

AUDIT COMMITTEE: 25 June 2019

INTERNAL AUDIT STRATEGY & PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 12.1

Appendices D, E and F of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

1. Audit Committee's Terms of Reference requires that Members consider reports from the Audit Manager on Internal Audit's performance during the year.
2. To document the strategic intentions of the Internal Audit Service for planning and delivery in accordance with Standard 2010 (Planning), an Internal Audit Strategy has been developed, and is included for Audit Committee consideration.
3. A progress report has been prepared to provide Audit Committee Members with an update on the work of Internal Audit as at 31 May 2019 for the current financial year.

Background

4. The PSIAS Standard 2010 (Planning) requires that the risk-based plan is linked to or incorporates a high-level statement of how the internal audit service will be delivered and developed in accordance with the Audit Charter, and how it links to organisational objectives and priorities. The Audit Strategy has been developed by the Audit Manager to link to the Audit Charter and Audit Plan.
5. The annual plan was agreed by Audit Committee at its meeting of 2 April 2019 and was designed to be risk-based and co-ordinated in application of the "three lines of defence" model. The Audit Manager prepares quarterly progress reports, to provide a meaningful update on the work of Internal Audit. It provides an opportunity to consider emerging risks, issues and sources of assurance, and potentially refocus priorities. Prior to presentation to Audit Committee, the progress report is discussed with the Corporate Director Resources.
6. The Internal Audit section reports to the Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained, as the Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

Issues

7. The accompanying Strategy (**Annex 1**) provides focal point of strategic intentions in delivering and developing a portfolio of audit engagements. It also seeks to inform those relying on the work and assurances of the Internal Audit Team of the audit purpose, processes, delivery mechanisms and oversight.
8. The Internal Audit Progress Update (**Annex 2**) sets out performance in relation to the Internal Audit Plan, for the period to 31 May 2019. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings across the Council for the assurance of the Audit Committee.

Audit Strategy

9. The Audit Committee approved the Audit Charter and Audit Plan on 2 April 2019 for the financial year 2019/20. A brief strategic statement was included within the covering report, in accordance with Standard 2010 (Planning), to document how the internal audit service would be delivered and developed in accordance with the Audit Charter, and how it linked to organisational objectives and priorities.
10. The Audit Manager has developed the existing strategic intentions and approach into a short and sharp Audit Strategy (Annex 1). This will provide a focus for the Audit Management Team in planning and delivering audit engagements, for auditors when performing individual audit engagements, and a means to communicate the objectives of the Internal Audit service, beyond the definitions of roles, responsibilities and authority within the Audit Charter. The Audit Strategy has been discussed with the Chief Executive and Section 151 Officer, and is being communicated with Directors through Relationship Manager Meetings.
11. The Audit Strategy has been developed to set out the aims and objectives for the Internal Audit Service as a whole, comprising the Internal Audit and Investigation Teams. This is to provide a co-ordinated delivery of audit and investigative services through the separate disciplines of risk-based and objective assurance, advice and insight and proactive and reactive work to prevent and detect fraud.

Audit Progress

12. The accompanying Internal Audit Progress Report (Annex 2) outlines the performance of the Internal Audit Team against the Audit Plan for the period up to 31 May 2019, as set out in paragraph 8. It provides a range of information on the work performed and findings, as well as indicators and information on the performance of the audit service.

Audit Delivery

13. **Appendix A (Annex 2)** shows a list of audits and their reporting status in the current year until the end of May 2019. This includes all reports finalised since April 2019, and all new and existing draft reports as at 31st May 2019. Twenty new audit reports have been issued in the reporting period, and eleven further reports have been concluded and finalised. The Audit Manager has identified eight areas (12 audits) which are being targeted for draft audit delivery by the end of the quarter to deliver the audit plan

performance target. Internal Audit has issued an opinion of effective or effective with opportunity for improvement in 75% of the audit opinions provided.

