

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	25 APRIL 2018
SUBJECT OF REPORT:	AUDIT & ASSURANCE ANNUAL REPORT 2017-18
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	JEFF WRING - AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the Internal Audit Annual Report 2017-18.

SUMMARY OF REPORT

The Audit Committee has received updates during the year on progress in delivering the Annual Audit Assurance Plan 2017-18. As at the 31st March the plan has been substantially completed 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 is to provide 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.

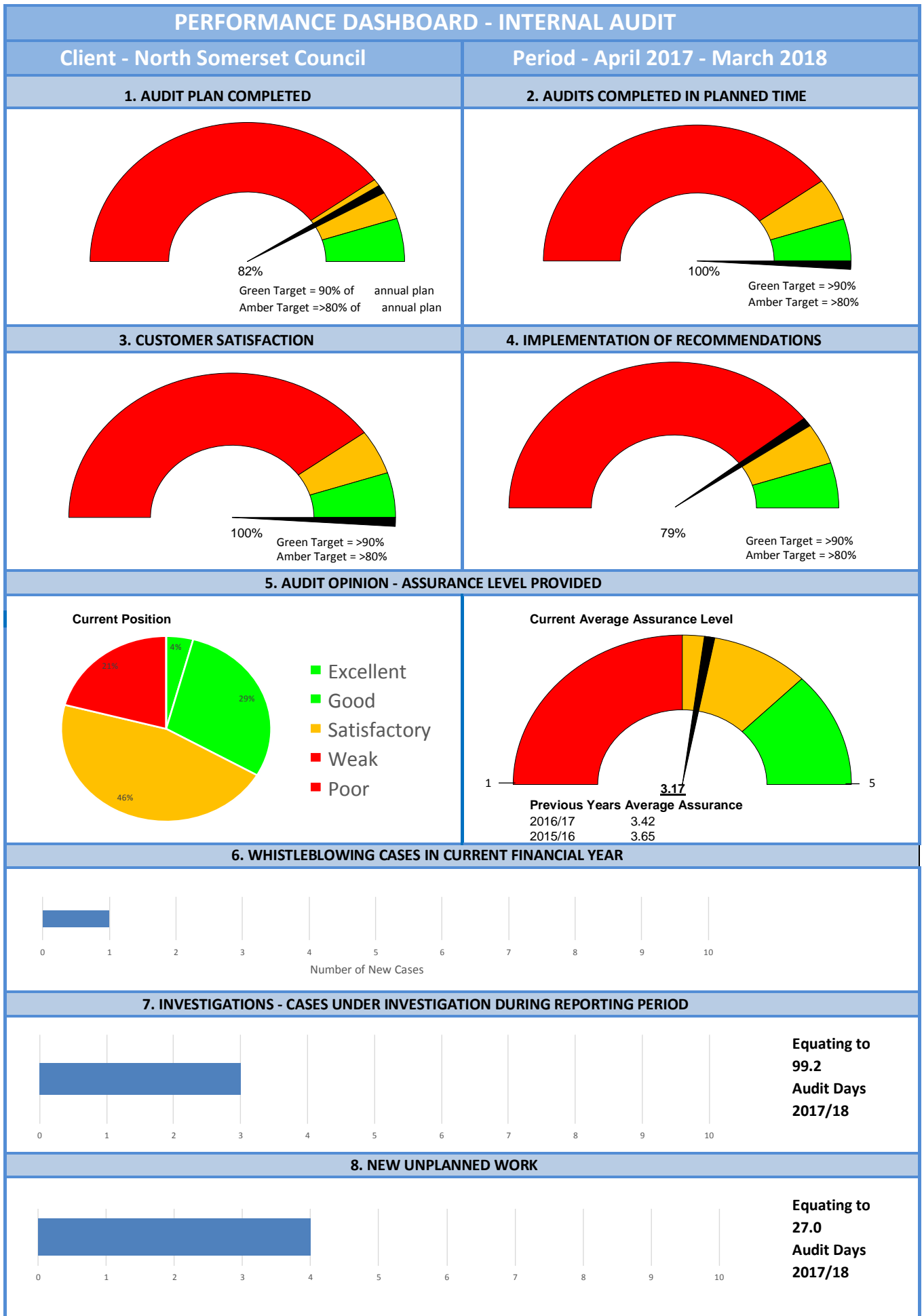
2. DETAILS

At its meeting of 30 March 2017, the Audit Committee approved the Annual Audit Assurance Plan for 2017-18. 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 7th December 2017. This report builds upon that update.

