

## AUDIT COMMITTEE

25 JULY 2024

### REPORT OF INTERNAL AUDIT MANAGER

#### A.1 REPORT ON INTERNAL AUDIT – MARCH 2024 - MAY 2024 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 2024 – May 2024 and the Internal Audit Managers Annual Report for 2023/24 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 2023/24**

- A satisfactory level of work had been carried out on the 2023/24 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 (Project Management) received an overall audit opinion of 'Improvement Required'. All other audits within the plan received a satisfactory level of assurance.

#### **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)
- One audit from a total of 24 completed received a less than satisfactory opinion of 'Improvement Required'. This audit was Project Management.
- Governance issues raised relating to Project Management compare to the issues raised by the Monitoring Officers Section 5a report and the S151 Officers addendum report relating to the Spendells Temporary Housing project. Management Team have committed to addressing all issues raised within the project management review with directions already expressed to the Councils Senior Management Forum.

#### **3) Internal Audit Plan Progress 2024/25**

- Six audits within the 2024/25 Internal Audit Plan are currently in fieldwork.

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<b>RECOMMENDATION(S)</b>
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**Audit Committee members are requested to note the reports and consider the following;**

- **The annual opinion statement within this report**
- **The completion of audit work against the 2023/24 and 2024/25 Internal Audit Plans; and**
- **Any significant audit findings provided**

<b>REASON(S) FOR THE RECOMMENDATION(S)</b>
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*The above recommendations are required to ensure that the Audit Committee agree and accept the contents of the report.*

<b>ALTERNATIVE OPTIONS CONSIDERED</b>
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*The reports are for information and consideration of the Audit Committee.*

## **PART 2 – IMPLICATIONS OF THE DECISION**

<b>DELIVERING PRIORITIES</b>
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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'.

<b>LEGAL REQUIREMENTS (including legislation &amp; constitutional powers)</b>
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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.

<b>FINANCE AND OTHER RESOURCE IMPLICATIONS</b>
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**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 25<sup>th</sup> July 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**

There are no direct implications associated with this report but will be considered as part of the delivery of the audit plan as necessary.

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

There are no direct implications associated with this report but will be considered as part of the delivery of the audit plan as necessary.

#### **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 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 2023/24

All expected audits for the 2023/24 Internal Audit Plan have been completed.

A total number of six audits were completed during April 2024 to June 2024. One audit in this period received an overall opinion of 'Improvement Required' (Project Management) with the other five receiving satisfactory assurance opinions with no significant issues being identified.

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

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.

The Internal Audit Manager continues to oversee Fraud and Compliance service as well as the Internal Audit team while the Assurance and Resilience Manager remains on secondment.

**Quality Assurance** – The Internal Audit function issues satisfaction surveys for each audit completed. No unsatisfactory responses were received 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 are yet to advertise for another apprentice 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	Green	0	7	
Adequate	Light Green	5	12	
Improvement Required	Yellow	1	1	
Significant Improvement Required	Red	0	0	

No Opinion Required		0	4	Four consultative engagements in 2023/24
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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: -

**Project Management**

Lack of periodic project updates

Finding

Major projects should report progress against time, budget and potential upcoming issues.

While it can be expected that there is communication between the project manager and line manager, not all information is received by senior management.

The use of exception based reporting is not suggested, mainly as there are no firm parameters what constitutes an exception and whether project managers would report them if they thought (rightly or wrongly) they could recover the situation in future.

At present there is no regularised reporting arrangements which covers all projects performance

Risk

*Without a strong monitoring process and involvement of senior officers, there is an increased risk of not recognising and mitigating delays and overspends with a consequential pressure on council funds and resources.*

Agreed Action

Updates and progress reporting requirements of projects to be reviewed and specified by the new Project Board.

The review will take account of regularity of reporting, information required from project leads and format of reporting.

Reporting to be proactive in nature, and also consider use of system reports as applicable.

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Failure to complete projects on time and budget

Finding

The council completes multiple projects across many departments each year. While some are successful and successfully complete against time, budget and purpose, there are multiple examples of those which have failed to do so.

Given the scale of upcoming Levelling Up works (as well as need to achieve budgets generally), the ability to deliver against targets must be of high importance.