14. **Appendix B (Annex 2)** contains the audit plan as at 31st May 2019. At the time the original plan was agreed in April 2019, whilst many individual audit engagements were fully itemised, some time was allocated for particular audit areas for which the specific audit subject or nature was to be confirmed at a later date. Many of these initial allocations have now crystallised into specific audit engagements, through further review and discussion with senior officers. The new audit engagements are shown in bold within Appendix B, for Audit Committee to consider. Appendix B also details the reporting progress for each audit.
15. Aside from the above refinement of the plan, the Audit Manager has agreed that two new unplanned audit engagements will be undertaken. These are in respect of an audit of the 'Out of School Club' and 'Governors Fund' of St. Peter's R.C Primary School, upon request of the School's Governing Body, and an audit of the 'Rumourless Cities' European grant.

Audit Findings and Recommendations

16. Section 2.3 of Annex 2 provides details of the critical findings and emerging trends from audit work in quarter one as at 31 May 2019, with focus given to unsatisfactory and insufficient with major improvement audit assurance. Aside from the executive summary report, as referenced in paragraph 18.
 - A follow up draft report for the Music Service income processes, has reported unsatisfactory assurance, in view of a limited change in the level of overall control, with only two recommendations actioned and high levels of outstanding income, in excess of £300k (over 40% of the parents using the Music Service).
 - A review of P-cards in Central Transport Services (CTS) has provided an assurance rating of insufficient with major improvement needed. In view of inconsistent practices and gaps in control, the draft report has recommended CTS review their P-card requirements and create function specific guidance for the officers who use P-cards, to achieve the required procedural improvements.
 - An audit of Ysgol Gymraeg Glantaf has been issued and finalised, for which an audit opinion of insufficient with major improvement was provided. The school needed to improve and formalise certain governance matters of disclosure, authority and training, and update and amend processes and practices relating to income recording and security, hire agreements and the operation of the school private fund audit.
17. Section 2.4 of Annex 2 provides the pertinent value for money findings over the reporting period. The three value for money reviews completed over the reporting period have provided a broadly effective level of assurance. This is in respect of audits of 'Consultancy, Interim and Agency Workers', 'Personal Review' and 'Sickness Absence' audits. The finalised audit of St. Peter's R.C Primary has raised control issues, which limits assurance that effective and efficient practices are in place.
18. **Appendix C (Annex 2)** provides an Executive Summary of the findings of an audit of St. Peter's RC Primary School. The governance of the Out of School Club (OSC) required clear communication, and full documentation of any links to, and responsibilities of, the School or its Governing Body. The report also considered that strengthening of

governance is needed, with it being recommended that the Governing Body improves its oversight and challenge of both delegated budget and private fund activities. Improvements are also required in the financial controls at an operational level. The audit recommendations have been agreed with the Chair of Governors and Headteacher.

19. The recommendations and progress at the reporting date are provided in the following appendices.

Appendix D (Annex 2)	Contains the red and red / amber recommendations not yet complete.
Appendix E (Annex 2)	Contains the red and red / amber recommendations completed since the last Audit Committee in April 2019.
Appendix F (Annex 2)	Contains the open red and red / amber recommendations with revised action dates.

Legal Implications

20. There are no legal implications arising from this report.

Financial Implications

21. There are no direct financial implications arising from this report.

RECOMMENDATIONS

22. That the Audit Committee:

- Note and consider the Internal Audit Strategy
- Note and consider the contents of the Progress Report and appended documents.
- Approve the crystallisation of audit time into the new audit engagements shown in bold in Appendix B, and note the two added audit engagements since the last Committee meeting.

CHRIS PYKE
AUDIT MANAGER

25 June 2019

The following are attached:

Annex 1: Audit Strategy

Annex 2: Internal Audit Progress Report.

Appendix A: Report Status in Quarter 1

Appendix B: Audit Plan as at 31 May 2019

Appendix C: Executive Summary – St. Peter's RC Primary School

Appendix D: Red & red / amber open recommendations

Appendix E: Red & red / amber recommendations completed since last Committee

Appendix F: Red & red / amber open recommendations with revised action dates