

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	3 MARCH 2016
SUBJECT OF REPORT:	AUDIT & ASSURANCE ANNUAL REPORT 2015-16
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	JEFF WRING - HEAD OF AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the Internal Audit Annual Report 2015-16 and formal opinion on the internal control framework.

SUMMARY OF REPORT

The Audit Committee has received updates during the year on progress in delivering the Annual Audit Assurance Plan 2015-16. The plan is on target to be substantially completed by the 31st March 2016 and this is the closing update report to the Committee for the financial year. Also included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

1. POLICY

The work of the Internal Audit Service provides independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Head of Audit is also required to provide an opinion on the council's internal control environment.

2. DETAILS

At its meeting of 19 March 2015, the Audit Committee approved the Annual Audit Assurance Plan for 2015-16. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the council's internal control environment.

In determining the scope, depth and breadth of the Audit Assurance Plan, the Audit Committee accepts limitations in coverage and the inherent risks associated with this. As resources reduce, audit coverage is affected and this increases the risk in the level of assurance achieved through delivering the audit plan.

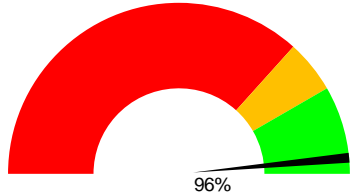
The Audit Committee most recently received an update on delivery against the plan on the 1st December 2015. This report builds upon that update.

INTERNAL AUDIT PERFORMANCE

NSC Audit & Risk Dashboard April 1st 2015 - March 3rd 2016

Internal Audit

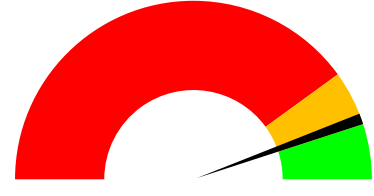
Annual Audit Plan Completed



96%

Green Target => 90% of pro rata plan
Amber Target => 80% of pro rata plan

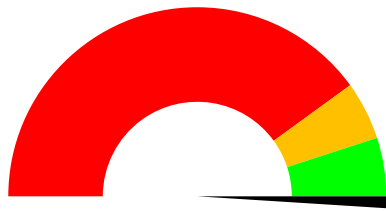
Audit Reviews Completed in Assigned Days



88%

Green Target = >90%
Amber Target = >80%

Customer Satisfaction - Good or Excellent



100%

Green Target = >90%
Amber Target = >80%

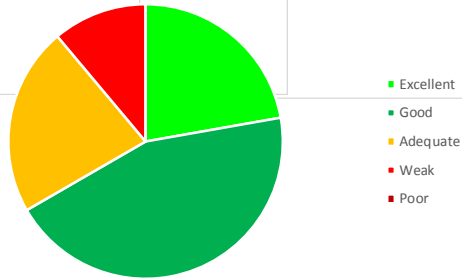
Recommendations (Critical / High) Implemented by Follow Up



75%

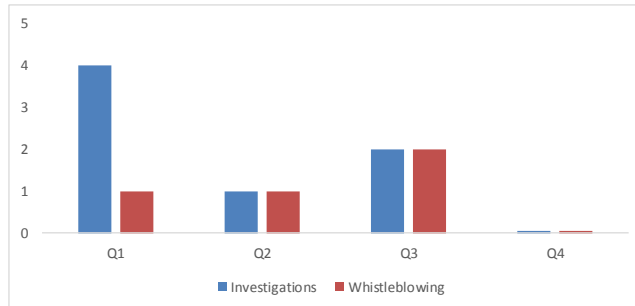
Green Target = >90%
Amber Target = >80%

Assurance Level Provided

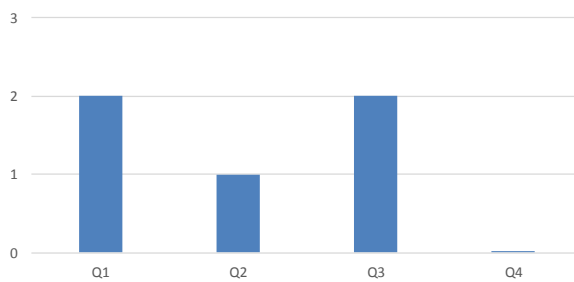


- Excellent
- Good
- Adequate
- Weak
- Poor

Investigations & Whistleblowing



Unplanned Audits



Equating to 32.97 Audit Days

PERFORMANCE SUMMARY

A) COMPLETION OF THE INTERNAL AUDIT PLAN

The performance dashboard details the position that 96% of audits have either been fully completed or are close to reporting stage.

