

## Summary Sheet

**Council Report:**  
Audit Committee

**Title:**  
Implementation of Recommendations resulting from the PWC Review of Internal Audit

**Is this a Key Decision and has it been included on the Forward Plan?**  
No

**Strategic Director Approving Submission of the Report:**  
Judith Badger (*Director of Finance and Customer Services*)

**Report Author(s):**  
Colin Earl (*Assistant Director Audit, ICT and Procurement*)

**Ward(s) Affected:**  
None

### Executive Summary:

This is the second report to the Audit Committee on progress towards implementing recommendations made in the PWC review of Internal Audit, which was reported to the Audit Committee in February 2016.

Internal Audit has operated with a high vacancy level during most of 2016 to date, since 4 staff left the service between December 2015 and March 2016. In addition, there has been significant change since the PWC report was produced including a refresh of procedures and a full service restructure, and the subsequent recruitment to the Head of Internal Audit and a vacant senior auditor post (one senior auditor post remains vacant).

The proportionately high gap in permanent resources available has not substantially impeded progress in establishing new, better and more efficient audit processes including relating to setting up, managing and reporting audit work. These will become embedded over time as they are applied by the Service. Compliance with the processes will be crucial in achieving conformance with the UK audit standards and so the importance of this cannot be overstated.

There are other key actions still to progress. The service will remain in transition until the new Head of Internal Audit takes up post and the team reaches full establishment. The procurement and implementation of an electronic audit recording and management system will also be a big step in facilitating consistency in the way in which audits are conducted and compliance with auditing standards. And, further efforts are required to raise the profile of the service and ensure it is meeting management's expectations.

Reports on progress during 2016/17 will be subject to external review by Veritau Ltd, which has been appointed following a tendering exercise to assist with checking and supporting progress. Veritau Ltd has looked at this report and has confirmed it "*is an accurate reflection of the current position*".

**Recommendation:**

**The Audit Committee is asked to note the progress made in implementing the recommendations included in the PWC review of Internal Audit.**

**Background Papers:**

none

**Consideration by any other Council Committee, Scrutiny or Advisory Panel:**

No

**Council Approval Required:**

No

**Exempt from the Press and Public:**

No

**Title:**

Implementation of Recommendations resulting from the PWC Review of Internal Audit

**1. Recommendations**

**1.1 The Audit Committee is asked to note the progress made in implementing the recommendations included in the PWC review of Internal Audit.**

**2. Background**

2.1 Professional Standards for Internal Audit are set out in the UK Public Sector Internal Audit Standards (UKPSIAS) and these require an independent assessment of internal audit at least every 5 years.

2.2 In 2015, the Interim Director of Finance and Corporate Services commissioned a review of Internal Audit to be conducted by PWC, following a competitive tender exercise. The PWC review was a comprehensive assessment. The report following the review was presented to the Audit Committee in February 2016. It recommended a number of actions required to improve the service and ensure full compliance with audit standards. The action plan from the PWC report is attached at **Appendix 1**.

**3. Review of Progress in Implementing the Recommendations from the PWC Review**

3.1 Internal Audit was already aware of a number of areas it needed to develop prior to the commencement of the PWC review and had begun to make various improvements. PWC acknowledged this in its reporting, but concluded it was too early to confirm new arrangements were effective. The PWC review highlighted other significant areas where progress needed to be made.

3.2 Internal Audit has continued to implement improvements identified prior to the PWC review and, since the completion of the review, the actions emanating from it.

