



Coventry City Council

Public report

Report to

Audit and Procurement Committee

14th December 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 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 internal audit recommendations since the last update in December 2014.

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 Chief Internal Auditor 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. Chief Internal Auditor) 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 the number of audits that the Internal Audit Service completes every 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:

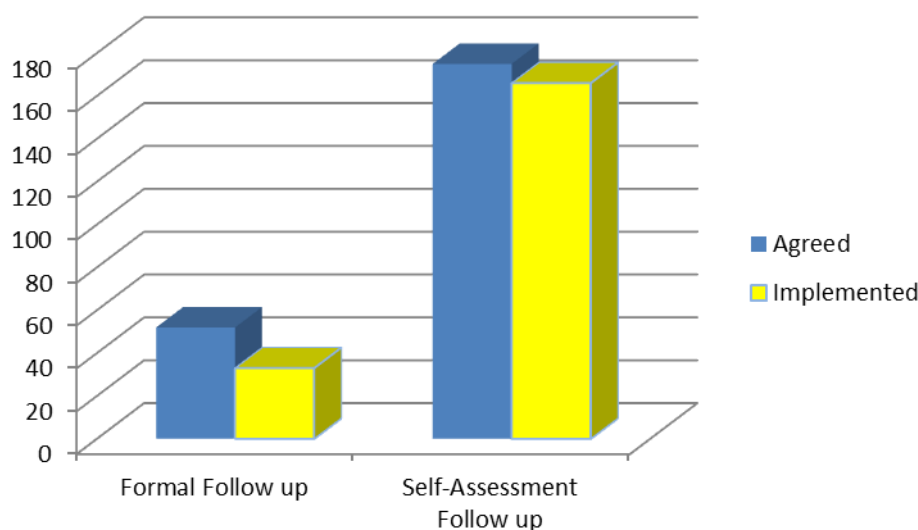
- 1) Whether the area audited is of such significance that it is subject to an annual review.
- 2) The level of assurance provided in the audit report.
- 3) A 'catch all' process for those reviews where neither of the points above apply, but a follow up review is necessary.

- 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 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.
- **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.



Of the 223 actions followed up, 88% 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 – 63% implementation rate.
- Self-assessment follow up method – 95% 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 a formal follow up review, the audit process is rigorous, consisting of an assessment of the implementation of the action and the outcome achieved.
- Given that a majority of school audits are followed up through the self-assessment process, the actions identified in such reports are likely to be straightforward, not time consuming 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 63% is comparable with results achieved over the last three years where implementation rates ranged from 57% to 70%. It is difficult to reach any specific conclusions on the implementation rate, although it should be pointed that this does not mean that the recommendations outstanding are not subsequently implemented.
- Self-assessment – The implementation rate of 95% is very high remains high but is not significantly different with implementation rates over the last three years where

they ranged from 87% to 94%. This does continue to question the value of asking managers to self-assess whether they have implemented audit recommendations. However, we expect this rate to reduce in 2015-16 given the reduced focus on school audits in our audit plan.

- 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 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 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

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Appendix One – Results of Formal Follow up Exercise

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Heritage Assets	2	1	5	2	Outstanding actions have subsequently been followed up through self-assessment process – see Appendix Two for results.
Route 21 Care Leavers Payment	1	1	6	3	Outstanding actions have subsequently been followed up through self-assessment process – see Appendix Two for results.
Accounts Payable			2	2	
Accounts Receivable			4	2	Actions will be followed up as part of annual review.
Council Tax			4	3	Actions will be followed up as part of annual review.
Business Rates	1	1	3	3	
Payroll			2	2	
Section 17	1	1	2	1	
Stoke Heath Primary School	1	1	5	4	Reported to Audit and Procurement Committee in October 2015
Care Director Expenditure	3	3	5	1	Reported to Audit and Procurement Committee in October 2015
Procurement Payables Statutory Compliance			5	2	

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 Andrew's Primary School			2	2	
Longford Park Cash Arrangement			6	5	
Moseley Primary School			2	2	
Grangehurst Primary School			1	1	
Our Lady of Assumption Primary School			6	6	
Clifford Bridge Primary School			8	8	
Stoke Park Secondary School			7	7	
Earlsdon Primary School			4	4	
Charter Primary School			5	5	
Courthouse Green Primary School			6	6	
Ernesford Grange Primary School			3	3	
St Mary's and Benedicts Primary School			4	4	
Pearl Hyde Primary School			1	1	
St Augustines Primary School			5	5	
Templars Primary School			3	3	
Henley Green Primary School			7	7	
Stoke Primary School			5	5	
Little Heath Primary School			2	2	
John Shelton Primary School			7	7	
Cardinal Newman Secondary School	1	1	10	7	
St Elizabeth's Primary School			3	3	
Stivichall Primary School			8	8	
Allesley Hall Primary School			7	7	
St John Vianney Primary School			4	4	
Whitmore Park Primary School			10	10	
Woodfield Primary School			3	3	
St Thomas More Primary School			3	3	
Christ the King Primary School			2	2	

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Longford Park Primary School			6	6	
Coventry Investment Fund			4	4	
Local Enterprise Partnership			4	4	
Maurice Edelman House	1	1	2	2	
Housing Benefits			3	3	
Community Support Grant	1	1	6	6	
Talent Link			3	2	
Route 21 Care Leavers Payment			3	3	
Housing Benefits Overpayments	1	1	3	1	
Heritage Assets			3	3	
Care Director Expenditure			4	2	

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