

REPORT TITLE: ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018/19

13 JUNE 2019

REPORT OF PORTFOLIO HOLDER: COUNCILLOR CUTLER – PORTFOLIO
HOLDER FOR FINANCE AND RISK

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WARD(S): ALL

PURPOSE

The purpose of this paper is to provide the Audit and Governance 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 2018/19.

RECOMMENDATION:

1. The Audit and Governance Committee accept the Chief Internal Auditor's annual report and opinion for 2018/19 attached as Appendix 1.

IMPLICATIONS:1 COUNCIL STRATEGY OUTCOME

- 1.1 Internal audit plays a vital role in supporting the Council accomplish its strategic outcomes and service plan objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2 FINANCIAL IMPLICATIONS

- 2.1 The Internal Audit Plan is comprised of 310 resource days and was delivered within the agreed budget.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None.

4 WORKFORCE IMPLICATIONS

- 4.1 None.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None.

6 CONSULTATION AND COMMUNICATION

- 6.1 The Corporate Governance Group and the Strategic Director (Resources) has been consulted on the contents of the Annual Internal Audit Report and Opinion 2018/19.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 None.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required.

10 RISK MANAGEMENT

- 10.1 The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.
- 10.2 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.

10.3 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.

| Risk | Mitigation | Opportunities |
|------------------------|---|---|
| <i>Financial / VfM</i> | Internal audit supports the Council to ensure proper financial management through its audit activities and assurance service. | Sound financial management ensures that the Council is making best use of public money and achieving value for money for the residents of the District. |

11 SUPPORTING INFORMATION:

11.1 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.

- 11.2 The Annual Report for 2018/19 (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 2019.
- 11.3 The Audit and Governance Committee's attention is drawn to the following points:
- Internal audit was compliant with the Public Sector Internal Audit Standards during 2018/19;
 - The revised internal audit plan for 2018/19 has been substantially delivered;
 - The Council's framework of governance, risk management and control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice; and
 - Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD203 – Internal Audit Plan 2018/19

AUD213 – Annual Audit Report and Opinion 2017/18

Other Background Documents:-

None.

APPENDICES:

Appendix 1 – Annual Internal Audit Report and Opinion 2018/19

Annual Internal Audit Report & Opinion

2018 - 19

Winchester City Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

Contents

| Section | Page |
|---------------------------------------|------|
| 1. Role of Internal Audit | 3 |
| 2. Internal Audit Approach | 4 |
| 3. Internal Audit Opinion | 5 |
| 4. Internal Audit Coverage and Output | 6-7 |
| 5. Key Observations | 8 |
| 6. Anti-Fraud and Corruption | 9 |
| 7. Quality Assurance and Improvement | 9 |
| 8. Disclosure of Non-Conformance | 10 |
| 9. Quality Control | 10 |
| 10. Internal Audit Performance | 11 |
| 11. Acknowledgement | 11 |

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 [the Standards – updated 2017].

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 organisation’s 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 organisation’s 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 Deputy Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisation's 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 Deputy Head of the Southern Internal Audit Partnership (SIAP) is the Council's Chief Internal Auditor and is responsible for the delivery of an annual audit opinion and report that can be used by Winchester City 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.

Annual Internal Audit Opinion 2018-19

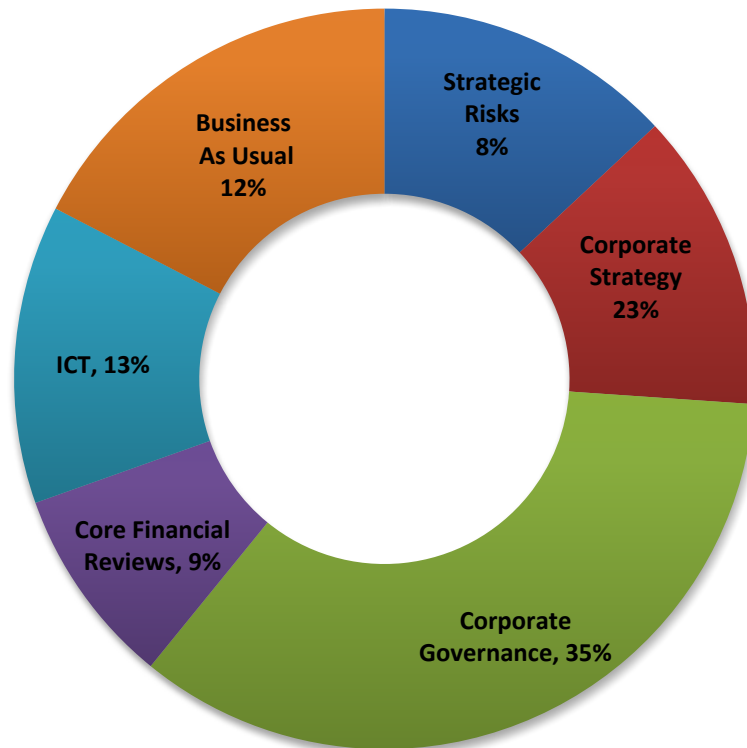
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Winchester City Council's internal control environment.

In my opinion, Winchester City Council's framework of governance, risk management and 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 timescales 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 2018-19 Internal audit plan, approved by the Audit Committee on 08 March 2018, 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.

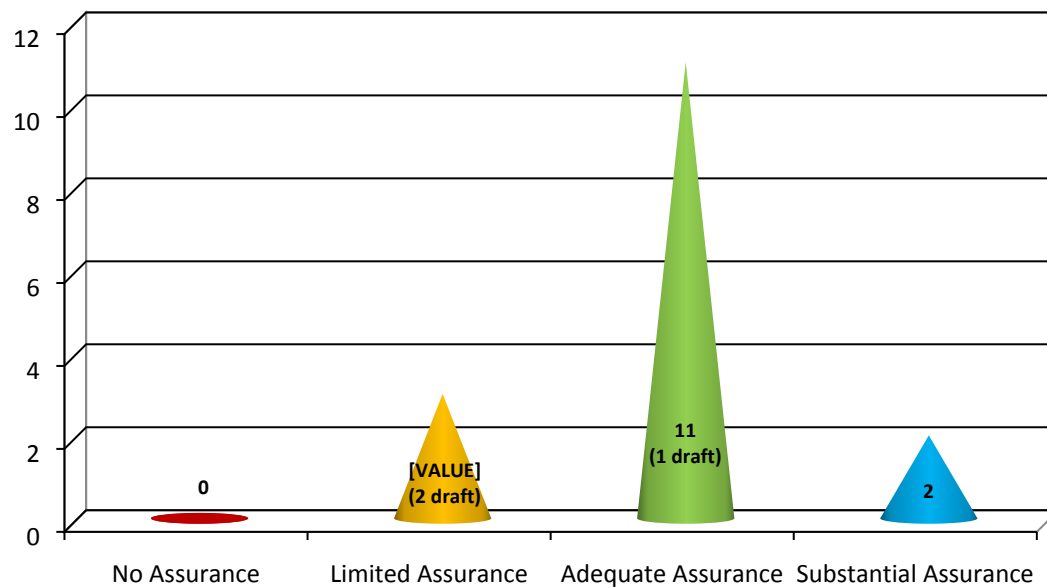
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 23 reviews during the year ending 31 March 2019.

The revised 2018-19 internal audit plan has been delivered with the following exceptions:

- Fieldwork is complete and an opinion has been formed for three reviews, however, the final reports have not yet been agreed with management (HR – Use of Agency Staff; Main Accounting including Reconciliations; and Mobile Devices).

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.

*7 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, grant certification or concluded with a position statement.

A list of the 2018-19 assurance reviews undertaken and their respective opinions is provided in Annex 1

5. Key Observations

There were no 'No Assurance' opinions issued during the year. In general, internal audit work found there to be sound control environments in place across a majority of review areas that were working effectively to support the delivery of corporate objectives. Three reviews concluded with a 'Limited Assurance' opinion.

