

AUDIT COMMITTEE: 2 April 2019

INTERNAL AUDIT PROGRESS REPORT, 2018-19

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 11.1

Appendices E, F and G of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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 15 March 2019 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 15 March 2019. 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. There has been a strong momentum to deliver the audit plan in the final quarter of the year. Audit Committee Members will note that 48 audits were prioritised for delivery in quarter four, to seek to deliver the targeted 80% of the audit plan for 2018/19.
9. As at 15th March, 70% of the audit plan has been practically delivered, with 101 audits issued and 8 at a stage of quality assurance prior to issue. A further 12 audits are expected to be delivered by the financial year-end, which will represent an audit plan completion in the region of 78%, and a comprehensive review of the Council's control environment.
10. The small slippage in targeted delivery is represented by:
 - two planned data matching exercises as part of the National Fraud Initiative, in respect of Creditors and Payroll. These audits could not be undertaken at this stage, as we have been advised that the datasets will not be ready until May 2019, at which point the work will commence.
 - a spike in sickness cases in the Audit Team in the months of January and February 2019, meaning that some planned audits will conclude in early 2019/20.
11. **Appendix A** shows the list of audit reports issued from April to 15 March 2019, and the following paragraphs outline the key messages from the progress update. One hundred and thirteen reports were completed 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 70% of the audit opinions provided.
12. **Appendix B** shows the audit plan as at 15 March 2019. 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, reflected in the current audit plan.

Audit Findings and Recommendations

13. Section 2.3 of Annex 1 provides details of the critical findings and emerging trends from audit work in quarter four as at 15 March 2019, with focus given to the unsatisfactory audit reports, and areas of Audit Committee.
14. A draft audit report for St. Peter's RC Primary School has been issued with an assurance opinion of *unsatisfactory*, and the findings are being considered by the Headteacher and Governing Body. During the course of the audit, Estyn published a report (following an inspection in October 2018) which led to financial delegation being withdrawn in January 2019, following which additional support and challenge has been provided by the Council. The draft report has also been shared with the Director of Education and, an executive summary report will be prepared for the next Audit Committee meeting, once

the audit has been finalised. The Director of Education and Lifelong Learning will attend the meeting of the Audit Committee in September 2019 and report on the assurances in place and the actions taken for school audits where particular concerns have been identified, among other matters.

15. A draft report has also been issued relating to procurement in Waste Management. The report has raised concerns about compliance, co-ordination and, due to gaps in these areas, value for money. Greater assurances have been sought by the Audit Manager in certain areas, and a meeting will take place to establish further details and conclude the audit work, for which an assurance opinion of *unsatisfactory* has been provided. Accordingly, an executive summary report will be prepared for the next Audit Committee meeting, once the audit has been finalised.
16. The Audit Committee has requested specific updates in respect of Brexit risk management and processes operated for the Youth Innovation Grant. The key findings in these areas are summarised in 2.3 of Annex 1.
17. In respect of Brexit risk management, Internal Audit has observed
 - Meaningful preparations, to respond to, and mitigate risks across the organisation. At the time of the audit review, all directors had been required to engage with supply chains regarding resilience issues and to provide an assurance statement to the Emergency Management Unit to confirm that any significant Brexit risks had been identified and that appropriate mitigation was in place. If delivered as instructed, this should provide an appropriate feedback loop for a full discussion and awareness within the Senior Management Team, for which a level of testing / validation could be sought from Emergency Management, where required.
 - The Establishment of a corporate risk and instructions for Brexit risks to be integrated and appropriately reflected into directorate risk registers in the ongoing quarter four review. Risk Champions will need to lead the delivery on this directorate risk update, with the Risk Management Team taking the role to challenge the overall delivery of risk register updates.
18. In respect of the Youth Innovation Grant, the audit identified effective governance and decision making at a strategic level through pre-award and award phases of the grant process. The grant had clearly defined objectives, specifications and requirements of service providers, and used an evaluation process with a scoring system to select providers, for which terms and conditions and grant agreements were in place for the selected providers. The governance and monitoring that was in place was considered as proportionate to the amount of funding and level of financial risk involved in the grant process. However, some opportunities were identified to improve performance monitoring at an operational level during the post-award phase. This would ensure that relevant data continues to be collected on individual projects to provide greater assurance that the expected outcomes are met; and to further inform decisions.
19. During the audit it was noted that an internal review of the Youth Innovation Grant has been arranged by the service to consider and, where appropriate, improve operational processes. The planned review by the service will inform how the Youth Innovation Grant is delivered into 2019/20, and draft internal audit recommendations have been raised for consideration in this process, relating to policy development and sharpening communications with stakeholders.

20. **Appendix C** provides an Executive Summary of the findings of an audit of Pontprennau Primary School. The report 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.
21. **Appendix D** provides an Executive Summary of audit of Lamby Way Stores. Members will be aware of the work being undertaken in Waste Management having received a briefing paper in January 2019. The audit of stores at Lamby Way has now been finalised with an assurance opinion of *unsatisfactory* and, accordingly, an executive summary has been prepared. Internal Audit will be present during the year-end stock count 2018/19, to provide assurance on the processes and controls in place in quantifying the stock held.
22. The recommendations and progress at the reporting date are provided in the following appendices.
- **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 January 2019.
 - **Appendix G** - This shows the open red and red / amber recommendations with revised action dates.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

25. That the Audit Committee note and consider the contents of the Progress Report and appended documents.

CHRIS PYKE
AUDIT MANAGER
2 April 2019

The following are attached:

- Annex 1:** Internal Audit Progress Report, 2018-19
Appendix A: Reports Issued
Appendix B: Audit Plan as at 15 March 2019
Appendix C: Executive Summary - Pontprennau Primary School
Appendix D: Executive Summary – Stores at Lamby Way
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