

**AUDIT COMMITTEE – 19<sup>TH</sup> JULY 2017**

**INTERNAL AUDIT QUARTERLY REPORT 2017/18  
QUARTER ENDED 30th JUNE 2017**

**Executive Summary**

1. Internal Audit work undertaken during the period did not identify any fundamental recommendations. (Para. 4.1).
2. The internal control assurance opinion overall is considered to be adequate, based upon the results of the work undertaken during the quarter (Para. 6.1 / Appendix 1).
3. Of the 10 recommendations followed-up, 3 (30%) had been implemented by the original target date, 3 (30%) had been implemented after the original target date and 4 (40%) had not been implemented, with revised implementation dates agreed by management (Para. 4.4).
4. In relation to the Barnsley MBC audit plan, actual days delivered were 33 (8%) below that planned days of 400 days at the end of the quarter (Para.7.7 & Appendix 2).
5. Quarterly performance of the function is generally satisfactory. The Performance Indicators relating to chargeable time is slightly below profile. This was mainly due to the bedding in of the newly appointed Audit Manager and Principal Auditor, parameter issues with the audit system, MKI, and additional training not previously programmed into the plan. (Para. 8.2 and 8.3 & Appendices 3 & 4).

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QUARTER ENDED 30<sup>TH</sup> JUNE 2017**

**1. Purpose of Report**

- 1.1 This report provides the Audit Committee with a comprehensive overview of the key activities and findings of Internal Audit based on the Division's work covering the whole of the final quarter to ensure that the Audit Committee is provided with the most up to date position. This report provides the Audit Committee with information relevant to its responsibilities within its terms of reference (terms of reference items (a), (b), (h), (i) and (k)).
- 1.2 The report covers:-
- i. The issues arising from completed Internal Audit work in the period (section 4 and Appendix 1);
  - ii. Matters that have required investigation (section 5);
  - iii. An opinion on the ongoing overall assurance Internal Audit is able to provide based on the work undertaken regarding the adequacy and effectiveness of the Authority's internal control environment (section 6);
  - iv. Progress on the delivery of the Internal Audit Plan for the period up to the end of the first quarter of 2017/18 year (section 7 and Appendix 2);
  - v. Details of Internal Audit's performance for the quarter utilising Performance Indicators (PIs) (section 8 and Appendices 3 and 4).

**2. Recommendations**

**2.1 It is recommended that the Audit Committee:-**

- i. **consider the issues arising from completed Internal Audit work in the period along with the responses received from management;**
- ii. **note the assurance opinion on the adequacy and effectiveness of the Authority's internal control framework based on the work of Internal Audit in the period to the end of June 2017;**
- iii. **note the progress against the Internal Audit plan for 2017/18 for the period to the end of June 2017; and**
- iv. **Consider the performance of the Internal Audit Division for the first quarter.**

### **3. Introduction / Background**

- 3.1 Internal Audit is a key contributor to the assurances the Audit Committee requires regarding the adequacy and effectiveness of the internal control, risk and governance environment of the Authority. That assurance is provided through planned work and responding to urgent matters and changes in priority and risk. It is important that all Internal Audit activities are undertaken with due regard to risk and the risk issues prevailing at the time.
- 3.2 In order to fulfil its responsibilities the Audit Committee needs to be satisfied that the Internal Audit Division is undertaking its work as planned, responding appropriately to client demands, operating to the required professional standards and obtaining the necessary responses from management following Internal Audit work.
- 3.3 In accordance with statutory best practice provided by the Public Sector Internal Audit Standards, there is a requirement that the Head of the Internal Audit function prepares an annual report to the appropriate member body. This requirement is best supported through regular reports during the year, providing, amongst other things, ongoing assurances on the adequacy and effectiveness of the Authority's framework of governance, risk management and control.
- 3.4 For the Authority, the appropriate member body is the Audit Committee.

