

# Hinckley & Bosworth Borough Council

## Internal Audit Progress Report 2014/15

September 2014



## 1. Introduction

This report summarises the work of Internal Audit to the end of August 2014. The purpose of the report is to update the Committee on progress made in delivering the 2014/15 audit plan.

## 2. Progress summary

The internal audit plan for the 2014/15 year totals 323.5 days (including work in relation to Leicestershire Revenues & Benefits Partnership (LRBP) systems and total days carried forward from 2013/14). Section 5 provides details of all the audit assignments now included in the 2014/15 year, together with details of the quarter in which the assignments are planned for delivery at this stage, and an update on progress where assignments have commenced. Members will note some additional reviews agreed with management since the last meeting, which draw on days carried forward, as referred to above.

Members will note that information on tracking of agreed management actions is not included on this occasion; we will verbally update on this issue at the meeting.

## 3. Summary of reviews completed

The following reviews have been completed and final reports agreed with management since the last meeting of this Committee. The tables below set out summaries of the outcomes and any high or medium risk issues raised, and agreed actions to address them.

Review	Summary	Level of assurance				
Payroll	This audit examined the key controls in relation to management of the Council's payroll. A Significant Assurance Opinion was provided, with 4 medium and 2 low level recommendations made. The individual level of assurance for each system control objective reviewed is provided below.	Significant				
System control objective	Level of Assurance					
	Full	Significant	Moderate	Limited	No	
1. Permanent payroll data held on the system is accurate, and any amendments to payroll data are valid, accurate, appropriately authorised and timely.			√			
2. All deductions made from salaries are accurate, timely and authorised.		√				
3. The payroll is processed in an accurate and timely manner, including any temporary variations to pay.	√					
4. The security of payroll data is adequately maintained.	√					

The 4 medium level recommendations and management's responses are set out below:

**System Control Objective 1: Permanent payroll data held on the system is accurate, and any amendments to payroll data are valid, accurate, appropriately authorised and timely.**

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
<b>1.1 Authorisation of Expenses</b>	For those employees not on the self-serve element of the payroll system, manual expense forms are used. These are required to be authorised by the appropriate manager as per the authorised signatory list and entered by either nominated staff at the depot or the payroll section. 10 expense forms were selected for testing and it was noted that 1/10 had not been authorised by an appropriate manager.	Inappropriate payments made	3	All expense claim forms should be authorised by an authorised signatory as shown on the authorised signatory list.	This was an isolated case relating to our courier (who submits his claim to HR direct). He has been reminded that any expense forms he submits has to made directly to the manager who will authorize accordingly. The officer who verifies will also ensure that all forms have been signed by the manager (as a double check)	Beverley Bee (Payroll Officer)/Lynn Fray (manager)/ Shawn Sweet (verifier)	Immediate
<b>1.4 Elections Staff</b>	It is now a requirement that all payments made in relation to elections work are paid via the payroll system. An extract was downloaded from the elections system for input to the payroll system but in the majority of cases the data could not be automatically imported and had to be entered manually. Due to the tight timescales, the entries were not independently verified within the payroll section. 20 payments were tested and all found to agree to details entered onto acceptance of appointment forms and to payment schedules for the types of duties carried out.	Inappropriate payments made	3	Payments should not be paid via the payroll system until data entered has been independently verified.	The process for next year, agreed by the Returning Officer, is as follows:  All new starters will be input to the HR system at recruitment stage (October 2014). This will ensure that all starter information is process ahead of the elections as it is time consuming.  <u>For 2015 election</u>  A longer lead time between the close of	Hannah Tonks/Beverley Bee  Hannah Tonks/Beverley	October 2014  January 2015

