



Chelmsford City Council Audit and Risk Committee

22nd January 2025

Internal Audit Interim Report 2024/25

Report by:

Audit Services Manager

Officer Contact:

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Purpose

This report summarises the work that Internal Audit has undertaken from April to December 2024 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council. It also provides an update on Internal Audit's preparation for the new Global Internal Audit Standards.

Recommendations

Audit and Risk Committee are requested to note the contents of this report.

1. Introduction

- 1.1. The audit plan for 2024/25 was approved by Audit and Risk Committee in March 2024.
- 1.2. Current resourcing is as follows:
 - 1.0 FTE – Audit Services Manager
 - 1.5 FTE – Senior Auditor
- 1.3. We are on track to complete the audit plan by end of March 2025, taking into consideration any high priority/urgent pieces of work which require accommodation, as discussed and agreed with management.

2. Conclusion

2.1. The Internal Audit Interim Report 2024/25 is attached for Audit & Risk Committee to note.

List of appendices:

Appendix 1 - Internal Audit Interim Report 2024/25

Background papers:

None

Corporate Implications

Legal/Constitutional: The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015).

Financial: None

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Risk Committee, management and outside parties (e.g. External Audit) on the adequacy and effectiveness of governance, risk management, and control process for Chelmsford City Council.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees:

Noted by Management Team January 2025

Relevant Policies and Strategies:

None

Internal Audit 2024/25 Interim Report (April to December 2024)

1. Audit Output Summary: April to December 2024

1.1. Work Completed

Report Title	Assurance Rating	High	Medium	Low	Key Issues Arising
Officer and Member Conflict of Interest	Limited	3	3	0	<p>The assessment of the framework around officer conflicts of interests identified high priority findings in relation to staff awareness, assessing and mitigating the risks arising from declarations, and improving Council policy. A further medium priority recommendation was made regarding simplifying declaration routes.</p> <p>Due to the level of inherent risk associated with the potential for bribery and corruption involving staff with more significant financial or other decision-making powers, a limited assurance opinion was provided although it should be noted that no concerns relating to actual or perceived conflicts were identified during the audit.</p> <p>The roll out of anti-bribery and corruption training across the council in 2024 alongside the new anti-bribery and corruption risk assessment should support improvements in the control framework in this area. Other management actions already in progress include the soft launch of the online declaration of interest form in January.</p>
Corporate Approach to Additional Hours (Overtime)	Management Letter (indicative limited)	3	0	0	<p>While it is understood that services have different requirements for the use of additional hours and therefore manage this locally accordingly, some areas of risk have been identified including policy and procedures, management of hours and management information.</p>
Internal/External Communications	Moderate	1	1	1	<p>One high priority finding was identified relating to the monitoring and management of social media accounts, including access restriction, managing the risk of unofficial/ duplicate social media accounts and methods of posting to the Council's official channels. One medium priority finding was identified relating to the internal agreement of communications.</p>
Licensing	Moderate	0	2	1	<p>No high priority findings identified. Two medium priority findings related to the public register and management reporting.</p>

1.2. Follow Ups - Completed

Audit Title	Key Findings
Museum (<i>Limited</i>)	<p>In the previous report, seven recommendations (three high and four medium priority) were made. Based on the evidence presented, our follow up audit confirmed that two high priority recommendations have been implemented, one high priority recommendation relating to the Museum catalogue has not been implemented and four medium priority recommendations (relating to insurance, acquisitions, policies and procedures and security of assets) have been partially implemented. The full implementation of the recommendations has been delayed due to staff turnover, however, they are due to be completed by end of January 2025.</p> <p>The findings from the original audit were indicative of a 'limited' assurance opinion. Although progress has been made, as five recommendations (including one outstanding high priority) have not yet been fully implemented, the assurance level remains at 'limited'. We will undertake a further follow up review in April 2025 to assess the progress of implementation of these outstanding actions.</p>
UKSPF (<i>Substantial</i>)	<p>In the previous report, one medium recommendation relating to monitoring and reporting was made. Based on the evidence presented, our follow up audit revealed that this has now been implemented.</p>

1.3. Audit Plan - Work in Progress as at December 2024

Audit Title	Status
Key Financial Systems (Accounts Payable; Debtors and Housing Benefits)	Report due January 2025.
Building Control	Report due January 2025.
Hylands House	Review of the operational and financial arrangements at Hylands Estate, including corporate sales and hires. Report due January 2025.
Payroll (Data Analytics)	Review of the key Payroll controls within the Council's iTrent System using Data Analytics testing to give assurance on the effectiveness of these controls, with a specific focus on anti-fraud controls. Following the data analysis by PWC completed in December 2024, Internal Audit will follow up on any risk-based exceptions highlighted.
Use of Off-Payroll Workers	Review of the Council's arrangements for engaging off-payroll workers. Report due January 2025.
Decision Making	Review of the effectiveness of the Council's approach to strategic decisions, including assessing democratic reporting processes and key officer oversight. Report due January 2025.
Cyber Security and Data Breaches	Review of review the Council's control environment in relation to cyber security and data breaches. Report due February 2025.