3.3 Appendix 1 contains a full update of progress against the PWC recommendations. Key points are:

- There are 19 actions spread across 17 recommendations. 10 actions have been completed, 2 are rated green (certain to be achieved) and 7 are amber rated (in progress / on target). There are no red rated actions (ie off target / requiring action).
- Progress since the July report to the Audit Committee can be indicated as follows:

<b>Assessment</b>	<b>July 2016</b>	<b>September 2016</b>
Completed	6	10
Green	2	2
Amber	11	7
Red	0	0
<b>Total</b>	<b>19</b>	<b>19</b>

- Actions completed / certain to be completed as at July were:
  - The 2015/16 audit plan was successfully delivered (with 95% delivery achieved against the final plan).
  - A service review was completed and a restructure determined.
  - The audit structure and budget was set up to provide for specialist audit resources to be engaged as required to carry out specified work in the audit plan.
  - A decision was made to terminate the audit agreement between Rotherham and Doncaster Councils on 30 September 2016.
  - There has been more consultation and engagement with senior management in audit planning and in reviewing progress.
  
- Key progress since the July report to the audit Committee is:
  - Recruitment to the new structure following the service review has progressed mainly successfully. A new Head of Internal Audit has been recruited and one Senior Auditor vacancy has been filled. Both new starters will commence in October. One Senior Auditor post remains vacant but is currently filled by a temporary auditor.
  - PDRs have been completed following implementation of the organisation review and a team development plan has been produced and its implementation commenced.
  - A revised Audit Charter and Strategy has been produced for presentation to the Audit Committee in September 2016.
  - The audit review process has been streamlined and improved.
  - A new risk based style of audit report is now in use.
  - A specification for an electronic audit system has been put out to the market, bids have been received and are currently being evaluated. Implementation of an electronic audit system will bring consistency of audit approach to all jobs undertaken and underpin compliance with auditing standards.
  
- Key actions in progress are:
  - A plan has been produced to achieve full compliance with auditing standards, is subject to regular review and is being reported frequently to the Audit Committee.
  - Embedding new audit scoping, reporting and performance monitoring and management processes.

- Implementation of the electronic audit system, streamlining of administration and reduction of non-productive time.
  - Development of assurance mapping.
- 3.4 There remains a significant amount of development and improvement to bring the service up to full compliance with standards and to where it can better add value to the development of the Council's control arrangements. A partner, Veritau Ltd, has been appointed following a tendering exercise to assist with checking and supporting progress.
- 3.5 Progress against the action plan will be reported to the Audit Committee at each of its meetings during 2016/17. Veritau Ltd has been asked to comment on the progress reports. Veritau's Manager's comments on this report are:
- "I've reviewed the PWC action plan report and I think this is an accurate reflection of the current position. I don't have any specific comments".*
- 4. Options considered and recommended proposal**
- 4.1 Any options relevant to individual recommendations are covered within the Appendix.
- 5. Consultation**
- 5.1 The report is presented to the Audit Committee to enable it to fulfil its responsibility for overseeing the work and standards of internal audit.
- 5.2 The Strategic Director, Finance and Customer Services has been fully briefed on progress.
- 5.3 The report has been presented to the Strategic Leadership Team on 6<sup>th</sup> September 2016.
- 6. Timetable and Accountability for Implementing this Decision**
- 6.1 Timescales for implementation of recommendations are given in the action plan at Appendix 1.
- 7. Financial and Procurement Implications**
- 7.1 Internal Audit is required to achieve £25,000 savings in 2016/17 and this is being achieved through a reduction in the size of core establishment as a result of vacancies and voluntary severance / retirement. The resources required to deliver the Council's audit requirements from 2016/17 will be contained within the 2016/17 budget, and will include a combination of in-house and specialist (external) resources, in line with the mixed model approach approved by Commissioners and Members.
- 7.2 Any financial implications specifically arising from the implementation of recommendations made in this report will be dealt with as appropriate.

## **8. Legal Implications**

8.1 The Council is required to comply with the Accounts and Audit Regulations relating to the provision of an effective internal audit function. The actions proposed in response to the PWC report are designed to ensure the Council fulfils this requirement as quickly as possible.

8.2 There are no further direct legal implications associated with this report.

## **9. Human Resources Implications**

9.1 Any HR implications emanating from the implementation of the recommendations will be addressed in full consultation with Human Resources. This could involve matters relating to staff development, skills and capabilities.

