

 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
Internal Audit Progress Report for the period September 2018 to January 2019	

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Two: <ul style="list-style-type: none"> • Completed Audits this quarter from 2018/19 Audit Plan • Follow Up Reviews
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations Email: michael.bradley@brent.gov.uk Tel: 020 8937 6526

1.0 Summary

1.1 This report provides an update on progress against the Internal Audit Plan for the period 1 September 2018 to 31 January 2019.

2.0 Recommendations

2.1. The Audit and Standards Advisory Committee note the content of the report.

2.2 The Audit and Standards Advisory Committee to comment specifically on the design principles for next year's audit plan as set out in paragraphs 3.16-3.25.

3.0 Internal Audit Performance

3.1 During this period Internal Audit have:

- Completed 10 audit reviews and advisory pieces of work;
- Completed 11 follow up reviews;

- Continued with the program of school audits, visiting a further seven schools; and
- Completed grant claim certifications for the Troubled Families Programme.

The team has also been able to react to urgent management requests when required. Further details are set out below.

- 3.2 The recruitment of new staff is continuing. Due to a resignation there are currently two principal auditor vacancies. The recruitment to these posts is hoped to be completed in quarter four. Two contractors have been recruited for three months to ensure the key parts of the 2018/19 Audit Plan are delivered. As planned, the team continues to be supplemented by a contracted resource from Pricewaterhouse Coopers (PWC).

Audit Work Undertaken

- 3.3 The Internal Audit Plan for 2018/19 initially comprised 63 audits excluding school reviews, follow ups and advisory work. Four audits have been cancelled or moved to 2019/20 following changes in circumstances, risk assessment and discussions with relevant management.
- 3.4 During this period, ten audits have been completed, bringing the completed total for the year to 19. For each audit where controls have been analysed and a report agreed with management, an assurance opinion is given. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below.
- 3.5 In respect of assurance opinion, one was given a 'substantial' rating, five 'reasonable' and four 'limited'. The remaining three were work which did not require an audit opinion. Details of the audits and the key findings are set out in Appendix A.

Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
No	Control processes are generally weak leaving the processes/ systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/ systems open to error or abuse.

- 3.6 There are currently a further 11 audits in progress. Draft reports have been issued for management review for:
- Corporate Governance, Decision Making Process;
 - Budget Monitoring
 - Joint Front Door Approach to Assessment
 - Mosaic System Review
 - Northgate Housing Application
 - Data Security

Fieldwork has been completed and the reports are being drafted for:

- Staff Performance Management;
- Health and Safety, and
- Responsive Repairs I4B.

Fieldwork in progress:

- Aboriculture
- Council Tax and Associated IT Transition Project

Follow up Reviews

- 3.7 As part of the audit process, follow-up reviews are carried out to ensure that agreed management actions in respect of significant risks have been implemented.
- 3.8 During the period, 11 follow up reviews have been completed. Details of the completed follow-up reviews are set out in Appendix B. This brings the number completed so far this year to 30.
- 3.9 Of the 11 completed, five have had their assurance level raised following completion of the agreed recommendations from ‘limited’ to ‘reasonable’.

A total of 136 management actions have been reviewed:

Implemented	Partly Implemented	Not Implemented	No Longer Relevant
81	20	16	19

- 3.10 Where actions remain partially or not implemented, revised completion dates have been agreed with management when Audit will revisit to confirm implementation where appropriate.

Schools

- 3.11 School audits focus on governance, financial processes and the accompanying back office resources. A further four reviews were completed during this quarter. These reviews produced one ‘limited’ and three ‘reasonable’ assurance outcomes. The ‘limited’ assurance report had four high risk findings and four medium risk finding. The high risk findings related to Financial Management, Purchasing and Expenditure, HR and Payroll, and Income.

- 3.12 Audits of Preston Park Primary, Brentfield Primary and Salusbury Primary have taken place and the reports are being drafted. The remaining six school reviews are scheduled to take place during February and March.
- 3.13 Internal Audit are also attending Teachers' Panel and School Information Exchange meetings to discuss the audit process, key risk areas and any other concerns raised by schools. A summary memo will be issued at year end setting out any common issues identified from the school audits including any lessons to be learnt or best practice to be circulated.

