INTERNAL AUDIT PROGRESS REPORT – QUARTER 3 (DEC 2019)

Cabinet Member for Finance & Democratic Services

Date:	5 February 2020
Agenda Item:	
Contact Officer:	Rebecca Neill
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Key Decision?	**NO**
Local Ward Members	**N/A**

AUDIT & MEMBER STANDARDS COMMITTEE

1.   Executive Summary

1.1   To provide Audit & Member Standards Committee with internal audit's progress report for the period to 30 December 2019 (Quarter 3); and proposals for a new approach to audit follow up and assurance opinions.

2.   Recommendations

2.1   That the Committee:

- Notes the attached progress report (and new format for reporting).

- Endorses the proposal for a new approach to audit follow up and assurance opinions.

3.   Background

3.1   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 (PSIAS)).

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

4.   Internal Audit Progress Report

4.1   Internal Audit's newly formatted progress report for quarter 3 is detailed at **Appendix 1** for members to note.

5.   Internal Audit Follow Up Proposal

5.1   Under the Public Sector Internal Audit Standards, Internal Audit must implement a system for follow up.

5.2   At the Council, the follow up system comprises Internal Audit re-visiting areas it has audited around 6 months after agreeing the final audit report, 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 follow up, managers have not implemented an audit recommendation, it is then deemed management's responsibility to accept and manage the risk. Audit do not undertake further follow up.

5.3   There are inherent problems in the current follow up process:

☹   Un-implemented high priority audit recommendations may remain outstanding after second follow up, therefore exposing the organisation to risk.
☹   In following up all medium as well as high recommendations, Internal Audit resources are not being directed to the areas of highest risk.
☹   Neither the Leadership Team nor the Audit & Member Standards Committee have overall visibility / oversight of the current status of all un-implemented recommendations (including what priority they are and whether they are overdue).

5.4   In order to address the above, a new system to audit follow up is proposed 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. Medium actions will continue to be tracked, but implementation will be certified by accountable managers (it is proposed that these actions will be sample checked by Internal Audit in the first year of implementation to establish confidence). The current system for low priority actions will remain (these are advisory at the point of the audit, but are not tracked). The proposal has the following advantages:

☺   High priority actions are tracked until they are implemented, providing added assurance and confidence to 'those charged with governance' that the Council is managing risk.
☺   This approach directs resources to the areas of most risk and is in line with the approach taken by peers.
☺   Through a new way of reporting, the Leadership Team and the Audit & Member Standards Committee will have overall visibility / oversight of the current status of all un-implemented recommendations

5.5   This approach has been endorsed by the Leadership Team and the External Auditor and is in line with PSIAS.

5.6   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.

6. Proposed Assurance Opinions and Recommendation Priority

6.1   To enable clarity going forward in the definitions of overall audit assurance opinions and recommendation priority, the below is proposed and has been endorsed by the Leadership Team.

6.2   The Audit & Member Standards Committee are requested to review, comment and endorse the new approach (current definitions are at Appendix 3 of the progress report (Appendix 1 of this report) for reference).

Overall Audit Assurance Opinion	Definition
Substantial	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited	Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No	Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

Recommendation Priority	Definition
High	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
Medium	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation's exposure to risk.

Alternative Options	1. Only those stated within the report.
Consultation	1. The progress report and proposals have been discussed and

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	agreed with the Council's Leadership Team which includes the Section 151 Officer.
Financial Implications	1. None arising from this report.
Contribution to the Delivery of the Strategic Plan	1. An effective audit section supports the delivery of the Council's strategic plan by seeking assurance that the Council's risk management, internal control and governance arrangements are sufficient and operating effectively.
Equality, Diversity and Human Rights Implications	1. None arising from this report.
Crime & Safety Issues	1. None arising from this report
GDPR/Privacy Impact Assessment	1. N/A

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	The audit plan is unachievable.	Continuous review to ensure target is achieved	Green
B	Audit plan becomes irrelevant	Continuous review to ensure plan flexes to reflect the risk environment.	Green

Background documents (as attached)

