



INTERNAL AUDIT SERVICE

INTERNAL AUDIT ACTIVITY - QUARTERLY UPDATE 2019/20

1. Summary of Progress against the 2019/20 plan.

- 1.1 For the period 1st June to 13th January 2020 progress against the plan for the financial year 2019/20 has been satisfactory with 67% of planned audit work either in progress or being near completion. As at the end of January 2020 the target for completion of the audit plan is 65% and therefore the Internal Audit Team are making good progress.

Audit Plan Progress

Title	Stage of Audit	Assurance reported to A&G Committee
Sale of Council Houses	Fieldwork	
Property Service – Legionella Checks	Moved to 2020/21	
Asbestos Management	New Audit Review	
Property Services – Electric	Final Report Issued	28 th January 2020
GDPR	Draft Report	
Stripe Payment Method	Final Report Issued	28 th January 2020
Civic Bulky Collections		
Vehicle Maintenance Contract	Fieldwork	
Enforcement Charges	Final Report Issued	29 th October 2019
Land Charges		
Members Services	Moved to 2020/21	
Corporate Credit Card	Final Report Issued	29 th October 2019
Benefits	Fieldwork	
Creditors	Draft Report	
Debtors	Fieldwork	
Council Tax	Draft Report Issued	
Council Tax Support Scheme	Fieldwork	
NNDR	Draft Report Issued	
Housing Rents Standard	Final Report Issued	29 th October 2019
Housing Rents – Rents Sense	Final Report Issued	28 th January 2020
Payroll		
Income Management Review	Fieldwork	
Treasury Management		
Main Accounting	Fieldwork	
Recovery of Arrears	Added to Debtors review	
Contracts and Procurement		
Performance Indicators		
Service Now - Customer Relationship Management		
Development Company		
Property Services Contractor Follow Up Audit Review	Fieldwork	
ICT Audit	Fieldwork	
Prevention of Fraud and Corruption	Final Report	23 rd July 2019
Annual Governance Statement		
Summary		

Work complete – Final	7	23%
Work complete – Draft	4	14%
Work in progress	9	30%
Work not commenced	10	33%
Total	30	100%

1.2 Since the last report to the Audit and Governance Committee in October 2019, three audits relating to financial year 2019/20 have been completed to final report stage. There are currently a further four reports at draft report stage and these will move to final report issued stage in the coming weeks. Two follow up audits have been completed and these are reported separately at Section 4 of this report.

1.3 The Internal Audit Managers review of the annual audit plan for the quarter has resulted in:

- An audit on the council's processes in place for the management of Asbestos to be brought forward into this year with an initial allocation of 20 Audit days.
- Two audits have been deferred into 2020/21:
 - Property Services – Legionella Checks has been replaced with Asbestos Management which is of higher risk to the council;
 - Members Service (Modgov system) is low risk at this stage and the resource has been transferred to the Asbestos Management audit review.
- The Recovery of Arrears Audit review has been incorporated into the Debtors Audit review as their audit scopes naturally overlapped.

1.4 Additional unplanned work has been undertaken during the period following individual requests from management. Unplanned work includes:

- Advice on the sale of branded items to the public.
- Due to the implementation of the new management structure there has been significant time spent on the maintenance of the council's authorisation list by one member of the audit team.
- Work in relation to parishes and payroll undertaken by one auditor has increased over the historical allocation due to the implementation of the new payroll system.
- There has been a notable increase in the number of requests for internal audit help and advice.

2. Audit Opinions and Priorities for Recommendations

2.1 Assurance rating system

2.1.1 This report records the levels of assurance provided by Internal Audit's work. The following categories are used to record the level of assurance. It should be noted that since the last committee meeting in July 2019 the assurance levels have been reviewed and updated to include a new opinion of Moderate Assurance and the deletion of Full Assurance.

