

## AUDIT REPORT

### 1 SUMMARY

- 1.1 This report draws Members' attention to the completed audit engagements and provides an update on the progress in implementing audit recommendations.
- 1.2 This report also highlights the changes made to the way in which audit opinions and recommendations are categorised.

### 2 INTRODUCTION

- 2.1 Internal Audit is a statutory requirement under the Accounts and Audit Regulations. Internal Audit's work is monitored through regular reports presented to this Committee.

### 3 DELIVERY OF THE AUDIT PLAN

- 3.1 A table detailing audit engagements completed since the last Audit Committee meeting, with an outline summary, is included as Appendix 1.
- 3.2 The opinion given and main points arising from the completed audit engagements is summarised in Appendix 2.
- 3.3 An update on progress delivering the 2016/17 Audit Plan appears is at item 9 of the agenda for this meeting.

### 4 AUDIT OPINION AND RECOMMENDATION CATEGORIES

- 4.1 For 2016/17 a change has been made in the manner that audit engagements are assessed. An opinion of the overall level of assurance will be given. The opinion will be either "good", "adequate", "limited" or "no" assurance, with an assessment of the strength of controls in place against each risk audited. An explanation of the meaning of and reason for each assessment is attached as Appendix 3. This appendix should be read in conjunction with Appendix 4 setting out the updated recommendation categories.

### 5 MONITORING OF RECOMMENDATIONS

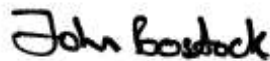
- 5.1 Recommendations arising from completed audit engagements are shown in Appendix 4. This also details the current status of whether the recommendation is implemented or when it is due to be implemented.
- 5.2 For recommendations arising in 2016/17 a revised structure of assessing category has been introduced. This is detailed in a table at the foot of the recommendations in Appendix 4.

- 5.3 All recommendations that have reached their implementation date were confirmed to be now implemented, with the exception of that relating to Cash & Banking (2015/16), as detailed in Appendix 4.

**6 RECOMMENDATION**

- 6.1 It is proposed that the Committee **RESOLVES**

- (1) That the conclusion and result from the audit engagements in Appendix 2 be noted.
- (2) That the updated information on the audit recommendations, outlined in Appendix 4, be noted.



John Bostock

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**Background Papers:-**

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.

**COMPLETED AUDIT ENGAGEMENTS SUMMARY – APPENDIX 1**

AUDIT ENGAGEMENT	SCOPE OF AUDIT	RECOMMENDATION CATEGORY				OPINION
		C	S	M	L	
<b>Disabled Facility Grants Report 2 (2016/17)</b>	To assess whether Disabled Facility Grants are being awarded in line with established criteria and that adaptive works are being effectively delivered	0	1	2	1	Limited – due to historic and current time taken to complete the end to end process.  There are some recent indications of improved speed of delivery and management are actively addressing the issues.
<b>Contract Monitoring – Materials Recycling Facility Report 4 (2016/17)</b>	To assess the overall effectiveness of contract management activity in respect of the Materials Recovery Facility contract.	0	1	4	0	Limited – contract management activity needs to be more risk-based, systematic and appropriately recorded.
<b>Budget Monitoring Report 5 (2016/17)</b>	To assess whether there is effective monitoring of delegated budgets to ensure that budgets are met and any remedial action proactively taken.	0	0	3	3	Budget monitoring information is generally adequate, timely and regular.  Areas for further enhancement are for budget updates to specify variances against profiled year to date positions (as well as forecast year end variances) and provide clear narratives on any remedial action needed.

Members have the option to view the audit working papers if they wish

## COMPLETED AUDITS – APPENDIX 2

### DISABLED FACILITY GRANTS – REPORT 2 (2016/17)

#### Audit objective

To assess whether Disabled Facilities Grants (DFG) are being awarded in line with established criteria and adaptive works are being effectively delivered.

#### Reason for inclusion in the annual audit plan

This audit is a planned, standard assurance review identified through the annual assessment of all Council's activities.

