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# Internal Audit Annual Assurance Report 2017-18 - Supporting Information

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## 1. Introduction/Background

- 1.1 The Accounts and Audit (England) Regulations (2015) require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.
- 1.2 The Public Sector Internal Audit Standards (PSIAS), including the CIPFA "Local Government Application Notes", require the Chief Audit Executive (the Audit Manager) to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.
- 1.3 This report provides that opinion and includes information to support the opinion given. The report content has been compiled to conform to the requirements of the PSIAS.
- 1.4 The audit opinion is based upon the assurance work undertaken during the year and knowledge gained from previous assurance work, as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.
- 1.5 A system of internal control cannot provide total assurance that all risk has been identified and eliminated; it is used to manage the level of risk so that it is at an acceptable level for an organisation, taking into account the Council's risk appetite.

## 2. Supporting Information

### 2.1 Purpose of the Audit Manager's Annual Assurance Report

#### To provide:-

An opinion on the Council's governance, risk management and control environment;

- (1) Information to support the opinion given;
- (2) A summary of the work undertaken compared with the work planned;
- (3) Performance of the Internal Audit Team;
- (4) A statement as to whether the work of the Audit Team complies with the PSIAS.

## 2.2 Assurance Opinion

- 2.2.1 The Audit Manager can provide **reasonable assurance** that the governance, risk management and control framework remains robust. Although there were audits that were deemed to have weak or very weak systems of control, these were in the minority as has been the case in previous years. Work on the key financial systems has concluded that they are well controlled.
- 2.2.2 There have been recent changes made to the risk management governance framework to take into account a review of the Council's Risk Management procedures, and a transfer of the co-ordination of the risk management function to a different service in the Council. In order to be able to comment on the effectiveness of the implementation of these changes and provide assurance on the new framework, an audit review has been included in the Audit Plan for 2019-2020.
- 2.2.3 There have been no limitations or restrictions on the audit plan coverage or scope of the work undertaken that could have a negative impact on the opinion. There have been no impairments to the objectivity or independence of the Audit team.

## 2.3 Results of Work Undertaken to Support the Opinion

- 2.3.1 Internal Audit use the following categories for their assurance work report opinions:-

Opinion Category	Definition
Very Well Controlled	Very strong control framework with only minor control weaknesses or low levels of non compliance identified.
Well Controlled	Strong control framework with a small number of control/compliance issues identified.
Satisfactory	An adequate control framework is in place, a number of control weaknesses identified but not significant enough to cause concern.
Weak	There are a large number of control weaknesses and/or some significant control issues which are of concern.
Very Weak	The overall control framework has significant weaknesses and is not effective.

- 2.3.2 A summary of the outcomes of the Internal Audit team's assurance work during the year is detailed below together with the assurance opinion that was given:-

#### Corporate

Very weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
2	2	6	7	0

#### Schools

Very Weak	Weak	Satisfactory	Well controlled	Very well controlled
0	1	4	1	0

- 2.3.3 The tables include six reports that are in the final stages of consultation, where the accuracy of the report content has been checked, so the audit opinion is not going to change.
- 2.3.4 The tables show that the majority of audit opinions were satisfactory or above. All but one of the very weak and weak audits were service-specific. Therefore, the possible impact of the weaknesses identified would be restricted to those service-specific operations. There was only one corporate audit deemed to be very weak, which was the review of the Asset Management Strategy.
- 2.3.5 There were also three advisory reviews where no opinion was given, although weaknesses were identified and recommendations made, and the outcomes of these have been considered in the assurance assessment.
- 2.3.6 Internal Audit undertake a follow-up review in all cases where there is weak or very weak opinion, and in some cases for a satisfactory opinion. The outcome of the follow-up work completed during the year is detailed below together with the progress opinion:-

Satisfactory Follow-up	Unsatisfactory Follow-up
2	1

## 2.4 Details of the Key Findings for Audits with a Weak or Very Weak Opinion

### (1) Property database – Finance and Property Service, assessed as very weak.

- (a) Internal Audit concluded that the system is not being used as intended and the Service continues to rely on spreadsheets to hold key information.

