

Report of the Chief Audit and Control Officer**INTERNAL AUDIT REVIEW 2017/18**1. Purpose of report

To inform the Committee of the work of Internal Audit during 2017/18.

2. Detail

Under the Council's Constitution and as part of the overall governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

In accordance with the Public Sector Internal Audit Standards, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), the Chief Audit and Control Officer must deliver an annual internal audit opinion and report that can be used by the authority to inform its Annual Governance Statement. The Internal Audit Annual Review Report for 2017/18 is included in the appendix.

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Review Report and from comments made by the external auditors and other inspectorates.

The system of internal control has been reviewed. It is the opinion of the Chief Audit and Control Officer that the current internal control environment is satisfactory such as to maintain the adequacy of the governance framework. In terms of the audits completed, it was found that services are operating with appropriate internal controls. Where actions have been agreed, progress is largely being made for their implementation. Where this is not the case, outstanding significant recommendations are reported to this Committee as part of the regular progress reports.

Overall, 89% of the revised planned audits were complete or awaiting finalisation at the year-end, which is slightly below the target of 90%. All outstanding and deferred audits will now be completed as early as practicable in 2018/19.

Recommendation

The Committee is asked to NOTE the work of Internal Audit in 2017/18.

Background papers

Nil



Internal Audit Annual Review Report 2017/18

1. INTRODUCTION AND BACKGROUND

This annual review report provides a summary of Internal Audit activities for the year ended 31 March 2018.

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. The Public Sector Internal Audit Standards and the Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Public Sector Internal Audit Standards requires the Chief Audit and Control Officer, as the Council's designated 'chief audit executive', to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion, and;
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

2. OPINION ON THE OVERALL ADEQUACY AND EFFECTIVENESS OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Review Report and by comments made by the external auditors and other review agencies and inspectorates.

A periodical review of the effectiveness of the system of internal audit helps to ensure that the opinion in this report may be relied upon as a key source of evidence in the Annual Governance Statement. The latest review found Internal Audit to be sufficiently compliant with the requirements of the Public Sector Internal Audit Standards to ensure that the opinion given in this annual review report can be relied upon for assurance purposes.

There are no causes of concern with regard to the independence and objectivity of Internal Audit. Whilst reporting administratively to the Deputy Chief Executive (fulfilling the duties of Section 151 of the Local Government Act 1972), the Chief Audit and Control Officer also has:

- free and unrestricted access to the General Management Team.
- free and unrestricted access to the Governance, Audit and Standards Committee (or equivalent) and attends all of its meetings
- the right to meet with the Chair of the Governance, Audit and Standards Committee (or equivalent) and/or the relevant Member Portfolio Holder to discuss any matters or concerns that have arisen from Internal Audit work.

Internal Audit has reviewed the systems of internal control and should provide an opinion on both the corporate and service specific standards in place.

It is the opinion of the Chief Audit and Control Officer that the current internal control environment is satisfactory such as to maintain the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

In terms of audits completed, it was found that services are carried out with the appropriate internal controls. Where actions have been agreed, progress is largely being made for their implementation. Where this is not the case, any outstanding significant recommendation is reported to the Governance, Audit and Standards Committee as part of the regular progress reports.

3. QUALIFICATIONS

The opinions expressed in this report have been based upon the work carried out by Internal Audit for the year ended 31 March 2018 (and subsequent to year-end) and reports received from the Council's external auditors.

4. ISSUES RELEVANT TO THE ANNUAL GOVERNANCE STATEMENT

The Governance, Audit and Standards Committee considered significant governance issues as part of the draft Annual Governance Statement for 2017/18 at its meeting on 21 May 2018.

The Chief Audit and Control Officer has reviewed the draft Annual Governance Statement for 2017/18. The significant governance issues raised in the latest statement were found to be appropriate. It was also found that the issues carried forward from the previous year had been addressed or were ongoing items that were in the process of being addressed.

With regard to the audits completed during the year, no actions were classed as being fundamental where action was considered imperative to ensure that the Council was not exposed to high risks. Where a limited assurance opinion was issued, the outstanding actions from these audits are not thought to be relevant to the preparation of the Annual Governance Statement.