#### Corporate links

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objective**      Early intervention - we will endeavour to help to provide good quality homes for all of our residents

**Corporate risk**                      The Council could fail to provide consistent value for money (VFM) across all services or obtain VFM in its procurement

#### Audit opinion

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
		✓	

We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following potential risks:

Potential risks	Assurance Level	No. and category of Recommendations
Grants are awarded to those not meeting the required terms and conditions for DFG. This could also result in inability to award grants to those who do qualify due to exhausted funding	<b>Adequate</b>	None
Applicants are incorrectly assessed resulting in the applicant not paying a required contribution. This could lead to unnecessary expenditure, budget pressure and reputational damage	<b>Adequate</b>	None
Grants are not processed and works delivered in a timely manner resulting in delayed improvement of the applicant's circumstances	<b>Limited</b>	None - suitable management action being taken but performance will be tracked
Performance information is insufficient and or not reliable to effectively monitor the progression of cases and where necessary intervene to meet required standards and drive improvements in service delivery	<b>Limited</b>	1 Significant 1 Moderate
Financial information is insufficient or not reliable to effectively manage the budget resulting in unplanned under or overspends. Budget overspends, unless addressed by additional money, could delay works on other eligible applicants' properties.	<b>Adequate</b>	1 Moderate
The Council pays too much to the Housing Improvement Agency for completed cases either due to incorrect management charges or the cost of the work not being value for money	<b>Adequate</b>	1 Low

**There are no recommendations rated as "critical," which is the highest recommendation rating.**

## Executive Summary

### Background

Once an applicant has been approved as requiring and eligible for a DFG by an Occupational Therapist (OT), Papworth Trust (PT) completes the DFG process on behalf of the Council. This includes assessment of liability for financial contribution, design and costing of adaptive works and award and oversight of the works themselves. For each case, the Council pays PT for the cost of the works and a percentage management fee. An annual fee is also paid to PT.

### Summary conclusions

Historically, DFG cases have taken a long time to complete and associated performance target of time taken from receipt of OT referral to works completed have not been met. The Council has committed to improving delivery and performance is showing signs of improvement with recent changes to processes. The Council are challenging PT to further streamline processes for designing relatively straightforward works to more quickly complete cases.

Some of the most recently commenced cases met the new target of completing within 20 weeks of receiving the OT referral indicating an improving 'direction of travel'. This is positive but the improvements need to embed so that the performance targets are consistently met.

The audit opinion at this time has been assessed as 'limited' primarily due to the overall record to date of completing cases within targeted timescales but does acknowledge the positive direction of travel.

It should be noted that as older cases complete (i.e. those started under the old processes), the overall average speed of completion will increase. Therefore it is recommended that the performance reporting reports the overall performance and performance under the new processes.

Also, as the service is demand-led and qualifying criteria is statutorily set, processing applications more quickly will likely lead to the annual DFG budget being committed more quickly which could result in approved cases not being able to progress to works. Again, the performance information should report the overall performance and also the number of 'stalled' cases if the budget is exhausted, and how long the controllable elements of the cases are taking (e.g. to process the OT referral and then design, award and deliver works once there is budget).

Other than improving the speed of completing cases, which is being actively addressed by management, the other important improvements concern the level of assurance the current oversight and management of PT demonstrates PT is:-

- **Correctly calculating performance and providing meaningful information to the Council:** for quarter 1 of 2016/17, PT stated cases were being completed in an average of 29 weeks. This was an aggregate of the average number of weeks each stage of the process took for those completed cases in that period rather than

the end to end average number of weeks for cases completed in that period. This is indicative of the direction of travel rather than an outcome. Using data at Rochford the average end to end time for completed cases in the period was 39 weeks, which includes older cases initially managed under older procedures.

- **Fairly and competitively awarding works to contractors:** the majority of works are covered by schedules of rates or an exclusive contractor for stairlifts. However, for non-standard works there needs to be clearer evidence of the Council's checks of whether PT obtained sufficient number of competitive quotes to ensure VFM. Staff advise they do check to ensure this but the check is not clearly recorded. This audit did not identify any indications of inappropriate awarding of works.

Financial management is generally sound. However two awarded grants totalling £13k had not been committed due to not being entered onto a database maintained by Housing which Finance uses to compile the budgetary information. This is not a significant amount given the overall DFG budget but further omissions could mean financial information is materially incorrect later in the year as more of the budget is spent.

### Next steps

The recommendations in the report's action plan will be followed up when the agreed implementation dates are reached. The results will be reported to management and Audit Committee in summary form.

Follow up work concludes only on whether the agreed actions have been taken not and does not re-visit the overall opinion given in the original report.

The need for and timing of future audits of the budget monitoring will be considered annually.

