



Report to

Audit and Procurement Committee

11th November 2019

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Director of Finance and Corporate Services

Ward(s) affected:

City Wide

Title:

Internal Audit Plan 2019-2020 – 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 2019, against the Internal Audit Plan for 2019-20.

Recommendations:

Audit and Procurement Committee is recommended to:

- 1) Note the performance as at quarter two against the Internal Audit Plan for 2019-2020.
- 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 2019

Appendix Two - Summary Findings from Key Audit Reports

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 2019-20 – Half Year Progress Report

1. Context (or background)

1.1 This report is the first monitoring report for 2019-20, 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 Amendments to the Audit Plan for 2019-20

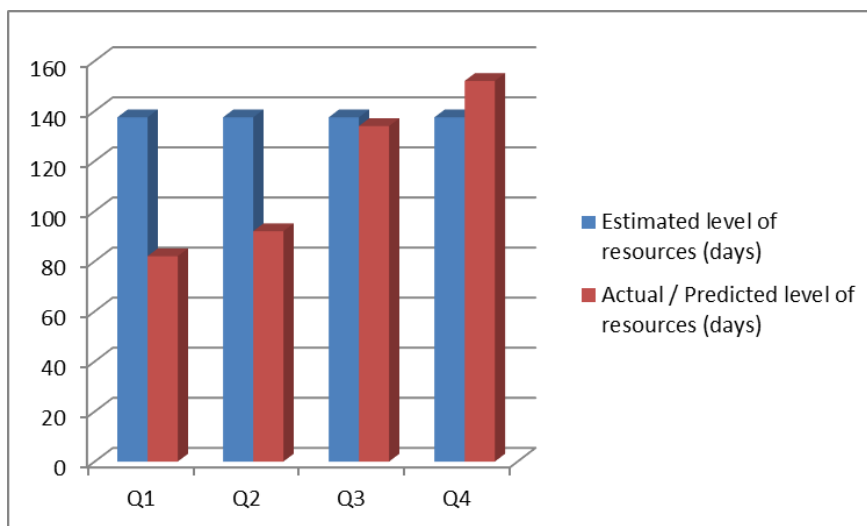
The Internal Audit Plan for 2019-20 was presented to the Audit and Procurement Committee at its meeting on the 24th June 2019. In this report, it was explained to the Committee that the level of resources available in 2019-20 for audit and corporate fraud work could not be precisely defined when the plan was developed due to the following factors:

- Implementation of the restructure of the Internal Audit Service in 2019/20, which meant that it was difficult to predict with any certainty when the new structure would be fully populated.
- Unplanned absence within the Team.

As a result, the Internal Audit Plan was developed on an estimate of 550 days available for audit and corporate fraud work, but as outlined to the Audit and Procurement Committee this would be closely monitored with any resulting changes provided in future reports to the Committee.

Regular monitoring during 2019-20 to date and successful recruitment to two vacant posts now provides management with a clearer position on resources. This is outlined in the chart below which compares the estimated level of resources at the beginning of the financial year averaged over each quarter with (a) the actual level of resources in quarters one and two (i.e. between April and September 2019) and (b) the predicted resources for the remainder of the year.

Chart one: Analysis of available audit days 2019-20



As a result of this clearer view on the capacity of the Service, the Internal Audit Plan has been amended to 460 days. This reflects the current best estimate of the available resources and compares to 480 available audit days in 2018-19. This reduction has been accommodated through:

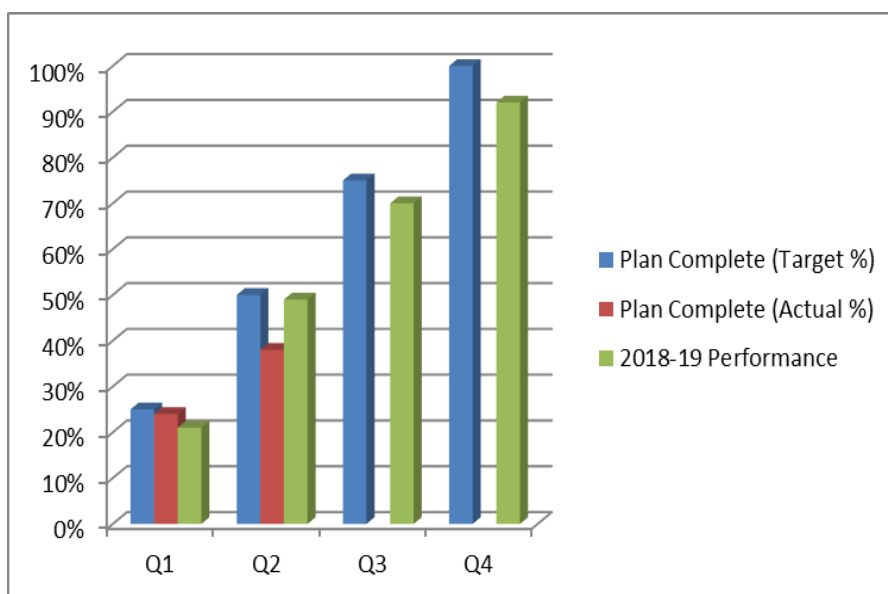
- A small number of audits have been postponed until 2020-2021. These have been selected on the basis that they do not have a significant impact on the management of risk. For example, this includes an audit of the Council’s new early payment system, but where to date, only a small number of suppliers have signed up to this arrangement, two school audits and work on the information governance risk register which is still under development.
- Changes in operational requirements for audit involvement as requested by the customer.
- Whilst the service are still committed to responding to concerns raised around corporate fraud, a small number of days which were allocated to provide capacity for proactive work have been taken out of the plan. This area of work will now be included in the 2020-21 Internal Audit Plan.
- A small reduction in the resources available to undertake validation checks on the follow up of audit recommendations.

In the view of the Chief Internal Auditor, these changes will not, in any significant respects, impact on the ability to deliver the annual internal audit opinion. A further update on the resource position will be provided to the Audit and Procurement Committee in the quarter three progress report.

2.2 Delivering the Audit Plan

The key target facing the Internal Audit Service is to complete 90% of its work plan by the 31st March 2020. The chart below provides analysis of progress against planned work for the period April to September 2019, based on the revised Internal Audit Plan of 460 days.

Chart Two: Progress against delivery of Internal Audit Plan 2019-20



As at the end of September 2018, the Service has completed 38% of the Audit Plan against a planned target of 50% (which is based on delivering 100% of the plan). It is acknowledged that progress in quarter two is slightly below target. The number of audits completed has been affected by a piece of work following up matches from the National Fraud Initiative and some larger audit reviews being undertaken in quarter two. It is envisaged that progress will accelerate in the forthcoming months when the new structure for Internal Audit is fully populated.

2.3 Other Key Performance Indicators (KPIs)

In addition to the delivery of the Audit Plan, the Internal Audit Service has a number of other KPI's which underpin its delivery. The table overleaf shows a summary of the performance for 2019-20 to date against these five KPIs, with comparative figures for the financial year 2018-19. There is one indicator (i.e. audit delivered in budget days) where the Service's current performance is noticeably below expectations. This reflects the fact that in a small number of reviews completed, the Internal Audit quality assurance process identified the need for further work to be undertaken. Whilst performing work in a timely way is clearly important to achieving the overall Audit Plan for the year, this must be balanced with ensuring that there is a meaningful quality assurance process in place. Ongoing monitoring of internal audit work and identifying opportunities for improvement remains a key focus for management, in line with the Public Sector Internal Audit Standards. The restructure of the Internal Audit Service will provide enhanced arrangements to support this moving forward.

Table One: Internal Audit Key Performance Indicators 2019-20

Performance Measure	Target	Performance Q2 2019-20	Performance 2018-19
Planned Days Delivered (Half year performance pro rata against agreed plan)	100%	41%	94%
% of work time spent on audit work	90%	91%	91%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	78%	84%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	80%	82%
Audit Delivered within Budget Days	80%	68%	77%

2.4 Audits Completed to Date

Attached at Appendix One is a list of the audits finalised between April and September 2019, along with the level of assurance provided.

