



Classification	Item No.
Open	

Meeting:	Audit Committee
Meeting date:	25 th January 2021
Title of report:	Internal Audit Improvement Plan Update
Report by:	Interim Director of Financial Transformation
Decision Type:	Council
Ward(s) to which report relates	All

Executive Summary:

This report sets out the Internal Audit Improvement Plan Update and the next steps for the service.

Recommendation(s)

That:

- Members note the current status of the Internal Audit Improvement Plan and the progress made and the next steps to ensure its completion.

Key Considerations

1. BACKGROUND

- 1.1 The Council commissioned an independent high level review of the arrangements for Internal Audit within the Council. The review used a mixture of desktop review of key, standard documentation and on-site interviews and review to determine the current state of Internal Audit against best practice and the requirements of the Public Service Internal Audit Standards (PSIAS).
- 1.2 The Final Report identified 14 key lines of enquiry and contained an Action Plan for managers. The report was presented to the Audit Committee in July 2020 and the Action Plan is attached as Appendix 1, which sets out the current status of the agreed actions and the next steps.

2. ISSUES

- 2.1 The independent report highlighted the need to deliver an effective compliant service within the Council but there were a number of historic, operational and cultural factors within both the team and the wider Council that inhibit the effectiveness of the team. The factors identified included:
 - Little evidence that audit planning is structured, risk-based and contributing to an improvement in the overall control framework
 - No evidence that the learning from individual audits is captured and shared with the wider organisation
 - Little evidence of value or worth placed by the wider organisation in the work of Internal Audit
 - No provision for follow up activity to ensure that recommendations are implemented, with no consequence for non-implementation.
- 2.2 In summary there is good progress on all the agreed actions but some further work is required to fully complete some of the agreed matters. This is linked to the need to embed the required change, supported by cultural shift and the interdependency with organisational resource review.
- 2.3 As set out in the Annual Governance Statement Action Plan update report also included on this Audit Committee agenda, the Internal Audit function continues to develop in accordance with the approved plan and the Public Sector Internal Audit Standards (PSIAS).
- 2.4 At the high level, key achievements to date include the following:
 - Significant developments to the process for stakeholder engagement, which also provides benefits to the audit clearance process and the ability to develop audit plans.
 - Further improvement to Audit Reports and the audit opinion, action prioritisation process.

- Refinements to the Quality Assurance Improvement Programme (QAIP) to support further developments to audit report quality.
- Opportunities for training and support continue to be provided to the team and the Internal Audit Manager, who has commenced consideration of the 2020/21 Head of Internal Audit Opinion. The development of the 2021/22 Internal Audit Plan has commenced and will be reported to the meeting of the March 2021 Audit Committee.
- This development work will continue in accordance with the plan and professional standards.

2.5 For assistance, Appendix 1 adopts a “traffic light system” to indicate the current status of each agreed action to communicate the overall health of the project /plan health. This Blue, Red, Amber, Green (BRAG) status reporting is defined as shown in the table below/overleaf:

BRAG Status	Definition	No.	Action Summary
	Action as set out is fully complete. Any next steps associated with this matter will be captured in service plans and/or corporate transformation programme.	2	<ul style="list-style-type: none"> • Audit Report review complete, format to be added to Audit Manual, further staff training to be conducted. • Head of Internal Audit support to develop year end opinion.
	Active action but some matters require further attention to fully realise the benefits.	3	<ul style="list-style-type: none"> • QAIP ** has been refined and will benefit from full implementation, documentation, staff training. • Review of agreements with Council companies is underway and further review is required. • Options to deliver the member/officer governance awareness / development programme to be reported to the Audit Committee.
	Active action which is on track to be completed.	9	<ul style="list-style-type: none"> • 2021/22 Internal Audit Plan requires full engagement with Directorate/service managers. • Role of the Head of Internal Audit to be reviewed as part of the Finance re-structure. • Risk based approach to the 2021/22 Audit Plan has commenced and the proposed plan will be reported to the Audit Committee. • This will facilitate the audit resource/skill set review. • Corporate Risk Register is being embedded and further work will consolidate with the CCG risk register will be finalised. • Consultancy days will be included in the Audit Plan in accordance with PSAIS. • Key performance indicators to be finalised for review.

BRAG Status	Definition	No.	Action Summary
			<ul style="list-style-type: none"> • LGAN self-assessment to be reported to the Audit Committee in March 2021. • The formal appraisal of the Head of Internal Audit will include feedback from the Audit Committee chair in 2021/22.
	Active action but some delays and corrective action is being agreed.	0	<ul style="list-style-type: none"> • N/A
	Total Actions	14	

** QAIP is the Quality Assurance Improvement Programme as required by PSIAS

- 2.6 Therefore, further refinement continues to Internal Audit processes to facilitate improvement to the assurance framework, including the awareness and knowledge of the audit assurance process by stakeholders. This will support improved internal control across the organisation and lead to improve audit opinions.

