

Implementation of Internal Audit Recommendations: Summary of Progress
Report by Head of Finance

Summary: This report updates members on progress in implementing Internal Audit recommendations arising out of audits carried out since 2015/16.

Recommendation: That the report be noted.

1 Introduction

- 1.1 It has been agreed that this Committee will receive a regular update of progress made in implementing Internal Audit report recommendations, focusing on outstanding recommendations and including timescales for completion of any outstanding work.
- 1.2 This report summarizes the current position regarding recommendations arising out of internal audit reports which have been produced for 2015/16. It sets out in the appendix details of:
- recommendations not yet implemented
 - recommendations not implemented at the time of the last meeting which have since been implemented
 - New recommendations since the last meeting

2 Summary of Progress

- 2.1 In the previous report to this Committee in February two of the recommendations relating to Corporate Governance have been completed. Of the Key Controls two have been completed and one remains outstanding. The members governance have four recommendations that are not yet due with one that has been completed.

3 Internal Audit Programme 2015/16

- 3.1 The third and fourth audits from the 2015/16 programme have now been completed with further details below.

3.2 Key Controls

3.2.1 The last Key Controls Audit was undertaken in May 2015. This resulted in good assurance with one low level recommendations being made, which has been subsequently implemented. The objective of the audit was to review the systems and processes of internal control are reasonable in managing the risks associated with the Key Controls. This resulted in a “reasonable” audit opinion with three “needs attention” recommendations (previously low priority). Although this rating is not as last years “good”, members should be satisfied that the adequate is still a good outcome and steps have been taken to address these issues.

3.2.2 The audit identified areas for improvement relating to:

- The current system of approving virements should be reviewed and either brought in line with the current Broads Authority Financial Regulations or the regulations changed to modify the approval requirement to reduce the risk of budgets being used for inappropriate purposes.
- A system ‘fix’ should be identified to ensure that it is not possible for a Level 1 Approver and Level 2 Approver to be the same person, to reduce the risk of inappropriate or fraudulent payments to suppliers being approved.
- When changes (including new supplier set up) are made to supplier’s bank account information, a system generated report should be periodically produced and checked back to original documentation supporting the change made. This will reduce the risk of incorrect or fraudulent changes being made to supplier’s accounts.

3.2.3 Good practice was noted relating to sound controls that are in place and operating consistently around:

- Controls tested were found to be adequate, effective and efficient in the following areas: Treasury Management/Investments, General Ledger, Asset Management, Payroll, Toll Income and Control Accounts.

3.2.4 Two of the “low” recommendations have been implemented and one remains outstanding but is still on target to be completed by the agreed date.

3.3 Members Governance

3.3.1 The objective of the audit was to review the systems and controls in place within Members Governance, to help confirm that these are operating adequately, effectively and efficiently. This resulted in a “reasonable” audit opinion with two “important” and three “needs attentions” recommendations.

3.3.2 The audit identified areas for improvement relating to:

- Declarations of interest to be added as a standing agenda item on all Broads Local Access Forum meeting agendas to comply with the

Broads Local Access Forum Constitution and mitigate the risk that conflicts of interest are not handled adequately.

- Guidance to be produced for informal treatment of complaints against Members which should include a set of criteria to determine if the incident is to be treated informally or whether it should follow the formal process. In conjunction with this, the formal complaints process should be reviewed and updated to also incorporate the process for dealing with Broads Authority Members and staff, if they are the complainant. This should also refer to the Protocol on Member and Officer Relations. This should contribute to the transparency of the process and help mitigate the risk that complaints/misconduct are treated inconsistently, unfairly and not in accordance with policy
- The Members Training Strategy to be reviewed and on an ongoing basis thereafter in order to reduce the risk of the strategy becoming inappropriate for the Authority's requirements.
- The Members Code of Conduct Complaints Guidance Notes and Complaints Form to be reviewed and updated, including appropriate reference to officer's job titles and the Hearings Committee terms of reference. Appropriate updating should reduce the risk that out of date guidance is applied and processes are not carried out correctly and in an untimely manner.
- To incorporate a number of changes/updates to the Code of Conduct and associated documentation as a result of other authorities' policies and practices reviewed within this audit. These updates include applying an assessment criteria in the initial assessment of the complaints process, including a section on 'Disclosable Pecuniary Interests' and 'non pecuniary interests' and, adoption of timeframes for certain parts of the process including initial assessment of the complaint, notification of no action taken and, time taken for the actual decision to be made. This should help ensure Code of Conduct documents are more comprehensive and robust therefore mitigating the risk that they are not fit for purpose.

3.3.3 Good practice was noted relating to where sound controls are in place and operating consistently:

- A member training plan is produced every year. This is informed by the member performance appraisals and the member training strategy
- Annual performance appraisals are undertaken of Members appointed to the Authority by the Secretary of State from Defra. These appraisals are also offered to other Members and the take up of these has been good
- There is a guidance/policy in place that clearly states which course of action will be undertaken if Members do not adhere to the Code of Conduct
- Members receive induction training and other mandatory training, including the Code of Conduct, and attendance records for these are recorded

- Job descriptions are in place for Members of the Broads Authority and the Navigation Committee
- A register of Members interests is kept and declarations are signed by Members on an annual basis and all sampled declarations reviewed during the audit were available

3.3.4 One of the “important” recommendations has been implemented and the outstanding four remain outstanding but are still on target to be completed by the agreed date.

