

Council Report

Audit Committee Meeting –21 September 2016

Title

Internal Audit Progress Report for the Five Months Ending 31 August 2016.

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director, Finance and Customer Services.

Report Author(s)

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Ward(s) Affected

All Wards.

Executive Summary

This report provides a summary of Internal Audit work completed during the period April 2016 to August 2016 and the key issues that have arisen from it. It also provides information regarding the performance of the Internal Audit function during the period.

Performance against key indicators is generally positive, although delivery of the planned programme of work remains behind schedule due mainly to vacancies and other service priorities. Two new staff commence in October including, crucially, the new Head of Internal Audit and it is anticipated the influx of resources will enable the service to get on target against the plan by December.

Following the presentation of the PWC review of Internal Audit report to the Audit Committee in February 2016, Veritau Ltd was commissioned to independently review and provide commentary on Internal Audit progress reports presented to the Audit Committee in 2016/17. Veritau Ltd has reviewed the attached report and has confirmed "*the content is a reasonable reflection of internal audit work done for the first five months*".

Recommendations

The Audit Committee is asked to:

- i) **Note the Internal Audit work undertaken during the five months ending 31 August 2016 and the key issues that have arisen from it.**
- ii) **Note the information contained regarding the performance of Internal Audit and the actions being taken by management in respect of the performance.**
- iii) **Note the independent assurance provided by Veritau Ltd on the report.**

List of Appendices Included

Appendix 1 – Internal Audit Progress Report for the Five Months Ending 31 August 2016
(exempt).

Background Papers

UK Public Sector Internal Audit Standards.
Accounts and Audit (England) Regulations 2015.

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No.

Council Approval Required

No.

NOTE: The Appendices to the attached report are restricted because they contain commercially confidential business.

Exempt from the Press and Public

Yes. That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (information relating to the financial or business affairs of any particular person (including the Council)).

Title: Internal Audit Progress Report for the Five Months Ending 31 August 2016

1. Recommendations

The Audit Committee is asked to:

- i) Note the Internal Audit work undertaken during the five months ending 31 August 2016 and the key issues that have arisen from it.
- ii) Note the information contained regarding the performance of Internal Audit and the actions being taken by management in respect of the performance.
- iii) Note the independent assurance provided by Veritau Ltd on the report.

2. Background

- 2.1 Internal Audit produced a risk based Annual Audit Plan in accordance with the UK Public Sector Internal Audit Standards. This was received by the Audit Committee at its meeting on 27 April 2016. The Plan is regularly reviewed and monitored during the year so that it provides sufficient coverage of the key risks facing the Council.
- 2.2 At the end of the financial year, Internal Audit will produce an Annual Internal Audit Report, which will provide our overall opinion on the adequacy of the Council's control environment and compliance with it during the year.
- 2.3 This is the second progress report and summarises the main activities of the Internal Audit service for the first five months of 2016/17.

3. Key Issues

- 3.1 The second progress report is attached at **Appendix 1** and includes the following information:
 - The Audit Planning Process
 - Audit work, planned and responsive, undertaken during the period
 - Management response to audit reports
 - Internal Audit performance indicators.
- 3.2 Headlines from the report include:
 - An Internal Audit Plan for 2016/17 was produced in line with the UK Public Sector Internal Audit Standards.
 - Internal Audit has delivered 19% of the audit plan in the first five months of the year against an expectation of 26%. Reasons for this are stated in the report. In the context of the changes happening within the service during this year so far, this is not a disturbing position and will be brought back into line by December 2016.
 - Despite the challenges it faces, Internal Audit is exceeding other key performance targets, and feedback in several pieces of work completed demonstrate value added by the Service. This is demonstrating some positive progress on the improvement journey.
 - Management responses and action plans were in place for all recommendations made by Internal Audit during the period. Management demonstrates a conscientious response to audit

recommendations and overall ensures recommendations to improve internal controls are implemented. Details of the numbers of recommendations made; agreed; implemented; ongoing and outstanding are also included in the progress report.

- 3.3 Internal Audit progress reports are scheduled to be presented to the Audit Committee at each of its meetings during 2016/17. Veritau Ltd has been asked to review and provide independent comment on the progress reports. Veritau Ltd reviewed a draft copy of the progress report and selected supporting information. Veritau concluded:

“the content is a reasonable reflection of internal audit work done for the first five months”.

4. Options considered and recommended proposal

- 4.1 This report is presented to enable the Audit Committee to fulfil its responsibility for overseeing the work of Internal Audit. It provides a summary of Internal Audit work completed and the key issues arising from it for the five months ending 31 August 2016 and information about the performance of the Internal Audit function during this period.

5. Consultation

- 5.1 All Internal Audit reports referred to in this report have been discussed and agreed with management in the respective service areas.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The Audit Committee is asked to receive this report at its September 2016 meeting.

7. Financial and Procurement Implications

- 7.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Customer Services Directorate.

8. Legal Implications

- 8.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

“each principal authority must 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.”

- 8.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”

9. Human Resources Implications

9.1 There are no direct Human Resources implications arising from this report. However, it should be noted that during the period the Internal Audit structure has been reviewed and a new Head of Internal Audit (HIA) has been recruited. The HIA will report directly to the Strategic Director Finance and Customer Services when he takes up his position on 17 October 2016. A Senior Auditor has also been appointed and will commence work on 3 October 2016.

10. Implications for Children and Young People and Vulnerable Adults

10.1 This document constitutes a report of progress against delivery of the Internal Audit Plan 2016/17. A significant proportion of the Plan is one again devoted to the examination of risks facing Children and Young People's Services and Adult Social Care.

11. Equalities and Human Rights Implications

11.1 There are no direct Equalities and Human Rights Implications arising from this report.

12. Implications for Partners and Other Directorates

12.1 Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives, including those set out in the Corporate Improvement Plan and Children's Services Improvement Plan.

13. Risks and Mitigation

13.1 The following risks have been identified.

Risk	Likelihood	Impact	Mitigation
Internal Audit may not deliver sufficient audit work to enable an opinion to be provided on the Council's control environment.	Low	High	Likelihood has been downgraded from medium to low, following the recruitment of a Head of Internal Audit and a senior auditor, and the retention of temporary auditor, along with projections of work that will be completed by 31 March 2017.
Audit recommendations may not be implemented, leaving the Council exposed to risk.	Low	High	Internal Audit has an established process for the follow up of agreed audit recommendations. This includes escalation to the appropriate Assistant Director and Strategic Director in cases of non-compliance. Management response to and implementation of audit recommendations is currently good.

14. Accountable Officer(s)

Colin Earl, Assistant Director of Audit, Procurement and ICT