1.4. Work Scheduled to 31st March 2025

Audit Title	Indicative Scope
Emergency Planning & Business Continuity	Review of the Council's Business Continuity and Emergency Planning arrangements.
Volunteers	Review of cross-service compliance with the Council's Volunteering Policy.
Safeguarding & Modern Slavery	Review of the Council's arrangements for Safeguarding and Modern Slavery.
Corporate Property	Review of governance arrangements for Council's Corporate Property.
Health and Safety	Review of the arrangements for monitoring, oversight and reporting of operational risks such as results of Health and Safety and Fire Risk Assessments.

1.5. Follow Ups scheduled to March 2025

Original Audit Title	Original Assurance Rating
Housing Rents	Management Letter (indicative limited)
Project Management Governance	Management Letter (indicative limited)
Procurement	Moderate
Safer Recruitment	Moderate
Members Allowances and Expenses	Moderate
Key Financial Systems - Council Tax and Housing Benefit	Moderate
Theatres	Moderate
Parks and Open Spaces	Substantial
Council Surveillance	Substantial

The recommendation of including awareness of the Bribery Act in staff training and awareness made in audit reviews of Planning, Waste and Recycling, Environmental Health and On Street Parking will be implemented following the roll out of wider corporate anti-bribery training.

1.6. Deferrals/Cancellations due to timing and/or to accommodate other work

These reviews will be covered by the 2025 Audit Plan:

- Affordable Accommodation and Garden Communities (Local Plan)
- Cultural Strategy
- Information Governance
- Financial Resilience
- Car Parks
- Temporary Accommodation
- Community Sports & Wellbeing
- Fleet Management/Vehicle Maintenance
- Climate emergency declaration and action plan
- Air Quality Grant
- Insurance

2. External Quality Assessment

- 2.1 Public Sector Internal Audit Standards requires an external quality assessment (EQA) to be undertaken to provide the Council with an independent opinion about internal audit's conformance with the Standards and Code of Ethics.
- 2.2 It also requires the assessment to be undertaken by a qualified, independent assessor from outside the organisation. Across London, the London Audit Group has organised a system of independent externally validated self-assessments against the standards by suitably qualified individuals. To this end, the review of Chelmsford's internal audit's performance was undertaken by Christopher Martin who is the Head of Assurance for London Borough of Barking and Dagenham.
- 2.3 The review took place in December 2024 and the full report will be presented to Management Team and Audit and Risk Committee in March 2025.

3. Preparation for Global Internal Audit Standards

- 3.1 From 1st April 2025, the current framework for Public Sector Internal Audit Standards will be superseded by new Global Internal Audit Standards (GIAS). This report provides an overview of the new Standards and relevant information for Management Team and Audit and Risk Committee to be aware of.
- 3.2 The new GIAS which will guide the worldwide professional practice of internal auditing, are principle-based, and serve as a basis for evaluating and elevating the quality of Internal Audit. At the heart of the Standards, are 15 guiding principles across five domains that enable effective internal auditing.
- 3.3 Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.



Global Internal Audit Standards

Five Domains, 15 Principles



I. Purpose of Internal Auditing

II. Ethics and Professionalism

1. Demonstrate Integrity 2. Maintain Objectivity 3. Demonstrate Competency 4. Exercise Due Professional Care 5. Maintain Confidentiality

III. Governing the Internal Audit Function

- 6. Authorized by the Board
- 7. Positioned Independently
- 8. Overseen by the Board

IV. Managing the Internal Audit Function

- 9. Plans Strategically
- 10. Manages Resources
- 11. Communicates Effectively
- 12. Enhances Quality

V. Performing Internal Audit Services

- 13. Plan Engagements Effectively
- 14. Conduct Engagement Work
- 15. Communicate Engagement Conclusions and Monitor Action Plans

(Source: Chartered Institute of Internal Auditors)

3.4 Domain I – Purpose of Internal Auditing

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.	
Internal auditing enhances the organization's:	Internal auditing is most effective when:
<ul style="list-style-type: none"> • Successful achievement of its objectives. • Governance, risk management, and control processes. • Decision-making and oversight. • Reputation and credibility with its stakeholders. • Ability to serve the public interest. 	<ul style="list-style-type: none"> • It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest. • The internal audit function is independently positioned with direct accountability to the board. • Internal auditors are free from undue influence and committed to making objective assessments.

