

Internal Audit Update Report – Quarter Two 2025/26

Committee considering report: Governance Committee
Date of Committee: 27 January 2026
Portfolio Member: Councillor Iain Cottingham
Report Author: Julie Gillhespey (Audit Manager)

1 Purpose of the Report

- 1.1 To update the Committee on the status of Internal Audit work as at the end of Quarter Two 2025/26.
- 1.2 The Global Internal Audit Standards (GIAS) in the UK Public Sector, require the Audit Manager to provide periodic updates to senior officers and members on performance against the Audit Plan. As stated in the Council's approved Internal Audit Charter, quarterly updates are required to be presented to the Committee.
- 1.3 The periodic reports aim to provide a progress update against the work in the Audit Plan together with highlighting any emerging significant issues/risks that are of concern.

2 Recommendation(s)

No recommendation is made, the report is to provide the Governance Committee with an update on Internal Audit Work as at the end of Quarter Two 2025/26.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	None
Human Resource:	None
Legal:	None
Risk Management:	Internal Audit work helps to improve risk management processes by identifying control weaknesses in systems and procedures and making recommendations to provide mitigation. The aim of which is to help ensure that services and functions across the Council achieve their goals and

	targets, and the organisation as a whole meets its plans and objectives.			
Property:	None			
Policy:	None			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		

Core Business:	X		.	
Data Impact:	X			
Consultation and Engagement:	None			

4 Executive Summary

- 4.1 To update the Committee on the status of Internal Audit work as at the end of Quarter Two of 2025/26.
- 4.2 The Global Internal Audit Standards (GIAS) in the UK Public Sector, require the Audit Manager to provide periodic updates to senior officers and members on performance against the Audit Plan. As stated in the Council's approved Internal Audit Charter, quarterly updates are required to be presented to Committee.
- 4.3 The periodic reports aim to provide a progress update against the work in the Audit Plan together with highlighting any emerging significant issues/risks that are of concern.
- 4.4 There was one corporate audit completed during the period which was given a limited assurance opinion.

4.5 Emerging Issue to highlight to Committee:

- (a) Work undertaken for the period has identified an issue of concern. It relates to the audit of School Budget Deficit Management and Oversight, and the depletion of the Schools Reserve Fund, which we estimate is likely to go into deficit next financial year (current estimate is a deficit of £0-5m).
- (b) The School Reserve Fund is used to hold the individual school year end balances, and cannot be used for other purposes by the Council. However, should this School Reserve Fund go into deficit, any shortfall would need to be met from the Council's General Reserve Fund. There is an increasing number of schools with a deficit balance as well as a reducing surplus balance, the impact of both is a reduction in the School Reserve Fund balance. We noted that the potential for the School Reserve Fund to go into deficit in the near future has not been factored into any financial forecasting.
- (c) The issue has been raised with senior officers so timely remedial action can be taken with the introduction of financial forecasting for the School Reserve Fund. The increasing number of schools going into financial difficulty is a wider issue than the one being raised here, and work to address these issues is already being undertaken, with improvements being made over the last year. However, the implementation of forecasting of balances for the School Reserve Fund will assist in further developing operational and strategic approaches to help manage the situation.

(d) The outcome of the full audit will be included in the update report to Committee once completed.

4.6 The Audit Team has an in-service reportable performance target to achieve at least 80% of the audit plan for the year. As at the end of Quarter Two, the projected year end figure is 96%. This is the same projection as at the end of Quarter One, and continues to be higher than usual at this stage of the year, the main reason continues to be a lower level of annual leave taken to date.

5 Supporting Information

Introduction/Background

5.1 For each piece of assurance work undertaken the report provides an audit assurance opinion on the effectiveness of governance, risk management and control in the area under review.

5.2 An assessment of the number of reviews in each opinion category is the key factor used to determine the Internal Audit annual assurance opinion. Descriptions of the assurance opinion ratings used are detailed as follows:

Opinion	Description
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Usually moderate-to-minor issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited, but are not a cause for concern.
Limited Assurance	There is a large number of moderate weaknesses and/or significant weaknesses or non-compliance issues identified which are of concern. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

5.3 Appendix A to this report sets out the audit work that has been finalised this quarter. The table below shows the breakdown of completed audits by opinion given. For this reporting period there was one completed corporate audit given a less than reasonable assurance opinion.