Relevant web links – N/A

Internal Audit
Quarterly Progress Report – Quarter 3 (December 2019)
FINAL REPORT
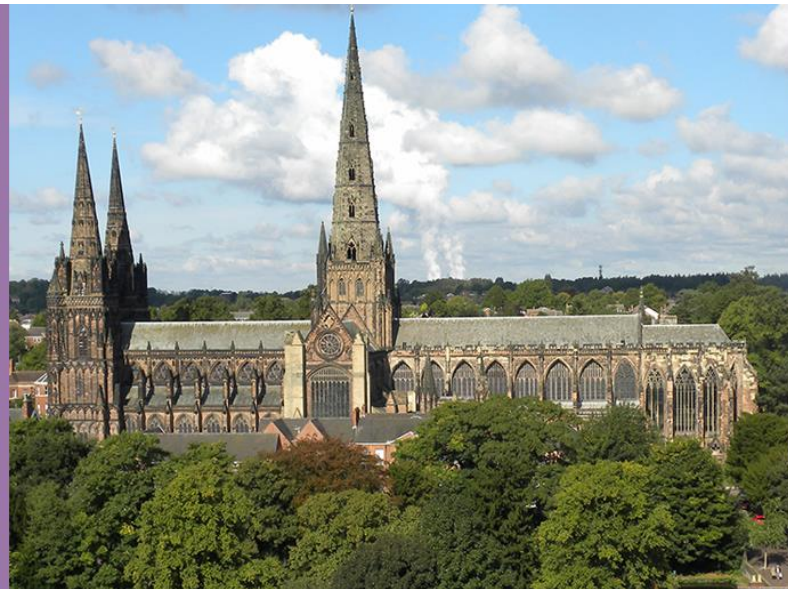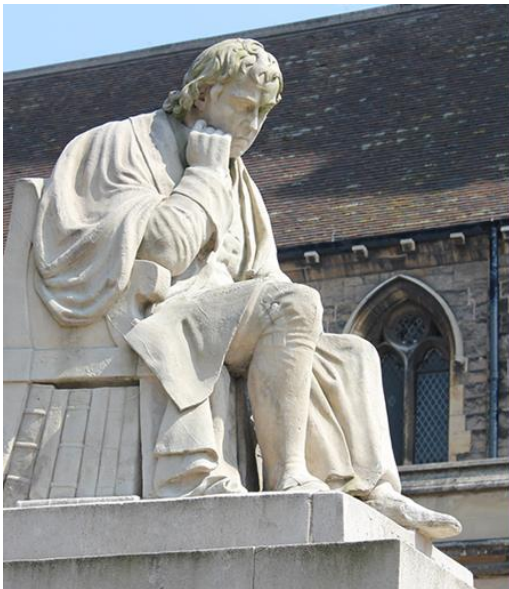
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If you have any questions about this report, please contact Rebecca Neill, Head of Audit rebecca.neill@lichfielddc.gov.uk

01 INTRODUCTION

BACKGROUND

This report summarises internal audit activity and performance for the period to 31 December 2019.

SCOPE AND PURPOSE OF INTERNAL AUDIT

The Accounts and Audit Regulations 2015 require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This opinion forms part of the framework of assurances that is received by the council and should be used to help inform the annual governance statement. Internal audit also has an independent and objective consultancy role to help managers improve risk management, governance and control.

Our professional responsibilities as internal auditors for the period ending 31 December 2019 are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

ACKNOWLEDGEMENTS

We are grateful to the directors, heads of service, service managers and other staff throughout the council for their help during the period.

02 INTERNAL AUDIT WORK UNDERTAKEN TO QUARTER 3

The internal audit plan for 2019/20 was considered and approved by the Audit & Member Standards Committee at its meeting in March 2019. The plan was for a total of 36 audits.

Four audits (property investment strategy, LA trading company, contracts procurement and mobile phones) were postponed at management's request last quarter due to imminent system changes. No further changes to the plan have been made this quarter.

The audit findings of each review, together with recommendations for action and the management response are set out in our detailed reports. A summary of the reports we have issued is included at **Appendix 01**. Progress against the plan is reported in section 5.

03 OPINION

SCOPE OF THE OPINION

In giving our audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide the council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, we have taken the following matters into account:

- The outcomes of all audit activity undertaken during the period.
- The effects of any material changes in the organisation's objectives or activities.
- Whether or not any limitations have been placed on the scope of internal audit.
- Whether there have been any resource constraints imposed upon us which may have impinged our ability to meet the full internal audit needs of the organisation.
- What proportion of the organisation's internal audit needs have been covered to date.

INTERNAL AUDIT OPINION

On the basis of our audit work, our opinion on the council's framework of governance, risk management and internal control is adequate in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by our audit work. These matters have been discussed with management, to whom we have made recommendations. All of these have been, or are in the process of being addressed.

SPECIFIC ISSUES

No specific issues have been highlighted through the work undertaken by internal audit during the quarter.

FRAUD & IRREGULARITY

No matters of fraud or irregularity have been reported during the quarter.

CONSULTANCY & ADVICE

The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and internal control matters. The following pieces of work were undertaken during the period:

➤ Review of Anite Sundry debtors system; museum acquisitions, disposal and loan policy; revised mileage claim system; and guide to the acquisition and disposal of physical assets.
➤ Advice on housing repair grant procedures and cashiering processes.

04 FOLLOW UP

Internal audit 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. Details of first and second implementation reviews and the status of the agreed management actions are summarised in **Appendix 02.** Should any recommendations be outstanding at the time of second implementation review, no further action is taken by internal audit, instead management accept the risk. This system is under a proposal for change (see covering report).

05 PERFORMANCE OF INTERNAL AUDIT

Compliance with professional standards

We employ a risk-based approach in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

Conflicts of interest

There have been no instances during the year which have impacted on our independence that have led us to declare any interest.

Performance of internal audit

Internal audit quality assurance

To make sure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular meetings of our networking groups, which issue technical and sector updates.

