

AUDIT COMMITTEE

27 SEPTEMBER 2019

REPORT OF THE INTERNAL AUDIT MANAGER

A.1 PROGRESS REPORT ON INTERNAL AUDIT – JULY 2019 - AUGUST 2019

(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 2019 – August 2019 as required by the professional standards.

EXECUTIVE SUMMARY

- A total of four audits were completed in the period July 2019 to August 2019 for the 2019/20 audit plan, one audit received and 'Improvement Required' opinion. Fieldwork is completed for the External Funding Review, however we are yet to have the exit meeting and agree the draft report.
- A further 6 audits from the 2019/20 Internal Audit Plan are at fieldwork stage and 13 audits have been allocated.
- There is a request to amend the Internal Audit Plan and substitute the 2019/20 Housing Repairs Audit for Security and Inventory Control review of Depots as the 2018/19 Housing Repairs audit is still ongoing due to its late start and therefore it is felt that it would be beneficial to use the allocated time in the 2019/20 plan on security and stock control.
- 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 Audit Committee agrees to amend the Audit Plan as requested, and;
- Defer the Quality Assessment Improvement Programme to January 2020 Audit Committee, 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 (2019/20)

A total of four audits have been completed since the previous update in July 2019. A further two audits are at the fieldwork completion stage and awaiting an exit meeting to discuss and agree the findings within the audits in question. Six audits are currently in the fieldwork phase and 13 audits have been allocated to commence shortly.

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 Internal Audit Manager continues to attend scheduled meetings regarding the Transformation Programme. This cross departmental meeting has a set agenda to review the progress of the programme and address issues as they come up. Internal Audit is kept

up to date with progress of the programme and action plans in place to mitigate key risks within the programme. Senior Management and the portfolio holder for Corporate Finance and Governance are also present at the meetings.

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.

No significant issues have been raised to date. The current work plan is in phase two of implementation which is designed to create self-service portals for services within our Environmental Services Department. Some of which are due to be deployed in September 2019. A digital transformation programme update was presented to Cabinet on 13th September 2019 which includes a revised financial position.

Project Management

A new Project Management process has been put in place at Officer level to ensure that all Project Initiation Documents (PID) are scrutinised and assessed as early as possible before and after agreement from Cabinet. The premise of the arrangement is to ensure that all projects are practically assessed within resources available on a project by project basis. It must be stressed that this process is not in place to approve or reject projects, only to ensure that all available information is provided to members before a decision is made by cabinet and continuous assessments are in place, if required; after a cabinet decision has been made. The idea is to manage expectations and ensure that each project is assessed in its own right to challenge the following key elements;

Priorities – Does this activity meet the Councils priorities? Does it deliver against key objectives

Financials – What is the value of the activity overall?

Risk – Are all risks being addressed?

Sustainability – Are the outcomes achievable, what is the long term impact, are potential savings short term or long term?

Deliverability – Likelihood of delivering the project with the resources available?

Outcome – Will the project provide the expected outcome e.g. will the savings be made, the service be transformed or key priorities met?

A Project Management Board has been put in place to ensure that the above areas are assessed in detail with recommendations made to responsible officers on areas that may require more information or areas to think about that may not have been thought about at the time when writing the PID.

The board comprises of a Corporate Director, two Heads of Service from different departments and the Internal Audit Manager. This ensures that all projects are assessed by Officers with different sets of expertise prior to commencement.

The above process is a key action within the Annual Governance Statement Action Plan.

Appendix A – Provides an update on the progress of each audit to 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.

Internal Audit is 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 was due to be reported at the September Audit Committee. Unfortunately due to restructuring and other unexpected commitments the self-assessment is not complete. It is requested that the QAIP be deferred to the January 2020 Audit Committee.

Resourcing

The Internal Audit Team has now restructured and we have appointed a new Internal Auditor within the structure. We are currently at 75% capacity. Issues previously reported regarding sickness and maternity leave continue to date.

Outcomes of Internal Audit Work

The standards require the Internal Audit Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report four 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 2019/20 Plan	
Substantial		2	2	
Adequate		1	1	
Improvement Required		1	1	
Significant Improvement Required		0	0	
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.

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

Housing Allocations

Allocations System

Northgate has been used for many years for the administration of allocating available properties.

Despite attempts at workarounds, the software and current process has several inherent issues.

These include:

- Housing priority lists cannot be reproduced at a later date to evidence banding

priorities at that time of allocation.

- Applicant preferences are not reflected within software, including location or disabled adaptations
- There are many manual processes involved that are completed outside of the allocations system, including notes on applications not being successful which ideally should appear on the list from the outset.

Agreed Action;

Northgate to be approached to enquire whether the highlighted issues can be rectified by an update or consultancy work.

Failing this, alternative options be investigated and considered, in liaison with IT and audit, with a view of implementing a replacement system which is able to perform the functions and safeguards needed, as well as being able to be integrated with any other relevant council system and/or software, such as 'My Tendring'.

Should a new system be adopted, a review of current practices is to be undertaken to ensure efficiencies are maximised and processes are linked to software capabilities.

Validation of Declarations

Applicants must make specific declarations on an application form, which need to be subject to a reasonable verification process as any incorrect information provided may lead to withdrawing an offer of housing or voiding a tenancy if it was identified at a later date.

Agreed Action;

Liaise with relevant parties to explore ways to reasonably validate declarations made on applications for council housing.

Scanned Documentation

Scanned documentation relevant to an application and allocation should be retained for subsequent retrieval in case of query or challenge.

During the audit, it was identified that full documentation was not being retained for all applications sampled.

Agreed Action;

To prevent any relevant data pertinent to the allocation process being misplaced and unable to be retrieved at a later date for examination, all documentation within applicant files are to be scanned and indexed

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	5	

Update on previous significant issues reported to the Audit Committee on 29th July 2019

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.*

Heads of Service have begun to distribute the best practice guide to their departments. The inventory management spreadsheets are a larger task and this action may be overtaken by events if an electronic solution is implemented instead.

This is timely because we would like to request that the Housing Repairs and Maintenance audit for 2019/20 be replaced by a full security and inventory review of depots supporting the services based there to implement stronger controls and improve security arrangements. The 2018/19 Housing Repairs audit was brought forward from the previous audit plan and is currently 90% complete. As it started later in the year and due to finish shortly, it is felt that resources would be better spent supporting services to improve security arrangements.

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. It was recommended by the Audit Committee in July to bring the Audit Charter back to the September Committee meeting to give new members of the Audit Committee the opportunity to read and digest the Charter prior to approval.

There have been no changes to the charter since the last review in September 2018. The Charter is included as Appendix B of this report.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – 2019/20 Internal Audit Plan Progress Report Appendix B – Internal Audit Charter
