

Agenda Item 5

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Date	12 March 2015

Subject	Internal Audit Progress Report: March 2015
<u>RECOMMENDATIONS</u>	
1.1	That the Committee notes the progress against the 2014/15 Audit Plan as detailed in the attached appendix.
1.2	That the Committee approve the Audit recommendation that the performance of the Procurement function should be annually reported to the Audit Committee and that this should form part of the forward plan.

2. <u>SUMMARY</u>
2.1 This is the latest progress report for the 2014/15 programme of audit reviews. The purpose of the report is to update Members on progress against the audit plan and report the outcome of final audit reviews to date.

3. BACKGROUND

- 3.1 Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2011 (Regulation 6) require the Council to "maintain an adequate and effective internal audit of its accounting records and of its system of internal control".
- 3.2 The Council has delegated this responsibility to the Deputy Chief Executive (and Section 151 Officer) and appointed Baker Tilly as its Internal Auditor through a joint contract with neighbouring Local Authorities (Reigate & Banstead BC, Epsom & Ewell BC and Tandridge DC).

4. REVIEWS COMPLETED

- 4.1 Baker Tilly's Progress Report for 2014/15 is attached as Annex A.

- 4.2 The Audit “opinion” following each investigation undertaken by Baker Tilly is categorised in traffic light fashion as follows . . .

GREEN – substantial assurance can be taken that the controls are suitably designed, consistently applied and effective;

AMBER/GREEN – reasonable assurance can be taken that the controls are suitably designed, consistently applied and effective;

AMBER/RED – some assurance can be taken that the controls are suitably designed, consistently applied and effective but action needs to be taken to manage the risk;

RED – no assurance can be taken that the controls are suitably designed, consistently applied and effective; action needs to be taken to ensure this risk is managed.

- 4.3 Three reports have been finalised since the previous report to the Audit Committee in November dealing with Risk Management, Treasury Management and Procurement. Of the 3 “traffic light” opinions delivered by Baker Tilly, 2 are GREEN and 1 is AMBER/RED.

Risk Management

- 4.4 The conclusion of this review is that Risk Management is “well defined” in the Authority with risks “clearly reported and recorded”. The assurance following their observations and tests is that Risk Management is “actively embedded in the organisation”. There were no recommendations and a GREEN opinion.

Treasury Management

- 4.5 Thorough testing of the processes and control framework was undertaken in this highly regulated area. All aspects of CIPFA’s detailed code of practice and the Prudential guidelines were found to have been observed together with a long list of examples of “sound design and control”. The conclusion was that “overall, no cash remains idle with the Council maximising the use of available cash”. One, low level recommendation was made relating to the signing-off of a quarterly reconciliation. The Audit opinion was GREEN.

Procurement

- 4.6 Procurement which was designated as AMBER/RED. Seven recommendations for improvement were put forward.
- 4.7 At the outset, it was recognised that Procurement is the focus of high profile initiatives – from both Government and the European Union – aimed at opening up local authority activity and better engaging the business sector. This has led to the need to prioritise the development of a comprehensive contract register, preparing and publicising Procurement data and introducing an E-Tendering system. These steps are required to comply with the Government’s new

Transparency Code and impending EU Directives. Increased Procurement support is required and this is being addressed.

- 4.8 It is accepted in the Audit review that a number of the areas addressed are “work-in-progress”. One of the recommendations, to update the Contract Standing Orders, has been implemented since the report was finalised.
- 4.9 In view of the high profile that the Government attaches to Procurement activity, the report recommends that Procurement performance be reported on, annually, to the Audit Committee.
- 4.10 In conclusion, a plan is being developed to better resource the Procurement function, to prioritise the work necessary to satisfy the Audit recommendations and to bring annual reports to the Audit Committee on the performance of Procurement.

5. CORPORATE IMPLICATIONS

- 5.1 **Monitoring Officer commentary** – No legal implications contained within the report.
- 5.2 **Statement of the s151 Officer: Financial Implications** - There are no direct financial implications arising from this report.
- 5.3 **Risk Implications** - Delivery of the Internal Audit Strategy is based upon an analysis of:
- Risk based coverage such as Risk Management, Corporate Governance Reviews and Information Technology (IT) Systems in the Council.
 - Addressing specific key risk areas in the Plan
 - Follow-up review and management of the Audit Plan
- 5.4 **Equalities Implications** - None contained within the report.
- 5.5 **Employment Issues** - None contained within the report.
- 5.6 **Sustainability Issues** - None contained within the report.
- 5.7 **Consultation** - None contained within the report.

