

## AUDIT COMMITTEE

24 JANUARY 2019

### REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

#### A.1 PERIODIC REPORT ON INTERNAL AUDIT – SEPTEMBER - DECEMBER 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 September – December 2018.

##### EXECUTIVE SUMMARY

- A total of nine audits have been completed since the previous update in September 2018. A further nine are still in fieldwork phase and a final seven audits have been allocated.
- Four consultative reviews are ongoing; Digital Transformation Programme, Office Transformation Programme, Project Management and PCI DSS Compliance.
- One audit in the period received an overall audit opinion of 'Improvement Required'

##### RECOMMENDATION(S)

(a) The periodic 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 (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.
- Reporting arrangements also provide an indication on whether the Head of Internal Audits Annual Assurance Opinion can be provided at the end of the financial year.

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

A total of nine audits have been completed since the previous update in September 2018. A further nine audits are in fieldwork phase and the final seven audits have been allocated to be complete.

Based on the audits completed, days spent on audits currently in fieldwork phase and consultancy days used for service support the percentage of the plan completed is forecast at 62% complete. Targeted percentage complete for this period is between 70-75%.

Staffing issues regarding long term sickness have been a contributing factor to not being on target; however, at this stage it is still anticipated to have completed the necessary audit work to provide an opinion on the overall effectiveness of the organisations

governance, risk management and control framework at end of the financial year.

Eight of the nine audits have received a satisfactory level of assurance, however; one audit (Facilities Management) has received an overall audit opinion of 'Improvement Required'.

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 first phase of transformation at pier avenue is now complete with some areas of the transformation plan being complete before the expected target date. There are mechanisms in place to identify significant issues that may impact on the progress of the plan and key risks are being continuously monitored and updated as the programme progresses.

No major issues have been highlighted to date which may cause a material delay to delivery of the plan.

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

The Project Initiation Document (PID) has now been updated to reflect the changes to the original specification from when the project began. Some areas of the project have had to change because the expected IT solution is no longer feasible and has had to be adapted in order to deliver the same outcome. The Head of IT and Corporate Resilience has created a program for User Acceptance Testing (UAT) which identifies each key area of the project to be delivered, the service area it relates to, testing required and Head of Service Sign Off. Internal Audit has reviewed the approach and consider it to provide an acceptable level of assurance and accountability for testing all key areas of the programme going forward.

The latest status update has identified that 95% of the budget allocated to Network Re-design has already been used. The Head of IT and Corporate Resilience advised that the additional budget needed is not expected to be material and can be funded through existing service budgets. Changes to the Wifi network installation and network monitoring tools are a contributing factor.

### ***Project Management***

Internal Audit has now recommended, in agreement with the Deputy Chief Executive; a strong governance framework to be implemented for all new projects going forwards. The next step is to present the work paper to Management Team to gain feedback from Senior Management before the changes can be implemented corporately.

Once the governance framework has been agreed by all key stakeholders a formal process will be adopted across the organisation for all new projects.

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

The PCI DSS audit review commissioned in September 2018 has now been completed. It has identified that the Council needs to facilitate a number of actions to be compliant in the future. Internal Audit is working with IT and Finance to ensure that all areas are addressed and resolved. Many of the high priority recommendations are due to not receiving a

response from our third party income management supplier (Capita) at the time of the audit.

### **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.

### **Resourcing**

At the previous audit committee it was reported that a member of the audit team had begun a period of long term sickness which has continued throughout the period being reported. Although this has had some impact on the delivery of the plan, it is still anticipated that an overall assurance opinion at the end of the financial year can be provided.

Another member of staff is due to go on maternity leave mid-March. The overall position therefore remains under review as additional temporary resource may be required.

### **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	Green	4	6	
Adequate	Light Green	4	6	
Improvement Required	Yellow	1	2	
Significant Improvement Required	Red	0	0	
No Opinion	Grey	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: -

### **Facilities Management (FM)**

The scope of this review was to cover all facilities across the council and ensure that all were compliant with mandatory maintenance including periodic Health and Safety requirements.

