

AUDIT COMMITTEE

26 JANUARY 2017

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.1 REPORT ON INTERNAL AUDIT – September 2016 to November 2016

(Report prepared by Steve Blake)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period September 2016 – November 2016.

EXECUTIVE SUMMARY

- The proposed budget for Internal Audit for 2017/18 provides sufficient resources to enable the current level of provision to be maintained.
- The arrangements for the first stage of seeking the mandatory external review of Internal Audit are being addressed.
- Plan adjustments have been identified taking account of the Council's current needs.
- 11 audits were completed in the period, 9 of which achieved a satisfactory level of assurance.

RECOMMENDATION(S)

That: -

- (a) The report be considered and noted;
- (b) the Committee considers the proposed Internal Audit budget for 2017/18 and determines if it has any comments;
- (c) the Committee confirms its agreement to the approach to be adopted for the forthcoming external assessment of the Internal Audit function and;
- (d) the changes to the Internal Audit plan as detailed in the report be 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.

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 Audit and Governance Manager, in his role as Chief Audit Executive, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

CURRENT POSITION

Public Sector Internal Audit Standards

The standards were revised from April 2016. Updates regarding compliance with the standards have been regularly brought to the attention of the Committee. The Quality Assurance and Improvement Programme required by the standards was reported to the June 2016 meeting of the Committee.

Standard 1110 Organisational Independence

This standard includes a requirement for the Audit Committee to “**approve the Internal Audit budget and resource plan**”. Guidance subsequently issued by CIPFA regarding Audit Committees indicates that the Committee could have a role, but does not indicate that it is mandatory. The Council’s Constitution was updated in 2015 to enable the Audit Committee to “**consider the annual budget for the Internal Audit service as part of the Council’s budget setting process**”.

The proposed budget for Internal Audit for 2017/18 is currently £174,240. This figure could change as a result of decisions made by Cabinet or Council. If there is any significant change made, this will be drawn to the Committee’s attention in the Annual Internal Audit Plan report at its March 2017 meeting. The comparable figure for 2016/17 was £167,770. The work required to establish the audit needs assessment, and the resource plan, for 2017/18 is currently underway and will form the basis of the above report. The budget available is sufficient to enable an Internal Audit Plan of similar size to that for 2016/17 to be produced, and is expected to provide sufficient audit coverage.

Standard 1312 External Assessments

This standard requires an “**external assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation**”. The standards were introduced in 2013, and it is necessary for the Internal Audit function to be assessed before 31st December 2017.

In order to comply with the requirements of the standard, it is necessary at this time to discuss with the Audit Committee in advance: -

- The form of the external assessment
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest

The guidance available indicates that external assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. The standards also require periodic internal assessments, and these are undertaken in the form of an annual self-assessment with the results reported to the Audit Committee, with the next self-assessment being due in the January – March 2017 quarter, and scheduled to be reported to the June meeting of the Committee. It is considered to be more cost and resource effective to use the forthcoming internal self-assessment as a starting point and therefore, subject to the Committee’s agreement, it is proposed that the external assessment take the form of a self-assessment with independent validation.

It is proposed that quotations be sought only from recognised independent, experienced and suitably qualified providers of Public Sector Internal Audit Standards external quality assessments, in accordance with the requirements of the Council’s Procurement Procedure Rules and the Chairman of the Committee will be consulted before appointment of the preferred provider identified from the quotation exercise.

Sufficient budget is available to fund the expected cost of the proposed external assessment. The impact on resources for 2017/18 is being included as a factor in the development of the 2017/18 Internal Audit Plan, and it is currently believed that sufficient resources will be available to meet the impact of the assessment.

Internal Audit Plan Progress

The Internal Audit Plan approved by the Audit Committee in March 2016 has been kept under review, in accordance with the requirements of the Public Sector Internal Audit Standards. A small number of amendments have been identified as being necessary at this point, taking account of changes within the Council since the plan was approved, and the current position regarding those activities / projects scheduled to be audited, and risk. In amending the plan at this time, the changes agreed will be taken into account in the preparation of the 2017/18 Internal Audit Plan. The changes proposed are: -

Emerging Key Projects (20 days)

At the current time, the emerging key projects have not reached the stage where it is feasible to undertake any Internal audit work. A provision will be included for such work in the 2017/18 plan.

