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Coventry City Council

Public report

Report to

Audit and Procurement Committee   1st December 2014

Name of Cabinet Member:
Cabinet Member (Strategic Finance & Resources) – Councillor Gannon

Director approving submission of the report:
Executive Director, Resources

Ward(s) affected:
City Wide

Title:
Internal Audit Recommendation Tracking Report

Is this a key decision?
No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the progress made in implementing audit recommendations since the last update in October 2013.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the current procedure for following up audit recommendations and to consider whether it believes that improvements are required to the current process.

2. Note the progress made in implementing audit recommendations and confirm its satisfaction with progress made and the proposed action by the Internal Audit and Risk Manager for audits where actions remain outstanding.

List of Appendices included:

Appendix One - Results of Formal Follow up Exercise
Appendix Two - Results of Self-Assessment Follow up Exercise

Other useful background papers:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Internal Audit Recommendation Tracking Report

1. Context (or background)

1.1 The Public Sector Internal Audit Standards requires that "the Chief Audit Executive (i.e. Internal Audit and Risk Manager) must establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management have accepted the risk of not taking action".

1.2 The report summarises the results of this work and is presented in order for the Audit and Procurement Committee to discharge its responsibility, as reflected in its terms of reference "to consider a report from the Head of Internal Audit regarding recommendations contained in Internal Audit reports that have not been implemented within agreed timescales".

2. Options considered and recommended proposal

2.1 **Follow Up Procedure** – Given that the Service undertakes approximately 100 reviews a year, it is critical that it has a robust procedure in place for ensuring that it obtains appropriate assurance that audit recommendations have been implemented, but does so in a way that allows the Service to respond to new risks facing the Council. Where appropriate, Internal Audit defines within its audit reports the follow up process to those responsible for the system / area under review and a date is agreed of when this will take place.

Currently, there are three key considerations that will determine the follow up procedure adopted, namely:

1) Whether the area audited is of such significance that it is subject to an annual review.

2) The level of assurance provided in the audit report.

3) A 'catch all' process for those reviews where neither of the points above apply, but a follow up review is necessary.

2.2 These considerations are expanded upon below.

- **Annual Audits:** These audits are generally included in the Audit Plan on an annual basis because of the nature of the systems, and the fact they are corporate wide and have been identified as key in delivering the Council's objectives (e.g. financial systems, corporate risks).

- **Level of Assurance:** Any audit which receives 'no' or 'limited' assurance (see definitions overleaf) is subject to a follow up review to assess improvements based on a timing agreed between Internal Audit and relevant management. In either of these circumstances, a formal follow up review will take place which involves Internal Audit assessing progress through audit testing to ensure that agreed actions have been implemented and are working effectively.

Assurance Opinion	Definition
Limited	There are weaknesses in the level of control for managing the significant inherent risks within the system. A number of control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.
No	There are major, fundamental weaknesses in the level of control for managing the significant inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

- **Catch All Process:** For all other audits, a process exists which is based on a self-assessment by relevant managers. This involves Internal Audit asking managers for an update on the action taken to implement audit recommendations. The response provided by managers is not subject to any independent validation by Internal Audit.

2.3 Overall, we still believe that the procedure achieves the right balance between ensuring action is taken in response to risks identified by Internal Audit and allowing the Service to focus on identification of new risks. This is particularly important given the reductions in the size of the audit team over the last few years.

2.4 **Results** - The results of the latest follow up exercise are attached at Appendix One and Two and are summarised in the graph below.

Chart One: Analysis of Actions Implemented by Follow Up Method
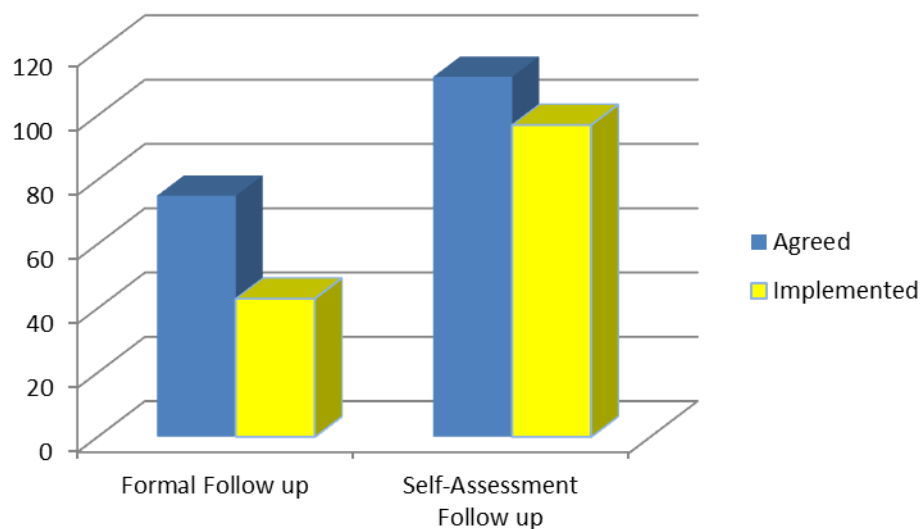
Of the 187 actions followed up, 75% have been implemented based on both the formal and self-assessment follow up method. When this is analysed by follow up method the results are:

- Formal follow up method – 57% implementation rate.

- Self-assessment follow up method – 87% implementation rate.

Whilst there is a clear difference in results between the follow up methods, this is due, in our opinion, to one of the following reasons:

- In terms of the formal follow up, the audit process is rigorous, consisting of an assessment of the implementation of the action and the outcome achieved.

- The types of actions followed up through the self-assessment process are likely to be more straightforward, less time consuming for management to implement, and tend to focus on compliance rather than control issues.

In terms of the specific results, the following points should be considered:

- Formal follow up – The implementation rate of 57% is lower when compared with that achieved over the last three years where implementation rates ranged from 66% to 77%. It is difficult to reach any specific conclusions on the implementation rate, although the results at Appendix One do show that progress has been made in responding to audit concerns across the majority of audits followed up through this mechanism. It is also worth noting that in three audits (i.e. Section 17 Payments, System Back Up Recovery and Data Centre and Little Heath Primary School) where limited progress has been made, these reviews have already been considered by the Audit and Procurement Committee and action agreed to progress these issues.

- Self-assessment – The implementation rate of 87% remains high but is slightly lower than that achieved over the last three years (i.e. ranging from 90% to 98%). This does continue to question the value of asking managers to self-assess whether they have implemented audit recommendations. However, our view remains that without such a mechanism for following up recommendations in reviews where Internal Audit has concluded that the systems are generally working well, the value of the audit process would be diminished.

2.5 **Proposed Way Forward for Dealing with Outstanding Actions** - After the follow up has been completed, the results are collated within Internal Audit. If progress is not consistent with expectations, audit management will determine the next course of action.

Based on the reasons for the lack of progress, the following courses of action are available:

- Revised implementation dates are agreed for outstanding actions.

- Concerns raised through the management structure to ensure senior managers are aware of both the lack of progress made and the risks still facing a service.

- As a last resort, to ask the Audit and Procurement Committee to intervene and seek prompt action from the relevant manager.

Our proposed actions for the audits where recommendations remain outstanding are highlighted within Appendices one and two.

3. **Results of consultation undertaken**

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Executive Director Resources

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

There are no legal implications associated with this report.

6. Other implications

6.1 **How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

Internal Auditing is defined in the Public Sector Internal Audit Standards as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis, and reflected in the annual Internal Audit Plan.

6.2 **How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit and Risk Service perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee.

- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

6.3 **What is the impact on the organisation?**

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:
Stephen Mangan - Internal Audit and Risk Manager

Directorate:
Resources

Tel and email contact:
024 7683 3747 – stephen.mangan@coventry.gov.uk
Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Sallie Davis	Group Auditor	Resources	14/11/2014	14/11/2014
Hugh Peacocke	Governance Services Manager	Resources	17/11/2014	17/11/2014
Neelesh Sutaria	Human Resources Business Partner	Resources	17/11/2014	17/11/2014
Names of approvers: (officers and members)				
Finance: Paul Jennings	Finance Manager Corporate Finance	Resources	17/11/2014	17/11/2014
Legal: Carol Bradford	Solicitor	Resources	17/11/2014	18/11/2014

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www.coventry.gov.uk/meetings

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Section 17	1	-	5	1	Reported to Audit and Procurement Committee in October 2014.
System Back Up, Recovery and Data Centre	1	-	7	2	Reported to Audit and Procurement Committee in October 2014.
Little Heath Primary School	4	4	6	4	
Stoke Heath Primary School	1	-	8	3	Reported to Audit and Procurement Committee in October 2014.
Network Security	3	1	4	2	Outstanding actions linked to major IT developments (e.g. Network Modernisation Project, Replacement of Corporate Firewalls). These developments will be considered for individual audits in the 2015-16 audit planning process.
Care Director Income			4	2	
Accounts Payable			5	4	Actions addressed through new system. Subject to annual review.
Accounts Receivable			2	2	
Blue Badges	1	1	6	5	Subject to both a formal and self-assessment follow up review in the last year.
Car Parking Enforcement	2	2	2	1	
Council Tax			2	-	Actions are on-going. Subject to annual review.
Business Rates			5	4	Subject to annual review.
Payroll			2	2	
Safeguarding Adults			4	3	Subject to annual review.

Unless stated otherwise – any outstanding actions will now be followed up through self-assessment process

Appendix Two – Results of Self-Assessment Follow up Exercise

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
St Christopher's Primary School			1	1	
Foxford Secondary School			7	5	
Mount Nod Primary School			3	2	
Joseph Cash Primary School			2	2	
Coundon Primary School			3	3	
Richard Lee Primary School			1	1	
St Gregory's Catholic Primary School			3	2	
Corley Centre			5	4	
Holbrooks Primary School			3	3	
John Gulson Primary School			1	-	
Eastern Green Junior Primary School			2	2	
Hearsall Primary School			1	1	
Howes Primary School			4	4	
Willenhall Community Primary School			3	3	
St Osburgs Catholic Primary School			2	2	
Manor Park Primary School			2	2	
Follow-up Cottage Farm Lodge			2	2	
Follow-up Skipton Lodge			4	4	
Limbrick Wood Primary School			5	5	
Officers Expenses			3	3	
Major Projects – New Homes for Old			3	2	
Procurement - Highways			4	4	
Moat House Community Primary			2	2	
Cash Collection - Libraries			6	4	
Wyken Croft Primary School			5	4	
Holy Family Catholic Primary School			1	1	
Edgewick Community Primary			5	5	
Legal Costs			2	-	

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Procurement / Commissioning – Exceptions to Contract rules	1		3	2	Revised timescales agreed for outstanding actions. These will be followed up through the self-assessment procedure.
Welfare Reform - Discretionary Housing Payments			5	5	
Whitley Abbey Primary			1	1	
Baginton Fields Special School			6	6	
Bereavement Services			5	4	
Sherbourne Fields Special School			2	2	
Alice Stevens Special School			4	3	

Unless stated otherwise – Outstanding actions will be followed up in next review