5. SUMMARY OF INTERNAL AUDIT ACTIVITY 2017/18

5.1 Performance Overview

A summary comparison of actual coverage in each area of audit activity against the annual plan for 2017/18 is shown in appendix 1. The list of audit reports issued during the year ended 31 March 2018 (and beyond for 2017/18 audits) is included at appendix 2. This list includes the levels of assurance that have been taken from each audit and the number of recommendations that were made.

Overall, 89% of the revised planned audits were completed or awaiting finalisation at the year-end, which is slightly below the target of 90%. A total of 13 audits were planned and completed in respect of the key financial systems, with the audits of Benefits, Financial Resilience and Sundry Debtors being substantively completed by 30 June 2018. All outstanding and deferred audits will be reconsidered as early as practicable in 2018/19.

During the period April 2017 to March 2018, 40 audit reports were issued (including eleven in respect of 2016/17) with a further 12 reports awaiting finalisation. The reports included 55 recommendations, of which 14 were considered to be 'significant'. No recommendation was classed as fundamental where action was considered imperative to ensure that the Council was not exposed to high risks.

A limited assurance opinion was issued in respect of the audits of Procurement and Stores. This opinion is given where Internal Audit considered that controls within the respective systems provided limited assurance that risks material to the achievement of the system's objectives are adequately managed. The outstanding issues from these audits are not thought to be sufficient to affect the overall opinion.

5.2 Internal Audit Resources

All three of the established officers at the commencement of the audit year remained in post throughout the period.

A Senior Internal Auditor had an application for additional unpaid leave approved in 2017/18. Whilst this generated a small financial saving, a total of 15 audit days was lost from the resources available.

No additional resources were requested to complete the revised audit plan.

5.3 Internal Audit Activity

A comparison of actual audit-days incurred for each area of audit activity against the resources allocated in the audit plan is shown in appendix 1.

A summary narrative of each audit completed during the year was included within the progress reports considered by the Governance, Audit and Standards Committee.

a. System, Functional and Departmental Audits

The total time spent on audits was not in accordance with planned allocations due to:

- the need to reassess priorities during the year because of the circumstances identified in some reviews
- adjustment of priorities in order to meet the requirements of senior management and the external auditors
- the need to re-arrange audits and timings to meet the service expectations of client departments
- extra time allocated to complete the following audit areas:

	<u>Audit-days</u>
Asset Register	7
Benefits	6

It was considered that the budget allocations for the above areas were insufficient to accommodate the necessary level of testing. This will be monitored in future to assess whether allocations need to be increased or the level of audit coverage decreased. It should be noted that some of the remaining areas within the audit plan provided audit-day savings.

A number of audit reports were still to be finalised as at 31 March 2018 including the reviews of Benefits, Construction (Design and Management) Regulations, Financial Resilience, Gas Safety Servicing and Maintenance, Human Resources, Parks and Grounds Maintenance and Serious and Organised Crime. Only a nominal amount of audit time was needed to finalise these reports.

In addition, the following reviews were still to be completed at the year-end. The time anticipated to complete this work in 2017/18 is 10 audit-days as follows:

	<u>Audit-days</u>
Procurement	5
Risk Management	3
Choice Based Lettings	2

The audits of Corporate Governance and Information Governance have been deferred for inclusion in the audit plan for 2018/19. The audits of Computer/ICT and Sundry Debtors are nearing completion having been amalgamated with the 2018/19 audit. Following developments during the course of the year, the audits of Fees and Charges and Local Authority Trading Company has been postponed.

b. Contract Audit

Whilst no specific time has been directly charged to contract audit during the year, Internal Audit has considered contracts as part of service reviews. In addition some audit work has been completed on the following contract related areas:

- assessments of the financial viability of potential contractors, suppliers and service providers applying to be considered for a number of tendered contracts
- reviewing the adequacy of the current arrangements and controls operating within the Environment Division, including Stores and Trade Waste Collection.

c. Special Investigations

Internal Audit completed 23 days of work on the following special investigations in 2017/18:

- A review of the list of users for the Capita OPEN Housing system in light of earlier enquiries made by the Council's external auditors (2 days)
- An audit of the Local Authorities Housing Statistics (LAHS) return prior to submission to Central Government (4 days)
- An investigation into concerns relating to the operation of a Social Activity Group Fund at a retirement living scheme, undertaken at the request of the Interim Senior Housing Manager (4 days)
- Associated work to support the Head of Finance Services with the production of property values required for the annual Statement of Accounts (5 days).
- Work involved in responding enquiries from the Council's external auditors relating to the Statement of Accounts (3 days)

