

Audit Committee – 18 June 2018

Internal Audit Report for the Year Ending 31 March 2018

Summary of report

The purpose of this report is to update the Audit Committee on Internal Audit's progress against delivering the Internal Audit plan for 2017/18 as at 31st March 2018 and performance against the contracts key performance indicators.

Background papers

Internal Audit reports/monitoring information.

Recommendation

1. To note the contents of this report and action being taken to address the key performance indicator performance.

Resource and legal considerations

The Accounts and Audit Regulations 2015 require councils to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

Governance issues

The Audit Committee's activities include ensuring that an effective internal control environment is maintained and regular and ongoing scrutiny of internal audit work is undertaken. This report supports the Audit Committee in exercising that role.

Citizen impact

Internal Audit work is intended to ensure that effective systems of internal control are in place. This protects the council and its officers and provides an assurance to stakeholders and citizens regarding the security of the council's operations.

Performance and risk management issues

Part of Internal Audit's role is to provide assurance on the council's performance and risk management arrangements. Internal Audit's programme of work is risk assessed to ensure areas most at risk are examined as a priority. The Internal Audit Contract with Mazars is subject to key performance indicators (KPI's) including achievement of the audit plan and formal quarterly meetings are held between the Chief Finance Officer and senior representatives at Mazars to monitor performance of the contract. KPI performance for 2017/18 is detailed in the main body of the report.

Equality implications

Internal Audit has full regard to equalities both within the internal audit service and in the services / activities under review.

Consultation

The annual work plan 2017/18 was consulted upon before its final endorsement by executive directors, senior managers, the Chief Finance Officer and Audit Committee.



Vicky Buckley, Head of Finance

6 June 2018

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Internal Audit Progress Report 2017/18

1. Purpose of this report

- 1.1 This report summarises the work that Internal Audit has undertaken during the year ending 31st March 2018 and performance against key performance indicators.

2. The Internal Audit process

- 2.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. In addition, the other objectives of the function are to:

- support the responsible financial officer to discharge their duties as proper officer;
- support the delivery of corporate objectives and the continuous improvement agenda; and
- provide a corporate fraud / investigation service that safeguards the public purse.

- 2.2 Each year the Audit Committee endorses the Internal Audit plan for the financial year. The majority of the work that Internal Audit undertakes is designed to provide assurance to members and management on the operation of the internal control environment as part of the overall governance assurance process. Internal Audit work undertaken includes actions agreed with management that improve the adequacy and effectiveness of the controls already in practice.

3. Progress for the year ending 31 March 2018

- 3.1 Internal Audit's work comprises of planned and unplanned assurance, which is summarised in the following table.

Planned Assurance	An assurance service which provides an independent and objective opinion to the organisation of the control environment, by evaluating its effectiveness in achieving the organisations objectives. The service objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. This is achieved via internal audit's risk assessed audit plan.
Unplanned Assurance	<ul style="list-style-type: none">- Prevention, detection and investigation of fraud and corruption; and other irregularity.- Advisory and consultancy related services which are carried out to improve services and to add value, including the impact of proposed policy initiatives, programmes and projects as well as emerging risks.

- 3.2 Unplanned assurance work undertaken for the year ending 31st March 2018 was reported to Audit Committee as it arose during the year.
- 3.3 A summary of all planned and planned follow up work undertaken and finalised during the year ending 31st March 2018 is detailed in a separate report on tonight's agenda – the Head of Internal Audit Annual Opinion 2017/18.

4. Compliance with professional standards

- 4.1 Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and Internal Audit's progress against the standards has been regularly reported to Audit Committee up to the point at which the Internal Audit function was outsourced.
- 4.2 For future years, assurance will be provided through the 5 yearly external assessment of Internal Audit's Quality Assurance and Improvement Programme (QAIP). The QAIP covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated. Mazars were assessed in Autumn 2016. The conclusion of that external assessor was:

“From the evidence reviewed as part of the external quality assessment, no areas of noncompliance with the Public Sector Internal Audit Standards have been identified that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

Three areas of minor partial compliance and one area, which is a new requirement from 2016, have been identified. On this basis it is our opinion that Mazars GRIC - Public Services conforms to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.