Substantial Assurance	Level of Assurance = High
	The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved. There is a low risk of fraud, negligence, loss or damage to reputation.
Moderate Assurance	Level of Assurance = Medium
	The controls evaluated are generally well designed, appropriate in

	<p>scope and applied in the main consistently and effectively, but some weaknesses have been identified that require management attention. These issues increase the risk that some objectives may not be fully achieved.</p> <p>There is a medium/low risk of fraud, negligence, loss or damage to reputation.</p>
Limited Assurance	<p>Level of Assurance = Low</p> <p>Some controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues if unresolved, mean that objectives may not be achieved.</p> <p>There is a medium risk of fraud, negligence, loss or damage to reputation.</p>
No Assurance	<p>Level of Assurance = None</p> <p>Expected controls are absent, or where evaluated are flawed in design, scope or application leaving the system open to error or abuse. The auditor is unable to form a view as to whether objectives will be achieved.</p> <p>There is a high risk of fraud, negligence, loss or damage to reputation.</p>

2.2 Recommendation Priority Levels

Recommendations made in all internal audit reports are given a priority level as set out in the table below:

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact of frequency presents risk to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

- 2.3 No system of internal control can eliminate every possible risk and increasing the level of control in a system frequently increases costs. Balancing risk appropriately against the costs of control is management's responsibility.
- 2.4 Internal Audit's role is to evaluate and improve the effectiveness of risk management and control processes.
- 2.5 It is important to recognise that the scope of the work in each area examined defines the limits of the assurance which can be provided and to give context to the assurance provided work is summarised in the reports set out below.

3. Assurance reports:

Audit Year 2019/20

Details of the final reports relating to 2019/20, issued during the period 15th October 2019 to 13th January 2020 are as follows:

Audit Title	Assurance Opinion	Recommendations		
		P1	P2	P3
Stripe	Moderate	4	10	2
Property Services - Electric	Limited	18	11	0
Housing Rents – Rent Sense	Substantial	0	1	1

3.1 Stripe (Moderate Assurance)

3.1.1 Stripe is a payment processing platform that allows a business to accept credit and debit card payments online. The Development and Regeneration Service produced a business case for the use of an online payment system which was successful and it was agreed that this payment processing platform could be used on a trial basis. It was also agreed that Internal Audit would review processes in place once the system had been in operation for a period of time. As such, this audit review was limited in scope in order to review the provision of security of customer information, reconciliation and project implementation namely:

- Why Stripe was chosen as a Payment Processing Platform
- Information Security Protocols and Governance Procedures
- Reconciliation Processes and Procedures
- Project Implementation
- Retention and Disposal

3.1.2 The overall arrangements in place in relation to Stripe were found to be satisfactory, however, the following areas of concern were noted:

- System access controls are not adequate to prevent unauthorised access to customer data.
- There is no contingency in place should the Stripe Payment Platform be unavailable.
- Regular reconciliations are not undertaken.
- There is no audit trail of the entries from the payment processing platform to the Council's bank account and through to the Council's financial management system.
- There are no entries in the Retention and Disposal Records, the Corporate Catalogue or the ROPA to support the retention and disposal of Stripe documentation in accordance with GDPR requirements.

3.2 Property Services – Electric (Limited Assurance)

3.2.1 The scope of this audit review was restricted to the provision of Electrical Safety in respect of council houses and communal areas namely:

- Policy and Procedures
- Programme of works
- Adequate maintenance of records
- Independent Quality Assurance Reports
- Newly let properties
- Electrical Key Performance Indicator reporting

3.2.2 During this audit review it became evident that there were a number of issues that required immediate action and therefore Internal Audit produced an interim audit report and action plan and worked closely with Property Services Management providing help and advice where needed. The main concerns noted by Internal audit at this stage in the audit process included:

- Existing policies and procedures were found to be inaccurate and incomplete, had not been disseminated to key officers and therefore were not being followed;
- QL was not being used to monitor and manage compliance.
- There is a lack of adequate evidence to support that an EICR (Electrical Installation Condition Report) has been completed.
- In some instances properties have been missed from the programme of works.
- There were issues highlighted surrounding the response times to faults found.

3.2.3 Internal audit worked closely with Property Services Management to ensure immediate improvements were made. Progress was monitored regularly and this resulted in an increase of the audit assurance rating to Limited assurance. Implementation of the remaining recommendations should see a further increase in the audit assurance rating.

