

# AUDIT COMMITTEE

24 JULY 2019

## REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

### A.1 REPORT ON INTERNAL AUDIT – MARCH 2019 - JUNE 2019 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 2019 – June 2019 and the Acting Audit and Governance Managers Annual Report for 2018/19 as required by the professional standards.

##### EXECUTIVE SUMMARY

This report is split into 4 sections with a summary as follows:

#### 1) *Internal Audit Plan Progress 2018/19*

- A total of nine audits were completed in the period March 2019 to June 2019 for 2018/19, one audit received an 'Improvement Required' opinion.
- There are two audits still in fieldwork from the 2018/19 audit plan; however time was built in to the 2019/20 audit plan agreed at March 2019 Audit Committee to compensate for the overlap in financial years. This does not impact the annual overall assurance opinion as the audit plan is based on a rolling programme to ensure there is flexibility between financial years.

#### 2) *Annual Report of Acting Audit and Governance Manager*

- The Annual Report of the Acting Audit and Governance Manager concludes that an unqualified opinion of Adequate Assurance is provided. The direction of travel regarding the overall internal control environment since 2017/18 has not changed, in some areas it has weakened and in others it has improved. There continues to be an open dialogue with Senior Management on risk and a generally sound system of internal control and governance arrangements remain in place.

#### 3) *Internal Audit Plan Progress 2019/20*

- A total of 14 audits from the 2019/20 Internal Audit Plan have been allocated or are in progress.

#### 4) *Internal Audit Charter*

- The Internal Audit Charter is provided to be reviewed and approved for the 2019/20 financial year. There has been no changes since the 2018/19 update.

##### RECOMMENDATION(S)

- That the reports be considered and noted, and;
- 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 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 2018/19

A total of nine audits have been completed in the March 2019 – June 2019 period. As at 31<sup>st</sup> March 2019, 87% 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, as previously discussed resourcing issues have challenged the teams' capacity to deliver a higher percentage of the plan by 31<sup>st</sup> March 2019. Additional information is provided under the resourcing section of this report.

As at the 30<sup>th</sup> June, 97% of the plan had been completed. Only two audits remain outstanding, with the majority of fieldwork complete. The audits still in progress are Housing Repairs and Maintenance and Housing Allocations. With the additional resource we now have to utilise we are able to catch up with the audits from the 2018/19 while the contractor we have commissioned on a daily rate completes some of the 2019/20 audits.

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. Senior Management continue to monitor strategic risks on a regular basis with the Audit Committees input throughout the year. This assurance allows Internal Audit to work with Senior Management and the Fraud and Risk Manager to concentrate on reviewing the overall risk appetite of the Council and support implementation of departmental risk management at an operational level.

**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

As previously reported, the Internal Audit Team has been operating with reduced capacity due to one Officer being on long term sick and another on maternity leave. The capacity of the Internal Audit Team is currently 2 fte with an apprentice supporting where she can. The Audit Committee advised at the previous meeting to explore the use of an external contractor or employ a temporary agency Auditor for a fixed term.

We have explored both scenarios and decided the best action was to utilise a framework set up by Croydon Council in partnership with a professional services company, Mazars LLP. We have commissioned work from Mazars to support the team in delivering a number of audits within the 2019/20 Internal Audit Plan.

The Internal Audit team is also currently restructuring. The consultation period for all Officers within the team has now passed. This will allow us to recruit to a vacant Auditor post and bring the establishment back to around 80% capacity.

### 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 nine 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 2018/19 Plan	
Substantial		1	9	
Adequate		6	14	
Improvement Required		1	3	
Significant		0	0	

Improvement Required				
No Opinion Required		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: -

### **Inventory Management / Stock Control**

Inventory Management was a review of the Councils inventory and stock management processes across the council. This had never been done before on such a large scale as there are many different inventory arrangements across all departments, therefore we would normally concentrate on each one individually. However, in 2018/19 we decided to undertake an arm's length review to review processes only without detailed testing to identify any inconsistencies and add value by promoting good practice across all departments. A good practice guide has been developed which will be distributed to all relevant areas of the Council and will be available on the intranet. Unfortunately there was a significant issue identified with a management action relating to more than one department as detailed below;

Some departments have a rudimentary stock control system or do not have a working inventory stock control system in place.

