

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	25 JULY 2019
SUBJECT OF REPORT:	AUDIT & ASSURANCE ANNUAL REPORT 2018-19
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	JEFF WRING - AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the Internal Audit Annual Report 2018-19 and the Opinion on the Internal Control environment.

SUMMARY OF REPORT

This is the closing Internal Audit Annual Report to the Committee for the financial year 2018/19. Also included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

1. POLICY

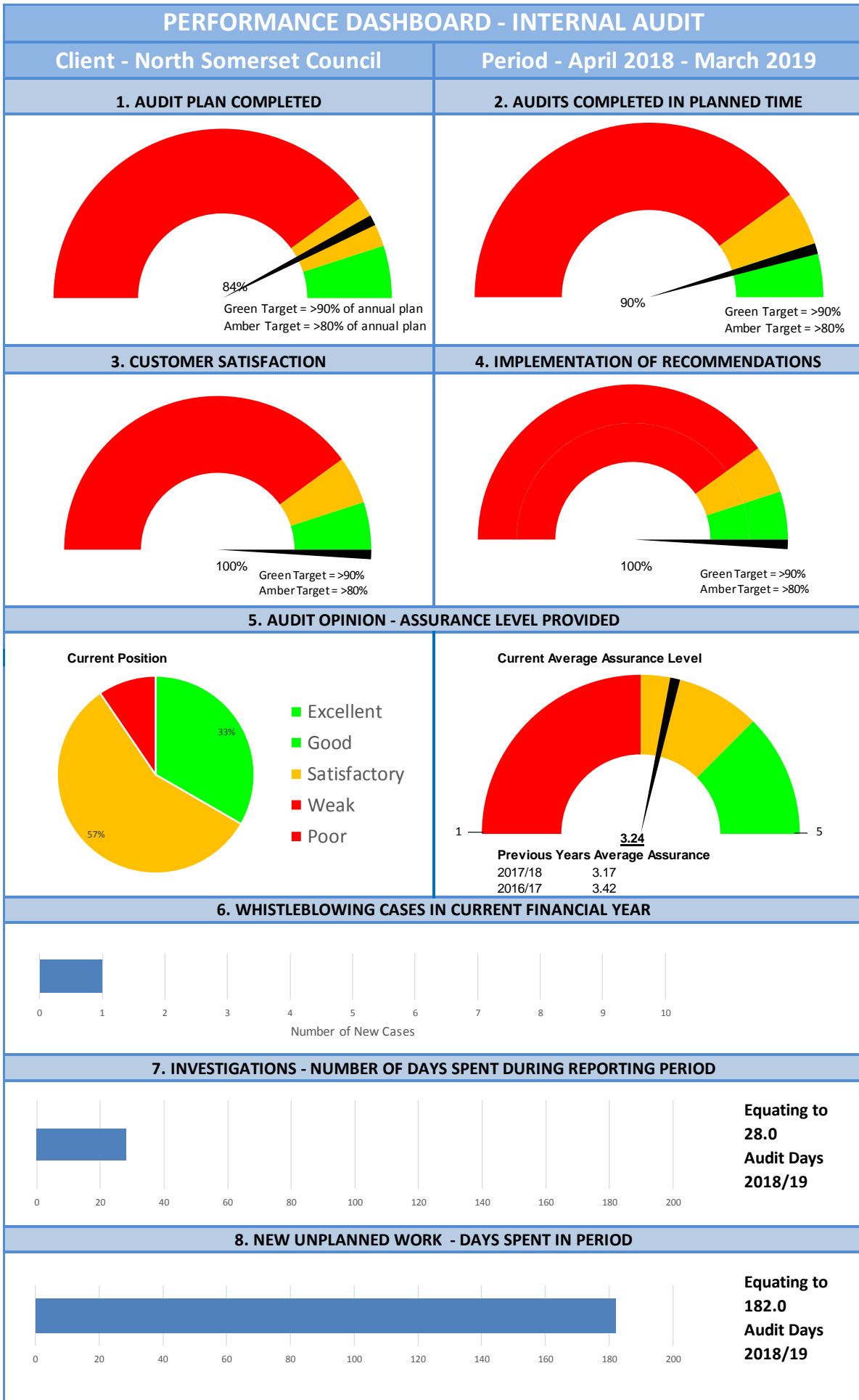
The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Chief Audit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

2. DETAILS

At its meeting of 25 April 2018, the Audit Committee approved the Annual Audit Assurance Plan for 2018-19. 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.

INTERNAL AUDIT PERFORMANCE



AUDIT REVIEWS – PLAN 2018/19

Audit Name	Status	Assurance Level
Council Tax Payments	Final	4
Housing Benefit Overpayments	Final	3
ICT Disaster Recovery & Back-Up Arrangements	Final	3
Data Protection (GDPR) & Information Management	Final	4
Supplier Resilience	Position Statement	
Delegated Authority (Sign-Offs)	Final	3
Declaration of Interests and Gifts and Hospitality	Final	3
Data Analytics (Rolling programme of reviews inc. Creditors, Payroll, Gap Analysis)	Position Statement	
Health & Safety Compliance	Final	3
Evacuation Procedures – Major Incidents	Final	3
Financial Assessment Process	Position Statement	
Adult Care Finance System (Liquid Logic)	Position Statement	
Fostering – Recruitment Process & Payments	Final	3
South West Sub-Regional Children’s Residential Placements	Final	4
Social Impact Bond – PRG Payments	Position Statement	
Music Service	Final	4
Homelessness	Final	4
Public Health	Position Statement	
Schools – Assurance Visits - Wrigton	Final	3
Schools - Assurance Visits - Banwell	Final	4
Schools - Assurance Visits - St Francis	Final	2
NSC Contract Management Arrangements	Position Statement	
Leisure Contract – Surplus Share	Final	2
Concessionary Fares	Final	3
Sea Front Operations	Position Statement	
Commercial Investments	Final	3
Cashless Car Parking	Final	3
Community Infrastructure Levy	Final	4
National Productivity Investment Fund	Position Statement	
Fuel Cards	Final	3
Community Meals overtime and expenses	Position Statement	

PERFORMANCE SUMMARY

A) COMPLETION OF THE INTERNAL AUDIT PLAN

The performance dashboard shows that at the end of the financial year 84% of audits were completed.