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**CONTRACT MANAGEMENT – MATERIALS RECYCLING FACILITY  
REPORT 4 (2016/17)****Audit objective**

To assess whether the Council's key contracts are well managed to ensure compliance and achieve required outcomes.

This report is in respect of the Materials Recycling Facility (MRF) contract (contract number 3047).

**Reason for inclusion in the annual audit plan**

This audit is a planned, standard assurance review identified through the annual assessment of all Council's activities.

**Corporate links**

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objectives**    Become financially self sufficient

Early intervention

**Corporate risks**

Failure to enter into and maintain effective partnerships for the delivery of services and outcomes

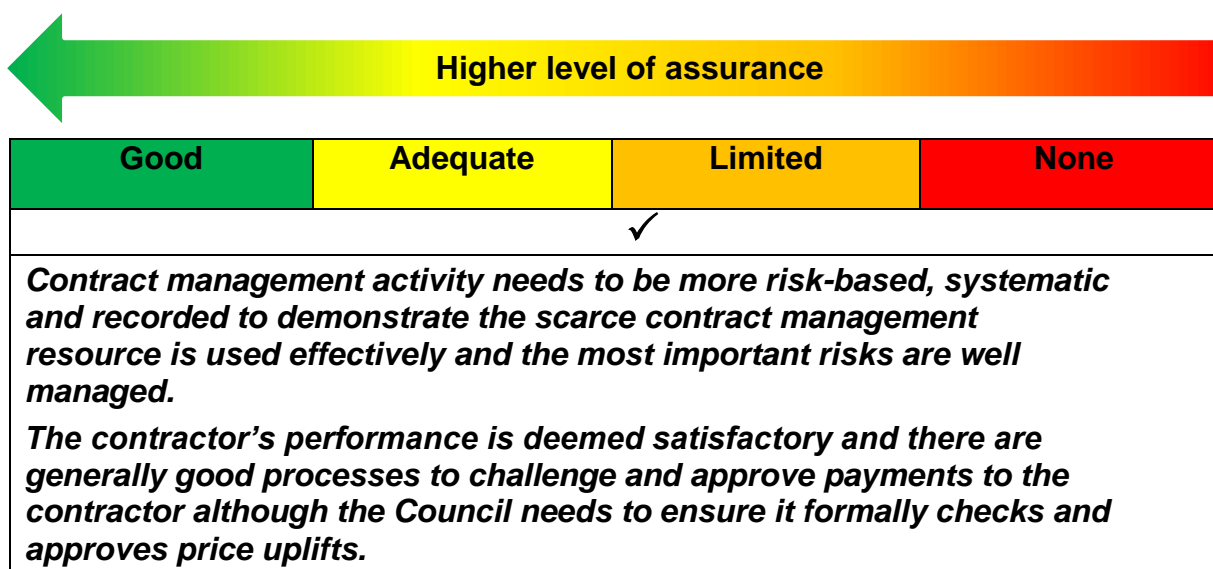
The Council could fail to provide consistent Value For Money (VFM) across all services or obtain VFM in its procurement

Failure to ensure good governance of the Council's activities and delivery of its priorities



### Audit opinion

Our opinion is expressed on the scale of assurance as set out below:



We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
The Council pays for a service that is not delivered or not delivered to the required standard	Limited	1 Significant
The contract is varied to the detriment of the Council either financially, operationally or by reputational damage	N/A – no variations to date	None
The required service/s is not delivered or not delivered to the required standard	Adequate	1 Moderate
There is business continuity failure by the contractor which may result in reputational, operational or financial damage to the Council	Limited	1 Moderate
There is financial failure by the contractor which may result in reputational, operational or financial damage to the Council	Limited	1 Moderate

Risk area	Assurance Level	No. of Recommendations
The contractor, when operating on behalf of the Council does not meet all required legal or other specified obligations or regulations resulting in reputational, operational or financial damage to the Council	<b>Limited</b>	1 Moderate

### Executive Summary

The Materials Recycling Facility receives and sorts the recyclable materials collected kerbside and distributes them to end destinations for recycling.

There is some regular activity to manage the contract however this does not consistently demonstrate systematic, risk-based contract management to ensure all important operational and financial aspects of the contract specification are adhered to.

Staff advise there is a lack of resources within Environmental Services to monitor each aspect of the contract specification. The audit acknowledges this therefore recommends there is a clear risk assessment of the contract specification to identify where current resource is most effectively directed and enquiries made whether other appropriate staff could supplement efforts. Such cross-team working, to maximise existing resources, is an objective of the current culture and transformation work stream lead by the Executive Director.

