

# Audit Committee

30<sup>th</sup> January 2023



**Report of:** Chief Internal Auditor

**Title:** Internal Audit Update Report

**Ward:** Citywide

**Officer Presenting Report:** Chief Internal Auditor

## Recommendations

1. The Audit Committee notes the Internal Audit Update Report highlighting the planned key activities for the rest of the year until 31 March 2023.
2. The Audit Committee agrees to the quarterly audit planning approach with effect from 2023/24.

## Summary

The Committee received internal audit and fraud half year reports in November 2022 that provided full details on performance against the approved plan and summary of outcomes from each of the completed reviews. This report seeks to provide the Committee with a high-level update on internal audit priorities in the last quarter of this financial year.

## The significant issues in the report relate to:

- Delivery of the 2022/23 internal audit plan
- The implementation of agreed audit actions
- The external assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards
- External review of whistleblowing arrangements
- IT Root Cause Analysis
- 2023/24 Audit Planning Approach
- 2022/23 Annual Governance Statement

## **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 received comprehensive half year reports in November which provided the Committee and Management with an update on the progress in delivering the approved 2022/23 Audit Plan. This update details the key priorities for the period up to 31 March 2023.

## ***Internal Audit Plan Delivery***

6. Work is ongoing to complete the approved 2022/23 internal audit plan. Most of the reviews that are earmarked for completion in Q4 are being scoped and some of them are already work in progress. In the last meeting we reported that we were behind target due to the resources and operational challenges faced in their earlier parts of the year. The Audit Committee were advised about the actions we have taken to ensure that the approved plan is delivered by 31 March 2023.
7. The audit environment remains challenging as the Council continues to operate in circumstances dominated by inflation, the impact of rising costs on budgets and the rising demand for services stemming from Covid. As managers try to deal with these challenges and plan for the coming year, the speed at which internal audits are completed will inevitably slow down impacting on the ability to finalise some reports timely.
8. Another key development that is likely to impact the delivery of planned audit activities is the current OFSTED inspection across the Council's children's services. The inspection started on 9 January until Friday 27 January 2023. This means that Internal Audit needs to give colleagues in

the Children and Education Directorate space and support to ensure a successful inspection. Internal Audit engagement during this time is very limited but we are satisfied that the planned activities in this area will be completed by the end of the financial year.

9. We previously reported about the resourcing challenges faced in the earlier parts of this financial year and the actions that we have taken to reduce the impact on the overall delivery of the approved plan. As reported in the last meeting we are confident that the agreed audit plan delivery target will be met by 31 March 2023.
10. The Audit Committee is requested to note the following two changes to the audit plan:
  - The Homelessness follow up audit has been removed. Other work has been completed in this area and the ongoing IT system replacement is a key part of the improvement actions.
  - The days allocated to the Domestic Violence review have now been allocated to the Food Equality Strategy at the request of management in agreement with the Chief Internal Auditor.

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

11. A key activity for Internal Audit is following up and reporting on the implementation of agreed management actions. The Council uses the Pentana Audit Management System to monitor and report the implementation of agreed management actions. Management are ultimately responsible for implementing the agreed actions and Internal Audit is responsible for undertaking follow up and ensuring that the progress in the implementation of the actions is monitored and reported to the Corporate Leadership Board and Audit Committee.
12. There is a target that 93% of all actions are implemented by the due date. This target has been consistently achieved over the last reporting periods with significant support from Internal Audit. This positive trajectory will need to be sustained so work is now ongoing to ensure that management can independently review their progress regularly as part of their performance management arrangements. In this quarter Internal Audit will support management in enhancing management processes that ensure timely and robust monitoring of due actions. Once these processes are established, the role of Internal Audit will then be limited to undertaking detailed follow ups and quarterly reporting.
13. The next report on the implementation on agreed action will be presented to the Audit Committee in March 2023.

#### ***Independent Review of Whistleblowing Arrangements***

14. Consistent with the Internal Audit Charter, Internal Audit manages the Council's whistle-blowing arrangements, including provision of a helpline and, where appropriate, investigates instances of suspected or actual fraud, corruption, or impropriety. To manage the self-review risk, an independent audit is commissioned every two years with outcomes being reported to the Audit Committee and Corporate Leadership Board.

15. An independent review of the Council’s whistleblowing arrangements is currently being undertaken by Devon Audit Partnership. The outcome will be reported to the Committee in March 2023.

