



Governance and Audit Committee

Item
11

27 June 2017

Report of

Assistant Chief Executive

Author

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Title

Year End 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 October 2016 and 31 March 2017.

1. Decision Required

1.1 To review and comment on:

- Internal audit activity for the period 01 October 2016 – 31 March 2017
- Performance of internal audit by reference to national best practice benchmarks.

2. Reason for Decision

- 2.1 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.'
- 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 2016/17 financial year.
- The assurance rating for the Creditors audit has changed from 'full' to 'substantial'.
- The assurance ratings for the IT Civica Application and Business Continuity Planning audits have changed from 'substantial' to 'limited'.
- Seven priority 1, 40 priority 2 and 20 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

5. Internal Audit Performance

5.1 Summary of Audits Finalised During the Period

During the period 1 October 2016 to 31 March 2017 a total of 21 audits have been finalised. No audit opinion was given for two of these audits (Strategic Risk Register and the Health and Safety Follow Up). There was no previous audit against which a change of level could be assessed in four of the audits. The assurance rating, for the remaining audits, changed in 20% of the audits and remained the same in 80%.

| Audit | Assurance Level | Change in Level | Priority of Recommendations | | | Agreed |
|---|-----------------|-----------------|-----------------------------|---|---|--------|
| | | | 1 | 2 | 3 | |
| 202 – IT Civica Application | Limited | ▼ | 1 | 3 | 4 | 8 |
| 204 – Licensing – Gambling, Alcohol and Entertainment | Substantial | ► | 0 | 1 | 1 | 2 |
| 209 – General Ledger | Substantial | ► | 0 | 3 | 1 | 4 |
| 211 - Creditors | Substantial | ▼ | 0 | 1 | 0 | 1 |
| 212 – Risk Management | Substantial | ► | 0 | 2 | 1 | 3 |
| 213 – Treasury Management | Substantial | ► | 0 | 2 | 1 | 3 |
| 215 – Purchasing Cards / Petty Cash | Limited | N/A | 2 | 3 | 0 | 5 |
| 216 – IT Helpline Application | Substantial | N/A | 0 | 2 | 1 | 3 |
| 217 – Business Continuity Planning | Limited | ▼ | 2 | 0 | 2 | 4 |
| 218 – Housing Rents | Substantial | ► | 0 | 1 | 1 | 2 |
| 222 – Debtors | Full | ► | 0 | 0 | 0 | 0 |
| 223 – Council Tax | Substantial | ► | 0 | 0 | 2 | 2 |
| 225 – NNDR | Substantial | ► | 0 | 0 | 2 | 2 |
| 227 – Parking Service Income / Partnership | Substantial | ► | 0 | 3 | 1 | 4 |
| 228 – Leisure World – Core Functions | Substantial | ► | 0 | 4 | 0 | 4 |
| 230 – Payroll | Limited | ► | 2 | 4 | 3 | 9 |
| 231 – Allotments and Beach Huts | Substantial | N/A | 0 | 5 | 0 | 5 |
| 236 – Asset Register | Full | ► | 0 | 0 | 0 | 0 |
| 239 – Safes | Probity | N/A | 0 | 6 | 0 | 6 |

5.2 Use of Audit Resources:

| | Days | % |
|--|-------------|-------------|
| Audit days delivered April – September 2016 | 88.5 | 27% |
| Audit days delivered October 2016 – March 2017 | 187.5 | 58% |
| Audit days remaining | 48 | 15% |
| | 324 | 100% |

During the first half of the year we also completed 40 days carried over from the 2015/16 period.

Thirty eight of the audit days remaining relate to the audit of the Professional Support Unit which has been carried over to 2017/18 at the request of management, together with the audits of the 365 Cloud and Grant Funding which have been delayed to meet business needs. The balance of the days to delivery relate to end of year work including the finalisation of draft reports.

6. Status of all recommendations as at 31 March 2017:

- 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 31 March 2017.

| | Outstanding Recommendations That Are: | | | |
|-------------|--|------------------------------|----------------|----------------|
| Date | Implemented & Verified | Awaiting Verification | Not Due | Overdue |
| 31/03/17 | 75 | 98 | 13 | 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 98 recommendations that are awaiting verification 66 of them relate to IT audits. 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.

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) | 100% | 96%* |
| Average days between exit meeting and issue of draft report | 10 max | 4 |
| 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 | 9.3 |
| Percentage of all recommendations agreed | 96% | 100% |

* excluding audit days that have been deferred / delayed at the request of management.

- 7.1 The key performance indicators show that the internal audit provider is successfully meeting or exceeding the standards set.
- 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 The Housing Rents audit has been completed, it retained a substantial assurance rating with one priority 2 and one priority 3 recommendations.

9.0 Proposals

To review and comment upon the Council's progress and performance relating to:

- Internal Audit activity during the second 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 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:

| 202 – IT Civica Application | Days | Assurance Limited | Priority of Recommendations | | | Agreed |
|-----------------------------|------|-------------------|-----------------------------|---|---|--------|
| | | | 1 | 2 | 3 | |
| | 10 | | 1 | 3 | 4 | 8 |

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 Arrangement.

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

- The ability to recover data backups made of the Civica application should be reintroduced. Once reintroduced, the Disaster Recovery Plan should be aligned to the Business Continuity Plan. (1)
- Management should formally define the responsible system owner for the Civica application. This should be a senior staff member without operational management responsibilities. (2)
- Civica password settings should be amended to ensure: the minimum password length is eight characters long (as per the Council's Acceptable Use Policy); password complexity requires a mixture of alphanumeric characters and symbols; and passwords may not be reused for a minimum of five password changes. (2)
- Audit trail functionality should be improved with the Civica application to allow the details of changes made (i.e. 'before' and 'after' values) to be recorded. (2)
- The Business Process & Training Officer should keep a record of the training delivered to Civica users when new users are added to Civica and major system changes occur. (3)
- The monthly exercise to review the number of unsuccessful login attempts made on the Civica system, should be formally documented. (3)
- The monthly exercise to review the appropriateness of user access on the Civica application, should be formally recorded. Emphasis should be placed on identifying staff that: have not logged on in a significant period of time; have left the Council; and have moved teams within the Council. (3)
- Performance monitoring of the technical support provided by Civica's supplier should be introduced. (3)

| 215 – Purchasing Cards / Petty Cash | Days | Assurance Limited | Priority of Recommendations | | | Agreed |
|-------------------------------------|------|-------------------|-----------------------------|---|---|--------|
| | | | 1 | 2 | 3 | |
| | 8 | | 2 | 3 | 0 | 5 |

Scope of Audit: This review examined the following areas:

Purchasing Cards

- Policies and procedures;
- Creation and termination of accounts;
- Accounting for purchase card transactions;
- Monitoring of purchase card transactions; and
- Management information.

Petty Cash

- Policies and procedures;
- Control of petty cash; and
- Management information and reporting.

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

- The Purchasing Card Policy (the Policy) should be reviewed to reflect current working practices. Roles and responsibilities for the process should be included and cover management, monitoring, approval requirements, including for temporary limit amendments, and reporting. The date of the Policy review and the next scheduled review should be included. (1)
- Card expenditure should be monitored and where inappropriate expenditure has occurred and/or which is not in accordance with Policy, this should be raised with the respective Head of Service. Where persistent mis-use has occurred, the Professional Service Unit should consider, with agreement from the Head of Service, blocking the Card. In addition, management information reports which cover Card expenditure, highlighting spend per service area, nature of expenditure etc. should be produced and shared with Heads of Service. Any cases of expenditure over £500 should be reported on the supplier expenditure reports. (1)
- The 'Purchasing Card Request Form' should be reviewed and updated to reflect the required business practices, including authorisation of Card requests. (2)
- Periodic reviews should be performed to identify cases where cardholders no longer require a Card. The Card should be terminated if there is no longer a business requirement for it. (2)
- The Council should review the business requirement for petty cash and consider issuing Cards to service areas instead. However, if a decision is made to continue to use petty cash, Petty Cash Reimbursement Forms should be submitted to the Income Team as part of the petty cash "top-up" process. In addition, confirmation should be provided and/or a reconciliation undertaken to identify why the expected balances of cash and receipts do not agree with the petty cash floats. Independent ad-hoc checks should also be performed to check that the amounts held in cash / receipts is correct. (2)

| | | | Priority of Recommendations | | | |
|------------------------------------|------|-------------------|-----------------------------|---|---|--------|
| 217 – Business Continuity Planning | Days | Assurance Limited | 1 | 2 | 3 | Agreed |
| | 8 | | 2 | 0 | 2 | 4 |

Scope of Audit: This review examined the following areas:

- Review and update of the plan;
- Staff training and awareness;
- Rehearsing the plan; and
- Management Information.

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

- Services should review and refresh their Business Continuity Plans on at least a six monthly basis in-line with the Business Continuity Strategy (the Strategy). Conformance against the requirements should be monitored with appropriate action taken where the review of Plans is not completed. In addition, a review of the Service Plan owners and contact details of key officers responsible for implementation should be undertaken to ensure they are up to date. (1)
- Rehearsals to Service Area Plans should be completed on a regular basis and feedback obtained to inform Action Plans. Conformance against regular reviews should be monitored with appropriate action taken where the required Service Area Plan rehearsals is not completed. (1)
- The latest version of the Strategy should be made available on the Council's website, to help ensure that members of the public and staff are appropriately informed of what action will be taken in the event of an incident and their role. (3)
- The Council should investigate whether the Essex Group are able to produce up to date information (averages) which can be used for comparison in the 'Measurement and Monitoring Tool'. (3)

| |
|--------------------|
| Priority of |
|--------------------|

| 230 – Payroll | Days | Assurance Limited | Recommendations | | | |
|---------------|------|----------------------|-----------------|---|---|--------|
| | | | 1 | 2 | 3 | Agreed |
| | 12 | | 2 | 4 | 3 | 9 |

Scope of Audit: This review examined the following areas:

- Compliance with Policy, Procedures and Legislation, including Submission of Her Majesty's Revenue & Customs (HMRC) Return;
- Starters and Leavers;
- Deductions;
- Variations and Adjustments to Pay;
- Changes of Circumstances;
- System Security;
- Reconciliation; and
- Payroll Checks and Management Information.

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

- The Council should examine their contract with Midland iTrent / Midland Bureau and determine whether they can insist that they provided with an ISAE 3402 statement around the outsourced finance processes. (1)
- Budget holders should complete a detailed check of the payroll costs to verify that each employee within their service area is being paid at the correct Spinal Column Point and also for the correct number of hours. Each budget holder should be required to confirm when this check has been completed and Payroll should monitor receipt of the confirmation. In addition, the Payroll and Operational Human Resources (HR) Manager should confirm that all queries with the Bureau have been resolved. (1)
- Procedures should be developed in respect of controls around system access. The procedure should cover setting up access rights, access levels in line with responsibilities, removal of leavers and periodic review of access rights. (2)
- The Document Retention Policy should be reviewed and updated to reflect current roles and responsibilities. In addition, the Council should assure themselves that they will continue to meet the Document Retention Policy in the future, when the read-only access to the Northgate system has ended. (2)
- The Payroll and Finance Teams should clear the remaining payroll related items from the suspense account. (2)
- A post project implementation evaluation exercise should be undertaken to identify best practice and areas from which lessons can be learned. (2)
- HR policies and procedures should be reviewed to confirm that they reflect current legislation / Council processes, and be updated where necessary. (3)
- The Council should investigate with Midland iTrent the system capabilities for automatic notification of payroll expiry dates e.g. end of temporary contract, VISA expiry etc. (3)
- Assurance regarding the backing up of data should be sought from Midland. (3)