



Coventry City Council

Public report

Report to

Audit and Procurement Committee

20th February 2017

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

Quarter Three Internal Audit Progress Report 2016-17

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 December 2016, against the Internal Audit Plan for 2016-17.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the performance as at quarter three against the Internal Audit Plan for 2016-17.
2. Consider the summary findings of the key audit reviews (attached at Appendix One).

List of Appendices included:

Appendix One - Summary Findings from Key Audit Reports Completed between October and December 2016

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:

Quarter Three Internal Audit Progress Report 2016-17

1. Context (or background)

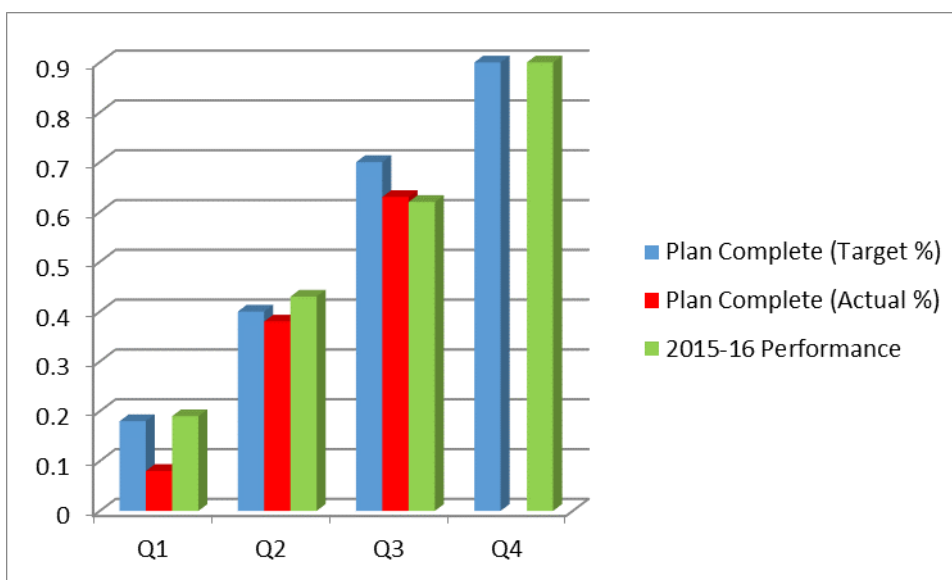
1.1 This report is the second monitoring report for 2016-17, which is presented in order for the Audit and Procurement Committee to discharge its responsibility 'to consider summaries of specific internal audit reports as requested' and 'to consider reports dealing with the management and performance 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 2017. The chart below provides analysis of progress against planned work for the period April to December 2016.

Chart One: Progress against delivery of Internal Audit Plan 2016-17



As at the end of December 2016, the Service had completed 63% of the Audit Plan against a planned target of 70%. Whilst the annual target is to complete 90% of the work plan, the quarterly targets which are set in quarters one, two and three are based on completing 100% of the plan, which reflects that the Service will always strive to achieve this. However, from a practical perspective, achieving 100% is generally unfeasible. The reasons for this are largely down to customers requesting a change in the timing of a review, or the focus of a review being super-ceded by other events. As a result, the formal target is 90%. Consequently, whilst the Service is slightly behind the quarter three target, it remains broadly on track to achieve the formal annual target of 90% by the end of 2016-17.

2.2 Other Key Performance Indicators (KPIs)

The table overleaf shows a summary of the performance of Internal Audit for 2016-17 to date against five KPIs, with comparative figures for the financial year 2015-16. There are two indicators (i.e. draft report to deadline and audit delivered within budget days) where the Service's current performance is currently below expectations. Targeted actions to make improvements in these areas remain on-going. These include team development sessions, weekly progress meetings and an increased focus on time planning within individual audits. Whilst it is management's view that progress is being made, the results of this will take time to embed in a sustained way.

Table One: Internal Audit Key Performance Indicators 2016-17

Performance Measure	Target	Performance Q3 2016-17	Performance 2015-16
Planned Days Delivered (Pro rota against agreed plan)	100%	71%	96%
Productive Time of Team (% of work time spent on audit work)	90%	88%	88%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	74%	74%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	96%	91%
Audit Delivered within Budget Days	80%	70%	68%

2.3 Audits Completed to Date

2.3.1 Attached at Table Two below is a list of the audits finalised between October and December 2016, along with the level of assurance provided.

