

## AUDIT COMMITTEE

13 JULY 2023

### REPORT OF INTERNAL AUDIT MANAGER

#### A.1 REPORT ON INTERNAL AUDIT – MARCH 2023 - MAY 2023 AND THE ANNUAL REPORT OF THE INTERNAL AUDIT 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 2023 – May 2023 and the Internal Audit Managers Annual Report for 2022/23 as required by the professional standards.

##### EXECUTIVE SUMMARY

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

#### **1) Internal Audit Plan Progress 2022/23**

- A satisfactory level of work had been carried out on the 2022/23 Internal Audit Plan in order for the Internal Audit Manager to provide an opinion in the Annual Head of Internal Audit Report.
- In the last quarter, one audit (Housing Allocations) received an overall audit opinion of 'Improvement Required'. All other audits within the plan received a satisfactory level of assurance.
- Although recycling and waste received an overall opinion of adequate assurance, a significant issue relating to green waste collection was identified during the audit that needs to be brought to the Audit Committees attention.

#### **2) Annual Report of Internal Audit Manager**

- The Annual Report of the Internal Audit Manager concludes that an unqualified opinion of Adequate Assurance is provided.
- Work carried out throughout the year by the Audit Committee, Senior Management and the Internal Audit Team is in line with Public Sector Internal Audit Standards and CIPFA Application Notes (Latest release November 2020)
- Two audits from a total of 26 completed received a less than satisfactory opinion of 'Improvement Required'. Those audits were Housing Repairs and Maintenance and Housing Allocations.

#### **3) Internal Audit Plan Progress 2023/24**

- Six audits within the 2023/24 Internal Audit Plan are currently in fieldwork.
- After the second attempt of trying to recruit an apprentice for the Internal Audit Team we have been unsuccessful due to the candidate finding an alternative apprenticeship just before they were due to start in July.

## RECOMMENDATION(S)

Members are requested to note the reports and consider whether they have been informed on the following;

- The annual opinion statement within this report
- The completion of audit work against the 2022/23 and 2023/24 Internal Audit Plans
- Any audit findings provided; and
- The overall performance and customer satisfaction on audit delivery

## REASON(S) FOR THE RECOMMENDATION(S)

*The above recommendations are required to ensure that the Audit Committee agree and accept the contents of the report.*

## ALTERNATIVE OPTIONS CONSIDERED

*The reports are for information and consideration of the Audit Committee.*

## 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. It also links in with the Council's key priorities of 'Delivering high quality services' and having 'Strong finances and governance'.

### LEGAL REQUIREMENTS (including legislation & constitutional powers)

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.

### FINANCE AND OTHER RESOURCE IMPLICATIONS

#### Finance and other resources

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.

## 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:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	<b>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.</b>
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	<b>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.</b>
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.	<b>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.</b>

## MILESTONES AND DELIVERY

Review of recommendations and decision to be made on 13<sup>th</sup> July 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.**

<b>Crime and Disorder</b>	<b>N/A</b>
<b>Health Inequalities</b>	<b>N/A</b>
<b>Area or Ward affected</b>	<b>N/A</b>

## ANY OTHER RELEVANT INFORMATION

N/A

## PART 3 – SUPPORTING INFORMATION

### BACKGROUND

The Public Sector Internal Audit Standards require the Chief Internal Auditor (Internal Audit Manager) to make arrangements for reporting to senior management (Management Team) 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.

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

All expected audits for the 2022/23 Internal Audit Plan have been completed.

A total number of eight audits were completed during April 2023 to May 2023. Two audits in this period received an overall opinion of 'Improvement Required' (Housing Repairs and Maintenance and Housing Allocations) with the other six receiving satisfactory assurance opinions with no significant issues being identified.

The audits receiving an overall opinion of 'Adequate' or 'Substantial' in this period were Risk Management, Health and Safety, Recycling and Waste, IT Governance, Freedom of Information / Subject Access Requests and Procurement.

