



22 July 2019

AUDIT AND ETHICS COMMITTEE – 30 JULY 2019

A meeting of the Audit and Ethics Committee will be held at 6pm on Tuesday 30 July 2019 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn
Executive Director

NOTE Prior to the meeting, the inaugural private meeting of the Audit Committee Effectiveness Working Party will take place at 5pm in Committee Room 2.

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 6 June 2019.

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. Statement of Accounts 2018/19 (report to follow)
5. 2019/20 Internal Audit Plan – Progress Update
6. 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 Reports
2. Whistle Blowing Incidents – Standing Item – to receive any updates
3. Fraud and Corruption Issues – Standing Item – to receive any updates

Any additional papers or relevant documents for this meeting can be accessed here via the website.

Membership of the Committee:

Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Cranham, McQueen, Mistry and Pacey-Day

Named Substitutes:

Councillors Butlin, Mrs O'Rourke, Roodhouse and Stokes

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.

If you wish to attend the meeting and have any special requirements for access please contact the Democratic Services Officer named above.

AGENDA MANAGEMENT SHEET

Report Title: 2019/20 Internal Audit Plan - Progress Update

Name of Committee: Audit and Ethics Committee

Date of Meeting: 30 July 2019

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Head of Corporate Resources and Chief Finance Officer

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

Statutory/Policy Background: Public Sector Internal Audit Standards (PSIAS)

Summary: The report sets out progress against delivery of the Internal Audit Plan for 2019/20.

Financial Implications: No direct implications

Risk Management Implications: No direct implications

Environmental Implications: No direct implications

Legal Implications: No direct implications

Equality and Diversity: No direct implications

Options: None

Recommendation: The report be considered and noted.

Reasons for Recommendation: 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 - 30 July 2019

2019/20 Internal Audit Plan - Progress Update

Public Report of the Head of Corporate Resources and CFO

Recommendation

The report be considered and noted.

1. Introduction

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2019/20.

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; and
- 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 2019/20 was approved by the Audit and Ethics Committee on 26 March 2019. Progress against delivery of that plan is set out at Appendix A.
- 2.2 Appendix A also sets out the progress against the recommendations made by Internal Audit and details the latest position in relation to agreed actions which are overdue.

3. Revisions to the 2019/20 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.
- 3.2 There are no proposed amendments to the internal audit plan at this time.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 30 July 2019
Subject Matter: 2019/20 Internal Audit Plan - Progress Update
Originating Department: Corporate Resources

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

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
Appendix A	Internal Audit Progress Update

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
JULY 2019**

Date: 30 July 2019

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:

- 1 assignment has been completed;
- 2 assignments are at the draft report stage; and
- 8 assignments are in progress

Sufficient resources are currently in place to deliver the internal audit plan on time.

Progress on individual assignments is shown at pages 6 to 9 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 **76% of management actions related to 2018/19 and prior have been implemented by the agreed implementation date, with a further 14% implemented late, giving an overall implementation rate of 90%**. A summary analysis of progress on implementation of audit recommendations is shown at pages 10 to 11. **At the time of reporting there are 5 agreed management actions for which implementation is overdue, 3 of which are regarded as High or 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 12 to 13 of this report. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

