

# **TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE: 25 JANUARY 2022**

**INTERNAL AUDIT UPDATE REPORT & INTERNAL AUDIT CHARTER**

**REPORT OF THE AUDIT & GOVERNANCE LEAD MANAGER**

## **1 Purpose**

To update members on the progress made against the 2021/22 Internal Audit Plan and to provide information on the recent work of Internal Audit.

The report also includes an update on the Internal Audit Charter.

## **2 Recommendations**

- 2.1 Members of the Audit Committee to note the information contained in this report in respect to Internal Audit planned work undertaken between 1 September 2021 – 31 December 2021 and unplanned work to date.
- 2.2 Members of the Audit Committee approve the revised Internal Audit Charter.

## **3 Progress on completion of the 2021/22 Annual Audit Plan**

- 3.1 Audit Committee members approved the 2021/22 Internal Audit Plan at the May 2021 committee meeting. Appendix 1 of this report shows the progress made against the 21/22 plan, 11 audits have been completed and 16 are in progress. Amendments to the audit plan have been made due to resource challenges within the team. As a result 7 audits (54 days) have been deferred to 2022/23.

The Principal Auditor/Audit & Governance Lead Manager continue to attend service area management meetings in order to keep the audit plan relevant and focus resources on key areas. These meetings have resulted in 3 further audits being deferred until 2022/23.

Internal Audit are confident that sufficient progress will be made on the completion of any revised audit plan by the end of 2021/22.

## **4 Summary**

- 4.1 This report provides information on the work of Internal Audit from 1 September 2021 – 31 December 2021 and provides an update on the progress of previous audit reports issued.
- 4.2 The key focus for the team during this period was the completion of audits on the annual audit plan and fulfilling commercial contracts.
- 4.3 The information included in this progress report will feed into and inform our overall opinion in our Internal Audit Annual Report. All audit reports issued during the year are given an overall audit opinion based on the following criteria:

Level of Assurance/Audit Opinion & Definition	
<p style="text-align: center;"><b>Good (Green)</b></p> <p>There is a sound system of control designed to address relevant risks with controls being consistently applied.</p>	<p style="text-align: center;"><b>Reasonable (Yellow)</b></p> <p>There is a sound system of control but there is evidence of non-compliance with some of the controls.</p>
<p style="text-align: center;"><b>Limited (Amber)</b></p> <p>Whilst there is a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.</p>	<p style="text-align: center;"><b>Poor (Red)</b></p> <p>The system of control is weak and there is evidence of non-compliance with the controls that do exist.</p>

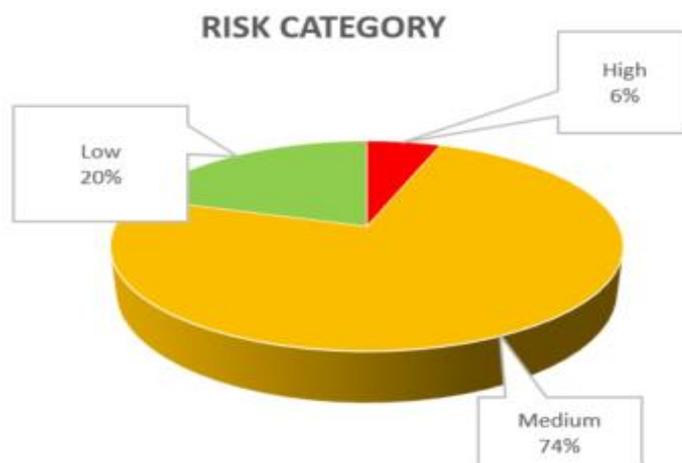
4.4 To determine the overall grading of the Internal Audit report each recommendation is risk rated (high, medium or low). The recommendation risk rating is based on the following criteria:

**High risk =** A fundamental weakness which presents material risk to the system objectives and requires immediate attention by management.

