

AUDIT COMMITTEE

26 JULY 2018

REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

A.1 REPORT ON INTERNAL AUDIT – MARCH 2018 - JUNE 2018 AND THE ANNUAL REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period March 2018 – June 2018 and the Acting Audit and Governance Managers Annual Report for 2017/18 as required by the professional standards.

EXECUTIVE SUMMARY

- A total of 15 audits were completed in the period March 2018 to June 2018 for 2017/18, one audit received and 'Improvement Required' opinion.
- Only one audit is still outstanding from the 2017/18 audit plan, this is due to a delay in commencement due to commitments on the transformation projects.
- The Annual Report of the Acting Audit and Governance Manager concludes that an unqualified opinion of Adequate Assurance is provided based on the significant improvements made since 2016/17, the open dialogue with Senior Management on risk and a generally sound system of internal control and governance arrangements in place.
- A total of 17 audits from the 2018/19 Internal Audit Plan have been allocated, are in progress or fieldwork has been completed.
- The Internal Audit Charter will be updated and reported at the September Audit Committee for review.

RECOMMENDATION(S)

That the report be considered and noted;

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The Internal Audit function is operating within the budget set.

Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

The Accounts and Audit Regulations 2015 make it a statutory requirement that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards and guidance.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION**BACKGROUND**

The Public Sector Internal Audit Standards require the Acting Audit and Governance Manager to make arrangements for reporting to senior management (Management Board) and to the board (Audit Committee) during the course of the year, and for producing an annual Internal Audit opinion and report that can be used to inform the Annual Governance Statement.

INTERNAL AUDIT PLAN PROGRESS (2017/18)

A total of fifteen audits have been completed in the March 2018 – June 2018 period. As at 31st March 2018, 92% of the audit plan had been completed. As previously discussed, the Internal Audit Plan is a rolling programme and there is always an expectation for some audit reviews to progress into the next financial year. However, there have been some challenges that have contributed to some delays in audits commencing as planned, such as, additional training for officers as part of supporting new ways of working established since the retirement of the Audit and Governance Manager during 2017/18.

Also, as the Council is undertaking some major transformation projects it is not always possible to meet with auditees due to their commitments in delivering key projects. Internal Audit has tried to accommodate such commitments due to the importance of delivering the Councils vision and objectives.

As at the 30th June, 99% of the plan had been completed. Only one audit remains outstanding, IT Support. A request was made to defer the audit to a later date as IT staff were working to deliver against key milestones with the Digital Transformation Plan. The audit therefore did not start until June 2018 and is currently ongoing.

The Public Sector Internal Audit Standards require an audit opinion on Risk Management therefore corporate review of the Council's risk management arrangements was undertaken during the year and is ongoing. This approach followed on from the 'Improvement Required' opinion in 2016/17 with issues relating to consistency, materiality and guidance. Along with the work undertaken in 2017/18, this is being addressed by developing a new risk management framework and scoring matrix that could be used by all parties. Also, a joint piece of work between Internal Audit, Risk and Fraud, and Senior Management is being undertaken to agree a collaborative approach to risk management between all stakeholders and ensure a consistent approach is used across the organisation going forwards. No further significant issues have been identified to date regarding Corporate Risk Management and the improvement work to date has not raised any further concerns, therefore adequate assurance in this area will contribute to forming the annual audit opinion of the Acting Audit and Governance Manager.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the period under review 100% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

Outcomes of Internal Audit Work

The standards require the Acting Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report fifteen audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

Assurance	Colour	Number this Period	Total for 2017/18 Plan	
Substantial		1	7	
Adequate		13	24	
Improvement Required		1	2	
Significant Improvement Required		0	0	
No Opinion		1	2	

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

Issues arising from audits completed in the period under review receiving an 'Improvement Required' opinion and requiring reporting to Committee are: -

Health and Safety

It must be stressed that although the Health and Safety audit received an 'Improvement Required' opinion with some high findings, there has been significant improvements in this area over the past six months. Extensive effort has been made to address and improve processes since the legionella issue at Walton on the Naze Lifestyles. The scope of the

audit was to review current processes against Health and Safety Executive (HSE) guidance to identify any process gaps that TDC may have. At the time of the audit no information had been received from the HSE regarding the legionella incident to be able to include any HSE recommendations within the review, although they will be included in any future audit work.