There are satisfactory processes in place to check the weight of recyclables quoted on invoices are accurate by the work undertaken to input weighbridge data into Waste Data Flow and auditing by Essex County Council.

The price the council pay per tonne of recycled material is re-calculated by the contractor every six months (following the first anniversary date), as per the contract, but the council has not independently checked and confirmed any re-calculations have been made correctly and therefore ensure payments have been accurate.

The re-calculation in May 2016 appears to be incorrect and consequently overstates the price per tonne. The potential overpayment due to this is low as the possible overstatement is small and few payments have been made under this price. However the lack of process for the council to formally check and confirm price re-calculations over the lifetime of the contract could mean there is a risk of more significant errors.

There is comprehensive information of recyclable quantities collected and recycled therefore any significant non-performance would be identified.

However, several important operational aspects of the contract have not been actively and consistently managed. These include confirming the contractor has effective business continuity arrangements, the receipt and management of a Service Improvement Plan and seeking assurances that relevant health and safety requirements have been met.

### **Next steps**

The recommendations in the report's action plan will be followed up when the agreed implementation dates are reached. The results will be reported to management and Audit Committee in summary form.

Follow up work concludes only on whether the agreed actions have been taken not and does not re-visit the overall opinion given in the original report.

The need for and timing of future audits of the budget monitoring will be considered annually.

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**Budget Monitoring – Report 5 (2016/17)****Audit objective**

To assess whether there is effective monitoring of delegated budgets to ensure that budgets are met and any remedial action proactively taken.

**Corporate links**

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objective**      Becoming financially self-sufficient

**Corporate risk**                      Failure to produce and meet a balanced budget and Medium Term Financial Strategy that allows for the successful delivery of the priorities contained in the Business Plan or to adequately plan, fund and monitor the Council's Capital Programme

**Reason for inclusion in the annual audit plan**

This audit is a planned, standard assurance review identified through the annual assessment of all Council's activities.

### Audit opinion

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
✓			
<p><b><i>Budget monitoring information provided to budget holders, senior management and members is generally adequate and provided on a timely and regular basis.</i></b></p> <p><b><i>The most important improvement needed is for standard budget updates to specify variances against profiled year to date positions (as well as forecast year end variances) and succinctly explain significant current or forecast under or overspends and how overspends will be dealt with.</i></b></p>			

We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
Budget information provided to Budget Holders, senior management and members ("relevant audiences") is inaccurate or incomplete	Good	1 Low
Budget information is not provided to relevant audiences regularly and throughout the year leading to short-term 'firefighting' actions in the latter stages of the year to achieve a bottom line	Good	No recommendations
Budget information provided to relevant audiences is significantly out of date by the time it is received	Adequate	No recommendations

Risk area	Assurance Level	No. of Recommendations
Emerging budget pressures and risks are not promptly identified, understood and dealt with as Budget Holders do not access budget information themselves to understand their current position in real time or Finance staff do not maintain an effective overview of budgets	Adequate	1 Low 1 Moderate
Budget information provided to relevant audiences does not effectively meet their needs	Adequate	1 Moderate
Budget information does not clearly set out budget pressures and risks (e.g. current or forecast overspends or non-receipt of income) to enable effective remedial action to be taken	Adequate	
Amendments to the budget approved by Full Council (i.e. by virements of money within a budget holders cost centre or from one budget holder's cost centre to another) are made without appropriate authority and or justification	Adequate	1 Low 1 Moderate

### Executive Summary

Effective budget monitoring is a vital aspect of ensuring that the Council can maintain its services and meet its objectives.

The Finance Team has a range of reports that it produces for Members and Senior Management and Audit testing has confirmed that these are produced regularly.

The table above details the areas that were considered in Audit's work and the recommendations shown are designed to enhance the process or improve controls.

There were no "Critical" or "Significant" recommendations.

### **Next steps**

The recommendations in the report's action plan will be followed up when the agreed implementation dates are reached. The results will be reported to management and Audit Committee in summary form.

Follow up work concludes only on whether the agreed actions have been taken not and does not re-visit the overall opinion given in the original report.

The need for and timing of future audits of the budget monitoring will be considered annually.