Fraud and Compliance Team (10 days)

Management are currently undertaking a review of this team. CIPFA have published during 2016 **Fighting Fraud & Corruption Locally**, which provides a framework for the effective delivery of a counter fraud function and this has been drawn to the attention of management for consideration as part of that review. Given the changes it is considered that an effective Internal Audit review of the Council’s counter fraud arrangements would

be more appropriately incorporated into the 2017/18 Internal Audit Plan when the position after the changes have been implemented can be reviewed.

At this late stage in the financial year, it is unlikely that any audits added to the plan at this time would be commenced before the development work on the 2017/18 plan is completed. It is therefore proposed that no audits be added to the plan at this time, but that audits be added to the plan to reflect emerging risks and priorities as identified by the 2017/18 Internal Audit Plan process, in consultation with the Chairman of the Committee, if sufficient resources are available to accommodate the commencement of such work before the financial year end.

Appendix A provides details of the status for each audit as at November 2016.

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 Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report 11 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 | Year to Date | |
|----------------------------------|---------------|---------------------------|---------------------|--|
| Substantial | | 3 | 8 | |
| Adequate | | 6 | 17 | |
| Improvement Required | | 2 | 5 | |
| Significant Improvement Required | | 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.

The Committee's attention is drawn to the 2 audits where the assurance level was Improvement Required: -

Procurement – Contractor Use

The audit undertaken found instances of a failure to raise orders at the correct point in the process, which is a breach of Procurement Procedure Rules as detailed in the Council's Constitution. The relevant Corporate Director has subsequently written to all staff in his department instructing them to comply with the Council's rules. Such issues will be included in procurement training / guidance currently being developed.

A further and more extensive audit across all departments on compliance with this aspect of Procurement Procedure Rules is planned to be undertaken shortly.

Payroll / Human Resources – Computer Application Review

Good project management processes had not been adequately developed, maintained or documented for the implementation of the computer system. The issues identified had their origins in the period before the current officers' involvement. Whilst key aspects of the

project have been implemented, and no issues were identified with the day to day operation of the system, there remain aspects of the implementation pending. It has been recommended that good project management be put in place for the remaining phases of the implementation, and the agreed actions regarding this will be tracked by Internal Audit.

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 | Regular reminders are issued to relevant managers to establish that corrective action has been taken / encourage resolution of each issue |
| Not yet due | 6 | |

BACKGROUND PAPERS FOR THE DECISION


Audit Reports

APPENDICES

Appendix A – Internal Audit Plan 2016/17 Progress Report




Tendring District Council Internal Audit Plan
(Position at November 2016)






Appendix A

| Audit Subject | Status November 2016 | Opinion | Comments |
|--|-------------------------------------|---------------------------|---|
| <u>2014/15 Internal Audit Plan</u> (Audits where Final Report not issued by 31 st March 2016) | | | |
| <u>Assurance Work – Other Systems</u> | | | |
| S106 (Follow Up) | Completed | Improvement Required | Reported June 2016 |
| <u>2015/16 Internal Audit Plan</u> (Audits where Final Report not issued by 31 st March 2016) | | | |
| <u>Assurance Work – Key Systems</u> | | | |
| Corporate and Ethical Governance | Completed | Substantial Assurance | Reported June 2016 |
| Housing Benefits | Completed | Adequate Assurance | Reported June 2016 |
| Housing Rents | Completed | Substantial Assurance | Reported June 2016 |
| National Non Domestic Rates | Completed | Adequate Assurance | Reported June 2016 |
| Sundry Debtors | Completed | Improvement Required | Reported June 2016 |
| <u>Assurance Work – Other Systems</u> | | | |
| Development Management | Completed | Adequate Assurance | Reported September 2016 |
| Elections and Electoral Registration | Completed | Substantial Assurance | Reported June 2016 |
| Emergency Planning | Completed | Adequate Assurance | Reported June 2016 |
| Household Waste and Recyclable Materials | Completed | Adequate Assurance | Reported September 2016 |
| Housing Repair and Maintenance | Completed | Adequate Assurance | Reported September 2016 |
| Open Spaces, Horticulture and Play Areas | Completed | Adequate Assurance |  |
| Parking Services | Completed | Adequate Assurance | Reported September 2016 |
| Planning Enforcement | Completed | Adequate Assurance | Reported September 2016 |