(source: Global Internal Audit Standards / CAE's Guide to Domain III)

- 3.4.1 The elements embedded in the Purpose are reinforced throughout the GIAS and therefore will help Management Team and Audit and Risk Committee better understand the essential conditions contained in Domain III as well as the standards that affect the ability of Internal Audit to support organisational success.

3.5 Domain II – Ethics and Professionalism

- 3.5.1 This encompasses Internal Audit's Code of Ethics and Professionalism. It introduces the term 'Professional Courage' i.e. professional discussion and using escalation protocols as appropriate to ensure that the message reaches Management Team and Audit and Risk Committee as appropriate. Internal Audit must also be aware of, and conform with, the ethical standards expected by the profession.

3.6 Domain IV – Managing the Internal Audit Function

- 3.6.1 The Audit Services Manager is responsible for managing the internal audit function in accordance with the internal audit charter and GIAS. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and ensuring and enhancing the performance of the function.

3.7 Domain V – Performing Internal Audit Services

- 3.7.1 Performing internal audit services requires internal auditors to effectively plan engagements, conduct the engagement work to develop findings and conclusions, collaborate with management to identify recommendations and/or action plans that address the findings, and communicate with management and the employees responsible for the activity under review throughout the engagement and after it closes.

3.8 Domain III – Governing Internal Audit

- 3.8.1 The success of the Council's internal audit service requires the support of both Management Team and Audit and Risk Committee. This domain sets out the expectations of the interaction between the Audit Services Manager, Management Team and Audit and Risk Committee and emphasises the critical dialogue that must occur between the parties.
- 3.8.2 The specific Principles and Standards which provide the requirements of the Audit Services Manager and the essential conditions for Management Team and Audit and Risk Committee are:

- **Principle 6 – Authorised by Audit and Risk Committee**

Why it is important: The purpose of this principle is to engage Audit and Risk Committee in establishing the internal audit mandate, thus assuring the service meets the needs and expectations of Management Team and Audit and Risk Committee. Failure to achieve this principle may cause misalignment between internal audit's performance and the expectations of Audit and Risk Committee and/or Management Team, ultimately making it difficult for the internal audit team to achieve the Purpose of Internal Auditing and enhance organisational success.

What it says: Audit and Risk Committee establishes, approves, and supports the mandate of Internal Audit.

- Internal Audit receives its mandate from applicable law and/or regulation i.e. for the Council this is the Accounts and Audit Regulations 2015.
- The mandate specifies Internal Audit's authority, role, and responsibilities and is documented in the internal audit charter.
- The mandate empowers Internal Audit to provide Management Team and Audit and Risk Committee with objective assurance, advice, insight, and foresight.
- Internal Audit carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organisation.

- **Principle 7 – Positioned Independently**

Why it is important: Independence has long been a cornerstone of the internal audit profession and is critical to enabling an effective internal audit function. Failure to achieve this principle may result in an internal audit function that is not adequately positioned to carry out its mandate and support organisational success.

What it says: Audit and Risk Committee establishes and protects Internal Audit's independence and qualifications.

- Audit and Risk Committee is responsible for enabling the independence of Internal Audit.
- Independence is defined as the freedom from conditions that impair Internal Audit's ability to carry out its responsibilities in an unbiased manner.
- Internal Audit can only fulfill the Purpose of Internal Auditing when the Audit Services Manager reports directly to Audit and Risk Committee, is qualified, and is positioned at a level within the organisation that enables Internal Audit to discharge its services and responsibilities without interference.

- **Principle 8 – Overseen by Audit and Risk Committee**

Why it is important: Principle 8 focuses on Audit and Risk Committee's ongoing oversight role to help ensure the effectiveness of Internal Audit. Failure to achieve this principle may result in Internal Audit's performance not remaining aligned with the expectations of Management Team and Audit and Risk Committee, making it difficult for Internal Audit to achieve the Purpose of Internal Auditing and enhance organisational success.

What it says: Audit and Risk Committee oversees Internal Audit to ensure the function's effectiveness.

- Audit and Risk Committee oversight is essential to enable the overall effectiveness of Internal Audit.
- Achieving this principle requires collaborative and interactive communication between Audit and Risk Committee and the Audit Services Manager as well as Audit and Risk Committee's support in ensuring Internal Audit obtains sufficient resources to fulfill the internal audit mandate.
- Additionally, Audit and Risk Committee has the oversight to ensure that the Audit Services Manager develops an effective program to assure the quality and improvement of Internal Audit's performance. Audit and Risk Committee receives assurance through the quality assurance and improvement program.

