

AUDIT COMMITTEE

30 MARCH 2023

REPORT OF INTERNAL AUDIT MANAGER

A.1 REPORT ON INTERNAL AUDIT – JANUARY 2023 TO FEBRUARY 2023 AND THE INTERNAL AUDIT PLAN 2023/24

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a progress report on the Internal Audit function for the period January 2023 – February 2023 and to seek approval of the Audit Committee for the 2023/24 Internal Audit Plan.

EXECUTIVE SUMMARY

- A total of four audits have been completed since the previous update in January 2023. However, at time of writing, the overall assurance opinion on two of them were still being negotiated. Nine audits are still in fieldwork, four of which are expected to be completed before the Audit Committee sits in which a verbal update will be provided.
- Four audits have been deferred to the 2023/24 Internal Audit Plan. Two of which were allocated to the Internal Audit Manager and competing priorities have limited capacity to complete in 2022/23. A further two audits have been delayed due to service changes and capacity issues. Based on the audits completed to date and those yet to be complete, the Internal Audit Manager is on course to provide an unqualified annual assurance opinion as long as no further significant issues are identified prior to the June 2023 Audit Committee.
- The 2023/24 Audit Plan has been developed using a risk based approach, taking account of the Council's Corporate Objectives, Corporate Risks and Emerging Risks. The plan has been collated based on the information gained from liaising with Directors, Heads of Service and entire departments to target areas that may benefit from an independent review of processes and procedures to determine potential efficiency gains, improved technology / software requirements or if the function has not been audited for a substantial period of time due to it being considered of lower risk historically.
- The establishment for the Internal Audit function is currently four full time equivalents (fte). A recent restructure now means we have four full time members of staff with the part time Audit Technician being changed to full time. This post is to be advertised and appointed to.
- The level and range of coverage is considered sufficient for the Internal Audit Manager to be able to provide an annual opinion on the Council's assurance framework.

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RECOMMENDATION(S)

<p>(a) The periodic update and the Internal Audit Plan 2022/23 be considered and approved; and</p> <p>(b) that the existing arrangements for updating the plan during the year, where necessary to reflect changing Authority activity and operational needs and to provide flexibility of service delivery, be continued, with significant amendments reported to this committee as part of the periodic Internal Audit reporting arrangements.</p>
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REASON(S) FOR THE RECOMMENDATION(S)
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<p><i>The above recommendations are required to ensure that the Audit Committee agree and accept the contents of the report.</i></p>
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ALTERNATIVE OPTIONS CONSIDERED

<p><i>The External Quality Assessment could be undertaken sooner, however additional resources would be required to do so when the impact is considered low risk.</i></p>

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

<p>Provision of adequate and effective internal audit helps demonstrate the Council’s commitment to corporate governance matters. It also links in with the Council’s key priorities of ‘Delivering high quality services’ and having ‘Strong finances and governance’.</p>

LEGAL REQUIREMENTS (including legislation & constitutional powers)

<p>The Council has a statutory responsibility to maintain adequate and effective internal audit.</p> <p>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.</p>
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FINANCE AND OTHER RESOURCE IMPLICATIONS
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<p>Finance and other resources</p> <p>The Internal Audit function is operating within the budget set. Recruitment and retention remains to be the biggest risk of not being able to deliver the Internal Audit Plan. This is continuously monitored and the Audit Committee are updated with any issues accordingly.</p>

USE OF RESOURCES AND VALUE FOR MONEY

External Audit expect the following matters to be demonstrated in the Council's decision making:

- A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;*
- B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and*
- C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.*

As such, set out in this section the relevant facts for the proposal set out in this report.

The following are submitted in respect of the indicated use of resources and value for money indicators:

<p>A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;</p>	<p>Budgets are reported to the Audit Committee annually to review. The Internal Audit Manager regularly monitors those budgets throughout the year to ensure that they remain adequate and do not overspend.</p>
<p>B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and</p>	<p>The Internal Audit Charter sets out the roles and responsibilities of both the Audit Committee and the Internal Audit function. The powers of the Audit Committee and the role of Internal Audit is also set out within the Councils Constitution.</p>
<p>C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.</p>	<p>Internal Audit continues to monitor new working practices in order to streamline processes and improve performance and potentially reduce costs. Internal Audits undertaken may support services in doing the same and potential reduce overall costs to the Council.</p>

MILESTONES AND DELIVERY

Review of recommendations and decision to be made on 26th January 2023 by the Audit Committee

ASSOCIATED RISKS AND MITIGATION

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

As this report is a periodic update report, there is no exposure to strategic risks within the Councils Risk Management Framework. There is however an operational risk of being unable

to complete and deliver the internal audit plan and be unable to provide the Head of Internal Audit Annual Opinion.

