

**AGENDA MANAGEMENT SHEET**

<b><i>Name of Meeting</i></b>	Audit and Ethics Committee
<b><i>Date of Meeting</i></b>	14 February 2017
<b><i>Report Title</i></b>	2016/17 Internal Audit Plan Update
<b><i>Portfolio</i></b>	Corporate Resources
<b><i>Ward Relevance</i></b>	None
<b><i>Prior Consultation</i></b>	Head of Corporate Resources and Chief Finance Officer
<b><i>Contact Officer</i></b>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<b><i>Report Subject to Call-in</i></b>	This report is not subject to Call-In because the committee has specific responsibility to review the work of the internal audit function and the framework of policies and standards within which it operates.
<b><i>Statutory/Policy Background</i></b>	Public Sector Internal Audit Standards (PSIAS)
<b><i>Summary</i></b>	The report sets out progress against delivery of the Internal Audit Plan for 2016/17.
<b><i>Risk Management Implications</i></b>	There are no risk management implications arising directly from this report.
<b><i>Financial Implications</i></b>	There are no financial implications arising directly from this report.
<b><i>Environmental Implications</i></b>	There are no environmental implications arising from this report.
<b><i>Equality and Diversity</i></b>	There are no Equality and Diversity implications arising from this report.
<b><i>Legal Implications</i></b>	There are no legal implications arising from this report.
<b><i>Recommendations</i></b>	That the report be considered and noted.  That the proposed amendment to the Internal Audit Plan for 2016/17 be approved.

***Reasons for Recommendation***

To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

**Audit and Ethics Committee – 14 February 2017**

**2016/17 Internal Audit Plan Update**

**Report of the Head of Corporate Resources and Chief Finance Officer**

**Recommendation**

That the report be considered and noted.

**1. Introduction**

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2016/17.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- The Council's assets and interests are safeguarded;
- Reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- Services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

**2. Summary of Audit Work**

- 2.1 The Internal Audit Plan for 2016/17 was approved by the Audit and Ethics Committee on 11 May 2016. Progress against delivery of that plan is set out at Appendix A.

- 2.2 Appendix A also sets out the progress against the recommendations made by Internal Audit for 2015/16 and the current financial year.

- 2.3 Since the previous meeting there has been one internal audit, related to Corporate Health and Safety, which has resulted in only Limited Assurance. The audit review was proactively requested by senior management for inclusion in the 2016/17 internal audit plan, to facilitate improvements in the management of health and safety risks. The audit highlighted some notable good practice but also a number of improvement opportunities, leading to an overall rating of Limited Assurance. Management have agreed a comprehensive action plan, delivery of which will be monitored by the Corporate Assurance and Improvement Team. The full audit report is set out at Item 2 under Part 2 of the Agenda. The executive summary and findings were written on the basis of the control design and evaluation established at the time of the audit. Since the audit fieldwork was completed, management

initiated prompt action in a number of areas and this is reflected within the documented action plan. It is also proposed that a follow up internal audit review be included within the 2017/18 internal audit plan to provide assurance that the agreed actions have been implemented and embedded.

- 2.4 At the previous meeting the Corporate Assurance and Improvement Manager advised members that an investigation was in progress because £317.79 of monies had been highlighted as missing from the Benn Hall. The investigation has now been completed and a number of procedural improvements have been identified. The full report is set out at Item 3 under Part 2 of the Agenda, and delivery will be monitored by the Corporate Assurance and Improvement Team.

### **3. Revisions to the 2016/17 Audit Plan**

The committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation. There are no proposed changes to the internal audit plan at this time.

Name of Meeting: Audit and Ethics Committee  
Date of Meeting: 14 February 2017  
Subject Matter: 2016/17 Internal Audit Plan Update  
Originating Department: Corporate Assurance and Improvement

**LIST OF BACKGROUND PAPERS**

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	14 February 2017	Internal Audit Progress Update		



INTERNAL AUDIT PROGRESS UPDATE  
FEBRUARY 2017

Date: 14 February 2017

## ***Introduction***

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

## ***Performance***

### **2.1 Will the Internal Audit Plan be delivered?**

The expected position by the date of the Committee meeting is as follows:

- ten assignments have been completed;
- three assignments are at draft report stage;
- work is in progress on ten assignments.

There are three assignments which have not yet been started; these assignments have all been scheduled for completion during February and March. Of the three remaining assignments, one is being delivered by TIAA and two by the in house team.