Audit Type	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Corporate Systems		1	2	3
Schools			1	

5.4 We carry out a follow-up review for all audits given a less than reasonable assurance opinion. We use three categories to provide a conclusion on the level of progress with implementing agreed recommendations, **Fully Implemented**, **Satisfactory** (no issues of concern still needing to be addressed), and **Unsatisfactory** (large number of recommendations outstanding and/or weaknesses of concern not addressed). Appendix A includes the two school follow-up reviews that were finalised in the quarter, the following table shows the progress opinion.

Follow-up Type	Unsatisfactory	Satisfactory	Fully Implemented
Corporate Systems			
Schools		2	

5.5 Limited Assurance Opinion Report - Section 17 Support

The key areas identified that require improvements are as follows:-

- The procedures and guidance require updating, to include requirements for means-testing, additional details regarding Panel approval, the use of S.17 funds, written agreements and the provision of supporting documentation.
- The Service Commissioning Form (SCF) and Accounts Payable forms should require details to be included where costs of assistance exceed the reasonable / expected levels or are for indeterminate timeframes.
- From our sample checks we noted the required supporting documentation was not always completed/retained. In addition, authorisation was not always appropriate.
- We also found that it was not always possible to ascertain if the payments were supposed to be a one- off or ongoing, as there was either a lack of supporting information or end dates were not always agreed / recorded.
- There was ambiguity relating to the types of expenditure that can be charged to S.17 cost centres, and costs incurred are regularly exceeding the budget allocations.

For context the expenditure incurred for S17 in 2024/25 was approx. £63k.

5.6 Details of the audit work in progress and the stage reached are set out at Appendix B. This includes 3 audits still in progress from last financial year, two of which are at the draft report stage and therefore almost complete, there was an agreed postponement for the third. For context, where work is commenced late in the last quarter of the year, it will inevitably roll into the next year to be completed. Also, audit work may take longer than planned for a number of reasons, we are very reliant on services providing us with the required information/managers responding to draft audit reports in a timely manner. As a small team, we also need to react to emerging changes in risk during the year, for example suspected fraud, requests for unplanned work and investigations, as well as

audit advice, which may require a reprioritisation of work, and result in delays in the planned work already commenced.

- 5.7 Progress made against the Anti-Fraud Work Plan is set out at Appendix C.
- 5.8 In relation to corporate audits, Appendix D gives further detail to support the audit report opinion, setting out the scoping of each audit as well as the number and significance of recommendations made. Appendix E sets out a visual presentation to support the audit report opinion in the format of an audit risk heatmap.
- 5.9 The Audit Team has an in-service reportable performance target to achieve at least 80% of the audit plan for the year. As at the end of Quarter Two the projected year end figure remains at 96%, which as mentioned in the Quarter One report is higher than usual at this time of year. One of the key reasons is a lower level of annual leave taken during the year to date, this will even out over the next two quarters. There is also going to be a team vacancy in the next few months, this will also reduce the teams' performance percentage as it is based on number of occupied posts when the plan is compiled, no allowance has been made for vacant posts.

Proposals

This report is to update the Governance Committee of the progress of Internal Audit work at the end of Quarter Two 2025/26.

6 Other options considered

The quarterly update report for the Committee is required to comply with the Council's Internal Audit Charter and professional good practice.

7 Conclusion

There was one corporate audit completed during the period given a less than reasonable assurance opinion. The volume of limited assurance reports therefore continues to be low, and there are no concerns that need to be raised with the Committee. There was one issue of concern that emerged during the period that has been reported to Committee so they are made aware of the issue in a timely manner whilst the audit is still in progress.

8 Appendices

- 8.1 Appendix A - Completed Audit Work
- 8.2 Appendix B - Current Audit Work
- 8.3 Appendix C - Anti-Fraud Work Plan Update
- 8.4 Appendix D - Completed Audits – Supporting Information
- 8.5 Appendix E - Completed Audits – Audit Risk Heatmaps

Background Papers:

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months

Item is Urgent Key Decision

Report is to note only

Wards affected: All

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