Coventry City Council

Public report

Report to

Audit and Procurement Committee   26th March 2018

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:
Deputy Chief Executive (Place)

Ward(s) affected:
City Wide

Title:
Internal Audit Recommendation Tracking Report

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 April 2017.

Is this a key decision?
No

Recommendations:

The Audit and Procurement Committee is recommended to note the progress made in implementing audit recommendations and confirm its satisfaction with this and the proposed action by the Acting 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

Background papers:

None

Other useful documents:

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 As reflected within its terms of reference, the Audit and Procurement Committee is required to receive reports on Internal Audit's follow up process. This report provides an update as to progress in respect of the agreed management actions which have been followed up during the period April 2017 to February 2018.

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 self-assessment 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.

- **Self-Assessment 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 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.
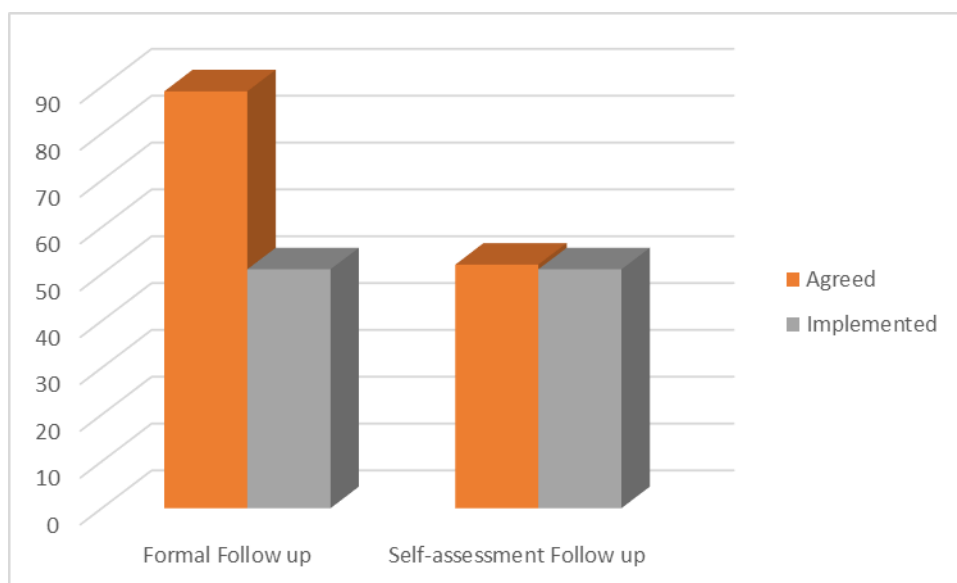
Of the 141 actions followed up, 72% have been implemented based on both the formal and self-assessment follow up method. When this is analysed by follow up method the results are:

- Formal follow up method – 57% implementation rate.

- Self-assessment follow up method – 98% implementation rate.

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

- Formal follow up – The implementation rate of 57% is comparable with results achieved over the last three years where implementation rates ranged from 57% to 71%. It is difficult to reach any specific conclusions on the implementation rate, although it should be pointed out that this does not mean that the recommendations outstanding are not subsequently implemented.

- Self-assessment – The implementation rate of 98% is higher than that achieved over the last three years (i.e. ranging from 70% to 95%) and in comparison to the formal follow up method. This does question the value of asking managers to self-assess whether they have implemented audit recommendations. Consequently, it is intended that the Internal Audit Service will apply a more rigorous approach around this in 2018/19 by carrying out sample checks on the validity of responses.

2.5   Two planned formal follow ups (Direct Payments, Payroll - The Grange) were delayed during 2017/18 due to operational issues / changes within the service area and will now be carried out as part of the 2018-19 Audit Plan.

2.6 **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 Director of Finance and Corporate Services**

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 implementing audit recommendations ensures that the Council meets its statutory obligations in respect of maintaining an effective internal audit function and represents good governance.

6. **Other implications**

6.1 **How will this contribute to achievement of the Council Plan?**

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

Report author(s):

Name and job title:
Karen Tyler
Acting Chief Internal Auditor

Directorate:
Place

Tel and email contact:
Tel: 024 7683 4305
Email: Karen.tyler@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:				
Michelle Salmon	Governance Services Officer	Place	5/3/18	8/3/18
Paul Jennings	Finance Manager Corporate Finance	Place	5/3/18	5/3/18
Names of approvers: (Officers and Members)				
Barry Hastie	Director of Finance and Corporate Services	Place	5/3/18	5/3/18
Adrian West	Member and Elections Team Manager	Place	5/3/18	6/3/18

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Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Processing of Energy Bills	2	0	2	0	Will be subject to a further formal follow up review
Potters Green Primary School	1	1	6	5	The outstanding action has been followed up through self-assessment process – see Appendix Two for results
Card Refunds	1	1	4	3	The outstanding action has been followed up through self-assessment process – see Appendix Two for results
Management of Plant and Equipment	3	0	2	2	Will be subject to a further formal follow up review
Data Protection	4	2	7	4	
ICT Reviews – follow up			43	27	
Accounts Payable			3	1	
Accounts Receivable	1	0	2	1	
Business Rates			4	1	
Council Tax	1	1	3	2	

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

ICT Reviews – a specific exercise was undertaken around a number of ICT audits which covered the following reviews: Caredirector application review, IT security, Protocol application review, ICT change requests, Agresso application review, IT Cloud review, Major incident reviews follow up.

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Job Shop	1	1	3	2	One medium risk superseded
Broad Heath Primary School			3	3	
Bereavement Hub – Governance Arrangements			3	3	
Job Shop Evolutive System			2	2	
FACE	2	2	1	1	
Highways Operations – Road Marking and Gully Cleansing Team			4	4	
Aldermans Green Primary School	1	1	3	3	
Housing Benefits – Hostels and Supported Accommodation	1	1	3	3	
Purchasing Cards			1	1	
Business Continuity	2	2			
Card Refunds			1	1	
Leigh CoE Primary School	1	1	5	5	
Potters Green Primary School			1	1	
Gifts and Hospitality	2	2	2	2	
Whitmore Park Primary School			7	7	
Civil Engineering Support Framework Contract			2	2	
Provider Services Units – Cash Handling			1	1	