

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	18 July 2018
Subject:	Internal Audit Annual Report 2017/18
Report of:	Graeme Simpson, Head of Corporate Services
Corporate Lead:	Mike Dawson, Chief Executive
Lead Member:	Councillor E J MacTiernan, Lead Member for Corporate Governance
Number of Appendices:	None

Executive Summary:

To provide Members with a summary of internal audit work undertaken during 2017/18 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 2017/18 and the assurance from the work undertaken during the year that, overall, the Council's governance, risk management and control environment is generally effective and, where areas of concern have been identified, there has been a positive management response.

Reasons for Recommendation:

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) reports functionally to "the board". For the purposes of the Council, the CAE is defined as the Head of Corporate Services and the board is the Audit Committee. These roles are defined in the Internal Audit Charter. The Charter has been approved by 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 Head of 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 2017/18 plan was approved by Audit Committee on 27 March 2017. 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.

2.0 SUMMARY OF 2017/18 AUDIT WORK

- 2.1** The Annual Audit Plan is pulled together using a risk based approach and was informed by the following activities:
- Governance related work
 - 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, 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"> • Freedom of Information • Disabled Facilities Grants • Absence Management • Business Rates • Housing Benefits – Discretionary Housing Payments • Cemeteries • Property leases • Members Allowances • Licensing • Land Charges 	<ul style="list-style-type: none"> • Public Service Centre refurbishment • Universal Credit • Occupational Road Risk Policy • National Fraud Initiative • Cash & Bank • Budgetary Control • Main accounting • Council Tax (write offs) • Council Tax (recovery) • Payroll (IR35) • Leisure centre – client monitoring
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There are three audits outstanding which will all be completed within the first half year of 2018/19. These relate to:

- Vehicle fleet
- Purchase ordering system
- Ubico client monitoring

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 Corporate 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 were undertaken during the year:

- General Data Protection Regulation
- Management commitments
- Housing (safeguarding)
- ICT risk assessment
- S106 new framework
- Freedom of Information system
- Business Continuity

2.4 The team is also represented on key corporate groups such as Corporate Governance Group, 'Keep Healthy, Stay Safe' Group, Procurement Group and Project Programme Board. This provides the team with the opportunity to provide advice on key governance frameworks, individual projects 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	22
Satisfactory	15
Limited	2
Unsatisfactory	0
Total	39

3.3 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 operated by the Council. It is pleasing to report there were no unsatisfactory opinions given during the year. With regards to the limited opinions these both related to the audit of the Licensing function. The areas for improvement within that function are summarised as:

1. License applications should be processed in a timely manner, approved and the correct fee received.

- Implementation of safeguarding requirements in relation to private hire/hackney licences.
- Establish a process to ensure that six monthly LOLER certificates in respect of disabled access vehicles are provided.
- Ensure robust system is in place for the correct receipt of animal boarding licence fees and follow up in relation to non-renewals.
- Using the Uniform system to accurately record licence data such as inspection details, payment information, receipt dates and consultation details.
- Ensure all annual payments for premises licences are raised and collected.
- Ensure there is an adequate system in place to monitor the number of events operated by a premises user.

2. License conditions are enforced in accordance with policy and legislative requirements, and complaints and breaches of conditions are investigated in a timely manner.

- General Environmental Health complaints give due consideration to any license conditions.
- In order to comply with the council's statement of licensing all premises should be formally risk assessed.

There was a positive management response to the audit findings. At Audit Committee on 13 December 2017, the Head of Community Services explained he had discussed this with Chair of Licensing Committee and worked together on an action plan. The action plan was presented at Licensing Committee on 8 February 2018 and the Committee will monitor delivery of the plan. Internal Audit will continue to give independent assurance through the follow up process. Each recommendation will be audited to give assurance it has been implemented.

3.4 In relation to the internal audit work undertaken during the year, 27 recommendations were made and categorised as follows:

High = 2

Medium = 2

Low = 23

The comparatively small number of recommendations and, in particular, the small number of high and medium ones is positive. Ten audits had no recommendations at all. All individual audit recommendations and their status are reported at each Audit Committee.

4.0 TEAM STRUCTURE AND INDEPENDENCE

4.1 Management of the Internal Audit Team is overseen by the Head of Corporate Services. Delivery of the Annual Audit Plan is carried out by two full-time employees. The team comprises two part-time employees (2 x 18.5 hrs) and one full-time employee. One employee undertakes a Senior Auditor role. During the course of the year, a member of staff's absence was covered through a secondment from another service area.