BACKGROUND PAPERS - None

Mole Valley District Council

Internal Audit Progress Report

Audit Committee meeting: 12 March 2015

Introduction

The internal audit plan for 2014/2015 was approved by the Audit Committee on 13 March 2014. This report provides an update on progress against that plan and summarises the results of our work to date.

Final Reports Issued

We have issued the following final reports:

Assignment <i>Reports considered today are shown in italics</i>	Opinion	Actions Agreed (by priority)		
		High	Medium	Low
Newdigate Housing Nominations (1.14.15)	Advisory	-	4	-
Income From Car Parking (2.14.15)	Green	-	2	2
Waste Collection and Recycling Services (3.14.15)	Advisory	-	-	2
Telecare (4.14.15)	Amber / Green	-	3	4
Property Maintenance (5.14/15)	Amber / Red	-	5	2
Medium Term Financial Strategy (7.14/15)	Green	-	1	-
<i>Risk Management (8.14/15)</i>	<i>Green</i>	-	-	-
<i>Treasury Management (9.14/15)</i>	<i>Green</i>	-	-	1
<i>Procurement (10.14/15)</i>	<i>Amber / Red</i>	2	5	-

Internal Audit Performance

Below we have set out the position against the 2014/15 plan:

Assignment	Start date	Debrief date	Draft report issued	Management responses received	Final report issued
Newdigate Housing Nominations (1.14.15)	2 Mar 14	9 Mar 2014	6 Jun 2014	29 May 2014	2 Jun 2014
Income From Car Parking (2.14.15)	9 Jun 14	15 Jun 2014	20 Jun 2014	29 Aug 2014	29 Aug 2014
Waste Collection and Recycling Services (3.14.15)	March 14	12 Jun 2014	2 Jul 2014	2 Oct 2014	2 Oct 2014
Telecare (4.14.15)	1 Jul 14	11 July 2014	28 July 2014	22 Aug 2014	29 Aug 2014
Property Maintenance (5.14/15)	15 Sep 14	20 Aug 2014	22 Sept 2014	10 Oct 2014	5 Nov 2014
Creditors (6.14/15)	15 Sept 14	23 Sept 2014	30 Sept 2014		
Medium Term Financial Strategy (7.14/15)	15 Sep 14	26 Sept 2014	30 Sept 2014	17 Oct 14	17 Oct 14

Risk Management (8.14/15)	3 Nov 14	12 Nov 14	21 Nov 14	26 Jan 15	27 Jan 15
Treasury Management (9.14/15)	10 Nov 14	12 Dec 14	2 Jan 15	28 Jan 15	29 Jan 15
Procurement (10.14/15)	24 Nov 14	17 Dec 14	6 Jan 15	29 Jan 15	30 Jan 15
Debtors (11.14/15)	13 Dec 14	19 Dec 14	15 Jan 15		
Revenues (12.14/15)	2 Jan 15	8 Jan 15	19 Jan 15		
Emergency Planning/Civil Contingencies Act (14.14/15)	11 Nov 14	21 Jan 15	30 Jan 15		
Planning and Development: Planning Enforcement (15.14/15)	21 Oct 14	14 Jan 15	30 Jan 15		
Benefits	9 Jan 15	15 Jan 15	27 Jan 15		
Payroll	16 Feb 15				
Value for Money Review	Feb 15				
Payment Card Industry Compliance	TBC				
Individual Electoral Registration	2 Mar 15				
Data Quality	10 Mar 15				
Follow Up	30 Mar 15				

Planning and Liaison:

- We have agreed dates with management for the delivery of the plan with the exception of the Payment Card Industry compliance which is in the process of being agreed.

Change Control:

The following has been proposed and audit Committee approval is sought.

