

THURSDAY, 8 FEBRUARY 2018

REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES

INTERNAL AUDIT UPDATE REPORT 2017/18 QUARTER 3

EXEMPT INFORMATION

None

PURPOSE

To report on the outcome of Internal Audit's review of the Internal Control, Risk Management and Governance framework in the 3rd quarter of 2017/18 – to provide members with assurance of the ongoing effective operation of an Internal Audit function and enable any particularly significant issues to be brought to the Committee's attention.

RECOMMENDATIONS

That the Committee considers the attached report and raises any issue it deems appropriate.

EXECUTIVE SUMMARY

The Accounts and Audit Regulations 2015 require each Local Authority to publish an Annual Governance Statement (AGS) with its Annual Statement of Accounts. The AGS is required to reflect the various arrangements within the Authority for providing assurance on the Internal Control, Risk Management and Governance Framework within the organisation, and their outcomes.

One of the sources of assurance featured in the AGS is the professional opinion of the Head of Internal Audit Services on the outcome of service reviews. Professional good practice recommends that this opinion be given periodically throughout the year to inform the Annual Governance Statement. This opinion is given on a quarterly basis to the Audit & Governance Committee.

The Head of Internal Audit Services' quarterly opinion statement for October - December 2017 is set out in the attached document, and the opinion is summarised below.

Audit Opinion.

I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the

organisation's Risk Management, Control and Governance processes.

Overall in my opinion, based upon the reviews performed during the third quarter of the 2017/18 financial year, the Authority has:

- Adequate and effective risk management arrangements;
- Adequate and effective governance; and
- Adequate and effective control processes.

Specific Issues

No specific issues have been highlighted through the work undertaken by Internal Audit during the third quarter of 2017/18.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS BACKGROUND

Failure to report would lead to non-compliance with the requirements of the Annual Governance Statement and the Public Sector Internal Audit Standards.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

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LIST OF BACKGROUND PAPERS

APPENDICES

Appendix 1 Internal Audit Performance Report 2017/18

Appendix 2 Percentage of Management Actions Agreed 2017/18

Appendix 3 Implementation of Agreed Management Actions 2017/18

INTERNAL AUDIT REPORT – 3rd Quarter - 2017/18

1. INTRODUCTION

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards)

Internal Audit's role is to provide independent assurance to the Council that systems are in place and are operating effectively.

Every local authority is statutorily required to provide for an adequate and effective internal audit function. The Internal Audit service provides this function at this Authority.

This brief report aims to ensure that Committee members are kept aware of the arrangements operated by the Internal Audit service to monitor the control environment within the services and functions of the authority, and the outcome of that monitoring. This is to contribute to corporate governance and assurance arrangements and ensure compliance with statutory and professional duties, as Internal Audit is required to provide periodic reports to "those charged with governance".

2. PERFORMANCE AND PROGRESSION AGAINST AUDIT PLAN

The Internal Audit service aims as one of its main Performance Indicators (PI's) to complete work on at least 90% of applicable planned audits by the end of the financial year, producing reports on these where possible/necessary. **Appendix 1** shows the progress at the end of 3rd quarter of the year of the work completed against the plan and highlights the work completed. The original audit plan identified 45 audits to be completed in the 2017/18 financial year. The plan has been revised, and a total of 47 audits are now due to be completed by the end of the financial year. At the end of the 3rd quarter of the year, internal audit have commenced/completed 28 audits. This equates to 60% of the revised annual audit plan (specific reviews). In addition to the specific reviews, a total of twelve implementation reviews and ten further implementation reviews have been completed for the financial year to date. Three implementations reviews and two further implementation review were completed in the second quarter.

The service also reports quarterly on the percentage of draft reports issued within 15 working days of the completion of fieldwork. All (100%) of the draft reports issued in this quarter of the year were issued within this deadline.

3. AUDIT REVIEWS COMPLETED 2017/18

Twelve audits were finalised within the quarter. **Appendix 2** details the number of recommendations made. A total of 29 recommendations were made in the third quarter with 28 (97%) of the recommendations being accepted by management.

The service revisits areas it has audited around 6 months after agreeing a final report on the audit, to test and report to management on the extent to which agreed actions have been taken. Three first implementation reviews and two second implementation reviews were completed during the third quarter of 2017/18. **Appendix 3** details the implementation progress to date for the third quarter of the financial year with 38% (18/48) implemented/partially implemented at 1st implementation review. Due to the number of recommendations not implemented at the implementation review, management have been asked to provide assurance and a status update on the outstanding recommendations to date. The 30 outstanding recommendations relate to the Electronic Document & Records

Management System (EDRMS) – 14 recommendations and the Freedom of Information Act (FOIA) – 16 recommendations. The Director – Technology & Corporate Programmes has given the following update:

“We are in the process of rescoping the EDRMS implementation. At the stage that we commissioned the initial implementation, we had technological restrictions which required investment. That work was completed in October and we subsequently met with Civica in November to re-open the discussions regarding our respective changed environments. We are currently working together with a view for a revised implementation to commence in April.

Regarding the FOIA work, we are drafting a specification for a new solution. The current solution was written by the previous Information Security Manager and has limitations in its operation. We have spoken with other local authorities to understand solutions in place and how effective they are and will be seeking to procure or develop a replacement solution from April. “ Internal Audit will complete their planned second implementation reviews as timetabled to confirm this.

For the second implementation reviews completed, 43% (3/7) of the recommendations were implemented/partially implemented. Two recommendations not implemented at 2nd implementation review were high priority and management have agreed revised implementation dates for all outstanding recommendations. Internal Audit is fairly satisfied with the progress made by management to reduce the level of risk and its commitment to progress the outstanding issues.

4. INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 in the Public Sector Internal Audit Standards require that Internal Audit have organisational and individual independence and specifically state that the head of Internal Audit Services must confirm this to the Audit & Governance Committee at least annually. As performance is reported quarterly, this confirmation will be provided quarterly.

The Head of Internal Audit Services confirms that Internal Audit is operating independently of management and is objective in the performance of internal audit work.

OVERALL CURRENT INTERNAL AUDIT OPINION

I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation’s Risk Management, Control and Governance processes.

Overall in my opinion, based upon the reviews performed during the second quarter of the 2017/18 financial year, the Authority has:

- Adequate and effective risk management arrangements;
- Adequate and effective governance; and
- Adequate and effective control processes.

Specific issues:

There were no specific issues highlighted through the work of Internal Audit in the third quarter of the 2017/18 financial year that would need to be highlighted as a corporate risk.

Angela Struthers,
Head of Internal Audit Services