

AUDIT & GOVERNANCE COMMITTEE

THURSDAY 7 JUNE 2018

REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES

INTERNAL AUDIT UPDATE REPORT 2017/18 QUARTER 4 AND ANNUAL REPORT

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 4th quarter and the 2017/18 financial year – 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.

RECOMMENDATION

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.

Annual 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 year, the Authority has:

- adequate and effective risk management arrangements;
- adequate and effective governance; and
- has adequate and effective control processes.

Specific Issues

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

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS

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

Angela Struthers, Head of Internal Audit Services

LIST OF BACKGROUND PAPERS

None

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 – 4th 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 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 draft reports on these where possible/necessary. **Appendix 1** shows the progress at the end of 4th 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, the plan has been revised to include 2 additional audits not originally identified on the audit plan and 6 audits that needed to be cancelled for operational reasons. At the end of the 4th quarter of the year, internal audit have commenced/completed 39 audits. This equates to 95% of the revised annual plan (specific reviews). 18 implementation reviews were identified in the original audit plan, the service has completed 29 up to the end of the fourth quarter of the financial year.

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

Appendix 2 details the number of recommendations made. A total of 28 recommendations were made in the fourth quarter with 25 (89%) of the recommendations being accepted by management. There was one high priority recommendation not accepted, this related to emergency planning training records. Training completed had been recorded on HR files but not recorded on the

Emergency Planning Officer's records. The recommendation was that the records be maintained in one place and updated. Management rejected the recommendation as two records still need to be maintained, however they will ensure that both records will be correct.

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. One implementation review and six 2nd implementation reviews were completed during the 4th quarter of 2017/18. **Appendix 3** details the implementation progress to date for the 4th quarter of the financial year with 18% (2/11) implemented/partially implemented at 1st implementation review and 24% (6/25) implemented/partially implemented at 2nd implementation review. Eight recommendations not implemented at 1st implementation review and 11 recommendations not implemented at 2nd implementation review were high priority and management have agreed revised implementation dates for all outstanding recommendations. The recommendations not implemented at 1st implementation review have arisen from the audit of Mobile Devices. The implementation of the recommendations has been delayed as they form part of the Local Governance Policy Framework review. Of the 11 recommendations not implemented at the 2nd implementation review, 7 related to the audit of IT disaster recovery and have been delayed until after significant ICT infrastructure changes have been made. In addition, significant resources within the team have been deployed on the implementation of GDPR compliance given the enforcement date of 25th May 2018. The remaining 4 related to policies to be implemented/updated (2 RIPA and 2 travel & subsistence).

Year End Summary Information 2017/18		Target
Percentage of Audit Plan completed	95%	90%
Draft reports issued within 15 working days	100%	100%
Percentage of recommendation accepted by management	97%	97%
Percentage of recommendations due implemented	72%	-

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.

5 DEVELOPMENTS DURING 2017/18

During 2017/18, Internal Audit has carried out the following:

- Completed the annual risk based audit plan in accordance with the Public Sector Internal Audit Standards;
- Produced a Quality Assurance and Improvement Programme;
- Given an assurance opinion for each audit completed, and a revised opinion on the completion of implementation reviews based upon Internal Audit's assessment of the control environment;
- Reported quarterly to the Audit & Governance Committee on progress against the audit plan;
- Continued to work with management to develop risk management;
- Provided an opinion on the internal control environment for the Annual Governance Statement;
- Continued to complete service enhancements mainly through the use of the Pentana Audit Module;
- Continued to Provide Audit Management Services to Lichfield District Council.

6 DEVELOPMENTS FOR 2018/19

The work of the Internal Audit Service will continue to be driven by the regulatory requirements of local government finance and the corporate and operational risks facing the Council. The Service is always looking to continuously improve its service and add value to management through regular audit to improve internal controls and identify efficiencies in their services. During 2018/19 we will complete the following:

- Comply with the Public Sector Internal Audit Standards; after the recently completed external assessment of the service, complete the service improvements identified;
- Complete the internal audit plan in accordance with the performance indicators;
- Continue to work with management to improve risk management;
- Continue to complete service enhancements to provide an efficient service;
- Continue to provide Internal Audit Management service to Lichfield District Council.

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 year, the Authority has:

- adequate and effective risk management arrangements;
- adequate and effective governance; and
- has adequate and effective control processes."

Specific issues:

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

Angela Struthers,
Head of Internal Audit Services