## **10. Implications for Children and Young People and Vulnerable Adults**

10.1 There are no immediate implications associated with the proposals.

## **11. Equalities and Human Rights Implications**

11.1 There are no immediate implications associated with the proposals.

## **12. Implications for Partners and Other Directorates**

12.1 Senior management, Members and other stakeholders will be consulted in relation to the future expectations for the internal audit service, as part of the implementation of recommendations made in the PWC report. The aim will be to ensure major issues and risks for services are reflected in the audit planning processes, including where relevant, partnership working.

## **13. Risks and Mitigation**

13.1 The failure to maintain an effective audit function means the Council fails to comply with the Accounts and Audit Regulations, as well as failing to secure the benefits of an effective and modern internal audit that helps the Council manage its risks and adds value to control arrangements in place at the Council. More comprehensive performance management arrangements will provide better control this risk.

13.2 Close and regular monitoring of the implementation of recommendations included in the action plan, including regular presentation of progress to the Audit Committee, will ensure any risks of failing to achieve improvements will be monitored and addressed.

## **14. Accountable Officer(s):**

Colin Earl (Assistant Director Audit, ICT and Procurement).

## REVIEW OF INTERNAL AUDIT – DETAILED ACTION PLAN

**Note: RAG Status:****Green – Completed or certain to be completed****Amber – On track / expected to be achieved / no significant issues****Red – Off target / significant action required**

Ref	Recommendation	Priority Rating	Proposed Action	Responsible Officer	Target Date	Progress	Current Status (RAG)
1	<b>Leadership and accountability</b> The Council should consider the existing leadership arrangements for IA. It would seem appropriate to have one individual acting as Head of Internal Audit and Chief Audit Executive whilst also fulfilling the role of Chief Internal Auditor. This individual should be given the appropriate grade and seniority to fulfil the role and to engage with senior stakeholders across the Council. In the Local Government Application Note (2.18) it says “CIPFA and the IIA expect that the CAE should not report administratively to or be managed at a lower organisational level than the corporate management team....”	High	Restructure proposals will be brought forward for consultation. They are likely to include the creation of a post of Head of Internal Audit, to report directly to the Strategic Director of Finance and Customer Services	Assistant Director Audit, ICT & Procurement	29 February 2016	<b>Completed –</b> Restructure proposals and implementation completed.  The structure includes a new Head of Internal Audit post, reporting directly to the Strategic Director of Finance and Customer Services.	<b>Completed</b>

<p><b>2</b></p>	<p><b>Structure of IA in the short to medium term</b>  The Council should consider its audit requirements in the short to medium term. The exact requirements will need to be agreed and will be dependent upon the Council's decisions on leadership of the function but we believe an arrangement with a third party who could provide leadership (or management support) and additional resource (including specialists) in the short term would be the most beneficial to the Council. We have been advised that consideration is already being given to this issue.</p> <p>The Council should consider the current contractor arrangements to determine if value for money is being obtained. This should form part of the wider review of the delivery model and the organisation structure of IA.</p> <p>If a full in-house function is retained, the IA function should be restructured in order to be more efficient. These changes should be alongside a review of</p>	<p><b>High</b></p>	<p>A new operating approach, involving a mixed delivery model, has been approved by commissioners and Members. The restructure proposals referred to at Rec 1 will implement the proposals and address the issues raised in this recommendation.</p> <p>The mixed delivery model will include a core in-house resource supplemented by specialists as required.</p>	<p>Director of Finance and Customer Services</p>	<p>29 February 2016</p>	<p><b>Completed</b> – The restructure proposals incorporate resources to buy in specialist audit expertise as required.</p> <p>ICT audit resource requirements have been identified and an agreement with Leicester City Council's audit team extended for 2016/17.</p>	<p><b>Completed</b></p>
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	capabilities and role definitions for each grade in order to provide a framework for staff to aspire to.						
<b>3</b>	<p><b>Shared arrangement with Doncaster Council</b></p> <p>The Council should consider the merits of retaining this partnership arrangement. Other than the income received for the shared HIA, the Council does not appear to be benefitting in any way from this shared arrangement and the value of continuing it should be reviewed.</p>	<b>Medium</b>	<p>Doncaster Council will be consulted on the outcomes of this review and implications and options for the immediate and medium terms.</p>	Director of Finance and Customer Services	31 March 2016	<b>Completed</b> – It has been agreed between the two councils that the arrangement will terminate on 30 September 2016.	<b>Completed</b>
<b>4</b>	<p><b>PSIAS and improvement plan</b></p> <p>An improvement plan should be developed by the CAE/CIA based on the recommendations made in this report and the improvements required to fully meet the PSIAS requirements. This should include allocations of responsibility and timescales and should be tracked to evidence improvement.</p>	<b>High</b>	<p>A detailed plan identifying actions required to achieve compliance from 2016/17 will be produced.</p> <p>The plan will be implemented and a further external review of compliance completed during 2016/17.</p>	Assistant Director Audit, ICT and Procurement	29 February 2016  31 Dec 2016	<b>Completed</b> – An action plan has been produced. Separate updates are provided on a regular basis to the Audit Committee.	<p><b>Part 1 Completed</b></p> <p><b>Part 2 due December 2016</b></p>

