

AUDIT COMMITTEE: 13 November 2018

INTERNAL AUDIT PROGRESS REPORT, 2018-19

REPORT OF THE HEAD OF FINANCE

AGENDA ITEM: 10.1

Appendices C, D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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. This report has been prepared to provide Audit Committee Members with an update on the work of Internal Audit as at 19 October 2018 for the current financial year.

Background

3. An Audit Plan is prepared each year in order to provide a measure of the work performed by the Internal Audit function. It is important that the plan allows for flexibility and the application of professional judgement to enable work to be prioritised, in order to maximise the use of audit resources and add most value to the organisation in targeting changing risks.
4. The Head of Finance prepares quarterly progress reports, outlining the work undertaken by the audit teams in the capacity of Acting Audit Manager. Following a successful appointment process, a full-time Audit Manager has been in place from 1st October 2018, who following the formalisation of reporting lines, will provide the quarterly update to Audit Committee.
5. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence has been maintained as the Head of Finance has reported functionally to the Audit Committee for audit-related matters. This has involved Audit Committee approving key documents, such as the Audit Charter and Plan, and receiving and considering information on audit performance, findings and issues.
6. The new Audit Manager reports administratively to the Head of Finance and will report functionally to the Audit Committee for audit-related matters.
7. The progress report is prepared 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.

Issues

8. Over the last two years, the Internal Audit section has reported directly to the Head of Finance, who has provided managerial and strategic leadership as Acting Audit Manager. Following a successful recruitment process, from 1st October 2018 a full-time Audit Manager has been in place who 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 will report functionally to the Audit Committee for all audit-related matters. Section 3.4 of the Progress Report, provides further information on the formalisation of these reporting lines.
9. The accompanying Internal Audit Progress Update (Annex 1) sets out performance in relation to the Internal Audit Plan, for the period to 19 October 2018. It summarises the work performed, the priority recommendations raised, the critical findings and emerging trends across the Council, for the assurance of the Audit Committee.

Performance

10. **Appendix A** shows the list of audit reports issued from April to 19th October 2018, and the following paragraphs outline the key messages from the progress update. Fifty-seven reports have been issued for the period covered, twelve of which have been for audits of financial accounts or grants. Internal audit has issued an opinion of effective or effective with opportunity for improvement in 82% of the audit opinions provided.
11. **Appendix B** shows the proposed audit plan as at 19th October 2018. This follows a review by the Audit Management Team in October 2018, which reflected on the findings of audit work completed in the financial year to date, and the sources of assurance and emerging risk information gained through relationship management client meetings. It resulted in the proposed reallocation of days held for value for money audit purposes, and the use and distribution of unallocated audit days.
12. In accordance with the Internal Audit Charter, the Audit Manager is delegated authority to make in-year changes to the Internal Audit Plan, with Audit Committee approval required for audit engagements of more than 10 audit days. The following proposed value for money audit allocations, follow a review by the Internal Audit Team, for which approval is requested from the Audit Committee.

Audit	Original plan days	Revised plan days
VFM in Enforcement	0	15
VFM – Workforce deployment	0	20
VFM – Agency, Consultants, Interims	10	15

13. At the reporting date, there have been 653 recommendations made to audit clients this year.
 - **Appendix C** - This shows the red and red / amber recommendations that are not yet complete. A greater proportion of recommendations outstanding are of an Amber / Green risk rating.
 - **Appendix D** - This shows the red and red / amber recommendations completed since the last Audit Committee in September 2018.

- **Appendix E** - This shows the red and red / amber recommendations with revised action dates of which 28 Red or Red / Amber recommendations are not yet completed. One red recommendation is outstanding following a revised action date.

14. It is recognised that there has been a notable decrease in the percentage of audit reports delivered within six weeks (at 63%), and the percentage of audit recommendations implemented within the agreed timescale (at 56%). Part of the reason for each of these reductions is attributed to the school holiday period, where schools close for the summer period and auditors and key officers typically take a greater proportion of their leave.
15. Whilst a performance dip was anticipated for quarter 2, this ground needs to be recovered. The expectations of the Audit Manager have been clearly communicated to each auditor to take responsibility for delivering their portfolio of audits, and follow up on the delivery of client recommendations. The Audit Manager and Group Auditor are in the process of discussing each auditor's progress against the audit plan as part of the mid-year Personal Reviews. An emphasis has been made to the Audit Team on the delivery of their audit plan.

Governance

16. In **Appendix F**, the Internal Audit Charter has been reviewed to recognise the commencement of the new Audit Manager in respect of the 'organisation' and the 'audit activity and reporting lines'. These interim changes are proposed for Audit Committee approval, to recognise the authority and responsibility of the Audit Manager. The wording proposed for removal is crossed through and new proposed wording is underlined and in bold print. A full review of the Audit Charter will take place in preparation for Audit Committee Approval in January 2019.
17. As part of the Quality Assurance and Improvement Programme, there is a programme of ongoing monitoring and an annual self-assessment of conformance with the Code of Ethics and the Standards. A self-assessment was undertaken in quarter two, and the action plan arising from the assessment is attached as **Appendix G**. A management response has been included against each of the recommendations from the self-assessment, and is included for Audit Committee information.
18. Investing in the Internal Audit team continues to be a priority. Most of the team are qualified accountants (CIPFA) or accounting technicians and there is one qualified IIA member in the team. Four auditors are being supported in their pursuit of the IIA (Institute of Internal Auditors) qualification to strengthen the balance of background team skills.

Proposed School Governance Mechanism

19. A proposed 'School Assurance Mechanism' has been developed to support the Audit Committee to communicate and reinforce expectations to Schools where concerns have been identified (included in 3.3 of Annex 1). The proposed mechanism is largely correspondence-based, recognising that the capacity of Audit Committee meetings is limited, with a busy agenda needed to deliver the Audit Committee role. It would involve Audit Committee Chairperson Letters to the respective Chair of Governors and the Director of Education to seek a commitment to addressing, monitoring and managing concerns raised. On a biannual basis, the Director of Education and Lifelong Learning will then provide an overall assurance report to Audit Committee. This is with the understanding that the Committee can request the attendance of accountable

individuals at a Committee meeting in the event that the assurances are not considered as acceptable.

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:

- a. Notes the contents of the Progress Report
- b. Approves the proposed changes to the Audit Plan for 2018/19
- c. Approves the proposed modifications to the Audit Charter
- d. Notes the proposed School Assurance Mechanism.

IAN ALLWOOD
HEAD OF FINANCE
13 November 2018

The following are attached:

Annex 1: Internal Audit Progress Report, 2018-19
Appendix A: Reports Issued
Appendix B: Audit Plan as at 19th October 2018
Appendix C: Red & red / amber recommendations open
Appendix D: Red & red / amber recommendations completed since the last Audit Committee
Appendix E: Red & red / amber recommendations with revised action dates
Appendix F: Audit Charter
Appendix G: PSIAS Self-Assessment