- (b) The project was implemented using the Council's Project Management Methodology. Phase 1 of the project was signed-off as complete, although the system had not been fully implemented across the whole of Property Services which had been the intention. This indicates that there was a lack of a robust challenge on the outcomes of Phase 1 by the project sponsor and the IT Programme Board.
- (c) The key aim for the new Property Database was that it would provide comprehensive data and therefore be an effective tool to manage the Council's property portfolio. The system is not being utilised and therefore the key aim of the system implementation has not been met.
- (d) There was no closure report prepared for Phase 2 (this provided enhancements to the system) of the project.
- (e) The system is not being used to record all types of property data as stated in the original specification, nor is it being kept up to date with the data types that should be recorded. The system is not being used to produce reports.
- (f) The system has not been rolled out across other services/teams as extensively as had been originally specified. There is no System Administrator in post to manage the use of the system. There has been limited support/training available to users of the system.

**(2) Asset Management Strategy – Finance and Property Service, assessed as very weak.**

- (a) Internal Audit found that the Council has established a corporate Asset Management Strategy for property assets. However, the document is very brief, and only gives high level statements of its aims and objectives.
- (b) There are no 'plans' developed stating how the strategy is to be implemented. There are more detailed Asset Management Plans prepared in specific services, for example Education, however, there are no linkages in the preparation of these service plans with the corporate approach, which therefore leads to a silo approach to managing assets.
- (c) There is not an established asset management performance framework, setting out corporate expectations for the Council's asset portfolio or setting targets against which to measure the performance and therefore flag-up any issues of underperformance to enable so corrective action to be taken.
- (d) Asset reviews are undertaken which RAG-rate assets according to how they meet strategic priorities, and a property disposal plan is produced for those assets rated as red. Updates on progress are provided to the Asset Management Group for information and discussion. These reviews do not encompass the utilisation/running and maintenance costs of building, and

therefore the approach is a very high level overview of the use of the Council's property portfolio.

**(3) Home to School Transport – Head of Transport and Countryside, assessed as weak.**

- (a) Contracts are being reviewed and re-let as and when the service considers it necessary, rather than following a programme of reviews, which has resulted in some contracts not being re-let for quite a number of years. We were informed that there is a timetable for the contracts to be re-let, but the team are awaiting a new corporate procurement system, as a compensating process, each year contracts are reviewed to determine if they still seem reasonably priced and working well.
- (b) We found that the service has not determined and documented its actual approach to monitoring the provider contracts. For some aspects of the contract, there are processes for monitoring compliance with the terms and conditions i.e. DBS driver / escort checks and insurances.
- (c) There are a number of other areas where the monitoring arrangements have not been established, such as ensuring that operators are complying with Health and Safety legislation and vehicle standards. The contract includes areas of non performance / defaults; however, we found that the system of issuing/monitoring default notices has not been fully developed and is not linked into default points or penalties.

**(4) Special Guardianship Orders (SGOs)/Child Arrangement Orders (CAOs) – Head of Family and Children's Services, assessed as weak**

- (a) There is no specific guidance covering the provision of support under CAOs. The SGOs guidance does not cover circumstances in which financial support for an SGO would be appropriate.
- (b) The Policy/guidance for providing ongoing allowances to SGOs that were previously foster carers states that we 'can' pay the foster allowance for a further two years, but in practice the Service pays this in the majority of cases, therefore this anomaly needs rectifying.
- (c) Sample testing showed the SGO allowance payment to a previous foster carer was not ended promptly after the two year period had been reached and it was identified the carer was no longer entitled.
- (d) Guidance does not make it clear in what circumstances financial support would cease. The wording used on the support plan suggests that the SG does not need to inform the Council of in-year changes if they are in receipt of the allowance, only if they are in receipt of other financial support. Where there is a change to entitlement identified as part of the annual review, the date of notification is used rather than requesting/using the date of the actual change.

- (e) The timescales for provision of support are not clearly documented in the Special Guardianship Support Plan. The regulations/internal guidelines require there to be a review 'at least annually' of support plans; this is currently not being complied with.
- (f) Sample testing showed the SGO assessment for support and the outcome was not always clearly documented and recorded on RAISE. From our sample checks we identified a few occasions where CAO allowances had continued to be paid and had not been cancelled promptly.
- (g) Although budgets and numbers of SGO cases are monitored, there has been no detailed analysis to understand the underlying causes for the large increase in numbers and allowances over the last few years to ascertain if this is likely to be an ongoing trend or if it will stabilise etc. in order to refine budget pressure predictions. At the time of discussing the draft findings we were informed that more recently such expenditure analysis and projections had started to be carried out.

