

AUDIT COMMITTEE

28 June 2016

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2015 - 2016

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

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RECENT REFERENCES:

AUD112 - Internal Audit Plan 2015-16

AUD124 - Internal Audit Report and Opinion 2014-15

AUD129 - Internal Audit Progress Report 2015-16 – September 2015

AUD138 - Internal Audit Progress Report 2015-16 – December 2015

AUD147 - Internal Audit Progress Report 2015-16 – March 2016

AUD162 - Internal Audit Progress Report 2015-16 – June 2016

EXECUTIVE SUMMARY:

The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for 2015 – 2016.

RECOMMENDATION:

- 1 The Audit Committee accept the Chief Internal Auditor's annual report and opinion for 2015 - 2016 attached as Appendix 1.

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DETAIL:

1 Introduction

The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for 2015–16.

2 Summary

- 2.1 In accordance with the Public Sector Internal Audit Standards, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control to inform the production of the Annual Governance Statement.
- 2.2 The annual report for 2015-16 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises the audit work from which that opinion is derived for the year ending 31 March 2016.
- 2.3 The Audit Committee's attention is drawn to the following points:
- Internal audit was compliant with the Public Sector Internal Audit Standards during 2015-16;
 - The revised internal audit plan for 2015-16 has been substantially delivered;
 - The Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice; and
 - Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

OTHER CONSIDERATIONS:

3 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

3.1 Internal audit plays a vital role in helping the organisation accomplish its objectives, strategies and change plans by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4 RESOURCE IMPLICATIONS:

4.1 The Internal Audit Plan is comprised of 453 resource days and the cost for 2015/16 was £131,370.

5 RISK MANAGEMENT ISSUES

5.1 The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

5.2 The audit needs assessment includes a range of factors. For example:-

- Materiality – the relative significance of the area concerned, affected by the level of income/expenditure, external consequences etc;
- Organisational impact/Corporate importance – the extent to which the organisation depends upon the efficient and effective operation of the system to deliver corporate objectives;
- Impact of management and staff – management concerns, identified problem areas, the extent of staff or system changes etc.;
- Vulnerability – the extent to which the system is vulnerable to breakdown, loss or error, corruption etc.;
- Audit/Inspection - length of time since the last review and the results of previous audits;
- Other sources of assurance – the extent to which reliance can be placed upon other external inspections.

5.3 The Southern Internal Audit Partnership follow a risk based audit approach in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix 1 – Annual Internal Audit Report and Opinion 2015 - 2016.

Annual Internal Audit Report & Opinion

2015 - 16

Winchester City Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Winchester City Council's audit need that has been covered within the period.

Audit Opinion

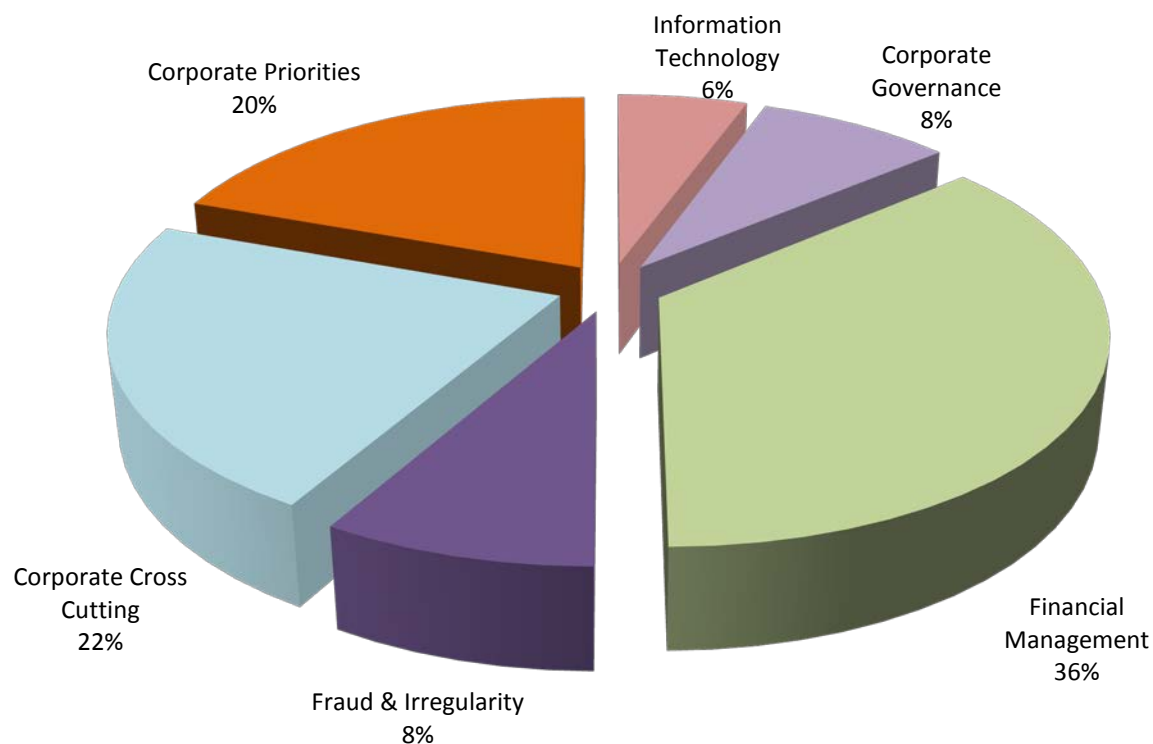
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Winchester City Council's internal control environment.

