

AUDIT COMMITTEE

Internal Audit Annual Report and Assurance Statement 2016/17

28 June 2017

Report of the Internal Audit and Assurance Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of internal audit work during the 2016/17 financial year and to present an annual statement of assurance regarding the Council's framework of governance, risk management and control.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit and Assurance Manager's (IAAM) assurance statement and annual internal audit opinion (paragraphs 2.11 to 2.232.22) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement (AGS), which is to be considered by the Committee at the September meeting.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the internal audit annual report and annual controls assurance statement (the Constitution, part 3 section 8, TOR 8.8).*
- 1.2 Professional standards for internal audit in local government¹ specify that *"The chief audit executive (IAAM) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement", and that "The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."*

¹ Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)

2.0 Report

Annual audit plan 2016/17

- 2.1 Internal audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2016/17 internal audit plan was approved by the Audit Committee at its meeting on 29 June 2016. Adjustments to the plan were approved by the Committee at its meetings on 14 September 2016 and 18 January 2017.
- 2.2 The annual outturn position against the 2016/17 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original plan	Revised plan (18/01/17)	Actuals
Assurance audit			
Core financial systems	50	30	12
Revenues and benefits shared services	40	40	31
Core management arrangements	50	50	58
Risk based assurance audits	120	145	154
Follow-up reviews	50	30	17
Sub-total, assurance work	310	295	272
Advice and support work	90	78	76
Investigations	20	10	7
Audit management	40	40	55
Other duties (non-audit)	55	142	136
General contingency	20	0	0
Total chargeable days	535	565	546
Non-chargeable activities (note1)	100	110	139
Total available days	635	675	685

Note 1. Non-chargeable activities include team meetings, section and service management, general administration, employee development, regional audit group meetings, etc.

Explanation of major variances

- 2.3 The summary shows that the number of available days in the year increased by 50, the main factors behind this being:
- reduced annual leave - 7 days
 - reduced sickness - 7 days
 - reduced training - 8 days
 - use of interim contract staff - 28 days
- 2.4 In consequence, the number of chargeable days delivered was 546 compared with the original plan 535. As reported during the year, a major issue has been the call on resources to manage and support the newly created information governance team included in the table under "other duties (non-audit)". It was this factor that has led to the engagement of an interim contractor to help maintain the core programme of audit work.





- 2.5 The increase in resources devoted to “audit management” reflects recent work connected with the IAAM’s retirement in May 2017 and establishing succession arrangements.
- 2.6 In consequence, 38 fewer days than originally planned were delivered on the core programme of assurance audit work. Any reduction in core work must inevitably diminish the assurance that the Committee is able to take from Internal Audit’s output over the period and this is reflected and commented on in the IAAM’s audit opinion.

Review of the effectiveness of internal audit

- 2.7 Professional standards expect that an annual review is undertaken of the effectiveness of internal audit. This process forms part of a Quality Assurance and Improvement Programme (QAIP) which feeds in to the wider annual review of the effectiveness of the system of internal control and governance. The conclusions and outcomes from the most recent internal annual review is reported elsewhere on this agenda.
- 2.8 The review concludes that the Audit Committee can take reasonable assurance that internal audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the AGS.

Results of assurance work

- 2.9 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:





Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.10 The table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31 March 2016, and any subsequent changes in assurance level.

Assurance statement

- 2.11 It must be recognised that internal audit can be expected to provide reasonable and not absolute assurance that risk is being effectively managed and that control weaknesses or irregularities do not exist.
- 2.12 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as

reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's totals, for comparison.

Assurance level (most recent review)	Number of audit opinions				
	2016/17				2015/16
	Financial audits	Governance audits	Other audits	Total	
Maximum 	0	0	0	0	1
Substantial 	6	0	3	9	10
Limited 	2	0	5	7	3
Minimal 	0	0	0	0	0
Totals	8	0	8	16	14

- 2.13 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At present this consists of the seven audits listed in Appendix A whose assurance ratings stand as “limited”.
- 2.14 These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial systems audits

- 2.15 This relates to eight financial system audits. Assurance levels on the Council’s core financial systems remain consistently high. Given the work undertaken, it is the IAAM’s opinion that effective internal controls exist to ensure the accuracy and integrity of the key financial systems and that no significant unmanaged risks or ongoing control weaknesses have been identified.