## **2.5 Details of the Unsatisfactory Follow-up**

There was one follow-up review where progress to implement the recommendations was deemed to be unsatisfactory; this was the Management of Archiving of Council Records. This was a corporate review, therefore the weaknesses impacted across the Council. The key risk identified was continuing to pay for storage when it was no longer needed. For context, the overall value of the annual cost is very low, therefore the possible impact of the risk is also very low.

## **2.6 Internal Audit Work Progress Update since the Interim Report in September**

Plan progress update was reported in September; attached to this report are two appendices listing the work undertaken up until the end of the financial year, with work in progress at Appendix D, and work completed at Appendix E.

## **2.7 Audit Team Resources and Performance**

- 2.7.1 The team has a service performance indicator to achieve 80% of the audit plan. For 2017-18 the actual result was 85%. This is in line with the result achieved for the previous year which was 86%.
- 2.7.2 All internal audit work has been undertaken in accordance with the requirements of the PSIAS, the Core Principles of internal audit and the Code of Ethics for internal audit. Under the PSIAS there is a requirement to have an external assessment of the internal audit service every five years. One option for the assessment is to undertake an internal assessment then have this externally validated, and this approach was adopted by the Council. The external assessment was undertaken by CIPFA, with the onsite visit undertaken between 14<sup>th</sup> and 15<sup>th</sup> May. Initial feedback is that the Council 'generally conforms', this is the highest category of compliance (the other possible conclusions being 'partially conforms' and 'does not conform'). Recommendations included in the assessor's report will form the basis of establishing a quality assurance improvement programme, which is a requirement under the PSIAS.

- 2.7.3 The Audit Team consists of four staff; the Audit Manager, two senior auditors and one auditor post. One of the senior auditors has decided to take early retirement this summer. A recruitment exercise is underway, but if we are not able to recruit an experienced replacement the resource of the team will be significantly depleted (i.e. reduced by a quarter) and this will have an impact on our ability to deliver the approved audit plan for 2018-19.
- 2.7.4 As mentioned in the covering report for the draft Audit Plan submitted to the Governance and Ethics Committee in May 2018, the reduction of the team over the last few years to four members of staff has resulted in a longer timeframe between audit reviews. As the reduction to the team only occurred over the last couple of years, there is still a high proportion of audits that have recent coverage. This will not be the case in the next few years, where the extended timeframes between audit coverage will begin to show, and this will then highlight a shortfall in the level of resource considered necessary to deliver an effective internal audit service. Any further staffing reductions would have a severe impact on the Audit team being able to deliver a reasonable level of assurance work for the Council.

## 2.8 Audit Plan Coverage

- 2.8.1 The following table shows the level of time spent in each type of audit activity compared with the planned time:-

<b>Audit Activity</b>	<b>Planned Time</b>	<b>Actual Time (up to allocated project time budgets)</b>
Assurance work – Corporate	448	343
Assurance Work – schools	59	56
Advisory reviews (planned and requested in year)	16	28
Plan preparation and Monitoring (corporate and schools)	22	31
Adhoc advice requests (corporate and schools)	20	38
Follow – ups	40	22
Other (support for G&E, external liaison)	11	8
<b>Total Days</b>	<b>616</b>	<b>526</b>
(These are the totals that are used to calculate the productivity percentage i.e. the 85% referred to in 2.7.1)		

### 3. Options for consideration

Not applicable, the report is for information only.

### 4. Proposals

To note the content of the report.

### 5. Conclusion

This report was produced to provide the Audit Manager's opinion on the Council's governance, risk management and control framework for 2017-18.

### 6. Consultation and Engagement

The Council's Section 151 Officer and Monitoring Officer.

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#### Background Papers:

##### Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months	<input type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	<input checked="" type="checkbox"/>

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#### Wards affected: All

#### Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim(s):

☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority(ies):

☒ **MEC1 – Become an even more effective Council**

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