

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit and Governance Committee
Date of Meeting:	24 July 2019
Subject:	Internal Audit Annual Report 2018/19
Report of:	Chief Audit Executive (Head of Corporate Services)
Corporate Lead:	Chief Executive
Lead Member:	Lead Member for Corporate Governance
Number of Appendices:	None

Executive Summary:

The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used to inform the Annual Governance Statement. The opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This report provides Members with a summary of internal audit work undertaken during 2018/19 to support that opinion.

Recommendation:

To CONSIDER the Internal Audit annual opinion and the assurance from the work undertaken during the year that, overall, the Council's governance, risk management and control environment is generally effective.

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 and Governance 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 to inform the 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** 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.
- 1.2** 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.
- 1.3** Internal audit work is informed by a six monthly Internal Audit Plan. Each plan is approved by Audit and Governance Committee. These were approved on 28 March 2018 (April-September 2018) and 19 September 2018 (October 2018 – March 2019) respectively. For each individual audit assignment, an opinion is given on various elements of the control environment and these opinions are reported to Committee.
- 1.4** From the work undertaken in the year, an overall opinion should be concluded on the adequacy and effectiveness of the Council's framework of governance, risk management and control. It should be noted that internal audit is only part of the Council's assurance framework, therefore, the annual audit opinion is only reflective and restricted to the areas audited during the year.

2.0 SUMMARY OF 2018/19 AUDIT WORK

2.1 The audit plan is pulled together using a risk-based approach and 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 and Governance Committee. 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">• Garden Waste• Council Tax• Disabled Facility Grants• General Data Protection Regulation (data retention)• Housing Benefits – Discretionary Housing Payments• Financials e-ordering• Income management system• Business rates	<ul style="list-style-type: none">• Ubico client monitoring• Serious and Organised Crime Framework• Community Infrastructure Levy• General Data Protection Regulation (privacy notices)• Project Management• Ubico Health and Safety• Fleet management
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There is one audit outstanding which will be completed in the first half year of 2019/20. This audit is in relation to ICT Disaster Recovery.

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 and these days are regularly used by Corporate Management Team to assist in various improvement activities. The following aspects of work were undertaken during the year:

- General Data Protection Regulation
- Business Continuity
- Financial Procedure Rules
- Pool car project
- Human Resources – annual leave
- Internal Audit Quality Assurance and Improvement Programme (QAIP)
- Trade Waste debt recovery
- Homelessness

- 2.4** A key area of assurance work, and one that is of particular importance to management and Members, is the follow-up of internal audit recommendations. Days are allocated within the plan for this work and the status of recommendations followed-up during each quarter are reported to Committee. All recommendations that were due to be followed-up during the year were followed-up and reported upon.
- 2.5** The team was also represented on key corporate groups such as Corporate Governance Group, Keep Healthy, Stay Safe Group, Project Programme Board, Information Board, CIL Officer Working Group and the pool car project. 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 TEAM STRUCTURE AND INDEPENDENCE

- 3.1** Management of the Internal Audit Team is overseen by the Chief Audit Executive (Head of Corporate Services). Delivery of the 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, the team supported a member of the Finance team to undertake an audit assignment as part of their continuing professional development. This resource is deemed appropriate, sufficient and is effectively deployed to achieve the plan. Appropriate refers to the mix of knowledge, skills and other competencies need to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan.
- 3.2** As defined in the Internal Audit Charter, the team has remained organisationally independent during 2018/19. 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 and Governance Committee. To build a more formal relationship, quarterly briefings were held with the Chair and Vice-Chair. 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 Committee members so they can better understand the role of internal audit.
- 3.3** 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. 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.

4.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

4.1 Implementation of recommendations arising from the independent external peer review have been the focus for improvement during the course of 2018/19. An initial QAIP was first presented to Committee in September 2017. This was subsumed by the external review of the internal audit activity which was undertaken during November 2017. The review was in compliance with PSIAS which requires such a review to be undertaken at least every five years.

4.2 The final report on the external review was presented at Audit Committee in March 2018. It was pleasing to report that the review concluded there were no areas of non-compliance that would affect the overall scope or operation of the internal audit activity. As would be expected a number of recommendations were made and accepted and the majority of these were delivered during the year and reported to Committee as such. These included:

- Review and update of the Internal Audit Charter.
- Approval of a flexible and more fluid Internal Audit Plan.
- Revision of key audit documentation including a more risk-based approach.
- Safeguard the independence of the CAE.
- Review and update of the Council's risk management arrangements.

5.0 RISK MANAGEMENT

5.1 A review of the Council's risk management arrangements was undertaken during the year. This led to the approval of a new Risk Management Strategy and the implementation of a new Corporate Risk Register. The register is presented at each Committee meeting and should give Members and management assurance that the key risks facing the Council are being effectively managed. This is a positive outcome in terms of internal audit. It provides the opportunity for a more strategic focus and days have been allocated within the team's 2019/20 work programme to start reviewing the integrity of the register. This will include the testing of mitigating controls to ensure they are actually in place and working and that actions to reduce the risk further are progressing.