### **4. Key Issues Arising From Internal Audit Work in the Period Ended 30<sup>th</sup> June 2017**

- 4.1 Internal Audit work undertaken during the period made one significant recommendation. No fundamental recommendations were made.
- 4.2 It should be noted, that in the process of agreeing a final report, senior officers respond to specific recommendations by identifying relevant actions and agreeing responsible managers and timescales for implementation.

#### **Follow-Up of Report Recommendations**

- 4.3 The following protocol is applied to the follow-up of recommendations in audit reports:
- all fundamental and significant recommendations irrespective of the assurance opinion;
  - all recommendations contained within the annual core financial system audit reports and;
  - reports containing a significant number of merits attention recommendations giving rise to a negative assurance opinion.
- 4.4 Table 1A identifies the total number of reports analysed by the assurance opinion given and the total number of recommendations made.

Table 1B shows the number of recommendations followed-up in the quarter. Of the 10 recommendations followed-up, 3 (30%) had been implemented by the original target date, 3 (30%) had been implemented after the original target date

and 4 (40%) had not been implemented, with revised implementation dates agreed by management.

- 4.5 Internal Audit continues to get very good co-operation from management including the Senior Management Team (SMT) and as such is able to closely monitor any implications that may arise from a delay in the implementation of management action. However, it should be noted that nearly half (40%) of recommendations followed-up had not been implemented and required a revised implementation date. Internal Audit is working closely with management to monitor this situation and will report to the Audit Committee should any concerns be raised due to any change of implementation date. The SMT receive a quarterly performance report to highlight outstanding audit recommendations.

## **5. Fraud, Investigations and the Corporate Anti-Fraud Team**

- 5.1 A separate report will be provided to the Audit Committee covering the detail of fraud and irregularity investigations undertaken, the preventative work and the general activities and work plan of the Corporate Anti-Fraud Team.
- 5.2 The overall assurance opinion takes into account any control issues arising from investigations or anti-fraud work. No issues are required to be brought to the Committee's attention at this time.

## **6. Head of Internal Audit's Internal Control Assurance Opinion**

- 6.1 Based on the audits reported in the period, an overall **adequate** assurance opinion is considered to be appropriate.
- 6.2 As referred to above, the percentage of audit report recommendations not implemented, and requiring a revised implementation is relatively high at 40%. The implementation of recommendations is monitored closely to ensure that there are no serious issues or concerns regarding the effectiveness of the control, risk and governance framework arising from the delay or non-implementation of recommendations.
- 6.3 Where control weaknesses have been identified within procedures, or in the provision of advice or 'consultancy' services, these have been resolved less formally with management through discussions at the time of the audit, and/or via emails and memos.
- 6.4 It does however need to be recognised that Internal Audit coverage cannot guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist. Accordingly only reasonable and not absolute assurance is given.
- 6.5 The assurance opinion is supported by the knowledge that the underlying framework of financial and other controls, encompassing the Council's Financial Regulations, various codes of practice, procedures and other financial governance arrangements, periodically reviewed by both Internal and External Audit, are appropriate and working satisfactorily.

- 6.6 The general context and impact of the significant savings and service changes that have been implemented arising from Future Council form a core element of Internal Audit work planning to ensure that the control, risk and governance framework remains adequate and effective.

**7. Internal Audit Plan 2017/18 - Progress to the end of June 2017**

- 7.1 Internal Audit utilise a risk-informed approach to planning and delivering its work. This approach seeks to ensure that the key risks facing the Authority are considered and covered, where appropriate, by Internal Audit work. In turn the annual work programme is planned indicatively across the year. This enables quarterly monitoring of progress against planned work and the utilisation of Audit resources.
- 7.2 It is however important to recognise and appreciate that whilst a significant proportion of audit work is planned, there are many 'external' factors that can and do impact on precisely when pieces of work are actually undertaken and completed and indeed their detailed scope. For this reason the monitoring of the audit plan in each quarter can only provide an indicative picture of progress overall. Individual jobs are monitored on a job-by-job and week-by-week basis utilising the audit management system.
- 7.3 Appendix 2 shows the progress of the plan up to the end of June 2017, analysed by Directorate / Service.
- 7.4 Adjustments are made to the days allocated to particular jobs on an on-going basis and so there is naturally only a minor variance between the actual days and those planned. Given the risk basis and responsive nature of audit work, the Audit Committee should be particularly interested in the overall deployment of audit resources rather than necessarily where those resources have been spent.
- 7.5 At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency.
- 7.6 The following audits have been deferred, added to or deleted from the audit plan, as agreed in conjunction with management:

