Report of the Audit Committee Task Group review of Internal Audit project procedures and reporting

Purpose of report

To invite the Audit Committee to note the findings and conclusions of the Task Group and to seek the Committee's approval of the recommendations contained in the Group's report.

Introduction

The Audit Committee set up a Task Group to examine Internal Audit (IA) processes, documentation and its reporting to the Audit Committee.

The Task Group consisted of Councillors Britton, Jenkins, Oldrieve and Pollitt.

On Wednesday 27th November Councillors Britton, Jenkins and Pollitt received a presentation from David Hill, Suella Coman and Denise Drew from SWAP's Wiltshire Council IA team. The excellent comprehensive presentation covered the sequence of events and documentation around the definition and the actual conduct of an IA review. The Task Group received specimen documentation and had a wide-ranging discussion of the format of IA reports to the Audit Committee.

Executive Summary

Conclusions:

1. The Task Group agrees with our external auditors that IA projects appear to be professionally conducted and soundly managed.
2. The present arrangements for reporting the progress of IA projects do not allow the Audit Committee effectively to monitor the progress of the overall IA programme.
3. The current arrangements for the reporting of IA projects and their outcomes to the Audit Committee do not form a satisfactory basis on which the Committee can satisfy itself that IA is delivering value for money in terms of resulting in actual improvements to Wiltshire Council's systems, procedures and processes.
4. The Audit Committee needs to be better placed to judge the extent to which IA recommendations are implemented as being the best measure of whether or not IA delivers value for money.

Recommendations:

1. The current IA reports to the Audit Committee should be replaced with a new reporting format based on the grouping of projects by their current status.
2. The Audit Committee should receive a separate report of Levels 3, 4 and 5 recommendations which are not accepted by management.
3. The management of functional areas where IA have made recommendations of level 3, 4 or 5 in importance should, within three months of IA's Final Report, report to the Audit Committee their progress in implementing those recommendations.

Review of IA project procedures

The SWAP team described two projects to the Task Group: Disabled Facilities Grants and Contract Monitoring in Children's Centres.

We received an explanation of the various stages of the IA process from project specification through to Final Report sign-off and were given samples of some of the documentation produced at each stage.

We looked at the sophisticated planning and project software (MKInsight) in use although we noted a potential weakness in that after scoping a project the system relies on the completion of a manual form to then transfer data to the project management database. We understand this matter is being addressed to ensure that common data is used throughout.

Although we have not been present at any actual project management and review meetings the software, documentation and processes described to us seem comprehensive and effective in providing a sound basis for:

- Proper project management
- Effective client communications
- An audit trail

Such a brief and limited review is insufficient to enable us to give the Audit Committee total and unlimited reassurance that every aspect of the performance of IA projects and their management is sound and flawless. However, we formed a favourable opinion of the overall processes, documentation and management and found no reason to express any concerns.

Overall we share our external auditors' view and **conclude** that the Audit Committee can be reassured that IA projects appear to be professionally conducted and soundly managed.

Audit Committee responsibilities for Internal Audit

The Task Group considers that the Audit Committee has (or should have) the following specific functions and duties regarding the Internal Audit function. It should be in a position to:

- agree an annual programme of IA projects and satisfy itself that the projects are selected in accordance with the perceived risk associated with the particular departments/processes selected for review;
- ensure that the programme includes reviews of the key financial controls and processes to be relied on by our external auditors;
- monitor the progress of the delivery of that programme;
- be satisfied that IA reports will highlight key risks and weaknesses;
- understand the extent to which IA recommendations are being acted upon;
- satisfy itself that the IA function is delivering value for the public money being spent on this activity.

Value for money from IA projects

The Task Group recognises that the findings of some aspects of IA projects is relied upon by our external auditors and, presumably, is therefore 'justified' by economies in that latter function. This has, however, not been evaluated.

Value for money from IA will also be delivered through:

- Continuous improvement in the way Wiltshire Council does business
- Reduced risk
- Increased assurance and confidence in the integrity of its processes and staff

The Audit Committee must be in a position to satisfy itself that these objectives are being delivered through IA findings and recommendations being acted upon by management wherever they are agreed as appropriate.

Current IA reporting to the Audit Committee

The Task Group considers that the current reports do not provide a proper basis for the Audit Committee to fulfil its responsibilities as described above.

1. The current date-based list of projects and project progress does not highlight projects where there are issues and problems to be explored: delays, deferral, late starts, staffing issues and so forth. They require Audit members to do a considerable amount of analysis – comparing due dates and actual – to spot any current or emerging problem areas.

   We conclude that the current reporting arrangements do not allow the Audit Committee properly to monitor the overall progress of the IA programme.

2. Although the list shows for each completed project the numbers of recommendations in the various degrees of perceived importance the Audit Committee cannot see what, if any, action is then taken by management to implement those recommendations – even if they are agreed.

   If IA was making numbers of recommendations which are not being implemented (even where agreed) then, through no fault of its own, IA would not be providing value for money. This aspect is largely invisible to the Audit Committee.

   We conclude that the current reporting arrangements do not allow the Audit Committee to satisfy itself that IA is providing value for money in terms of the actual delivery of improved and/or more secure processes.

IA reporting to Audit Committee – proposals

1   Overall programme delivery

We **recommend** that the current date-based project reporting sheets are replaced with a format which provides the Committee with a more meaningful and easily-interpreted overall picture of progress and which highlights problem areas which members might wish to query.

This could be achieved by listing projects according to their status, for example:

> Projects underway but on schedule and nothing to report
> Projects underway but running late (reasons and dates)
> Projects due but not yet started (reasons)
> Projects cancelled (reasons)
> Projects deferred (reasons)
> Projects at Draft Report due date/delivered date (date for Final)
> Projects at Final Report (ie agreed by management) with due date, actual date and numbers of recommendations (by importance)
> Projects programmed but not yet started (with a start date)

An outline of such a format is attached as an appendix to this report.

We also **recommend** that the Audit Committee receives a separate report ("Recommendations not accepted") of projects at Final Report where management has rejected IA recommendations of levels 3, 4 or 5 in Importance and which:

- Are in a High or Medium Risk category and/or
- Receive a No Assurance or Partial Assurance rating

The report to explain why IA recommendations are not agreed by management.

2   Value for money from IA

Clearly if large numbers of IA recommendations were being rejected by management for entirely sound reasons then there would be a question over whether or not IA was delivering proper value for money (other than in those areas relied upon by our external auditors).

The "Recommendations not accepted" report described above will help the Audit Committee to judge this although it will not identify levels 1 and 2 recommendations being rejected.

However if large numbers of <u>agreed</u> IA recommendations are not being implemented then, through no fault of IA, the organisation would also not be getting value for money.

IA usually only conducts follow-up reviews six months after their Final report stage – and then usually only of High Risk or projects resulting in No Assurance or Partial Assurance.

The Task Group **concludes** that the Audit Committee should be better placed to judge the extent to which IA recommendations are being implemented. Waiting for six months to see only a limited number of follow-up reports is inadequate.

We **recommend** that management of any functional area where the IA report contains recommendations of levels 3, 4 or 5 in importance should be required within three months of the IA Final Report to report to the Audit Committee the progress in implementing those recommendations.

Confidentiality

The Task Group accepts that it might not be appropriate to make public some aspects of IA's work and conclusions. However, we see no reason why those items should not simply be

reported as Part II matters. The reports described and referred to above should provide an explicit reference to "Part II".

Councillors Richard Britton, David Jenkins, Stephen Oldrieve, David Pollitt

28th November 2013