3.3.5 Details of all new recommendations and the Authority’s actions to date in response are set out in the appendix 1.

Background papers: None

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Date of report: 13 June 2016

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Summary of Actions / Responses to Internal Audit Recommendations 2015/16

Summary of Actions / Responses to Internal Audit Recommendations 2015/16

Corporate Governance and Risk Management: June 2015

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
<p>1. Strategic Objectives Aligned with Risk Register The Strategic Risk Register should be directly linked to the Strategic Objectives and Annual Strategic Priorities, with a gap analysis completed.</p>	Low	Solicitor and Monitoring Officer	<p>Agreed in principle at the de-brief meeting by the Solicitor and Monitoring Officer on 12 May 2015.</p> <p>This recommendation will be reviewed by the Authority's Management Team before reporting back to the Financial Scrutiny and Audit Committee on 22 September 2015 (updated to 9 February 2016) with an agreed way to implement this recommendation being adopted as soon as practicable thereafter.</p> <p>Completed. Additional matrix produced and provided to auditors.</p>	By 31/03/2016
<p>2. Scoring within the Risk Register The risk scoring mechanisms, mitigating actions and further necessary actions on the Strategic</p>	Low	Solicitor and Monitoring Officer	<p>Agreed in principle at the de-brief meeting by the Solicitor and Monitoring Officer on 12 May 2015.</p>	By 31/03/2016

Summary of Actions / Responses to Internal Audit Recommendations 2015/16

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
Risk Register should be reviewed for all risks, to ensure they are giving adequate assurance to reduce the residual risk scoring.			<p>This recommendation will be reviewed by the Authority's Management Team before reporting back to the Financial Scrutiny and Audit Committee on 22 September 2015 with an agreed way to implement this recommendation being adopted as soon as practicable thereafter.</p> <p>Completed. Risk Register reviewed in February and will be further updated over the summer.</p>	

Planning: October 2015

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
<p>3. Policy and Procedures The Procedure Manual is reviewed and updated so that it includes the processes that should be followed in respect of enforcements, appeals and the administration processes. Future</p>	Needs Attention	Head of Planning	<p>The draft enforcement plan has been produced and will be completed by the end of the financial year.</p> <p>Additional work on updating</p>	By 31/03/2016

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Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
<p>review dates be adhered to for reviewing the procedures. If the procedures and processes are not clearly documented there is a risk that incorrect processes will be adopted. By documenting the procedures and processes it will lead to a clear understanding by staff and a standardized consistent approach.</p>			<p>standard templates will be undertaken following the system supervisor training.</p> <p>Completed. The draft enforcement plan was approved at Planning Committee on 27/05/16 with full adoption by the Authority expected on 8 July 2016.</p>	

Key Controls: April 2016

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
<p>1. Approval of Budget Virements The current process of approving virements to be reviewed, and either be brought in line with the Broads Authority Financial Regulations or a request to change these regulations be made to the Management Team, to modify the approval requirement. If the correct approval process is not followed for budget virements there is</p>	Needs Attention	Head of Finance	The Management Team has agreed that the regulations should be updated, to be completed by the implementation date shown.	By 31/08/16

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Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
a risk that budgets may be used for inappropriate purposes. By ensuring that all budget virements are approved in accordance with the Broads Authority Financial Regulations				
<p>2. Electronic invoice Approval A permanent system 'fix' should be identified to ensure that it is not possible for a Level 1 and Level 2 approver to be the same person. If invoices can be approved by just one person, who may also have placed the original order, there is a risk that inappropriate or fraudulent purchases will not be identified. By ensuring that two separate people approve invoice payments will reduce the risk of inappropriate or fraudulent payments.</p>	Needs Attention	Head of Finance	<p>Following the audit IT have investigated the total number of instances over the last year. Of the 4,433 invoices processed only 6 (0.14%) have been sent to the same level 1 and 2 approver. IT has tried to implement a fix with 2 suppliers at cost without success. To enhance the current warning IT will make the warning more prominent and highlight who has approved it at level 1. A report will also be introduced before the weekly payment run to check on any occurrences.</p> <p>Update: IT has developed a fix that automatically rejects</p>	By 30/09/16

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			an invoice sent to the same level 1 & 2 approver so this will no longer happen. This means the report will no longer be required.	
<p>3. Amendments to Supplier bank account details Once the charge is known for Dimensions to produce a report, which identifies changes made to suppliers bank account details, decide whether this option will be taken based on the costs and benefits. In the meantime, to ensure a review of unexpected items is undertaken before each weekly payment run and the payment run is signed to this effect. As changes can be made by any member of the Finance Team to supplier bank details there is a risk that these could be fraudulent. By checking all changes made on Dimensions to original documentation will reduce the risk of fraudulent changes being made to supplier bank account details.</p>	Needs Attention	Head of Finance	<p>Unusual suppliers bank details will be checked as part of the weekly payment run. The reconciliation sheet will be signed to confirm this check has been undertaken.</p> <p>Audit note: An example signoff sheet to demonstrate the process has been provided. Implementation confirmed.</p> <p>Completed. Update: Following discussions with the accounts package provider a report can now be run that identifies what suppliers bank details have been changed. This report requires a slight modification to identify what</p>	By 13/04/16

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Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
			Supplier Account the changes relate to. Once rectified this has been incorporated into the checking of the weekly payment run.	