As reported mid-year, the reason for performance being behind target was not due to a reduction in team performance, but rather predominantly due to the large volume of unplanned work (see section G) and a reduction in a full-time member of staff's working hours due to ongoing health issues following a serious illness.

In order to help address this in-year pressure on resources, a recruitment campaign took place in July 2018 but did not result in any addition to resources. A second campaign was launched in November 2018 and resulted in two new additions to the team which helped to ensure a good level of performance was still achieved by the end of the year.

The Service Director and Head of Audit would like to record their thanks to the team for all of their efforts and willing during the past 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, 90% of audit reviews completed were done so within their assigned days with 10% of reviews allocated additional time due to scope changes during the review.

This again demonstrates the hard work and commitment showed by staff throughout the year in ensuring that the areas of performance which were under their control were done to the very 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 is 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. Recent feedback received from Senior Management includes:

"This is a very good summary of the process and what we are trying to achieve. Many thanks for your help with this work"

"Thanks. This is most helpful and will enable us to have a better idea of what is going on.... I'm very grateful for your help over this."

In addition, positive comments have been received by Senior Management in regard to the level of engagement throughout the audit planning process.

D) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

Follow-ups are focussed on ensuring that critical and high level recommendations have been implemented. This is because the critical and high level recommendations made will have either identified significant risk, or identified improvement that could best help the organisation to achieve its objectives.

We are pleased to report that 100% of critical or high level recommendations were found to have been implemented when followed-up with the Auditee. All other non-critical recommendations continue to be followed-up in line with the dates that they are due to be implemented. Close work with teams to ensure that recommendations from audits remain relevant and achievable to the business, means that all audit recommendations proposed within our reviews have been accepted and agreed by the respective service managers.

E) ASSURANCE LEVEL PROVIDED

Of the audits completed where an assurance rating has been given, 90% 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 two reports where we considered the framework to be weak ('Level 2') as follows:

- i) Leisure Contract – Surplus Share. Key findings related to the absence of contract performance monitoring mechanisms, and lack of contract specification review to ensure value for money is still being received.
- ii) St Francis Primary School Audit. Key findings related to weak control in the area of School's Governance and Budgetary Control arrangements.

We will update the Committee after the follow-up process if there is limited progress implementing recommendations.

F) INVESTIGATIONS/ WHISTLEBLOWING & COUNTER FRAUD

The audit service undertook a number of informal investigations and one formal new investigation during the year, alongside colleagues from HR.

The investigation was within the People and Communities Directorate and related to allegations made against an individual.

The broad accusation that Internal Audit investigated related to the alleged agreement of payments and time off to staff outside of Council policy and without due authorisation. Audit's findings were passed to HR as part of the overall investigation. The individual later resigned from their position.

The proposed audit plan for 2019/20 includes further coverage of the areas as to which this investigation related.

During 2019/20 there will again be a renewed focus and increased resources applied to the prevention of fraud, and to support this, the Counter Fraud Strategy, Action Plan, and associated counter fraud polices are being updated to ensure they reflect current legislation and risks. These documents will be presented to the Audit Committee during 2019 for approval. The 2019/20 Internal Audit plan will also continue to support this work to ensure the Council has in place robust arrangements to maintain 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 the need for immediate support, and as such could not wait for inclusion in the 2019/20 audit plan.

The total amount of time spent on unplanned audits and fraud work in 2018/19 was 210 days and has included two significant pieces of work:

- Contract Management of a Commissioned Service – This was intended as an original audit in the plan but was expanded when initial audit work identified issues between the amounts being invoiced and the actual level of resources carried out alongside a number of issues around the management of the contract.

This review has been extended into analysing a number of years of contract data as well as being carried forward into the current financial year. Due to the potential legal implications from this work we have anonymised the service area.

- Audit of Canteen and Community Meals to review procedures and robustness of management arrangements.

The totality of all unplanned and fraud work exceeded the contingency we had set aside of 125 days at the start of the year and is the key reason for Audit Plan work being at 84% in the performance dashboard.

2.1. 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 although individual issues were noted;
- There were no fundamental system failures or control breakdowns to business-critical functions however improvements are necessary within the council's approach to contract management;

The continued reduction on council budgets places further pressure on all services to respond and manage risk in a proportionate way 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 of our work and maintaining effective corporate governance is appreciated and I would like to thank members of the committee for their input and guidance over the year.

3. CONSULTATION

The Annual Report refers to facts and opinions that have been included within individual Audit reports which were distributed to, and agreed with, senior managers. The service meets regularly with the directorates to update them on the audit plan and ensures 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

Jeff Wring – Service Director

jeff.wring@n-somerset.gov.uk

Peter Cann – Head of Audit & Assurance

peter.cann@n-somerset.gov.uk

BACKGROUND PAPERS

Audit Committee Report Apr 2018 – Annual Audit Assurance Plan 2018/19

Update Performance Report Nov 2018

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