5	<p><b>Implementing change – new working practices</b> Changes to working practices should be supported by an implementation plan and the provision of support and training if required. Staff should be able to see opportunities for personal development in the introduction of new practices – opportunities to increase coaching and supervisory skills and increase empowerment should be emphasised so that staff buy into the proposed changes.</p>	High	Requirements relating to new approaches and methods will be drafted within the detailed improvement plan referred to in Rec 4. This will include training and development requirements relating to new approaches and methods, and a programme for delivering the support to staff.	Assistant Director Audit, ICT and Procurement	29 February 2016	A team development plan has been produced and its implementation commenced.	<b>Completed - (implementation and effectiveness to be monitored)</b>
6	<p><b>Engaging with stakeholders</b> The new relationship management approach should be fully implemented although it should be reviewed to focus more on the departments' risks rather than the IA view and perspective. Staff should be encouraged to develop greater relationships outside of IA and to develop broader networks within the Council.</p> <p>Greater clarity in the audit plan</p>	High	Regular quarterly meetings will be held with directorate management team to review risks.  The audit plan will be	Assistant Director Audit, ICT and Procurement	Quarterly  <del>27 April</del>	Planning meetings were held with Directorate Management Teams in the lead up to the production of the 2016/17 audit plan and the next round of meetings have been scheduled for September 2016.  Links will be finalised to	<b>Green – meetings held and subsequent meetings set up</b>

	<p>around how the audit reviews link back to the Council's risks and objectives would help to demonstrate to stakeholders how internal audit is focusing its work on key risk areas.</p> <p>The Internal Audit function should undertake to raise its profile within the organisation through greater interaction at the management team and senior officer level using existing internal mechanisms.</p>		<p>directly linked to the corporate, directorate and service plans.</p> <p>Internal Audit progress reports will be presented to the Strategic Leadership Team (SLT) prior to submission to the Audit Committee. Reports receiving 'inadequate' audit opinions will also be reported to SLT.</p>		<p><del>2016</del></p> <p>30 Sept 2016</p> <p>Quarterly from March 2016</p>	<p>the corporate plan and risks upon approval of the corporate plan.</p> <p>The 2015/16 Annual Report and the Quarter 1 2016/17 progress report have been presented to SLT.</p>	<p><b>Amber</b></p> <p><b>Green</b></p>
<b>7</b>	<p><b>Support and development for IA staff</b></p> <p>All staff should be encouraged to agree a development plan designed to enhance their skills and expertise. This can include both technical development and softer skills.</p>	<b>High</b>	<p>Completion of better PDRs linked to the improvement and audit plans.</p>	<p>Assistant Director Audit, ICT and Procurement</p>	<p><del>27 April 2016</del></p> <p>31 July 2016</p>	<p><b>Completed</b> – PDRs have been completed and individual and team development plans produced.</p>	<b>Completed</b>
<b>8</b>	<p><b>Strategy and vision for internal audit</b></p> <p>The Council should review the current IA strategy and vision for</p>	<b>High</b>	<p>The Internal Audit Charter and Strategy will be updated to reflect the Council's</p>	<p>Assistant Director Audit, ICT and</p>	<p><del>27 April 2016</del></p> <p>31 July</p>	<p><b>Completed</b> – Charter and Strategy presented to Audit Committee for approval in September</p>	<b>Completed</b>