INTERNAL AUDIT PERFORMANCE



AUDIT REVIEWS – POSITION STATEMENT

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
17-001N	Contract Management	In progress	0	0	0
17-002N	Spend Analysis (No PO No Pay, Use of Benchmarking, etc)	Draft	2	5	0
17-003N	Project Management	In progress	0	0	0
17-004N	Shared Lives	Final	3	7	7
17-005N	Personal Budgets	Final	3	6	6
17-006N	Community Meals & Canteen Service	Final	3	7	7
17-007N	Domiciliary Care –Strategic Providers and Residual Spot Providers	In progress	0	0	0
17-008N	Social Impact Bond	In progress	0	0	0
17-009N	Schools (assurance visits to Schools)	Completed	Multiple visits – no major issues		
17-010N	NSETC Funding	Final	Position Statement		
17-011N	Housing (Rolling Programme of Reviews)	Final	5	0	0
17-012N	Corporate Property Maintenance (inc Children’s Centres)	Final	Position Statement		
17-013N	Information Governance	Final	4	0	0
17-014N	Joint Funding & Income Arrangements	Draft	3	7	0
17-015N	Ordinary Residence	In progress	0	0	0
17-016N	Project Commissioning Process	Final	3	5	5
17-017aN	User Access Control - Starters, Leavers & Movers	Draft	4	6	0
17-017bN	Use of New Technologies	Draft	2	9	0
17-017cN	Logging and Monitoring - Unauthorised System Access & Data Leakage	Draft	2	8	0
17-018N	Cyber Security – Configuration Management	Draft	4	7	0
17-019N	GDPR (Data Protection)	Completed	4	4	4
17-020N	Core Systems & Financial Management	Draft	4	2	0
17-021N	Debt Recovery – Follow Up	In progress	0	0	0
17-022N	Data Analytics (Rolling programme of reviews inc. Creditors, Payroll, Gap Analysis)	Final	Non opinion		
17-023N	NNDR Specialist Work (Business Rates/ Mapping)	Completed	Consultative		
17-024N	HR – Adherence to policies	Final	3	5	5
17-025N	HR – Overtime and enhanced hours	Draft	3	3	3
17-026N	HR – Starters and Leavers Process	Draft	3	7	0
17-027N	DevCo & Teckal (Project Board Attendance, etc)	Completed	Consultative		
17-028N	Contract Management (Waste)	Draft	2	11	0
17-029N	Car Parks - Income and Cash Collection	Draft	3	5	0
17-030N	Grants Claims – inc City Deal/ LEP/ etc (IA Sign-Off)	Final	Non opinion		
17-031N	Land Charges	Draft	4	5	0
17-032N	Historic Environment Records	Final	3	4	4
17-033N	Corporate Financial Monitoring	Completed	Consultative		
17-034N	Fleet Management	Draft	3	7	0
17-035N	Sea Front Operations	Final	2	9	9
17-036N	Concessionary Fares	Draft	Position Statement		
17-037N	Business Engagement (Internal & External)	Draft	4	4	0
17-038N	HCA Funding Framework	In progress	0	0	0

PERFORMANCE SUMMARY

A) COMPLETION OF THE INTERNAL AUDIT PLAN

The performance dashboard shows that at the end of the financial year 82% of audits have either been fully completed or are at reporting stage.

As reported mid-year, the ability to achieve 100% of planned work was being threatened due to two specific factors:

- i) High volume of sickness in the team, with levels exceeding the previous two years combined. This is primarily as a result of one member of staff being on long-term sick leave since September 2017 due to a serious medical condition. This member of staff began a phased return to work in March 2018.
- ii) High level of Investigations and unplanned work exceeding planned contingency by almost 30%.

Notwithstanding this, a good level of performance has still been achieved and the Head of Audit West and the Internal Audit Manager would like to thank the team for all of their efforts and willing during this challenging year.

B) AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

Due to the factors previously mentioned relating to overall completion of the plan, extra attention was applied throughout the team in ensuring that the audits which were being completed were achieved within the allocated time. As a result, all audit reviews completed were done so within their assigned days.

This again demonstrates the hard work and commitment exhibited by staff throughout the year in ensuring that the areas of performance which were under their control were done to the best of their ability. The continued efficiency that can be achieved through joint working (sharing of knowledge, planning, templates etc) has also helped in this regard.

C) CUSTOMER SERVICE

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

In addition, positive comments have been received by Senior Management in regards to other areas of audit work, including that in regards to the level of engagement throughout the audit planning engagement process, and detail applied within investigatory work.

D) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

There were a total of 19 high level recommendations due to be implemented in 2017/18. Of these, 79% (15) were implemented and 21% (4) have not yet been confirmed as implemented.

The four recommendations not yet implemented are detailed in full in Appendix B of this report. They relate to one area only and are being followed-up as part of the audit 'Debt Recovery – Follow-Up'. This audit is currently in progress.

E) ASSURANCE LEVEL PROVIDED

Of the audits completed where an assurance rating has been given, 79% have an 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').

There are however five reports, one finalised and four in draft, where we considered the framework to be weak ('Level 2') as follows:

- i) Sea Front Operations (D&E);
- ii) Spend Analysis (Procurement/ CSD);
- iii) Use of New Technologies (ICT);
- iv) Logging and Monitoring – Unauthorised System Access & Data Leakage (ICT);
- v) Contract Management – Waste (D&E).

We will update the Committee in more detail at its formal meeting on the issues in each of these areas.