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
					<p>elections and payment of salaries has been agreed for next year. This will ensure that there will be more time to process payments and to verify the accuracy of those payments. It is proposed that payment to elections staff will be made on a later date of 16 July.</p> <p>Payments will not be processed until an independent verification has taken place by a member of the finance team.</p>	<p>Bee</p> <p>Kat Plumber</p>	<p>June 2015</p>
<b><u>1.5 Elections Payments</u></b>	<p>The Electoral Commission notified the Authority that payments made to the Chief Executive for his Counting Officer duties should be calculated at £475 per 10,000 electors. The Commission provided a spreadsheet which allows authorities to enter the number of electors shown on the register on the date of the election and automatically calculates the payment to be made. On the date of the election 22nd May 2014, the electoral register showed an electorate of 84,841. However, calculating the payment manually gives a payment due of £4,029.95 whereas the actual payment made as per the spreadsheet gives a payment due of £4,424, hence an overpayment of £394.05.</p>	Incorrect payments made	3	<p>The Electoral Commission should be contacted to inform them of the error on their spreadsheet.</p> <p>The overpayment should be reclaimed.</p>	<p>Electoral Commission has been notified, and this has been formally acknowledged.</p> <p>Overpayment has been recalculated and recovered via the August payroll.</p> <p>This amount was repaid on 21 August 2014</p>	<p>Hannah Tonks</p> <p>Bev Bee</p> <p>Bev Bee</p>	<p>27.8.2014</p> <p>w/c 18 August 2014</p> <p>21 August 2014</p>

## System Control Objective 2: All deductions made from salaries are accurate, timely and authorised.

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
<b>2.1 Deductions</b>	The new starter form shows a checklist for HR staff to follow when information is entered onto the system including tax details, NI details and pension details. Testing of 10 new starters showed that the information relating to PAYE, NI and pensions had been entered correctly to allow deductions to be accurately calculated for all but one employee. This new starter had joined the Council on 14/4/14 and new pension rates were introduced on 1/4/14 but the Council had not at that time received the details of the new rates. The HR Officer had written on the starter form "scheme needs changing to LGPS main scheme 2014" and had not ticked off the box to show that this had been actioned. Another HR Officer had independently reviewed the new starter form but had failed to notice the note entered and signed the form off as verified. We requested a report was run from the payroll system and it was confirmed that this was the only instance of pension deductions having not been made. This is considered to be a timing issue and should not happen on a regular basis.	All necessary deductions are not made.	3	Staff should be reminded to take care when verifying information entered onto the system from new starter forms.  The underpayment should be calculated and claimed back.	Staff carrying out the inputting of new starters and the verification have been reminded that they need to double check and employer's percentage that they are attached to the payee, and also verify from the pay slip that pension has been deducted.  Employee did not want to repay in total due to the amount accrued/under-deducted It was agreed, and supported by LCC pensions section to revise her start date in the LGPS (from August 2014)	Bev Bee/Shawn Sweet  Bev Bee	Immediate  1 August 2014

Review	Summary	Level of assurance				
Section 106 Agreements	This audit examined the key controls in relation to the management of planning obligations (Section 106 Agreements) and relevant dealings with Parish Councils. A Significant Assurance Opinion was provided, with 1 high, 6 medium and 2 low level recommendations made. The individual level of assurance for each system control objective reviewed is provided below.	Significant				
System control objective	Level of Assurance					
	Full	Significant	Moderate	Limited	No	
1. Sums provided for within agreements are clearly identified to Parish Councils based on the provisions within the relevant agreement.		✓				
2. Parish Councils are demonstrably made aware of sums available and of any constraints on their use (e.g. nature of suitable spend/time limits etc).			✓			
3. Details of proposed spend are obtained from Parishes in a timely way and the Borough Council assures itself that these are appropriate based on the relevant agreement.		✓				
4. Funds are released to Parish Councils in accordance with suitable request and the agreed basis of spend.		✓				
5. The Borough Council has assurance of the actual spend and its compliance with agreement provisions,		✓				

The 1 high and 6 medium level recommendations and management's responses are set out below:

**System Control Objective 1: Sums provided for within agreements are clearly identified to Parish Councils based on the provisions within the relevant agreement**