Governance arrangements

- 2.16 No new assurance audit work has been carried out during the year into specific governance arrangements. The internal audit team has however been heavily involved in undertaking the annual review of governance arrangements leading up to the preparation of the AGS. Work has also been undertaken to review the Council’s arrangements and Local Code of Governance in light of a new governance framework for local government being introduced in 2016.
- 2.17 There remain a number of outstanding considerations from earlier audit work relating to the council’s information governance arrangements. These considerations are being addressed through an ongoing reorganisation of the corporate information governance function.
- 2.18 In the IAAM’s opinion, at this stage of development, an update on the position regarding information governance should again be included in the AGS.

Other audits

- 2.19 This section covers eight audits, five of which resulted in a “limited” assurance opinion, these being in relation to:
- section 106 agreements;
 - driver certificates of professional competence; *

- stores; *
- safeguarding - adults; * and
- anti-social behaviour.

* Following further progress reviews undertaken since 1 April 2017, the opinion level for these audits has been raised to 'substantial'.

- 2.20 In each instance, work is ongoing to implement the action plans with a view to achieving progression to 'substantial' assurance in the near future. As always, arrangements are in hand for internal audit to monitor and provide the Audit Committee with updates on the progress made.
- 2.21 In the IAAM opinion, no unmanaged risks or control weaknesses have been identified which are so significant as to warrant disclosure in the Council's AGS. Where weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

Annual internal audit opinion

- 2.22 Resourcing issues during 2016/17 and their implications for the provision of assurance have been mentioned in paragraph 0. Measures taken to manage those issues have limited the reduction in the amount of internal audit time spent on assurance work to 12% against the original plan.
- 2.23 The IAAM's opinion is that, whilst this reduction must inevitably lower the level of assurance that can be derived from internal audit work, this is not so significant as to invalidate the judgement. Given that internal audit work has not identified significant issues regarding the council's framework of governance, risk management and control, it is the IAAM's opinion that reasonable assurance can be provided for this particular period.

3.0 Details of consultation

- 3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and options analysis (including risk assessment)

- 4.1 The proposal is that the Committee accepts the IAAM assurance statement as a contribution to the overall assessment of the internal control environment and the AGS. No alternative options are identified.

5.0 Conclusion

- 5.1 The work of internal audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2016/17 financial year, internal audit's work has provided reasonable assurance.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p>
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<p>This report has no direct impact on these areas.</p>

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising directly from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2016/17

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Ref:

Financial Audits


15/0966 Sundry Debtors

04-Jul-16 Substantial  Risks associated with sundry debt management are well managed, systems in place being well controlled. There is scope however to further strengthen some procedures within Services and actions have been agreed with a view to achieving this.


16/0971 Council Housing Rent Collection and Arrears Management

14-Nov-16 Substantial  Overall, risks associated with council housing rent collection and arrears management are well managed, systems and processes in place being well controlled and robust. There is scope however to further strengthen some administrative procedures within Services and a number of low level actions have been agreed with a view to achieving this.


16/0974 Williamson Park - Cash and Banking

04-Nov-16 Substantial  Substantial assurance has been provided on the basis that overall, risks are well managed and systems and procedures in place are robust. There is scope however to strengthen arrangements through training and reiteration of established procedure to ensure that transactions are recorded accurately, and a comprehensive audit trail is maintained. A number of actions have been agreed with a view to achieving this, some of which were implemented during the course of the audit.


16/0978 Debt Collection Agency Performance

30-Mar-17 Limited  Limited assurance has been given on the basis that a number of improvements are required in relation to debt collection procedures, processes and performance monitoring arrangements across the council. Arrangements within Council Housing Services require improvement with a view to ensuring a formal contract/agreement is in place with the debt collection agent, and data transfer arrangements are secure. Implementation of the actions agreed following this review should result in substantial assurance being provided.


16/0981 Fees and Charges - Legal Services

07-Apr-17 Limited  Limited assurance has been given on the basis that legal fees and charges have not been reviewed since 2010 and current levels of charge cannot be substantiated. It has been agreed that a comprehensive review of all fees and charges and charging structures will be carried out with a view to ensuring that all fees remain appropriate, cover the costs of service provision and can be appropriately substantiated should they be challenged.


16/0986 Housing Benefits Subsidy Claim - Modified Schemes

10-Feb-17 Substantial  On completion of the audit fieldwork a limited level of assurance was awarded on the basis that errors were identified which if left uncorrected could result in the External Auditors qualifying the 2016/17 Housing Benefit Subsidy Claim and potential loss of subsidy. During the completion of the audit the errors identified were rectified and arrangements were strengthened to ensure the correct treatment of war pensions within the benefits system going forward, thereby raising the level of assurance to substantial.