There were two high findings within this review;

TDC currently does not have a Health and Safety Program of Works. This is a requirement under HSE guidance as it evidences that the organisation is aware of its main risk areas and can prioritise Health and Safety work rather than being a reactive function. Although the Health and Safety Officer does have an informal plan there is no official program of works that evidences management and officer input. The agreed action is reported below;

- *The Fraud and Risk Manager and the Health and Safety Officer will create, implement and monitor a Health and Safety Program of Works. This will need to be reviewed and approved by the Councils Management Team and rolled out to all departments to ensure that all Officers are aware of the Council's Health and Safety priorities.*

The second high finding relates to inconsistent approaches to Health and Safety requirements when working with contractors. HSE guidance specifies that the size of the project or work does not matter and therefore Health and Safety principals should be applied consistently to all areas of work. However, because construction work is devolved within each service it increases the risk of staff approaching projects / work differently. Recommendations have been made to ensure that a consistent risk assessment process is designed and used by all departments. The agreed action is stated below;

- *Management Team to communicate the importance of a consistent Health and Safety risk assessment approach when working with all building contractors working on behalf of or in partnership with the Council. The Fraud and Risk Manager to be appointed as key contact ensuring that all departments work in and record information in a consistent way.*

Section 106

It is not standard practice to provide detailed updates to the committee on audits that have received an Adequate or Substantial audit opinion unless requested. However, due to the previous issues reported on Section 106 it is felt a further update to the Committee is required.

Substantial improvements have been made to the S106 monitoring process since the previous audit. IA new software to monitor trigger points within S106 contributions was implemented in March 2018 and is now in use by the service. However, not all legacy S106 data has been manually input onto the system yet. All new contributions are added to the new system with backfilling of historic data working in parallel. The service has explained that they aim to complete the backfilling by September 2018 therefore, Internal Audit have proposed to follow up in December 2018 to ensure that all legacy data has been input.

Management Response to Internal Audit Findings – There are processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action has been taken. Where appropriate follow up audits have been arranged to revisit significant issues identified after an appropriate time.

The number of high severity issues outstanding was as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	0	
Not yet due	9	

OPINION OF THE ACTING AUDIT & GOVERNANCE MANAGER

As set out in the Public Sector Internal Audit Standards (PSIAS) there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit Committee, timed to support the Annual Governance Statement. This must include:

- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
- a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

The Internal Audit function undertakes a risk based programme of audits each year to provide the Council and its Audit Committee with assurance on the adequacy of its system of internal control, governance and risk management arrangements.

A qualified opinion was provided in 2016/17 based on a number of significant issues being identified within some of the core activity areas of the Council. I am pleased to report that based on the work completed in 2017/18, significant work has been undertaken to ensure that improvement action has been implemented in all of the areas where significant exposure to risk was reported.

The corrective action taken by officers with regard to the issues raised by Internal Audit aids the improvement / maintenance of the control and governance framework. Robust mechanisms are in place to monitor progress of corrective action, with follow up audits scheduled as necessary.

Internal Audit has been working with services on a consultancy basis to support the implementation of new processes and to ensure that all relevant employees have the appropriate training to competently carry out their role. Procurement, Risk Management and Health and Safety are the three areas where this type of work has been undertaken.

In 2017/18, only two audits received an overall audit opinion of "Improvement Required" where significant issues were identified. The audits were Walton-on-the-Naze Lifestyles and Health and Safety.

As Health and Safety issues have already been reported above, only the high priority issues and mitigating actions for Walton on the Naze Lifestyles are noted below as previously reported to the committee;

Card Payments - PCI Compliance

Merchant copy receipts for credit/debit card transactions display the card holder's full credit card number including the start and expiry dates. This does not comply with PCI Security Standards which states that sensitive card holder details should not be stored on computers or on paper.

Agreed Action;

- *Investigations into the configuration of card machines at the Leisure Centres will be undertaken with the merchant supplier in order to remove the personal card details from the receipts held.*

Unauthorised Refunds

The process for issuing refunds/credit notes is inconsistent and restrictions on the ability to issue a refund and the approval mechanism are not in place.

Agreed Action;

- *In order to provide a consistent and robust approach, procedures will be written which clarify both the process to be followed when issuing a refund and the necessity for appropriate authorisation.*

Inadequate Records of Refunds

Terminal readings taken from the Leisure Management System indicate the number of refunds undertaken and the total, these totals could not be matched to any other records held.