- A review of the Pre-Eviction Protocol for Rent Arrears to confirm that the Protocol complies with legislation and is operating appropriately and effectively (5 days).

d. Value for Money Reviews (VFM)

Whilst Internal Audit did not undertake specific VFM project work in 2017/18, all systems and service reviews were completed with due consideration to the principles of economy, efficiency and effectiveness.

e. Erewash Audit

The collaboration with Erewash Borough Council to provide joint working and management arrangements of internal audit services commenced from April 2015. The key elements of the proposal were considered by the General Purposes and Audit Committee on 9 March 2015.

During 2017/18, a total of 10 audit days was allocated to work completed on behalf of Erewash, including an element of management time. Internal Audit has completed independent audits of their risk management arrangements and provided assurances relating to Bramcote Crematorium. A further review of Cemeteries was finalised in June 2018.

The collaboration with Erewash will continue into 2018/19 with the potential to develop further and allow for opportunities to provide more resilience, help with officer development and produce financial savings for both authorities.

f. Corporate Counter Fraud Activity and National Fraud Initiative (NFI)

A total of 18 audit days was allocated to corporate counter fraud activity in 2017/18 including work to co-ordinate and complete elements of the NFI data matching exercise.

An annual report on counter fraud and corruption and money laundering prevention activity was presented to the Governance, Audit and Standards Committee in March 2017. This included details of activity in 2017 and an action plan for the forthcoming year, the delivery of which will further strengthen the current arrangements in place.

Internal Audit will continue to take a prominent role in leading and co-ordinating anti-fraud and corruption activities. The Chief Audit and Control Officer will be supported in this by procuring specialist fraud investigation services as required from local partners, including Erewash Borough Council.

g. General Audit and Non-Audit

The time allocated to general audit tasks (including the management and general administration of the Internal Audit activity) was 94 audit days, compared to the allowance of 80 days.

The wider remit of the Audit and Control section is reflected in the allocation to 'non-audit' work. The majority of this time reflects the Chief Audit and Control Officer's management of the other control aspects of the section, including corporate performance management/business planning, insurance and risk management, procurement and grant aid, together with an involvement in other corporate management and democratic issues. The time allocated to non-audit activities was 139 audit days, compared to the allowance of 123 days. This overspend was largely attributed to the administrative support provided to the Chief Executive for the elections during 2017.

6. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

6.1 Compliance with Proper Practice

In order to facilitate the review of the effectiveness of internal control required by the Accounts and Audit Regulations 2015, it is necessary for the Council to complete a regular review of the effectiveness of its internal audit.

The latest review was completed in two parts:

- An internal self-assessment review against 'proper practice' consisting of the Public Sector Internal Audit Standards and the Local Government Application Note.
- An External Quality Assessment (EQA) by a qualified, independent assessor from outside of the organisation, which is a periodic requirement of the Standards.

The effectiveness of Internal Audit is not solely judged against the extent of compliance with the Standards since the reviews are about effectiveness and not process. In addition to the self-assessment checklist the following aspects provide evidence to support the review:

- reports on the results of completed audits and setting out significant findings
- reports setting out the Internal Audit Plan for the forthcoming year
- an annual report on the performance of Internal Audit.

The review concluded that progress continues to be made to strengthen the role of Internal Audit at a corporate level, not least through the formal reporting procedures to the Governance, Audit and Standards Committee.

The outcome of the EQA indicated that Internal Audit is substantially compliant with the Standards with some areas for development. Whilst a number of areas where improvements could be made were identified these were not felt to be fundamentally undermining the efficiency and effectiveness of Internal Audit, its role within the organisation or the Chief Audit and Control Officer's ability to assess the internal control environment of the Council. An improvement plan to address those areas where the arrangements are not fully compliant was approved by the Governance, Audit and Standards Committee in March.

6.2 Quality Assurance and Improvement Programme

Overall, 89% of the planned audits were complete or awaiting finalisation at the year-end, which is slightly below the target of 90%. In addition, 92% of the planned audits in respect of the key financial systems were complete or awaiting finalisation at the year-end.