4. CIPFA's Code of Practice for the Governance of Internal Audit in UK Local Government

4.1 As explained above, the new standards include essential conditions for the governance of internal audit. When the IIA published GIAS, it recognised that in the public sector, governance structures or other laws or regulations may impact on how these essential conditions can be applied. This is the case in UK local government, where there isn't a straightforward replacement for the 'board' as described in GIAS. Audit committees are non-executive advisory bodies with limited decision-making powers. Internal audit's primary mandate comes from statutory regulations rather than the decision of the audit committee.

4.2 The GIAS also provides for the Audit Services Manager to reach agreement with those in governance roles and Management Team on alternative conditions that still allow for conformance with the standards. The Code provides the route to satisfying the essential conditions in GIAS (UK public sector), tailored for UK local government. The GIAS (UK public sector) directs the local government sector bodies to apply this Code. This Code meets the objectives of the essential conditions, by providing for the necessary governance of internal audit, but in a way that is appropriate for UK local government bodies. It includes roles and responsibilities of the audit committee, Management Team, and those charged with governance towards internal audit.

4.3 By following the Code, both the authority and the Audit Services Manager can be confident that governance in their authority is working in the way that is expected in the Principles and Standards in Domain III of GIAS (UK public sector). The Audit Services Manager must, of course, conform with the full standards to achieve overall conformance. But by using the Code alongside GIAS (UK public sector), local government bodies are better placed to achieve that conformance. The Code builds on existing CIPFA guidance, including:

- Position Statement: Audit Committees in Local Authorities 2022
- The Role of the Head of Internal Audit (2019) (the Code replaces the governance aspects)

- The Financial Management Code (2019)

4.4 Much of the Code is already recognised good practice as per existing CIPFA guidance, and many authorities will have these arrangements, or close to them, in place. Bringing them together into a code will strengthen the position of internal audit in local government and support its professionalism. Strengthening governance arrangements will ensure authorities are better able to meet their challenging service priorities and make best use of their resources.

4.5 The authority should explain how it complies with the Code in its annual governance statement. CIPFA is currently updating its guidance on annual governance statements for publication in 2025. It is anticipated that conformance with both the Code and GIAS (UK public sector) will be featured in the new guidance. Effective arrangements for the governance of internal audit, as well as effective internal audit, are vital parts of an authority's governance arrangements. The Code must also be included in the Audit Services Manager's annual internal quality assessment report to the Audit Committee. The Code should also be used for the external quality assessment that authorities need at least once every five years.

5 Topical Requirements

5.1 Topical Requirements will ensure that all internal audit functions apply consistent audit methodology when assessing the effectiveness of governance, risk management, and controls of a particular topical area.

5.2 The use of Topical Requirements will be mandatory when an internal audit function scopes an audit engagement that includes the topic covered such as Cyber Security, Third Party Risk Management, Business Resilience and Culture. These are likely to be mandatory from 2026.

6 Relevant Internal Audit Standard Setters (RIASS) - Application Note

6.1 The GIAS include a section on Applying the Global Internal Audit Standards in the Public Sector, and recognise that differences in governance structures, regulations and funding in the public sector may sometimes demand different approaches to maintain appropriate quality, efficiency and effectiveness in delivering internal audit. This application note provides UK public sector-specific context, interpretations of GIAS requirements in the specific circumstances expected to apply across the UK public sector and some additional requirements which the RIASS consider essential for the practice of internal audit in the UK public sector.

6.2 Auditors working in the UK public sector must follow the requirements of the GIAS subject to the interpretations and additional requirements set out in this Application Note. When expressing conformance with standards, auditors must be clear that they are conforming to the GIAS subject to the Application Note and must refer to this as conformance with Global Internal Audit Standards in the UK Public Sector.

6.3 The requirements of the Application Note and associated requirements of the Global Internal Audit Standards apply to work on internal audit engagements conducted on or after 1 April 2025.

7 Work Underway

7.1 The results of the EQA in December 2024 although assessed against the previous PSIAS standards, should provide assurance that Internal Audit are already broadly compliant with the fundamental requirements GIAS, Code of Practice and Application Note, however some process updates may be necessary to ensure full compliance with any additional requirements arising from the implementation of the new Standards.

- 7.2 A detailed self-assessment is therefore currently underway, and an action plan will be created and shared with Management Team and Audit and Risk Committee to address any identified gaps in compliance.
- 7.3 GIAS also require an internal self-assessment of compliance to be undertaken annually and reported to Management Team and Audit and Risk Committee. Formal assessment of compliance by an external assessor will be required by 2029.