- *To use the generic inventory management spreadsheets provided by Internal Audit or procure a bespoke inventory control system that works more flexibly with the service need.*
- *Heads of Service with stocks and stores to review the best practice guide and distribute to their relevant Officers.*

**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	6	

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

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

- *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.*

Although there are no significant actions outstanding in this period it is worth mentioning that the high severity issue reported above regarding fire evacuation testing at the crematorium is now resolved. The crematorium now have a fire evacuation plan in place that has been reviewed and approved by the Health and Safety Team.

#### **ANNUAL AUDIT REPORT 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 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. The programme has been adapted to be not only risk based, but to include different audit techniques to make it leaner and more supportive of service delivery to meet the Council's needs.

An unqualified opinion of adequate assurance was provided in 2017/18 due to the control improvements implemented by departments. So far to date all significant issues identified within the 2018/19 financial year have been addressed and mitigated. The immediate corrective actions by operational teams provides assurance that the control environment is being monitored and direct action is taken when significant issues have been identified.

Internal Audit continues to work with services on a consultancy basis to support the implementation of new processes, identify and analyse root cause if necessary and ensure that all relevant employees have the appropriate training to competently carry out their role. Transformation, Project Management, Risk Management and Financial Resilience are some of the areas where this type of work has been undertaken and continues to collaborate resources.

In 2018/19 to date, only three audits from a total of 33 undertaken received an overall audit opinion of "Improvement Required" where high severity issues were identified. The audits were Development Management, Facilities Management and Inventory Control. All significant issues are reported to the Audit Committee with required improvement actions throughout the year to provide a continuous update on the councils control environment, governance arrangements, material issues identified and improvement actions.

The overall direction of travel regarding the internal control environment since 2017/18 has not changed, in some areas it has weakened and in others it has improved; however, as the majority of audits in 2018/19 continued to receive an adequate or substantial assurance opinion it is reasonable to suggest that there has not been a considerable deterioration in internal control and operational processes within the year.

Governance arrangements and internal controls have been evaluated in all audits within the plan, albeit with varying levels of scope. Consultancy work is continuing in respect of

risk management, working with the Fraud and Risk Manager to improve processes at a departmental level. Senior Management continue to review strategic risks on a regular basis within Management Team and the Corporate Risk Register is reviewed bi-annually with any feedback reported to Management Team for consideration.

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.

The Internal Audit function is expected to commission an independent assessment on compliance with the Public Sector Internal Audit Standards that have been set by the Institute of Internal Auditors (IIA) and adopted by the Chartered Institute of Public Finance and Accountancy (Cipfa) every five years. Internal Audit received an independent report in 2017/18 concluding conformance with the standards which was reported to the Audit Committee. Although this assessment is undertaken, the Internal Audit function must continue to complete an annual Quality Assurance and Improvement Programme (QAIP) which is a self-assessment questionnaire against the PSIAS. Work remains on-going in respect of this year's assessment with the final position planned to be reported to the September 2019 meeting of the Audit Committee.

The internal control environment continues to remain stable with no significant changes from 2017/18, an open dialogue with Senior Management on risk remains in place and a generally sound system of internal control has been assessed across the majority of the Councils operational areas. Therefore, an overall unqualified opinion of Adequate Assurance can be provided.

#### **INTERNAL AUDIT PLAN PROGRESS (2019/20)**

A total of 14 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 2019/20.

Internal Audit are working a lot more 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. This has helped build better working relationships with departments as it adds value early on in a process rather than after the event, therefore Internal Audit will undertake more reviews in this capacity within the 2019/20 financial year.

Internal Audit is currently undertaking a self-assessment against the Public Sector Internal Audit Standards (PSIAS) which in turn will create a Quality Assurance Improvement Programme (QAIP). The QAIP will identify areas requiring operational improvement within the Internal Audit Team with management actions attached. This will be reported to the Audit Committee in September 2019 for review and approval as required by the PSIAS.

Appendix B – 2019/20 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 2019/20 Internal Audit Plan will be presented to the Committee in September 2019.

## **INTERNAL AUDIT CHARTER**

A requirement of the PSIAS is for the Audit Committee to review and approve the Internal Audit Charter on an annual basis. The Charter was last updated and approved in September 2018. Although it is less than a year since its last review, with new members on the Audit Committee it may be of benefit to review the Internal Audit Charter at the July meeting.

The Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit function within the Council and sets the principles in which the Internal Audit function must adhere to.

There have been no changes to the charter since the last review in September 2018.

## **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 – Internal Audit Charter