

Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE

Date: 25TH JANUARY 2019

Title of report; Update of progress following the external assessment of the Internal Audit function

Purpose of report; To provide information about progress against the agreed action plan following the external assessment of internal audit in summer 2018

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	not applicable
Key Decision -	not applicable
The Decision - Is it eligible for call in by Scrutiny?	not applicable
Date signed off by Strategic Director & name Is it also signed off by the Service Director for Finance IT and Transactional Services? Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	not applicable
Cabinet member portfolio	not applicable

Electoral wards affected: All

Ward councillors consulted: N/A

Public or private: Public

Have you considered GDPR? Yes

1. Summary

A report by the external assessor of the internal audit function was considered at the meeting of this committee on 8th September 2018, and members agreed an Action Plan to address the issues recommended by the assessor. This report provides information and an indication of actions to date.

2. Information required to take a decision

2.1. The external assessor was overall very complimentary about the arrangements and processes in operation, and attributed the internal audit function the highest level in the assessment (generally compliant) but made a number of recommendations.

2.2 These related to;

- (a) Ensuring that the head of internal audit devotes a sufficient amount of time to the effective strategic and operational management of the internal audit function.(1.1)
- (b) Promoting an effective split between the process for creating and managing risk information, and the role of internal audit in providing challenge and the role of this Committee in overseeing the Councils risk management processes.(1.2, 5.1)
- (c) Accessing the skills necessary to address speciality work areas (eg cyber IT) and more generally to secure a sustainable workforce. (2.1)
- (d) Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)
- (e) The need to improve feedback/ client engagement information (4.2)
- (f) Making sure that process documentation is fully completed.(8.1)

2.3 Progress made to date on each of these elements are:

- (a) Time devoted by the head of internal audit to the strategic and operational management of the function.

The head of internal audit holds the title Head of Risk and is employed by the Council on a part time basis for 26 hours per week. The Head of Risk, as with all internal audit staff keeps a daily time record of activity. The distribution of time is;

	2017/18 % all year	2018/19 % 31 st Dec 18
Specific IA projects and investigations	6	17
General Advice		
Childrens	3	3
Adults & Public Health	8	3
Place	6	10
Corporate	8	3
KNH	4	3
Procurement & FPRs & CPRs	8	9
Risk Management	10	10
Trust Funds	8	10
CGAC advice	4	5
Management & Supervision	35	27

The general advice mainly relates to audit or risk based advice, but can include activities where the advice spreads to more general project advice. Variations reflect changing projects that require input.

Management and supervision relates to both the internal audit and insurance functions, and participation in corporate management activity. The proportion of time spent on insurance has been slightly higher in 2018/19 to date due to recruitment to senior posts. (This element also includes a small amount of time spent on other clients).

Time spent on audit strategy is an embedded part of management, and some of the support to this committee, would be likely to sum to around 15% of total time.

(b) Promoting a split between the creation and management of risk information, and the separate roles of internal audit in challenging entity risk identification and assessment and supporting this Committee in its role in overseeing risk arrangements.

As noted in the September 2018 report, this matter also relates to the Head of Risk. The newly introduced Risk Management Statement is still being embedded in the organisation. The arrangements include stronger governance of process, with a re-introduced requirement for direct involvement of Directors, hierarchical reporting, an internal assessment by a Risk Panel and more active involvement by the Executive Team. Some parts of the new arrangements are working well- such as the regular discussion of risk with Executive Team as a part of performance management, although the directorate based activity still requires improvement. The internal audit of risk has always been managed independently of the “Head of Risk” (by senior auditors reporting to the audit managers), and risk work by internal audit is reported to this Committee through the quarterly reporting process. An audit planning process should recognise entity risk assessment and planning, so when the Councils arrangements for risk recording are more fully embedded this part of audit planning can be fully introduced, albeit this will probably not now be effective until 2020/21.

(c) Accessing the skills necessary to address speciality work areas (e.g. cyber IT) and more generally to secure a sustainable workforce. (2.1).

Since the assessment there have been some further staffing changes within the internal audit function. Posts have been advertised to fill vacancies, the consequence has been one promotion from within the IA team, and one from the Councils accounting function, although another IA staff member has moved to the Councils procurement function. The internal promotions to the IA team should create an opportunity to enhance skilled learning into speciality areas, although it has to be recognised that some areas are potentially so specific (and have such a limited requirement) that delivery internally as a speciality activity is unrealistic. It is thus necessary to determine if enhanced generic skills of auditing are adequate- which in the most part they should be.

As regards more generally creating a sustainable workforce, the current proposal is likely to be to create a trainee level post at graduate level, with professional training, funded through apprenticeship levy. This has some advantages and disadvantages, but in the circumstance is thought the most appropriate solution.

(d) Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)

Audit Managers have considered the appropriateness of additional measures of performance, but do not consider that “Number of audit recommendations implemented” is a sound measurement of IA performance. The existing measures of monitoring outcome assessment (% with a positive outcome) and monitoring this over time is a more appropriate assessment of organisational health, and a more robust and regular monitoring of the implementation of agreed audit recommendations is considered a more appropriate measure (Follow up of implementation of recommendations in general- none school- audit work was reported in the Q2 report). The quarterly report continues to indicate progress on completion of the audit plan. Historically, information was also provided in each quarterly report about IA Performance- completion of work within planned time and the time taken to issue draft and final reports, although this is perhaps more appropriate for an annual report. If members of this Committee wish to receive this information quarterly it can be reinstated.

(e) The need to improve feedback/ client engagement information (4.2)

The way to do this effectively is still under consideration, and trials were considered with an online survey although there were found to be operational difficulties, but will include an annual discussion with directorate based senior managers, and some form of survey of opinions from the auditees who assisted with audit work..

(f) Making sure that process documentation is fully completed.(8.1)

Staff were reminded about the need to complete appropriate documentation, and appropriate completion of documentation features as a part of the quality control processes (quality assessment outcomes are reported as an annual performance measure)

3. **Implications for the Council**

3.1 **Working with People**

There are no specific implications

3.2 **Working with Partners**

There are no specific implications

3.3 **Place Based Working**

There are no specific implications

3.4 **Improving outcomes for children**

There are no specific implications

3.5 **Other (eg Legal/Financial or Human Resources)**

Having a sound internal audit function is an important part of delivering good governance and, economic, effective and efficient services which achieve the policy outcomes that the organisation intended.

4. Consultees and their opinions

Not Applicable/ None

5. Next steps and timelines

A further update will be undertaken in 6-9 months-time. A further internal assessment of performance against the Public Sector Internal Audit Standards will be required in respect of the year ended 31st Mach 2019

6. Officer recommendations and reasons

The report be noted

7. Cabinet portfolio holder's recommendations

Not applicable

8. Contact officer

Martin Dearnley, Head of Risk (& Internal Audit)

9. Background Papers and History of Decisions

CGAC 8 September 2018 External Assessment of Internal Audit, as required by Public Sector Internal Audit Standards

10. Service Director responsible

Legal Governance & Commissioning - Julie Muscroft