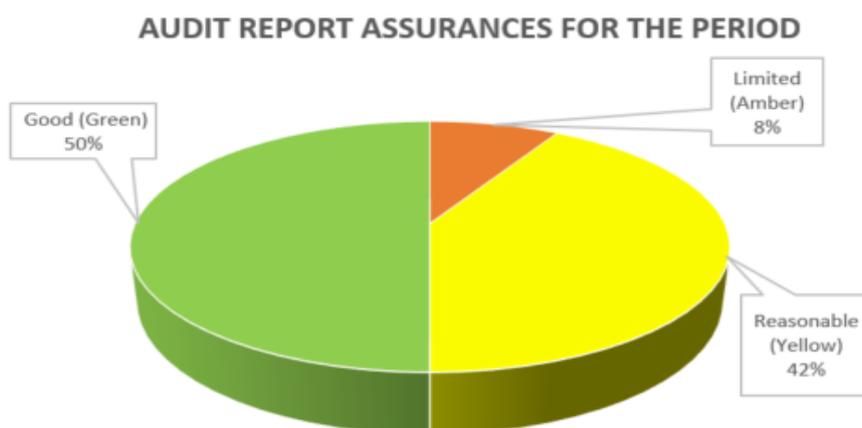
**Medium risk =** A recommendation to address a control weakness where there are some controls in place but there are issues with parts of the control that could have a significant impact.

**Low risk =** A recommendation aimed at improving the existing control environment or improving efficiency, these are normally best practice recommendations.

4.5 The chart below shows the percentage of high (red segment), medium (yellow segment) and low (green segment) risk recommendations made for the reports issued during this period.



4.6 The level of assurance (based on table 4.3 above) for audit reports issued in this period is detailed below.



4.7 The information in the above pie charts is broken down in the summary table below.

<b>AUDIT REPORTS ISSUED BETWEEN 1/9/21- 31/12/21 AND CURRENT STATUS</b>						
<b>Area</b>	<b>Date of Report</b>	<b>Level of risk on plan</b>	<b>Original Audit Grade</b>	<b>Follow up Due</b>	<b>Revised Grade</b>	<b>Comments</b>
Database Security	29/09/2021	M	Limited	Jan 22	Good	Follow up completed and grading changed
The Bridge School	08/10/2021	M	Reasonable	Apr 22		
Aqueduct School	26/10/2021	M	Reasonable	Apr 22		
together 4 children	02/12/2021	M	Reasonable	Jun 22		
Process for the Recording of Officers Register of Interests	10/12/21	N/a	Reasonable	May 22		
Car Parking Enforcement	20/12/21	H	Good	Jun 22		
Captain Webb Primary School	28/09/2021	M	Good	n/a		
Office 365	29/09/2021	M	Good	n/a		

Network Security	29/09/2021	M	Good	n/a		
Special Guardianships	08/12/2021	M	Good	n/a		
Additional Home to School & College Transport Grant (2021-22)	19/11/2021	M	Good	n/a		
Making Tax Digital	19/11/2021	M	Good	n/a		

4.8 Detailed below is the status of any reports previously issued and reported to Audit Committee. Members should note that once reports have reached a green status and have been reported to members they are excluded from future Audit Committee reports.

<b>PREVIOUSLY ISSUED REPORTS &amp; CURRENT STATUS</b>					
<b>Area</b>	<b>Date of Report</b>	<b>Original Audit Grade</b>	<b>Status previously reported to Audit Committee</b>	<b>Current Grade</b>	<b>Current status / Comments</b>
Section 17 Payments	16/03/2020	Limited	4 <sup>th</sup> follow up undertaken	Good	Complete. No further follow up.
The Place	10/08/2020	Poor	2 <sup>nd</sup> follow up undertaken November 2021	Good	Complete. No further follow up
Fleet Management	17/09/2020	Poor	2 <sup>nd</sup> follow-up to be carried out following the completion and implementation of the ongoing transport review. It is anticipated that this will be towards the end of FY 21/22	Reasonable	As previous status – no change.
Setting up Home Grant	11/12/2020	Poor	3 <sup>rd</sup> Follow up completed September 2021	Reasonable	4 <sup>th</sup> follow up complete and remains reasonable grading
ICT Patch Management	03/02/2021	Reasonable	2 <sup>nd</sup> follow up due January 2022.	Good	Complete. No further follow up.

