

TEIGNBRIDGE DISTRICT COUNCIL

AUDIT SCRUTINY COMMITTEE

21ST OCTOBER 2020

PART I

Report Title	Internal Audit Report & Redmond Review Update
Purpose of Report	To update members on the plan of work this year and ask members to approve the Internal Audit Charter. To provide information on the Redmond Review.
Recommendation(s)	The Committee RESOLVES to note the report and APPROVE the Internal Audit Charter.
Financial Implications	See section 3.1.
Legal Implications	See section 3.2.
Risk Assessment	See section 3.3.
Environmental/ Climate Change	See section 3.4.
Report Author	Sue Heath, Audit Manager Email: sue.heath@teignbridge.gov.uk
Executive Member	Councillor Keeling, Corporate Resources
Appendices / Background Papers	None.

1. INTRODUCTION / BACKGROUND

- 1.1 Internal audit provides an independent opinion on the Council's risk management, control environment, and governance. A plan of audit work is usually provided to Audit Committee members at the beginning of each financial year, setting out which areas will be audited with a view to providing the Council with a statutory internal audit opinion at the end of the year. The requirement for internal audit is set out in the Accounts and Audit Regulations 2015.

2. Audit Plan 2020-2021

- 2.1 This year is understandably unique. The Coronavirus pandemic has had a profound effect on all council services. Members of the internal audit team were either redeployed to critical services such as Business Grants and the Food Hub, or were furloughed as routine audits were suspended.
- 2.2 The risks from Covid are still directing what we do to a large extent, and we continue to focus on these given their high priority. Most available audit time has been spent ensuring counter fraud and error controls and data protection requirements are in place and operating effectively for the various emergency support grants launched. The aim was to make the payments as quickly possible and in view of this, post payment checking and assurance was recommended by central government.
- 2.3 For the initial business grants we seconded an auditor into the business grant team full time to help set up the scheme and to carry out embedded pre-payment checks in addition to post payment assurance. We have since continued to support grant and support scheme payments as they evolve from central government, and locally. The dedication of all Teignbridge staff in meeting the requirements and tight deadlines involved in this work has been, and continues to be, commendable.
- 2.4 Recognising the Council's current financial pressures, we have relinquished our small budget for audit days purchased from an external provider to help achieve the corporate savings target.
- 2.5 This means resources will be limited this year. Our plan is therefore to continue to respond in real time to the needs of the pandemic supporting new systems with internal control and counter fraud work where required. Our remaining time will be used for the following core systems audits which are key to financial governance:

Planned Systems Work	
Risk Management	The processes in place to manage risks (mitigations) will be verified to ensure that they are operating in practice and provide assurance that key risks are being managed.
Main Accounting	Accounts for the Council's activities and ensures budgetary requirements are met. Good Financial Management and Budgetary control are essential in the current challenging financial situation.
Creditors	Pays the authority's creditors and internal payments. This audit will ensure the payment controls adapted for home working are effective.
Payroll	Ensures prompt and accurate payment of employees. The new iTrent Payroll system is now live. Payroll audits have previously been postponed pending its implementation. Home working controls also need assurance.
Council Tax	Calculates, collects and accounts for Council Tax including recovery procedures for non-payment.
Housing Finance	Follow up of audit undertaken last year, to ensure income collection procedures are operating effectively.

3. Completed Work / Work in Progress

3.1

SYSTEM	STATUS	OPINION
Governance Review and AGS	Complete	Good
Small Business Grants	Complete	Good
Discretionary Business Grants	Complete	Good
Coronavirus Hardship Fund	Complete	Excellent
Self Isolation Grants	In Progress	
Risk Management	In Progress	

3.2

Key to Assurance Opinions:		
Excellent ☆☆☆	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.	
Good ☆☆☆	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some areas for improvement have been identified.	
Fair ☆☆	Basic control framework in place, but most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and require controls to be strengthened to achieve system objectives.	
Poor ☆	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.	

3.3 The Audit team continue to undertake ad-hoc tasks and provide advice and guidance. The Audit Manager remains the key contact for the National Fraud Initiative and is a member of the Transformation Board and the IT Requirements Board which give valuable insight into audit opinion work.

