

Audit Committee

20th November 2023



Report of: Chief Internal Auditor

Title: Internal Audit Half Year Report 2023/24

Ward: Citywide

Officer Presenting Report: Chief Internal Auditor

Recommendations

The Audit Committee considers the work of the Internal Audit Service during the first half of the 2023/24 financial year and receives assurance on actions being taken to complete the agreed priorities for the rest of the year.

The Audit Committee notes the Transition from Children to Adults internal audit summary report and takes assurance from management regarding the issues highlighted in the report.

Summary

This report provides the Committee with an accumulative summary view of the work undertaken by Internal Audit during the period under review together with the resulting conclusions, where appropriate. Additionally, the report provides the Committee with oversight of grant certification work completed, update on the implementation of agreed management actions during the period under review and individual summaries for the audit reviews that have concluded with a 'Limited' level of assurance.

The significant issues in the report are:

- Audit work brought forward from 2022/23 is now fully complete.
- Completion of agreed quarterly plans is progressing well and there is sufficient contingency in the plans to ensure that all planned activities are completed by the end of Quarter 4.
- A significant amount of audit time continues to be spent on certifying grants.
- Supporting management in ensuring that there are adequate arrangements for monitoring and reporting the implementation of agreed management actions. Satisfactory progress is being made in that regard although more needs to be done to embed those arrangements as part of service performance management frameworks.
- Satisfactory progress in tackling fraud and enhancing whistleblowing arrangements. These issues are covered in a separate Fraud Half Year Report as part of this meeting.
- The internal audit summary report with a limited assurance opinion is attached to this report as Appendix 2.

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 provides a counter fraud service to the Council to enhance arrangements for the prevention, detection, and investigation of fraud.
5. This half year report is designed to provide the Committee with a summary view of the work completed by the Service throughout the year to date and the results of that work. The report therefore:
 - Provides an overview of the work of Internal Audit to date.
 - Presents the assurance work completed by the Internal Audit team during the period, together with the conclusions drawn from that work.
 - Updates the Committee on the progress in the implementation of agreed management actions.
 - Spotlights audit review outcomes, both positive and negative, to management and the Audit Committee for their consideration and action, where appropriate.

Internal Audit Delivery

6. Internal Audit is making reasonable progress in completing the agreed audit priorities for 2023/24. At this point, all the audit work that was carried forward from 2022/23 has been completed and the Audit Committee will be requested to approve Q4 priorities in this meeting. Appendix 1 provides an update on all audits planned for Q1 and Q2 that have been completed or are in progress as of 31 October 2023. Based on the available resources and additional support from KPMG, our internal audit strategic partner there is confidence that the planned audit priorities for the rest of the financial year will be delivered by 31st March 2024.

7. At every meeting the Committee receives an internal audit activity update report that summarises the work that has been completed and being planned. Such a report was last received in September 2023.

The following paragraphs provides a summary of some of the key outcomes or activities delivered during the period under review.

Preparedness for Committee Governance

8. One of the key audits completed during the first half of year was the review of the council's preparedness for committee governance. The principal objective of this review was to assess the council's preparedness for the implementation of a committee system of governance from May 2024 and reasonable assurance was provided. Evidence was obtained that showed that reasonable progress was being made but the opinion did not include whether the council will successfully implement the new governance system.

Grant Certification

9. A significant amount of audit time was spent on grant certification work where 36 grants with a total value of £31m were certified. A list of all grants certified during the period under review is in Appendix 1. While there were no compliance issues noted, improvements are needed in the way management prepare for these audits as well as ensuring that the audits are scheduled in advance thereby giving Internal Audit sufficient notice to resource this activity.

Schools Audits

10. Follow up work has been completed at 10 schools. As at the time of writing six had been completed and four are at the finalisation stage. In addition, a risk assessment has been completed which has enabled the identification of 11 schools that will be audited in 2023/24. Planning for this activity is at an advanced stage and five schools will be audited in Q3 while the rest will be completed in Q4.

Continuous auditing and continuous monitoring

11. One of the key priorities within our Audit Strategy is to implement a continuous monitoring and auditing methodology that a) enables management to continually review business processes for adherence to and deviations from intended levels of performance and b) enables internal audit to continually gather data that supports auditing activities. Slow progress has been made and we have now sought support from our strategic partner to help us speed up the development.

Embedded Assurance

12. Consistent with the agreed priorities, Internal Audit is supporting the key projects and programmes through embedded assurance which sees the team working with programme and project teams to provide real time assurances as the programmes progress. This means governance and programme assurances are timely to enable necessary corrective actions as the project progresses. This should better support delivery of outcomes. As this engagement is largely advisory no assurance opinion is given but formal reports may be issued to highlight

significant issues impacting the programme. Given the level of transformation activity in the council, training is being arranged to ensure that the auditors have sufficient skills to undertake this important role.

Procurement of a new strategic partner

13. The internal audit strategic partnership agreement with KPMG will come to an end on 31 January 2024. As a result, we are in process of tendering for a new strategic partner. The strategic partnership arrangement provides subject matter expertise in specific/complex audits and helps to build resilience and capacity in cases of delivering reach back to support peaks in the internal audit activity. Given the challenging operating environment and the emergence of complex information technology risks, the support from a reputable strategic partner is seen as an imperative in maintaining an effective internal audit service. It is hoped that the new arrangements would be in place by the start of the next financial year.