Building Capacity Grants in the Voluntary Sector	21/01/2021	Reasonable	Follow up delayed until September now in progress	Good	Complete. No further follow up.
Business Continuity	28/06/2021	Reasonable	September 2021	Good	Follow up undertaken & grading changed
Lightmoor Primary School	19/7/21	Limited	October 2021	Good	Complete. No further follow up.
Additional Home to School & College Transport Grant (2020-21)	18/8/21	Reasonable	October 2021	Good	Follow up undertaken as part of 2021/22 audit (see report opinion 4.7 above)
Corporate Complaints	23/7/21	Reasonable	January 2022	n/a	
The Linden Centre	26/7/21	Reasonable	January 2022	n/a	

Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

## 5 Unplanned work

- 5.1 The team have undertaken an audit of the Council's processes for recording registers of interest for officers. The outcome of this work is shown above in section 4.7.
- 5.2 Work continues on the commercial contracts with Academies and Town Councils. An additional Multi-Academy Trust has recently bought into the internal audit/scrutiny function, resulting in a total of 8 Academy Trusts using our service. Internal Audit continue to look for opportunities to expand their commercial offering.

## 6 Quality Assurance and Improvement Programme

- 6.1 Internal Audit maintains a Quality Assurance and Improvement Programme that complies with the Public Sector Internal Audit Standards (PSIAS) alongside the normal quality review process applied to all audit assignments. The Audit & Governance Lead Manager undertakes an independent monthly check of randomly selected (number dependent on number of completed audits that month) completed audit files to ensure they comply with:-

- Requirements of the PSIAS
- Rules of the Code of Ethics
- Agreed Internal Audit process and procedures

- Approved Internal Audit Charter

Only minor Internal Audit procedural issues have been found from these checks and they have been fed back to the Internal Auditors during this time to aid continuous improvement in the service.

## 7 Audit Committee Terms of Reference

- 7.1 At the Audit Committee meeting on 27 May 2021, members requested that the committee's terms of reference were reviewed to identify any additional responsibilities that could be included. Internal Audit benchmarked the committee's terms of reference with other local authorities Audit Committees and current good practice. The outcome of this review is attached as Appendix 2 to this document. As part of this review it was identified that CIPFA has suggested Audit Committees should have more oversight of climate change measures so that associated risks are being effectively managed.

## 8 Internal Audit Charter

- 8.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> and the Council.
- 8.2 The terms of reference of the Audit Committee require the committee to approve the Internal Audit Charter on an annual basis. The charter has been reviewed by the Audit & Governance Team Leader and changes made to reflect the requirements of the PSIAS. See Appendix 3 below for a copy of the revised charter.

## 9 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of the Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	<p>The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council 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. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>In the event that an audit reveals a legal issue or concern this is referred to the Council's Legal Services Team and/or the Council's Monitoring Officer as appropriate for further advice and assistance.</p> <p>RP 21.12.21</p>

<sup>1</sup> PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.

Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities.
Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	There are no additional financial implications arising from the recommendations within this report.  Where Audit findings result in changes to service delivery or controls etc. the financial consequences are managed as part of the implementation of such changes. TAS 21.12.21
Ward Implications	The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

**Previous minutes:**

1 October 2020  
28 January 2021  
27 May 2021  
20 July 2021  
28 September 2021

**Background Papers:**

Annual Audit Plan 2021/22  
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and updated January 2017  
CIPFA Local Government Application Note – April 2013  
Accounts and Audit Regulations – 2015

**Report by:** Tracey Drummond Principal Auditor. Telephone 383105  
Rob Montgomery, Audit & Governance Lead Manager. Telephone 383103

## Internal Audit Charter – 1<sup>st</sup> April 2022 to 31<sup>st</sup> March 2023

### 1. Introduction

- 1.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)<sup>2</sup> and the Council.
- 1.2 This charter will be approved by the Audit Committee, after consultation with senior management<sup>3</sup> and will be reviewed annually.

### 2. Internal Audit Purpose and Responsibilities

#### 2.1 Internal Audit Purpose

- 2.1.1 The Audit & Governance Team is led by the Audit & Governance Lead Manager under the direct management of the Associate Director: Policy & Governance. The team supports the Co-operative Council in the delivery of services to the community to help improve their quality of life and the promotion of Telford & Wrekin as a place of partnership, enterprise and innovation. The team supports the whole Council to deliver economic, efficient and effective services<sup>4</sup> and achieve the Council's programme to ***“Protect, Care and Invest to Create a Better Borough”***.

