

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	22 June 2016
Subject:	Internal Audit Annual Report 2015/16
Report of:	Graeme Simpson, Corporate Services Group Manager
Corporate Lead:	Mike Dawson, Chief Executive
Lead Member:	Councillor R J E Vines
Number of Appendices:	None

Executive Summary:

To provide Members with a summary of Internal Audit work undertaken during 2015/16 and to provide an opinion on the effectiveness of the Council's framework of governance, risk management and control.

Recommendation:

To CONSIDER the Internal Audit Annual Report 2015/16 and the assurance from the work undertaken during the year that generally overall there is a satisfactory level of assurance in relation to the effectiveness of the council's framework of governance, risk management and control.

Reasons for Recommendation:

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) i.e. Corporate Services Group Manager must report functionally to the board i.e. Audit Committee.

One example of functional reporting is the Internal Audit annual report. PSIAS also requires that the CAE delivers an annual audit opinion and report that can be used by the organisation to inform its annual governance statement.

Resource Implications:

None.

Legal Implications:

None.

Risk Management Implications:

If the CAE does not report functionally to the board then this does not comply with PSIAS.

If the Council does not have in place a framework of sound governance, risk management and control then there is a risk it will not achieve its objectives.

Performance Management Follow-up:

All recommendations made from individual audits are followed up during the year to ascertain if they have been implemented or not. Any audit where a limited or unsatisfactory opinion has

been concluded requires the relevant manager to report back to the committee to give assurance that issues identified have been resolved.

Environmental Implications:

None.

1.0 INTRODUCTION/BACKGROUND

1.1 The Public Sector Internal Audit Standards (PSIAS) requires that the Chief Audit Executive (CAE) delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. For Tewkesbury Borough Council, the CAE is defined as the Group Manager – Corporate Services.

1.2 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

1.3 To direct and effectively deploy the audit resource, a risk based annual audit plan is produced and this plan is approved by Audit Committee. The 2015/16 plan was approved by Audit Committee on 18 March 2015. It should be noted that Internal Audit is only part of the Council's assurance framework and therefore the annual audit opinion is only reflective and restricted to the systems audited during the year.

1.4 Part 2 – Internal Control (para3) of the Accounts and Audit Regulations 2015 requires that: -

“a relevant authority must ensure that it has a sound system of internal control which –

- (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) Ensures that the financial and operational management of the authority is effective; and
- (c) Includes effective arrangements for the management of risk

Part 2 –Internal Control (para 5 (1)) requires that: -

“a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”

Part 2 – Internal Control (para 6 (1)) requires that: -

“ a relevant authority must, each financial year -

- (a) Conduct a review of the effectiveness of the system of internal control
- (b) Prepare an annual governance statement

Internal Audit, along with other assurance processes of the Council, has a responsibility to provide assurance from the work it undertakes during the year in respect of the control environment operating within the Council to feed into this review. The annual audit opinion therefore needs to be included within the Annual Governance Statement.

2.0 SUMMARY OF 2015/16 AUDIT WORK

2.1 The annual audit plan is pulled together using a risk based approach and was informed by the following activities:

- Governance issues and work relevant to the production of the annual governance statement
- Work on fundamental financial systems
- Work of a service based nature
- Corporate improvement work
- Follow up work
- Consultancy and advice

This approach results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment.

2.2 In compliance with PSIAS, regular monitoring reports of Internal Audit activity are presented at Audit Committee. These are presented on a quarterly basis. Audit work undertaken in the year on governance, key financial systems and service related audits consisted of the following:

<ul style="list-style-type: none"> • Local Government Transparency Code • Complaints framework • Repair & Renewal grants • Disabled Facility grants • Business Rates • Car Parks • Tree Inspections • National Fraud Initiative • Property Services – new leisure centre • Main accounting system 	<ul style="list-style-type: none"> • Payroll • Treasury Management • Budgetary Control • Creditors • Cash & Bank • ICT Helpdesk • Garden Waste • Trade Waste • Cascades • Debtors
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There are two outstanding audits from the 2015/16 audit plan. These relate to Housing Benefits and Economic Development – Grants. Days have been allocated within the 2016/17 audit plan to undertake this work. In addition to internal work, the team also provide the Internal Audit service to Tewkesbury Town Council. This arrangement commenced part way through 2014/15. Days have been formally allocated within the 2016/17 audit plan to accommodate this work on an ongoing basis.

2.3 In addition to the above, the Internal Audit team also undertook a variety of corporate improvement work initiatives. The audit plan has an allocation of days for this type of work. The senior management team is aware of this allocation and can request Internal Audit to help assist areas of work that need to be moved forward. The following was undertaken during 2015/16:

- ICT asset inventory
- Corporate fraud arrangements
- Environment Health and Development service review
- Cost of Uniform system

2.4 The team is also represented on key corporate groups such as the Corporate Governance Group, 'Keep Healthy, Stay Safe' Group, Procurement Group and Project Programme Board and therefore has the remit to provide advice on key governance frameworks and keep abreast of emerging issues. The team is also contacted on a regular basis to provide ad hoc advice on a range of activities, for example, compliance with the Council's contract procedure and financial procedure rules, general policy issues and proposed changes to systems and processes.

3.0 OPINION ON THE OVERALL ADEQUACY OF THE CONTROL ENVIRONMENT

3.1 The opinion is based upon and limited to the activities audited during the year. The opinion does not imply that Internal Audit has reviewed the whole control environment of the Council during the year. As well as the Internal Audit opinion, the Council relies upon other aspects of its assurance framework to help inform the completeness of the Annual Governance Statement. For example, the performance management framework, risk management framework, standards and codes of conduct and external audit reports help inform the adequacy of the Council's overall governance arrangements.