	<p>its Internal Audit Service and ensure it is understood and articulated to both the IA team and the wider Council. An implementation plan for the strategy should be developed which includes clear targets for people, systems and processes.</p> <p>The plan should clearly articulate how the Council will:</p> <ul style="list-style-type: none"> <li>• Match the resource needs (in terms of capacity and skill mix) of the audit plan and the Council: and</li> <li>• Develop its team to meet the current (and future) needs of the Council; (see Issue 7)</li> </ul> <p>The delivery of this plan should be monitored.</p>		<p>expectations indicated in the PWC report and the aspirations of the Auditing Standards.</p> <p>The 2016/17 Audit Plan will be produced to better meet these expectations.</p> <p>The proposals set out in the Charter, strategy and 2016/17 plan will be submitted to the Strategic Leadership Team and Audit Committee for agreement.</p> <p>The 2016/17 plan will indicate how it will be resourced using the approved mixed model approach.</p>	Procurement	2016	2016	
<b>9</b>	<p><b>Assurance map – identifying gaps in assurance</b></p> <p>An assurance map should be developed identifying key risks</p>	<b>Medium</b>	<p>The planning process will explicitly set out other forms of assurance the</p>	Assistant Director Audit, ICT and	27 April 2016	The Audit Plan provides an initial evaluation of assurances available in addressing the	<b>Amber – initial assessment made, but</b>

	not being addressed through IA work and detailing any other sources of assurance. This should be presented to the Audit Committee as part of the annual planning process.		Council can rely on to confirm risks are managed effectively.	Procurement		Council's key risks.  This will be developed during the year, to further inform the audit assessment and to support the year end annual opinion to be given by the Chief Audit Executive.	<b>further development is required.</b>  <b>Further assessment by 31 Mar 2017</b>
<b>10</b>	<b>Risk management within the Council</b> Consideration should be given to the role of IA in improving the Council's risk management arrangements. This should be in the form of support and facilitation building on the audit teams expertise in risk and control, whilst acknowledging that overall responsibility lies with management. We have been advised that steps are being taken by the Council to review and improve its risk management arrangements.	<b>Medium</b>	The Council wishes to keep separate the responsibilities for audit and risk. It has appointed a risk manager from 1st January 2016 to drive forward improvements in risk management. The risk manager will liaise with Internal Audit as appropriate.  However, Internal Audit will assess the management of risks when undertaking its audit work and promote effective risk management by	N/a  Assistant Director Audit, ICT and Procurement	N/a  Ongoing from March 2016	N/a  All relevant Internal Audit work now includes a standard test of evidence of risk management. Findings are being collated as audit work is completed	<b>N/a</b>  <b>Amber – commenced and evidence to be gathered throughout 2016/17</b>

			making rec'ns for improvement as appropriate.			and will be reported to the Corporate Risk Manager and summarised in progress reports presented to SLT and the Audit Committee, as appropriate.	
<b>11</b>	<b>Delivery of the 2015/16 internal audit plan</b> An exercise is needed to reprioritise the audit plan and to ensure that the planned reviews in the highest risk areas are undertaken. Additional resource should be used if necessary.	<b>High</b>	Agreed – Plan revisions to be presented to the Audit Committee on 10th February 2016. Additional resources secured to ensure adequate audit coverage is achieved for 2015/16.	Assistant Director Audit, ICT and Procurement	27 April 2016	<b>Completed</b> – The 2015/16 audit plan was successfully delivered	<b>Completed</b>
<b>12</b>	<b>Improving audit reports</b> Audit reports should be reviewed to focus on the recipient. The emphasis should be on what the overall opinion is and what action does the recipient need to take. Care should be taken to clearly show any limitations on scope as it is rare that an audit review covers all risks associated with a system or process. The audit	<b>Medium</b>	The format of audit reports will be reviewed and any changes introduced from 2016/17	Assistant Director Audit, ICT and Procurement	27 April 2016	<b>Completed</b> – a new risk based style report is now in use which more clearly reflect the risks being assessed and the value / assurance being provided by the audit work, which should be of more relevance / significance to the recipients. Views on the	<b>Completed</b>