There is no one element which unites the less successful projects, there are repeat factors which give an indication. These include lack of sufficient preparation, incorrect specifications, variations, inadequate contingency and inaccurate estimates. It is acknowledged that each project is unique and some instances these additional costs could not be accounted for initially.

### Risk

*Without projects being completed on time and within budget consistently, this risks adding to financial pressures on the council which, in turn, impacts spend in other areas adversely. In addition, specifically, the Levelling Up projects are very high value and even a small percentage variance would have an outsize impact on council finances.*

### Agreed Action

Officers to be reminded to follow the requirements of the Constitution and ensure all steps are followed, including post-project review and adoption of lessons learnt.

It was agreed that large scale changes to the Constitution were not required, but officers need to be aware and follow them.

**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	2	Project Management – Reported above

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

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



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

### **Introduction**

The Council is required by the Accounts and Audit Regulations 2015 to undertake 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.

All guidance from the Chartered Institute of Public Finance and Accountancy is also considered in line with the Accounts and Audit Regulations and the PSIAS when delivering a Head of Internal Audit annual opinion.

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 responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Therefore, 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 Council's activities to be able to give an overall opinion on the areas mentioned above.

The internal audit team maintain an agile approach to auditing, seeking to maximise efficiencies and effectiveness in balancing time and resource commitments with the necessity to provide comprehensive, compliant and value adding assurance.

Aspects considered when developing an audit plan and delivering an effective internal audit service can be broken down into the graphic below;



As well as incorporating all of the above areas into the Internal Audit service, we endeavour to ensure that the service is agile and includes the following aspects into our planning and implementation processes;

- 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

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 procedural changes.

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 2023/24, only one audit from a total of 24 reviews undertaken received an overall audit opinion of “**Improvement Required**” where high severity issues were identified. The audit was Project Management.

The Monitoring Officer has also issued a Section 5a report relating to the Spendells Temporary Housing project due to unauthorised spend, resulting in a substantial overspend against the contract. The S151 Officer has also raised concerns via an addendum report which set out a number of actions that needed to take place at the request of the Chief Executive to ensure that a formal review of the Spendells project is undertaken and effective governance arrangements are in place for all projects going forwards. This corresponds with the significant governance issues identified within the project management audit and supports the need for a corporate review of project management going forward.

Improvement actions have been recommended 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 2023/24**

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. Any 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 majority of audits in the 2023/24 Internal Audit plan received a satisfactory level of assurance. There was a total of 26 moderate issues raised throughout the year which is less than the 39 raised in 2022/23. This represents some improvement with regards to the internal control and governance framework across the organisation. However, this must be caveated by the fact that the majority of 'non-financial' audits are in different service areas from the 2022/23 financial year.

There were two major issues raised in 2023/24, both of which relate to project management. In a different year, this alone may not have had a material impact on the Head of Internal Audit opinion. However, when you combine this with the Section 5a report raised by the

Monitoring Officer, the S151 Officers addendum report and the Chief Executives formal review instructions; it does raise serious governance concerns.

The Council has committed to major Levelling Up projects in the realm of £60m in total which could result in financial difficulties and significant reputational damage if not managed in a structured and effective way. The Council does have good governance frameworks in place, they have not been followed in the most effective and disciplined way for a number of projects completed to date. With this in mind, it does conclude that issues raised relating to the Councils current project management arrangements need to be addressed before moving too far ahead with the Levelling Up projects.

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

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.

The Internal Audit Manager is satisfied that sufficient work was completed in 2023/24 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.

The governance issues relating to project management have made the overall decision more difficult due to the challenges that the Council face in the next few years to deliver significant benefits to Tendring residents via levelling up funding. If the current issues are not addressed and the same issues arise with future projects, it will be very difficult to provide an unqualified opinion in future years.

After considering all of the above, an overall unqualified opinion of '**Adequate Assurance**' can be provided for the 2023/24 financial year with a commitment from Management Team that all significant issues raised by the Councils statutory officers are addressed as soon as possible.

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 2024/25**

We are yet to finalise an audit within the 2024/25 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 Parking Services, Private Sector Housing, Environmental Health, Cremations and Burials, Disabled Facilities Grants and Identity and Access Management.

Appendix B – 2024/25 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 – Action Tracking 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.*

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