Without adequate controls in place unauthorised refunds may be recorded which could result in incorrect balances on the Gladstone system and the potential risk of fraud and erroneous refunds being processed.

Agreed Action;

- *In future wherever possible refunds will be actioned on the system.*
- *A new book has been created to record refunds which includes columns for both the officer actioning the refund and the authorising officer.*
- *Where system capabilities allow for an electronic alternative to any part of the refund process which can still demonstrate authorisation, the move to a paperless route will be considered.*
- *Management checks will also be undertaken as part of the monitoring process.*

As the majority of audits in 2017/18 received an adequate or substantial assurance opinion and Internal Audit have been and currently are involved in areas where processes are being redesigned, there is reasonable assurance that there is a sound system of internal control with adequate governance arrangements in place. Although work is still ongoing with Risk Management at a departmental level, Senior Management and the Audit Committee are involved in and aware of the changes being made.

Governance arrangements and internal controls have been evaluated in all audits within

the plan, albeit with varying levels of scope. Consultancy work is in progress regarding Risk Management with outcomes and actions from the 2016/17 review remaining ongoing.

The opinion of the Acting Audit and Governance Manager is drawn from all of the information reported above, external reviews carried out throughout the year from other assurance providers and through the ongoing work in supporting Senior Management and Services in delivering the Councils objectives and vision.

Based on the significant improvements made since 2016/17, the open dialogue with Senior Management on risk and a generally sound system of internal control, an overall unqualified opinion of Adequate Assurance is provided.

INTERNAL AUDIT PLAN PROGRESS (2018/19)

A total of 17 audits from the 2018/19 Internal Audit Plan have been allocated, are in progress or fieldwork has been completed. Final Reports are yet to be sent out for Quarter one audits in 2018/19.

As the new audit plan is made up of many different reviews using audit techniques that have not been used in the past, some audits allocated in the first quarter will not provide audit outcome until the end of the financial year. This is because the review is completed using a continuous auditing technique or because Internal Audit are working with services on a consultative basis.

It should be noted that Internal Audit are moving where appropriate to work on a consultative basis with services to ensure internal control and governance arrangements are incorporated as an integral part of a project, system implementation or when re-engineering a process. Internal Audit is now part of both the Transformation Group and the Digital Transformation Group allowing us to advise and consult on issues that arise as they occur.

Furthermore, Internal Audit will be commissioning a full Payment Card Industry Data Security Standards (PCI DSS) compliance review across the organisation. This is to address the data security issues identified within the 2017/18 Walton on the Naze Lifestyles review and also to ensure that all departments that wish to take payments over the phone, have the necessary training and certification to be able to do so.

Appendix B – 2018/19 Internal Audit Plan progress report; provides an update on the status of each audit to date.

There are no significant issues or particular areas of concern to report at this time.

A further update on progress against the 2018/19 Internal Audit Plan will be presented to the Committee in September 2018.

EXTERNAL QUALITY ASSESSMENT UPDATE

An update on the External Quality Assessment (EQA) is provided as Appendix C. The action plan was reported to the committee in March 2018 with the recommendations made by the External Quality Assessor and the agreed actions with Internal Audit.

There are only two actions still outstanding that are not due until September 2018. They are currently in progress and are included as part of the wider Risk Management work reported earlier in this report.

As the Internal Audit function had its EQA in 2017/18 an annual Quality Assessment Improvement Program (QAIP) self-assessment was not undertaken as a full review was carried out by an external body. All recommendations and agreed actions from the EQA will also form part of the 2018/19 QAIP Self-Assessment.

A further update on the two outstanding actions from the EQA will be provided at the September 2018 Audit Committee.

INTERNAL AUDIT CHARTER

In our March 2018 Periodic Report to the committee it was stated that the Internal Audit Charter would be updated and brought back to the committee within the year for approval due to the structural and operational changes taking place within the team and the organisation.

A further update can now be provided. As the Internal Audit Team are now using the different audit techniques and adapting to their new responsibilities and ways of working, it is proposed to provide an updated Audit Charter for the September 2018 Audit Committee.

The existing Charter remains in place currently which sets out the core principles defining the purpose, authority and responsibility of the Internal Audit Function which therefore remain relevant, however further refinement is needed to reflect some of the changes within the year.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – 2017/18 Internal Audit Plan Progress Report
Appendix B – 2018/19 Internal Audit Plan Progress Report
Appendix C – EQA Action Plan Update