Internal Audit continues to provide advice on internal control, risk management and governance arrangements on a consultative basis.

All audits completed in the year have been assessed against the following risk;

*"The department has not managed or adapted to post Covid-19 working arrangements therefore current processes do not align with service demand potentially leading to process inefficiencies and gaps in internal control"*

All procedural changes have been recorded and recommendations will have been made throughout the year if procedural changes were needed; however, all departments reviewed to date have adapted well to the challenges brought by the Covid-19 pandemic and no significant issues specifically relating to the above risk have been identified.

We remain focussed on delivering the message that we are here to support services and by letting us know about policy and procedural changes, difficult circumstances or just the unknown due to working on new projects / initiatives, we can advise and support at an early stage rather than create additional work at a later date if governance or internal control issues are identified during an audit at a later 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.

### **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.

The team recently advertised and interviewed for an Internal Audit Apprentice with one successful applicant due to start early July. Unfortunately the candidate will now no longer be joining us as they have found alternative employment. We will need to advertise and recruit again; however, this will be the third attempt to recruit with not many people applying for the vacancy. We may need to explore where we advertise the apprenticeship to try and maximise the number of applicants we receive.

## 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	3	9	
Adequate	Light Green	3	12	
Improvement Required	Yellow	2	2	
Significant Improvement Required	Red	0	0	
No Opinion Required	Grey	0	3	Two consultative engagements 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: -

### Housing Allocations

Semi-automation of the Housing Register

#### Finding

Shortlists to determine allocation of tenancies should be automated, recorded and reflect preferences and bandings of applicants.

Previously, this was a manual process, and flaws in this were highlighted in previous audit reports.

A new system was implemented and while the system is a large improvement on the previous method, the shortlisting still requires some manual input to bypass unsuitable candidates and officer time to sift through these.

Reasons for manual bypass could include an unrequested area, only accepting sheltered housing or a property unable to be adapted for a disabled applicant.

#### Risk

*Without fully evidencing why certain applicants were bypassed, it is problematic to evidence why one applicant was awarded the property over another with an apparently higher claim. There is also the risk of an applicant being unfairly awarded accommodation if a higher placed applicant can be bypassed without authorisation or in error manually by an officer.*

### Agreed Action

At the conclusion of the Post Live Update software upgrade, it is expected that the shortlisting process should be fully automated due to including more factors (such as location) in the filtering to determine eligibility and offer. There shouldn't be any manual input which should make the process both less prone to manual error and manipulation as well as faster to process.

The process should still have a manual check to ensure the system is correct and all documentation is present and correct before any offer is made.

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### **Housing Repairs and Maintenance**

The issues identified within the Housing Repairs and Maintenance review remain the same as the previous years audit. The reason for the overall 'Improvement Required' opinion is because the new management system has not yet been fully implemented which is expected because it is a long term solution to the issues previously identified. However, because temporary processes are still being used until the system is fully implemented we were unable to provide an improved audit opinion from the previous year.

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### **Recycling and Waste**

Although the overall opinion for recycling and waste was 'Adequate Assurance' there is one finding that needs to be raised with the Audit Committee because it is significant to green waste. In terms of recycling and waste generally, green waste collection is a small part of the service and its financial impact in comparison to the overall contract is low. However, the issue identified has a significant impact on the management of the green waste collection service.

### Finding

The Garden Waste service has significantly grown since the introduction of the function.

In order to effectively manage and monitor the service, several operational controls should be place.

Currently, there is no master list to confirm total number of garden waste customers. This has lead to a lack of reconciliations, which essentially, prevents the team from checking income against customer figures.

In line with the above, invoices are unclear which has made it challenging to establish charges for individual bin collections. Therefore, the team are uncertain whether the Council are being correctly charged, per bin.

The use of two systems has also made it difficult to provide an accurate database.