4. INTERNAL AUDIT CHARTER

4.1 The Public Sector Internal Audit Standards require internal audit services to implement and maintain an Audit Charter which formalises their purpose, responsibilities and authority. Ours is updated annually and is set out at **Appendix A** below. **Members are asked to approve the Charter.**

5. REDMOND REVIEW – Overview / Update

- 5.1 On 8 September 2020, the Government published the results of an [independent review](#), led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit.
- 5.2 The review recognised that current arrangements are not working as well as they should and provides a number of key recommendations including:
- Implementation of a new local authority audit oversight body to coordinate, regulate and monitor performance of external audit activity.
 - Extending the dialogue with external auditors and members/senior officers.
 - Audit Committees to include an expert independent member.
 - Allowing the use of internal audit work by external auditors.
 - Moving the publication date for audited accounts from 31 July back to 30 September to allow audit firms more scope to resource audits effectively.
 - Revision of fee structures to ensure adequate resources are deployed.
 - Simplification and improved usefulness of the statutory accounts.
 - Simplified and standardised narrative statement of service information and costs to be made available to the public (this is in addition to the accounts and would be subject to audit).
- 5.3 The recommendations will now be considered by the relevant bodies. Some require primary legislation to be made, which will give a clearer timescale for implementation. It is anticipated they will be in place for the 2021-22 accounts, with some implemented on a trial basis in 2020-21.
- 5.4 **Potential implications for Teignbridge include:**
- A suspected increase in external audit fees – it is suggested these are currently 25% lower than required to fulfil requirements effectively.
 - The appointment of an independent member to this committee.
 - A report to full Council by the external auditor.
 - Production of a standardised statement of service information and costs.
 - Revised timetable for reporting from 31 July to 30 September.
- 5.5 This update gives a brief overview. Members will be kept informed as further details of timescales and implications emerge.

6. IMPLICATIONS, RISK MANAGEMENT & CLIMATE CHANGE IMPACT

- 6.1 **Financial** – the internal audit proposals are within budget. The financial implications arising from the Redmond Review will be reported when known.
- 6.2 **Legal** – the statutory requirement for internal audit is met.
- 6.3 **Risks** – risks are taken into account in planning internal audit work.
- 6.4 **Environmental/Climate Change Impact** - not applicable.

7. CONCLUSION / RECOMMENDATION

That the report be noted and the Internal Audit Charter be approved.

INTERNAL AUDIT CHARTER 2020-2021

INTRODUCTION

This document describes the purpose, authority, and principle responsibilities of the Council's Internal Audit Section.

DEFINITION, FUNCTION and MISSION OF INTERNAL AUDIT

Internal auditing is an independent, objective, assurance providing activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit will advise management where internal control systems can be improved, and seek to promote compliance with corporate policies and procedures, and accomplishment of corporate priorities, through its review of the Council's activities.

AUTHORITY, INDEPENDENCE, and OBJECTIVITY

Internal Audit's statutory authority comes from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015 which state:

Internal audit

- (1) A relevant 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.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—
 - (a) make available such documents and records; and
 - (b) supply such information and explanations; as are considered necessary by those conducting the internal audit.

Internal Audit must remain sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner which facilitates impartial and professional judgements and recommendations. Internal Auditors should ideally have no operational responsibilities. Where this is unavoidable, consideration will be given to obtaining oversight by a third party outside the internal audit activity.

Internal Audit forms part of the Council's Corporate Services. The Audit Manager reports to the Head of Corporate Services (Chief Finance / Section 151 Officer), and functionally to the Audit Scrutiny Committee (*who act as "the Board" for the purposes of the Public Sector Audit*

Standards) on audit matters. Close liaison with the Section 151 Officer (responsible for financial affairs) is maintained to ensure his Section 151 duties are fulfilled, and the Audit Manager has direct access to the Managing Director as and when required.

Internal Audit staff have unrestricted access at any time to such systems, records, information assets, personnel and premises, including those of partner organisations, as necessary for the proper fulfilment of their responsibilities. Any officer, or member of the Council shall, if required, make available, information required for audit purposes, and shall provide the auditor with such information and explanation as considered necessary for that purpose.

This statutory role and rights of access are recognised and endorsed within the Council's Financial Instructions (Constitution) and Internal Audit Manual.

STANDARDS & PROFESSIONALISM

Internal Audit must take into account public sector auditing standards or guidance. For local authorities the Public Sector Internal Audit Standards guide audit activity. Team members are also governed by the Code of Ethics of their relevant professional body as well as the Council's own internal Code of Conduct.

For an internal audit function to be effective, the following core principles should be present:

- Integrity
- Competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with strategies, objectives and risks of the organisation
- Demonstrates quality and continuous improvement
- Effective communication
- Promotes organisational improvement
- Is insightful, proactive and future focussed

SCOPE AND RESPONSIBILITIES

Heads of Service and Service Managers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The scope of Internal Audit allows for unrestricted coverage of the control environment including risk management and corporate governance. This ensures all of the Council's operations, resources, services and responsibilities are included. Where the scope of Internal Audit's work extends to services provided through partnership, Internal Audit staff may consider whether to conduct assurance work themselves (where contracts allow) or rely on assurance provided by others.