	team should look for opportunities to add value by sharing insight and experiences from other parts of the Council or from elsewhere.					new format will be tested and the format refined further, as required during 2016/17.	
<b>13</b>	<b>Annual reporting</b> The CAE/CIA should review the annual reporting process in line with PSIAS. The report should be concise and the overall opinion should be clear and supported by clear information based on work completed and reported. The style of report should be reviewed in order to better present the findings of IA.	<b>Medium</b>	The 2015/16 annual report will be reviewed to comply fully with the UK Auditing Standards and to clearly summarise the work of internal audit and its results	Assistant Director Audit, ICT and Procurement	27 April 2016	The Internal Audit opinion on the Council's Control Environment was clear with regard to the basis of the conclusion reached.  Veritau has identified further information to be added to the annual reports.	<b>Completed</b>
<b>14</b>	<b>Level of non-productive time</b> Non-productive time for internal audit should be reduced. Currently a disproportionate amount of time is spent on this within the team. More value could be obtained by the CAE/CIA determining new processes and informing the team of the rationale behind any changes.	<b>Medium</b>	Current non-productive time will be reviewed, arrangements revised where relevant and clear targets set from 2016/17.	Assistant Director Audit, ICT and Procurement	27 April 2016	New targets for minimising non-productive time, equating to a 15% reduction on 2015/16, have been issued.  Some one-off non-productive time will be accumulated though, due to transition to new arrangements (eg training, new recording system).	<b>Amber</b>

						Progress on achieving the target will be monitored and reported throughout the year.	
<b>15</b>	<b>Performance information</b> IA should review the process for management information including time recording and job analysis. This will facilitate greater control over audit productivity as well as providing a basis for performance monitoring. The CAE/CIA should look to agree a series of performance indicators with the S151 Officer and regularly report on these indicators to demonstrate performance of the IA function.	<b>Medium</b>	Arrangements for time recording and monitoring of progress on audit work will be assessed and revisions made as appropriate.	Assistant Director Audit, ICT and Procurement	27 April 2016	Revisions have been made to streamline the current, manual, arrangements. Review of their efficiency and effectiveness will be carried out during the course of 2016/17.  Further efficiencies should be capable of being achieved through the implementation of an electronic audit system (rec 17).	<b>Amber</b>
<b>16</b>	<b>Assignment review process</b> The review process for individual reports should be revisited and improved. Steps should be taken to reduce the time between audit fieldwork and report issue. Version control should be introduced and audit management should be held to account for excessive delays in reporting on audit findings.	<b>Medium</b>	Clear targets will be set and monitored for the reviewing and reporting processes, to ensure work is issued in a timely manner following completion of fieldwork.	Assistant Director Audit, ICT and Procurement	29 February 2016	<b>Completed</b> - a more timely and effective review process is now in place	<b>Completed</b>

17	<p><b>Technology</b></p> <p>The CIA/CAE should consider the benefits of introducing an automated audit system to increase consistency and improve the quality assurance process.</p> <p>They should also consider what immediate skills are required to deliver the current IA plan.</p>	<b>Medium</b>	<p>Options for developing the use of automation will be considered.</p> <p>Skills requirements are referred to in the responses to recommendations 2 and 8</p>	Assistant Director Audit, ICT and Procurement	30 June 2016	A specification for an electronic audit system has been put out to the market, bids have been received and are currently being evaluated.	<b>Amber</b>
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