Table Two: Finalised audits October to December 2016

Audit Area	Audit Title	Assurance
Council / Audit Priorities	Business Continuity	Moderate
	Direct Payments	None
Financial Systems	Raising Invoices Locally	Significant
	Payroll	Significant
Regularity	Potters Green School	Limited
	Broad Heath School	Moderate

Audit Area	Audit Title	Assurance
	School Direct	Validation
Contingency / Directorate Risks	Bereavement Hub – governance arrangements	Significant
	Management of plant and equipment	Limited
	Energy billing	Limited
	Traffic Regulation Orders	Fact Finding
	Road Marking and Gulley Cleansing Crews	Moderate
	Job Shop	Moderate
Follow Up	Major Incident Reviews	Moderate
	IT Disaster Recovery	Moderate
	Stanton Bridge	n/a

2.3.2 The following audits are currently in progress:

- **Audits at Draft Report Stage** – Accounts Payable
- **Audits On-going** – Governance of employment costs, Network Infrastructure, Service Desk, CareDirector expenditure, Payment Audit, Accounts Receivable, Annual leave, Aldermans Green school, Code of corporate governance, Connecting Communities due diligence

Details of a selection of key reviews completed in this period are provided at Appendix One. In all cases, the relevant managers have agreed to address the issues raised in line with the timescales 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

Reporting on progress in regards to the delivery of the Annual Audit Plan ensures that the Council meets its statutory obligations in respect of maintaining an internal audit function and represents good governance.

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. Delays in the delivery of individual audits could occur at the request of the customer, which could impact on the delivery of the plan. This risk is managed through on-going communication with customers to agree timing and identify issues at an early stage to allow for remedial action to be taken.
- 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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www.coventry.gov.uk/meetings

Appendix One – Summary Findings from Key Audit Reports Completed between October and December 2016

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Energy billing</p> <p>March 2017</p> <p>Head of Energy and Low Carbon</p>	<p>Overall Objective: To ensure that effective and efficient processes are in place to support the payment of energy bills.</p> <p>Opinion: Limited Assurance Summary / Actions Identified:</p> <p>The review highlighted that no reliance is placed on the ICT system based controls which would largely automate the checking process and as a result the Energy Team are in effect operating two payment systems alongside each other. In our view the working practices do not reflect either the Council’s corporate approach to paying invoices or our professional view of a risk based approach to control. Consequently, processes are neither fit for purpose or deliver value for money for the Council. Key areas for improvement that have been identified include:</p> <ul style="list-style-type: none"> • Identifying and allocating responsibility to named individuals to provide monthly meter readings for all Council sites. • Utilising the batch validation checks available in Systemlink with further checking only undertaken on an exception basis. • Introducing a central record of bills placed on hold including arrangements for management oversight of the record. • Introducing arrangements to ensure prior notification is provided where a meter is replaced or Council properties are rented out / disposed of. <p>Since the audit, management have provided Internal Audit with a progress report on the specific actions being taken to address the issues raised in line with the agreed timescales and a formal follow up exercise will be undertaken in 2017-18 to provide assurance that arrangements are working effectively.</p>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Direct Payments</p> <p>March 2017</p> <p>Head of Practice Development and Safeguarding / Independent Living Practice Adviser</p>	<p>Overall Objective: To ensure that arrangements for administering and monitoring direct payments are effective, efficient and includes appropriate processes to protect the public purse.</p> <p>Opinion: No Assurance</p> <p>Summary / Actions Identified:</p> <p>The review highlighted significant weaknesses in the arrangements for monitoring direct payments, which fundamentally undermines the effectiveness of the system. It is clear that the current administration and monitoring arrangements are process / task driven rather than outcome focused and in our view, this puts the achievement of the overall objectives of the service at risk, both in respect of effectively managing resources in the current financial climate, but also in regards to ensuring that clients' care needs are appropriately delivered. Key areas for improvement that have been identified include:</p> <ul style="list-style-type: none"> • Re-allocating the task of setting up the payment details for new direct payment clients / other administrative tasks to more appropriate resources. • Changing the current approach to monitoring direct payments to a rolling programme of reviews. • Revising the process for obtaining monitoring information from direct payment clients. • Ensuring that issues relating to adults direct payments are escalated through CareDirector and are dealt with in a timely manner. • Introducing an annual monitoring spreadsheet which clearly records the checks performed and results of monitoring. • Ring fencing the back log work on direct payment ends and completing work on new cases on a weekly basis. <p>Given the issues raised, the service area have continued to work closely with Internal Audit to ensure that action is taken to address the issues raised in line with the agreed timescales and are proactively working to improve the systems in place. This work remains ongoing at the current time and we will continue to support management in this process. A formal follow up exercise will also be undertaken in 2017-18 to provide assurance that arrangements are working effectively.</p>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>IT Disaster Recovery Follow up</p> <p>September 2017</p> <p>Head of ICT Infrastructure and Operations</p>	<p>Overall Objective: To provide assurance about the risks identified and managed in relation to ICT disaster recovery arrangements within the Council.</p> <p>Opinion: Moderate Assurance Summary / Actions Identified:</p> <p>Although the Council has a “Backup and Media Handling Policy” and some work has been done to define the key applications at the Council, further work is required to develop and implement formal, documented disaster recovery arrangements. Key areas for improvement that have been identified include:</p> <ul style="list-style-type: none"> • Completing a Business Impact Assessment of key ICT systems and applications in use and defining / agreeing their data back-up and recovery requirements. • Creating a formal disaster recovery plan and testing arrangements on at least an annual basis. • Reviewing and updating the Backup and Media Handling Policy to ensure it reflects current practice and any changes to processes. <p>These arrangements form part of the Council’s wider business continuity planning and work to progress the issues highlighted will be carried out in conjunction with the Resilience Team.</p>