The following audits are currently in progress:

- **Audits at Draft Report Stage** – Compliance with HR procedures – Children’s Services, Coroner’s Service Capacity Review, St Osburgs Primary School
- **Audits On-going** – Trading Standards Exercising Warrants, Car Park Business Passes, Parking Platform Grant, Agency Workers Contract, Sport & Arts – Review of Grant Processes

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 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 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 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 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 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 any 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) Climate Change and the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:

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Directorate:

Place

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Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
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Names of approvers: (Officers and Members)				
Barry Hastie	Director of Finance and Corporate Services	Place	18/10/19	29/10/19
Adrian West	Members & Elections Team Manager	Place	18/10/19	29/10/19
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	18/10/19	30/10/19

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

Appendix One – Audit Reviews Completed between April and September 2019

Audit Area	Audit Title	Assurance
2018-19 B/Fwd	Housing Benefits	Significant
	Business Rates	Moderate
	IT Strategy, Policies and Procurement	Moderate
	Passenger Transport Follow Up	Limited
Corporate Risk	Project and Change Management for System Upgrades and Development	Significant
Regularity	Annual Governance Statement	Verification
	CNR	Significant
	NCH	Moderate
	Growth Deal Hub	Verification
	Disabled Facilities Grant	Verification
	Additional Disabled Facilities Grant	Verification
	S256 Health Grant	Verification
	Sherbourne Fields Teaching Schools Grant	Verification
	Teachers Pensions Statements	Verification
	Bus Subsidy Grant	Verification
	Integrated Transport Block Grant	Verification
	Highways Maintenance / Incentive / Pothole Grant	Verification
	Aldermoor Farm Primary School	Significant
	Grange Farm Primary School	Moderate
Directorate issues	Community Support Grants – Controls over Vouchers	Significant
	Eric Williams House - Controls over Cash Administration	Moderate
Follow Up	Frederick Bird Primary School	Significant

Appendix Two – Summary Findings from Key Audit Reports Completed between April and September 2019

Audit Review / Actions Due / Responsible Officer(s)	Key Findings								
<p>Frederick Bird Primary School Follow Up</p> <p>September 2019</p> <p>School Business Manager / Office Manager</p> <p>A summary of progress made against the agreed actions is shown below:</p> <table border="1" data-bbox="129 775 533 1086"> <tr> <td>Number of Actions</td> <td align="center">12</td> </tr> <tr> <td>Implemented</td> <td align="center">9</td> </tr> <tr> <td>No Progress</td> <td align="center">0</td> </tr> <tr> <td>On-going</td> <td align="center">3</td> </tr> </table>	Number of Actions	12	Implemented	9	No Progress	0	On-going	3	<p>Overall Objective: To provide assurance that agreed actions have been implemented as planned and there are now robust systems and controls in place to support the effective management of the School's resources.</p> <p>Recommendations followed up:</p> <ul style="list-style-type: none"> - Ensure that in respect of all purchases, the School complies with procurement rules / legislation. (H) - Ensure that the final Bacs run is printed at the time the Bacs run is completed and is approved by the Senior Business Manager. (M) - Where charity monies are raised by the School, ensure that cash collection sheets are completed and retained to ensure that monies can be accounted for. (M) - Ensure that all purchasing card transaction logs are subject to appropriate oversight / approval by an independent officer and receipts (or equivalent) are retained for all purchases. (M) - Ensure that HMRC requirements in respect of IR35 are complied with. (H) - Take action to ensure that (a) invoices contain sufficient details of when the service was provided and (b) cash collection sheets are fully completed and retained for all cash transactions to ensure that monies can be accounted for. (M) - Ensure that an independent review of the income process is completed on a regular basis and an appropriate audit trail is retained as evidence of the review. (M) - Continue to embed the process of two officers being involved in the banking process. (M) - Take action to (a) establish appropriate charges for the hire of the Birdhouse and update the lettings policy to include these within the scale of charges and (b) ensure that letting agreement forms are completed by hirers. (M) - Ensure that the debtor's policy is updated in accordance with the Fair Funding Scheme of Delegation and is approved by Governors. (M) - Take action to (a) ensure that debts are chased in accordance with the debtor's policy and (b) credit the incorrect invoice highlighted in testing and raise the debts accurately. (M) - Ensure that virements are authorised and reported in accordance with the provisions of the Fair Funding Scheme of Delegation. (H) <p>Opinion: Significant Assurance</p>
Number of Actions	12								
Implemented	9								
No Progress	0								
On-going	3								