## Risk

*Failure to implement suggested changes, could result in the following;*

- *Customers receiving a service which they have not paid for*
- *The Council being over charged for garden waste bin collections*
- *Associated debt through lack of house keeping*
- *Financial loss and Reputational Damage*

## Agreed Action

Garden waste data to be transferred to Firmsteps, in order to verify total number of customers.

Transparency of garden waste invoices also to be sought, to enable confirmation of charges.

Once complete, full monthly reconciliations to be carried out and checks by management to be evidenced.

**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 remain ongoing however a further update can be provided relating specifically to stock taking.

The service have a designated Officer to manage stores who records and issues stock upon management approval to keep a better record of all assets and stock. A weekly stock take is undertaken based on categories due to the variety of stock e.g. timber, tools, etc.

As this information is held and updated on a spreadsheet it could be prone to error or manipulation and has a big impact on staff time to update the records. However, it is a huge improvement on the fact there was no process previously. The current process is a temporary fix until a full stock control and barcoding system can be implemented. The IT Department have agreed to create this system, a first version has already been created but some changes need to be made in order to implement fully.

## **ANNUAL AUDIT REPORT OF INTERNAL AUDIT MANAGER**

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act. The Accounts and Audit Regulations 2015 require that the Council undertakes an effective Internal Audit to evaluate the effectiveness of its risk management, internal control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS).

The Public Sector Internal Audit Standards (PSIAS) state that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The role of the Head of Internal Audit (Internal Audit Manager), in accordance with the PSIAS, is to provide an opinion based upon, and limited to, the work performed on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes.

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 council is accountable collectively for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

Because of this, the Council continues to adopt a 'Three Lines of Defence' assurance model which is taken from the following sources;

### ***1. Senior Management and Departmental Leadership***

Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

### ***2. Internal Governance***

The second line of defence consists of activities covered by several components of internal governance (Statutory Officers, Corporate Oversight Functions, Quality Control, IT Security, Data Protection and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

### ***3. Internal Audit***

The requirement for an internal audit function in local government is detailed within the Accounts and Audit Regulations 2015, which states that a relevant body 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.

### **Internal Audit Approach**

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 audit programme was developed using a risk based approach that incorporates a number of independent reviews of the Councils activities to be able to give an overall opinion on the areas mentioned above.

Over the past few years there has been a rapid shift in the risk landscape leading to changing expectations from stakeholders for more value driven outcomes from Internal Audit work. This can be broken down into the following four categories that the Internal Audit function has tried to adopt in its approach to auditing within Tendring District Council;

- Flexibility – Utilising different options to build engagement that allow varied deliverables
- Value creation – Enhancing or improving deliverables while considering culture, organisation maturity and stakeholder needs
- Innovation – Considering new and different ways of delivering audit efficiency, risk coverage and overall value
- Systematic approach – Considering options and making decisions in an orderly way

The COVID-19 pandemic was a major contributor to the ever changing risk landscape which lead to the impact of COVID-19 becoming a section of every audit undertaken and will continue to be going forwards. The Internal Audit Team record changes to procedures and effectiveness and efficiency issues due to COVID-19 and report any significant issues to the Councils Management Team and Audit Committee as required. Departments have adapted well making permanent and temporary changes to procedures, recommendations have been made to a number of service areas throughout the year to reassess what were meant to be temporary process changes; However, none were significant enough to warrant reporting to the Audit Committee as they were minor operational issues managed by departments without significant resource impacts.

Communication between Internal Audit, Leadership and the Audit Committee has been effective and remain consistent which provides reasonable assurance around the effectiveness and transparency of reporting arrangements.

Internal Audit has continued 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. This includes advising service areas transformation projects, procurement, ad-hoc investigations and any further advice on procedures due to the impact of COVID-19.

Independent investigatory work has also been undertaken throughout the year as and when required to support Senior Management when internal control issues arise within service areas.

