

AUDIT COMMITTEE: 22 January 2019

INTERNAL AUDIT PROGRESS REPORT, 2018-19

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 10.1

Appendices E, F and G of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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 31 December 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. 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. This involves Audit Committee approving key documents, such as the Audit Charter and Plan, and receiving and considering information on audit performance, findings and issues. These reporting lines were formalised through the approval of interim changes to the Audit Charter at the Audit Committee meeting on 13 November 2018.
5. 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.

Issues

6. 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 functionally to the Audit Committee for audit-related matters.

7. The accompanying Internal Audit Progress Update (Annex 1) sets out performance in relation to the Internal Audit Plan, for the period to 31 December 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.

Audit Delivery

8. Following a dip in performance in quarter two, there has been an improvement against all performance measures in quarter three, as compared to the previous quarter. Whilst an improvement is recognised, momentum for delivery needs to continue throughout quarter four to deliver the performance targets set. The Audit Manager has communicated the expectation for each auditor to take responsibility for delivering their portfolio of audits, and to follow up on the delivery of client recommendations as priority areas.
9. There were 77 reports issued to at least draft report stage at the end of quarter three. Although this is below the proportionate target for this point in the year, it is a marginal improvement on the quarter three position in 2017/18. In quarter three, there has been a 50% increase in the number of draft reports issued compared to quarter two, and this momentum needs to increase further to deliver 80% of the audit plan as targeted.
10. All audits have been assigned for quarter four and the team is on track to deliver all fundamental audits in the plan. There are 48 priority audits targeted for delivery in quarter four in order to achieve the 80% delivery of the Audit Plan targeted, of which 28 (58%) had commenced at the end of quarter three. These priority audits have been allocated to auditors for delivery by the year-end.
11. To provide development for a member of the audit team through shadowing arrangements, and to supplement the delivery of the audit plan 2018/19, a procurement exercise has been undertaken for the delivery of two ICT-related audits. These audits of IT Governance and Cloud Computing are scheduled for delivery within the final quarter of 2018/19.
12. **Appendix A** shows the list of audit reports issued from April to 31 December 2018, and the following paragraphs outline the key messages from the progress update. Seventy-seven reports have been issued for the period covered, seventeen of which have been for consultation, financial accounts or grant audit engagements. Internal audit has issued an opinion of effective or effective with opportunity for improvement in 68% of the audit opinions provided.
13. **Appendix B** shows the audit plan as at 31 December 2018. This follows a review at the mid-year position of the most appropriate use of unallocated audit days for general assurance and value for money audit purposes. Proposed changes were reported to the last meeting of the Audit Committee on 13 November 2018, and are reflected in the current audit plan.

Audit Findings and Recommendations

14. Section 3.2 of Annex 1 provides details of the critical findings and emerging trends from audit work in quarter three, with focus given to the unsatisfactory audit reports and those requiring major improvement. A draft report has been issued for Pontprennau Primary School with an assurance opinion of unsatisfactory. The audit recognised gaps in transactional records and controls, and a need to improve operational control and Governing Body oversight and challenge in respect of the delegated budget and private fund. The Headteacher and Governing Body are considering the audit findings, and an executive summary will be presented to Audit Committee following the issue of the final report.
15. Following the introduction of the school governance mechanism, as considered by Audit Committee on 13 November 2018, it is proposed that the Director of Education and Lifelong Learning attends the meeting of the Audit Committee in June 2019 to report on the assurances in place and the actions taken for school audits where particular concerns have been identified.
16. **Appendix C** provides an Executive Summary of the findings of an audit of Income in School Kitchens, following Audit Committee notification of the draft findings of the audit, within the Audit Progress Report on 13 November 2018. The audit has been finalised with an assurance opinion of unsatisfactory, in view of a need to improve controls for budget and income monitoring, to mitigate delays in identifying and recovering debt and the accumulation of arrears. The audit recommendations have been agreed with management in the Education and Lifelong Learning Directorate and implementation is being proactively monitored.
17. **Appendix D** provides a Briefing Paper on Waste Management assurance and consultancy Internal Audit work recently carried out, for which five draft reports have been issued. One report, of Lamby Way Stores, has provided a draft unsatisfactory audit assurance opinion in view of ongoing stock discrepancies across stock categories, which it is considered to indicate an inconsistent application of core processes to ensure all stock movement transactions are accurately recorded. Audit Committee will receive an Executive Summary on this audit following the issue of the final report. Meetings have commenced with management to discuss the Lamby Way Stores audit and, to provide further assurance, Internal Audit will be present to observe the year-end stock check process.
18. At the reporting date, there have been 724 recommendations made to audit clients this year.
 - **Appendix E** - This shows the red and red / amber recommendations that are not yet complete.
 - **Appendix F** - This shows the red and red / amber recommendations completed since the last Audit Committee in November 2018.
 - **Appendix G** - This shows the red and red / amber recommendations with revised action dates of which 36 Red or Red / Amber recommendations are not yet completed.
19. Work has begun on the proposed audit plan for 2019/20, and a draft plan has been reported to this meeting as agenda item 10.3.

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 contents of the Progress Report and appended documents.

CHRIS PYKE
AUDIT MANAGER

22 January 2019

The following are attached:

Annex 1: Internal Audit Progress Report, 2018-19

Appendix A: Reports Issued

Appendix B: Audit Plan as at 31st December 2018

Appendix C: Executive Summary - Income in School Kitchens

Appendix D: Waste Management Briefing Paper

Appendix E: Red & red / amber open recommendations

Appendix F: Red & red / amber recommendations completed since the last Audit Committee

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