
Internal Audit Annual Assurance Report 2018/19 - Supporting Information

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. No system of control can provide absolute assurance against material misstatement or loss, therefore Internal Audit can only provide reasonable assurance. This year there was only one audit that had a less than satisfactory audit opinion. As with previous years, the number of limited assurance reports is very low, which is the key criteria on which this annual audit opinion is based. Work on the key financial systems has concluded that they continue to be well controlled.
- 2.2.2 Last year the responsibility for overseeing the risk management governance framework moved to Strategic Support. Since that time changes have been made to the Council’s Risk Management procedures. 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.

*** For context - Assurance Opinion Categories:-**

**Limited
Reasonable**

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
0	1	6	5	1

Schools

Very Weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
0	0	4	4	0

2.3.3 The tables include seven 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. There was only one audit deemed to be weak, which was the review of the Use of Procurement Cards, and although it has a Council wide implication, there are relatively low values involved.

2.3.5 There were also two 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:-

Satisfactory Follow-up	Unsatisfactory Follow-up
3	0

2.4 Details of the Key Findings for the Audit with a Weak Opinion

(1) Use of Procurement Cards

- (a) A previous audit undertaken in 2014 and followed up in 2016 identified there were a number of weaknesses in how the cards were being utilised across the Council. The current audit was requested to be included in the Audit Plan again to assess whether there has been any improvement with services following the required procedures. For

context, in 2017/18 expenditure incurred using the cards totalled £87,500.

- (b) Internal Audit found similar issues to the ones identified during the previous review with services not following the requirements of the guidance.
- (c) The main weaknesses found related to there not always being a reconciliation of expenditure incurred to the bank statements, or where a reconciliation is undertaken, it is undertaken by the cardholder and therefore there is a lack of separation of duties.
- (d) Where there was an independent bank reconciliation, the person carrying it out had physical access to the card so there was a risk of inappropriate use of the card that would not be identified.
- (e) There were some services that were completing the log of expenditure after the bank statement had been received, using the details from the statements rather than from the documents completed to support each transaction.
- (f) There was one service that was not identifying VAT on any of the purchases made using their card.
- (g) There was however, a good level of compliance regarding the documentation obtained to support each transaction, and we did not identify any inappropriate purchases.

2.6 Internal Audit Work Progress Update since the last Quarterly Report (as at the end of December)

The last Plan progress update was reported to the Governance and Ethics Committee in March, attached to this report are two appendices listing the work undertaken up until the end of the financial year, with completed work Appendix D, and work in progress 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 2018/19 the actual result was 81%. This is lower than the previous year's achievement of 85%. There were contributory factors impacting on performance, there was a trainee in the auditor post and there were periods where two posts had been vacant.
- 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. The external assessment was undertaken in May last year. The outcome of which was 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 were used as the basis of setting up a quality assurance improvement programme, which is a requirement under the PSIAS. The Audit

Manager will provide the Committee with an update on progress of the Improvement Programme as part of the next Audit Plan Update Report.

2.7.3 The Audit Team consists of four staff; the Audit Manager and three senior auditors. A budget pressure was agreed for this year to change the vacant auditor post to a senior auditor. A recruitment exercise has been undertaken and the new senior auditor commences in July.

2.7.4 As mentioned in previous update reports provided to the Governance and Ethics Committee, the reduction of the team over the last few years to four members of staff has resulted in a longer timeframe between audit reviews. The plan put together for 2019/2022 shows that there is a shortfall in the number of audit days available in the second and third year. If there is no change in the audit resource this will therefore result in the audit frequencies needing to be revisited and extended.

2.8 Audit Plan Actual Coverage

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

Audit Activity	Planned Time	Actual Time (up to allocated project time budgets)
Assurance work – Corporate	458	261
Assurance Work – schools	58	76
Advisory reviews (planned and requested in year)	15	67
Plan preparation and Monitoring (corporate and schools)	30	31
External Assessment Work	5	5
Adhoc advice requests (corporate and schools)	30	38
Follow – ups	40	17
Other (support for G&E, external liaison)	16	28
Grant Work	20	21
Total Days	672	544

(These are the totals that are used to calculate the productivity percentage i.e. the 81% referred to in 2.7.1)

2.8.2 Notes to support the information in the table at point 2.8.1 above:-

- (a) The large number of unplanned days spent on advisory work was due to a number of requests being received during the year, specifically in relation to the Adult Social Care budget situation and assistance with a conflict of interest issue. The number of days spent on schools was over the planned days as a request was made to carry out a school investigation.
- (b) The Audit Manager undertook a large proportion of the unplanned work. This accounted for 43% of her time, which has had a significant impact in causing delays in audit work being reviewed/draft reports issued.
- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The planned work not undertaken is then reviewed as part of risk assessing and preparing the new audit plan, and rescheduled into the following year where deemed appropriate.

3. Options for consideration

3.1 Not applicable, the report is for information only.

4. Proposals

4.1 To note the content of the report.

5. Conclusion

5.1 This report was produced to provide the Audit Manager's opinion on the Council's governance, risk management and control framework for 2018/19.

6. Consultation and Engagement

6.1 The Council's Section 151 Officer and Monitoring Officer.

Subject to Call-In:

No:

Report is to note only



Officer details:

Name: Julie Gillhespey
Job Title: Audit Manager
Tel No: 01635 519455
E-mail Address: julie.gillhespey@westberks.gov.uk