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
1.2 Recording Approved Planning Applications on the Monitoring Spreadsheet	<p>A sample of 5 recently approved planning applications was reviewed to confirm they were recorded in the Monitoring Spreadsheet on a timely and consistent basis. It was noted that in 2 instances there were delays in the completion of the legal agreements (13/00979/FUL – 5 months, 13/00424/FUL – 4 months) which meant that they were not recorded in the Monitoring Spreadsheet.</p> <p>In addition, an approved outline application was not input to the Monitoring Spreadsheet because it was an outline application. However, it was noted that this treatment is inconsistent as other outline applications are recorded on the Spreadsheet.</p>	Approved planning applications with planning obligations are not recorded on the Monitoring spreadsheet in a timely and consistent manner.	3	Wherever possible legal agreements should be completed on a timely basis and thereafter recorded in the Monitoring Spreadsheet. Outline planning applications should be recorded consistently in the Monitoring Spreadsheet.	The spreadsheet will be updated and cross referenced as soon as practicable.	S106 Compliance and Monitoring Officer.	<p>Within 6 months and continually reviewed.</p> <p>14/2/15</p>
1.3 Completeness of the Monitoring Spreadsheet	The Compliance and Monitoring Officer maintains the Monitoring Spreadsheet but there is no process to ensure she systematically receives all completed legal agreements.	Not all completed legal agreements may be consistently forwarded to the Compliance & Monitoring Officer for recording on the Council's Monitoring Spreadsheet, resulting in incomplete data being recorded	3	A process should be introduced to ensure that all completed legal agreements are issued to the Compliance & Monitoring Officer for inclusion in the Monitoring Spreadsheet	Legal Officers have been instructed to send completed S106 to case officer and S106 monitoring officer. The procedure is in place. Case officers to ensure that this procedure is implemented	DM Manager/ Legal Officers/Case officers	Immediate and occurring.

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
1.4 Monitoring Spreadsheet- Accuracy of Data	A sample of 9 planning permissions was selected from the Monitoring Spreadsheet and agreed to Unilateral Undertakings or similar planning agreements to confirm that the conditions of use and sums available were correctly reported. At the time of the audit 3 legal agreements were not available for review (12/01202/OUT, 12/00349/FUL, 09/00624/FUL) , in 1 instance the contribution was incorrectly stated (13/00949/COU - £938.10) and in 1 case the Monitoring Spreadsheet made no reference to on-site provision and associated maintenance (11/00489/FUL - £62,216).	Data reported to Parish Councils and other interested parties may be incomplete and inaccurate.	3	All entries in the Monitoring Spreadsheet should be supported by accessible legal agreements and the provisions, conditions of use and sums should be correctly reported.	A detailed review of permissions and the spreadsheet will be carried out.	S106 Compliance and Monitoring Officer.	Within 6 months (14/2/15)

## System Control Objective 2: Parish Councils are demonstrably made aware of sums available and of any constraints on their use (e.g. nature of suitable spend/time limits etc)

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
2.1 On Site Planning Obligations - Monitoring	Planning obligations with respect to open space provisions are, in some instances, delivered on site by the developers. Upon completion the site is adopted by either the Borough or Parish Council who can then access any provision made towards maintenance of the site/equipment. There are no processes in place to ensure that developers have delivered such responsibilities and also there are no procedures in place to ensure that related maintenance monies are claimed and applied by the Borough or Parish Councils.	On site open space provisions may not be delivered  Related maintenance contributions may not be claimed or correctly applied.	2	Procedures should be drawn up to ensure that developers on site open space provisions are monitored, and to ensure that the associated maintenance charges are collected and applied.	A joint procedure between Policy and Development Management will be drawn up. A new Monitoring Officer post has been created in the Policy Team and a joint working arrangement will be agreed.  Meetings with the Parish Councils are already taking place to understand and explain outstanding maintenance and use of this money.	Policy Monitoring Officer/ S106 Compliance and Monitoring Officer.	Within 3 months a draft protocol being in place. (14/11/14) With continual review every 6months or when issues arise.



Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
2.2 Reporting Planning Obligations to Parish Councils	To keep Parish Councils informed of their planning obligations, an extract from the Monitoring Spreadsheet is e-mailed to them on a quarterly basis. There is no control schedule in place to demonstrate that this does happen and to ensure that reports are issued to all relevant parish clerks.	Parish Councils may not be in receipt of their extracts of the Monitoring Spreadsheet on a timely basis	3	There should be a clear audit trail to demonstrate that Monitoring Reports are issued to all Parish Councils on a quarterly basis	This is agreed. In addition to emailing the Parish on the receipt of a contribution, a spreadsheet will be emailed to all parishes on following dates 1 April, 1 July, 1 October, 1 January or nearest working date after.	S106 Compliance and Monitoring Officer/ Policy Monitoring Officer	Within 3 months (14/11/14) and continual review every 6months or when issues arise

### System Control Objective 3: Details of proposed spend are obtained from Parishes in a timely way and the Borough Council assures itself that these are appropriate based on the relevant agreement

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
3.2 Section 106 Forum	All requests to spend against off site Open Space planning obligations are approved by the Section 106 Forum which consists of 3 Borough Councillors and a number of relevant officers. This is a virtual Forum and an agenda is circulated to all members setting out the requests that require approval. There are no minutes to record what was approved.  There are no Terms of Reference for the Forum	There is no record of decisions taken  The role and responsibilities of the Forum are unclear	3	All agendas should include minutes of previous meetings which should clearly state what decisions have been taken.  The roles and responsibilities of the Section 106 Forum should be reviewed and Terms of Reference should be drafted and approved.	The forum has been reviewed and it is agreed that this is not the most efficient or transparent method. This has been replaced by a written procedure when contribution is received.	S106 Compliance and Monitoring Officer.	Immediate and occurring. Review after 12months to allow new procedures time to settle in.

**System Control Objective 4: Funds are released to Parish Councils in accordance with suitable request and the agreed basis of spend / System Control Objective 5: The Borough Council has assurance of the actual spend and its compliance with agreement provisions**

Expected Control	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who	When
4.1 Maintenance Payments to Parishes	We were unable to evidence in our sample testing that where maintenance payments are paid over to third parties the Council systematically obtains adequate written assurance that the capital sums which they support have been spent and that the maintenance will be correctly applied to support on-going maintenance of the capital asset (e.g. 05/00960/FUL). In addition, it would appear from 2 cases out of the sample of 5 cases selected for audit testing, that maintenance sums are not paid over to Parish Councils on a timely basis (i.e. 08/0056/FUL £ 43,854 rec'd 19/11/07 and 03/00205/FUL £11,994 rec'd 17/5/05), but not paid over at the time of the audit.	There is a risk that capital projects and associated maintenance responsibilities may not be discharged correctly by Parish Councils, and the Parish Councils may not receive the appropriate funding to support maintenance commitments.	3	Prior to the disbursement of maintenance monies the Council should obtain written confirmation from Parish Councils stating the capital work has been completed and that the maintenance payments will be applied to support on-going maintenance.  The Council should systematically identify where it holds maintenance funds that should be paid over to Parish Councils and the Open Space budget, and ensure this happens on a timely basis.	Quarterly reviews (as per 2.2) will take place and advice to Parishes will be scheduled when contribution is paid. Meetings also taking place with Parish Councils	DM Manager/ S106 Compliance and Monitoring Officer.	Within 3 months (14/11/14)

### Electoral Registration

We have completed the first phase of a two-phase review on the Council's implementation of Individual Electoral Registration, and have agreed with management a letter setting out our findings and recommendations and management's proposed actions. The letter is attached at the end of this progress report.

