

 Finance and Audit Scrutiny Committee 7 March 2017		Agenda Item No. 4
Title	Internal Audit Quarter 3 2016/17 Progress Report	
For further information about this report please contact	Richard Barr Tel: (01926) 456815 E Mail: richard.barr@warwickdc.gov.uk	
Service Area	Finance	
Wards of the District directly affected	Not applicable	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number	Finance and Audit Scrutiny Committee – 29 November 2016	
Background Papers	Internal Audit Reports	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	N/A: no direct service implications

Officer/Councillor Approval		
With regard to officer approval all reports <i>must</i> be approved by the report author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Chief Executive	15 Feb 2017	Chris Elliott
Section 151 Officer	15 Feb 2017	Mike Snow
Monitoring Officer	15 Feb 2017	Andrew Jones
SMT	15 Feb 2017	Senior Management Team
Human Resources		
Finance	15 Feb 2017	As Section 151 Officer
Portfolio Holder	23 Feb 2017	Councillor Whiting
Consultation and Community Engagement		
None other than consultation with members and officers listed above.		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1 **Summary**

- 1.1 Report advises on progress in achieving the Internal Audit Plan 2016/17, summarises the audit work completed in the third quarter and provides assurance that action has been taken by managers in respect of the issues raised by Internal Audit.

2 **Recommendations**

- 2.1 That the report be noted and its contents be accepted or, where appropriate, acted upon.
- 2.2 That the changes to the Audit Plan outlined in paragraph 9.3 be approved.

3 **Reason for the Recommendations**

- 3.1 Members have responsibility for corporate governance, of which internal audit forms a key part.

4 **Alternative Options Considered**

- 4.1 This report is not concerned with recommending a particular option in preference to others so this section is not applicable.

5 **Budgetary Framework**

- 5.1 Although there are no direct budgetary implications arising from this report, Internal Audit provides a view on all aspects of governance including that of the Budgetary Framework. An effective control framework ensures that the Authority manages its resources and achieves its objectives economically, efficiently and effectively.

6 **Policy Framework**

- 6.1 Although there are no direct policy implications, Internal Audit provides a view on all aspects of governance and will take into account the Council's policies.

7 **Risks**

- 7.1 Internal Audit provides a view on all aspects of governance, including corporate and service arrangements for managing risks.
- 7.2 It is difficult to provide a commentary on risks as the report is concerned with the outcome of reviews by Internal Audit on other services. Having said that, there are clear risks to the Council in not dealing with the issues raised within the Internal Audit reports (these risks were highlighted within the reports). There is also an overarching risk associated with the Finance & Audit Scrutiny Committee not fulfilling its role properly e.g. not scrutinising this report robustly.

8 **Role and Responsibilities of Audit Committees**

- 8.1 Finance and Audit Scrutiny Committee is operating, in effect, as an audit committee in the context of receiving and acting upon this report. Guidance on the role and responsibilities of audit committees is available from a number of sources. That which relates to audit committees' relationship with internal audit

and in particular the type and content of reports they should receive from internal audit is summarised in Appendix 1.

8.2 Essentially, the purpose of an audit committee is:

- To provide independent assurance of the associated control environment.
- To provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.

8.3 To help fulfil these responsibilities audit committees should review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.

8.4 The following sections provide information to satisfy these requirements.

9 **Progress against Plan**

9.1 At the start of each year Members approve the Audit Plan setting out the audit assignments to be undertaken. An analysis of progress in completing the Audit Plan for 2016/17 is set out as Appendix 2.

9.2 As can be seen, reasonable progress is being made in respect of completing the Plan. As reported at the last meeting, some planned audit time was diverted onto investigation work in respect of the Electrical Maintenance Contract. As a consequence we are two audits behind schedule. It is anticipated that one of these audits will be "recovered" by the end of the financial year.

9.3 As the committee that oversees the work of Internal Audit (in effect the Council's "audit committee") the Public Sector Internal Audit Standards require the head of internal audit to seek the committee's agreement to any proposed changes to the Audit Plan. I therefore need to advise you that there have been some late changes to the Audit Plan by virtue of two audits in Housing and Property Services being postponed at the behest of the Deputy Chief Executive (BH). The Energy Management and Warwick Plant Maintenance audits have been replaced by audits of Lettings & Void Control and Planning Policy.

10 **Assurance**

10.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Authority, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls.

10.2 Each audit report gives an overall opinion on the level of assurance provided by the controls within the area audited. The assurance bands are shown overleaf:

Assurance Levels

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with the controls that do exist.

These definitions have been developed following extensive investigation of other organisations' practices (including commercial operations).

11 Internal Audit Assignments Completed During Quarter

- 11.1 Eight audits were completed in the third quarter of 2016/17. Copies of all the reports issued during the quarter are available for viewing on the following hyper-link: [Reports](#)
- 11.2 The action plans accompanying all Internal Audit reports issued in the quarter are set out as Appendix 3. These detail the recommendations arising from the audits together with the management responses, including target implementation dates.
- 11.3 As can be seen, responses have been received from managers to all recommendations contained in audit reports issued during the quarter in question.
- 11.4 None of the audits completed during the quarter was awarded a lower than substantial assurance opinion so there are no audit reports recommended for specific scrutiny by Committee this quarter.

12 Implementation of Recommendations Issued Previously

- 12.1 Managers are required to implement recommendations within the following timescales:
 - (a) Recommendations involving controls assessed as high risk to be implemented within three months.
 - (b) Recommendations involving controls assessed as low or medium risk to be implemented within nine months.
- 12.2 The state of implementation of **low and medium risk** recommendations made in the **fourth quarter of 2015/16** is set out as Appendix 4 to this report. (Ordinarily, the state of implementation of **high risk** recommendations issued in the **second quarter of 2016/17** would also be included in this appendix but there was none on this occasion.)
- 12.3 As can be seen, responses have been received from all managers in order to provide the state of implementation of recommendations issued in this earlier quarter.

13 **Review**

- 13.1 Members are reminded that they can see any files produced by Internal Audit that may help to confirm the level of internal control of a service, function or activity that has been audited or that help to verify the performance of Internal Audit.