

AUDIT COMMITTEE

25 JANUARY 2018

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.1 REPORT ON INTERNAL AUDIT – September 2017 to November 2017

(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 September 2017 – November 2017.

EXECUTIVE SUMMARY

- 10 audits were completed in the period, all of which achieved a satisfactory level of assurance.
- Plan adjustments have been identified taking account of the Council's current needs.
- The External Quality Assessment of the Council's Internal Audit function has been completed and the final report received – summary of main issues are detailed within the body of this report
- The proposed budget for Internal Audit for 2018/19 provides sufficient resources to enable the current level of provision to be maintained

RECOMMENDATION(S)

That: -

- (a) The report be considered and noted;
- (b) the changes to the Internal Audit plan as detailed in the report be approved;
- (c) the Committee approves the appointment of the Head of Finance, Revenues and Benefits to the role of Head of Internal Audit in the interim period whilst the future structure of Internal Audit is considered; and
- (d) the Committee considers the proposed Internal Audit budget for 2018/19 and determines if it has any comments.

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 AND ROLE OF HEAD OF INTERNAL AUDIT**

The Public Sector Internal Audit Standards require the Audit and Governance Manager, in their role as Chief Audit Executive / Head of Internal Audit, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

Following the recent retirement of the Audit and Governance Manager it is a requirement of the relevant CIPFA Code of Practice that the Council appoints an alternative Officer to undertake the role of Head of Internal Audit.

It is proposed to appoint the Head of Finance, Revenues and Benefits to the role of Head of Internal Audit for an interim period whilst a restructure of the Internal Audit Service is considered, which will provide a longer term appointment to the role.

However to ensure the independence required of the role, it is proposed to delegate the day to day operation of delivering an effective Internal Audit Service to the current Principal Auditor via acting up arrangements to the role of Audit and Governance Manager.

The Head of Finance, Revenues and Benefits will support The Principle Auditor where necessary via a consultative approach as appropriate, to enable him to independently undertake the relevant duties set out in the Cipfa Code of Practice. The Principle Auditor will therefore retain the required independence to report directly to the Chief Executive, Management Team, and the Audit Committee as they feel necessary to ensure there is no undue influence from the Head of Finance, Revenues and Benefits.

An associated recommendation is set out above seeking the Committee's agreement to the above approach.

Although an Interim period is proposed, it is likely that this will continue until the end of the first quarter of 2018/19. However updates will be provided to the Committee during this time.

INTERNAL AUDIT PLAN PROGRESS

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.

A number of changes are proposed to reflect the current priorities within Corporate Services and as part of the on-going rebalancing of the level of resources within the Internal Audit over the course of the year.

The changes proposed are: -

Payments Received – Remove Audit and add available days elsewhere (10 days)

Payments Received is an income collection audit that reviews how cash is collected across the Council. However, the audit plan already includes related Sundry Debtors, Parking Services, Princes Theatre and Cash Receipting audits. Therefore the only aspect left is the Cash Collection Contract with a third party contractor. This is regularly monitored and any major issues would be identified in the Bank Account audit where Bank Reconciliations are reviewed, therefore reducing the risk of fraud and error.

It is proposed to use the 10 days from the above audit and add them to the Risk Management audit increasing the available days to 20. This would provide flexibility to support the Fraud & Risk Manager in developing a Risk Management Framework that reflects the organisations risk appetite and correlates directly with Internal Audits own risk assessment process.

Audits requested to be deferred:-

Corporate Counter Fraud (10 Days)

Internal Audit already ensure fraud prevention controls are in place in all audits, so this audit is deemed to be lower risk compared to those due to take place in quarter four. It also provides time for the recently established Fraud and Risk Team to embed new and revised practices which will form part of future audit work.

Departmental Procurement (15 Days)

Two 15 day procurement audits were proposed for Quarters three and four within the audit plan. A consultative review is already in progress whereby Internal Audit are supporting the Procurement Manager to help deliver an effective mandatory training programme for all staff involved in procurement. This will allow the Internal Audit function to have input during the creation of a process and ensure risks are mitigated before the process begins. Along with restricting access to procurement systems and processes if relevant officers fail to attend the training proposed, risk is reduced and therefore at this time it is deemed that the 15 days allocated for procurement in quarter four are no longer required.

At 30th November 2017, a total of 26 audits have been completed within the audit plan. 10 of which were completed in the September – November period.

Appendix A provides details of the status for each audit as at November 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 10 audits have been completed and the final report issued with the outcomes summarised in the table below. 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		4	8	
Adequate		6	13	
Improvement Required		0	3	
Significant Improvement Required		0	0	
Not Stated		0	2	

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

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 current position for high severity issues is as follows: -

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

EXTERNAL QUALITY ASSESSMENT

The PSIAS states that an Internal Audit function must have an “**external assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation**” in order to evidence compliance with the standards.

The assessment was completed in October 2017 by the External Assessor and the Final Report has now been received.

The report confirms that the Council generally conforms to the expectations of the PSIAS and sets out a number of areas of good practice already undertaken within the Internal

Audit Service. Attention is drawn to a number of areas where the Council could make further improvements and include:

- Internal Audit Planning
- Reporting of Audit Opinions
- Follow up of Recommendations
- Annual Reporting by the Head of Internal Audit

On further review of the areas highlighted, the common theme identified primarily relates to risk and associated factors and the need to align departmental and corporate risk with each area of work undertaken by the Internal Audit Service. These issues are under review in conjunction with the development of the Internal Audit Plan for 2018/19. Both the Internal Audit Plan 2018/19 and further details on the outcome from the external assessment are scheduled to be reported to the Audit Committee in March 2018.

The outcomes from the external assessment overlap with the small number of outstanding items previously reported to Audit Committee as part of the self-assessed Quality Assessment Improvement Programme. These items will therefore now form part of the actions to be undertaken as part of the above.

INTERNAL AUDIT BUDGET 2018/19

The Council's Constitution was updated in 2015 to enable the Audit Committee to "**consider the annual budget for the Internal Audit service as part of the Council's budget setting process**" based on a requirement within the Public Sector Internal Audit Standards (PSIAS).

The proposed budget for Internal Audit for 2018/19 is currently £178,890 (The comparable figure for 2017/18 was £174,240). This figure could change as a result of decisions made by Cabinet or Council. The Internal Audit Team will also be going through its own restructure which could also alter the budget in the coming months. If there is any significant change made, this will be drawn to the Committee's attention in the Annual Internal Audit Plan report at its March 2018 meeting.

The work required to establish the audit needs assessment, and the resource plan, for 2018/19 is currently underway and will form the basis of the above report, but at this stage there are no concerns in respect of the level of resources available in 2018/19.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – Internal Audit Plan 2017/18 Progress Report