<b>Directorate / Service</b>	<b>Audit Assignment Title</b>	<b>Deferred / Added / Deleted</b>
Place / Environment & Transport	Highways Construction Services Review	Added – Request by SMT and Service Director Finance to provide assurance on the governance, controls and risk management arrangements within the service
Northern College	New External Client	Added – successful competitive tender bid, May 2017. Risk based Internal Audit service covering the academic years 2017 – 2020.

- 7.7 The position at the end of the first quarter for the audit days allocated to BMBC shows 33 days (8%) below the 400 planned days.

## **8. Internal Audit Function and Performance**

- 8.1 The Division uses a range of performance indicators to monitor operational efficiency. A list of the PIs for 2017/18 is attached at Appendix 3.
- 8.2 Quarterly performance of the function is generally satisfactory at this early stage in the year. The chargeable time indicator is slightly below target, but this is due in the main to the newly appointed Audit Manager and Principal Auditor, parameter issues with the audit system, MKI, and additional training not previously programmed into the plan.
- 8.3 The analysis of more detailed feedback received following each audit job is generally shown in an appendix within this report. However, at the point of preparing this report, a feedback sheet has not yet been completed and returned for the final report issued. This will be included within the second quarterly report due to be presented to Members in December 2017.
- 8.4 The new structure for the Internal Audit and Corporate Anti-Fraud Team came into effect on 1<sup>st</sup> April 2017. The restructure resulted in two vacancies, one at Audit Manager and the other at Principal Auditor. New members of staff to these posts started on 2<sup>nd</sup> May 2017.

## **9. Local Area Implications**

- 9.1 There are no Local Area Implications arising from this report.

## **10. Consultations**

- 10.1 All audit reports are discussed with the main auditee. Individual audit reports are provided to the appropriate Executive Director and/or Service Director to apprise him/her of key issues raised and remedial actions agreed.
- 10.2 No specific consultation has been necessary in the preparation of this quarterly report.

## **11. Compatibility with European Convention on Human Rights**

- 11.1 In the conduct of audit work and investigations particularly, Internal Audit operates under the provisions of the Data Protection Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

## **12. Reduction of Crime and Disorder**

- 12.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls are made.

Additionally, Internal Audit ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

### **13. Risk Management Considerations**

13.1 The underlying purpose of the work of Internal Audit is to address and advise on key risks facing management and, as such, risk issues are inherent in the body of the report.

13.2 The Division's operational risk register includes the following risks which are relevant to this report:

- Inappropriate use of and management of, information to inform and direct service activities;
- Inability to provide a flexible, high performing and innovative service; and
- Poor levels of customer satisfaction.

All of these risks have been assessed and remain within the tolerance of the Division.

An essential element of the control (and on-going) management of these risks is the provision of update reports to the Audit Committee and the assurance this provides.

### **14. Employee Implications**

14.1 There are no employee implications arising from this report.

### **15. Financial Implications**

15.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function are included within the Authority's base budget.

### **16. Appendices**

16.1 Appendix 1 - Key issues arising from completed Internal Audit work  
Appendix 2 - Internal Audit Plan 2017/18 – Position as at 30<sup>th</sup> June 2017  
Appendix 3 - Internal Audit Performance Indicators for the Quarter Ended 30<sup>th</sup> June 2017

### **17. Background Papers**

17.1 Various Internal and External Audit reports, files and working papers.

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**Date:** 7<sup>th</sup> July 2017

**A: Completed Audits / Final Reports Issued During the Period Ending 30<sup>th</sup> June 2017**

**Appendix 1**

**KEY – Recommendations -    Fundamental ‘F’            Significant ‘S’            Merits Attention ‘MA’**

<b>Service / Directorate / Audit Title</b>	<b>Key Issues</b>	<b>Assurance Opinion</b>	<b>No. of Recs.</b>	<b>Date Report Issued</b>	<b>Other Action</b>
Finance: Treasury Management	The main issue arising from this audit was in regards to Annual Treasury Policy, Strategy Statements and the Annual Report on Treasury Management activities not being presented to Audit Committee for scrutiny.	<b>Adequate</b>	F - 0 S - 1 MA - 5	23.06.2017	To follow-up all report recommendations.