3.2.4 Internal audit expect that the majority of recommendations made in the most recent final audit report should be implemented within the agreed timescales, however, given the Limited Assurance rating, a follow up audit will be undertaken within 3 – 4 months (March/April 2020) and progress will be reported to this committee in due course.

3.3 Housing – Rents Sense (Substantial)

3.3.1 The scope of this audit review was restricted to the provision of Rents namely:

- Treatment of Rent Accounts
- Rent Accounts in credit
- The use of Rent Sense

3.3.2 Rent Sense was purchased by the Council as a tool to enable the rents team to target tenancies that look to be going into arrears or are in arrears. Rent Sense analyses patterns, e.g. the number of weeks between payments and amounts paid, whether a payment arrangement has been broken and changes to Housing Benefit etc. and then produces lists of cases that require review by the Rents Team. Internal Audit noted that the system was generally being used effectively.

3.3.3 Minor recommendations were in made in respect of a property being let long term to a commercial entity.

4. **Follow-Up Reviews:**

4.1 Property Services - Gas

4.1.1 The audit assurance rating remains at Limited Assurance. Whilst good progress to implement the recommendations has been made there are a number of recommendations that are reliant on the embedding of new processes and procedures. To ensure that the new processes and procedures are fully implemented and working as expected Internal Audit has agreed to undertake a further follow up review in March/April 2020. It is anticipated that the assurance level should increase once the processes and procedures are fully embedded. Once the second follow up audit review has been concluded a further update will be provided to this committee.

4.2 Home Care Link

- 4.2.1 The audit assurance rating has increased from Limited to Moderate Assurance. Internal Audit noted that good progress had been made to implement the recommendations made in the audit report. The team had focused on the high priority recommendations and the work completed so far represents a clear improvement in systems.
- 4.2.2 The remainder of the recommendations made are either in progress or on hold until the outcome of the Knowsley Metropolitan Borough Council (KMBC) contract tender is known. Should the KMBC contract tender be successful the majority of outstanding recommendations will be addressed by new automated initiatives that will be invested in to enhance operational procedures.
- 4.2.3 Internal Audit have agreed with Home Care Link Management that a full review of outstanding recommendations will be undertaken once the outcome of the KMBC contract tender is known, this is expected to be at the end of the current contract extension period (June/July 2020). Once the review is complete a further update will be provided to this committee.

5. Performance Indicators

- 5.1 The Internal Audit Service have introduced a suite of Performance Indicators for 2019/20. The results for the period 1st June 2019 to 13th January 2020 are:

Performance Indicator	Target	As at 13 th Jan 2019
1. Completion of the audit plan	90% of the audit plan completed by the end of plan review period (31 May 2020)	67%
2. % of recommendations confirmed fully implemented at time of formal follow up	90% of recommendations made	44%
3. Timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork	100%
4. Timely agreement and issue of the final report	80% of final reports (including agreed management action plan) issued within 5 weeks of draft report	100%
5. Customer satisfaction	Through key question customer satisfaction surveys – target 90% satisfaction of Very Good, Good or Average rating.	100%

- 5.2 It should be noted that Performance Indicator 2 - % of recommendations confirmed fully implemented at the time of formal follow up, looks relatively low in comparison to the target. As explained in Section 4 of this report, many of the recommendations made in relation to Home Care Link are on hold until the outcome of the KMBC contract tender is known and are therefore categorised as non-implemented recommendations. In addition, until Internal Audit are satisfied that Property Services - Gas processes and procedures are fully embedded these too will be classified as

Non-implemented. It is anticipated that the recommendations will be fully implemented in the coming months and the Performance Indicator will increase significantly.

6. Other matters of note

- 6.1 A follow up audit review of the Caretakers Audit Review 2018/19 is nearing completion and Internal Audit can report that the majority of recommendations have now been implemented. A final audit assurance rating has not yet been assigned, however, given the progress made and additional controls implemented by management, Internal Audit will be moving the service out of the Limited Assurance rating.

7. Conclusion

- 7.1 The 2019/20 Internal Audit Plan is designed to fulfil the Council's duty under the Accounts and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. Good progress is continuing to be made in delivering the 2019/20 plan.