The following significant issues and associated actions have been identified, some of which have already been addressed;

1. There is currently no forward plan in place, which sets out how facilities propose to achieve objectives, aims and targets for future work.
  - *A three or five year plan will be created in consultation with Management Team once the Councils Transformation Project is complete. This is due to the current Facilities Management budget being diverted where possible to support the project overall.*
2. Fire Risk Assessments, Fire Drills and Fire Extinguisher Testing is not being undertaken at the Crematorium.

The following actions were agreed at the time of the audit and the Fraud and Risk Manager has reported that the actions have now been completed.

- *Fire Risk Assessments should be undertaken on a periodic basis in line with Health and Safety regulations. Liaise with the Health and Safety Advisor to support a consistent approach for the Council.*
  - *A fire evacuation testing process is to be introduced that adheres to Health and Safety regulations while considering the sensitivity of the services provided to the public. Liaise with Health and Safety to establish an acceptable approach.*
  - *Liaise with Health and Safety to understand the expectations on the service regarding Health and Safety at Work and Risk. Procure the services of a third party to undertake the tests and ensure that it is consistent with other facilities around the council. This should be undertaken on a periodic basis in line with Health and Safety Regulations.*
3. Safety issues identified by all services with facilities management responsibilities are not reported to the officers responsible for Corporate Health and Safety. This is essential to ensure that all H & S issues are identified and reported consistently and accurately.
    - *Liaise with Health and Safety on a periodic basis and identify what information is needed from the Facilities Management function to be used to support the regular Health and Safety reports provided to Management Team*

## **Bank Account**

Although the bank account audit did not receive an 'Improvement Required' opinion overall there was one significant issue identified that requires further attention.

1. When using a council credit card a requisition must be made and subsequently approved. All supporting information must then be retained and provided to Accountancy for reconciliation purposes.

When submitting credit card payment details to Accountancy, there should be accompanying documentation supplied by the department responsible for the transaction to reconcile against bank statements and ensure the correct tax code is applied. The process is not consistently followed across all departments and all supporting documentation was not available at the time of the audit.

Without an independent review of credit card / internet payments there is an

increased risk of goods / services being purchased that are not for official business use. However, substantive testing was undertaken and all transactions tested were explained and deemed to be for official business.

- *The Head of Finance, Revenues & Benefits Services will distribute an email reminding staff of the correct process to follow when submitting credit card payment details and if the lack of supporting documentation continues, their use of the Corporate Credit Card will be withdrawn.*

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

### ***Development Management***

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

It was previously reported at the September Audit Committee meeting that the planning portal (government backed mechanism for processing online planning applications) had amended the circumstances relating to planning fees paid by applicants and how they are received by Councils. The new arrangements allow the company administering the planning portal to retain 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.

*'The agreed action was 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.'*

The service have asked the company that administers the Planning Portal to revert to the old model above, however they are not willing to divert from their business model and if they did it would create a lot of additional resource requirement for TDC. As TDC are currently working with a third party supplier as part of our digital transformation work, the Planning Department have asked them to assess whether an in house portal is possible, this is currently in progress.

Heads of Internal Audit across Essex were also asked at the Essex Audit Group, how they are managing this risk within their organisations. Half of the responses suggested they were exploring alternatives but would continue with business as usual if the solution was too resource intensive and the other half were going to continue with the current process.

TDC has no immediate option but to continue with the current process for online applications whilst an in-house solution is explored. It is recognised that there is a risk of continuing with the current Planning Portal Administrator, however; subject to the in-house solution being provided the current process will be kept under ongoing review.

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

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	0	
Not yet due	6	

**BACKGROUND PAPERS FOR THE DECISION**

Audit Report

**APPENDICES**

Appendix A – 2018/19 Internal Audit Plan Progress Report