Review of Members Governance: April 2016

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
1. Members Conduct To add declarations of interest as a standing agenda item on all Broads Local Access Forum meeting agendas. To comply with the Broads Local Access Forum constitution and mitigate the risk that conflicts of interest are not handled adequately.	Important	Senior Waterways and Recreation Officer	Agreed as a standing item for future agendas. Completed. This was added to the agenda on 08/06/16.	By 30/06/16
2. Members Conduct Guidance to be produced for informal treatment of complaints against Members which should include a set of criteria to determine if the incident is to be treated informally or whether it	Important	Solicitor and Monitoring Officer	Agreed. BA to Review Members of Conduct, Complaints Process and timescales, Member/Officer Protocol when new Solicitor and Monitoring Officer takes	By 30/11/16

Summary of Actions / Responses to Internal Audit Recommendations 2015/16

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
<p>should follow the formal process. In conjunction with this, the formal complaints process should be reviewed and updated to also incorporate the process for dealing with Broads Authority Members and staff if they are the complainant. This should refer to the Protocol on Member and Officer Relations in the Broads Authority.</p> <p>To ensure the complaints process for Members captures all eventualities including decisions to treat certain incidents in an informal matter. This should contribute to the transparency of the process and help mitigate the risk that complaints/misconduct are treated inconsistently, unfairly and not in accordance with policy.</p>			<p>up post, by 31 October 2016.</p> <p>To be approved By Broads Authority on 18/11/2016.</p>	
<p>3. Members Training & Support Management to conduct a review of the training strategy and to ensure that the strategy is reviewed on a regular basis going forward. Version control details to be added to ensure it is clear when the strategy was last updated. Regular review of the Members</p>	Needs Attention	Solicitor and Monitoring Officer	<p>Agreed. BA to Review Training Strategy for Members when new Solicitor and Monitoring Officer takes up post, by 31 October 2016.</p> <p>To be approved By Broads Authority on 18/11/2016.</p>	By 30/11/16

Summary of Actions / Responses to Internal Audit Recommendations 2015/16

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
Training Strategy will help to ensure that the strategy remains appropriate to the Authority's changing requirements.				
<p>4. Members Conduct To review and update as necessary, the existing Code of Conduct associated documentation, including ensuring the current officers are referred to such as the Solicitor and Monitoring Officer. This should include incorporation of the Hearings Committee terms of reference so that their role and make up is clear and included within the main documentation. Appropriate updating of the Code of Conduct guidance should reduce the risk that out of date guidance is applied and processes are not carried out correctly and in an untimely manner.</p>	Needs Attention	Solicitor and Monitoring Officer	<p>Agreed.BA to Review Members of Conduct, when new Solicitor and Monitoring Officer takes up post, by 31 October 2016.</p> <p>To be approved By Broads Authority on 18/11/2016.</p>	By 30/11/16
<p>5. Members Conduct Code of Conduct policies and practices adopted by other authorities were reviewed against those in use at the Broads Authority. As a result of this review the following is</p>	Needs Attention	Solicitor and Monitoring Officer	Agreed. BA to Review Members of Conduct, Complaints Process and timescales, Member/Officer Protocol when new Solicitor and Monitoring Officer takes	By 30/11/16

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Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
<p>recommended:</p> <ul style="list-style-type: none"> - To update the Code of Conduct to refer to disclosing a "public service interest" including the definition of a public service interest. - To include a section, in the Code of Conduct, on 'Disclosable Pecuniary Interests' which includes descriptions of interests such as contracts and corporate tenancies and, a section on non-pecuniary interests. - Assessment criteria to be applied in the initial assessment of the complaints process to act as a form of checklist. This can then determine if the complaint needs to be investigated or not. - Review the terms of reference for the Hearings Committee against those of other authorities such as South Downs to ensure they are robust enough. - Include timeframes for certain parts of the process including initial assessment of the complaint, notification of no action taken and, time taken for the actual decision to be made. Consider if the performance in meeting these timeframes can then 			<p>up post, by 31 October 2016.</p> <p>To be approved By Broads Authority on 18/11/2016</p>	

Summary of Actions / Responses to Internal Audit Recommendations 2015/16

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
be reported within the annual report to the Broads Authority. Code of Conduct documents are more comprehensive and robust which mitigates the risk that they are not fit for purpose.				