### IT risk assessment

As part of our 2013/14 audit plan and to provide a focus for best use of future IT audit resources, we carried out an IT risk assessment at the end of 2013/14. The overall objective in undertaking this assessment was to identify the key IT risks faced by the Council, establishing the current situation with each of the areas and the importance to the Council of each one. The secondary objective was to develop a plan of IT Audit work that will provide assurance to the Council over the operation of the IT function. The assessment followed a systematic approach to acquire an accurate picture of the strengths and weaknesses of

IT at the Council. This involved discussions with the IT department, review of policies and discussion with the ICT Manager to identify areas within the day to day operation of IT where audits would add value. To achieve this overall objective, 16 key risk areas were identified and examined. These are summarised as follows:

- IT Strategy
- Internet Access
- IT Policies
- Logical Security
- Information Governance
- Project Methodology
- Asset Management
- Application Controls
- Software Licensing
- IT Service Desk
- Physical Security
- Backup/Disaster Recovery/Business Continuity
- System Administration
- IT Legislation
- Virus Protection
- Website Content Management

The review provided an assessment of the level of risk each area is considered to represent, and proposed a plan of audit work resulting from this to address certain specific areas of risk. Management also provided responses setting out action proposed in relation to risks we highlighted in other areas. The plan of specific audit reviews agreed with management is shown below.

Suggested Auditable Area	Risk Assessment Source	Risk Rating	Suggested Audit Coverage 2014/15
IT service provider contract	IT Strategy	Medium	Provide assurance over the arrangements for re-tendering external service provider contract, including review of service specification to confirm appropriate control mechanisms are included in the contract.

Suggested Auditable Area	Risk Assessment Source	Risk Rating	Suggested Audit Coverage 2014/15
IT Projects /Service Improvement Plan	IT Strategy	Medium	Provide assurance that IT projects/SIP (e.g. Windows 7 & Office 2010 rollout, new housing system, Channel Shift Strategy, or others to be identified for 2015/16) are delivered in accordance with defined user requirements, on time and to budget. This could be achieved through a traditional post implementation review, or by providing ongoing 'critical friend' support during the project implementation phase. (one project in 14/15, two projects in 15/16 to include Channel Shift Strategy to be selected). We expect in 2014/15 to consider the Orchard system upgrade.
Information Governance	Information Governance	Medium	Benchmark the Council's Information Governance arrangements against the Local Government IG Toolkit.

## 2014/15 Internal Audit plan

Description of audit	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Current Status	Assurance level
Key Corporate Project assurance – Bus Station, MIRA/RGF and HRA Investment Plan projects	✓	✓	✓	✓	Ongoing. Initial management briefing paper issued and agreed.	
Efficiency/VFM reviews (Waste collection/recycling in 2014/15)			✓			
Fees and charges review	✓				Final report issued	<b>Narrative/advisory</b>
Budgetary Control			✓	✓		
Main Accounting			✓			
Council Tax – Leicestershire Revenues & Benefits Partnership			✓			
Business Rates – Leicestershire Revenues & Benefits Partnership			✓			
Benefits – Leicestershire Revenues & Benefits Partnership			✓	✓		
Financial Systems key controls			✓			

Description of audit	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Current Status	Assurance level
Information Governance		✓			Scope discussed and agreed, starting September	
Orchard Housing System upgrade review		✓	✓		Scope being discussed	
ICT Services Contract review		✓	✓		Scope being discussed	
Corporate Governance			✓			
Payroll & Expenses		✓			Final report issued	<b>Significant</b>
Electoral Register		✓	✓		Review in 2 phases, first phase complete and advisory letter issued	
Human Resources					Timing and scope to be agreed following initial discussions with management	
Housing Rents				✓		
Homelessness/Allocations					Timing and scope to be agreed	
Development Control (Process Review)			✓			
Section 106 agreements/contributions		✓			Final report issued	<b>Significant</b>
Planning Policy/delivery			✓			
Town Centre Management		✓	✓		Scope and timing under discussion	

Description of audit	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Current Status	Assurance level
Housing Repairs			✓			
Car Parks		✓			In progress	
Parking Enforcement		✓			In progress	
Asset Control			✓			
Whistleblowing – additional review		✓			Near completion	