3. CONCLUSION

- 3.1 The recommendations in the independent report identified 14 recommendations which, once implemented would facilitate significant improvement to the issues identified. However, some of the issues require cultural change, and will require a structured process of addressing organisational understanding of the role of Internal Audit, its consultancy capability and opportunity to support the delivery of the Council's wider governance objectives.
- 3.2 The Council continues to be committed to improving its governance arrangements. The current status of the agreed actions is show above and set out in Appendix 1. In addition to this, Internal Audit will also benefit from the wider governance review and progress is being reported to the Audit Committee on a quarterly basis as part of the routine monitoring.
- 3.3 In summary there is good progress on all the agreed actions and the next steps for the service have been identified and are underway.

Community impact / Contribution to the Bury 2030 Strategy

Ensuring compliance with Financial Procedures and Policies

Equality Impact and considerations:

24. *Under section 149 of the Equality Act 2010, the ‘general duty’ on public authorities is set out as follows:*

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*
25. *The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services.*
-

Assessment of Risk:

The following risks apply to the decision:

Risk / opportunity	Mitigation
The Internal Audit Improvement Plan sets out the potential associated with the actions.	The Internal Audit Improvement Plan sets out the actions which are considered to be the proposed mitigations.

Consultation:

N/a

Legal Implications

The Council must have a sound system of internal control which facilitates the effective exercise of its functions, including risk management. This is both a legal requirement and a requirement of the Financial Regulations set out in the Council’s

Constitution. This report provides information on the work of the Council's Internal Audit Service, in ensuring compliance.

Financial Implications

There are no financial implications arising from this report. The work of the Internal Audit Service, however, supports the governance framework and the work on business grants has also ensured that the risk of fraud to the Council is minimised. The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires authorities to "make arrangements for the proper administration of their financial affairs".

Regulation 6 of the Accounts and Audit (England) Regulations 2011, more specifically requires that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

Report Author and Contact Details:

Lisa Kitto, Interim Director of Financial Transformation
Email: l.kitto@bury.gov.uk

Background papers:

Annual Governance Statement 2019/2020

Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning
CIPFA	Chartered Institute of Public Finance and Accountancy
AGS	Annual Governance Statement
QAIP	Quality Assurance Improvement Programme as required by PSIAS
LGAN	Local Government Application Note

High Level Review of Internal Audit: Action Plan Status Report

Ref	Recommendation	Response	Deadline	Lead	Progress Report to Audit Committee		BRAG Status ***
					As at 30.09.20	As at 14.01.21	
1.	<p>Internal Audit should use the additional time afforded by the delay in the production of the Internal Audit Plan for 2020/21 to effectively engage with those charged with governance and the wider Council to raise awareness of:</p> <ul style="list-style-type: none"> The statutory role of Internal Audit. The ability of audit to deliver consultancy within the organisation Identify opportunities to impact the overall control framework/governance within the Council. 	<p>Work was commenced to address this point. Interim Director of Financial Transformation and Acting Head of Internal Audit started to attend the Departmental Management Team meetings to engage with the team, raise awareness of Internal Audit and gather information for the 2020/21 Audit Plan.</p> <p>COVID-19 has impacted with new working arrangements being set up, majority of staff now required to work from home.</p> <p>This issue needs to be progressed as new working arrangements embed.</p>	On-going – with a view to be fully implemented by 31/03/2021.	Interim Director of Financial Transformation and Acting Head of Internal Audit	On-going.	<p>Engagement process has commenced by way of improved communication with key stakeholders to finalise current audits.</p> <p>Next steps:</p> <ul style="list-style-type: none"> Meetings with senior managers and Departmental Management Teams (“DMTs”) to discuss role of IA, 2021/22 service based plans 2021/22, and to secure manager feedback. 	
2.	Review the role of the Head of Internal Audit (HIA) in the context of wider governance and the potential restrictions that the current arrangements may have on the ability of the team to impact, positively, wider control.	The role of HIA is currently under review as part of the Finance Department Restructure.	TBC	Interim Director of Financial Transformation	Role currently being reviewed as part of Finance Department re-structure exercise.	<p>This is underway.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> Link to Governance review, and CIPFA’s role of the HIA. Develop and incorporate into Finance restructure, 	