Work to substantially achieve the rest of the audit plan is well underway and I am pleased to report we are on track to deliver 100% of the plan by April 2016.

The Head of Audit West and the Internal Audit Manager would therefore like to extend their thanks to the team on once again being able to deliver this challenging objective, especially during a significant period of significant change for both the team and the council.

B) AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

The percentage of audit reviews completed within the assigned days to date is 88%. This is a good performance and ahead of the basic target set.

As previously reported, audit overruns were predominantly in areas where important control issues were found and/ or where it has been agreed that additional time would be allocated to take into account any significant changes or developments to the audit area since the review was originally planned.

We continue to promote overruns in circumstances where additional audit time can yield increased benefits for the council.

C) CUSTOMER SERVICE

Customer service and providing value to clients remains at the heart of the Partnership. We are pleased to report the performance remains at 100% and continues to demonstrate extremely high levels of satisfaction.

We also continue to receive excellent feedback in relation to our non-audit activities and this is demonstrated by the growth achieved in this area.

D) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

The service had focussed resources in this area to ensure that the critical/ high level recommendations have been implemented. These critical/ high level recommendations are ones that have identified key risks, or will best enable the organisation to reach its objectives.

Although performance is showing that only 75% of critical/ high level recommendations have been implemented, the outstanding recommendations all relate to the same area – this being the Nursery Management Software used at a local Children's Centre. The recommendations have not yet been implemented as a project is currently underway to replace the software which will go live on 1st April

2016. Until the new software has been installed and the system proven to be working, this recommendation is considered to be outstanding.

E) ASSURANCE LEVEL PROVIDED

As at 3rd March 2016, all but one of audits completed (98%) have an audit opinion of satisfactory to excellent (between 'Level 3' and 'Level 5').

There have been no internal audit reports issued this year where it was considered that the systems of internal control are poor (i.e. 'Level 1') and only one area where we considered the framework to be weak ('Level 2').

Whilst there were a number of other areas where some control issues were identified these were not considered of sufficient breadth or importance to represent significant control weaknesses. Internal Audit is satisfied that management is taking action to remedy any gaps in control.

The Level 2 opinion was previously reported to the committee and was in respect of an audit around the repayment of training fees. During this audit it was found that there was no mechanism in place to identify staff that had received formal training or the costs associated with this. We plan to audit this area again in 2016-17 to establish whether the processes implemented are working and the required improvements have been achieved.

There are no report items of sufficient importance to be considered for inclusion in the Annual Governance Statement 2015-16.

F) INVESTIGATIONS/ WHISTLEBLOWING

The service has been involved in seven investigations during the year; five of which are complete, and two of which are still ongoing. At the time of writing this report the status of the two outstanding investigations is as follows:

- One is with the Police and is being referred to the Crown Prosecution Service
- One will be presented at a disciplinary hearing in March

The investigations, whilst in some cases serious in a specific area have not identified any significant failures in internal control or systemic issues with the Council's systems of governance.

G) UNPLANNED AUDITS

Management requested additional assurance from audit on three specific areas during the year. As these were immediate requests they could not wait for inclusion in the following years plan.

The total amount of time spent on unplanned audits to date is approximately 33 days. A degree of contingency will continue to be built into resources in future audit plans so that the service can be flexible to the changing landscape and requests from management.

2.1. JOINT WORKING WITH BATH & NORTH EAST SOMERSET COUNCIL

On the 1st August 2015, the partnership working between North Somerset Council Internal Audit Service, and Bath and North East Somerset Council Internal Audit Service was formalised. This is under the name 'Audit West' with Bath and North East Somerset acting as the host authority.

In October 2015 a restructure and integration process began to enable a single structure which encompassed the existing B&NES staff and the previous North Somerset Council staff who had been transferred to B&NES under TUPE.