INTERNAL AUDIT MANAGEMENT

The Audit Manager is responsible for:

- Managing the Internal Audit service, determining the scope and methods of audit activity
- Ensuring Internal Audit staff operate within current auditing standards and ethical standards of the professional bodies of which internal auditors are members
- Ensuring Internal Audit staff are impartial, unbiased, and avoid conflicts of interest

- Developing operational audit plans based on an assessment of risk and in consultation with senior management;
- Maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out audit work
- Liaison with the Council's external auditors to achieve co-ordination of work where possible both with external audit and other review agencies where appropriate
- Reporting to the Strategic Leadership Team (*i.e. "senior management" as defined by the Public Sector Internal Audit Standards*) and the Audit Scrutiny Committee on the results of audit activities, and the effectiveness of the actions taken by management to implement agreed recommendations
- Reviewing the Council's risk management and governance arrangements
- Providing the Strategic Leadership Team and the Audit Scrutiny Committee with an annual assurance statement on the adequacy of the Council's internal control systems

FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, cannot guarantee that fraud and corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors will, however, be alert in all their work to the risks and exposures that could provide opportunity for fraud or corruption. They will investigate suspected frauds and irregularities where appropriate, and will act upon reports of fraud accordance with the Council's Anti-fraud, Theft and Corruption Strategy.

The Audit Manager must be informed of all suspected or detected fraud, corruption or improprieties so they may be considered in terms of the adequacy of the relevant internal controls, and be evaluated for the annual opinion on the control environment.

AUDIT REPORTING

Audit assignments will be covered by formal reports in order to communicate the findings of the audit and encourage management to take prompt mitigating action if risks have been identified.

Reports will be issued in draft form to the managers responsible for the area under review for agreement of the factual accuracy of findings. On receipt of management comments, including acceptance or rejection of recommendations, reports will be finalised with agreed action dates where applicable. Each report will include an opinion on the adequacy of the control environment governing the activity that has been audited. Reports with Fair or Poor assurance ratings will be reviewed by the Strategic Leadership Team to ensure actions to address risks are adequate.

Full audit reports will be available to members of the Audit Scrutiny Committee and a summary of all audit work provided at meetings. If the failure to implement an audit recommendation is deemed to present the Council with an unacceptable risk, the matter will be reported to the Audit Scrutiny Committee and the manager concerned may be required to give an explanation.

At the end of each audit year, the Audit Manager will deliver an annual assurance opinion and report which can be used to inform the Council's Annual Governance Statement. The

annual opinion will conclude on the overall adequacy of the framework of governance, risk and control, and will summarise the work that supports the opinion.

LOCAL AND NATIONAL ISSUES AND RISKS

The annual audit planning process should ensure that new or emerging risks are considered. The Audit Manager takes account of Council plans and strategies, and consults the Corporate Management Team on the issues and risks inherent to their service areas to identify any potential areas of concern for audit review. Risk registers are examined to ensure high scoring risks are taken into account. The audit 'universe' (list of auditable activities) and resulting plan are further informed by the review of Council minutes; cumulative corporate knowledge, and issues arising from past audits, or service reviews.

The Audit Plan is approved by the Audit Scrutiny Committee, however, it is recognised that this is flexible and work can be re-prioritised should unforeseen issues arise throughout the year.

Individual audit projects within the plan focus on the control systems for key risks within each area. Both systems based and risk based approaches may be used. Mitigating actions from the operational risk register may also be tested to assess how well risks are being managed.

Awareness of national issues is maintained through membership of and subscription to professional bodies such as the Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance Accountants' advisory services; Better Governance Forum; liaison with external audit; and with colleagues in other local authorities.

PROVISION OF THE SERVICE

The service is provided by an in-house Audit Manager and Auditor. This is supplemented by a small budget to buy in external resource where needed. Some of the internal audit time is, however, directed to corporate work such as corporate working groups and internal boards.

Service delivery is monitored through key performance indicators such as achievement of the Audit Plan, customer feedback, assessment against the Public Sector Internal Audit Standards, and a value for money indicator which can be used to benchmark the cost of the service if required.

RESOURCES AND SKILLS

The current level of resources (outlined above) is considered sufficient to deliver this year's Plan. Additional requests for work will be controlled to ensure they do not compromise assurance work.

Auditors are encouraged to develop their skills and knowledge through undertaking various training programmes. The Council recognises both CIPFA and the Chartered Institute of Internal Auditors (CIIA) qualification. Two internal audit staff members have CIIA qualifications.

Training needs are assessed on an ongoing basis. The aim is to ensure auditors are operating at a level which fulfils client requirements and meets professional standards.

If the necessary skills for a particular assignment were not available in house, consideration would be given to sourcing these externally, subject to available budget.