OUTCOME OF CONSULTATION AND 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.

EQUALITIES

There are no equality impacts directly associated with this progress report. However they will need to be considered as part of any improvement / remedial actions undertaken by the relevant Service where necessary.

SOCIAL VALUE CONSIDERATIONS

The following report is for information only and does not have a social value impact as set out within the template guidance.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

The following report is for information only and does not have an environmental impact as set out within the template guidance.

OTHER RELEVANT IMPLICATIONS

Set out what consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are then set out below.

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	N/A
Health Inequalities	N/A
Area or Ward affected	N/A

ANY OTHER RELEVANT INFORMATION

N/A

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

In respect of the Internal Audit Plan the Public Sector Internal Audit Standards require the Internal Audit Manager to: -

- Establish a risk based Internal Audit Plan, at least annually, to determine the priorities of the Internal Audit function, consistent with the Council’s goals.
- Has in place a mechanism to review and adjust the plan, as necessary, in response to changes to the Council’s business, risks, operations, programmes, systems and controls.
- Produces a plan that takes into account the need to produce an annual Internal Audit opinion.
- Considers the input of senior management and the Audit Committee in producing the plan.
- Assesses the Internal Audit resource requirements.

PREVIOUS RELEVANT DECISIONS TAKEN BY COUNCIL/CABINET/COMMITTEE ETC.

N/A

INTERNAL AUDIT PROGRESS 2022/23

A total of four audits have been completed since the previous update in January 2023. However, at time of writing, the overall assurance opinion on two of them were still being negotiated. Nine audits are still in fieldwork, four of which are expected to be completed before the Audit Committee sits in which a verbal update will be provided.

Four audits have been deferred to the 2023/24 Internal Audit Plan. Two of which were allocated to the Internal Audit Manager and competing priorities have limited capacity to complete in 2022/23. A further two audits have been delayed due to service changes and capacity issues and will be reassessed in the 2023/24 Internal Audit Plan.

A risk assessment has been completed to ensure that all audits that need to be completed in order to provide an annual opinion will have been. As previously mentioned, the audit plan is a rolling programme between financial years which is continually monitored and assessed to ensure that the work programme covers all service areas across the Council in order to provide a balanced opinion.

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 has an establishment of 4 fte posts with access to a third party provider of Internal Audit Services for specialist audit days as and when required. We currently have an Audit Technician post vacant.

At time of writing, all documentation has been submitted awaiting approval to advertise for an Internal Audit Apprentice to undertake a Public Service Operational Delivery NVQ Level 3 Apprenticeship.

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 2022/23 Plan	
Substantial	Green	2	6	
Adequate	Light Green	0	9	
Improvement Required	Yellow	0	0	
Significant Improvement Required	Red	0	0	
No Opinion Required	Grey	0	1	One consultative engagement in

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: -

- There were no significant issues identified within this period of completed audits.

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	1	
Not yet due	0	

Update on previous significant issues reported

Depot Operations

Issues have previously been reported to the audit committee relating to Housing Repairs and Maintenance and Depot Operations relating to the following areas;

- Lack of regular stock takes for the stores
- Lack of contract variation tracking as part of the Housing Repairs Contract Management
- Missing tenancy information
- Lack of clear record keeping
- Discrepancies between Oneserve Management Software and Invoices

As discussed at the previous Audit Committee, the Corporate Director responsible for the area will be attending to provide a progress update on the implementation of the agreed actions relating to the above issues identified.

DEVELOPMENT OF THE AUDIT PLAN

The Internal Audit Plan is produced taking into account the requirements as set out in the Public Sector Internal Audit Standards, the current Internal Audit Charter. The Internal Audit Team continue to aspire to add value by targeting particular areas of the Council that may benefit from an independent review of processes and procedures to determine potential efficiency gains, improved technology / software requirements or change through new innovative ways of working. The Council is operating with difficult budgetary pressures

therefore in 2023/24 there will be an emphasis on consultative work to support the Council in meeting its objectives, delivering key projects and preparing for emerging risks / cost pressures.

