014.

- Housing Benefits (2): The recommendations that: (i) “the Service Assurance Team should ensure that access fobs are recovered from those individuals who have had their access to the system withdrawn”; and (ii) “management should review the list of Council users with access to the Benefits system to ensure that legislation provides for access in all cases and that access is withdrawn for those users who do not meet the required criteria”, were both due for implementation by 31 May 2014. The Head of Revenues, Benefits & Customer Services has stated that these issues remain unresolved because they do not have the resources to review and amend the current listing of users.
- Property Rentals & Collection (2): The recommendation that management consider “a review exercise of all files held for all commercial property for which the Council receives rental income to ensure that valid rental agreements are in place” was considered by management to of low risk on 28 February 2014 and that this will diminish over time. The recommendation that “the Head of Property & Development should create a formal KPI to monitor the management of arrears by the Property Management section” was due for implementation on 28 February 2014. Management have stated that the current arrears monitoring (including monthly meetings to discuss arrears cases) is sufficient to not warrant an additional contract KPI.
- Internet Controls (1): The recommendation that ITM&G should regularly review the master configuration against the actual firewall settings to ensure that no unauthorised / undocumented changes have been made was due for implementation by 31 March 2014. Management have stated that they have still to conduct these reviews because they are evaluating the process.

6. Percentage of Client’s Satisfied With The Service

Target: 75%. Actual: 90% (2014/15 – Q1: 100%)

Audit & Assurance has issued 44 satisfaction surveys for completion by clients since the previous progress report. We have received 10 responses. Nine (90%) of the respondents stated that they were either satisfied or very satisfied with the service provided. We did receive one dissatisfied client response. We have agreed a plan of action to address the issues raised, we will monitor the situation and provide ongoing training/support.

7. Percentage Compliance with PSIAS

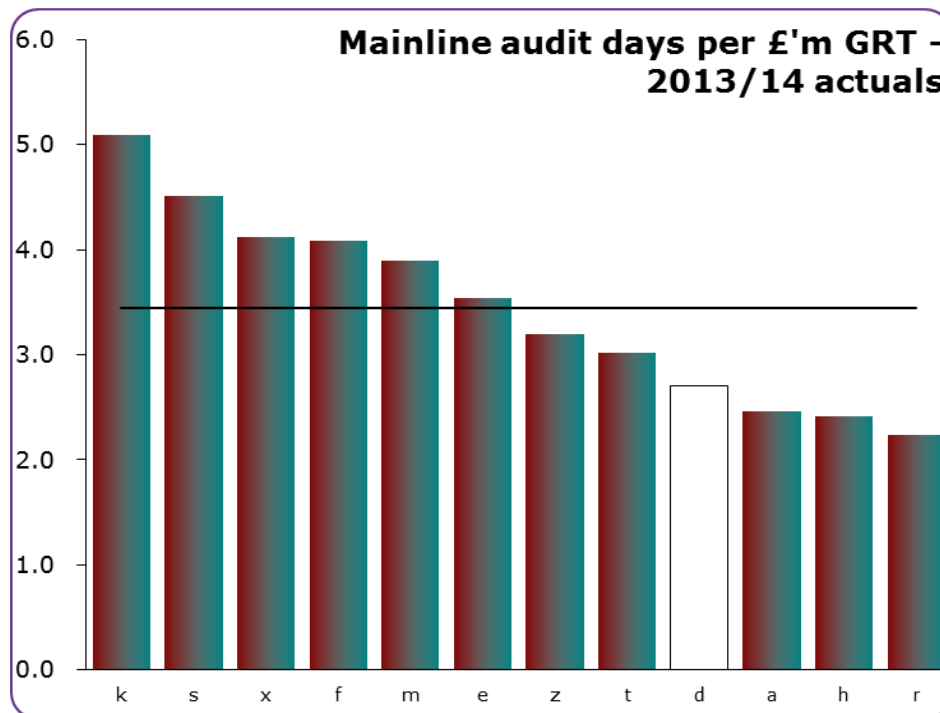
Target: 95% Actual: 96% (2014/15 – Q1: 96%)