## AUDIT OPINIONS – APPENDIX 3

## Basis for audit opinion

Assurance level	Internal Audit's opinion is based on <u>one or more</u> of the following conclusions applying:	Basis for choosing assurance level
<b>Good</b>	<ul style="list-style-type: none"> <li>The activity's key controls are comprehensive, well designed and applied consistently and effectively manage the significant risks</li> <li>Management can demonstrate they understand their significant risks and they are proactively managed to an acceptable level</li> <li>Past performance information either shows required outcomes are clearly defined and consistently met</li> </ul>	<p>Recommendations are 'low' rating.</p> <p>Any 'moderate' recommendations will need to be mitigated by consistently strong controls in other areas of the activity.</p>
<b>Adequate</b>	<ul style="list-style-type: none"> <li>Most of the activity's key controls are in place, well designed and applied consistently and effectively manage the significant risks.</li> <li>Management can demonstrate they understand their significant risks and they are generally and proactively managed to an acceptable level</li> <li>Past performance information either shows required outcomes are clearly defined and generally met</li> </ul>	<p>Recommendations are 'moderate or Low'" rating.</p> <p>Any 'significant' rated recommendations will need to be mitigated by consistently strong controls in other areas of the activity.</p> <p>A 'critical' rated recommendation will prevent this level of assurance.</p>
<b>Limited</b>	<ul style="list-style-type: none"> <li>The activity's key controls are absent or not well designed or inconsistently applied meaning significant risks</li> <li>Management cannot demonstrate they understand and manage their significant risks to acceptable levels</li> <li>Past performance information either shows required outcomes are not clearly defined and or consistently not met</li> </ul>	<p>Recommendations are 'significant' or a large number of 'moderate' recommendations.</p> <p>Any 'critical' recommendations need to be mitigated by consistently strong controls in other areas of the activity.</p>
<b>None</b>	<ul style="list-style-type: none"> <li>The activity's key controls are absent or not well designed or inconsistently applied in all key areas</li> <li>Management cannot demonstrate they have identified or manage their significant risks</li> <li>Required outcomes are not clearly defined and or consistently not met</li> </ul>	<p>Recommendations are 'critical' without any mitigating strong controls in other areas of the activity.</p>



## APPENDIX 4

PROGRESS OF AUDIT RECOMMENDATIONS

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
6 2015/16	Debtors	1	M	To ensure that the Council is recompensed when new property is built and obliged to provide recycling services, the policy for charging for the supply of recycling bins will be reviewed, embedded within the planning application process and all fees including payment terms are made evident.	Not yet due - agreed implementation date 31/10/2016  Work is ongoing to progress this recommendation  This recommendation is treated as <b>“not implemented”</b> .  See related Report to Portfolio Holder for Environment 11/11/2016
6 2015/16	Debtors	3	L	The ‘monitoring spreadsheet’ maintained by recycling in respect of bins for new build properties will be updated and invoices produced.	Not yet due - agreed implementation date 31/10/2016  Implemented
2015/16	Cash & Banking	2	L	Feeder system settings will be reviewed and updated as much as possible to ensure the correct VAT default setting is applied to the relevant finance code	Last Agreed implementation date was 1/9/2016. ( <i>Sept 2016</i> ) It has not been possible to update feeder settings in current version and this will be reviewed following a version update due later this year. Manual checks are taking place to consider VAT. Implemented as much as possible  Retained as “live” item per Audit Committee September 2016

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
					Currently liaising with software provider to consider update options. Revised end date not yet determined
2 2016/17	Disabled Facility Grants	1	M	Clarification of how the Housing Improvement Agency calculates performance will be obtained to ensure that data reported is both accurate and meaningful	Agreed Implementation Date 1/11/2016  Implemented
2 2016/17	Disabled Facility Grants	2	S	An effective performance reporting process will be established to accurately and effectively calculate the DFG journey time from receipt of Occupational Therapist recommendation to completion of grant work	Agreed Implementation Date 1/11/2016  Implemented
2 2016/17	Disabled Facility Grants	3	M	Existing procedures will be reviewed to ensure that all approved grants are correctly recorded on relevant records to enable accurate financial monitoring of available budget for DFG	Agreed Implementation Date 1/11/2016  Procedure Implemented
2 2016/17	Disabled Facility Grants	4	L	A formal evidenced management check will be introduced to confirm value for money and fair treatment of contractors for DFG works not on the agreed schedule of rates	Agreed Implementation Date 1/11/2016  Procedure Implemented
4 2016/17	Contract Management - MRF	1	S	The Responsible Officer undertakes a full review of the May 2016 price increase, raising any queries with the contractor to confirm the tonnage rate charged is correct. All future price changes should be signed off by the Responsible Officer as soon as is practicable to prevent any potential over/under charging.	Agreed Implementation Date 1/12/2016

