	Governance and Audit Committee			**Item** **10**
	17 January 2017			
Report of	**Assistant Chief Executive**		**Author**	**Hayley McGrath** ☎ **508902**
Title	**Mid-Year Internal Audit Assurance Report 2016/17**			
Wards affected	Not applicable			

This report summarises the performance of internal audit, and details the audits undertaken, between 1 April 2016 and 30 September 2016.

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1. Decision Required

1.1 To review and comment on:
- Internal audit activity for the period 01 April 2016 – 30 September 2016
- Performance of internal audit by reference to national best practice benchmarks.

2. Reason for Decision

2.1 Section 2 (5) of the Accounts and Audit Regulations 2015 requires that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

2.2 Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages
- An effective internal audit service was provided during the first half of the 2016/17 financial year.
- The assurance ratings for the Visitor Information Centre Cash Up, Fuel Usage, Housing Benefit / Local Council Tax Support and Leisure World Cash Up audits have increased from 'substantial' to 'full'.
- Two audits have been awarded 'limited' assurance opinions, Information Technology (IT) – Capita Revenues and Use of Machinery / Vehicles.
- Three priority 1, 14 priority 2 and two priority 3 recommendations have been made. All recommendations have been accepted by management.
- There continues to be good progress made in implementing and verifying outstanding recommendations.

4. Supporting Information

4.1 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits.

4.2 This report has been designed to show:
- Summary information concerning audits finalised in the period receiving a 'Full' or 'Substantial' assurance rating and more detailed information on those audits receiving a 'Limited' or 'No' assurance rating.
- The effectiveness of the Internal Audit provider in delivering the service.

4.3 Appendix 1 outlines the recommendation and assurance gradings.

5. Internal Audit Performance

5.1 Summary of Audits Finalised During the Period

Audit	Assurance Level	Change in Level	Priority of Recommendations			
			1	2	3	Agreed
136 – IT Capita Revenues (15/16)	Limited	N/A	1	5	1	7
201 – VIC Cash Up	Full	▲	0	0	0	0
203 – Fuel Usage	Full	▲	0	0	1	1
206 – Leisure World Catering	Substantial	N/A	0	1	0	1
207 – Use of Machinery / Vehicles	Limited	N/A	2	5	0	7
224 – Housing Benefit / Local Council Tax Support	Full	▲	0	0	0	0
229 – Complaints	Substantial	N/A	0	3	0	3
234 – Leisure World Cash Up	Full	▲	0	0	0	0

5.1.1 During the period a total of eight audits have been finalised. For four of the audits there was no previous audit against which a change of level could be assessed, and there was an improvement in assurance level for the remaining four.

5.1.2 Details of the recommendations raised for 136 – IT Capita Revenues and 207 – Use of machinery / vehicles are shown in appendix 2.

5.2 Use of Audit Resources:

	Days	%
Audit days delivered April – September 2016	88.5	27
Audit days remaining	235.5	73
	324	**100%**

5.2.1 Following the renewal of the audit tender the Mazars Internal Audit Manager met with each of the Heads of Services to discuss the audit programme, to ensure that the audits reflected the areas of risk and that the timings supported other assurance processes, such as external audit testing.

5.2.2 This exercise was concluded in July 2016 and a revised three year Internal Audit Plan was drafted in conjunction with the Corporate Governance Manager. The plan was subsequently approved by this committee in November 2016.

5.2.3 The number of audit days completed between April and September 2016 is slightly lower than the target set at the beginning of the year. This is as a result of some work being deferred to Quarters 3 and 4, following the discussions with management. The plan agreed in November was profiled to ensure that the remaining days will be delivered by the end of the financial year, subject to any further requests for deferment by management.

6. Status of all recommendations as at 30 September 2016:

6.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management's response to those recommendations.

6.2 The table below provides a breakdown of the outstanding recommendations as at the 30 September 2016.

Date	Outstanding Recommendations That Are:			
	Implemented & Verified	**Awaiting Verification**	**Not Due**	**Overdue**
30/09/16	67	131	11	0

6.3 Progress in following up recommendations has continued throughout the period with revised lists of recommendations provided to Heads of Service to enable them to confirm that they have been implemented, and for Internal Audit to verify.

6.4 Priority continues to be given to those awarded a higher priority rating and/or those that have been outstanding the longest, and work continues with management to arrange for them to be verified and cleared down.

6.5 Of the 131 recommendations that are awaiting verification 71 of them relate to IT audits and a further 36 will be covered as part of the 2016/17 audit programme. Internal audit have received updates from Corporate ICT and are currently working through the information with their Computer Audit Manager to ascertain whether recommendations can be closed down. There are also a number of general audit recommendations programmed to be followed up during November 2016.

7. Performance of Internal Audit 2016/17 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
Efficiency:		
Percentage of annual plan completed (to at least draft report stage)	**40%**	**34%**
Average days between exit meeting and issue of draft report	**10 max**	**5**
Average days between receipt of management response and issue of final report	**10 max**	**1**
Quality:		
Meets CIPFA Code of Practice – per Audit Commission	**Positive**	**Positive**
Results of Client Satisfaction Questionnaires (Score out of 10)	**7.8**	**8.4**
Percentage of all recommendations agreed	**96%**	**100%**

7.1 The key performance indicators show that the internal audit provider is successfully meeting or exceeding the standards set in the majority of the KPIs. However, as mentioned in 5.2.3 there has been a deferment of some work until quarter 4, as a result of which the percentage of the audit plan completed is currently slightly behind target.

7.2 The Client Satisfaction Questionnaires show a high level of satisfaction with the Internal Audit service.

8.   Colchester Borough Homes Limited

8.1   Colchester Borough Homes Limited has its own agreed audit plan which is administered by Mazars Public Sector Internal Audit Limited, who are also the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and in general the audits do not affect the systems operated by the Council.

8.2   However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.

8.3   There were no joint audits carried out during this period.

9.   Proposals

9.1   To review and comment upon the Council's progress and performance relating to:
- Internal Audit activity during the first half of 2016/17.
- Performance of Internal Audit by reference to national best practice benchmarks.

10.   Strategic Plan Implications

10.1   The audit plan has been set with due regard to the identified key strategic risks to the Council and the objectives of the strategic plan to be vibrant, prosperous, thriving and welcoming. Therefore, the audit work ensures the effectiveness of the processes required to achieve the strategic objectives.

11.   Risk Management Implications

11.1   The failure to implement recommendations may have an effect on the ability of the Council to control its risks and therefore the recommendations that are still outstanding should be incorporated into the risk management process.

12.   Other Standard References

12.1   Having considered consultation, equality, diversity and human rights, health and safety and community safety implications there are none that are significant to the matters in this report.

Key to Assurance Levels

Assurance Gradings

Internal Audit classifies internal audit assurance over four categories, defined as follows:

Assurance Level	Evaluation and Testing Conclusion
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the Council's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the Council's objectives at risk. The level of non-compliance puts the Council's objectives at risk.
No	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Recommendation Gradings

Internal Audit categories recommendations according to their level of priority as follows:

Priority Level	Staff Consulted
1	Major issue for the attention of senior management and the Governance and Audit Committee.
2	Important issues to be addressed by management in their areas of responsibility
3	Minor issues resolved on site with local management.

Summary of Audits with a Limited Assurance Rating:

136 – IT Capita Revenues (15/16)			Priority of Recommendations			
	Days	**Assurance**	**1**	**2**	**3**	**Agreed**
	15	Limited	1	5	1	7

Scope of Audit: This review examined the following areas:
- Application Management and Governance;
- System Security;
- Interface Controls and Processing;
- Data Input;
- Data Output;
- Change Control;
- System Resilience and Recovery; and
- Support Arrangements.

Key Outcomes: The recommendations resulting from this review are summarised as follows:
- A Disaster Recovery Plan (DRP) for the Revenue and Benefits application should be formally documented and approved by business. Such areas to be included are: Roles and responsibilities; Incident response plan, including emergency action plan; Contact details for key staff; and Contact details for key third party vendors. (This is not an exhaustive list.) Additionally, Disaster Recovery arrangements for the Revenue and Benefits application should be tested on at least an annual basis. Test outcomes and proposed actions should be clearly defined and followed up on. (1)
- Management should ensure that interface processes between the Revenue and Benefits system and other applications are documented and indicate the roles involved in the transmission and receipt of file, timing required for interface process and process of reconciling the interfaces. (2)
- Testing of changes made to the Revenue and Benefits application should be adequately documented prior to sign-off for go-live. Test notes should detail the tests performed on the proposed change, the outcome and any proposed corrective action, this should also cover user acceptance testing. (2)
- Management should ensure that CAPITA performs backup restoration testing for the Revenue and Benefits application periodically, at least quarterly, and provide the Council with evidence of such testing. (2)
- Management together with Capita should determine the Revenue and Benefits system's criticality, so as to correctly agree its recovery time objective. (2)
- The Council should ensure that a Service Level Agreement (SLA) that includes methods of contacting the supplier and penalties and/or escalation procedures for breaches of service levels, is in place and approved. The Council should also ensure that the SLA is monitored and the SLA meeting minutes retained. (2)
- Management should ensure that security violation reports and failed logon reports attempts are reviewed on a regular basis. (3)

			Priority of Recommendations			
207 – Use of Machinery / vehicles	**Days**	**Assurance**	**1**	**2**	**3**	**Agreed**
	8	Limited	2	5	0	7

Scope of Audit: This review examined the following areas:

- Policy and Procedures;
- Staff Training;
- Personal Protective Equipment; and
- Management Reporting and Monitoring.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The General Management Team (GMT) should review the existing training requirement and recording processes, across the various service areas, to help ensure that training / refresher training is undertaken as and when required. A standard format for recording the training that has been completed by staff should be created and used consistently. (1)

- The GMT should implement a robust system and process is in place for the checking of driving licences and licence endorsements in order to comply with the terms and conditions of the Councils fleet insurance requirements. (1)

- Management should ensure that all relevant and required Standard Operating Procedures (SOPs) are formally agreed and embedded into working practices. SOPs should be made readily available to members of staff and a register should be maintained to ensure that all staff have signed to confirm that they have read and/or received a copy in respect of their job responsibilities / roles. (2)

- A register should be implemented of all Personal Protective Equipment (PPE) issued to staff. In addition, a guidance document should be produced that is issued with the PPE explaining to staff the important role that the PPE plays in ensuring staff safety. This should note that staff are liable for accidents and injury that takes place where the PPE has not been replaced where required (i.e. damaged) or worn correctly whilst operating machinery and/or using vehicles. Staff should acknowledge receipt of the guidance which should be retained on file. (2)

- Management should take a proactive approach, in the form of periodic spot checks, towards the proper use of PPE supplied to the members of staff operating machinery and vehicles. (2)

- Guidance covering the reporting process for personal injuries should be produced and passed to all managers across Community Services. Training should be given to ensure that all teams are reporting injuries in accordance with the Council's requirements. (2)

- The systems and processes in place relating to the use of machinery and vehicles should be discussed at GMT meetings so that best and consistent working practices can be identified and put in place across all service areas. (2)