The audits of Benefits and Financial Resilience have been completed since 31 March 2018. The only outstanding audit, in respect of Sundry Debtors, is awaiting finalisation which will be complete by 31 July 2018.

The achievement of a percentage completion of the audit plan is not considered to provide sufficient evidence in itself of the quality of the function. The Chief Audit and Control Officer will continue to develop the formal Quality Assurance and Improvement Programme (QAIP) as referred to in the Internal Audit Charter. The QAIP covers all aspects of Internal Audit activity and include both internal and external quality assessments.

The QAIP should provide sufficient evidence of the efficiency and effectiveness of the Internal Audit activity and enable conformance with all aspects of the Public Sector Internal Audit Standards to be evaluated. The programme should identify opportunities for improvement as appropriate.

The following points are noted with regards to the QAIP:

- An annual review of the effectiveness of internal audit, sufficient to meet the requirements of the Accounts and Audit Regulations 2015 was completed and the overall findings were satisfactory.
- This included an independent EQA which concluded that Internal Audit complies with the expectations of the Standards, which should provide Members with confidence in the assurance work provided by Internal Audit. The Assessor also acknowledged that the service benefits from an experienced team with a range of relevant qualifications, and that it receives positive feedback from Senior Management and from Members. Furthermore, the review outcomes were benchmarked against other providers in both the sector and wider industry and this showed that the team compares favourably against its peers.

- Membership of professional bodies and regional audit groups supports the Chief Audit and Control Officer in identifying best practice and other potential service improvements.
- The Chief Audit and Control Officer undertakes regular quality reviews of the work of the internal audit activity to provide assurance that it complies with the Standards and meets the requirements of the Internal Audit Charter and Internal Audit Direction document.
- In addition to the wider service review, each audit assignment is subject to a quality management review of audit working papers prior to the distribution of the draft audit report for discussion and agreement with senior management.
- Improvement plans arising from any review of internal audit shall be prepared and reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee as appropriate.

Appendix 1

INTERNAL AUDIT ACTIVITY SUMMARY 2017/18

	<u>Original Plan Days</u>	<u>Actual Days</u>
Deputy Chief Executive's Department		
• Corporate	10	5
• Revenues, Benefits and Customer Services	78	87
• Finance Services	29	34
• Environment	26	28
Chief Executive's Department		
• Corporate	18	6
• Department	44	58
Housing and Property Services	61	70
Legal and Planning Services	28	15
Assurance Work	294	303
Local Authority Trading Company	15	11
Corporate Counter Fraud Activity (incl. NFI)	30	18
Audit Follow-up Work	10	5
Audit Erewash	30	10
Contingency (including Special Investigations, Contract Audit, Financial Appraisals, Value for Money and Consultancy)	20	24
	399	371
Annual Leave and Public Holidays	127	134
Sickness and Other Leave	21	16
Training and Seminars	15	11
Audit General	80	94
Non-Audit (including Elections)	123	139
Vacancy/Secondment	15	15
Total Days	780	780

