

## AUDIT COMMITTEE

25 APRIL 2024

### REPORT OF INTERNAL AUDIT MANAGER

#### A.1 REPORT ON INTERNAL AUDIT – JANUARY 2024 TO MARCH 2024 AND THE INTERNAL AUDIT PLAN 2024/25

(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 2024 – March 2024 and to seek approval of the Audit Committee for the 2024/25 Internal Audit Plan.

##### EXECUTIVE SUMMARY

- A total of four audits have been completed since the previous update in January 2024. Six audits are still in fieldwork. A request is made to the Audit Committee to defer four audits from the 2023/24 audit plan. The audits are, Social Housing Bill Implementation Plan, External Funding, Emerging Risks from Legislative Changes and Careline Service – Follow Up. All audits equate to a total of 40 audit days.
- In order to provide the Head of Internal Audit Annual Opinion in June 2024, it is important that the following audits are complete as they form part of the Councils key systems. The audits are; Procurement, Contract Management, Project Management and IT Governance. All are currently in fieldwork and close to completion.
- The 2024/25 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks, horizon scanning from other government agencies and best value standards from the Department of Levelling Up, Housing and Communities (DLUHC). 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.
- As the Internal Audit Manager continues to cover Fraud and Compliance while the Assurance and Resilience Manager is on secondment, a request is made to the committee to agree a reduction in audit days from 450 to 400. This should provide sufficient time to supervise all teams while still providing adequate audit coverage to be able to provide an annual assurance opinion on Council activities.

##### RECOMMENDATION(S)

**It is requested that the Audit Committee agree the following;**

- (a) The periodic update and the action tracking report be considered; and**
- (b) consider and approve the proposed Internal Audit Plan for the 2024/25 financial year.**

**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 External Quality Assessment could be undertaken sooner, however additional resources would be required to do so when the impact is considered low risk.*

**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:

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

**MILESTONES AND DELIVERY**

Review of recommendations and decision to be made on 25<sup>th</sup> April 2024 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 does not have a direct 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 does not have a direct 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 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 2023/24

A total of four audits have been completed since the previous update in January 2024. Six audits are still in fieldwork. A request is made to the Audit Committee to defer four audits from the 2023/24 audit plan. The audits are, Social Housing Bill Implementation Plan, External Funding, Emerging Risks from Legislative Changes and Careline Service – Follow Up. All audits equate to a total of 40 audit days.

The Internal Audit Manager continually risk assesses the progress of the plan against the level of resource available throughout the year to determine whether a measured annual assurance opinion can be provided based on the level of work complete. A determination is then made as to whether audit days need to be procured to support the delivery of the plan. Although there are some audits to be deferred, they are not auditable areas that would have a significant impact on the Council's overall assurance framework.

Throughout the year the audit team had a number of long term absences which was covered through the use of overtime as it was the most practical and cost effective method to ensure adequate coverage at the time. If there is a need for additional coverage in future then the Audit Committee will be updated accordingly through the periodic update arrangements in place.

In order to provide the Head of Internal Audit Annual Opinion at the June 2024 Audit Committee, it is important that the following audits are complete as they form part of the Councils key systems. The audits are; Procurement, Contract Management, Project Management and IT Governance. All are currently in fieldwork and close to completion.

**Quality Assurance** – The Internal Audit function issues satisfaction surveys for each audit completed. All satisfaction surveys are yet to be returned from the four audits complete in this period.

### 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 will advertise for another apprentice in the next few months to support both the Internal Audit Team and the Fraud and Compliance Team.

### 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 2023/24 Plan	
Substantial		3	10	
Adequate		1	13	

Improvement Required		0	0	
Significant Improvement Required		0	0	
No Opinion Required		0	2	Two consultative engagement in 2023/24 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: -

There were no significant issues arising from the four audits completed in the period from January to March 2024. However, it is important to inform the Audit Committee that the Council fell victim to payroll fraud during this period whereby one months pay for a TDC employee was paid into a fraudulent bank account.

A fraudulent email was sent into the Council requesting a change of bank details. In this instance the normal control of contacting the employee via a verified method of communication was not carried out prior to making the changes to the account on file. The process followed at the time was weak which led to confusion as to who had undertaken each task in the process.

In the short term a more prescriptive form has been designed to prevent future confusion with the objective of using an electronic authorisation process in future with the new HR / Payroll system currently being implemented. Internal Audit will advise throughout the process.

The Council's bank has been informed of the fraud and a record has been recorded on the Essex Police Action Fraud website. It is unlikely the monies will be recovered.

**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	4	Long term actions reported to the Audit Committee periodically (Appendix B)
Overdue less than 3 months	0	
Not yet due	0	

#### **Update on previous significant issues reported**

All previous significant issues are now provided within Appendix B of this report.

## **DEVELOPMENT OF THE AUDIT PLAN**

The 2024/25 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks, horizon scanning from other government agencies and best value standards from the Department of Levelling Up, Housing and Communities (DLUHC). A key requirement of Internal Audit is to support the organisation in achieving its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Part of this process is to translate the Councils key themes within its Corporate Plan into key operational activities that can be audited and measured to be able to challenge and test processes and controls and provide a satisfactory level of assurance over a diverse service area.

The Internal Audit Plan is produced taking into account the requirements as set out in the Public Sector Internal Audit Standards and 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.

Risk Management is also an aspect that requires consideration when developing an audit plan. Although risk registers are considered as part of this process, leadership, managers and officers consider risk every day in the work they do, therefore interviews with Officers at all levels are key when reviewing whether risks are considered in decision making.

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.

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 as well as giving consideration to the continued oversight of the Fraud and Compliance team. The number of audit days proposed is 400 which is a reduction of 50 audit days from the 2023/24 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. The combination of staff between Internal Audit and Fraud and Compliance has added an extra level of resilience and allowed both teams to share knowledge and skills in different areas.
- 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 2024/25 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 C.

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 Councils 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.

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.

## APPENDICES

*Appendix A – Internal Audit Progress Report 2023/24*

*Appendix B – Action Tracking Report*

*Appendix C – Internal Audit Plan 2024/25*

## 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.*

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