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					As at 30.09.20	As at 14.01.21	
						<p>currently underway for 2021/22.</p> <ul style="list-style-type: none"> Role accountabilities, reporting arrangements and skills to be reviewed. 	
3.	Develop a risk-based methodology to ensure and evidence that the Audit Plan is evidentially risk-based and delivering the right audits to deliver maximum contribution to overall control.	<p>The 2020/21 plan is partially based on the organisation's risks. The exercise proved difficult as risk registers for the organisation were found to be lacking in detail.</p> <p>The methodology for developing the audit plan is constantly under review and progress is being made to ensure the three line of defence model is introduced in the organisation and future Internal Audit Plans.</p>		Interim Director of Financial Transformation and Acting Head of Internal Audit	No update reported.	<p>Under consideration for 2021/22.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> 2021/22 Audit Plan development framework being finalised. Audit resources link to Finance restructure which is underway for 2021/22. 	
4.	Review the structure/available resources for Internal Audit in context of the delivery of a risk-based Plan for 2020/21. In other words determine on a risk basis the audits that the organisation needs and then review available resources against this requirement	The Structure of Internal Audit is currently under review as part of the restructure exercise across the Finance Department.	TBC	Interim Director of Financial Transformation.	Internal Audit Team Structure is currently under review. Audit plan developed and approved by Audit Committee using resources currently available.	<p>As 3. above, the 2021/22 Internal Audit Plan is being completed. The suite of corporate risk registers will support this assessment of risk for the audit planning process.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> Link to Finance restructure 	

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					As at 30.09.20	As at 14.01.21	
						<p>which is underway for 2021/22.</p> <ul style="list-style-type: none"> • Risk Registers are subject to regular review. 	
5.	To support the development of a risk-based Internal Audit Plan, undertake a detailed and evidence-based assurance mapping exercise to ensure that the right level of resource is applied to the areas of most significant risk.	An allocation of time has been included in the 2020/21 annual audit plan to commence an assurance mapping exercise across the Council.	31.3.2021	Acting Head of Internal Audit		<p>The development of the 2021/22 Internal Audit Plan is underway. The suite of corporate risk registers will support this audit planning process.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> • Outcome of Risk Register workshop with Executive Team (11.01.2021), to plan further activity. • Assurance mapping to be conducted to develop the 2021/22 IA Plan for review by DMTs and the Council's Audit Committee in March 2021. 	
6.	Develop a process of quality assurance the Quality Assurance Improvement Plan (QAIP), review	Agreed.	31.3.2021	Interim Director of Financial Transformation	Interim Director of Transformation	The QAIP process requires further refinement.	

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	and training that enables a rigorous challenge of findings, assumptions and recommendations to ensure that all audits deliver maximum impact for the wider Council.			and Acting Head of Internal Audit	undertakes a final review of draft reports before they are issued to the client.	<p>Whilst some actions have already been implemented (as per the AGS Action Update Report), the Acting Head of Internal Audit should document the processes and provide support and training to the IA team to facilitate change.</p> <p>Next Steps: The final stages of the QAIP review will be implemented in Q4 2020/21. This will be documented in the Audit Manual in 2021/22.</p>	
7.	In developing the 2020/21 Plan for May this year, consider an appropriate allocation of days for consultancy activity to support the Council's achievement of its wider corporate objectives.	The annual plan for 2020/21 includes a provision for consultancy. An allocation of 20 days has been provided.	Actioned	Acting Head of Internal Audit	No update provided.	<p>The development of the 2021/22 Internal Audit Plan is underway. The plan will incorporate appropriate consultancy activity. The suite of corporate risk registers will support this audit planning process.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> • Link to Corporate risk 	

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						registers, which are being refined.	
8.	Review the structure, narrative and impact of Audit reports including the requirement/desire to include all low-level recommendations as formal recommendations.	The audit report format has been reviewed and changed. The narrative associated with recommendations has been changed, (Fundamental, Significant and Merits Attention) and it is proposed that only fundamental and significant recommendations are followed up to ensure that these have been implemented.	Actioned	Interim Director of Financial Transformation and Acting Head of Internal Audit		<p>Completed for 2020/21 Audit Reports and to be applied for future reports.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> • Ensure that 2021/22 Audit Reports reflect the new structure, format, etc. • Report format will also be added to Audit Manual and to form the basis of training to the IA Team. 	
9.	<p>The Internal Audit service has a commercial, contractual arrangement with two Council owned companies. In delivering this service, the team need to consider its own commerciality. It needs to be clear on cost per unit, cost per day, delivery within budget and cost/process for the commissioning of additional days.</p> <p>It should ensure that value for money is demonstrable on behalf of the companies and there should be clear separation between the</p>	Agreed. The current arrangements will be reviewed.	31.3.2021	Interim Director of Financial Transformation and Acting Head of Internal Audit	SLA Agreement is currently being reviewed.	<p>This is underway and will be completed for 1 April 2021 with support from key stakeholders.</p> <p>Next steps:</p> <p>Review 2020/21 activities, costs and the use of IA resources.</p> <p>Ensure support from legal colleagues to</p>	