There are sufficient resources in place to deliver the remainder of the internal audit plan for 2016/17. Progress on individual assignments is shown at pages 7 to 11 of this report.

### **2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

At this stage there are no emerging issues arising from the work of Internal Audit which impact upon the Internal Audit opinion of the Council's Control Framework, although the Corporate Health and Safety audit highlighted a number of high priority actions.

Five assignments have been completed since the last meeting in November 2016, and the results of those assignments are summarised below:

#### ICT Service Desk

Assurance Rating: Substantial. Risk Exposure: Low

Review of the design of controls within the system and their effectiveness in operation indicated that Substantial Assurance could be provided with a low level of risk exposure, although the service desk is relatively new and requires reasonable bedding in period to gauge its full effectiveness. Users can raise a request 24x7 through the user portal and self-help FAQs are being developed for staff to use. Positive assurance can also be drawn from the early stages of the satisfaction survey which accompanies each closed call, the summary of returns indicates user

satisfaction with the service desk performance is in the upper quartile. Reporting is satisfactory to deliver an element of transparency on service delivery with a good level of detail available. However, the collation of performance information is still in its early stages and is yet to be published. Four low priority actions were agreed with management, delivery of which will be monitored by the Corporate Assurance and Improvement Team.

### Stocks and Stationary

Assurance Rating: Substantial. Risk Exposure: Low

Assurance was sought that the procurement processes are being correctly followed for stationery purchases, that best value is obtained when purchasing stationery supplies and that the issue of stationery is appropriately controlled. The audit concluded that Substantial Assurance could be provided with a low risk exposure. Control design and operation was found to be generally satisfactory in proportion to the annual expenditure of £28k across the entire Council. Three low priority actions were agreed by management, all of which had already been implemented by the time the audit was completed.

### Procurement and Contract Management

Assurance Rating: Substantial. Risk Exposure: Low

The design of procurement and contract management controls were found to be generally appropriate and reflective of good practice. For example:

- Toolkits are provided to assist officers in the application of the procurement process.
- Procurement Standing Orders were updated in April 2015 and are available to all staff through the intranet. Testing confirmed general compliance with the Standing Orders.
- All procurement staff are fully qualified or undergoing formal training.
- New contracts with suppliers are being monitored by an officer at Rugby. These are held within a contract management system which is securely maintained.
- The register of gifts and hospitality was found to be up to date.
- The Council is actively monitoring and increasing its level of contracted spend. At the time of the audit the level of contracted spend was 70%.

However testing identified a number of exceptions in the operation of controls. The key issues identified were:

- Purchase Orders are not consistently used, which reduces control over the Council's expenditure commitments.
- Managers are not consistently retaining quotation documentation as required, which reduces the Council's ability to demonstrate that value for money has been obtained.
- Two suppliers were identified with an annual spend above £150k, but for whom no contract was in place. Management monitoring had already highlighted this issue and appropriate action is in progress.



Eight actions have been agreed by management, delivery of which will be monitored by the Corporate Assurance and Improvement Team.

Corporate Health and Safety

Refer to covering report paragraph 2.3, and Item 2 under Part 2 of the Agenda.

Benn Hall Investigation

Refer to covering report paragraph 2.4, and Item 3 under Part 2 of the Agenda.

**2.3 Are clients progressing audit recommendations with appropriate urgency?**

At the date of reporting, all management actions have been implemented by the agreed implementation date. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

An analysis of progress on implementation of audit recommendations is shown at pages 12 and 13. Management progress on the implementation of audit recommendations remains strong. At the time of reporting all 16 recommendations made in 2015/16 have been implemented on time. 38 recommendations have been made so far during 2016/17, 6 of which (16%) have been implemented on time. The remainder are not yet due for implementation.

**2.4 Internal Audit Performance Indicators**

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee in May 2016:

<u>Theme</u>	<u>Title of Performance Indicator</u>	<u>Current Performance</u>
Delivery	Delivery of the Internal Audit Plan – Percentage of assignments delivered to at least draft report stage by 31 March 2017	Annual measure
Adding Value	Customer Satisfaction – Average Rating	Average score 2.75  3 = Good 2 = Satisfactory 1 = Poor
Timeliness	Timeliness of Reporting – Percentage of draft reports issued within 10 working days of assignment fieldwork completion	89% - One report was issued 14 days after fieldwork completion. The average time between fieldwork completion and draft report issue is currently 6.8 days
Effectiveness	Implementation of Agreed Actions – Percentage either fully or partially implemented on time	100% - no recommendations have been implemented late in 2016/17

## ***Limitations and Responsibilities***

### ***Limitations inherent to the Internal Auditor's work***

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

### ***Opinion***

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments, or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

### ***Internal Control***

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others management overriding controls, and unforeseeable circumstances.