Appendix 2

INTERNAL AUDIT REPORTS ISSUED APRIL 2017 TO MARCH 2018

No	Audit Title	SIA	Report Issued	Opinion	Actions Significant	Merits Attention	IA 2017/18 Complete	Plan
27	Key Reconciliations 2016/17	WL	20/04/17	Substantial	0	1	-	
28	Rent Arrears – Evictions 2016/17	WL	21/04/17	Substantial	-	-	-	
29	Erewash BC - Risk Management	CF	21/04/17	n/a	-	-	-	
30	Rents 2016/17	WL	24/04/17	Substantial	0	0	-	
31	Bank Reconciliation 2016/17	WL	24/04/17	Substantial	0	0	-	
01	Erewash BC – Health and Safety	CF	09/05/17	n/a	-	-	-	
32	Flexi-time Management 2016/17	CF	11/05/17	Reasonable	1	2	-	
33	Information Management 2016/17	CF	12/05/17	Reasonable	0	4	-	
34	Shared Services 2016/17	CF	23/05/17	Substantial	0	0	-	
35	Benefits 2016/17	CF	24/05/17	Reasonable	1	1	-	
36	Beeston Square 2016/17	WL	05/07/17	Reasonable	0	3	-	
02	Capita OPEN Housing System Users	WL	10/07/17	n/a	-	-	-	
37	Chilwell Olympia 2016/17	WL	20/07/17	Substantial	0	0	-	
03	Cash Receipting	CF	31/07/17	Reasonable	1	3	3%	
38	Sundry Debtors 2016/17	CF	10/08/17	Reasonable	1	0	-	
04	Local Auth. Housing Statistics Return	WL	08/09/17	Substantial	0	0	-	
05	Asset Register (Estates Management)	CF	15/09/17	Reasonable	1	2	6%	
06	Creditors and Purchasing	WL	15/09/17	Reasonable	1	2	8%	
07	Land Charges	CF	15/09/17	Substantial	0	0	11%	
08	Payroll	WL	15/09/17	Reasonable	1	1	14%	
09	Car Parking	CF	15/09/17	Substantial	0	1	17%	
10	Disabled Facilities Grants	WL	19/10/17	Substantial	0	0	19%	
11	Prospective Tenant at The Square	CF	26/10/17	n/a	-	-	-	
12	Willow Court Social Fund	WL	02/11/17	n/a	-	-	-	
13	Capital Works	CF	10/11/17	Substantial	0	1	22%	
14	NNDR	WL	21/11/17	Substantial	0	0	25%	
15	Planning Applications and Income	CF	23/11/17	Substantial	0	1	28%	
16	Treasury Management	WL	23/11/17	Substantial	0	2	30%	
17	Fin App - Replacement CRM System	CF	04/12/17	n/a	-	-	-	
18	Housing Repairs	CF	22/01/18	Reasonable	1	2	32%	
19	LLL – Leisure Membership Scheme	CF	22/01/18	Substantial	0	0	35%	
20	HiMO Licences	WL	23/01/18	Substantial	0	4	38%	
21	Stores	CF	31/01/18	LIMITED	2	1	41%	
22	LLL – Kimberley Leisure Centre	CF	07/02/18	Substantial	0	1	43%	
23	Trade Waste	CF	07/02/18	Substantial	0	0	46%	
24	Council Tax	WL	20/02/18	Substantial	0	1	49%	
25	Key Reconciliations	WL	01/03/18	Substantial	0	0	51%	
26	Bank Reconciliation	WL	06/03/18	Substantial	0	0	54%	
27	Rents	WL	20/03/18	Substantial	0	0	57%	
28	Pre-Eviction Protocol for Rent Arrears	WL	21/03/18	Substantial	0	0	-	
Sub-total					10	33		

INTERNAL AUDIT REPORTS 2017/18 ISSUED POST-MARCH 2018

No	Audit Title	SIA	Report Issued	Opinion	Actions Significant	Merits Attention	IA Plan 2017/18 Complete
29	Gas Safety Servicing and Maintenance	CF	20/04/18	Substantial	0	1	59%
30	Financial Resilience	CF	14/05/18	Substantial	0	0	62%
31	CDM Regulations	CF	18/05/18	Reasonable	1	0	65%
32	Human Resources	CF	22/05/18	Substantial	1	1	68%
03	Procurement	CF	07/06/18	LIMITED	1	1	70%
33	Benefits	WL	12/06/18	Reasonable	1	0	73%
34	Risk Management	CF	25/06/18	Substantial	0	3	76%
35	Parks and Grounds Maintenance	WL	28/06/18	Substantial	0	1	78%
36	Choice Based Lettings	CF	30/06/18	Substantial	0	1	81%
Total					4	8	

REMAINING INTERNAL AUDIT PLAN 2017/18

No	Audit Title	SIA/ Days	Progress	IA Plan Complete
	Serious and Organised Crime Audit	WL	Draft report issued	84%
	Sundry Debtors	WL	Draft report issued (Amalgamate with 2018/19 audit)	86%
	Computer/ICT	WL	Ongoing (Amalgamate with 2018/19 audit)	89%
	Information Governance (Management)	8	Audit deferred to 2018/19	92%
	Corporate Governance	8	Audit deferred to 2018/19	95%
	Fees and Charges	5	Audit postponed	97%
	Local Authority Trading Company	5	Audit postponed	100%