

# Audit Committee

26<sup>th</sup> September 2022



**Report of:** Chief Internal Auditor

**Title:** Internal Audit Activity Report

**Ward:** Citywide

**Officer Presenting Report:** Chief Internal Auditor

## Recommendation

The Audit Committee notes the Internal Audit Activity Report for the period 1 April 2022 up to 31 August 2022 and receives assurance on actions being taken to complete the Approved Internal Audit Plan for 2022/23.

## Summary

This report seeks to provide the Committee with a high-level update on internal audit activities since the last meeting. It should be noted that consistent with the Audit Committee Work Programme, the Committee will receive the half year report in November that will provide full details on performance against the approved plan and summary of outcomes from each of the completed reviews.

## The significant issues in the report are:

- The completion of the approved audit plan is progressing well and the key outputs from the period under review were finalisation of work carried forward from 2021/22 and certification of a high number of grants.
- During the period under review Internal Audit received requests from management for two additional reviews relating to Capital Project Expenditure and Homelessness. The Committee is requested to formally approve these additions.
- The Fraud team continued to prioritise whistleblowing referrals and fraud prevention activities including the implementation and use of the NFI Fraud Hub.
- Satisfactory progress is being made in the implementation, monitoring and reporting of agreed management actions.

## **Policy**

1. Audit Committee Terms of Reference

## **Consultation**

### **2. Internal**

Corporate Leadership Board including S151 Officer, Cabinet Member for Governance, Resources and Finance.

### **3. External**

Not applicable

## **Context**

4. The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk, and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The work of the Internal Audit team should be targeted towards those areas within the Council that are most at risk of impacting on the Council's ability to achieve its objectives. In addition, the team provide a Counter Fraud Service to the Council to enhance arrangements for the prevention, detection, and investigation of fraud.
5. This report provides an update on internal audit matters. The Committee will receive a comprehensive half year report in November which will provide the Committee and Management with an update on the progress in delivering the approved 2021/22 Audit Plan. This update will cover the period of 1<sup>st</sup> April to 31 August 2022, building on the information which has been provided to Committee at its previous meetings in this financial year.

## **Internal Audit Delivery**

6. Internal Audit is making reasonable progress in the completion of the 2022/23 Audit Plan. As at the end of August 2022, audit work carried forward from the previous year has been completed and effort is now focussed on completing the approved plan. Appendix 1 provides an update on all audits that have been completed or are in progress as at 31 August 2022. At the time of reporting there were appropriate mitigating actions to address any risks associated with the delivery of the annual plan.
7. In considering this high level update, the Committee should note that consistent with the reporting cycle an Internal Audit Half Year Report will be presented in November 2022. This report will provide a comprehensive update on the completion of the approved 2022/23 Internal Audit Plan detailing the status and assurance opinion for each of the planned reviews.
8. The following paragraphs provides a summary of some of the key outcomes or activities delivered during the period under review.

### *Grant Certifications*

9. A significant amount of audit time was spent on grant certification work where 19 grants with a total value of £31m were certified. Appendix 1 provides a list of all grants certified during the period. Whilst there were no compliance issues noted, in some cases Internal Audit received instructions very close to the reporting deadline creating resourcing challenges for the team. Internal Audit are proactively working with management to ensure that sufficient notice is given for grant audits.

### *Schools Audits*

10. Work relating to schools' audits has been completed. Any internal control, governance or risk issues identified during the audits were discussed with schools' authorities ensuring that appropriate actions were being taken to improve the schools' control environment.

### *Continuous auditing and continuous monitoring*

11. Consistent with the Internal Audit Strategy that has been agreed with the Audit Committee, Internal Audit has a key objective of implementing continuous assurance and monitoring methodologies in key systems. When fully operational continuous auditing enables Internal Audit to continually gather from processes data that supports auditing activities whilst continuous monitoring enables management to continually review business processes for adherence to and deviations from intended levels of performance and effectiveness.
12. Working with the Strategic Partner, satisfactory progress is being made and Purchase Cards has been identified as the first system to be reviewed under this methodology. Outcomes from this review are being analysed and will be reported to management by the end of September. We will use the learning from this first exercise in setting the scope and testing of future system. Using more automated process will hopefully improve audit efficiencies and timely reporting.