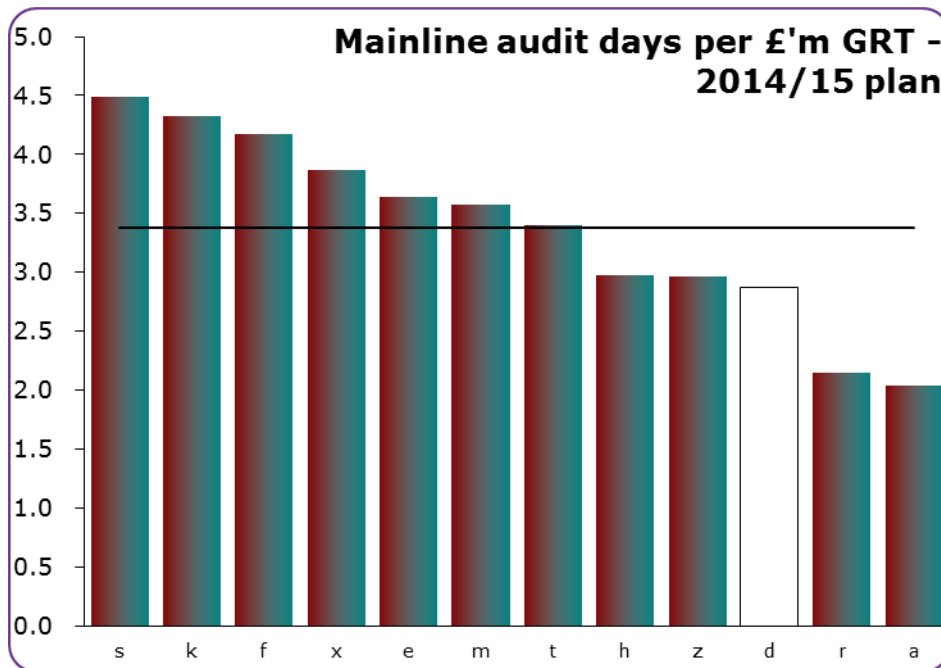
The CIPFA/CIIA published their local government application note for the UK Public Sector Internal Audit Standards (PSIAS) on 5 April 2013. The Lancashire Audit Group Benchmarking details 334 individual PSIAS measures. Our submission showed that we comply or partially comply with 320 (96%) of the

measures. The main areas of non-conformance relate to the engagement and undertaking of external quality assessments, which are only required every five years.

8. CIPFA Internal Audit Benchmarking 2014

The Annual Internal Audit Opinion Report 2013/14 (presented to this Committee on 17 June) explained that the results of the CIPFA Benchmarking would be presented to a future Audit Committee meeting. The Council's internal audit service (shown on the bar chart as "d") has been compared with 11 other near-comparators (based upon Council gross revenue turnover (GRT), service structure and internal audit delivery arrangements). The key benchmark of audit days per £million of turnover has identified the following for 2013/14 and 2014/15:





It should be noted that the actual audit days deliverable in 2014/15 is likely to be less than that planned. This is due to the following:

- delays in recruitment to a vacant post;
- a secondment to Financial Services, which has been extended beyond the planned end date; and
- a recent secondment to Financial Services, which was not incorporated into the original internal audit resourcing plan.

Efforts are being made to reduce the shortfall through recruitment to two temporary posts. Any revisions to the Audit & Assurance Plan, which may be required to address a shortfall, will be submitted to a future Audit Committee for its consideration and approval.

6. POLICY IMPLICATIONS

This delivery of the Plan leads to the Annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising as a result of this report.

9. RESOURCE IMPLICATIONS

There are no resource implications arising as a result of this report.

10. EQUALITY & HEALTH IMPLICATIONS

There are no equality and health implications arising as a result of this report.

11. CONSULTATIONS

Directors

Contact Officer: Paul Hankinson, Audit & Assurance Manager – Ext: 5630
Date: 12 September 2014
Background Papers: Audit & Assurance Plan 2014/15, approved by
Committee on 15 April 2014.