#### 2.2 Internal Audit Objectives

- 2.2.1 To review the effectiveness of the governance, risk management and control processes of the Council to aid improvement, provide a level of assurance and an opinion on them to the Council.
- 2.2.2 To provide a respected, cost effective, objective and quality internal audit service including the provision of advice and guidance to assist our customers to meet their objectives and improve their services, including the rationalisation of controls, where appropriate.
- 2.2.3 To deliver value adding internal audit activity whilst meeting the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics (especially objectivity and integrity) and the Core Principles for the Professional Practice of Internal Auditing (see ANNEX I).
- 2.2.4 To work with the External Auditor and other assurance bodies to provide the most effective internal audit service.
- 2.2.5 To value and continuously develop the team.

#### 2.3 Internal Audit Responsibilities

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<sup>2</sup> PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.

<sup>3</sup> Senior management is the Senior Management Team comprising the following officers - Managing Director, Directors and Assistant Directors.

<sup>4</sup> By providing advice and guidance on the management of risks, controls and governance processes in service delivery and by supporting service reviews, restructures and reducing bureaucracy

- 2.3.1 To undertake the statutory Section 151 audit for the Chief Financial Officer (CFO), in line with the Accounts and Audit Regulations 2015.
- 2.3.2 To deliver the Council's risk based annual audit plan taking into account the Accounts and Audit Regulations 2015, the management of risk, senior management consultations, internal and external intelligence, comments from the Audit Committee and any requirements of the External Auditor. The plan is reviewed and amended, if required. Any significant changes are reported to senior management and the Audit Committee.
- 2.3.3 To ensure that there are sufficient resources to deliver the statutory requirements and plan above and to report any potential concerns to the CFO, MO and Audit Committee.
- 2.3.4 To operate as an independent, objective assurance function designed to add value and improve the effectiveness of the governance, risk management and control processes of the Council. The independent assurance work may include financial, performance, compliance, system security and information governance assignments.
- 2.3.5 Internal Audit does not undertake any individual consultancy assignments.
- 2.3.6 To ensure audit assignments are delivered to measure the effectiveness of risk management at a local level.
- 2.3.7 To appropriately manage any potential conflicts of interest in the delivery of internal audit activities and non-audit activities and to periodically rotate the annual audit work between staff.
- 2.3.8 To provide clear, objective and concise internal audit reports to support management in implementing recommendations to improve services and risk management, control and governance processes.
- 2.3.9 To provide responsive, challenging and informative advice and support on risk management, controls and governance to management.
- 2.3.10 To report to the Audit Committee<sup>5</sup> as defined in their terms of reference.
- 2.3.11 To develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity.
- 2.3.12 To arrange at least once every 5 years an external assessment of internal audit by an appropriate person<sup>6</sup> from outside the Council. The timing, form of the assessment and the results will be agreed with and reported to the Audit Committee.
- 2.3.13 To investigate and/or support the investigation of cases of suspected financial irregularity, fraud or corruption, except council tax support fraud investigations, in accordance with agreed procedures.
- 2.3.14 To provide appropriate assurance to relevant parties external to the Council. Currently Internal Audit complete:
- The Annual Internal Audit Report for a number of Parish Councils they have contracted with
  - Internal audit/scrutiny work for a number of multi academy trusts

## 2.4 Internal Audit Authority

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<sup>5</sup> The Audit Committee is the Board as defined in the Public Sector Internal Audit Standards

<sup>6</sup> Qualified, independent assessor or assessment team

- 2.4.1 The Audit & Governance Lead Manager is the Council's Chief Audit Executive as defined in the PSIAS.
- 2.4.2 The Audit & Governance Lead Manager is line managed by the Council's Monitoring Officer but has unfettered access to the Chief Executive, the CFO and all senior managers within the Council.
- 2.4.3 The Audit & Governance Lead Manager has responsibility for non-audit services including Information Governance, Insurance Services, Risk Management and the Corporate Investigation Team. The Audit & Governance Lead Manager will communicate any further changes to their scope of responsibility in terms of non-audit functions to the Audit Committee prior to commencement of any such functions. In order to avoid/manage any potential conflicts in respect to the audit of the Information Governance and Insurance functions (and any other future additional functions) the external contractor personnel are used to undertake this work and in addition to standard quality review the results and responses are overseen by the CFO in addition to the Monitoring Officer.
- 2.4.4 The Audit & Governance Lead Manager, in conjunction with the Associate Director: Policy & Governance, reports to the Audit Committee but also has unfettered access to the Chair of the Audit Committee, the Leader, other Cabinet Executives and the External Auditor.
- 2.4.5 In order for Internal Audit officers to be independent and objective whilst undertaking Internal Audit activity they have the authority to:
- enter at all reasonable times any Council premises or land;
  - have access to all Council and partner records<sup>7</sup>, documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Monitoring Officer or Audit & Governance Lead Manager;
  - have access to records belonging to third parties such as contractors or partners when required;
  - require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party; and
  - require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.
- 2.4.6 If at any time it is determined that the independence and/or objectivity of Internal Audit is impaired, the Chief Audit Executive will report this immediately to the Senior Management Team and Audit Committee.

