

AUDIT & GOVERNANCE COMMITTEE

24 OCTOBER 2019

REPORT OF THE HEAD OF AUDIT AND GOVERNANCE & MONITORING OFFICER

INTERNAL AUDIT UPDATE REPORT 2019/20 (QUARTER 2)

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 second quarter of 2019/20. To provide members with assurance of the operation of the Internal Audit function and enable any particularly significant issues to be brought to the Committee's attention.

RECOMMENDATIONS

- 1. That the Committee considers the attached report and raises any issue it deems appropriate.**
- 2. That the proposed revised system for 'follow up' of audit recommendations be endorsed.**

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 Audit & Governance 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 Audit & Governance's quarterly opinion statement for July - September 2019 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 second quarter of the 2019/20 financial 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 the second quarter of 2019/20.

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

Rebecca Neill, Head of Audit and Governance & Monitoring Officer

rebecca-neill@tamworth.gov.uk

Ext: 234

LIST OF BACKGROUND PAPERS

APPENDICES

Appendix 1 Internal Audit Performance Report 2019/20

Appendix 2 Implementation of Agreed Management Actions – Further Implementation reviews 2019/20

INTERNAL AUDIT REPORT – 2nd Quarter - 2019/20

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 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

Quarter 2 has seen some changes within Internal Audit. A new Head of Audit & Governance (HoA&G) joined in mid-August 2019 and the Principal Auditor (who had provided cover for the previously vacant HoA&G post), left the service at the beginning of October 2019. This vacant post is currently being advertised.

The above has had an impact on one of Internal Audit's main key performance indicators (KPI's), which is to complete work on at least 90% of applicable planned audits by the end of the financial year. **Appendix 1** shows the progress at the end of the second quarter. The original audit plan identified 29 specific audits to be completed in the 2019/20 financial year. At the end of the second quarter, internal audit had commenced/completed 10 audits (2 audits on the original plan - project management and community leisure - have been postponed). This equates to 37% of the revised annual audit plan. The HoA&G is reviewing the current plan against this context, to ensure that resources are dedicated to those areas of highest risk, to enable an opinion to be delivered at the year end.

In addition to the specific audits listed above, 4 implementation reviews and 2 further implementation reviews have also been completed during the quarter (more detail is given at section 3 below). The IT Governance implementation review was one of the 4 implementation reviews finalised during the quarter, for which the Chair requested additional assurance. A briefing note prepared by the Head of Technology & Information Services detailing assurance on progress made, has now been circulated to members.

The service also currently reports quarterly on the percentage of draft reports issued within 15 working days of the completion of fieldwork and the number of recommendations accepted by management. All (100%) of the draft reports issued in this quarter of the year were issued within this deadline and all (100%) of recommendations made were accepted by management.

Under the new management arrangements for the service, Internal Audit's KPI's and performance / assurance reporting are currently being reviewed to ensure they are fit for purpose, measure the right things and support the intention of the service to add value to the organisation.

3. AUDIT FOLLOW UP

CURRENT PERFORMANCE

Internal Audit currently re-visits areas it has audited around 6 months after agreeing a final report on the audit, to test the extent to which audit recommendations have been implemented. Internal Audit currently complete two implementation or follow up audits. If, following the second implementation review, managers have not implemented an audit recommendation, it is then deemed management's responsibility to accept and manage the risk.

The Audit & Governance Committee have routinely received a report on outcomes at the second implementation review. The current outturn for the second quarter is detailed at **Appendix 2**. This shows that of the two further implementation reviews completed (Housing & Tourism Information Centre), 76% (16/21) of the recommendations reviewed were assessed as implemented. The 5 recommendations not implemented at second implementation review were of a medium priority and management have agreed revised implementation dates.

PROPOSAL

There are inherent risks in the current follow up process. Un-implemented high priority audit recommendations may not be sufficiently managed following second implementation review and that in following up all medium as well as high recommendations, Internal Audit resources are not being directed to the areas of highest risk. In addition, the Committee does not have overall visibility / oversight of the current status of all un-implemented recommendations (including what priority they are and are they overdue).

In order to address this, the Committee is asked to consider replacing the current system for audit follow up to one where only high priority recommendations and those recommendations arising from audits receiving either a no or limited assurance opinion are followed up by Internal Audit. This approach directs resources to the areas of most risk and is in line with the approach taken by peers. Medium and low priority actions will continue to be tracked, but implementation will be certified by accountable managers (it is proposed that medium and low priority recommendation implementation will be sample checked by Internal Audit in the first year of implementation to establish confidence). This approach has received endorsement from CMT and also been consulted upon with the External Auditor.

The above proposal will have an effect on the Committee's current system for 'call in' of managers where an implementation review has identified a lack of progress in implementing recommendations. It is suggested that for the Committee to utilise their time in focusing on areas of highest risk, that 'call in' happens where the Committee agree that an overall limited or no assurance opinion audit has been followed up and reported to them with little progress having been made. Reporting to Committee will be strengthened to assist in this.

The Audit & Governance Committee are requested to consider and endorse the above approach.

In addition for the Committee to note, to further improve performance in this area, CMT approved on 2 October 2019, an edict to 'blitz' all outstanding audit recommendations currently remaining on the system. The period 7 October 2019 to 1 November 2019 was agreed as the timeline for managers to work to.

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 states that the Head of Audit & Governance 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 Audit & Governance 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 2019/20 financial 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 second quarter of the 2019/20 financial year that would need to be highlighted as a corporate risk.

Rebecca Neill
Head of Audit & Governance and Monitoring Officer

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