

REPORT TITLE: ANNUAL INTERNAL AUDIT REPORT AND OPINION 2017-18

31 MAY 2018

REPORT OF PORTFOLIO HOLDER: CLLR ASHTON – PORTFOLIO HOLDER FOR FINANCE

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WARD(S): ALL

PURPOSE

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 2017-18.

RECOMMENDATION:

1. The Audit Committee accept the Chief Internal Auditor's annual report and opinion for 2017-18 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 2017-18.

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 2017-18 (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 2018.

11.3 The Audit Committee's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2017-18;
- The revised internal audit plan for 2017-18 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:-

AUD185 Internal Audit Plan 2017-18

AUD188 Governance Quarterly Update – Outturn 2016-17

Other Background Documents:-

None

APPENDICES:

Appendix 1 – Annual Internal Audit Report and Opinion 2017-18

Annual Internal Audit Report & Opinion

2017 - 18

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 [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 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 City 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 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 2017-18

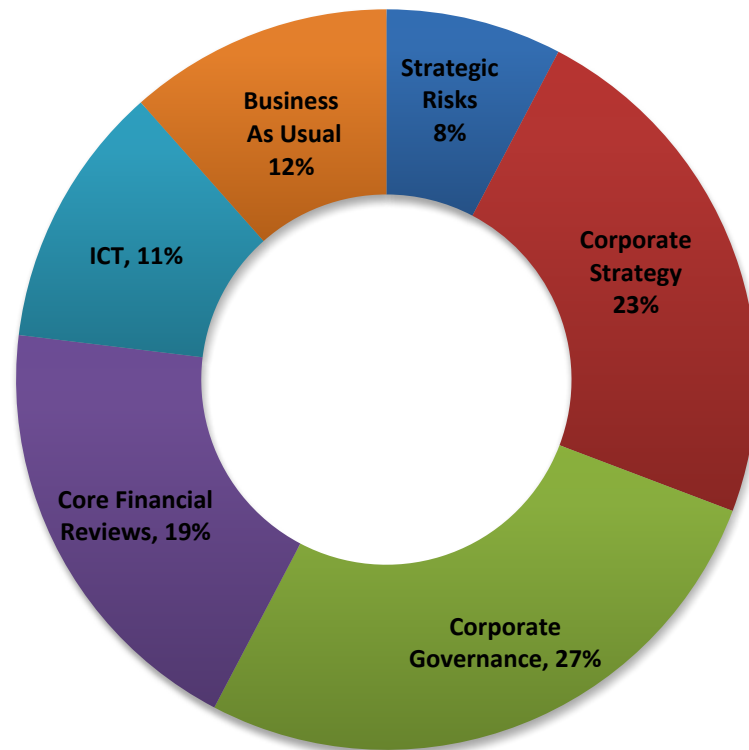
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Winchester City Council's internal control environment.

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 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 2017-18 Internal audit plan, approved by the Audit Committee on 7 March 2017, 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.

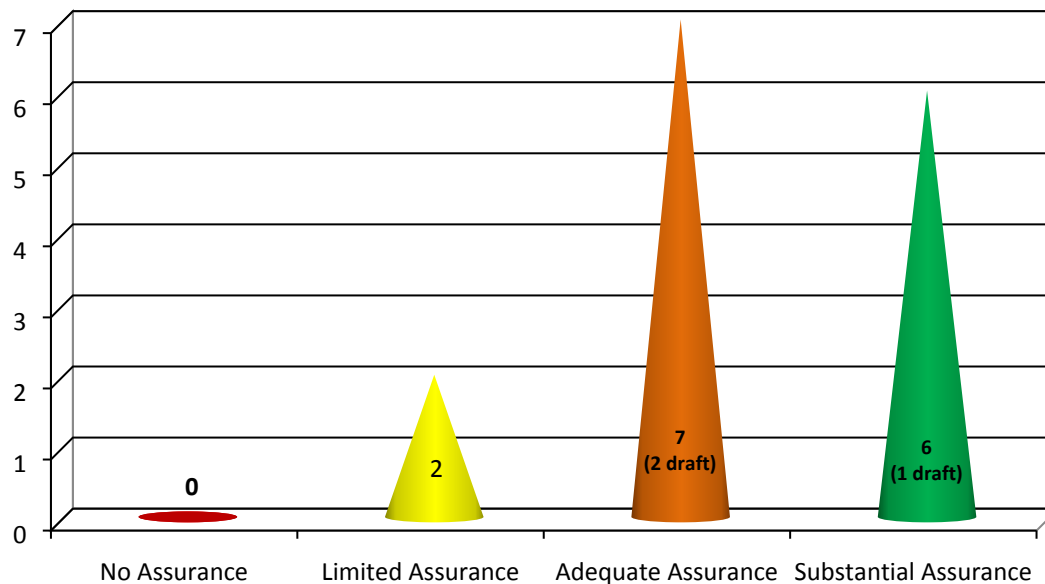
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 26 reviews during the year ending 31 March 2018.

The revised 2017-18 internal audit plan has been delivered with the following exceptions:

- Work is complete and an opinion has been formed for three reviews, however, the final reports have not yet been agreed with management (Income Generation and Collection, Procurement and Housing Benefits).

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

*11 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 2017/18 assurance reviews undertaken/the audit 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 a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some common themes identified that provide challenge to the organisations risk environment:

Working in Partnership - Whilst there is an awareness of the resource implications and the anticipated benefits for the Council when entering a partnership, the initial entry assessment and any on-going performance monitoring is generally informal. For a vast majority of the Council's partnerships there were found to be little or no documented arrangements in place. Where arrangements were formalised, there were found to be well documented governance arrangements in place with formal performance monitoring and reporting to senior officers and Members.

Business Continuity – review of the 11 critical functions assessed by the Council as requiring a Business Continuity Plan found they have not been reviewed since 2004 to ensure they remain relevant or whether other council functions / services should be included. The majority of the plans reviewed had not been regularly tested to ensure their effectiveness.

Information Governance – An assessment of the Council's readiness for the implementation of GDPR was undertaken during the year. Significant progress was found to have been made to meet the additional requirements imposed by the GDPR, however, it was acknowledged that the Council would not be fully compliant by the 25th May 2018. We understand that the ICO have advised Winchester City Council that demonstrating progress towards implementing GDPR requirements would be sufficient by the 25 May 2018, however, the lack of clarity with regard what constitutes 'demonstrating progress' and the conflicting messages issued from the ICO on implementation expectations places some uncertainty over potential exposure to challenge.

6. 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.

7. 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.




8. 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 2017-18 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;
- 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.

9. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2016-17 Actual (%)		2017-18 Actual (%)
Revised plan delivered (including carry forward)	100		100
Positive responses to customer survey *	96		96*
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, key contacts and SIAP staff. 17/18 actual is based on a February 2017 questionnaire.

10. 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
May 2018

2017/18 Audit Reviews and Opinions

Substantial Assurance	Adequate Assurance
<ul style="list-style-type: none">• Housing Asset Management• Emergency Planning• Treasury Management• NNDR• Financial Stability• Housing Benefits (Draft)	<ul style="list-style-type: none">• Income Generation and Collection (Draft)• Housing Finance• Accounts Receivable and Debt Management• Software Licensing / Management of Assets• Network Management• Cyber Security• Procurement (Draft)
Limited Assurance	No Assurance
<ul style="list-style-type: none">• Working in Partnership• Business Continuity	<ul style="list-style-type: none">• None