
GOVERNANCE & AUDIT COMMITTEE: 24 January 2023

INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 7.1

Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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. The Terms of Reference of the Governance and Audit Committee requires that Members:
 - Consider reports from the Audit Manager on Internal Audit's performance during the year.
 - Review the assessment of fraud risks and potential harm to the council from fraud and corruption.
 - Monitor the Counter-fraud strategy, actions and resources.
2. A progress report has been prepared to provide the Governance and Audit Committee with an update on the work and performance of the Internal Audit and Investigation Teams. This progress report covers the period from 1 October – 31 December 2022, and follows the updates provided in the Committee meeting held on 29 November 2022.

Background

3. The Governance and Audit Committee approved the Audit Charter and the risk-based Audit Plan 2022/23 on 15 March 2022 at which time the planned activity of the Investigation Team was also provided for consideration.
4. The Internal Audit Progress Report (**Annex 1**) sets out performance in relation to the Internal Audit Plan. 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 Governance and Audit Committee. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.
5. The Investigation Team Progress Reports (**Annex 2**) focuses on proactive and reactive fraud awareness, detection and investigation activities, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises.
6. As part of progress updates, there is an opportunity to consider emerging risks, issues and sources of assurance, and to potentially refocus priorities. Prior to presenting to Committee, progress reports are discussed with the Corporate Director Resources.

7. The Internal Audit Section reports to the Audit Manager. To meet the provisions of Public Sector Internal Audit Standards (PSIAS 1100 - Organisational Independence), the Audit Manager is not responsible for managing any functions beyond the Internal Audit and Investigation teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Governance and Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

Issues

a) Audit

8. Annex 1 provides details of an external peer assessment, which is being completed, for external assurance of ongoing internal audit conformance with the PSIAS. This information is contained within section 1.4 'External Peer Assessment'.
9. The report outlines how during quarter three the priorities and approach of the audit team were to deliver a combination of management support through consultation and engagement in high-risk areas, and to further progress the delivery of assurance engagements from the Audit Plan.
10. Work continues to be undertaken predominantly on a desktop basis, although site visits are taking place for establishment audits, and where there is a need to observe the operation of physical controls or operating practices. The Internal Audit Team has also continued to be available and to provide advice and guidance across the Council on schemes, initiatives and systems, and further details are provided within section 2.1. 'Current Activities'.
11. Section 2.2 'Resources', outlines that a new Principal Auditor post has been widely advertised with a closing date of 16 January 2023. This is in accordance with the audit team structure update provided to the Governance and Audit Committee on 29 November, whereby Members were advised of the decision to invest in an additional Principal Auditor post, to enhance a solid core of senior officers within the team and to not fill vacant posts at lower grades.
12. Since the last Committee update, a flexible retirement request has been approved for the Group Auditor through which their hours will reduce by 10 hours per week (from 37 to 27) from 1 April 2023. Information on this, and minor adjustments in the working hours of other members of the audit team relating to the financial year 2023/2024 are contained in agenda item 8.2 – Internal Audit Charter and Audit Plan 2023/24.
13. Section 2.3 'Annual Plan', advises that delivery of the Audit Plan 2022/2023 has been significantly lower than targeted in quarter three. This is attributed in part to a reduced level of staff resources as outlined in section 2.2. 'Resources', and to some isolated delays in receiving the information requested in order to conclude audit fieldwork. The quarter three position in delivering the Audit Plan is shown in section 3.2 'performance'. A contract has been awarded for the delivery of four audit engagements under the direction of the Audit Manager. At the time of reporting, the two IT audits are in a position of active fieldwork.
14. The Audit Plan has been reviewed and the Audit Manager has identified forty remaining audits in scope to be worked upon before the financial year end. The audits are targeted to provide a sufficient spread of assurance, that mitigates any impairment to the annual opinion of the Audit Manager on the Council's control environment for 2022/2023. Delivering the prioritised audits would ensure all fundamental areas of the plan are

delivered, that core areas of corporate governance have been reviewed, and that there is sufficient coverage at the directorate level. Alongside this targeted approach, there will be a need to ramping audit delivery during quarter four, to be managed through monitoring and review arrangements, and assisted in part by the four audits being delivered under contract within this timescale.

15. Within Annex 1, section 2.4 'Critical Findings or Emerging Trends (Q3 2022/23)', details are given of the audit of contract variations which has a draft audit opinion of 'insufficient with major improvement needed'. Management consideration and discussion will follow before the report is finalised, at which time the assurance rating and recommendations will be confirmed.
16. Performance information is contained within section 3.2 'Performance', which shows an improving position of the timeliness of issuing audit outputs and a reduction in the audit recommendations delivered within the agreed timescale. Measures of auditor output and performance has been impacted by the lower capacity within the team as referred to within Section 2.2 'Resources'.
17. **Appendix A** shows a list of audits and their reporting status in the current year, as at 31 December 2022, in which thirty new audit engagements have been completed to at least draft output stage. There have been no unsatisfactory audit opinions provided in 2022/23, as at 31 December 2022. The current position for the full Audit Plan is shown in **Appendix B**.

b) Investigations

18. Annex 2 outlines the activities of the Investigation Team in quarter 3. For the year as a whole there are four hundred and forty-three chargeable days available based on current resources, indicatively split between strategic (80 days) and operational activities (363 days).
19. Excluding blue badge pilot work and outcomes as reported separately, as at 31 December 2022:
 - 88 cases have been identified for investigation, compared to 305 for the same period last year.
 - 58 investigations are ongoing, compared to 85 for the same period last year.
 - 115 investigations have concluded, compared to 317 over the same period last year.
 - 274,165 has been attributed to concluded investigations, compared to £616,737 for the same period last year.
20. In addition to identifying and progressing investigation cases, the team has continued to provide counter-fraud advice, guidance, training and support across the Council. An updated counter-fraud and corruption strategy and a suite of updated operational policies and procedures are being developed, these will be shared with the Governance and Audit and Committee as part of consultation and assurance processes in due course.
21. The summary report in Annex 2 provides further details in respect of the above, the training and awareness campaigns, the Council's involvement in the National Fraud Initiative exercise and a blue badge scheme.

Audit Recommendations

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

Appendix C	Recommendations Summary
Appendix D	Contains the red & red / amber open recommendations
Appendix E	Contains the red and red / amber recommendations completed since the last Committee meeting in November 2022.

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 Governance and Audit Committee note and consider the contents of the:

- Internal Audit and Investigation Team Progress Reports.

CHRIS PYKE AUDIT MANAGER

The following are attached:

Annex 1 - Internal Audit Progress - Summary Report

- Appendix A** Report Status as at 31 December 2022
- Appendix B** Audit Plan
- Appendix C** Recommendations Summary
- Appendix D** Red & red / amber open recommendations
- Appendix E** Red & red / amber recommendations completed since last Committee

Annex 2 - Investigation Team Progress – Summary Report