<b>Details and Outcome of other Audit Activities Not Producing a specific Assurance Opinion</b>		
<b>Audit Work Completed</b>	<b>Details</b>	<b>Contribution to Assurance</b>
People: Early Education Funding Operational Guidance Review	The Early Education & Prevention Service requested Internal Audit to review the Operational Guidance for the Early Education Funding being circulated to all Early Education Providers from 1st September 2017. In particular the Service requested that a review of Internal Audit's responsibilities was to be undertaken and agreed.	The work contributes to assurance in respect of performance management & data quality.
Communities : Principle Towns Project – Governance Arrangements	Advice was provided to the Communities Directorate for the development of governance arrangements of the Principle Towns Project initiative.	The work contributed to assurance in respect of partnership and relationship management.

<b>Other Work Undertaken</b>	
Follow-up of Recommendations	Regular work undertaken to follow-up recommendations made.
Attendance at Steering / Working Group	Information Governance Board, Commissioning, Procurement & Contracts Working Group.
Liaison, Planning and Feedback	Meeting and corresponding with Service and Executive Directors and Heads of Service regarding progress of audit work, future planning and general client liaison.
Advice	General advice to services regarding controls, risk or governance matters. Such work often does not require formal reporting but occasionally will escalate into a specific piece of audit work for which a new job will be created.
Audit Committee Support	Time taken in the preparation of Audit Committee reports, Audit Committee Member training, general support and development.
Corporate Whistleblowing	General time taken in providing advice and the initial consideration of matters raised. Also includes the review of arrangements.
Corporate Matters	Covering time required to meet corporate requirements, i.e. corporate document management, service business continuity and health and safety.

Table 1A

## Summary Activity

## All Audit Reports

Assurance Opinion	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Cumulative
Substantial	0 (0%)				0 (0%)
Adequate	1 (100%)				1 (100%)
Limited	0 (0%)				0 (0%)
None	0 (0%)				0 (0%)
<b>TOTAL REPORTS</b>	<b>1</b>				<b>1</b>
Opinion Not Applicable	0				0

## Total Recommendations

Number of Recommendations	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Cumulative
Fundamental	0 (0%)				0 (0%)
Significant	1 (17%)				1 (17%)
Merits Attention	5 (83%)				5 (83%)
<b>TOTAL</b>	<b>6</b>				<b>6</b>

Table 1B

## Recommendations Followed-up by Internal Audit

Quarter 1				
Recommendation Classification	Followed-up	Completed by due date	Completed after target date	Not yet completed – Revised date agreed
Fundamental	0	0	0	0
Significant	9	2	3	4
Merits Attention	1	1	0	0
<b>TOTAL</b>	<b>10</b>	<b>3</b>	<b>3</b>	<b>4</b>

## Trend Analysis – First Quarter 2017/18

### Assurance Opinions

	2016/17				2017/18				Cumulative	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016/17	2017/18
	%	%	%	%	%	%	%	%	%	%
Substantial	0	0	14	0	0				6	0
Adequate	75	100	29	50	100				53	100
Limited	25	0	57	50	0				41	0
None	0	0	0	0	0				0	0
	100	100	100	100	100	100	100	100	100	100

