



COLCHESTER

Governance and Audit Committee

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Report of

Assistant Director of Corporate &
Improvement Services

Author

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Title

Internal Audit Year-End Assurance Report 2019/20

Wards affected

Not applicable

1.0 Executive Summary

- 1.1 This report summarises the performance of Internal Audit during the 2019/20 financial year, and details the audits undertaken between 1 October 2019 and 31 March 2020. Audits completed between 01 April and 30 September 2019, were reported on 21 January 2020.
- 1.2 The audit plan consists of a mix of regularity, systems and probity audits, and reports are generated for all audits carried out. 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.
- 1.3 The key messages are:
- An effective internal audit service was provided during the 2019/20 financial year.
 - The Debtors, NNDR, Environmental Protection, Leisure World, Fleet Management and Museum audits have achieved a 'Full' assurance rating.
 - The assurance rating for the Debtors and Leisure World audits have increased from "Substantial" to "Full" assurance.
 - Three priority 1, 13 priority 2 and three priority 3 recommendations have been made. All recommendations have been accepted by management.
 - There is good progress made in implementing and verifying outstanding recommendations.

2.0 Recommended Decision

- 2.1 To review and comment on:
- Internal audit activity for the period 1 October 2019 – 31 March 2020.
 - Performance of internal audit by reference to national best practice benchmarks.

3.0 Reason for Recommended Decision

- 3.1. The Accounts and Audit Regulations 2015 require 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'. 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.

4.0 Alternative Options

4.1 None.

5.0 Background Information

5.1 Summary of Audits Finalised During the Period

During the period 1 October 2019 to 31 March 2020 a total of 14 audits have been finalised. There was no previous audit against which a change of assurance level could be assessed in three cases. There were three audits where the assurance rating increased. In the remaining eight cases, the audits remained at the same level.

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
506 – Fleet Management	Full	▲	0	0	0	0
509 - Debtors	Full	▲	0	0	0	0
510 – Parking Services Partnership including Income	Substantial	►	0	2	0	2
512 – General Ledger	Substantial	►	0	3	0	3
513 – Treasury Management	Substantial	►	0	1	0	1
514 – Housing Rents (including FTAs)	Substantial	►	0	2	1	3
515 – Leisure World – Core Functions including Joint Use Centres	Full	▲	0	0	0	0
516 – Corporate Governance and Scrutiny	Substantial	►	0	3	0	3
517 – NNDR/Business Rates	Full	►	0	0	0	0
518 – Museums – Merged Services including Admissions, Shops and Inventories	Full	►	0	0	0	0
527 – Environmental Protection	Full	N/A	0	0	0	0
529 – Payment Controls	Limited	N/A	3	1	0	4
535 – CCTV and Helpline Follow Up	N/A	N/A	N/A	N/A	N/A	N/A
536 - Payroll	Substantial	►	0	1	2	3

5.2 Use of Audit Resources:

	Days	%
Audit days delivered April – September 2019	109	32%
Audit days delivered October 2019 – March 2020	164	49%
Days not completed	63	19%
	336	100%

5.2.1 A number of days could not be completed before the contract with Mazars expired. The audit days to IT Audits (25 days); CCHL (15 days); and VAT (15 days). In addition, the

audit of Rechargeable Works was removed from the plan as there were limited cases to examine (8 days).

5.3 Status of all recommendations as at 31 March 2020:

5.3.1 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.

5.3.2 The table below provides a breakdown of the outstanding recommendations as at the 31 March 2020.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
31/03/20	101	65	0	0

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

5.3.4 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.

5.3.5 Of the 65 recommendations that are awaiting verification 25 of them relate to IT audits.

5.4 Performance of Internal Audit 2019/20 – Key Performance Indicators (KPIs):

KPI	Target	Actual
<i>Efficiency:</i>		
Percentage of annual plan completed (to at least draft report stage)	100%	91% *
Average days between exit meeting and issue of draft report	10 max	6.5
Average days between receipt of management response and issue of final report	10 max	0.8
<i>Quality:</i>		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	9.75 **
Percentage of all recommendations agreed	96%	100%

* Accounting for the audits not undertaken as outlined in 5.2.1. above.

** Only two received.

5.4.1 The key performance indicators show that the internal audit provider met the majority of the standards set.

5.5 Colchester Borough Homes Limited

5.5.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered by Mazars LLP, 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.

5.5.2 However, there are a small number of 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.

5.5.3 The Housing Rents audit has been completed. The audit retained a substantial assurance rating with two priority 2 and one priority 3 recommendations being raised.

6.0 Internal Audit Contract

6.1 The Internal Audit contractor, Mazars, gave notice that they did not wish to continue to provide the service beyond March 2020. Therefore, a tender exercise was undertaken and a new contractor, TIAA Ltd, was appointed with effect from 01 April 2020.

6.2 Work has got underway in delivering the audit programme for 2020/21 and TIAA will be presenting the mid-year report to this committee later in the year.

7.0 Strategic Plan Implications

7.1 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.

8.0 Risk Management Implications

8.1 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.

9.0 Environmental and Sustainability Implications

9.1 There are no environmental or sustainability implications as a result of this report.

10.0 Other Standard References

10.1 There are no direct Publicity, Financial, Consultation, Equality, Diversity, Human Rights, Community Safety or Health and Safety implications as a result of 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 client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client'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:

			Priority of Recommendations			Agreed
			1	2	3	
529 - Payment Controls	Days	Assurance				
	9	Limited	3	1	0	4

Scope of Audit: This review examined the following areas:

- Bank Mandate;
- BACS;
- CHAPS; and
- Access Controls.

Key Outcomes: The recommendations resulting from this review are summarised below. The First three recommendations have been rated Priority 1 with the fourth recommendation rated Priority 2:

- Discussions should be undertaken with APT / BACS to establish what controls can be put in place and/or output produced to prevent or identify changes to payment files being made and/or a report produced (for checking) when details are amended.

In addition, discussions should be held with services to establish what checks are made of data and/or changes to it, before files are sent to the Control Team for processing.

- As part of the FPM system upgrade the requirement should be put in that officers can only have one authorisation level set up and a complete segregation of duties required.
- The Bank should be contacted to verify if the 'self-approval' box could be removed / locked so that it cannot be selected.

The Council should also look to put in place an appropriate level for the maximum amount that can be approved.

- Password controls for the FPM system should be put in place, including password requirements and a set expiry period.