4.2 As defined in the Internal Audit Charter, the team has remained organisationally independent during 2017/18. Internal Audit sits independently within the Council and the Head of Corporate Services reports direct to the Chief Executive so has free and unfettered access. If the need was to arise, it is also stipulated within the Charter that the Head of Corporate Services will also have access to the Chair of the Audit Committee. To build a more formal relationship, quarterly briefings with the Chair and the Vice-Chair took place on a quarterly basis. An invitation to this meeting is also extended to the Lead Member for Corporate Governance. During the year a 'meet the Internal Audit Team' session was held for Members of the Audit Committee so they can better understand the role of internal audit. In addition, a session was also recently held to discuss the recommendations arising from the peer review of Internal Audit.

- 4.3** With regard to the independence of the Head of Corporate Services it is not uncommon within a small District Council for the internal audit strategic lead to also have operational responsibility for service areas. The Head of Corporate Services has a wide managerial remit including ICT, Customer Services, Human Resources and Policy and Communications. In cases where an audit was undertaken in any of these areas, the Head of Corporate Sources can give assurance that all audit opinions are exercised objectively and with integrity so that the opinions issued are open, transparent and accurate. Moving forward to 2018/19, and in response to a recommendation made from the peer review, additional safeguards have been put in place to safeguard the independence of the Head of Corporate Services.

5.0 PEER REVIEW OF INTERNAL AUDIT

- 5.1** It is a requirement of the PSIAS that at least once every five years an independent assessment of the internal audit activity is undertaken. The assessment took place during the week commencing 13 November 2017 and included interviews with the CAE, Chief Executive, Borough Solicitor, Head of Finance and Asset Management, the Internal Audit Team, a number of operational managers, Chair of Audit Committee and the Lead Member for Corporate Governance. In addition, a plethora of internal audit documentation and processes was reviewed including completed audit assignments. The review cycle, including collating the required documentation, preparation, the review week and the commencement of implementation of recommendations arising was a significant piece of work for the team.

- 5.2** The outcome of the review was formally reported to Audit Committee on 28 March 2018. The review concluded that there were no areas of non-compliance identified that would affect the overall scope or operation of the internal audit activity. The Committee noted the outcome of the external assessment and approved the action plan to deliver the recommendations made. The recommendations can essentially be categorised as follows:

- Textual amendments to the internal audit charter to define more clearly parts of the internal audit activity.
- Formal safeguards to maintain the independence of the CAE.
- Undertake audit planning by using a more strategic focus.
- Revision of audit documentation to improve the audit planning process.

- 5.3** The recommendations will be added to the existing Quality Assurance and Improvement Programme so there is one overall action plan for the internal audit activity. Progress in implementing this action plan will be reported at least annually to the Audit Committee. A workshop for Committee Members took place on 11 May 2018 to go through the content of the report and this proved to be a good interactive session.

6.0 FRAUD/THEFT/CORRUPTION/WHISTLEBLOWING

- 6.1** There were no reported incidents during the financial year. Awareness to related policies were carried out by the Counter Fraud Unit (CFU) through both staff and member sessions. During the course of 2017/18, the Internal Audit Team and the CFU met on a regular basis to ensure resources are effectively deployed. An update on the CFU work programme is reported to Audit Committee on a six monthly basis.

7.0 SUMMARY OF AUDIT PERFORMANCE

7.1 Within the Internal Audit Quality Assurance and Improvement Programme there are three management indicators:

IA1 – Completion of Plan (number of audits completed as a % of planned audits)

88% - 22/25 audits completed.

IA2 – Days taken (% of audits completed within the allocated number of days)

64% - 14/22 audits completed within time. Three audits overran insignificantly (0.25 days)

IA 3 – Client satisfaction

At the end of each audit, a survey is sent to each client to score across a range of questions. Each question is scored 1 (poor) to 4 (good). The overall average score was 3.56. 18 survey forms were received.

The management indicators used were not directly commented upon during the peer review. There has been recent dialogue within the Midland Audit Group around which performance indicators are relevant and useful. The feedback from this will be monitored to ensure the indicators above are reasonable and practical.

8.0 CONCLUSION

8.1 The work of Internal Audit complies with the Public Sector Internal Audit Standards (PSIAS), therefore assurance can be given to all relevant parties that the work of Internal Audit can be relied upon. In terms of the overall internal audit opinion for the year, given the complexities of the Council's internal control environment there will always be areas identified by Internal Audit that require improvement. The internal audit opinions issued during the year demonstrate that overall, the Council's governance, risk management and control environment is generally effective. Where areas of concern have been identified e.g. licensing, there has been a positive management response. All recommendations are subject to follow-up by Internal Audit and reported to Audit Committee. This opinion will inform 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