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
4 2016/17	Contract Management - MRF	2	M	Risk-assess the contract specification to identify the most important requirements that need active and evidenced contract management activity. Use this risk assessment to direct and record contract management activity.	Agreed Implementation Date 31/1/2017
4 2016/17	Contract Management - MRF	3	M	Business continuity arrangements will be confirmed with the contractor and Rochford's Business Continuity Plan will be updated to include contractor failure in relation to the MRF contract.	Agreed Implementation Date 31/1/2017
4 2016/17	Contract Management - MRF	4	M	Seek to obtain financial information of the contractor that we are entitled to and can reasonably obtain in order to monitor its financial standing.	Agreed Implementation Date 1/12/2016
4 2016/17	Contract Management - MRF	5	M	See also recommendation 2. As part of the current corporate work stream to embed a culture of cross-team working, discussions were undertaken with the Procurement team to identify opportunities where contract management tasks could be completed as part of procurement processes. Opportunities could be around the regular request and receipt of insurance policies, business continuity plans, and information on financial standing. It was determined that this did not best fit within this team due to potential specialist requirements and resourcing implications.	Agreed Implementation Date 31/3/2017

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
				Environmental Services should therefore consider other options to meet this requirement. This could be either completed by the contract manager themselves or meeting with other contract managers from other councils party to this contract and sharing roles to check these requirements and then sharing the outcome and therefore assurance.	
5 2016/17	Budget Monitoring	1	L	Procedures will be introduced to ensure timely de-commitment of orders in the relevant log	Agreed Implementation Date 30/11/2016
5 2016/17	Budget Monitoring	2	L	Budget holders will be requested to periodically review commitments and income data in addition to the monthly reports to enhance their budget monitoring	Agreed Implementation Date 30/11/2016
5 2016/17	Budget Monitoring	3	M	Procedures will be updated to ensure budget holders acknowledge receipt of monthly budget information, provide commentary for any variances identified and actions that need to be taken to address matters identified	Agreed Implementation Date 30/11/2016
5 2016/17	Budget Monitoring	4	M	Monthly and quarterly budget statements will be reviewed to include monthly profiling and variance against year-to-date as well as year-end position	Agreed Implementation Date 30/11/2016

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Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
5 2016/17	Budget Monitoring	5	L	Procedures will be updated to ensure that approvals for virements are more visibly recorded	Agreed Implementation Date 30/11/2016
5 2016/17	Budget Monitoring	6	M	Additional access security will be added to spreadsheets used by Accountancy to populate monthly reporting data	Agreed Implementation Date 30/11/2016

RECOMMENDATION CATEGORIES		
<b>C</b>	<b>CRITICAL</b>	<p>The identified control weakness could lead to a <b>critical impact</b> on the activity's ability to manage the risks to achieving objectives. The control weakness means the associated risk <b>highly likely</b> to occur or have occurred.</p> <p>There are <b>no compensating controls</b> to possibly mitigate the level of risk.</p>
<b>S</b>	<b>SIGNIFICANT</b>	<p>The identified control weakness could have a <b>significant impact</b> on the activity's ability to achieve objectives. The control weakness means the associated risk is <b>likely to occur</b> or have occurred.</p> <p>There are <b>few effective compensating controls</b>. Where there are compensating controls, these are more likely to be detective (after the event) controls which may be insufficient to manage the impact.</p> <p>The difference between 'critical' and 'significant' is a lower impact and or lower probability of occurrence and or that there are some compensating controls in place.</p>
<b>M</b>	<b>MODERATE</b>	<p>The identified control weakness could have a <b>moderate impact</b> on the activity's ability to manage the risk to achieving objectives. The control weakness <b>does not undermine the activity's overall ability</b> to manage the associated risk (as there may be compensating controls) but could reduce the quality or effectiveness of some processes and or outcomes.</p>
<b>L</b>	<b>LOW</b>	<p>The identified control weakness is <b>not significant</b> and recommendations are made in general to improve current arrangements.</p> <p>Note – these recommendations will not be followed up.</p>