Customer Satisfaction

- 3.14 Management are asked to provide feedback on individual audits completed and the feedback is incorporated into the continuous improvement of the service. Questionnaires issued at the end of each audit ask the auditees to provide feedback on areas including usefulness of the audit, quality of the report and usefulness of any recommendations made.
- 3.15 Disappointingly, only one questionnaire has been returned this quarter. The response was positive with a 'satisfied' opinion and there was some useful feedback that has been taken forward on future school audits. However, this is clearly a very low return rate and unless more questionnaires are returned in future only limited reliance can be placed on the result. Audit will continue to encourage clients to feedback on their experience of the service.

Quality Assurance and Improvement Programme

- 3.16 The Public Sector Internal Audit Standards state that an external assessment must be conducted at least once every five years by a qualified, independent assessor. This was due during 2018/19. The newly appointed Internal Audit Manager undertook the review and the result was reported separately to the Audit and Standards Advisory Committee in December.

Internal Audit Planning 2019/20

- 3.17 Development is underway on the Internal Audit Annual Plan for 2019/20. The plan is being assembled with due consideration of the key risks impacting the Council and will involve discussions with management from across the organisation. Members via the Audit and Standards Advisory Committee will also be consulted
- 3.18 There are some relatively fixed elements of the Annual Plan. These would be included each and every year, albeit with some minor variations and changes of emphasis. These elements are:
- compliance work to test the controls in key financial systems, such as payroll;
 - follow up work to test the extent to which recommendations made during 2018/19 have been implemented (usually one or two days' work per audit), and
 - certification of specified grant claims or other accounts, such as (at

Brent) the Barham Park Trust and the Troubled Families grant claim.

- 3.19 The remainder (and majority) of internal audit resources can then be deployed in order to meet management objectives, including ensuring that there is sufficient coverage to ensure that the Head of Internal Audit can provide them with overall assurance on controls.
- 3.20 Most organisations adopt a risk-based approach to designing their internal audit plans, with the majority of internal audit resources targeted at providing assurance on high-risk areas via a risk-based auditing approach. The main advantage of this approach is that audit resources are focused on areas where they are most likely to be able to add value, and the main disadvantage is that the results of audit work are unlikely to be representative of controls across the organisation as systems considered to be satisfactory will generally not be audited.
- 3.21 The more traditional approach, which is not now widely used, is to seek to define all of the elements of the organisation that are in theory capable of being audited and then design a plan to cover all of these over a period of (usually) around three to five years. The main advantages and disadvantages of this approach are broadly the converse of the above.
- 3.22 Other aspects to be considered in designing an audit plan are the balance of work between auditing systems (such as the processing of planning applications) and establishments (such as the extent to which the planning function complies with corporate requirements in respect of common processes, such as budget monitoring, recruitment and so on). It would be unusual to devote significant audit resources to establishment visits, but they can be an effective way to establish whether control failures in one system have wider implications. The principal risk that this approach addresses is the possibility that because (to use a hypothetical example) the controls around the processing of planning applications are weak this may be indicative that wider management controls in that service are also weak.
- 3.23 The plan also needs to set a balance between directly managed council services and delegated or devolved ones (schools being the most obvious example; separate companies such as i4B agree their own audit plans). It is also normal, and strongly advised, to allow a contingency so that the audit service can respond to events.
- 3.24 With this in mind the Audit and Standards Advisory Committee are invited to consider and comment upon the proposed mix of the audit plan, below. A detailed plan will then be drawn up in consultation with management and presented for approval.
- 3.25 Excluding the fixed elements of the audit plan described above it is proposed to allocate the audit resources as follows:
 - Internal audit resource (60%) will be targeted at providing assurance on high risk areas via a risk-based auditing approach;
 - Internal audit resource (10%) will be targeted at providing overall assurance focused on areas that have not been audited for longest, regardless of

inherent risk;

- Internal audit resource (10%) will be targeted at establishment audits; and
- Internal audit resource (20%) will initially be retained as a contingency and deployed as required throughout the year.

This approach will also include 10 school audits, in line with this year.

- 3.26 CMT are requested to consider this broad mix of allocation of Internal Audit resource for comment.

Internal Audit Charter

- 3.27 A new Internal Audit Charter has been produced in accordance with the Public Sector Internal Audit Standards. This follows a review of the Charter as part of the assessment of Internal Audit referred to above. There have been no material changes; just clarification of reporting lines and Internal Audit's role in risk management. This will be reported to the Audit and Standards Advisory Committee in more detail in a separate paper

4.0 Financial Implications

- 4.1 The report is for noting and so there are no direct financial implications

5.0 Legal Implications

- 5.1 The report is for noting and so there are no direct legal implications

6.0 Equality Implications

- 6.1 None

Report sign off:

CONRAD HALL
Chief Finance Officer