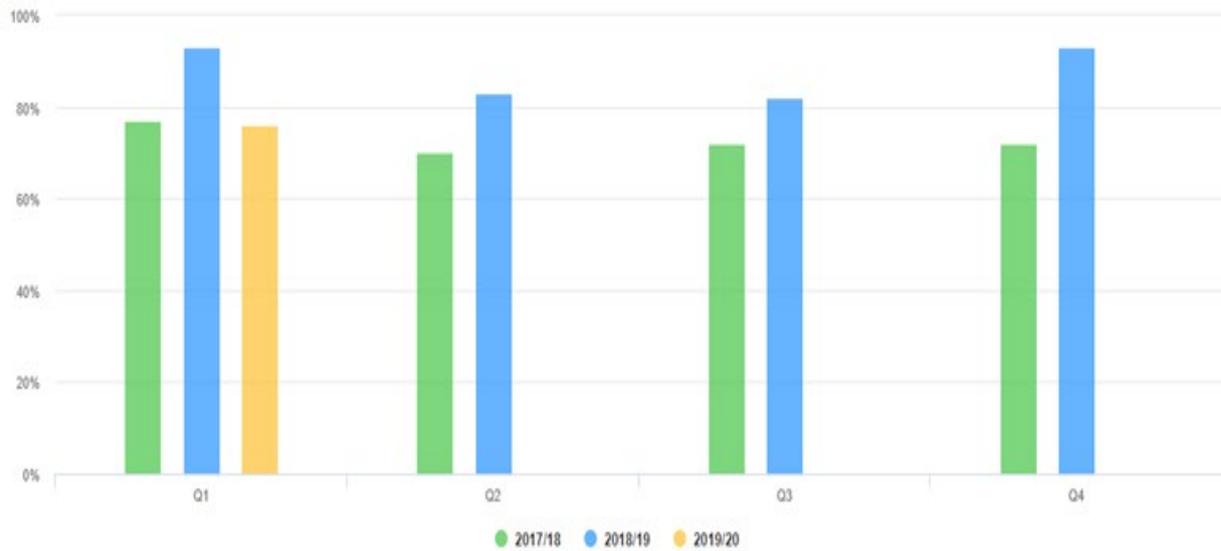
2.4 Internal Audit Performance Indicators

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)	<p>Q1 Result: 118 days</p> <p>Average - Terms of Reference to draft report issue: 57.5 days</p> <p>Average – Draft report to final report issue: 60.5 days</p> <p>Increase of 16 days compared with March 2019. The team is working to bring this down. Office 365 project planner is in use, scheduling of all audits has been agreed in advance with managers, and a protocol for clearing reports is being drafted for agreement with SMT.</p>
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	<p>3.0 days</p> <p>Significant reduction from the figure of 7.6 days reported in March 2019. This reflects a concentrated effort by the team in April 2019 to issue the final tranche of reports related to the 2018/19 financial year.</p>
Effectiveness	Implementation of Agreed Actions – Percentage implemented on time	76% - at the time of reporting there are 5 recommendations which are past their agreed implementation date, 3 of which are regarded as High or Medium risk. Refer to pages 12 to 13.

2.5 Internal Audit Performance Trend Graphs

Rolling percentage of agreed audit actions fully implemented on time-



Internal Audit Fieldwork Performance Trend-



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 Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Creditors	20					✓			
Completeness of Income (Sundry Debtors)	15			✓					
Housing Rent Arrears	10		✓						Scheduled for Q2
Cash and Bank	20	✓							Scheduled for Q3
Counter Fraud									
Fraud Awareness	8			✓				Not Applicable	In progress. Two sessions delivered in July 2019. Five sessions are being scheduled for delivery in September 2019.
ICT									
IT Security	8	✓							Scheduled for Q3. Being delivered by TIAA.
IT Business Continuity	8	✓							Scheduled for Q3. Being delivered by TIAA.
CCTV	8	✓							Scheduled for Q4

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Corporate Risks									
Workforce Planning and Development	12	✓							Deferred from 2018/19 Scheduled for Q3
Residential Properties (Communal Areas)	8	✓							Scheduled for Q2
Absence Management	12					✓			
Freedom of Information	8			✓					
Complaints, Compliments and Suggestions	10			✓					
Community Safety Partnership	12	✓							Scheduled for Q4
Risk Management Effectiveness	80		✓						Work scheduled to be completed between August 2019 and March 2020, reviewing the extent to which effective risk management is embedded across a range of departments.
Performance Management Effectiveness	80			✓					Work scheduled to be completed between August 2019 and March 2020,

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
									reviewing the extent to which effective performance management is embedded across a range of departments. This will also include testing of data to ensure it is accurate, timely and complete.
Digitalisation	12			✓					
Ethical Risks									
Local Government Transparency Code	10			✓					
Values and Behaviours Follow Up	8	✓							Scheduled for Q2
Operational Risks									
Follow up work	12			✓					
Housing Management System	10		✓						Scheduled for Q2
Customer Service Centre Demand Management	15	✓							Scheduled for Q3
Licensing	15	✓							Scheduled for Q4
Refuse and Recycling	20	✓							Timing to be confirmed once a new manager is in post.