#### ***IT Root Cause Analysis***

16. Following seven IT audits having limited assurance opinions in the last 18 months, the Chief Internal Auditor commissioned the Internal Audit Strategic Partner, KPMG, to undertake a ‘root cause analysis of issues raised in these reports. The purpose of this exercise was to identify the actual causes of the issues raised in supporting IT Management in developing and implementing effective plans for enhancing the IT control environment.
17. The root cause analysis has now been completed and the outcomes have been considered by IT Management. The key outcomes and how they have been used are detailed in the IT Update Report, which is being presented by the Director for Policy, Strategy and Digital at this meeting. It is also intended that this work will be used to determine areas for Internal Audit review during 2023/24.

#### ***External Assessment of Internal Audit***

18. The Public Sector Internal Audit Standards require every Internal Audit service be reviewed once every five years, by a qualified and independent reviewer, external to the organisation.
19. In July 2022, the Audit Committee endorsed the approach and noted the terms of reference for the required external review of compliance with the Public Sector Internal Audit Standards by Bristol City Council’s Internal Audit Service
20. Consistent with the discussions in July, the external review by Nottingham City Council is currently underway and the resultant outcome will be presented to the Audit Committee in the March meeting.

#### ***2022/23 Annual Governance Statement (Statement)***

21. The City Council is required by the Accounts and Audit Regulations 2015 to prepare an Annual Governance Statement to accompany its published financial statements. Internal Audit has responsibility for collating assurances in support of the Council’s Annual Governance Statement and for drafting the Statement and facilitating management review.
22. The review process has started and includes examination of a wide range of internal control and governance processes. Senior managers from across the Council and group of companies complete assurance statements for each of their areas acknowledging responsibility for internal control and risk management. Assurances from oversight functions at the Council and external inspections are also used in the review.
23. A draft Statement will be presented to the Audit Committee for consideration in June 2023.

### ***2023/24 Audit Planning Approach***

24. The local government sector is faced with major financial pressures resulting in significant levels of organisational change creating uncertainty, complexity and increasing risk. In addition, the impact of the Covid pandemic and the rapidly changing economic and technological environment require organisations to be more agile, innovative and residents focussed. The Council will need to take reasonable measures to mitigate the impact of risks in the event they crystallise.
25. Given the increased complexity and volatility in the risk landscape as well as additional needs to provide insights into emerging risks, Internal Audit will need to adopt approaches that align with the business and implement effective methodologies that anticipate new risks, provide advice, and help to positively manage change.
26. To ensure that Internal Audit focuses on the key and current risks facing the Council, it is proposed that we change from annual audit planning to quarterly audit planning. With a shorter planning period, it means that Internal Audit will be able to focus on the issues that are impacting the business on time and the resultant advice will have an impact on outcomes.
27. The proposal is to develop a plan that covers the first three months of 2023/24 which will be approved by the Audit Committee as the Q1 audit plan in March 2023. In the same meeting the Audit Committee will be requested to note some of the areas that will form part of the following quarter (Q2) which will be approved by the Committee in June 2023. The approach ensures that the Committee has assurance that all known emerging risks are covered and there is an opportunity to reprioritise activities every quarter. The process will be repeated in all other quarters during the year.
28. These quarterly plans will be brought to the Committee to be approved in March 2023, June 2023, September,2023 and November 2023. In essence, the Committee will be requested to approve the firmed plan for the quarter and a flexible plan for the following quarter.
29. There are no other proposed changes to how we determine internal audit priorities, and these will be determined by a risk assessment based on relevance to corporate priorities, level of risk, materiality, and audit history. We will engage with senior management structures as usual and the delivery of internal audit and reporting will be consistent with our internal audit strategy that was approved by the Audit Committee in November 2022.

### ***Audit Committee Development***

30. The Chartered Institute of Public Finance and Accountancy (CIPFA) publish guidance to support the establishment and effective operation of audit committees. The guidance covers the core functions of an audit committee, including relevant legislation and professional standards that the members should be aware of and a framework to support the appointment, training and development of audit committee members and resources to enable self-evaluation and improvement planning.
31. In October 2022, CIPFA published the updated Audit Committees: Practical Guidance for Local Authorities and Police 2022.

32. Working with the Audit Committee Chair and Vice Chair, a workshop is being arranged for the first week of February to consider the updated guidance and identify opportunities for further development. Attending the workshop will give the Committee Members the opportunity to self-reflect and agree actions that need to be taken to continuously enhance the effectiveness of the Committee.

### **Proposal**

33. The Audit Committee note this Internal Audit update and approve the quarterly planning approach.

### **Other Options Considered**

34. Not applicable

### **Risk Assessment**

35. 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:**

None

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

#### **Background Papers:**

- Public Sector Internal Audit Standards
- Various Audit Files