3.2 When reporting, Internal Audit can provide a 'split' opinion. This means individual opinions can be given for different parts of a system being audited. This approach enables Internal Audit to identify to management, specific areas of control that are operating/not operating as intended. A summary of the number of opinions given during the year can be found in the table below:

Opinion	Number
Good	27
Satisfactory	13
Limited	4
Unsatisfactory	2
Total	46

3.3 With regards to the limited opinions, these relate to the corporate complaints framework, Cascades stock control and aspects of the trade waste service. In terms of the unsatisfactory audit opinions, these were in relation to tree inspections and trade waste (performance monitoring). Recommendations have been made and agreed with the appropriate managers to improve control. Where a limited or unsatisfactory opinion has been given the relevant manager has attended to take questions and provide a progress report to a future meeting.

3.4 It is not unexpected on occasions to conclude a limited or unsatisfactory level of control given the variety and complexity of systems, procedures and services provided by the Council. What is important is that improvements to internal control are accepted and acted upon by management. In relation to the adverse audit opinions given during the year there is adequate assurance that these have been or are being acted upon. For example, a new complaints framework has been introduced, for tree inspections a new inspection regime supported with mobile device technology has been implemented and

in relation to stock control at Cascades this has been mitigated by the opening of the new leisure centre. Regarding the issues identified with trade waste, a review of the service, in particular to develop its commercial approach is an action within the new council plan. It is positive to report that all financial systems are well controlled which stands the council in good stead for the year end external audit of its financial accounts

3.5 All audit recommendations and their statuses are reported at each Audit Committee.

4.0 TEAM STRUCTURE AND INDEPENDENCE

4.1 Management of Internal Audit is overseen by the Corporate Services Group Manager. Delivery of the annual audit plan is carried out by two full time employees. During the course of the year, one employee was on maternity leave and this position was covered through a combination of an internal audit contractor and a short term secondment from another service area. A small restructure of the team has recently taken place but is still based on two full time employees. The team now comprises two part time employees (2 x 18.5 hrs) and one full time employee. One employee now undertakes a Senior Auditor role.

4.2 As defined in the Internal Audit Charter, the Internal Audit team has remained organisationally independent during 2015/16. Internal Audit sits within the Policy and Communications Team which is part of the Corporate Services unit. The Group Manager, Corporate Services reports direct to Chief Executive's Unit so has free and unfettered access. If the need was to arise, it is also stipulated within the Internal Audit charter that the Group Manager will also have access to the Chair of the Audit Committee. To build a more formal relationship, quarterly briefings with the chair and vice chair on Internal Audit activity have taken place during 2015/16.

4.3 With regards to the independence of the CAE i.e. Group Manager, Corporate Services it is not uncommon within a small District Council for the CAE to also have operational responsibility for service areas. Moving forward into 2016/17 the team is working towards demonstrating compliance with PSIAS in preparation for the external peer review of the Internal Audit team. The independence of the CAE has the potential to be flagged within this review due to his operational responsibilities.

5.0 FRAUD/THEFT/CORRUPTION/WHISTLEBLOWING

5.1 There were no reported incidents during the financial year. Moving forward into 2016/17, policies relating to anti-fraud and corruption and whistleblowing are programmed for review and will be presented at Audit Committee.

6.0 SUMMARY OF AUDIT PERFORMANCE

6.1 The performance monitoring information for achievement against the plan, is based on the number of completed audits vs the number of planned audits. The outturn for the twelve month period was 91%. This is above the 'industry' benchmark of 90%. In addition to this, Internal Audit has received a 'good' level of client satisfaction, a client survey is sent at the end of each audit.

7.0 MOVING FORWARD TO 2016/17

7.1 The team has now started work on the 2016/17 audit plan and are making good headway. The plan was approved at Audit Committee on 23 March 2016. This will include work around areas such as:

- Tree inspections

- Key finance systems
- Leisure centre – client monitoring
- Ubico – client monitoring
- ICT
- Health & Safety (including lone working)
- Safeguarding
- Community grants
- Recycling

7.2 In terms of corporate improvement work, potential activities identified include: format of the Ubico monitoring report; leisure centre client monitoring arrangements; support to the review of the effectiveness of the audit committee; and review of the Council's mobile phone contract.

7.3 As discussed at the previous Audit Committee, it is a requirement of PSIAS that every five years the Internal Audit function is subject to an independent review. During the course of 2016/17 the team will be working towards broad compliance of PSIAS in readiness for the review. It is anticipated the review will be programmed in for the first quarter of 2017/18. A report will be brought to Audit Committee to approve the format of the review.

8.0 CONCLUSION

8.1 Based upon the work undertaken by Internal Audit during the year, Internal Audit can provide reasonable assurance that, overall, there is generally a satisfactory level of control in relation to the effectiveness of the Council's governance, risk management and control environment. This Internal Audit opinion is one of the sources of assurance that is used to support the Council's Annual Governance Statement.

9.0 OTHER OPTIONS CONSIDERED

9.1 None.

10.0 CONSULTATION

10.1 One of the key performance indicators relates to the use of client survey.

11.0 RELEVANT COUNCIL POLICIES/STRATEGIES

11.1 Internal Audit Charter and Internal Audit Annual Plan.

12.0 RELEVANT GOVERNMENT POLICIES

12.1 None.

13.0 RESOURCE IMPLICATIONS (Human/Property)

13.1 None.

14.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

14.1 None.

15.0 **IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**

15.1 None

16.0 **RELATED DECISIONS AND ANY OTHER RELEVANT FACTS**

16.1 None.

Background Papers: None

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Appendices: None