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
	<p>Actions Agreed - risk level high (H) or medium (M):</p> <p>In respect of the following, progress has been made, although the action taken to date has not yet fully addressed the audit concerns.</p> <ul style="list-style-type: none"> • Where exceptions to the Council's procurement rules / legislation are required, these should be dealt with in accordance with established rules and approval sought in advance from governors. (H) • To gain assurance that HMRC requirements in respect of IR35 are embedded within the School's working practices and are complied with. (H) • Ensure that two officers are involved in the banking process and an appropriate audit trail is maintained to evidence this. (M)

Audit Review / Actions Due / Responsible Officer(s)	Key Findings								
<p>Passenger Transport Follow Up</p> <p>September 2019</p> <p>Integrated Transport Manager / Head of Business Systems / Operational Transport Group</p> <p>A summary of progress made against the agreed actions is shown below:</p> <table border="1" data-bbox="129 775 533 1086"> <tr> <td>Number of Actions</td> <td>9</td> </tr> <tr> <td>Implemented</td> <td>3</td> </tr> <tr> <td>No Progress</td> <td>3</td> </tr> <tr> <td>On-going</td> <td>3</td> </tr> </table>	Number of Actions	9	Implemented	3	No Progress	3	On-going	3	<p>Overall Objective: To provide assurance that agreed actions have been implemented as planned and there are now robust systems in place to manage Passenger Transport Services, which is supported by effective processes between service areas to make the best use of resources and provide appropriate financial controls.</p> <p>Recommendations followed up:</p> <ul style="list-style-type: none"> - Introduce a requirement that all transport requests received by the Travel Bureau must be supported by the approved panel document (including any changes to transport requests). (H) - Put in place effective contract management arrangements to ensure that the framework contract is robustly applied and the use of day rates minimised. (H) - Introduce regular reporting to identify and chase any outstanding invoices from external suppliers. (M) - Enforce controls to ensure that (a) Invoices are only paid when they are accurately matched to the Trapeze system / day rate spreadsheet (subject to agreed tolerance levels) and (b) the day rate spreadsheet provides a complete and accurate record of journeys where a day rate has been agreed. (H) - Develop appropriate governance arrangements to ensure the service is effectively managed from a strategic perspective. (H) - Make arrangements for the Travel Bureau to receive death list information which is then used to verify transport ends on Trapeze (via a report from CareDirector). (M) - Recommence work with Procurement Services to implement the use of BIF uploads to process invoices on Agresso. (M) - Review arrangements for producing the provider costing report from the Trapeze System to consider how information can be produced efficiently whilst meeting user needs. (M) - Amend the day rates spreadsheet to include information on the original contract cost of the journey. (M) <p>Opinion: Limited assurance</p> <p>Actions Agreed - risk level high (H) or medium (M):</p> <ul style="list-style-type: none"> • Introduce a temporary requirement that all transport requests / changes received by the Travel Bureau are verified with the Financial Operations Team prior to the service commencing (and that an appropriate audit trail is maintained to support this). In the longer term, introduce a requirement that all transport requests received by the Travel Bureau are supported by appropriate confirmation that there is an approved service provision for the transport on CareDirector. (H) • Once the new framework contract becomes operational, put in place effective contract management
Number of Actions	9								
Implemented	3								
No Progress	3								
On-going	3								

