



21 September 2022

AUDIT AND ETHICS COMMITTEE – 29 SEPTEMBER 2022

A meeting of Audit and Ethics Committee will be held at 6pm on Thursday 29 September 2022 in the Committee Room 1 at the Town Hall, Rugby.

Mannie Ketley
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes.

To confirm the minutes of the meeting held on 28 July 2022.

2. Apologies.

To receive apologies for absence from the meeting.

3. Declarations of Interest.

To receive declarations of:

(a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

(b) pecuniary interests as defined by the Council's Code of Conduct for Councillors;
and

(c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. Internal Audit Plan Progress Update.
5. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972.

To consider passing the following resolution:

“Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act.”

PART 2 – EXEMPT INFORMATION

1. Limited Assurance Internal Audit Report.
2. Whistleblowing Complaints and Response.
3. Whistle Blowing Incidents – Standing Item – to receive any updates.
4. Fraud and Corruption Issues – Standing Item – to receive any updates.

Any additional papers for this meeting can be accessed via the website.

The Reports of Officers are attached.

Membership of the Committee: Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Mistry, Mrs Roberts, Roodhouse and Willis

Named Substitutes: Councillors Mrs A'Barrow, Lewis, Moran and Ms Watson-Merret

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail veronika.beckova@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

AGENDA MANAGEMENT SHEET

Report Title: Internal Audit Progress Update

Name of Committee: Audit and Ethics Committee

Date of Meeting: 29 September 2022

Report Director: Chief Officer - Finance and Performance

Portfolio: Finance, Performance, Legal and Governance

Ward Relevance: None

Prior Consultation: Chief Officer - Finance and Performance

Contact Officer: Chris Green, Corporate Assurance Manager and Transformation Lead, 01788 533451 or chris.green@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):
 Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C)
 Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E)
 Residents live healthy, independent lives, with the most vulnerable protected. (HC)
 Rugby Borough Council is a responsible, effective and efficient organisation. (O)
[Corporate Strategy 2021-2024](#)
 This report does not specifically relate to any Council priorities but

Summary: The report sets out progress towards delivery of the annual internal audit plan and provides an update on service performance.

Financial Implications: None

Risk Management/Health and Safety Implications:	Non delivery of an adequate internal audit plan would have an adverse impact on the level of assurance provided in the Annual Governance Statement.
Environmental Implications:	None
Legal Implications:	None
Equality and Diversity:	None
Options:	None
Recommendations:	<ol style="list-style-type: none"> 1) The internal audit progress update be noted. 2) The amendments to the internal audit plan be approved.
Reasons for Recommendations:	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 29 September 2022

Internal Audit Progress Update

Public Report of the Chief Officer - Finance and Performance

Recommendations

- 1) The internal audit progress update be noted.
- 2) The amendments to the internal audit plan be approved.

1. Introduction

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2022/23.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- The Council's assets and interests are safeguarded.
- Reliable records are maintained.
- Council policies, procedures and directives are adhered to.
- Services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

- 2.1 The Internal Audit plan for 2022/23 was approved by the Audit and Ethics Committee on 29 March 2022. Progress against delivery of that plan is set out at Appendix A.

3. Revisions to the 2022/23 Audit Plan

- 3.1 The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation. There are three proposed amendments to the internal audit plan and these are set out in the table below, including the rationale:

<u>Assignment Title</u>	<u>Proposed Amendment</u>	<u>Number of Days</u>	<u>Rationale</u>
Business Improvement District (BID)	Removal from plan	-15	The Council has commissioned an independent external review into the operation of the BID, including the overall governance arrangements. An audit at this time would duplicate the work already being carried out.
Complaints Processes	Deferral to 2023/24	-15	This was initially scheduled to be an advisory review to support the redesign of the complaints process. However, a new process has already been implemented. As such, it is proposed that an audit be carried out in early 2023/24 to provide assurance that the new system is operating efficiently and effectively.
Investigations	Increase in time allocation	+15	The budget of 30 days for investigation work will already have been fully spent by the end of September. Owing to the nature of this work it is difficult to accurately forecast the amount of work required. The budget will be kept under review.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 29 September 2022
Subject Matter: Internal Audit Progress Update
Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY **YES** **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
Appx A	Internal Audit Progress Update September 2022

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

**INTERNAL AUDIT PROGRESS
UPDATE**

SEPTEMBER 2022

RIGHT FOR RUGBY

Introduction

- 1.1** The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

The expected position by the date of the Committee meeting is as follows:

- 2 final reports have been issued;
- 2 draft reports have been issued;
- 7 assignments are in progress;
- 2 assignments are at the planning stage; and
- 16 assignments have not yet been started (8 of these assignments will be delivered by external contractors between October 2022 and March 2023).