In 2022/23, only two audits from a total of 26 reviews undertaken received an overall audit opinion of “Improvement Required” where high severity issues were identified. The audits were Housing Allocations and Housing Repairs and Maintenance. The issues raised in both areas relate specifically around system implementation and the need to ensure that the IT systems used to manage the records and monitor progress need further development.

Improvement actions are in place for the mentioned audit areas which are followed up by the Internal Audit function to assess the progress of implementation. 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 and material issues identified.

### **Annual Opinion 2022/23**

The Head of Internal Audit annual assurance opinion is based on the following:

- Internal Audit work completed during the course of the year;
- observations from consultancy/ advisory support;
- results of any follow up exercises undertaken in respect of previous years’ internal audit work;
- a review of assurance from other providers including those from first and second lines of defence, independent regulators and peer reviews;
- the extent of resources available to deliver the internal audit work; and
- the quality and performance of the Internal Audit service and the extent of compliance with the Public Sector Internal Audit Standards

### Limitations to the Annual Opinion

There are no limitations to report on the ability to deliver the Internal Audit Plan and provide an annual opinion on the effectiveness of governance, risk management and internal control. There were changes to the audit plan throughout the year due to emerging risks and changes to service provision. The changes to the audit plan were in consultation with the Audit Committee and Management Team to fit with the resources available at the time.

### The Head of Internal Audit Annual Opinion

The overall direction of travel regarding the internal control environment since 2022/23 has improved. In 2021/22 it was noted that an unqualified opinion could be difficult due to the wider governance issues raised in that year. However, it is pleasing to note that based on the work completed in 2022/23 there was evidence of improvements to processes and procedures throughout the Council meaning that a qualified opinion is not necessary for the 2022/23 financial year. A total of 39 moderate issues and 1 major issue were identified with actions agreed with operational management throughout the year. All major actions due have been reported to the Audit Committee and all moderate actions are managed through the audit follow-up process with the service area.

Governance arrangements and internal controls have been evaluated in all audits within the plan, albeit with varying levels of scope. 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 Internal Audit Manager has considered assurances obtained through:

- All of the information reported above
- Internal Audit outcomes
- Annual Risk Management Review
- The Council's assurance framework
- Management assurance through the Annual Governance Statement process
- External inspections
- Ongoing engagement with the business
- Monitoring and reporting the implementation of agreed management actions

The Internal Audit Manager is satisfied that sufficient work was completed in 2022/23 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's activities. The internal control environment continues to remain stable with some significant changes in specific service areas which have been reported to the Audit Committee throughout the year as part of the periodic reporting arrangements. 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.

In noting this opinion, it should be acknowledged that Internal Audit has not reviewed all risks and assurances and cannot provide absolute assurance on the internal control environment.

*The above report will be included within the Councils Annual Governance Statement (AGS) as part of its statutory responsibilities.*

#### **INTERNAL AUDIT PROGRESS 2023/24**

We are yet to finalise an audit within the 2023/24 Internal Audit Plan. A total of 6 audits are in fieldwork phase.

The Internal Audit Team have been monitoring outstanding actions and working hard to ensure that services work with us to confirm that agreed actions are completed in a timely manner.

Work has begun in areas such as Corporate Governance, Planning Development, Leisure Estate – Efficiencies and Cost Pressures, Building Control, Treasury Management and Contact Centre - Digitalisation.

Appendix B – 2023/24 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.

#### **APPENDICES**

*Appendix A – Internal Audit Progress Report 2022/23*  
*Appendix B - 2023/24 Internal Audit Progress Report*

**REPORT CONTACT OFFICER(S)**

*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.*

<b>Name</b>	<b>Craig Clawson</b>
<b>Job Title</b>	<b>Internal Audit Manager</b>
<b>Email/Telephone</b>	<a href="mailto:cclawson@tendringdc.gov.uk">cclawson@tendringdc.gov.uk</a> <b>01255 686531</b>