The areas of non-compliance related to the following areas, which were agreed by management:



- The audit charters need to be updated to reflect recent changes in PSIAS and the Global Institute of Internal Auditors International Professional Practices Framework (IPPF) and improve clarity for the reader by adopting current best practice in content and layout.
- The audit charters need to include definitions for board, senior management and the chief audit executive.
- The audit charters should include the recently developed mission statement as required by the IPPF.

The Audit Charter was updated and approved by Audit Committee in February 2018.

5. Performance





5.1 Internal Audit's performance against measures for the year period ending 31st March 2018 is detailed below.


Standard	Target	Actual at 31 st March 18	Actual 2016/17
Achieve the Annual Audit Plan	100% audits in the annual plan to be completed to draft report stage within 15 working days of the 31 March of each year.	40/49 82% Exceptions: Domiciliary Care, Treasury Management, Budgetary Control, Streamlining Services, Safeguarding, Forest Arts, Controlling Migration Fund, EPR & Development and Procurement	41/49 84% 
Produce annual report which includes an overall assurance opinion for the Council for the year.	To be produced and issued to the Chief Finance Officer within 15 working days from 31 March each year.	Received 17 May 2018 – target not met.	N/A
Annual review and report on the effectiveness of the risk management strategy and its application with comments and recommendations for changes.	To be produced and issued to the Chief Finance Officer in accordance with the Audit Committee Work Programme & Timetable.	Completed	N/A
Annual risk management report, which provides assurance that the system of risk management and identification is suitable and sufficient for the purposes of the Annual Governance Statement.	To be produced and issued to the Chief Finance Officer in accordance with the Audit Committee Work Programme & Timetable.	Ongoing Risk Management work with the Council	N/A

Standard	Target	Actual at 31 st March 18	Actual 2016/17
Effective completion of audit work.	100% draft reports, which include relevant recommendations, are issued within 6 weeks of the commencement of work.	31/49 63% Exceptions: Business Continuity, Declarations of Interest, CRC, RIPA, Schools Admissions Planning, Payroll & Pensions Admin, Accounts Receivable, Accounts Payable, Performance Management, Domiciliary Care, Market Management, Budgetary Control, Forest Arts Centre, Early Years, Procurement and Safeguarding, Controlling Migration Fund, EPR & Development and Procurement Average time to issue for 49 audits is 26.9 days.	31/49 63% 
Achieve performance of quarterly audit work plan	100% expected audits in the quarterly plan to be completed to draft report stage within 15 working days of last day of quarter	39/49 80% Exceptions: Schools Admissions Planning, Early Years, Streamlining Services, Forest Arts Centre, Controlling Migration Fund, Safeguarding, EPR and Development, Procurement, Budgetary Control and Domiciliary Care	41/49 84% 
Produce quarterly progress report in accordance with the specification.	To be produced and issued to the Chief Finance Officer within 15 working days of the end of each quarter.	Met for Quarters 1 to 3. Quarter 4 received 11th May	N/A
Produce a quarterly risk management update report	To be produced and issued to the Chief Finance Officer within 15 working days of the end of each quarter.	Draft Strategy presented to CMT and Audit Committee. Risk sessions across the Council ongoing	N/A

Standard	Target	Actual at 31 st March 18	Actual 2016/17
Quarterly review of Corporate Risk Register (CRR) and report for Corporate Management Team and Audit Committee	To be produced and issued to the Chief Finance Officer within 15 working days of the end of each quarter.	Draft Strategy presented to CMT and Audit Committee. Update to Audit Committee 18th June	N/A

5.2 The following table sets out the Performance Standards against which the success of the Agreement have been be measured.

Standard	Target	Actual at 31 st March	Actual 2016/17
Notification of planned audits to Secondary Clients. (Not surprise visits).	Secondary Clients to be notified of the start date of each audit (100%) at least 15 working days in advance.	48/49 98% Exception: Budgetary Control (issued 13 days in advance)	49/49 100% 
Issue audit brief.	100% of audit briefs to be submitted to the Secondary Client for comment and approval at least 10 days prior to commencement date of each audit.	46/46 100%	49/49 100% 
Conduct exit meetings.	100% to be carried out with Secondary client or their representative within 5 days of the completion of all audit work at a pre-arranged time, as specified in the audit brief.	49/49 100%	49/49 100% 
Produce draft report, which reflects the agreed brief.	100% to be produced and issued by the date set out in the terms of reference and within 10 working days of the exit meeting.	41/49 84% Exceptions: RIPA, Accounts Receivable, Accounts Payable, Payroll and Pensions Admin, Performance Management, Early Years, Treasury Management, Budgetary Control. Average time to issue for 49 audits is 9.8 days.	27/49 55%  Average time to issue for 49 audits is 18.5 days.