Performance Measures

Internal audit's main performance measures and the quarter's outturn are as follows:

- To achieve at least 90% of the plan by the end of the financial year - the current out-turn is at 72% so broadly in line with the expectation for the period (75%).
- To achieve a target customer satisfaction score of 4 – current out-turn is at 3.86, so just slightly below target. Actions have been taken to improve this for the next quarter.
- To achieve a target of 90% of recommendations made to be agreed – current out-turn is 99%.
- To achieve a 76% implementation rate of recommendations implemented and partially implemented on follow up – current out-turn 85%

APPENDIX 01: SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN TO QUARTER 3

Audit	Level of Assurance	Executive Summary	Recommendation	
			High	Medium
Data Protection / Data Quality (GDPR)*	Limited	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	7	7
Application Controls *	Limited	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	0	14
Members / Officers Allowances *	Substantial	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	0	1
Strategic Housing *	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	9
Homelessness *	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	14
Transparency Code *	Limited	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	5	10
IT Service Desk *	Substantial	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	0	4

Audit	Level of Assurance	Executive Summary	Recommendation	
			High	Medium
Scheme of Delegation*	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	4
Joint Working / SLA	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	5
VAT	Substantial	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	0	3
RIPA	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	10
Ethics	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	12
Street Cleansing	Substantial	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	0	2
Council Tax	Substantial	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	0	3
Housing Benefits Memorandum of Agreement	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	1
Sundry Debtors	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely	1	2

Audit	Level of Assurance	Executive Summary	Recommendation	
			High	Medium
		and effectively however there are some control weaknesses but most key controls are in place and operating effectively.		
Health and Safety	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	12
IT Governance	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	6
Parks Management	Adequate	Audit are pleased to be able to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	10
Disabled Facilities Grant Assurance	Assurance Opinion	Confirmation that the Logasnet return for 2018/19 DFG Grant expenditure was accurate for the cases examined.	0	0
Pensions	Assurance Opinion	Confirmation that employer administration processes, have been carried in all cases examined and checked and that information and contributions passed over to the Pension Fund are accurate and in accordance with the LGPS 2013.	0	0
National Fraud Initiative Assurance	Compliance	Compliance work against data matches.	0	0

* relate to 2018/19 planned audits finalised during 2019/20

Appendix 02: Implementation Reviews and the Status of the Agreed Management Actions

First Implementation Review Area	Revised Opinion	High			Medium		
		Fully Implemented	Partially Implemented	Not Implemented	Fully Implemented	Partially Implemented	Not Implemented
Treasury Management	✅ Substantial					1	
H&S Enforcement – Environment Health	✅ Adequate	1	1		4	3	
Project Management	✅ Adequate					4	2
Capital Accounting	✅ Substantial					2	
Lichfield Connects	✅ Substantial						1
NNDR	✅ Substantial				2	1	
Corporate Policies	✅ Adequate				1		5 *

*recommendations no longer relevant i.e. system changes / compensatory controls now in place.

Second Implementation Review Area	Revised Opinion	High			Medium		
		Fully Implemented	Partially Implemented	Not Implemented	Fully Implemented	Partially Implemented	Not Implemented
Car Parking	✅ Substantial				2		
S106/CIL	✅ Adequate		1		1	1	
Economic Development	✅ Substantial					1	
Building Control	✅ Substantial				7	1	
Civil Contingencies/ Business Continuity	✅ Substantial				4		2
Development Management	✅ Substantial				2	1	
Payroll	✅ Substantial	1					
Tourism/ TIC	✅ Substantial				3		
Freedom of Information	✅ Substantial				4		
Safeguarding (Mental Capacity Act	✅ Substantial				2	1	
Casuals/ self employed	✅ Substantial				3		

Appendix 03: Assurance and Recommendation Classifications

We currently use the following levels of assurance and recommendation classifications within our audit reports. This system is under a proposal for change (see covering report).

Overall assurance opinion	Definition
Substantial	Audit is pleased to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.
Adequate	Audit is pleased to report adequate assurance can be given that the system, process or activity should achieve its objectives safely and effectively. However, there are some control weaknesses but most key controls are in place and operating effectively.
Limited	It is with some concern that audit has to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively, as controls are in place but operating poorly, or controls in place are inadequate.
No	It is with some concern that audit has to report no assurance can be given that the system, process or activity will achieve its objectives safely and effectively, as controls are not in place or are failing.

Recommendation Priority	Definition
High	High priority recommendations will be made if one of the following criteria is met: 1. Adversely affects the annual governance statement 2. Results in significant loss of funds or assets 3. May lead to service delivery failures which could adversely affect the Council's reputation 4. Shows non-compliance with statutory requirements, the council's constitution, codes or policies and or any cabinet approved initiatives 5. Changes the effectiveness of key controls 6. Significant opportunity exists for real gains in processing efficiency 7. Poor cost controls or potential for significant savings and/or revenue generation 8. Significant impact environmentally, socially or economically
Medium	All other recommendations that do not meet the above criteria will be classed as medium priority recommendations