

# AUDIT COMMITTEE

22 MARCH 2018

## REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

### A.1 REPORT ON INTERNAL AUDIT – DECEMBER 2017 TO FEBRUARY 2018

(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 December 2017 – February 2018.

##### EXECUTIVE SUMMARY

- Key findings and appropriate actions from the External Quality Assessment of the Council's Internal Audit function are detailed within the report. The Council's Internal Audit function is considered to be applying a consistent approach to ensuring compliance is achieved with the Public Sector Internal Audit Standards (PSIAS).
- Internal Audit Plan progress – six audits were completed in the period, five achieved a satisfactory level of assurance and one received an 'Improvement Required' opinion.

##### RECOMMENDATION(S)

That: -

- (a) The actions to be taken by the Internal Audit Team to incorporate recommendations made by the External Quality Assessor be considered and noted; and
- (b) the Internal Audit Plan progress to date 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 Acting Audit and Governance Manager, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

### EXTERNAL QUALITY ASSESSMENT (EQA)

A brief overview of the EQA was provided at the previous Audit Committee meeting (25<sup>th</sup> January 2018). Further detail of the report content can now be provided including actions that will be taken to incorporate the recommendations made within working practices.

To provide further context to the Audit Committee, the categorisation of recommendations is provided below to understand the level of priority needed for each action.

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit division should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit division should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

The majority of recommendations were graded as “Consider” and only one recommendation was graded as “Enhance”.

The Internal Audit function was assessed in three areas;

**Resource** - Business Vision and Mission, Governance arrangements, Recognition of

standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct

**Competency** - Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

**Delivery** - Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

An action plan has been provided (Appendix A) which includes all recommendations categorised as “Review” and “Enhance” for Audit Committee review. The action plan details how the Internal Audit Team will incorporate each recommendation into working practice with an estimated implementation date.

Conclusion;

The EQA reports that the Internal Audit Team are excelling in the area of ‘**Resource**’ and are established in the areas of ‘**Competency**’ and ‘**Delivery**’, recommending improvement actions that can be seen in Appendix A.

The report also states that *“The internal audit service has responded to the new standards in recent years and has moved towards a common approach that is consistent with the PSIAS”*

The common theme within the report is one of alignment between Internal Audit processes and Risk Management processes to provide consistency across the Council in its approach to and tolerance of risk. Further explanation on how the service proposes to implement / manage the findings is evidenced within the action plan (Appendix A)

## INTERNAL AUDIT PLAN PROGRESS

A total of seven audits have been completed in the December – February period. However, a further six audits had reached Draft Report stage. Appendix B provides details of the status for each audit as at February 2018. Any outstanding work on audits in progress as at 31<sup>st</sup> March will be rolled forward into 2018/19. An estimate of days required to complete any outstanding work will be included within the 2018/19 Internal Audit Plan.

As discussed at the previous Audit Committee meeting, days were made available to undertake a procurement review unlike other procurement audits completed in the past. Internal Audit was involved in the provision of procurement training to an estimate 160 Officers, alongside the S151 Officer and the Procurement Team. This has successfully been completed, raising some interesting discussions on procurement rules and providing useful information that can be used when scoping future procurement audits. A further session is required to include Officers that were unable to attend any of the four sessions made available.

As this was not a traditional audit review an overall audit opinion is not provided; however, assurance is gained in the knowledge that all Officers involved in procurement will have had the required procurement training to effectively undertake procurement exercises in their role.

**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 six 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	Year to Date	
Substantial		1	12	
Adequate		4	24	
Improvement Required		1	6	
Significant Improvement Required		0	0	
No Opinion		1	1	

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 requiring reporting to Committee are: -

### Walton-on-the-Naze Lifestyles

The two main areas of concern within this audit were that of PCI DSS Compliance and the management of refunds. Some issues were raised relating to management of data which would leave the Council in breach of PCI DSS Compliance rules. Further investigation revealed that this is also the case at all leisure facilities.

It was also identified that approval processes and supporting documentation were found to be lacking regarding refunds and it was difficult to determine the volume of refunds processed throughout the year. There were also a number of moderate issues identified on income management which contributed to the overall opinion of 'Improvement Required'.

**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	Regular reminders are issued to relevant mangers to establish that corrective action has been taken / encourage resolution of each issue
Not yet due	10	

<b>BACKGROUND PAPERS FOR THE DECISION</b>
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Audit Reports
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<b>APPENDICES</b>
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Appendix A – External Quality Assessment Action Plan Appendix B – Internal Audit Plan 2017/18 Progress Report
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