

## AUDIT COMMITTEE

27 SEPTEMBER 2018

### REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

#### A.1 PERIODIC REPORT ON INTERNAL AUDIT – JULY - AUGUST 2018 AND UPDATED INTERNAL AUDIT CHARTER

(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 July – August 2018 and to propose an updated Internal Audit Charter to be reviewed and approved by the Audit Committee

##### EXECUTIVE SUMMARY

- The Internal Audit Charter had been updated to include some elements of procedural changes now in place and to ensure that all information within the charter is relevant to the current mission / vision of Internal Audit.
- A total of five audits have been completed since the previous update in July 2018. A further nine are still in fieldwork phase and 12 audits have been allocated.
- Four consultative reviews are ongoing; Digital Transformation Programme, Office Transformation Programme, Risk Management and Project Management.

##### RECOMMENDATION(S)

- (a) The periodic report be considered and noted; and
- (b) The Internal Audit Charter be reviewed and approved.

#### 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 (PSIAS) 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.

The PSIAS also require that the purpose, authority and responsibility of the Internal Audit activity be formally defined in an Internal Audit Charter, and that the charter be periodically reviewed and presented for approval.

### INTERNAL AUDIT PLAN PROGRESS (2018/19)

A total of five audits have been completed since the previous update in July 2018. A further nine are still in fieldwork phase and 12 audits have been allocated. Four of the five audits have received a satisfactory level of assurance, however; one audit (Development Management) has received an overall audit opinion of 'Improvement Required'.

Since the July 2018 meeting of the Committee, one member of the Internal Audit Team has commenced a period of long term sickness absence. The situation will be reviewed on an on-going basis in respect of the impact on the delivery of the annual audit plan.

As there are a number of audits that are continuous or consultative, it is necessary to provide a summary of progress below;

#### ***Office Transformation Programme***

The Acting Audit and Governance Manager has attended some of the Transformation

Group meetings whereby progress is discussed and issues are highlighted. The main elements discussed are progress / deliverability, building work issues, customer service issues, policy updates and IT related issues. To date, no material issues or delays have been highlighted at the meetings attended.

### ***Digital Transformation Programme***

Meetings are usually held between key Officers involved in the programme and a third party company providing a network re-design solution on behalf of TDC.

Progress on the network design implementation is provided by the third party. It is too soon to make an assessment on the deliverability of the programme as it is still in its infancy, however; this review will continue to monitor progress, budget spend and deliverability of the programme of works.

### ***Project Management***

Internal Audit is working with the Deputy Chief Executive and relevant stakeholders to ensure that robust governance arrangements and procedures are implemented on the back of the Peer Review recommendations on Project management. This is still ongoing.

### ***Payment Card Industry Data Security Standard (PCI DSS)***

The previous Internal Audit Progress Report (July 2018) highlighted a significant issue regarding credit / debit card details being printed and retained from the payment terminals within Leisure Centres. The action to move to an alternative supplier to provide consistency across the organisation is in progress. The new terminals and merchant ID's have been ordered and an overall saving of £6852 per year is to be achieved. However, it should be noted that if the Council do not ensure that they are PCI DSS compliant then Lloyds are able to fine us £30 per month per terminal.

Internal Audit has therefore commissioned a full PCI DSS Audit review across TDC which is due to start on 17<sup>th</sup> September 2018. The company (ITGovernance.co.uk) will assess our processes and network and provide appropriate recommendations. They will ensure that we are fully compliant and provide training to all staff required to take payments over the phone at a later date.

**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 five audits have been completed. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

<b>Assurance</b>	<b>Colour</b>	<b>Number this Period</b>	<b>Total for 2017/18 Plan</b>	
Substantial		2	2	
Adequate		2	2	
Improvement Required		1	1	
Significant		0	0	

Improvement Required				
No Opinion		0	0	

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

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

### **Development Management**

#### *Retention of Funds by Third Party Company (Income Management)*

The planning portal has recently amended the circumstances relating to payments made by applicants and how they are received by Councils. The new arrangements allow the company administering the planning portal to keep the monies paid, take their £20 charge per application and then transfer the funds to the Council in one BACS payment. This creates a risk because customer monies are retained by a third party, if they were to become insolvent the money would be lost and the Council would still have an obligation to honour the application without ever receiving the money. There is also an increased risk of fraud from outside of the Council. This is a national issue as the planning portal is used by the majority of districts and boroughs across the country.

The agreed action is for the service to explore whether the planning portal can revert to the previous process of allowing the payments to be sent directly to the Council and we then pay back the commission owed to the planning portal supplier. If this is not an option then it is recommended that a portal be created in house to allow applications to be processed via our own website.

### **Update on previous significant issues reported**

At the previous Committee there were two significant issues reported. One related to PCI DSS compliance which has been addressed earlier in this report. The second related to a Health and Safety program of works. The action is not due yet, however; the Fraud and Risk Manager has reported that the team are currently working on creating a program of works for the Health and Safety Officer to work to and pro-actively plan ahead.

For reporting purposes, the number of significant findings identified with outstanding actions are listed below;

<b>Status</b>	<b>Number</b>	<b>Comments</b>
Overdue more than 3 months	0	
Overdue less than 3 months	0	
Not yet due	5	

### **INTERNAL AUDIT CHARTER**

The Public Sector Internal Audit Standards require the Internal Audit Charter to be a formal document that: -

- Defines the Internal Audit activity's mission, purpose, authority and responsibility
- Establishes the Internal Audit activity's position within the organisation including the nature of the "Chief Audit Executive's" (Audit and Governance Manager's) functional reporting relationship with the Board (Audit Committee)
- Authorises access to records, personnel and physical properties relevant to the performance of engagements
- Defines the scope of Internal Audit activities
- Defines the terms "Board" and "Senior Management" for the purpose of Internal Audit activity
- Covers the arrangements for appropriate resourcing
- Defines the role of Internal Audit regarding fraud-related work
- Includes arrangements for avoiding conflicts of interest if Internal Audit undertakes any non-audit activities.

The Internal Audit Charter has been updated to reflect the current working arrangements of the Internal Audit function. The key principles of the charter remain as they were as they are the foundations of all Internal Audit activity; however there have been some changes where areas have been expanded further to explain ways of working and some elements have been removed to provide a leaner audit charter that reflects the current structure of the function.

The aesthetics of the charter has also been updated to provide a consistent design in line with all other Internal Audit Reports. The Internal Audit Charter can be reviewed in Appendix B of this report.

#### External Quality Assessment (EQA) Update

There is only one issue outstanding from the EQA undertaken by an approved assessor and previously reported in full to the Committee. It is due to be completed by December 2018. This relates to a consistent approach to risk management to be followed by all departments as well as Internal Audit. This is being addressed as part of the Risk Management review within the annual audit plan to develop a risk framework that all service areas and Internal Audit can use as a consistent basis for assessing risk.

#### BACKGROUND PAPERS FOR THE DECISION

Audit Report

#### APPENDICES

Appendix A – 2018/19 Internal Audit Plan Progress Report  
Appendix B – Internal Audit Charter