In my opinion, Winchester City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2015-16 Internal audit plan, approved by the Audit Committee 12 March 2015, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

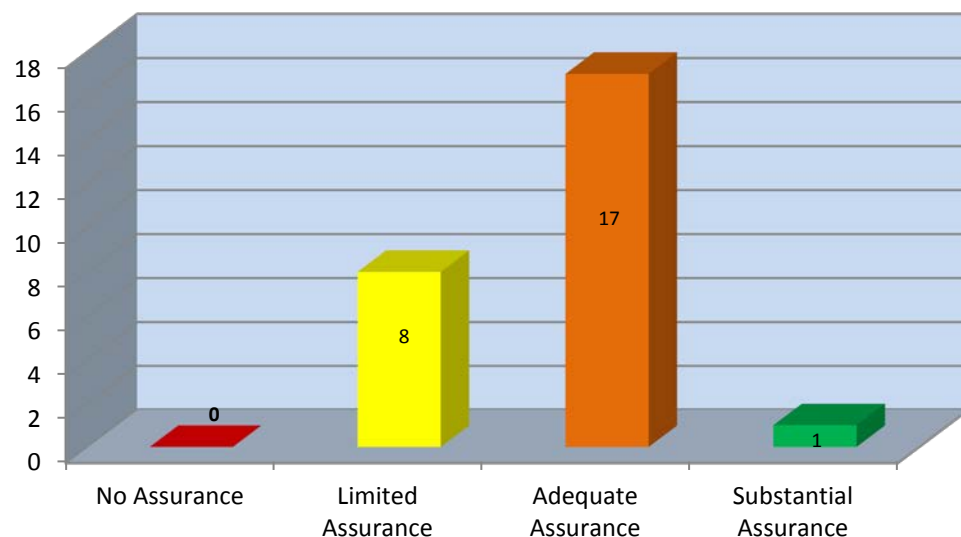
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership delivered 37 review areas over the course of the year ending 31 March 2016 including the completion of carry forward reviews.

The revised 2015-16 internal audit plan has been delivered with the following exceptions:

- Work is complete and an opinion has been formed for four reviews, however, the final reports have not yet been agreed with management (2 * Procurement and Contract Management , Guildhall and Landscape)
- Fieldwork is currently in progress for two reviews (Capital and Fieldfare) and these have therefore not been included within this assurance opinion.

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

*9 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping or fraud & irregularity investigations/pro-active fraud work

5. Significant Issues Arising

Asset Management

The Asset Management Plan presented in 2011 indicated there would be formal updates on progress and an overview of the corporate property portfolio, e.g. the status of the backlog in repairs however there has been little in the way of formal reporting to senior management and Members.

Other than for major projects, we were unable to identify documented prioritised programmes and plans for maintaining the corporate property portfolio. The Asset Management Plan 2011 contains a high level expression of intent to maintain properties and the overall estimated funding. Provision for repairs and maintenance are provided for in the budget. Although detailed property condition surveys were seen at the time of the audit, we were unable to see an over-arching planned programme for maintenance activities, and concluded that largely, the budget is a driving factor in the maintenance work that can be afforded. We are assured that safety aspects are dealt with when they are identified. An inspection programme was produced after the audit fieldwork was completed, and it is the role of a post (currently vacant) to bring together the condition surveys and the inspection programme.