## **2.5 How the Audit & Governance Lead Manager will form and evidence his opinion on the control environment to support the Annual Governance Statement.**

- 2.5.1 The Audit & Governance Lead Manager prepares an annual audit plan. Internal Audit planning is informed and influenced by the Council's vision, priorities and values, the strategic risk register, the requirements of the External Auditor, previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations with the Council's service area management teams and senior management.
- 2.5.2 The audit plan outlines the work assignments to be carried out, the resources allocated and the Council priority/ priorities they contributes to. The plan is flexible in order to reflect the

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<sup>7</sup> Records include business e-mail and internet records

changing needs and priorities of the organisation. Work is carried out by the audit team in accordance with the PSIAS using a risk based audit methodology and each Internal Audit report provides an opinion on the area reviewed.

## **2.6 How Internal Audits work will identify and address significant local and national issues and risks**

- 2.6.1 The Audit & Governance Lead Manager has quarterly meetings with the Chief Executive and CFO. Senior audit staff meet with Directors and their management teams as required to identify any local and national issues and risks, changes in the service area, and any new areas that require input from Internal Audit.
- 2.6.2 Employees within Internal Audit have access to the West Midlands Internal Audit Groups and other CPD/networking events through Chartered Institute of Public Finance Accountants and the Chartered Institute of Internal Auditors. These support continued professional development and help to identify any issues that may affect the delivery of internal audit services.

## **2.7 Internal Audit Resources**

- 2.7.1 For 2021/22 the Internal Audit team has a resource of 3.98 full time equivalent (fte) employed staff plus at least 30% of the Audit & Governance Lead Manager. In addition there is an external contract<sup>8</sup> which will deliver around 50 days of specialist IT work.
- 2.7.2 The budget for Internal Audit<sup>9</sup> is approved by the Council as part of the annual service and financial planning strategy following consideration by senior management, Scrutiny and the Cabinet.

## **2.8 Internal Audit and the Audit Committee**

- 2.8.1 Internal Audit will report to the Audit Committee on the following:
- a) Approval of the Internal Audit Charter;
  - b) Approval of the risk based Internal Audit Plan;
  - c) Update reports on Internal Audit activity and performance against the plan;
  - d) An annual report containing an opinion to inform the Annual Governance Statement; and
  - e) Any concerns in respect to Internal Audit resources and the level of assurance that can be provided.
- 2.8.2 The Audit Committee will be part of the approval process for appointing the Councils Chief Audit Executive.
- 2.8.3 The Chair of the Audit Committee and the Chief Executive will feed into the Annual Personal Performance & Development process for the Chief Audit Executive.

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<sup>8</sup> This has been procured through a framework agreement with Staffordshire County Council, Shropshire Council and Worcestershire County Council for the provision of general and specialist IT audit work.

<sup>9</sup> Including the remuneration of the Audit & IG Manager.

## Public Sector Internal Audit Standards

**MISSION OF INTERNAL AUDITING:** To enhance and protect organisational value by providing value added, risk-based and objective assurance, advice and insight.

### The definition of Internal Auditing within the Standards is:

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

### Code of Ethics - Summary

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are 4 principles in the code of ethics:

- 1) Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- 2) Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- 3) Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- 4) Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

All public sector officials including internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.<sup>10</sup>

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## Internal Auditing Professional Practices Framework

### Core Principles for the Professional Practice of Internal Auditing

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement

**Council's values:** – Ownership – Openness & Honesty – Involvement – Fairness & Respect

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<sup>10</sup> Information can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)