Tendring District Council Internal Audit Plan
(Position at November 2016)



Appendix A

| Audit Subject | Status November 2016 | Opinion | Comments |
|---|-------------------------------------|------------------------------|---|
| Risk Management | Completed | Substantial Assurance | Reported June 2016 |
| <u>Assurance Work – Computer Audit</u> | | | |
| ICT Business Continuity / Disaster Recovery | Completed | Adequate Assurance | Reported September 2016 |
| IT Governance | Completed | Adequate Assurance | Reported September 2016 |
| <u>AUDITS SCHEDULED TO COMMENCE IN 2016/17</u> | | | |
| <u>2016/17 Internal Audit Plan</u> | | | |
| <u>Assurance Work – Key Systems</u> | | | |
| Bank Account | Allocated | | |
| Business Rates | Allocated | | |
| Corporate and Ethical Governance | Unallocated | | |
| Corporate Procurement Review | | | |
| Ordering Compliance | Unallocated | | |
| Council Tax | Fieldwork | | |
| Creditors | Completed | Substantial Assurance |  |
| Departmental Procurement | | | |
| Procurement – Contractor Use | Completed | Improvement Required |  |
| Public Realm Procurement | Allocated | | |
| Housing Benefit | Allocated | | |
| Housing Rents | Allocated | | |
| Main Accounting System | Fieldwork | | |
| Payments Received | Allocated | | |
| Payroll | Completed | Substantial Assurance |  |

| Audit Subject | Status November 2016 | Opinion | Comments |
|--|-------------------------------------|------------------------------|---|
| Sundry Debtors Treasury Management | Allocated Fieldwork | | |
| <u>Assurance Work - Emerging Key Projects</u> | | | |
| Audits to be arranged | Unallocated | | |
| <u>Assurance Work – Other Systems</u> | | | |
| Beach Huts | Completed | Adequate Assurance |  |
| Bereavement Services | Completed | Adequate Assurance |  |
| Building Control Coast Protection | Unallocated Unallocated | | |
| Financial Resilience | Completed | Adequate Assurance |  |
| Fraud and Compliance Team Grants / Financial Assistance | Unallocated Allocated | | |
| Housing Allocations Housing Repairs and Maintenance | Completed Allocated | Improvement Required | Reported September 2016 |
| Leisure Services Development Programme Planning Policy | Completed Unallocated | Substantial Assurance | Reported September 2016 |
| Public Conveniences Risk Management | Fieldwork Unallocated | | |
| Staff Allowances | | | |
| Corporate Services | Completed | Adequate Assurance |  |
| Operational Services | Completed | Substantial Assurance |  |
| Street Sweeping | Completed | Adequate Assurance | Reported September 2016 |

Tendring District Council Internal Audit Plan
(Position at November 2016)

Appendix A

| Audit Subject | Status November 2016 | Opinion | Comments |
|--|--|---------------------------------|---|
| Walton – on – the – Naze Lifestyles | Allocated | | |
| <u>Assurance Work – Computer Audit</u> | | | |
| IT Governance | Unallocated | | |
| IT Project Management | Fieldwork | | |
| Payroll / Human Resources – Computer Application Review | Completed | Improvement Required |  |
| Revenues and Benefits Computer Application Review | Completed | Adequate Assurance |  |
| Uniform Application Review | Allocated | | |
| Status Key | | | |
| Unallocated | Audit in Audit Plan, but no work undertaken yet | | |
| Allocated | Audit is being scoped / has been scoped and awaiting commencement | | |
| Fieldwork | Audit in progress | | |
| Draft Report | Audit fieldwork complete, but Final Report not yet issued | | |
| Completed | Final Report issued and audit results reported to Audit Committee | | |
| Deferred | Audit was in Audit Plan, but will now be undertaken in a later year. Deferred audits agreed by Audit Committee | | |
| Delayed | Valid request from function being audited for audit to be undertaken later than proposed | | |