### *Resourcing*

13. During the early part of the financial year Internal Audit faced some resourcing challenges due to sickness absence resulting in the delays in completing some audits especially those relating to schools. The resultant risk on the delivery of the approved plan was mitigated by additional support from KPMG, our internal audit strategic partner.
14. One of the Internal Audit's key strategic objectives is to build resilience within the Service by developing and implementing succession plans at all professional levels underpinned by the principle of growing our own through the apprenticeship and graduate trainee route. Consistent with this, two Level 7 Internal Audit Professional Apprentices have been appointed and joined the Council with effect from 1 September 2022. This development will help to improve the much needed additional resource at the auditor level.

### *Internal Audit Plan Review*

15. Consistent with the rolling plan methodology, the approved Internal Audit Plan is reviewed quarterly. During the period management have requested that Capital Spending Review and

Homelessness are added to the plan due to the assurance needs that have arisen. The Committee is requested to approve these additions noting that there are no resourcing pressures arising from this.

### **Implementation of Agreed Management Actions**

16. The Council uses the Pentana Audit Management Module as the tool for monitoring and reporting the implementation of agreed management actions. In this respect, management is responsible for implementing agreed actions whilst Internal Audit is responsible for regularly reviewing the entries by management and seeking additional evidence if required before closing the actions as completed. There is a target that 93% of agreed actions should be implemented by the due date.
17. Internal Audit established that there were 292 agreed management actions that were due for implementation by 30 June 2022. Out of this 93% of the actions were implemented or partially implemented. This performance is consistent with the 93% target and reflects the impact of the new monitoring and reporting arrangements. The regular reporting of outstanding actions at both Executive Director Meetings and Corporate Leadership Board meetings should be maintained to sustain this good performance. It is hoped that automation of the procedure for reminding actions owners when the actions are due for implementation will help improve the implementation rate.

### **Fraud**

18. During the period under review there has been an increase in the number of both fraud and whistleblowing referrals which could be attributed to the increased awareness of fraud and whistleblowing procedures. Given the resultant resourcing challenges prioritisation is given to whistleblowing cases as well as ensuring that there is the right balance between investigations and fraud prevention work. Following on from the Fraud Annual Report that was presented to the Committee in June 2022, a half year report will be presented in November 2022 which will provide details on outcomes from key fraud activities.

### **Internal Audit Exception Reporting**

19. Under the agreed escalation procedure, the summaries of every audit with a no or limited assurance opinion are presented to the Audit Committee for consideration. The Committee may seek additional assurances on the actions being taken to address the issues identified. Consistent with this procedure the IT Governance Review summary which is Appendix 2 of this report is being presented for consideration and the relevant senior responsible officers will be in attendance to answer any questions the Committee may have.
20. It is recognised that the Council continues to face significant risks arising from the pandemic and the cost-of-living crisis. Internal audit will continue to engage with management regularly to ensure that assurance activities align with the Council's priorities and risks.

### **Audit Committee Briefing**

21. In previous meetings the Committee has requested private briefings on Risk Management processes, Procurement Breaches and IT risks so that the Committee can fully understand the actions being taken in addressing the known issues and obtaining assurance thereof. A meeting covering these three areas will be held on Monday 26 September prior to the Committee September meeting.

### **Proposal**

22. The Audit Committee note the Internal Audit Activity Report.

### **Other Options Considered**

23. Not applicable

### **Risk Assessment**

24. The work of Internal Audit minimises the risk of failures in the Council's internal control, risk management and governance arrangements, reduces fraud and other losses and increases the potential for prevention and detection of such issues. Areas of significant risk are detailed in the report.

### **Summary of Equalities Impact of the Proposed Decision**

No Equality Impact anticipated from this report.

### **Legal and Resource Implications**

**Legal** - Not Applicable

**Financial** - Not Applicable

**Land** - Not Applicable

**Personnel** - Not Applicable

### **Appendices:**

- **Appendix 1** – Schedule of Internal Audit Work
- **Appendix 2** – IT Governance Review - Summary

### **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

#### **Background Papers:**

Public Sector Internal Audit Standards  
Various Audit Files