The 2023/24 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks and Emerging Risks. Risk is defined as 'the possibility of an event occurring that will have an impact on the achievement of objectives'. Therefore risk can be a positive and negative aspect, so as well as managing things that could have an adverse impact (downside risk) it is also important to look at potential benefits (upside risk). All audits will look at adverse impact and potential opportunities and all significant areas are reported to the Audit Committee periodically.

Internal Audit will continue to assess the impact of COVID-19 within all service areas audited. The Internal Audit Manager will provide and update as part of the Head of Internal Audit Annual Report. Some procedures have changed for the better because of COVID-19 as it forced the Council to modernise in some areas. However, some temporary measures were installed which are still in place now. Therefore, procedural changes will continue to be monitored to ensure internal controls are not overlooked.

Discussions have been held with Management Team members individually and collectively. The feedback from Management Team has been taken into account and incorporated within the plan presented to the Committee. The Committee now has the opportunity to input into the draft plan provided.

Other factors also considered when developing the plan are;

- The risk maturity of the organisation;
- The need to use specialists e.g. IT Auditors
- Contingency time to undertake ad-hoc reviews and fraud investigations
- Having the right balance of different reviews e.g Systems and risk based vs added value and consultative assessments

INTERNAL AUDIT RESOURCE REQUIREMENTS

The establishment for the Internal Audit function is currently four full time equivalents (fte). The team currently holds a vacancy for a full time Audit Technician post.

The proposed plan has been developed based on the current resource available and the teams' adaptation to innovative and leaner ways of working. The number of audit days proposed is 450 which remains unchanged from the 2022/23 audit plan. The plan has been created with the following in mind;

- A leaner more practical audit plan has been developed using a risk based approach, knowledge of all operational processes within service areas, historical assurance opinions and an understanding of where procedural changes have occurred around the Council.
- A hybrid structure of both internal and external resource will provide additional resilience within the team as well as provide different experience, skills transfer for more junior staff and access to a hub of audit resource.

- Emphasis on adding value in delivering objectives by providing more consultative work and advice on upcoming initiatives, projects, programmes and emerging risks.

INTERNAL AUDIT PLAN DETAIL

The plan provides an outline of the work currently proposed to be undertaken during the 2023/24 financial year. In order to continue to provide a proactive and flexible approach, the plan should be considered indicative of the work currently intended. The Internal Audit Plan needs to be flexible to ensure that Internal Audit resources are directed where they are most needed, and add as much value as possible to the organisation.

The plan will be kept under review during the year, in consultation with the Council's senior management, and taking account of changes to the Council's priorities, operations and risk. Changes to the plan will be brought to the attention of the Committee for approval.

The plan is considered to be in effect a rolling programme of work, rather than being specific to one year, and audits scheduled, but incomplete at the end of any financial year roll forwards and are completed in the new financial year.

A detailed breakdown of the Audit Plan is included in Appendix B.

The Committee's attention is drawn to the following: -

- The comments section of the plan provides additional detail on the audit techniques to be used to deliver the reviews, a brief summary of what is included within the audit and in some instances why it is included in the plan
- Consultative audits – The Council faces a difficult period with budget constraints, increased demand on services and involvement with major projects which could expose the Council to further risk financially and reputationally. Therefore, it is felt that Internal Audit can add more value by advising at the start and throughout the projects / initiatives
- Key Financial Audits – Audits within this section form the foundation of the Head of Internal Audits annual opinion as they cover all aspects of the Council's financial procedures. This is important because if there are major failings in our financial procedures as well as our service delivery audits then there is an increased risk of error, poor governance and fraud.
- Development – Some days have been allocated within the plan to ensure that there is enough time available for the Audit Team to incorporate all of the new processes, procedures, techniques and reporting arrangements into all areas of their work.

As referred to above mechanisms exist to allow amendment to the plan and if any issues arise regarding the risks in the current Corporate Risk Register, or new risks emerge including any identified by the Council's external auditors, then plan adjustments will be considered.

The level and range of coverage is considered sufficient for the Internal Audit Manager to be able to provide an annual opinion on the Council's assurance framework.

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APPENDICES

<i>Appendix A – Internal Audit Progress Report 2022/23</i> <i>Appendix B - 2023/24 Internal Audit Progress Report</i>
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REPORT CONTACT OFFICER(S) <i>Include here the Name, Job Title and Email/Telephone details of the person(s) who wrote the report and who can answer questions on the content.</i>
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