The restructure was received positively amongst the team. Performance has remained high, and four of the seven ex-North Somerset Council employees were appointed to key roles within the new integrated structure.

In addition to the above, there has also been a recruitment of three new members of staff across the Partnership who have an excellent mix of skills and experience. It is pleasing that as part of this, the service was able to employ a previous Apprentice. This demonstrates the strength of the Council's apprenticeship scheme, the quality of the training and mentoring that was previously delivered by the team, and the ambition of the employee.

2.2. CONTINUOUS PROFESSIONAL DEVELOPMENT

The Partnership continues to invest heavily in training and development for all staff. Team members actively attend all local audit networks and have also attended various Institute of Internal Auditors training events in 2015-16.

Staff have also attended various other internal and external training courses. Two of the team are continuing with their professional development and are working towards qualification in IIA (Audit) and ACCA (Accounting). Once they have completed this training then all members of the team will be qualified in at least one specialist area of work.

Team meetings are held on a regular basis at both North Somerset Council and BANES. Staff can choose which meeting they would like to attend based on their location. Partnership meetings take place every quarter and have proved to be an efficient way of sharing key information, as well as being very successful in further integrating staff.

2.3. NON-CORE SERVICES

In addition to delivering the Audit and Assurance Plan, Audit West continued to provide a range of other functions which are not part of the core delivery of services to the council.

Therefore, there has been an increased focus on chargeable work as this delivers the additional revenue support to our own savings plans. This includes selling services for:

i) Business Continuity for other Councils and in Schools/ Academies

This includes over 60 schools in North Somerset and 11 outside of North Somerset.

ii) Audit/ Responsible Officer Service in Academies

This includes 6 schools in North Somerset, 1 Multi-Academy Trust in Somerset and 1 Academy in Devon

iii) Business Rates for Reviews for other Councils

This includes BANES and Taunton Deane Borough Councils

iv) Financial Assessments

This is currently provided to both Councils and shortly available to Schools/ Academies

Further added value pieces of work were also delivered directly to the council in 2015-16 as previously reported to the Committee. Key items included:

- A project on Business Rates and GIS Mapping to create a complete map of the area and business community. This is nearing completion.
- Co-ordination of internal and external resources to combat 'illegal' airport car parking.
- Providing RIPA training to over 20 key staff and supporting the Head of Legal Services for a successful inspection by the Office of Surveillance Commissioners.

2.4. RISK MANAGEMENT

The Council's approach to risk management is described in the Risk Management Strategy. The Audit Committee has received updates which have been primarily focussed around the Corporate Risk Register.

Specific focus within this was made around the Transformation Programme and the approach to Procurement and Commissioning at the December workshop.

The Council's Corporate and Directorate Risk Registers remain highly dynamic as a consequence of the rapidly changing environment in which the council operates and updates will continue to be made through the work plan of the Committee.

2.5. COUNTER FRAUD

Counter Fraud is an ongoing process and the Partnership has continued to identify and assess the fraud risks that both North Somerset Council and B&NES face.

The Counter Fraud Action Plan was updated for 2016-17. As reported to the Audit Committee in December 2015 it is designed to align the Counter Fraud work at both NSC and B&NES.

The work will continue to be focused around aligning policies and procedures and also ensuring that staff receive appropriate training and information to enable them to identify and report any suspicions of irregularity/fraud.

Although the responsibility for dealing with Housing Benefit Fraud has transferred to the DWP, we are continuing to collect administrative penalties due to the council

which are outstanding. At the end of January 2016 we had recovered £3,863 worth of administrative penalties.

In addition to the above, this year the service has also provided counter fraud training sessions to schools and academies.

2.6. BUSINESS CONTINUITY

Internal Audit continues to provide the Authority's lead in Business Continuity ensuring that the Business Continuity Action Plan has been completed. This is separately reported to the Committee.

Emerging risks identified include assurance around key external contractors having sufficient business continuity arrangements, and risks around future service delivery through new ways of working from the Transformation Programme.

A modern workplace relies heavily on IT and short downtime incidents are to be expected. These have been monitored and reported throughout the year with all responses by contractors being well within the expected recovery timeframes and service level agreements. Each incident has been managed well, safely returning services to business as usual. All critical services will be invited to review and renew their Business Continuity Plans in light of the changes Transformation has brought.