Action	Date	Agreed By
Management have requested a referral of the Individual Electoral Registration audit into 2015/16.	November 2014	Management

Information and Briefings: We have issued the following update electronically since the last Audit Committee:

- LGE News Briefing – September 2014

KEY FINDINGS FROM INTERNAL AUDIT WORK AND AGREED ACTIONS

Assignment: Risk Management (8.14.15)	Opinion:	Green
<p>a) Key risks are evidenced and routinely considered by senior officers within the Council and members are informed of any changes to the strategic risk profile.</p> <p>b) The Risk Management Policy had until 2012 been reviewed and updated on an annual basis through the Executive Committee. The Policy sets out the processes, responsibilities and reporting structures for managing risk. The last review occurred in February 2012 and we note that the strategy is now well defined and has gone through a period of close revision for a number of years. It is anticipated going forward the strategy will only need reviewing on a three yearly cycle. Consequently the next planned refresh of the policy will occur in 2015.</p> <p>c) Strategic risks are clearly reported and recorded in accordance with the requirements of the Risk Management Policy. Mitigating controls are described in detail and the level of consideration described would indicate that risk management is adequately evidenced.</p> <p>d) From our observations and testing we can provide assurance that risk management is actively embedded within the organisation. The quarterly update and facilitated challenge of risks held by service managers is particularly helpful in ensuring that the risk profile of the Council is up to date and consistent.</p> <p>e) The last revision of the Policy also included direction for a risk assurance framework. We satisfactorily verified that an up to date detailed assessment, gap analysis and action plan going forward has been undertaken, to evaluate the adequacy of controls, in respect of key risks, in compliance with Policy. This framework adds tangible value to governance and risk management arrangements within the organisation.</p> <p>f) Risk consideration is embedded into the standard business planning template. In this respect we satisfactorily verified that risk consideration was included in a narrative format for two service areas in the Council Business Planning document. We noted that these areas of consideration were detailed and provided good balanced context for those risks that may impact on the delivery of services.</p> <p>g) In our 2013/14 audit of risk management we noted a small number of incomplete entries and inconsistencies in risk scoring. We found no such omission in this year's work.</p> <p>h) We note that the Risk Management Policy refers to the formal reporting of the registers to members during the course of the year. We note that the actual approach of reporting risk to members occurs through a number of channels: In particular:</p> <ul style="list-style-type: none"> - SMT Leads asked to update their respective Executive Members with issues arising from management Team meetings; - SMT leads have regular briefings with their Executive Members and cover a range of issues including risk. These are now in the form of recently introduced written briefings which include risk. We verified an example from October 2014; - Every Committee Report has a section on risk; and - Business Plans each have a section on risk. These are signed off by Executive Members. 		
Action	Date	Responsible Officer
No recommendations were raised in the report.		

Assignment: Treasury Management (9.14/15)	Opinion:	Green
<p>The following examples of sound design and control application were noted by our testing:</p> <p>a) Fixed term deposits are recorded in the treasury management diary, the investment summary spread sheet and the Equinox Loans System. We tested a sample of 10 fixed term deposits and found that:</p> <ul style="list-style-type: none"> • All interest rates were in agreement to both the counterparty evidence and the treasury management records. • Supporting documentation was available for the sample selected. • Segregation of duties was evident between authorisation prior to posting and authorisation online. <p>b) Interest due on maturing Fixed Term Loans are recorded in the Diary on the maturing date and in the Equinox system. From our sample of ten we verified that the correct interest rate, start/end date, broker and counterparty had been appropriately inputted.</p> <p>c) To comply with the Code of Practice on Treasury Management the Council has to approve annually prudential indicators and a Treasury Management Strategy that reflects the Council's expected operations in this area for the 2014/15 financial year.</p> <p>We obtained the Audit Committee minutes for 28th November 2013, where the Treasury Management Strategy was reviewed and confirmed for 2014/15 – 2016/17 financial years.</p> <p>Additionally we verified that the Prudential Indicators and the Investment Strategy have been confirmed for 2014/15. The Council's Constitution also prescribes the key controls and accountabilities over the Treasury Management function.</p> <p>d) As per CIPFA Treasury Management in the Public Service: the Code of Practice requires an annual and a mid-year analysis of treasury management performance. The Finance Team have ensured that reports have been issued in a timely manner for inclusion of papers for Audit Committee meetings in line with CIPFA guidance. The 2013/14 annual report was dated 25/09/2014, five months after the 2013/14 financial year. The Principal Accountant noted that to do this earlier would disrupt the production of the final accounts.</p> <p>e) Council Tax and NNDR payment notifications are provided to the Treasury Management Team periodically which in turn updates the cash flow forecast. Prior to notification being given estimates are used to predict cash flow. From our sample of 20 payments we found that notification of payment had been received in advance by the Treasury Management Team and that the cash flow forecast had been updated in all occasions and actual payments were in agreement to the bank statements.</p> <p>f) Efficient monitoring of cash outflows and inflows is a key element of delivering an efficiently managed cash management strategy. We confirmed that cash flow predictions have been produced for the 2014/15 financial year. Predictions have been based on last year's cash flow forecast along with additional information and risk analysis. We verified a number of balances from the cash flow statement to the bank statements and note that the cash flow forecast had been satisfactorily updated up until the time of audit on 8th December 2014.</p> <p>g) The cash flow for the remainder of the year is prepared and reviewed on a daily basis, being adjusted for actual income and expenditure figures when known. The purpose of the cash flow is to ensure there are sufficient funds available to meet commitments and to ensure that any surplus cash is appropriately invested. We reviewed the recorded bank balances on the cash flow between 1st April 2014 and the 11th December 2014. On only two of the 180 days was more than £100,000 left in the main account.</p> <p>Overall the review of bank balances confirms that no cash remains idle with the Council maximising the use of available cash.</p> <p>h) Criteria for counterparty limits are outlined in the current Treasury Strategy.</p> <p>i) Credit rating reports are provided to the Council by Capita Asset Services on a monthly basis. We confirmed that the authority receives monthly credit ratings reports from Capita Asset Services. This is reviewed by the Principal Accountant and where necessary the lending criteria are adjusted.</p>		