Income collection

A thematic review of income collection across five areas of the organisation (Cemeteries, Markets, Animal Licensing, Licensing and Residential Parking Permits) was undertaken. The review highlighted occasions where local procedures were incomplete or absent, and charging policies for fees had not been updated for a number of years. There was no record of the amount of income due for most income types, against which a reconciliation of the income collected and recorded could be completed. Additionally there was a lack of segregation of duties across the collection, banking and recording of income.

There are no reconciliations to Civica Financials for most income types, to ensure all income is correctly recorded. Testing identified discrepancies in the amounts recorded with some income being paid to the wrong cost centres, some on-line payments not being posted to cost centres, and the absence of an audit trail for some transactions recorded on Civica Financials.

Debt reports are not received or regularly monitored for invoices raised by some (two) departments.

Business Continuity

The Authority carried out a strategic review of all activities in 2004 which resulted in the identification of a range of critical functions. Since this initial strategic review was carried out there have been changes to the services delivered by the Council and significant technological changes altering the way services are delivered and how officers work. The changes have not been reflected in updated critical function plans. We believe that the risk environment has changed and that a comprehensive review of what constitutes a critical function would be beneficial.

The majority of the critical function business continuity plans are maintained by the Principal Democratic Services Officer and these were last updated in October 2013. The Business Continuity Management Policy document clearly assigns responsibility for the maintenance of the critical function plans to the Heads of Teams. We observed that staff changes over the last two years have resulted in many plans becoming out of date and in one case (Sheltered Housing) it is the lead officer that has left. We consider that the Principal Democratic Services Officer is not best placed to be aware of such changes and that the stated intention in the Policy should be applied.

The majority of officers involved in leading the business continuity plans for their functions were clearly aware of the role that they needed to fulfil. However we confirmed that few of the critical function plans have been tested in recent years leaving the Authority exposed to the risk that the plans are not fit for purpose and would not enable the function to be maintained and recovered in line with expectations.

Procurement and Contract Management

Two reviews were undertaken (Street Markets and Housing Cleaning). No competitive tendering of the Street Markets contract had taken place at the outset, despite an aggregate contract value in excess of EU procurement thresholds. The subsequent Agreement, put in place with the contractor in 2012/13, was based on a one year arrangement however the Agreement has been subsequently renewed every year, despite no appropriately approved Exemption being granted.

With regards to Housing Cleaning, the PQQ tender document stipulated the need for the contractor to undertake DBS checks on its staff however there is currently no assurance check performed by Housing to confirm DBS checks are being undertaken. There is therefore a potential safeguarding risk to recipients of the service.

There are regular contract liaison meetings occurring with both contracts however neither contract adequately stipulates performance targets.

6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signalling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

Dataset	Recommended matches	Matches investigated	Investigations in progress	Frauds / errors identified	Fraud / error value £
Benefits	227	537	4	3	9,798.04
Payroll	2	20	1	0	0
Housing	58	60	9	0	0
Concessionary passes	12	16	0	0	0
Creditors	198	343	0	0	0
Single person discount	3,135	701	1	204	0
Rising 18s	272	207	0	0	0

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015. Work was carried out during 2015/16 to review identified 'recommended matches' for fraudulent activity. The outcomes from review of the NFI matches is detailed in the table above.

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2015 the details of internal audit's involvement in counter fraud work is summarised below:

Local Government Transparency Code 2015	01.04.15 – 31.03.16
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	11 days*
Total number of fraud cases investigated	0**

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the Southern Internal Audit Partnership.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

The assessment included review of a wide range of documentary evidence and interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the Southern Internal Audit Partnership staff.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

Assessment against the Standards was assessed as:

Summary of Conformance	Standards	IPPF	PSIAS	LGAN	N/A	Total
		Generally Conforms	Generally Conforms	Generally Conforms		
Definition of IA and Code of Ethics	Rules of conduct	5	11	-		16
Purpose	1000 – 1130	7	30	18	2	57
People	1200 – 1230	4	13	4		21
Performance	1300 – 1322	7	11	9	2	29
Planning	2000 – 2130	12	55	11		78
Process	2200 – 2600	21	103	18		142
Total		56	223	60	4	343

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to: the Definition of Internal Auditing; the Code of Ethics; and the Standards’.

There are no disclosures of Non-Conformance to report.



9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2015-16 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2014-15 Actual (%)		2015-16 Actual (%)
Revised plan delivered (including carry forward)	94		95*
Positive responses to customer survey **	-		97
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

*attributable to two reviews where fieldwork remains in progress.

** Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including the Governance and Audit Committee Chairman, the Executive Board and key contacts.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Winchester City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2016