Internal Audit continues to share best practice in Business Continuity Planning. The majority (over 60) Schools in North Somerset and 11 outside North Somerset (including special schools and MATs) having Business Continuity plans developed and exercised since October 2014, with ongoing maintenance and reviewing to ensure they are kept up to date.

These above areas will continue to be included in the 2016-17 plan along with a renewed emphasis on effective early communication techniques at point of incident.

2.7. FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

As part of their statutory requirements the Head of Audit is required to give an opinion on the internal control framework.

In forming this view I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework and performance of the council.

It is my opinion that at the current time the council's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business critical functions;

The continued reduction on council budgets places further pressure on services, including the Audit function, to adapt to this changing framework and also provide the right balance of scrutiny and support to management. The Audit Committee's support in ensuring this balance and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.

3. CONSULTATION

The Annual report refers to facts and opinions that have been included within individual Audit Reports that have been distributed to, and agreed with, senior managers. The Audit Committee has received updates during the year of progress made in delivering the plan. The service meets regularly with the directorates to update them on the audit plan and ensure the plan continues to reflect the risks.

4. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report which is focussed on performance.

5. RISK MANAGEMENT

Significant risks to the council arising from an ineffective Internal Audit service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

6. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

7. CORPORATE IMPLICATIONS

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide adequate assurance to officers, members and the public of the soundness of the council's corporate governance.

8. OPTIONS CONSIDERED

None, this is an annual report.

AUTHORS

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BACKGROUND PAPERS

Audit Committee Report March 2015 – Annual Audit Assurance Plan 2015/16

Update Performance Report Dec 2015 – Audit Committee Workshop

Executive Committee Report December 2014 - NSC Partnership

Appendix A – 2015-16 Audits Opinion Summary:

Audit	Opinion
Agilisys Client Contract & Financial Management	<i>Not Finished</i>
Annual Governance Review	Advice
Appointee's - Conflict of Interest	Level 3
Banking Arrangements	Level 5
Better Care Fund	Position Statement
Business Continuity Support and Testing	Level 4
Churchill Primary School	Advice
City Region Deal/ LEP	Consultancy
Confirm - Interfaces and Financial Reconciliations	Position Statement
Corporate Procurement Arrangements	Consultancy
Council Tax and NNDR	Level 4
Crockerne Primary School	Level 3
Data Analytics Reviews	Consultancy
Digital Strategy - Mobile Working	Level 4
Digital Strategy - Online Payments and Refunds	Position Statement
Direct Payments	Consultancy
Domiciliary Care Contract	Consultancy
Dundry Primary School -Follow up	Level 4
Electoral Services	Level 4
Fraud - Data Analytics Reviews	n/a
Fraud Prevention - Fleet	Consultancy
Fraud Prevention - Grants	n/a
Fraud Prevention - Personal Budgets	n/a
Fraud Prevention - Procurement Fraud	n/a
Grant Funding Overview	Consultancy
High Down Junior Primary School	Level 4
Household Waste and Recycling Centres	Consultancy
Individual Grant Certifications	Level 5
Itrent/ Payroll - Extensions of Use	Consultancy
Kewstoke Primary School	Level 4
Looked After Children	Level 3
Core Systems – Payroll	Level 4
Core Systems – Creditors	Level 4
Core Systems – Debtors	Level 4
Core Systems – Year End Reconciliations	Level 4
Core Systems – Key Controls	Level 4
Regeneration & Economic Development	Consultancy
Repayment of Training Fees	Level 2
Safer Recruitment	Level 3
SFVS	Level 4
Somerset Business Rates Pool	Consultancy
St Katherine's Secondary School	Level 4
Strategic Risk Management Support	Level 3
SWIFT - Interfaces and Financial Reconciliations	Position Statement

Audit	Opinion
Taxi Licensing	Level 5
Transformation Programme - Benefits Realisation	<i>Not finished</i>
Unmanaged Devices	Level 3
Use of Social and Electronic Media	Level 3
Winscombe Primary School	Level 3
Worle Secondary School	Level 3

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee