Coventry City Council

Public report

Report to

Audit and Procurement Committee   26th October 2015

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

Director approving submission of the report:
Executive Director of Resources

Ward(s) affected:
City Wide

Title:
Internal Audit Plan 2015-16 – Half Year Progress 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 internal audit activity for the period April to September 2015, against the Internal Audit Plan for 2015-16.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the performance as at quarter two against the Internal Audit Plan for 2015-16.

2. Consider the summary findings of the key audit reviews (attached at Appendix Two).

List of Appendices included:

Appendix One - Audit Reviews Completed between April and September 2015

Appendix Two - Summary Findings from Key Audit Reports

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 Plan 2015-16 – Half Year Progress Report

1.   Context (or background)

1.1   This report is the first monitoring report for 2015-16, which is presented in order for the Audit and Procurement Committee to discharge its responsibility 'to consider summaries of specific internal audit reports as requested' and 'to consider reports dealing with the management and performance of internal audit'.

2.   Options considered and recommended proposal

2.1   **Delivering the Audit Plan**

The key target facing the Internal Audit Service is to complete 90% of its work plan by the 31st March 2016. The chart below provides analysis of progress against planned work for the period April to September 2015.

Chart One: Progress against delivery of Internal Audit Plan 2015-16
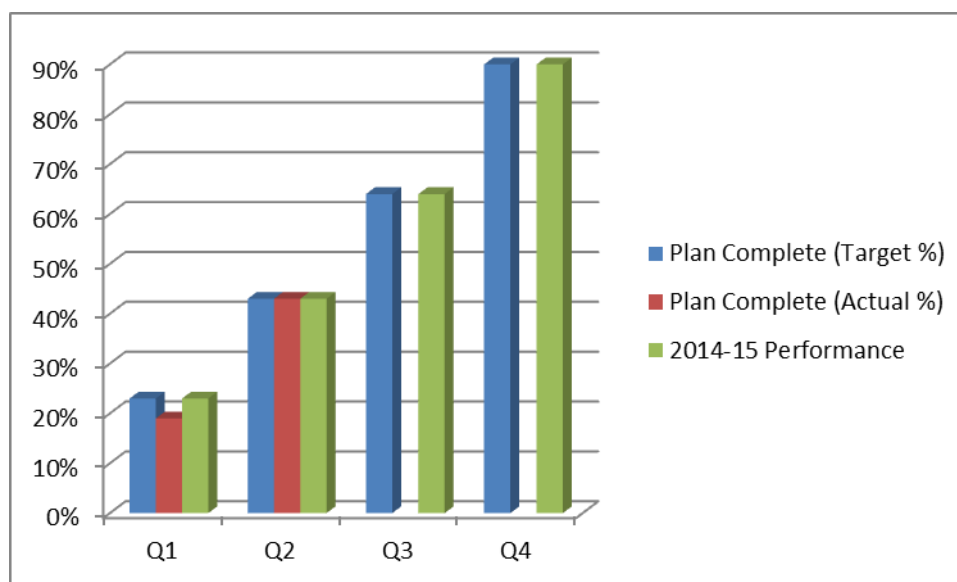
As at the end of September 2015, the Service is on track to meet its key target in that it has achieved its planned performance of 43% by the end of quarter two. Despite the performance to date, the Service still faces a significant challenge of completing 90% of the plan by the end of March 2015 given that delays in individual audits could have a major impact given the reduction in the size of the audit plan for 2015-16.

2.2   **Other Key Performance Indicators (KPIs)**

The table overleaf shows a summary of the performance of Internal Audit for 2015-16 to date against five KPIs, with comparative figures for the financial year 2014-15. There are two indicators (i.e. draft report to deadline and audit delivered within budget days) where the Service current performance is below expectations and management are taking targeted actions to make improvements as part of a continual focus to deliver greater efficiency in the Service.

Table One: Internal Audit Key Performance Indicators 2015-16

Performance Measure	Target	Performance Q2 2015-16	Performance 2014-15
Planned Days Delivered (Pro rota against agreed plan)	100%	50%	100%
Productive Time of Team (% of work time spent on audit work)	90%	90%	89%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	71%	79%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	86%	88%
Audit Delivered within Budget Days	80%	76%	74%

2.3 **Audits Completed to Date**

Attached at Appendix One is a list of the audits finalised between April and September 2015, along with the level of assurance provided.

The following audits are currently in progress:

- **Audits at Draft Report Stage** – ICT Change, ICT Major Incident Review, Disable Facilities Grants (capital), Stanton Bridge Primary School

- **Audits On-going** – Sickness Absence, Section 256, Section 17 Follow up, Social Care Quality Assurance, Electronic Call Monitoring, Trouble Families Programme and Pathways to Care (capital).

Details of a selection of key reviews completed in this period are provided at Appendix Two. In all cases, the relevant managers have agreed to address the issues raised in line with the timescale stated. These reviews will be followed up in due course and the outcomes reported to the Audit and Procurement Committee.

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 of 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 – Chief Internal Auditor

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:				
Lara Knight	Governance Services Co-ordinator	Resources	07/10/2015	09/10/15
Neelesh Sutaria	Human Resources Business Partner	Resources	07/10/2015	15/10/15
Names of approvers: (officers and members)				
Finance: Paul Jennings	Finance Manager Corporate Finance	Resources	07/10/2015	
Legal: Helen Lynch	Legal Services Manager (Place and Regulatory)	Resources	07/10/2015	15/10/15

This report is published on the council's website:
www.coventry.gov.uk/meetings

Appendix One – Audit Reviews Completed between April and September 2015

Audit Area	Audit Title	Assurance
2014-15 B/Fwd	ICT Care Director Application Review	Moderate
	ICT Agresso Application Review	Moderate
	Property Contract Review	N/A Fact Finding
	Council Tax	Moderate
	Infrastructure Assets	Moderate
	Performing Arts Services	Limited
Corporate Risk	Adult Social Care – FACE	Moderate
Council / Audit Priorities	Procurement Health Check	Moderate
Financial Systems	CNR	Significant
	Income Manager	Moderate
	Discretionary Payments	Significant
Regularity	Grants: Super Connected Coventry	Validation
	Grants: Disable Facilities	Validation
	Returns – Teachers Pension Scheme	Validation
	Annual Governance Statement*	Annual Exercise
	Review of System of Internal Audit*	Annual Exercise
	Declaration of Interests	Annual Exercise
Contingency	Purchasing Cards	Significant
	Expenses	Moderate
	Job Shop	Fact Finding
	Schools Finance Manual Review	Support and Advice
	HR Complaint	Fact Finding
Schools	Castlewood	Fact Finding
	Longford Park	Moderate
	Christ the King	Significant
	Whoberly Hall	Significant
	Mount Nod	Significant
	Southfields	Significant
Follow Up	Care Director Expenditure	Moderate
	Stoke Heath	Significant
	Procurement (Payables) – Statutory Services	Moderate

Key findings of review already considered by the Audit and Procurement Committee in June / August 2015

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Performing Arts Service **November 2015** **Joint PAS Heads of Service in liaison with Finance**	**Overall Objective:** To ensure that the Performing Arts Service has effective systems in place to ensure that all income due is identified and invoiced on a timely basis. **Opinion**: Limited Assurance **Summary / Actions Identified:** The review has concluded that current financial arrangements need urgent attention. Issues that underpin our view are: • Key aspects of the current Service Level Agreement (SLA) give no proper consideration to the financial requirements of the Service. This is reflected in the fact that [a] invoicing arrangements do not treat income collection as a priority as billing in generally in arrears, and [b] no approach is documented as to the Service's action in the event that customers do not pay their bills on time. • There is no clear understanding of what income [and in particular SLA income] is likely to be generated by the Service each year. This primarily reflects the fact that the SLA is based around the academic year, whilst the budget covers a financial year. As a result, SLA income is not known in advance of the financial year commencing. • Administrative arrangements in support of invoicing activity are not working effectively as a result of [a] the activity not being carried out in line with timescales agreed, [b] resources being used on tasks that do not add value, and [c] no reconciliation is undertaken to ensure all invoices are raised accurately. Areas for improvement identified include: • To align the period covered under an SLA with the financial year that the Service operates in and review the process for agreeing and finalising SLAs so that budgets can reflect expected income. • To review the current SLA to ensure that it focuses on the key financial priorities of the Service. • To review financial administration arrangements to ensure that – (a) tasks undertaken that add no value are stopped immediately, (b) to explore the possibility that SLA charges could be automated in Agresso through the periodic billing process, and (c) to ensure reconciliation is undertaken on a timely basis to gain assurance that all invoices are raised and agreed to charges from the Ensemble system. • To put in place a procedure to deal with the operational aspects of dealing with disputes and bad debts.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
FACE **December 2015** **Assistant Director People (Adult Social Care Operations)**	**Overall Objective:** To ensure that the implementation of the FACE resource allocation system has delivered an effective decision support tool which underpins the support planning process within Adult Social Care. **Opinion**: Moderate Assurance **Summary / Actions Identified:** The review identified the following areas of good practice: • Well controlled implementation of the system with appropriate governance through the Resource Allocation System Working Group and input from key areas such as Commissioning / Finance and which was supported by comprehensive training for all users (including the production of guidance material). • Evidence that the system / support planning process continues to be developed and is being used to drive forward a sound performance management structure across the service. The level of assurance reflects the fact that notwithstanding teething problems which all new systems inevitably have, we do believe this tool will provide an effective mechanism to enable the Council to better control the costs of social care through the use of financial information as the basis of support planning. However, we do have concerns that, whilst the system has only been operational for a relatively short time, testing has highlighted a significant level of recording errors by officers which undermines the usefulness of the tool and could lead to incorrect assumptions being made by management regarding how well costs are being controlled. Key areas for improvement that have been identified include: • Gaining assurance that indicative budgets and personal budgets are accurately recorded within support plans, which is supported, in the short term, by a formal system of checks. • To review the procedures around tolerance levels to ensure that they are consistently complied with. • Developing a mechanism to provide an audit trail to evidence the basis on which approval has been to given to exceed the indicative budget produced by the system. The review also highlighted a further two issues which, in our opinion, are critical to the on-going effectiveness of the system, but given the timing of the review, processes have yet to be fully developed and as such it is not appropriate to make recommendations. These are – (a) arrangements to ensure the model is kept up to date have yet to be fully put into practice, especially in regards to the input required from Commissioning, and (b) whilst some initial management information has been produced, there is scope to provide more meaningful data in terms of. e.g., highlighting variances between the indicative budget and the personal budget. Additionally, the review highlighted the use of management information has yet to become fully embedded.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Procurement Health Check **March 2016** **Head of Procurement and Commissioning**	**Overall Objective:** To ensure the Council has robust systems in place to ensure that the Council's Rules for Contract are complied with. **Opinion**: Moderate Assurance **Summary / Actions Identified:** The review identified the following areas of good practice: • Established governance procedures through the Procurement Panels and Procurement Board, supported by the use of standardised documentation ensure a consistent approach is taken, enabling informed decisions to be made. • The controls within the in-tend e-procurement system provide a robust framework to oversee the administration of tender exercises. Key features include access controls and comprehensive audit trails. • The checks completed by the procurement team of all requisitions raised within Agresso above £10,000 provides assurance that spend non-compliant with the Council's Rules for Contracts is identified and further action / information be required. Whilst the review has highlighted robust arrangements in place supporting procurement activity, the level of assurance reflects the fact that there is a significant amount of purchasing administered through feeder systems, which are not subject to the same level of scrutiny / oversight by the Procurement Team. Areas for improvement that have been identified include: • To look at options to gain assurance that spend through feeder systems is compliant with the Council's Rules for Contract. • To consider widening current arrangements for monitoring of purchasing beyond the workflow checks through the utilisation of regular reports from Agresso.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Stoke Heath Primary School Follow Up Review **N/A** **Headteacher**	**Overall Objective:** To provide assurance that agreed actions have been implemented to ensure that there are now effective systems in place to manage the risks associated with the income and expenditure processes at the school. **Opinion**: Significant Assurance **Summary / Actions Identified:** When the original follow up review took place in the summer of 2014, only three of the nine actions had been implemented. Revised implementation dates were agreed for the outstanding actions and these have been the subject of another follow up review in May 2015. A summary of the progress made is shown below**.**

Number of Actions	Implemented	No Progress	On-going
6	5	1	-

Actions implemented since the last review include:

- Income received from the Willows Club is reconciled to the amounts recorded on the cash collection sheets. Further, invoiced and non-invoiced income is banked separately, with two members of staff involved with the checking of income prior to banking.
- A separation of duties across the income process has been established, with regular independent review of the school's income records having been introduced.
- The debtors policy has been amended to reflect practice and approved by governors, with confirmation gained that debts are now being chased in accordance with the new policy.
- The raising and approving of credit notes are now undertaken by different officers, with the paper copy signed by the Head teacher. It should be noted that no write offs had been processed since our last review.
- Testing confirmed that there was a clear and consistent approach for the authorisation of purchase orders and invoices by a senior officer on SIMS.

The only action outstanding is the requirement to commit expenditure incurred through the school's purchasing cards on SIMS [by raising an unauthorised purchase order] prior to the monthly statements being received. We have agreed that this issue will be followed up as part of the next planned audit at the school.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Care Director Expenditure Follow Up Review **December 2015** **Head of Business Systems**	**Overall Objective:** To provide assurance that agreed actions have been implemented to ensure that the Council now has effective systems in place to administer payments made through CareDirector in respect of adult social care. **Opinion**: Moderate Assurance　　　　**Summary / Actions Identified:** A total of eight high / medium risk actions were originally identified and agreed in the March 2015 audit report. A summary of progress made against the agreed actions is shown below:

Number of Actions	Implemented	No Progress	On-going
8	4	1	3

Of those implemented, this includes all three high risk actions. Actions implemented include:

- Ensuring that there is appropriate oversight over variances and manual adjustments input to the system.
- Prioritising recovery action in respect of overpayments highlighted in the last review resulting in recovery of £93k to date. A further £114k has been invoiced and is being pursued through corporate debt recovery.
- Restricting the use of CHAPs payments through appropriate management challenge and introduction of two payment runs per week to expedite urgent payments.
- Ensuring that payments put on hold in Agresso are dealt with on a timely basis.

One action has not been implemented, which relates to the process for dealing with supplier accounts with credit balances. For the remaining three agreed actions, progress has been made, although in our view, the actions taken to date have not yet fully addressed the audit concerns, including:

- User access levels have been reviewed although there are still 18 employees (at management level) who can set up a client and set up / authorise a service provision record up to an agreed value. This will be addressed through a planned system upgrade which will allow for security roles to be re-defined to create further separation of duties.
- Some developments have either yet to be rolled out or, in our opinion, it is too early to assess the effectiveness of the arrangements in place. These are – (a) obtaining quarterly assurance from out of city providers regarding

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
	the continuation of service provision to clients, and (b) dashboard reports in place to enable pre-payment checks to be undertaken efficiently and on a consistent basis. The level of assurance reflects the fact that whilst significant progress has been made in a short time scale to address the concerns raised in the previous audit review, there are still some remaining issues to progess particularly in relation to effectively dealing with credit balances and the continuous development of systematic approaches to pre-payment checks.