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	contracted work from the companies and the need to deliver assurance on behalf of the client, the Council.					ensure consistency with other Council regulatory services. Review the current agreement for discussion with key stakeholders.	
10.	<p>In reviewing its key performance indicators, it is suggested that the following indicators should be retained or developed as part of this review:</p> <ul style="list-style-type: none"> Elapsed time – this is start and finish time of the audit assignment overall and reflects the value of an audit being completed within an appropriate timescale. Implementation of recommendations – although the implementation of recommendations is not the responsibility of Internal Audit, this measure is more reflective of the impact of Internal Audit on the control environment, the quality of its recommendations and highlights where managers have failed to implement. It also links into our suggestion of the review of the ‘follow up’ of recommendations Plan delivery – a measure of progress that enables regular discussion about factors such as resourcing that impact on 	<p>The information for KPI’s as recommended is currently collated within the Audit Section and KPI’s have been regularly reported to Audit Committee, although it is acknowledged that the targets for the KPI’s have not been reviewed for a number of years and it is an areas to be reviewed.</p> <p>KPI’s, and the targets set will be reviewed and compared to those collected by other Council’s in the Greater Manchester region. If necessary the PI’s calculated will be changed to reflect the current approach in other Council’s.</p>	31.3.2021	Acting Head of Internal Audit	<p>Contact made with other GM Authorities to request details of PI’s provided to Audit Committee. Results to be analysed and compared to Bury Council PI’s and proposal of revised PI’s to be put forward via S151 Officer and Chair of Audit Committee.</p>	<p>The development of a suite of suitable PIs is underway and will be implemented for monitoring during 2021/22.</p> <p>Next Steps:</p> <ul style="list-style-type: none"> Review PSAIS requirements, obtain feedback from other GM authorities and review reports to respective Audit Committees. Develop a suite of PIs for review by key stakeholders and approval by the Audit Committee. 	

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	<p>the delivery of Plan</p> <ul style="list-style-type: none"> • Delivery within planned days – a measure that highlights the ability to plan and deliver the time allocation for audits appropriately • Draft to Final Report turnaround – again not all in the gift of Internal Audit but a useful measure to highlight where any 'sign-off' blocks exist and that the Final report is the key audit 'product'. 						
11.	Ensure that the Head of Internal Audit is supported to provide a true and fair annual report and opinion that is supported by clear actions and accountability.	An annual report for 2019/20 has been produced by the Audit Manager and this was reviewed and supported by the Temporary Deputy Director of Finance and the Director of Finance (S151) officer.	Complete for 2019/20, however acknowledge continually review for the 2020/21 audit year.	Interim Director of Financial Transformation		<p>The process to prepare the 2020/21 Annual Opinion has commenced including securing feedback and best practice feedback from CIPFA and other technical bodies.</p> <p>The Head of Internal Audit attended a CIPFA Webinar on this matter in December 2020.</p> <p>Next steps:</p> <ul style="list-style-type: none"> • Report any potential issues, opinion limitations to the Audit Committee early. Draft 2020/21 	

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					As at 30.09.20	As at 14.01.21	
						Opinion for Audit Committee in May 2021.	
12.	Review the 2016 review action plan to ensure that actions have been completed. Commence preparations for the 2021 review by completing the Local Government Application Note (LGAN) self-assessment.	The 2016 action plan will be reviewed to identify recommendations made and any resulting action taken. The self-assessment against the LGAN and PSIAS will be undertaken.	31.10.20 26.2.2021	Acting Head of Internal Audit	Currently reviewing the 2016 action plan.	This is underway as is now included as part of the LGAN self-assessment. Next steps: LGAN self-assessment to be reported to a future meeting of the Audit Committee, as part of the Review of Internal Audit.	
13.	Consider the development of an officer/Member governance awareness and development programme to ensure that mutual roles and responsibilities are understood and delivered in a way that supports the wider governance framework.	Recommendation agreed	31.3.2021	Interim Director of Financial Transformation and Acting Head of Internal Audit	Underway.	This is underway. Next steps: • Options and next steps to be reported to the Audit Committee on 25 January 2021.	
14.	In order to inform the annual appraisal of the Chief Audit Executive a formal process should be established to obtain appropriate feedback from the Audit Committee Chair.	Recommendation agreed	31.3.2021	Interim Director of Financial Transformation	Underway.	Plans to obtain feedback for 2020/21 are underway and the process will be further developed in 2021/22. Next steps: Obtain feedback for	

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						2020/21 and development needs/ actions points for 2021/22.	