

AUDIT COMMITTEE

21 SEPTEMBER 2017

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.1 REPORT ON INTERNAL AUDIT – June 2017 to August 2017

(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 June 2017 – August 2017.

EXECUTIVE SUMMARY

- Action has been completed to address a number of issues raised in the Quality Assurance and Improvement Programme reported to the previous meeting of the Committee.
- Six audits have been completed in the period with Substantial or Adequate Assurance being achieved in four instances. The results of the remaining two audits have been addressed by circulation of the issues to senior managers with guidance regarding Constitutional requirements, it having been identified that further and more detailed work was required to be undertaken before opinions could be fairly formed. This work is to be undertaken shortly.

RECOMMENDATION(S)

That the report be considered and noted

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 2017. The Quality Assurance and Improvement Programme (QAIP) required by the standards was reported to the June 2017 meeting of the Committee.

During the last quarter the Internal Audit Manual has been updated to reflect the revisions to the standards, to take account of changed working practices since the manual was last updated during 2016, and to improve clarity where such an issue had been identified in the QAIP. The Audit Manual is a living document and continues to be subject to update as and when required.

No additional actions requiring any updates to processes, beyond those addressed in the revision of the Audit Manual, have been identified regarding the changes arising from the 2017 revision to the standards.

Three of the eight items listed in the QAIP and drawn to the Committee's attention at its last meeting in June 2017 are now considered to have been fully addressed.

The external review of the Internal Audit function, required once every 5 years by the standards, is in progress and the results will be reported to a future meeting of the Committee.

Independence of the Internal Audit Activity

The Audit and Governance Manager in the period under review has continued to have non audit responsibilities regarding Corporate Governance. There were no audits in progress

during this period where it had been necessary for the Audit and Governance Manager to declare an interest.

Minor conflicts of interest have been identified regarding forthcoming audits on Creditors, Payroll and Council Tax which have been allocated during the period. These minor conflicts are unavoidable with an in house locally based team. Appropriate instructions have / will be given to ensure that independence is not compromised during these audits.

Internal Audit Plan Progress

The Internal Audit Plan approved by the Audit Committee in March 2017 has been kept under review, in accordance with the requirements of the Public Sector Internal Audit Standards. Audits from the 2016/17 Internal Audit Plan that were incomplete at 31st March 2017 have been rolled forward and included together with the planned work for 2017/18 at Appendix A.

At 31st August 2017, 35% of the plan had been completed compared to a target of 41%. However a number of audits are nearing completion and once finalised in the third quarter they will bring the team back on target. Additionally time pressures have emerged / are emerging regarding issues concerning old audit software which needs to remain accessible for a number of years as it holds historic audit content that needs to be retained. This has proved more problematical than anticipated and has required more time than allowed for in the plan.

The plan will therefore need to be updated to take account of such factors. However as audits primarily undertaken in the third quarter of the financial year are key systems audits that are considered compulsory, there is currently no urgency to address this matter as no audits will be allocated for some time outside of this category. It would be prudent to review the plan later in 2017 when it can also take into account any other emerging issues to ensure, that following completion of the key systems audits, the resources available are appropriately allocated to the highest priority audits at that time. Mechanisms exist to address such issues with the Committee Chair if there is a need for such action in advance of the next scheduled meeting of the Committee.

Appendix A provides details of the status for each audit as at August 2017.

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 6 audits have been completed and four final reports 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		1	4	
Adequate		3	7	
Improvement		0	3	

Required				
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 following issues are drawn to the Committee's attention: -

**Procurement – Order Process Compliance
Public Realm Procurement**

Formal Internal Audit Reports have not been issued following completion of these audits. A review of the fieldwork undertaken has identified that it is necessary to undertake a further more in depth audit regarding certain processes to understand and address the underlying issues that are arising and to be able to form a fair opinion. This audit has been allocated and is planned to commence shortly.

In the intervening period, senior managers have been provided with an outline of the issues identified and reminded of the need for their staff to comply with the requirements of the Constitution regarding procurement and the processing of invoices.

Management Response to Risk

There have been no instances regarding those audits completed in the period under review where management's response to risks identified in the Internal Audit work undertaken, has in the Audit and Governance Manager's opinion, been unacceptable.

Management Response to Internal Audit Reports

The number of high severity issues outstanding was as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	3	Regular reminders are issued to relevant managers to establish that corrective action has been taken / encourage resolution of each issue
Not yet due	9	

There are no issues regarding these outstanding actions that need to be drawn to the attention of the Committee at this time, and these continue to be pursued through the Action Tracking process and periodic reporting to Corporate Directors and Senior Managers.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – Internal Audit Plan 2017/18 Progress Report