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Planning Development and Enforcement	15	✓							Scheduled for Q3
RAGM – Visitor Centre and Town Centre Improvement Fund	15	✓							Scheduled for Q2
HR Capability and Disciplinary	12	✓							Scheduled for Q3
Additional Support									
Annual Governance Statement	12						✓	Substantial	Statement endorsed by SMT and Audit and Ethics Committee.
National Fraud Initiative	8							Not applicable	Ongoing co-ordination of the Council's NFI work.
Corporate Investigation Work	40	✓						Not applicable	No corporate investigations in progress at present.

Summary: Implementation of Audit Recommendations – 2018/19 and Prior

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected Medium or High Risk Actions
Corporate Credit Cards	1	0	0	1	0	0
Business Continuity and Emergency Planning	1	0	0	0	1	0
Council Tax and NDR	6	0	0	4	2	0
Fleet Management	9	3	0	6	0	0
Financial System Key Controls	3	0	0	2	1	0
Housing Rent Arrears	3	0	0	2	1	0
Payment Card Industry Data Security Standards	2	0	2	0	0	0
Partnerships	1	1	0	0	0	0
Property Repairs Stock Control	3	0	2	1	0	0
PTC Interface	2	2	0	0	0	0
Risk Management	5	1	0	4	0	0
Values and Behaviours	6	1	0	5	0	0
Grants to Community Groups	13	13	0	0	0	0
Fraud Risk Review	14	3	0	11	0	0
Housing Repairs	11	6	3	2	0	0
ICT Backup	4	2	0	2	0	0
Independent Living	13	5	0	8	0	0

Summary: Implementation of Audit Recommendations – 2018/19 and Prior (continued)

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected Medium or High Risk Actions
Treasury Management	6	0	0	6	0	0
ICT Patching	6	0	0	6	0	0
Health and Safety Follow Up	13	0	0	13	0	0
Elections	2	0	0	2	0	0
Data Protection Governance	9	0	0	9	0	0
Tenant Recharges	8	1	0	7	0	0
Car Parking Enforcement	1	0	0	1	0	0
Insurance	1	0	0	1	0	0
Green Waste Optimisation	2	0	0	2	0	0
Due for Completion	50	38 (76%)	7 (14%)	-	5 (10%)	0
Totals	145	38 (26%)	7 (5%)	95 (66%)	5 (3%)	0

Details of Overdue Medium and High Risk Audit Recommendations

Audit	Agreed Action	Target Date	Risk Rating	Management Comments	Revised Timescale
Business Continuity and Emergency Planning	Draft and cascade an updated bomb threat procedure.	31/05/2019	Medium	The procedure is contained within updated Fire Evacuation arrangements and approval is awaited from the new Safety and Resilience Manager.	31/08/2019
Council Tax and NDR Fraud	<p>Formalise the process of checking council tax accounts for suspicious activity. Rather than one officer doing it because they enjoy that type of work, ensure the task is spread between officers, and expertise and intelligence shared.</p> <p>Ensure the task of monitoring the local area for new businesses who should be paying NDR is formalised and not carried out by some officers on an ad hoc basis.</p>	31/03/2019	Medium	<p>Responsible Officer: Revenues Manager</p> <p>Staff are raising any suspicions with the Revenues Manager. Cases will in future be discussed at team meetings to ensure there is shared learning and so that other officers can share the same expertise. This will be added as a standard agenda item and the next team meeting will be in September. Fraud awareness training is also being provided to the team by the Corporate Assurance and Improvement Manager in September, and this training will incorporate a group exercise exploring the various ways in which council tax and NDR fraud could take place, and how the risks are, or can, be mitigated. The task of monitoring the local area for new businesses has been allocated to a specific officer and a formal inspection process is in place.</p>	30/09/2019

Audit	Agreed Action	Target Date	Risk Rating	Management Comments	Revised Timescale
Housing Rent Arrears	The sampling of officer's cases for appropriateness of actions should be documented and the results (both positive and developmental) discussed at one to ones.	30/04/2019	Medium	<p>Responsible Officer: Revenues Manager</p> <p>Revenues officers receive a monthly Excel report of the rent accounts they need to look at. They write a brief summary of what they have done in the right hand column and send the report back to the Revenues Manager. The Revenues Manager will select a sample of accounts at random each fortnight and check the OHMS system to make sure the correct action has been taken. The results of these checks will be recorded and discussed in one to one meetings. This will be implemented once time becomes available.</p>	30/09/2019