Internal audit work is now being delivered in a hybrid manner, with officers spending at least 40% of their time in the office and the rest of their time working remotely. This approach is enabling face to face meetings to take place where necessary for internal audit purposes, alongside online MS Teams meetings.

Resources Update

The Auditor (Development Role) has left the Council and recruitment is in progress to fill the vacant position; this has left a gap in resources. The level of resources required for investigation work has been higher than expected so far this year, and the budget for this work has already been spent.

It was always the intention, following the restructure of the team last year, that there would be an increased use of external contractors to deliver the internal audit service. The Corporate Assurance Manager & Transformation Lead has reviewed the level of resources required to deliver this year's internal audit plan with the Lead Auditor and concluded that external support would be needed to deliver a total of 8 assignments. Lighthouse are being commissioned to deliver 7 of these assignments and have confirmed their availability to complete the

work, with a contractor yet to be selected to complete the internal audit external quality assessment.

Taking into account the steps taken, and the minor amendments to the internal audit plan set out in the covering report, at the time of writing there are sufficient resources available, and the internal audit plan is expected to be delivered on time. This assumes successful recruitment to the Auditor (Development Role) position from November. The position will be kept under review.

Progress on individual assignments is shown at pages 6 to 11 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

At this stage there are no emerging issues arising from the work of Internal Audit which significantly impact upon the Internal Audit opinion of the Council's Control Framework.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, a combined **71% of management actions have been implemented by the agreed implementation date, with a further 24% implemented late, giving an overall implementation rate of 95%**. These figures are slightly higher than those of 68% and 91% reported in July. A summary analysis of progress on implementation of audit recommendations is shown at pages 12 to 13. **At the time of reporting there are 6 agreed management actions for which implementation is overdue, none of which are regarded as High Risk and 2 of which are regarded as Medium risk.** The details of the actions related to High or Medium risks, along with a summary of the latest position, are set out at pages 14 to 15. Implementation of the actions will continue to be monitored by the Corporate Assurance team and reported to each Committee meeting.

2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee:

<u>Theme</u>	<u>Title of Performance Indicator</u>	<u>Current Performance</u>
Delivery	Average end to end time for audits (number of days)	82 days Slight improvement compared with 87 days in March 2022 and 85 days in July 2022.
Adding Value	Customer Satisfaction – Average Rating	Reported as an annual measure.
Timeliness	Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion	4.9 days An improvement compared with 6 days in March 2022 and 5.4 days in July 2022, and well below the 10 days considered to be the benchmark followed by peers.
Effectiveness	Implementation of Agreed Actions – Percentage implemented on time	71% - at the time of reporting there are 6 recommendations which are past their agreed implementation date, none of which are regarded as High risk and 2 as Medium risk. Refer to page 12 onwards for detail.

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time at which the audit was completed. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by ✓

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Procurement & Contract Management	20					✓			
Growth Hub Grants – Post Payment Assurance	15		✓						
Sundry Debts	18	✓							

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
NNDR	20	✓							
Housing Rents	15	✓							
Counter Fraud									
Fraud Awareness	6	✓						Not applicable	
Corporate Credit Card Desktop Review	8	✓							
Right to Buy	11	✓							Being delivered by external contractor
ICT									
IT Financial Processes	20			✓					

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
System Resilience	9	✓							Being delivered by external contractor
Corporate Risks									
CIPFA Financial Management Code Action Plan	10		✓						
Workforce Training	15						✓	Substantial	
Impact Assessments	9	✓							Being delivered by external contractor
Governance & Ethical Risks									
Counter Fraud Framework	7	✓							Being delivered by external contractor

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Risk Management	9	✓							Being delivered by external contractor
Ethical Governance	13	✓							Being delivered by external contractor
Internal Audit External Quality Assessment	10	✓							External contractor to be commissioned for this work
Operational Risks									
Follow up work	16			✓					
Data Protection and Records Management	15					✓			
Planning Enforcement	20	✓							

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Licensing	18	✓							Being delivered by external contractor
S106 Agreements	15	✓							
Food Safety	18			✓					
Assets – Statutory Compliance	12	✓							
Additional Support									
Annual Governance Statement	12						✓	Substantial	
National Fraud Initiative	8							Not applicable	Ongoing co-ordination of the Council's NFI work.

