

AUDIT COMMITTEE

29 SEPTEMBER 2022

REPORT OF INTERNAL AUDIT MANAGER

A.1 PERIODIC UPDATE REPORT ON INTERNAL AUDIT: JUNE 2022 - AUGUST 2022

(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 June 2022 – August 2022 and to provide an update on the Internal Audit Charter for approval by the Audit Committee as required by the professional standards.

EXECUTIVE SUMMARY

- Five audits have been completed since the last Audit Committee in June 2022. Four of those audits received a satisfactory level of assurance and one audit (Depot Operations) received an 'Improvement Required' opinion.
- A further 14 audits from the 2022/23 Internal Audit Plan have been allocated, eight of which are currently at the fieldwork phase.
- The Internal Audit Charter is provided to be reviewed and approved for the 2022/23 financial year. There has been no changes since the last update.

RECOMMENDATION(S)

Having considered the report and having decided whether it has been sufficiently informed on its contents, the Committee is recommended to resolve that:-

- (a) the contents of the report and its appendices be noted; and
- (b) the Internal Audit Charter 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.

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 Internal Audit 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 2022/23

The Housing Strategy audit is the only audit that remains outstanding from the 2021/22 Internal Audit Plan. The audit was originally delayed due to the passing of the Project Executive Officer for Housing. The service has not been able to recruit to the post since and are currently recruiting to the position. Therefore the audit has been moved in to the 2022/23 Internal Audit Plan with a view to completing the audit later in the year.

A total number of five audits were completed during June 2022 to August 2022. One report in this period has received an overall opinion of 'Improvement Required' (Depot Operations) with the other four receiving satisfactory assurance opinions with no significant issues being identified.

A further 14 audits from the 2022/23 Internal Audit Plan have been allocated, eight of which are currently at the fieldwork phase.

As previously discussed, every audit undertaken will review the impact of Covid-19 on the service area under review. A summary will be provided to the committee at the end of the financial year detailing observations and recommendations made throughout the year. Any

significant issues identified will be brought to the committee sooner in the same way that significant findings are reported within the periodic reports.

We are currently in the 'Key Systems' phase of the plan where all financial and core service systems and processes are reviewed. Each area is tried and tested and very important to the Councils day to day activities. We do not anticipate any significant issues in this area as historically they have been well managed; however, it is very important to ensure that these systems and processes continue to work as expected and remain well controlled.

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

Internal Audit is currently working with an establishment of 3 fte with access to a third party provider of Internal Audit Services for specialist audit days as and when required. We have advertised twice for the vacant Audit Technician post but have unfortunately not been able to appoint to the post.

The Internal Audit Manager is a member of the Essex Audit Group which is made up of all Heads of Internal Audit across all district and boroughs across Essex including Essex County Council and Southend and Thurrock. All members of this group are finding it difficult to recruit and it seems that it isn't just an issue within the audit sector.

Because of this the Internal Audit Manager is leading with other members of the group, on a plan to allow apprentices to work within the different Councils across Essex for short periods of time to gain experience that they would not receive working for one organisation. This is to try and provide a better quality of training and experience across the board while the apprentice studies.

Therefore, at this time; due to not being able to recruit a candidate we would like, we will be revisiting the apprenticeship route.

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 2022/23 Plan | |
|----------------------------------|--------|--------------------|------------------------|--|
| Substantial | | 1 | 1 | |
| Adequate | | 3 | 3 | |
| Improvement Required | | 1 | 1 | |
| Significant Improvement Required | | 0 | 0 | |
| No Opinion Required | | 0 | 1 | One consultative engagement in 2022/23 to date |

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: -

Depot Operations

Although there was only one significant issue reported within this audit, there were a number of operational issues identified which require management attention across all risk areas identified within the audit. This had a weighted influence on the overall assurance opinion of the report. Those issues will be followed up by Internal Audit with the service in the normal way.

It is important to note that many of the findings identified within the audit are longstanding issues that take time to resolve. The changes that are currently occurring and planned future changes have an impact on the culture, structure and day to day operations of the depot. The service has been working with Internal Audit, keeping us informed on progress and will continue to do so going forwards.

Significant issues identified;

1. Lack of Stores Stock Takes

In order to manage and control stock and check the integrity of the stock system against system error or potential theft, stock takes are necessary to ensure what is recorded on the system matches with the physical stock.

An ad-hoc stock take of a few random lines was undertaken during the audit, which identified a few discrepancies.

It was advised there are no regular stock takes - either checking a number of lines or a complete one. A lack of resource was provided as the main reason due to manual methodology of other tasks taking time.

Risk;

Without regular stock takes, it is problematic to know stock records are correct which would identify any errors in the system or if stock is being removed without authorisation.

Agreed Action;

To actively manage stock, regular stock takes are to be introduced, at a minimum frequency of a month.

Current software to be used to monitor stock, but stocktakes will be continued using any replacement software, following current review of options.

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 | 3 | |

Update on previous significant issues reported

The Corporate Director (Operations and Delivery) will be in attendance to provide an update on the progress of agreed actions relating to Housing Repairs and Maintenance as reported at the June 2022 Audit Committee.

The Assistant Director (Partnerships) will also be in attendance to provide an update on agreed actions previously reported to the committee on Careline and Career Track.

INTERNAL AUDIT CHARTER

A requirement of the Public Sector Internal Audit Standards (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 2021. There has been no changes to standards or processes since the last review, therefore no amendments were required.

The Charter is included as Appendix B of this report.

BACKGROUND PAPERS FOR THE DECISION

Internal Audit reports

APPENDICES

Appendix A – 2022/23 Internal Audit Plan Progress Report
Appendix B – Internal Audit Charter