<p>j) Online banking facilities are provided to the Council by Natwest. All users of the online banking facilities are current employees of the Council and access rights were appropriate to their role.</p> <p>k) Treasury management transactions are reconciled monthly. Reconciliations are between the Equinox system (treasury management system) and Integra (general ledger). We confirmed that reconciliations have been completed to cover the period April – November 2014 and a segregation of duties was evident.</p> <p>However we did note that the reconciliation sheet includes a section where the reconciliation should be reviewed on a quarterly basis by the Financial Services Manager. We noted that this has not been completed from April – November 2014. In this respect we have raised a recommendation for this in Section 2 of this report.</p> <p>l) The Principal Accountant performs a monthly review of the interest earned on the general ledger to the treasury management system. We obtained the reviews from April – November 2014 and note that going forward these will be completed on a quarterly basis. It is anticipated that there will be no borrowings required to fund the capital programme during 2014/15 – 2016/17.</p>		
Action	Date	Responsible Officer
<p>Recommendation 1.1</p> <p>To avoid error or omission the Council should ensure that the reconciliation between the treasury management system and the general ledger is subject to review by the Financial Services Manager on a quarterly basis. (Low)</p>	December 2014	Phil Mitchell

Assignment: Procurement (10.14/15)	Opinion:	Amber/Red
<p>a) We are aware that action continues to be taken to ensure risks in this area are managed, and a number of key areas of control were ‘work in progress’ at the time of audit.</p> <p>b) An overarching cause of the delay is the implementation of the Surrey E-Tendering system (In-TEND), which is beyond MVDC’s control. We do recognise that work is being scheduled to address other known control gaps, and additional staff resources are being arranged to facilitate this. One notable achievement is that the Council was able to satisfy the requirements of the Transparency Code, both in terms of content and timeline, and among one of the few Council’s in the area to do so.</p> <p>c) There are currently no performance indicators for managing procurement activity and effectiveness.</p> <p>d) MVDC arranged a shared Business Breakfast session at Dorking Halls which attracted 100 local businesses. The Council’s procurement processes were outlined to them and advised how they might get more involved with doing business with the Council, all very much in line with the latest EU/Government procurement initiatives.</p> <p>e) The contracts register is currently incomplete and work is in progress to canvass departments and budget holders to identify key areas of procurement and contract activity. It is anticipated that once identified a new contracts register will be created and maintained on new e-tendering software which will become operational during 2015-16.</p> <p>f) We obtained an extract from the creditors system and aggregated recent spend with suppliers over a 12 month period and identified a list of suppliers where annual spend exceeds £75K. We cross checked this with the responses from departments being used to populate the new contracts register and note that key areas of procurement appear to be being satisfactorily identified.</p> <p>g) Central Government requirements for a more expansive process of monitoring and publicly reporting upon procurement activity is currently being addressed through on-going analytical work of creditor transactions.</p> <p>h) Known weaknesses highlighted by officers during this review are not fully reflected in current risk registers.</p> <p>i) The Strategy identifies a clear framework and guiding principles for the management of procurement. The document is however 8 years old and requires an update to reflect new</p>		