6.0 OPINION ON THE OVERALL ADEQUACY OF THE CONTROL ENVIRONMENT

6.1 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.

6.2 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:

Risk Area	Total Opinions	‘Good’	‘Satisfactory’	‘Limited’	‘Unsatisfactory’
Economic and Financial	7	4	2	1	0
Legislative and Policy	12	3	6	3	0
Operational	10	2	4	4	0
Social and political	4	2	2	0	0
Technological	3	2	1	0	0
Total	36	13	15	8	0

6.3 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, succinctly these relate to:

Risk Area	Overview of issue
Garden Waste (Legislative and Policy)	<ul style="list-style-type: none"> Data retention and requirement for a data sharing agreement with Ubico – <i>followed up during the year and now implemented.</i>
Garden Waste (Operational)	<ul style="list-style-type: none"> Stock control of sticker licences – <i>resolved during the course of the audit.</i> Emptying of non-stickered bins – <i>to be followed up during 19/20.</i>
Fleet Management (Operational)	<ul style="list-style-type: none"> Requirement to produce an annual service report of fleet related issues. – <i>to be followed up during 19/20.</i> Improvement to stock control. – <i>to be followed up during 19/20.</i> Cleanliness of vehicles. – <i>implemented during course of the audit.</i> Vehicle usage between partner councils. – <i>to be followed up during 19/20.</i>

Risk Area	Overview of issue
Ubico client monitoring (economic and financial)	<ul style="list-style-type: none"> Financial governance to mitigate future overspend. – <i>action plan developed and circulated to Executive Committee. Included as a significant governance issue within the 2018/19 Annual Governance Statement.</i>
Community Infrastructure Levy (legislative and policy)	<ul style="list-style-type: none"> Governance arrangements need to be established. – <i>CIL working group established. Included as a significant governance issue within the 2018/19 Annual Governance Statement.</i>
Community Infrastructure Levy (operational)	<ul style="list-style-type: none"> Internal procedures need to be established for monitoring and reconciliation purposes. – <i>see above.</i>
GDPR (legislative and policy)	<ul style="list-style-type: none"> Ensuring all functions are supported with a privacy notice. – <i>to be followed up during 19/20</i>
Project Management (Operational)	<ul style="list-style-type: none"> Ensuring all projects are supported with appropriate documentation. – <i>to be followed up during 19/20.</i>

6.4 With regards to the number of recommendations made during the year, a total of 55 recommendations were made and categorised as follows:

High = 6

Medium = 31

Low = 18

The small number of high recommendations is positive. All recommendations are followed up by internal audit when their implementation date is due and the status of the recommendation is reported at Committee.

6.5 In terms of follow-up, all recommendations that were due to be followed-up were followed-up during the year. During the course of the year, the team followed up 80 recommendations and the status of these were reported to each Committee meeting as and when they were followed-up. In summary, of the 80, 44 were implemented, 15 partially implemented and 21 not yet implemented. New implementation dates have been agreed for all outstanding recommendations and these will be followed-up in accordance with those dates. During the course of the year, the Committee has requested responsible officers to attend where an agreed date has slipped more than once.

7.0 FRAUD/THEFT/CORRUPTION/WHISTLEBLOWING

7.1 During the course of 2018/19, the Internal Audit Team and the Counter Fraud Unit have met on a regular basis and developed an excellent working relationship. The work of the Counter Fraud Unit is reported to Committee on a six monthly basis. The Counter Fraud Unit has an approved work programme for 2019/20, including the review of the policy framework that underpins the Council's fraud arrangements. An excellent piece of work was undertaken during the year to present to Committee a paper on the Council's compliance with the serious and organised Crime framework.

8.0 SUMMARY OF AUDIT PERFORMANCE

8.1 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)

93.75% - 15/16 audits completed.

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

80% - 12/15 audits completed within time. Three audits overran between 3-5 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 3.71. 8 survey forms were received.

9.0 CONCLUSION

9.1 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 sound. Where areas of concern have been identified there has been a positive management response. All recommendations are subject to follow-up by internal audit and reported to Audit and Governance Committee at the appropriate time. This opinion will inform the Council's Annual Governance Statement.

10.0 OTHER OPTIONS CONSIDERED

10.1 None.

11.0 CONSULTATION

11.1 One of the Key Performance Indicators relates to the use of client survey.

12.0 RELEVANT COUNCIL POLICIES/STRATEGIES

12.1 Internal Audit Charter and Internal Audit Annual Plan.

13.0 RELEVANT GOVERNMENT POLICIES

13.1 None.

14.0 RESOURCE IMPLICATIONS (Human/Property)

14.1 None.

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

15.1 None.

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

16.1 The work of internal audit supports value for money.

17.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

17.1 None.

Background Papers: None

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Appendices: None