16/0988 Housing Benefit Overpayment Classifications


20-Apr-17 Substantial  Substantial assurance has been given on the basis that no overpayment misclassifications were identified. Classifications were found to be in line with DWP guidance and an appropriate audit trail was available to support each overpayment and the classification awarded.

16/0990 Welfare Reforms 1% Rent Reductions


11-Apr-17 Substantial  Substantial assurance has been given on the basis that the correct rent reductions had been applied in relation to all the cases tested during the course of this review.

Other Audits


15/0965 Section 106 Agreements

22-Aug-16 Limited  A limited assurance opinion has been awarded on the basis that although the majority of systems and controls in place in respect of S106 agreements are appropriate and are working well, there are concerns surrounding the effectiveness of current monitoring arrangements. Effective monitoring of agreed trigger points is fundamental in ensuring that contributions are received within specified timescales and failure to do so could potentially lead to contributions not being collected and therefore being returned to developers. Actions have been agreed to strengthen controls in this area which should ensure that all income or other agreed provisions due, are appropriately and promptly identified and received.


16/0972 Driver Certificate of Professional Competence

19-Jul-16 Limited  Although Managers are confident that all appropriate drivers have a valid Driver Certificate of Professional Competence (CPC), a limited assurance opinion has been given on the basis that this could not be demonstrated due to the lack of available supporting documentation. Actions have been agreed to ensure that a comprehensive record of those drivers requiring a valid CPC in order to carry out their duties is produced, along with a record of those drivers that currently hold a valid CPC, the expiry dates and a record of all training that has been undertaken. Thus ensuring that both the council and its drivers are compliant with legislation and therefore not subject to any financial penalties.


15/0955 Public Health Funerals

17-May-16 Substantial  The assurance opinion has been raised to substantial to reflect the considerable progress that has been made with implementation of the action plan resulting from the original audit review. Processes and procedures surrounding the administration of Public Health Funerals have been significantly strengthened and appropriate measures have been put into place to ensure that all avenues of responsibility are explored prior to the council accepting responsibility for burial arrangements. A comprehensive audit trail is now in place to support all actions and decisions taken for each public health funeral the council administers or is involved with.

15/0956 Stores

08-Nov-16 Limited  Very good progress has been made with implementation of the agreed actions, improvements having been made in relation to stocktaking, record keeping and security checks on stock leaving the depot. However, reviews are still ongoing in relation to key areas including purchasing, stock management and ensuring that the most effective use is being made of the Stores system. Therefore, the level of assurance which can be provided at this time remains at limited. However, revised target implementation dates have been agreed to take into account work in progress, which once complete should result in substantial assurance being provided.


15/0963 Safeguarding Adults

03-Jan-17 Limited  Good progress has been made with implementation of the agreed actions, improvements having been made in relation to the corporate induction presentation and the information available on the council's intranet and Website. At the time of producing this report, a number of actions were in the process of being addressed in relation to some key areas; these include the revision of the Safeguarding Adults Policy, the launch of the revised


safeguarding e-learning modules and a review of safeguarding training needs across the council. Whilst the level of assurance which can be provided at this time remains at limited, revised target implementation dates early in 2017 have been agreed to take into account work in progress, which once complete, will enable the assurance level to be raised.

Other Audits (cont'd)


16/0973 Anti-Social Behaviour (Council Housing)

09-Mar-17 Limited  Limited assurance has been given on the basis that there is scope to improve current arrangements with a view to ensuring the council fully complies with the requirements of the Anti-Social Behaviour Act, and regulatory standards set for housing providers. Policies and procedures in place are in need of review, and plans developed which seek to improve satisfaction levels in relation to anti-social behaviour need to be implemented. Officers are currently in the process of implementing actions agreed following this review, which once complete, should result in substantial assurance being provided.

16/0975 Licensing (Taxis)

14-Dec-16 Substantial  Substantial assurance has been provided on the basis that overall, risks are well managed and systems and procedures in place are robust. There is scope however to strengthen arrangements through the provision of member training and the reiteration of established procedures, thus ensuring that all documentation supporting the issue of a licence is retained on file and a comprehensive audit trail is maintained. A number of actions have been agreed with a view to achieving these improvements.

16/0985 BACS Processes

10-Apr-17 Substantial  Substantial assurance has been provided on the basis that the vast majority of controls are operating effectively and addressing risks inherent in the BACS process. However, there is scope for improvement in regard to the security, access, storage and retention of BACS files prior and subsequent to processing for payment / collection. Implementation of the recommendations would improve the overall opinion and should result in maximum assurance being provided.