Main Accounting (including bank reconciliations) – Whilst the audit found appropriate arrangements in place for most aspects of the main accounting system, concerns were identified through discussion with WCC staff regarding bank reconciliations. SIAP undertook a detailed month by month review of all reconciliations from March 2017 onwards which identified control issues across both the Drawings and Income Account reconciliations, including inconsistencies within the reconciliation spreadsheets and the carry-forward of aged reconciling items without appropriate processes in place to ensure they were isolated from genuine timing differences and compliantly resolved.

A subsequent internal review undertaken by appropriate WCC Finance staff resulted in an enhancement to the Income Account reconciliation and exercises undertaken to identify and resolve aged balancing items. At the time of writing, responsibilities for the reconciliations are being reassigned and new procedures and controls are being developed and documented to help ensure robust reconciliations going forward.

HR – Use of Agency Staff - There is a single provider agreement for the use of agency staff and an HR authorisation process when other agencies are utilised however the authorisation process is not sufficiently documented and there was a lack of available, consistent evidence that HR had oversight of, and approved the use of, other agencies. Additionally, there was a clear lack of evidence to support that any role requisite checks or skills requirements had been communicated to the agencies prior to engagement, or evidence to demonstrate that appropriate induction had been provided, therefore that Agency Worker Regulations had been complied with.

Health and Safety – Following the appointment of a Facilities/Health and Safety Manager in April 2018, significant progress has been made with the Council's arrangements for Health and Safety including the re-writing and approval of an overarching Health and Safety policy, supplemented by underlying procedures and guidance. However, at the time of the review there was no master list detailing the risk assessments required for each area of the Council's operations or central record of the assessments undertaken. The review found that the majority of risk assessments had not been recently reviewed or updated therefore the assessments in place may not reflect current activities or associated risks. The Health and Safety Management Plan sets out the process for completing, checking and reviewing risk assessments going forward.

Developing systems assurance - The Council identified key areas where greater central support was required and during 2018/19, SIAP worked with the Authority to assess and inform whether the proposed, enhanced arrangements for Programme and Project Management; Transformation; and Contract Management would help to provide more effective governance, risk management and control prior to implementation. SIAP will follow-up and assess the new frameworks in operation during 2019/20.

6. Anti-Fraud and Corruption

Winchester City Council is committed to high standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of the Council's services. Policies and strategies are in place setting out the organisations approach and commitment to the prevention and detection of fraud and corruption.

During the year the Southern Internal Audit Partnership have proactively engaged with the Council in:

- Delivery of fraud awareness and cybercrime training to officers;
- A fraud focused review of Right to Buy processes;
- Facilitation of National Fraud Initiative (NFI) uploads;
- Completion of the CIPFA fraud survey; and
- Provision of general fraud consultancy and advice.

The Southern Internal Audit Partnership were also commissioned to undertake one reactive review following allegations received through the Council's 'Whistleblowing Policy'. At the time of writing this report the review remains ongoing.

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.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

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 the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

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.”

In accordance with PSIAS, annual self assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

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 City Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2018-19 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;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

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

| Annual performance indicators | | | |
|---|---------|---|---------|
| Aspect of service | 2017-18 | | 2018-19 |
| Revised plan delivered (to draft report stage) | 100 % |  | 100 % |
| Positive responses to customer survey * | 96 % |  | 99 % |
| Compliant with the Public Sector Internal Audit Standards | Yes |  | Yes |

* Customer satisfaction has been assessed through responses to a questionnaire issued to a wide range of stakeholders including Members, senior officers 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.

Antony Harvey
Deputy Head of Southern Internal Audit Partnership
May 2019

2018/19 Audit Reviews and Opinions

| Substantial Assurance | Adequate Assurance |
|--|--|
| <ul style="list-style-type: none"> • Financial Stability • Licencing | <ul style="list-style-type: none"> • Asset Management • Digital Agenda • Affordable Housing • HR - Expenses • Proactive Fraud – Right to Buy • GDPR Compliance • Housing Rents • IT - Applications Management • IT - Data Security and Management • IT – Mobile Devices (draft) • Risk Management |
| Limited Assurance | No Assurance |
| <ul style="list-style-type: none"> • HR – Use of Agency Staff (draft) • Health and Safety • Main Accounting (Including Reconciliations (draft)) | <ul style="list-style-type: none"> • None |