

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 11th MARCH 2015

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 3RD QUARTER 1ST OCTOBER TO 31ST DECEMBER 2014

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

To report on internal audit work carried out during the period 1st October to 31st December 2014, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

- 2.1 That the Internal Audit Progress Report for the third quarter of the year 2014/15 be noted.
- 2.2 Members decide whether the audit report recommendation not implemented by management, as detailed in 8.2, is an acceptable risk to the Council.
- 2.3 That the proposed revised Audit Plan for 2014/15 be approved and that members note that the Audit Service will not meet the Audit Plan 2014/15 due to the approval of the voluntary redundancy of the part time auditor post with effect from 31 January 2015.

3. Reasons for the recommendation:

- 3.1 One of the roles of this committee is to review quarterly internal audit reports and the main issues arising and seek assurance from management that action has been taken, where necessary.

4. What are the resource implications including non financial resources.

- 4.1 None.

5. Section 151 Officer comments:

- 5.1 There are no financial implications contained in this report. The revised audit plan is a consequence of the reduction in staffing in the section.

6. What are the legal aspects?

- 6.1 None.

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management regarding audit recommendations that have not been accepted or those not implemented within a reasonable timescale. The 2014/15 Audit Plan was approved at this Committee on 12th March 2014.

The purpose of Internal Audit is to provide an independent and objective review of the adequacy and effectiveness of the Council's arrangements for internal control, risk management and governance. The activities we audit are given an assurance rating as follows:

Excellent	★★★★★	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	★★★★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.
Some improvement required	★★★	There is a basic control framework in place, but not all risks are well managed and a number of controls are required to be strengthened.
Significant improvement required	★★	Most of the areas reviewed were not found to be adequately controlled. Risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Fundamental weakness	★	Controls are seriously lacking or ineffective in their operation No assurance can be given that the system's objectives will be achieved.

8.1 Work Undertaken

Internal Audit's objective is to examine the Council's financial and non-financial systems to check that there are adequate internal controls in place to prevent loss due to frauds, errors and inefficiency, and due attention is paid to corporate governance and risk management.

A summary of progress against the annual audit plan to date is shown at Appendix A, together with the current status of each area for review and the outcomes of the review, where completed.

The table is based on the audit plan and the systems grouped into the twelve strategic purposes as per the Corporate Plan.

A further summary of the outcomes of audits completed can be found at Appendix B.

Progress against the annual audit plan was on target as at 31st December, however, please see section 8.2.3 below for an update on audit resources for the final quarter of 2014/15.

8.2. Issues for consideration

8.2.1 There are no instances to report where recommendations were not accepted by management during this quarter.

8.2.2 There is one agreed recommendation that has not been implemented within a reasonable timescale to report during this quarter. This is from the Main Accounting Audit (Part 1) report dated 27/03/13 which was agreed by the manager in September 2013 and relate to external funding.

Finding

There is no corporate guidance on the management of external funding such as grants from grant awarding bodies Accountants are dependent on their budget holders for information on external funding

Recommendation

The Council should introduce corporate guidelines on the management of external funding

This was agreed and the Manager's response was that financial regulations would be updated to detail Finance's requirements for external funding arrangements
Target date Sept 2013

As part of the normal follow-up process the following responses were received from management:

October 2013 - a supplementary response was provided that as well as updating financial regulations, any future external funding would be included in the monthly SMT reports. A revised target date was set at March 2014

April 2014 - follow up was undertaken as part of the 13-14 Part two audit
Revised response – still outstanding, Finance to decide who needs to be informed about external grant income, the relevant Committees, SMT or both
Revised target date of July 14 was set.

November 2014 follow-up undertaken – this recommendation has still not been implemented.

This was reported to SMT on 17.02.15

8.2.3 During the quarter, a request was received from the occupant of the part time auditor post (who was on maternity leave) to be considered for voluntary redundancy in accordance with the council's current policy. This request was subsequently approved and the post will be deleted from the establishment with effect from 31 January 2015. As a result of this, 26 audit days will be lost from the audit plan for the final quarter and the service will therefore not meet the 2014/15 audit plan.

It is proposed that following areas originally approved as part of the plan will not now be audited in order to made the required saving of 26 days:

Business continuity – 20 days
Contracts – 5 days
Remaining day to be saved from contingency time

These proposed changes have been reflected in the summary of progress against the audit plan at Appendix A.

8.3 External review of Public Sector Internal Audit Standard (PSIAS)

The Public Sector Internal Audit Standards (PSIAS) were introduced in April 2013. As part of the standards, every public sector body is required to ensure an ongoing commitment to meeting the standards and, at least once every 5 years, arrange for the external assessment of the internal audit service against the standards either by:

- a full external review and assessment of the internal audit service or,
- a detailed self assessment followed by an independent validation of the self assessment findings.

The Council elected to undertake a self assessment followed by an independent validation of the findings. The results of the self-assessment undertaken were reported to this committee in June 2014 as part of the Annual Audit Report. The independent validation took place in October 2014 and the reviewer's overall opinion was as follows:

'Taking into account the outcome of discussions with the Audit Manager coupled with the testing carried out I am of the opinion that the content of the 2014 self assessment of the Internal Audit service against the Public Sector Internal Audit Standards presents a true and fair view'.

However, there were two areas of concern highlighted in the report:

Access to internal audit electronic files – It is understood that ICT employees by the nature of their work have access to audit reports and working papers held on the Council's servers. However unlike audit employees, they are not required to sign the Council's Code of Ethics statement each year. This inconsistency could give rise to a failure to successfully discipline employees in the event of the content of audit reports or working papers being disclosed. It is recommended that the Council require all ICT employees sign the Code of Ethics statement annually thereby covering the Council in the event of a leak of audit or any other data/information of a personal or confidential nature.

Contract audit – It was reported that the audit team currently lack skills in respect of contracts. Given that the Council will spend many hundreds of thousands (if not millions) every year I would recommend that the Council investigate either buying in a specialist contracts auditor and/or invest in training a member of the audit team.

8.4 Measuring the effectiveness of the Audit Committee

The completed self assessment checklist is attached at Appendix C. There is one response that was received following the last meeting which needs to be noted by members that is:

Are members sufficiently independent of the other key committees of the council?

In order to be effective the audit committee needs to be independent from executive and scrutiny as it needs to retain the ability to challenge executive on issues and report to it on major issues and contraventions. The audit committee chair should not be a member of the executive.

Whilst the council meets the requirement in respect of the independence from Executive, it is not possible to meet the requirement to have all members independent of any scrutiny function.

One area for improvement was also identified:

The audit committee to ensure that officers are monitoring action taken to implement external audit recommendations

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

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Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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