<p>legislative requirements, new process developments and alignment with the current corporate plan. The action plan attached to the strategy is now redundant and a new plan is required to set clear targets for process update and resourcing of the procurement function going forward.</p> <p>j) The strategy particularly requires strengthening to define the procurement function's role in providing assurance that the organisation is compliant with Contract Standing Orders (CSO) and Financial Regulations. In addition needs to be given to performance monitoring for the function. The use of a number of PI's may provide more insight as to the efficiency and effectiveness of procurement processes. In this respect we have made recommendations in section 2 of this report.</p> <p>k) The Government announced in October 2014 that there would be major changes introduced which will affect the way the public sector procures goods and services. These changes will be consolidated in the Public Contract Regulations 2015. In addition a number of procurement data sets will require publishing as part of the Transparency Code requirements from 31st December 2014. The use of Pre-Qualification Questionnaires will be prohibited for procurements under the European Union threshold for supplies and services, which is currently £173,000. Contract opportunities (above £25,000) will in future be required to be placed on the Governments Contract Finder database</p> <p>l) We note from discussion with the Council's Legal Officer that CSO's are being redrafted for intended agreement in 2015. Any detailed changes in processes will be prescribed through a revision of the Council's Procurement Guide / Code of Practice. At the time of our audit work was also 'in progress' to provide and publish data in respect of the Government's Transparency Code.</p> <p>m) In view of the high profile the Government attaches to procurement activity and transparency obligations prescribed we are recommending that an update of procurement activity and areas non-compliant with the Council's Contract Standing Orders should be formerly reported to the Audit Committee on an annual basis.</p> <p>n) The Council has appointed a Procurement Officer to manage the procurement function on a part time basis. The resourcing and support of this post will be essential in driving the required development of processes. Going forward and in view of the full work schedule proposed, the capacity of this resource to deliver may require further review.</p>		
Action	Date	Responsible Officer
<p>Recommendation 1.1a</p> <p>The Council's Procurement Strategy requires review and update. In particular:</p> <ul style="list-style-type: none"> • alignment with current Council priorities; • requiring the procurement function to provide an assurance role in demonstrating the organisations compliance with Contract Standing Orders and Financial Regulations; • recording and report on the number of CSO waivers / single tender actions / use of purchase orders; • ensuring specialist procurement capacity and capability; • identifying and reporting upon procurement risks; and • reference to Public Sector Procurement Reform and the Governments Transparency Code. <p>(Medium)</p>	30 June 2015	Claire Hinds

<p>Recommendation 1.1b</p> <p>A new action plan is required to set clear targets for the development and delivery of the function.</p> <p>Going forward progress against the procurement action plan and strategic objectives should be reported to committee annually. (High)</p>	30 June 2015	Claire Hinds
<p>Recommendation 1.2</p> <p>Performance monitoring for the function is required, and the use of all or a combination of the following will provide more insight as to the efficiency and effectiveness of the procurement function:</p> <ul style="list-style-type: none"> • percentage of creditor transactions supported by an official order (target x%); • achieve (over 5 years) collaborative contract expenditure of 80%; • the number of satisfactory / unsatisfactory feedback forms completed; • total cost of the procurement function as a percentage of organisational running costs (or non-pay expenditure) • professionally qualified procurement employees as a percentage of total procurement employees; • monitoring of contract waiver numbers and set target; and • reduction of unplanned work from x% to less than y% (2 year target). (Medium) 	30 September 2015	Claire Hinds
<p>Recommendation 2.1a</p> <p>Revised Contract Standing Orders must be completed and agreed by the Council in 2015. (Medium)</p>	February 2015	Angela Griffiths
<p>Recommendation 2.1b</p> <p>Detailed procedural change, required as a part of Public Contract Regulations 2015 and the Governments Transparency Code, will need to be prescribed as part of a revision and update to the Council's Procurement Code of Practice. (Medium)</p>	As guidance is available.	Claire Hinds
<p>Recommendation 3.1</p> <p>A Contract Standing Orders waiver register should be maintained, recording any circumstances where a procurement transaction</p>	1 April 2015	Claire Hinds

<p>/ activity exists that has not complied with Contract Standing Orders.</p> <p>This register should also be populated with any pre-existing purchasing arrangements that are non-compliant. (High)</p>		
<p>Recommendation 5.1</p> <p>Going forward and in view of the number control gaps that are currently being addressed through 'work in progress' we would expect to see procurement risk more fully considered and documented.</p> <p>In particular this consideration should be included with the action plan that accompanies the procurement strategy and which we are recommending is put before committee on at least an annual basis. (Medium)</p>	1.4.2015	Phil Mitchell

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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