Review of Internal Audit Priorities

14. Consistent with the rolling plan methodology, internal audit priorities are agreed with the Committee on a quarterly basis. A separate report on Q4 priorities will be discussed as part of this meeting.

Companies and External Clients

15. The assurance work undertaken for council companies and external clients is reported to those organisations through the agreed governance arrangements.

Implementation of Agreed Management Actions

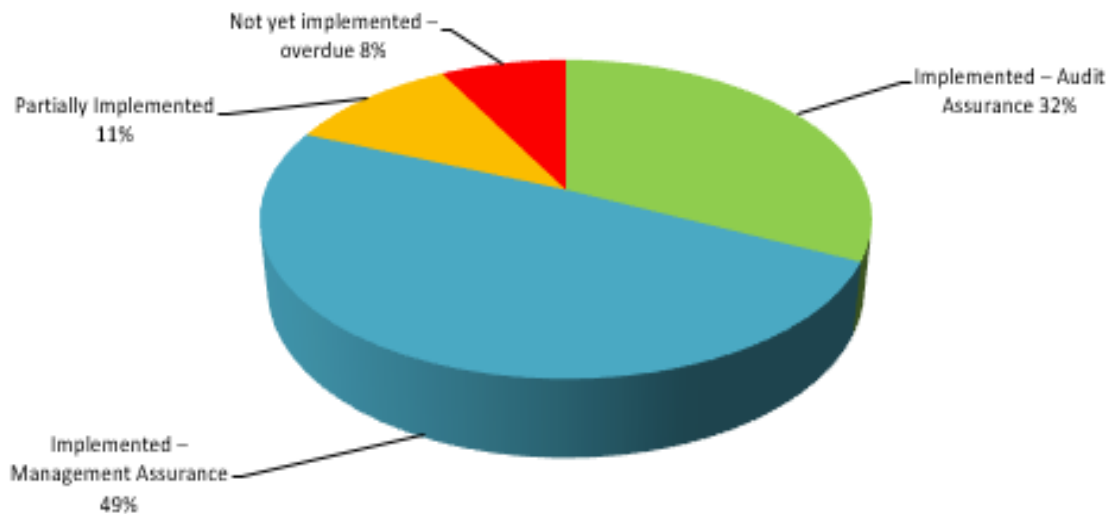
16. The Council uses the Pentana Audit Management Module as the tool for monitoring and reporting the implementation of agreed management actions. In this respect, management is responsible for implementing agreed actions whilst Internal Audit is responsible for regularly reviewing the entries by management and seeking additional evidence if required before closing the actions as completed. There is a target that 90% of agreed actions should be implemented by the due date.
17. Based on the Pentana report there were 352 agreed management actions that were due for implementation by 31 October 2023. Out of these actions, 92% were either implemented or partially implemented. Overall, this performance is slightly above the 90% target. However, two out of the four directorates were below target as shown in the table below.

Name of Directorate	Total Agreed Actions	% Implemented and Partially Implemented
Adults and Communities	63	92%
Children and Education	27	85%
Growth and Regeneration	85	84%
Resources	177	97%

18. The table and pie chart below reflect the overall performance for the whole council.

All BCC Actions with a due date on or before 31-10-23			
Action Status	High	Medium	Grand Total
Implemented - Audit Assurance	36	77	113
Implemented - Management Assurance	48	125	173
Partially Implemented	13	25	38
Not yet implemented - overdue	8	20	28
Grand Total	105	247	352

ALL BCC ACTIONS WITH A DUE DATE ON OR BEFORE 31-10-23



19. This performance is better than the previous reporting period and this reflects the significant effort that has been made to improve performance in this area. In the last quarter, Internal Audit has supported management in undertaking wholesale reviews of long outstanding actions especially those originating from previous years. While this approach has helped to get to this satisfactory position there is over reliance on Internal Audit and this is not sustainable over a longer period. More needs to be done to embed the monitoring and reporting of agreed actions into the performance management cycle. Most importantly, management should proactively utilise the Pentana Audit functionality to review their performance in this area. The oversight by senior management particularly at CLB has helped in ensuring that long outstanding actions have been cleared and this should be sustained.

Fraud

20. The Committee will receive the Fraud Half Year Report 2023/24 in this meeting.

Internal Audit Exception Reporting

21. 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 Transition from Children to Adults audit summary is presented at

Appendix 2 for consideration and the relevant senior responsible officers will be in attendance to answer any questions the Committee may have.

22. 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.

Staffing

23. One of the Group Auditors has resigned and left the council in October 2023. The resultant vacancy is expected to be filled by 31 March 2024 and this has been factored in the development of the Q4 plan. A Fraud Investigator Apprentice has been recruited and joined the council in September 2023. This means the team is now supporting 4 Apprenticeships to support longer term resilience.

Proposal

24. The Audit Committee note the Internal Audit Half Year Report 2023/24 and takes assurance from management regarding the issues highlighted in the Transition from Children to Adults internal audit summary report.

Other Options Considered

25. Not applicable

Risk Assessment

26. 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 Completed and Work in Progress 2023/24 Plan

Appendix 2 – Transition from Children to Adults Audit Review Summary

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Public Sector Internal Audit Standards

Various Audit Files