

## **Report of the Assistant Director Finance and Procurement to the meeting of Governance and Audit Committee to be held on 19 April 2018**

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### **Subject:**

Internal Audit Peer Review – April Update

### **Summary statement:**

This report provides an update on the actions being taken to address the recommendations of the Internal Audit Peer Review reported at the March 2018 meeting.

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**Overview & Scrutiny Area: Corporate**



## 1. SUMMARY

This report provides an update on the actions being taken to address the recommendations of the Internal Audit Peer Review reported at the March 2018 meeting.

## 2. BACKGROUND

During January 2018, the Council's Internal Audit function was peer reviewed by colleagues from Doncaster Council to assess compliance with the Public Sector Internal Audit Standards (PSIAS). The findings of this review were presented to Governance and Audit Committee on 22 March 2018.

The review found that the Internal Audit service was rated as 'partially conforms' against the standards and provided the Council with 15 recommended actions for improvement. The key reasons for the 'partially conforms' rating were:

- the low level of audit resource employed by the Council,
- the percentage completion of the Bradford Council element of the audit plan at the time of the review (46% at January 2018),
- the impact of other duties on the role of the Council's Head of Internal Audit (HoIA), and that safeguards to preserve audit objectivity and independence are not reported annually as expected by the Standards,
- that some audit documentation was in need of updating and some reporting requirements were not met,
- the annual audit opinion given by the HoIA does not explicitly include a conclusion on risk management or governance arrangements, as required by the Standards.

In agreeing to the recommendations of the report, Members of the Committee resolved that an update be provided to this meeting, with particular reference to Recommendation 1 around audit resources, with a further schedule of updates for future meetings to be agreed.

## 3. PROGRESS UPDATE

### Audit Resources

The peer review cited *"notably limited resources and this will be exacerbated when an assistant manager leaves the service in the near future to take up a promotion gained elsewhere. There is an ongoing risk that the service could be unable to carry out sufficient work to enable the HoIA to give a full opinion required by the Standards."*

As at 31 March 2018, the Council's Internal Audit team comprises 9.12 Full Time Equivalent (FTE) posts, including the now vacant Assistant Audit Manager post (referenced above) at 0.93 FTE. This is broken down across the following job roles:

	<b>FTE</b>
Head of Internal Audit & Insurance	1.00
Audit Manager	1.70
Assistant Audit Manager	1.93
Senior Auditor	3.49
Auditor	1.00
<b>Total Budgeted FTE's</b>	<b>9.12</b>

The Assistant Director Finance & Procurement reported at the March Committee meeting that the service budget was being assessed for capacity that could be redirected to allow for an increase in staffing numbers and therefore the available audit days that the 2018/19 audit plan can be formulated on. The Committee were also advised that the reason the now vacant 0.93 FTE Assistant Audit Manager hadn't been recruited to immediately was that consideration was being given to whether a like for like replacement should be sought or if an increase in the number of Senior Auditor roles was more appropriate.

Since the peer review report was presented, a formal request for flexible retirement has been submitted by a Senior Auditor in the team, which would correspond to a 0.4 FTE reduction. Clearly this will place further strain on the resource position and will be held in abeyance pending developments on recruiting to new posts.

With these points in mind, funding has been identified that will allow the service to recruit 1.0 FTE Assistant Audit Manager (to replace the vacancy) and 3.0 FTE Senior Auditor posts. Recruiting to these posts requires internal consultation with the Trade Unions and following agreed vacancy management procedures. The recruitment to the new posts would lead to a net increase of approximately 500 extra audit days above the resources provided by the current establishment, the usage of which will be formalised as part of the Audit Plan report due at the next committee meeting.

Furthermore, work is ongoing as to whether the wider service can utilise the apprenticeship levy to support the introduction of accountancy traineeships which would create more audit resource as part of any training programme and whether provision can be made for one off audits where appropriate expertise isn't available in house.

#### Audit Plan Completion at 31 March 2018

Building on the finding reported above, the peer review also drew attention to the following in making conclusions on resourcing levels: *“Only 46% of the mainstream Bradford Council block of the overall audit programme was complete at January 2018. It is noted that other blocks of the overall audit programme – i.e. Schools, Grants, Pension Fund were much further progressed and, when taking these into account, the progress in completing the overall audit programme was 62%.”*

In terms of updating this position, it can be confirmed that 81% of the audit programme had been completed by 31 March 2018, including 60% of the Bradford Council block. By contrast, in 2016/17 89% of the audit programme had been completed by 31 March 2017, which included 67% of the Bradford Council block.

#### Safeguards

With regard to safeguards around objectivity and independence, the peer review reported

concern around some audit team members working on non audit activity and there being no formal reporting around the separation of duties of the HoIA and their other service management responsibilities.

Whilst the Annual Audit report by the HoIA in July will normalise these arrangements, it is appropriate to report these safeguards to the committee at this early opportunity:

- Auditors carrying out non audit work has ceased immediately.
- For other areas managed by the HoIA:
  - Audits to be planned are determined by the Audit Manager and agreed with the s151 Officer.
  - During 2017/18, risk and insurance audits have been carried out that were completed by an Assistant Audit manager, reviewed by the Audit Manager, and reported directly to the s151 Officer.
  - For each audit carried out, there is a potential conflict of interest declaration, which is used to allocate audits appropriately.

### Reporting to Management

The peer review cited the lack of formal reporting to Corporate Management Team (CMT). There will be three regular audit reports submitted to the Committee during 2018/19 beyond any further subject specific items, including in relation to outcomes from the peer review. In line with our response to the review, arrangements will be put in place to ensure these are reported to CMT, including the provision of any comments form that forum for the consideration of the committee. The reports and anticipated reporting dates are:

	CMT	GAC
Audit Plan	4 July 2018	July 2018
Annual Audit Report	4 July 2018	July 2018
Mid Year Report	7 November 2018	November 2018

### Future Updates

Future written updates to the committee, which will track progress against the peer review recommendations, will be supported by an appendix demonstrating this and any emerging risks/issues related to each. It is recommended that these written updates are reported to the committee at its July, September and November meetings throughout 2018.

## **4. FINANCIAL & RESOURCE APPRAISAL**

The report refers to budgetary movements within the overall Finance & Procurement budget and the addition of employees to the establishment which are affordable within the approved cost envelope for 2018/19.

## **5. RISK MANAGEMENT AND GOVERNANCE ISSUES**

The peer review report highlights where the Council's Internal Audit function and practices can be improved. As a professional, independent and objective Internal Audit service is

one of the key elements of good governance in Local Government, it is clearly important that the recommendations are implemented to ensure the Council's governance environment remains strong.

## **6. LEGAL APPRAISAL**

There are no legal implications.

## **7. OTHER IMPLICATIONS**

There are no other implications.

## **8. RECOMMENDATIONS**

That Members note the latest update on progress against the key recommendations of the peer review and agree that further written updates will be received by the committee in July, September and November.

## **9. APPENDICES**

None.

## **10. BACKGROUND DOCUMENTS**

- Internal Audit Peer Review – Governance and Audit Committee Report and Appendix, 22 March 2018 (Doc AH)