### Implementation of Recommendations

	2016/17				2017/18				Cumulative	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016/17	2017/18
	No.	No.	No.	No.	No.	No.	No.	No.	%	%
Completed by target date	1	10	16	6	3				47	30
Completed after target date	0	15	6	0	3				30	30
Not yet completed – revised date agreed	5	5	3	3	4				23	40
Total followed up	6	30	25	9	10				100	100
<b>% Completed by Original Target Date</b>	<b>17%</b>	<b>33%</b>	<b>64%</b>	<b>67%</b>	<b>30%</b>					
<b>% Completed at time of Follow-up</b>	<b>17%</b>	<b>83%</b>	<b>88%</b>	<b>67%</b>	<b>60%</b>					

INTERNAL AUDIT PLAN 2017/18 – Position as at 30<sup>th</sup> June 2017

<b>Directorate</b>	<b>Original 2017/18 Plan</b>	<b>Revised 2017/18 Plan</b>	<b>Actual Days</b>
Communities	<b>75</b>	77	14
People	<b>98</b>	103	32
Place	<b>63</b>	83	11
Public Health	<b>26</b>	26	0
Core Services	<b>419</b>	421	76
Council Wide	<b>142</b>	142	49
Corporate	<b>167</b>	169	45
Contingency	<b>50</b>	0	0
<b>Barnsley MBC Sub Total</b>	<b>1,040</b>	1021	227

Corporate Anti-Fraud Unit	<b>561</b>	562	140
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<b>Sub Total</b>	<b>1,601</b>	1,583	367
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<b>External Clients</b>	<b>1,655</b>	1,686	308
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<b>Total Chargeable Planned Days</b>	<b>3,256</b>	3,269	675
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## INTERNAL AUDIT PERFORMANCE INDICATORS FOR 2017/18

Ref.	Indicator	Frequency of Report	Target 2017/18	This Period	Year to Date
<b>1.</b>	<b><u>Customer Perspective:</u></b>				
1.1	Percentage of questionnaire received noted “good” or “very good” relating to work concluding with an audit report.	Quarterly	95%	n/a	n/a
<b>2.</b>	<b><u>Business Process Perspective:</u></b>				
2.1	Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report. (Cumulative 1/1 reports)	Quarterly	80%	0%	0%
2.2	Percentage of chargeable time against total available.	Quarterly	73%	65%	65%
2.3	Average number of days lost through sickness per FTE (Cumulative 4 days in total)	Quarterly	6 days	0.25 day	0.25 day
<b>3.</b>	<b><u>Continuous Improvement Perspective:</u></b>				
3.1	Personal development plans for staff completed within the prescribed timetable.	Annual	100%	100%	100%
<b>4.</b>	<b><u>Financial Perspective:</u></b>				
4.1	Total Internal Audit costs v budget.	Quarterly	Within Budget	Within Budget	Within Budget

## Performance Indicator Definitions and Supporting Information

PI Ref	Indicator	Comments
1.1	Percentage of favourable auditee questionnaire responses received (noted “good” or “very good”) relating to work concluding with an audit report.	Questionnaires are left at the end on each audit job resulting in a formal report. The questionnaire asks 14 specific questions covering the effectiveness of audit planning, communication, timing and quality of the audit report. An overall assessment is sought as to the overall value of the audit. This is the answer used for this PI. All questionnaires are analysed in detail to ensure all aspects of the audit process are monitored and improved.
2.1	Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report.	This is an operational PI to ensure the timely issue of final reports. This PI is influenced by the availability of senior Internal Audit staff to clear the report and any issues the Division’s quality assessment process highlights along with the availability of the auditee.
2.2	Percentage of chargeable time against total available.	A key operational measure of the ‘productivity’ of Audit staff taking into account allowances for administration, general management, training and other absences. This PI will reflect the % chargeable time of staff in post, net of vacancies.
2.3	Average number of days lost through sickness per FTE.	A corporate PI to measure the effectiveness of good absence / attendance management.
3.1	Personal development plans for staff completed within the prescribed timetable.	IA place a high level of importance on staff training and continuous development and are committed to ensure all staff have their own training plans derived from the personal development plan process.
4.1	Total Internal Audit costs v budget.	This is a simple overall measure to note whether the Division’s expenditure for the year has been kept within the budget.