Standard	Target	Actual at 31 st March	Actual 2016/17
Produce final report.	100% to be produced and issued with 5 working days of receipt of management response to draft report.	35/41 87% Exceptions: Business Continuity Planning, Housing Benefit & Council Tax Support, Hillary Primary School, Lindens Primary School, Treasury Management and Budgetary Control Average time to issue for 39 audits is 3.4 days.	32/38 84%  Average time to issue for 32 audits is 5.6 days.
Complete National Fraud Initiative (NFI) data matching exercise.	Ensure that all data matches are reviewed and investigated on an annual basis in accordance with the timetables provided.	2017/18 updates completed	N/A
Counter fraud work	To maintain and update counter fraud policies, the counter fraud toolkit, training and other counter fraud work as agreed in advance with the Chief Finance Officer.	Ongoing as required	N/A
Follow up on all high priority actions	Reports produced in accordance with timetables set out in the Specification.	Ongoing and progress reported to each Audit Committee	N/A
Specialist IT / risk audits	Quarterly report detailing percentage of time of qualified or specialist staff utilised in delivery of the audit and risk work undertaken during the quarter	Completed as part of monitoring information	N/A
Respond to unsatisfactory client satisfaction questionnaires/CMT feedback	To be provided to the Chief Finance Officer within 10 working days	N/A	N/A
Attendance at planned meetings with both the Chief Finance Officer and external audit as detailed throughout this specification.	Meetings attended by Contract Manager	Completed.	N/A

Standard	Target	Actual at 31 st March	Actual 2016/17
Attend the Audit Committee meetings in accordance with the Audit Committee Work Programme and Timetable	Meetings attended by Partner or Director or Contract Manager	Completed.	N/A
Provision of audit helpline	Summary of advice provided, to be submitted to chief Finance Officer prior to discussion at quarterly meetings.	No advice requested.	N/A
Provision of confidential reporting hotline answer phone facility.	Summary of calls received and action taken to be submitted to chief Finance Officer prior to discussion at quarterly meetings.	None received.	N/A
Quality control system	Copy to be provided to Chief Finance Officer on an annual basis	Provided.	N/A
Compliance with the PSIAS via external accreditation	To provide evidence of the external accreditation	External Assessment completed and results shared with Chief Finance Officer.	N/A
Provide training for Council Officers, Project Managers and Members in the principles and practices of Risk Management	Provision of training as agreed by the Chief Finance Officer	Directorate workshops ongoing as part of new proposal	N/A
Audit and Risk Training Programme	To provide a copy to the Chief Finance Officer on an annual basis	To be confirmed	N/A

5.3 91% (49) of the audits planned to be completed in 2017/18 (54) and included in the plan approved by Audit Committee have been completed. As is normally the case, there are some amendments to the audit plan through the year as risk profiles change. All of the audits not completed (5) are Work in Progress, have been removed, deferred or assurance has been provided via a different means. These audits are shown in the table below.

AUDIT	Reason for Amendment to the 2017/18 Plan
Asset Management	Not required in 2017/18 due to stage of Transforming Our Assets programme – to be rescheduled.
Combined Authority	Not required in 2017/18
Programme/Project Management	Transformation review to be completed in 2018/19.
GDPR	Assurance work to be completed in 2018/19.
Pheasey Park Primary School	Deferred to 2018/19.

- 5.4 In order to address the above performance against KPIs, Mazars plan to:
- Increase the resource dedicated to planning the audits to enable the contract manager to focus on reviewing and finalising audit work.
 - Where appropriate consider the audits allocated to part-time members of staff.
 - Undertake internal communications to improve awareness of the internal audit delivery model, to ensure that officers provide documentation required for the audits in a timely manner.
 - Escalate delays in manager response times to the Head of Finance in a more timely manner.

6. Conclusion

- 6.1 Whilst it is acknowledged that during the latter quarter in particular, progress against the plan has been slower than anticipated, all key financial systems audits were completed within the plan and all high priority audits. Audit Committee can be assured that no issues have been identified in the 2017/18 work completed which impacts materially on the overall system of internal control.