

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO  
AUDIT & STANDARDS COMMITTEE**

**Date: 11 February 2019**

**HEADING**                    **INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2018/19**

**Submitted by:**            Executive Director – Resources & Support Services

**Portfolio**                    Finance and Efficiency

**Ward(s) affected**        All

**Purpose of the Report**

To report on the work undertaken by the Internal Audit section during the period 1<sup>st</sup> October to 31<sup>st</sup> December 2018. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

**Recommendations**

**That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.**

**Reasons**

The role of Internal Audit is to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

**1      Background**

1.1 The Internal Audit Plan for 2018/19 allows for 435 days of audit work.

1.2 This is the third progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;

- Actual against planned performance for the second quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non-audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems.

## 2 Issues

### 2.1 Performance Indicators

The indicators reported below relate to the end of the third quarter (December 2018).

### 2.2 Number of Recommendations Implemented

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of December 2018, 188 recommendations had been made, of which 127 have been implemented, 68%; the target for the implementation of all recommendations is 96% by the end of the financial year.

### 2.3 Audit reviews completed and final reports issued between 1 October and 31 December 2018

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

<b>Well Controlled</b>	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm)
<b>Adequately controlled</b>	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
<b>Less than adequately controlled</b>	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
<b>Poorly controlled</b>	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

2.4 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1<sup>st</sup> October 2018.

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
<b>Resources and Support Services</b>						
Payroll	A	Less than adequately controlled	2	6	0	8
Creditors – Key Controls	A	Well controlled	0	0	0	0
Council Tax – Key Controls	A	Well controlled	0	2	0	2

<b>Operational Services</b>						
Jubilee 2	B	Adequately controlled	0	10	3	13
Contract Management	B	Adequately controlled	0	4	0	4
<b>Regeneration &amp; Development Services</b>						
Contract Management	B	Well controlled	0	0	0	0

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

### **3 Options Considered**

- 3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.
- 3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

### **4 Proposal**

- 4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

### **5 Reasons for Preferred Solution**

- 5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

### **6 Outcomes Linked to Corporate Priorities**

- 6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.
- 6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

### **7 Legal and Statutory Implications**

Classification: NULBC **UNCLASSIFIED**

7.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

**8 Equality Impact Assessment**

8.1 There are no differential equality impact issues identified from this proposal.

**9 Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

**10 Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

**11 Key Decision Information**

11.1 Not applicable

**12 Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2018/19 (Audit and Standards Committee 25 June 2018).

**13 Recommendations**

13.1 That Members consider any issues that they may wish to raise with Cabinet and, or Chief Officers.

**14 Background Papers**

14.1 Internal Audit Plan & PI's Folder

14.2 Pentana