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
	<p>arrangements to ensure that the contract is robustly applied and the use of day rates minimised. (H)</p> <ul style="list-style-type: none"> • Ensure action is taken to introduce regular reporting to identify and chase any outstanding invoices from external suppliers. (M) • Continue to develop the governance arrangements to ensure the service is effectively managed from a strategic perspective. This should include consideration of allocating a “single point of control” for transport to enable a cohesive approach to implementing actions and overall governance, as recommended in the October position statement to the Strategic Transport Group. (M) • Ensure work continues with Procurement Services to implement the use of BIF uploads to process invoices on Agresso. (M) • Ensure the day rate spreadsheet provides an accurate record of the original contract cost of the journey. This should include sample checks by Management to ensure compliance. (M)

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Business Rates</p> <p>December 2019</p> <p>Senior Operational Manager – Revenues</p>	<p>Overall Objective: To ensure that the Council identifies, calculates and collects all income due to the Council through business rates.</p> <p>Key controls assessed:</p> <ul style="list-style-type: none"> - An accurate register is maintained of all properties subject to business rates. - Liability for business rates is correctly calculated, including the application of any exemptions and reliefs. - Appropriate mechanisms are in place to collect monies due for business rates. - A risk based quality assurance programme is in place to provide assurance in respect of accuracy of input and consistency of decisions made around liability. <p>Opinion: Moderate Assurance</p> <p>Agreed Actions - risk level high (H) or medium (M):</p> <ul style="list-style-type: none"> • Ensure that where a Building Control notification is received but a decision is taken not to visit a property, an appropriate audit trail is maintained of this. (M) • Review the spreadsheets / process used to track notifications received from Building Control to ensure it is fit for purpose and provides an adequate audit trail of inspectors work and referrals to the VOA. (M) • Where testing has identified outstanding issues in relation to the rating list, take immediate action to chase information from the VOA. (M) • Ensure that all applications for business rates hardship relief are processed on a timely basis and are supported by a completed assessment form. (M) • Ensure that all write offs are approved in accordance with the Council's Scheme of Delegation. (M) • Ensure that both quality checks and 1:2:1's are undertaken on a timely basis, with the results of these being recorded and shared with the relevant officer. (M)

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Eric Williams House - Controls over Cash Administration</p> <p>April 2020</p> <p>Unit Manager, Eric Williams House</p>	<p>Overall Objective: To provide assurance that the Council has effective controls in place within Eric Williams House to support cash administration with proportionate, risk-based checks and balances in place to ensure that all monies are accounted for.</p> <p>Key controls assessed:</p> <ul style="list-style-type: none"> - Appropriate governance arrangements exist over the use of monies received / paid out, with clear separation between Council and non-Council monies. - Effective arrangements are in place to manage and administer the Amenities Fund. - Arrangements are in place to ensure that service users monies are appropriately safeguarded and access controlled. - Arrangements are in place to ensure that any Council petty cash funds (or equivalent) are accounted for and appropriately controlled. - Management arrangements provide oversight / assurance that procedures are consistently followed. <p>Opinion: Moderate Assurance</p> <p>Actions Agreed - risk level high (H) or medium (M):</p> <ul style="list-style-type: none"> • Produce documented procedures which cover the administration of both the Amenities Fund and service user's monies, including the roles and responsibilities of officers. (H) • Introduce appropriate governance arrangements over the Amenities Fund by: (a) producing a written constitution for the fund and (b) on an annual basis, publish a report on what the fund has achieved and how it has raised and spent money, in accordance with the constitution. (H) • Ensure that the main safe keys are held securely and access to the main safe is appropriately restricted. (M) • Ensure that receipts are issued in respect of all donations made to the Amenities Fund. (M) • On a monthly basis, reconcile receipts issued for donations to the Amenities Fund cash control sheet to ensure that all donations can be accounted for. (M) • Ensure that the un-spent cash amount from the Unit's purchasing card is removed from the Amenities Fund and paid back to the Council and no Council monies are paid into the Amenities Fund in future. (M) • Amend the cash control sheet to provide a transparent audit trail of expenditure. (M) • Ensure that receipts are issued in respect of top up payments made to service user's monies. (M) • On a bi-monthly basis, reconcile receipts issued for top up payments to individuals' cash control sheets to

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
	ensure that all payments can be accounted for. (M) <ul style="list-style-type: none">• Make arrangements for an independent annual audit of the Amenities Fund. (M)