F) INVESTIGATIONS/ WHISTLEBLOWING & COUNTER FRAUD

The service has undertaken two new investigations during the year and continued work on one further investigation carried over from the previous year. This work has totalled nearly 100 days in 2017-18.

i) The investigation carried forward related to a potential misappropriation of money and was referred to the Police. After much deliberation by the Police, they decided that the case would not pass the evidential threshold to support a criminal case and therefore this investigation is now closed.

ii) The first 2017/18 investigation had several strands and took up a large amount of officer time. The main issues involved with this investigation related to a substantial sum of money being unaccounted for (no audit trail in place), potential breach of financial regulations and contract standing orders along with inadequate contract management, cash and stock control and a series of other management issues. This investigation is now closed.

iii) The latest 2017/18 investigation relates to internal and external whistleblowing allegations made against a school employee and is being completed in conjunction with the school's Human Resources time. This employee has been suspended and the investigation is ongoing.

The proposed audit plan for 2018/19 includes coverage of the areas as to which these investigations relate.

At a Corporate level the Counter Fraud Strategy, Action Plan, and associated counter fraud polices are being updated to ensure they reflect current legislation and risks, and will be presented to the Audit Committee during 2018 for approval. The 2018/19 Internal Audit plan will continue to support this work to ensure the Council has in place robust arrangements to support a culture of fraud prevention.

G) UNPLANNED AUDITS

Four pieces of audit work have been requested by management that were not in the original plan. These requests were due to need for immediate assurance, and as such could not wait for inclusion in the 2018/19 audit plan.

The total amount of time spent on unplanned audits to date is 27 days and has included:

- A short review of corporate Credit and Procurement cards use
- Audit of D&E Petty Cash and assistance with implementation of new procedures (after a change of management)
- Extended advice and guidance on the procedures for Direct Payments
- Joint work with the Information Governance team in ensuring robust controls for the Environmental and Consumer Service section

Audit West recognises the importance and value to management of being able to respond to these types of requests, however this flexibility is becoming increasingly more challenging as budget cuts are applied.

It should be noted that all unplanned work was completed by the year end.

2.1. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

As reported to the Audit Committee in December 2017, the Council's Internal Audit Service has to comply with the revised Public Sector Internal Audit Standards (PSIAS), which state that Internal Audit must be subject to an external assessment by a qualified, independent assessor from outside the Council, once every five years. This must be completed by 30th March 2018.

This external assessment was undertaken throughout February and March 2018 and the assessment opinion was that Audit West **generally conforms** to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

We are pleased to advise the Committee that the rating 'generally conforms' is the top rating and means that the internal audit service has a charter, polices and processes that are judged to be in conformance to the Standards.

Once we have received a final version of their assessment we will update the Committee in more detail.

2.2. CONTINUOUS PROFESSIONAL DEVELOPMENT

Two team members have been furthering their professional development and have now achieved qualifications in IIA (Audit) and ACCA (Accounting). These are significant achievements and help to ensure that Audit West can continue to deliver a professional service.

Whilst training and development for all staff continues to be a priority for the service, a result of the resourcing challenges faced in 2017/18 meant that there was less opportunity to attend as many external conferences etc as in previous years.

Notwithstanding that, service and team meetings continued to take place on a regular basis as well as local networking, which has helped to ensure staff were kept abreast of key developments both locally and nationally.

2.3. FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

As part of our statutory requirements the Chief Audit Executive 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 other assurances I can rely on and 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 all services to respond and manage risk in a proportionate way – including Internal Audit - and the Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

The Audit Committee's support in ensuring their support of our work 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. LEGAL POWERS AND IMPLICATIONS

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

6. 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.

7. EQUALITY IMPLICATIONS

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

8. 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.

9. OPTIONS CONSIDERED

None, this is an annual report.

AUTHORS

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BACKGROUND PAPERS

Audit Committee Report March 2017 – Annual Audit Assurance Plan 2017/18

Update Performance Report Dec 2017

Appendix A - Audit Opinion:

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

Appendix B – High-Level Recommendations to be Followed-Up:

Audit Reference	Audit Name	Finding	Level
16-028N	Debt Management	A detailed write-off process is not documented resulting in communication errors between responsibilities of individuals included within write-off process.	High
16-028N	Debt Management	No checks take place between the Agresso System Administrator and ICT to confirm all leavers access has been removed within Agresso.	High
16-028N	Debt Management	Payroll is not reviewed before payment to identify any potential payment errors. Income received from payroll overpayments is not always allocated against the appropriate account. An example is, the HR manager identified an individual who was overpaid £5,521 in 2007/08 due to incorrect grading. This debt had been sent to Rossendales for debt collection, the individual made contact with NSC confirming they had been paying £50 per month since March 2014. A review of the individuals account identified the payments were being allocated against their council tax account, rather than the debt, and therefore the council tax account was in credit of £1,550.	High
16-028N	Debt Management	No netting-off of debts takes place between debtors and creditors, resulting in potentially excessive balances on supplier and customer accounts.	High