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Control Environment - Advice	15			✓				Not applicable	
Corporate Investigation Work	30			✓				Not applicable	There are 3 ongoing investigations.

Summary: Implementation of Audit Recommendations

Audit	Not yet due	Overdue	Within time	Extended time	Out of time	Cancelled	Total Recs
Absence Management	1	0	4	3	0	0	8
Creditors	0	1	3	0	3	0	7
Freedom of Information	0	0	6	1	1	0	8
Local Government Transparency Code	0	0	6	9	3	0	18
Complaints, Compliments & Suggestions	0	0	4	1	3	0	8
IT Security	0	0	0	3	0	0	3
Cash & Bank	1	0	7	4	2	0	14
Customer Service Centre Demand Management	3	0	0	1	4	0	8
Housing Rent Arrears	0	1	1	0	6	1	9
Digitalisation	0	0	1	7	0	1	9
IT Business Continuity	0	2	0	3	0	0	5
Completeness of Income	1	0	7	0	1	0	9
HR Capability & Disciplinary	1	0	5	1	4	0	11
Local Government Transparency Code Follow up	1	1	1	0	0	0	3
Expenses	0	0	1	0	2	0	3
Payroll	0	0	2	2	2	0	6
Covid Business Grants	0	0	0	1	1	2	4
Test and Trace Support Payments	1	0	1	0	1	1	4


Audit	Not yet due	Overdue	Within time	Extended time	Out of time	Cancelled	Total Recs
Equal Pay & Single Status	3	0	2	2	1	0	8
Payment Card Industry Data Security Standards (PCI DSS)	6	0	3	0	0	0	9
Policies, Procedures and Strategies	0	0	1	0	0	0	1
Treasury Management	6	1	5	0	0	0	12
Fraud Risk Review	3	0	1	0	0	0	4
Trade Waste	13	0	0	0	0	0	13
Housing Rent Arrears	10	0	0	0	1	0	11
Council Tax	4	0	1	0	0	0	5
TOTALS	54	6	62	38	35	5	200


Notes:

Extended time: This is where the Corporate Assurance and Improvement Manager had agreed an extension to the original timescale.

Out of time: This is where the action was implemented later than the agreed timescale.

Details of Overdue Medium and High Risk Audit Recommendations

Audit	Title	Due Date	Latest Note	Risk Rating
IT Business Continuity	Ensure as part of a Business Impact Assessment that ICT liaise with system owners to ensure all key systems have been captured and that recovery time objectives (RTO's) have been appropriately.	30-Sep-2021	<p>Latest update from ICT Manager:</p> <p>IN ACTIVE PROGRESS: This still requires action, the delays are due to resource issues within IT Services, currently having 4/5 vacant posts and there are recruitment challenges.</p> <p>However, we have moved significantly forwards. We have revised, reviewed and made changes to ensure we have good known backups of each server. We have ensured these are also available offsite at our DR location. We are also about to sign off a complete new backup solution, which will add cyber-attack/ransomware protection. It will also be location agnostic and be cloud provisioned, taking site resilience issues away. We have also completed work on RTO's to input into the new solution. It will allow for better testing to ensure backups and data are known to be secure and recoverable. The backup solution will also ensure we are compliant with any PCI requirements in regard to the data stored etc.</p>	 Medium Risk

Audit	Title	Due Date	Latest Note	Risk Rating
IT Business Continuity	Ensure there is regular testing of the ICT Business Continuity Plan.	30-Sep-2021	<p>Latest update from ICT Manager:</p> <p>IN ACTIVE PROGRESS: This still requires action, the delays are due to resource issues within IT Services, currently having 4/5 vacant posts and there are recruitment challenges.</p> <p>However we have moved significantly forwards. We have revised, reviewed and made changes to ensure we have good known backups of each server. We have ensured these are also available offsite at our DR location. We are also about to sign off a complete new backup solution, which will add cyber-attack/ransomware protection. It will also be location agnostic and be cloud provisioned, taking site resilience issues away. We have also completed work on RTO's to input into the new solution.</p> <p>It will allow for better testing to ensure backups and data are known to be secure and recoverable.</p> <p>The backup solution will also ensure we are compliant with any PCI requirements in regards to the data stored etc.</p>	 Medium Risk