### ***Future Periods***

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

### ***Responsibilities of Management and Internal Auditors***

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

**Progressing the Annual Internal Audit Plan**

**KEY**  
Current status of assignments is shown by ✓

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Financial System Key Controls	30			✓					In progress
Counter Fraud									
Fraud Awareness	10			✓					Training sessions to be delivered by the Corporate Assurance and Improvement Manager.
Fraud Risk Review	10						✓	Not Graded	Review completed
ICT									
Disaster Recovery and Backup	10	✓							Scheduled to be completed in March 2017 by TIAA.
Systems Administration	5					✓			Draft report issued
Helpdesk	10						✓	Substantial	Refer to comments at Pages 2-3
Payment Card Industry Data Security Standards	5			✓					In progress
Corporate Risks									
Business Continuity/ Emergency Planning	15			✓					In progress and being delivered by TIAA
Change Management – Consultancy Support	15			✓					Assistance has been/is being provided in the following areas:

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
									<ul style="list-style-type: none"> <li>• Electronic mileage claim processing</li> <li>• Document retention procedures</li> <li>• Gifts and Hospitality procedures</li> <li>• Systems administration – paperless working</li> <li>• Potentially Violent Persons review</li> <li>• Agency staff commissioning arrangements</li> </ul>
Income, Fees and Charges	20					✓			Draft report issued
Discretionary Expenditure	15			✓					In progress; the review is being delivered alongside the audit of expenditure on consultants.
Corporate Health and Safety	35						✓	Limited	See Appendix B
Procurement and Contract Management	20						✓	Substantial	Refer to comments at Page 3
Expenditure on Consultants	15			✓					In progress; the review is being delivered alongside the audit of discretionary expenditure.

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Business Improvement District	15	✓							Assignment scheduled to be completed in Quarter 4
Operational Risks									
Equalities and Diversity (Consultancy)	10			✓					In progress
Stocks and Stationery	7						✓	Substantial	Refer to comments at Page 3
Integrated Housing Repairs (Consultancy)	10			✓					In progress
Housing Repairs Stock Control (Consultancy)	15					✓			Draft report issued
Right to Buy							✓	Not Graded	This audit has been removed from the plan, on the basis that a full independent external review of the service was completed in November 2015. The review concluded that the Council provides a good service, delivered by experienced knowledgeable officers within statutory timescales. Sample testing confirmed that discounts had been

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
									correctly applied and that the appropriate checks were made prior to transactions proceeding.
Additional Support									
Annual Governance Statement	10						✓	Not Graded	Reported to the committee in May 2016
National Fraud Initiative	15			✓					In progress; it is expected that the results of matching will be available for review by 31 January 2017.
Corporate Investigation Work	35			✓					4 corporate investigations have been completed and reported upon so far during 2016/17.

***Implementation of Audit Recommendations Made in 2015/16***

<b>Audit</b>	<b>No. of recs</b>	<b>Implemented on time</b>	<b>Implemented late</b>	<b>Not yet due</b>	<b>Overdue</b>	<b>Rejected Medium or High Risk Actions</b>
Stocks and Stores – Visitors Centre	1	1	0	0	0	0
Enterprise Risk Management	3	3	0	0	0	0
Benefits	7	7	0		0	0
Council Tax	0	0	0	0	0	0
Payroll and Election Payments	4	4	0	0	0	0
Income Management	1	1	0	0	0	0
<b>Totals</b>	<b>16</b>	<b>16 (100%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

***Implementation of Audit Recommendations Made in 2016/17***

<b>Audit</b>	<b>No. of recs</b>	<b>Implemented on time</b>	<b>Implemented late</b>	<b>Not yet due</b>	<b>Overdue</b>	<b>Rejected Medium or High Risk Actions</b>
Stocks and Stationary	3	3	0	0	0	0
ICT Service Desk	4	0	0	4	0	0
Corporate Health and Safety	15	3	0	12	0	0
Benn Hall Investigation	8	0	0	8	0	0
Procurement and Contract Management	8	0	0	8	0	0
<b>Totals</b>	<b>38</b>	<b>6 (16%)</b>	<b>0</b>	<b>32 (84%)</b>	<b>0</b>	<b>0</b>