

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	24th March 2016	AGENDA ITEM NUMBER
TITLE:	Audit & Assurance Annual Report 2015/16	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1- Audit Plan Outturn Statement (forecast for 31 st March 2016)		

1 THE ISSUE

1.1 The Corporate Audit Committee received an update on the 8th December 2015 on progress in delivering the Annual Audit Assurance Plan 2015/16. This report has been compiled to provide an update to the Committee on progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

2 RECOMMENDATION

2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2015-16 and formal opinion on the internal control framework.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

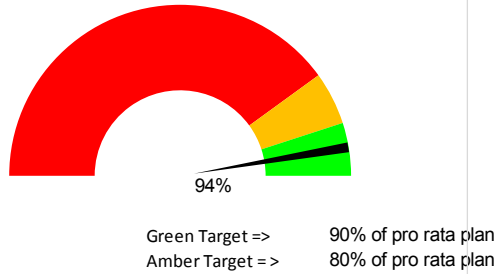
4.1 The Annual Internal Audit Plan for 2015/16 was presented to the Corporate Audit Committee on the 26th March 2015. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the council's internal control environment.

4.2 The Committee receives verbal updates at each meeting and a formal update on delivery against the plan was given on the 8th December 2015. This report builds upon that update and the chart overleaf records the forecast position as at 31st March 2016.

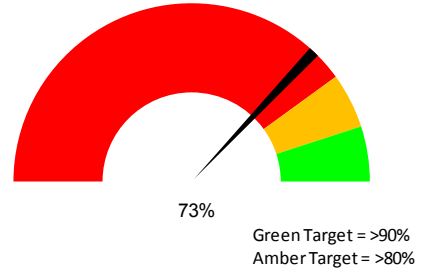
B&NES Audit & Risk Dashboard April 1st - March 2015/16

Internal Audit

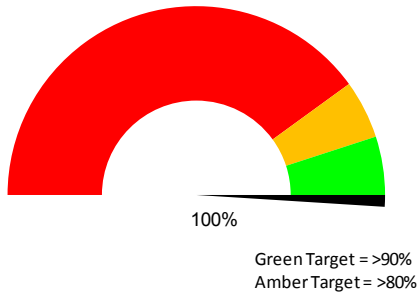
Annual Audit Plan Completed



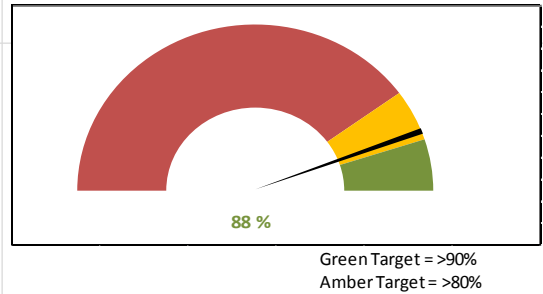
Audit Reviews Completed in Assigned Days



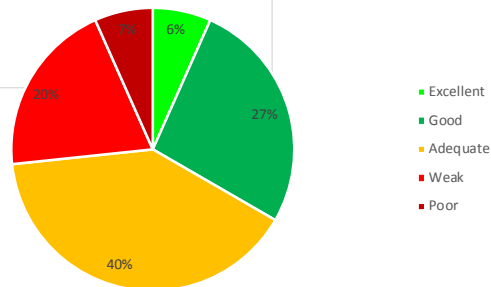
Customer Satisfaction - Good or Excellent



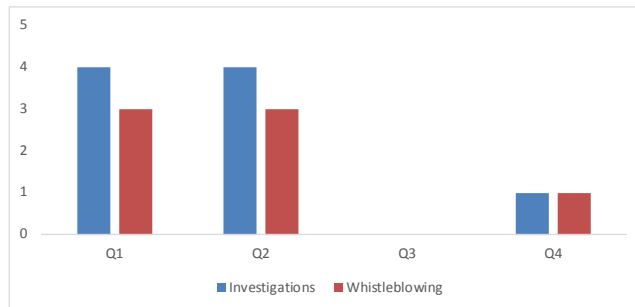
Recommendations (Critical / High) Implemented by Follow Up



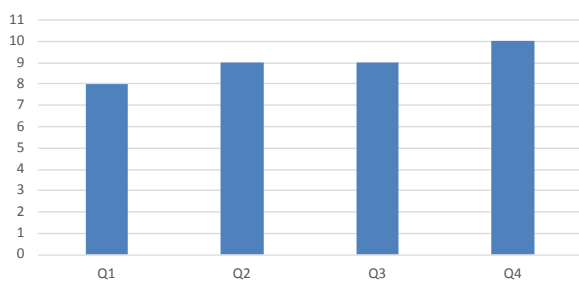
Assurance Level Provided



Investigations & Whistleblowing (cases started or on-going during the quarter)



Unplanned Audits



Equating to 109.0 Audit Days

PERFORMANCE SUMMARY

4.3 COMPLETION OF THE INTERNAL AUDIT PLAN

4.4 The performance dashboard shows that 94% of the plan is 'substantially completed'. This includes work that is either finalised, at reporting stage, or at the end of fieldwork.

4.5 When the half year position was reported in December we recorded that the Audit Team and partners had 'substantially completed' 40% of the Audit Plan. There was a need to improve performance during the 2nd half of the year and this has happened.

4.6 In terms of working in partnership, South West Audit Partnership will have completed three audits in the 4th quarter of the year. In addition, an Associate Auditor was used to complete an IT audit during February / March. As part of the restructuring of Audit West it was agreed that Associate Auditors (casual staff) would be recruited. Increasing resources available, adopting standard working processes across the partnership and completing single reviews where possible has helped to achieve the year end position.

4.7 Two new staff joined Audit West in January / February 2016. Both have settled in well and based on their previous experience they required minimal training and were working on audit reviews and fully productive within hours of starting their employment with the Council.

4.8 The main reason for not achieving 100% of the plan at the end of the year was 'unplanned' work. The Internal Audit Partnership with North Somerset Council formally commenced on 1st August 2015. As previously reported, more time than expected had to be spent by members of the Internal Audit Team to manage the integration of the North Somerset team to Audit West. In addition, work had to be carried out on preparing for a new 'Financial Assessments' service. Audit West will be carrying out financial assessments for new contracts to be awarded and continuing contracts of significant value.

4.9 Appendix 1 records reviews finalised, drafted or 'Work-In-Progress' in this financial year to the end of March 2016. This records that 28 Audits have been finalised / completed, another 20 were or expected to be in 'draft' form and 3 were not going to be completed in 2015/16.

4.10 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

4.11 The percentage of audits completed within the initial allocated days is recorded at 73%. This figure was calculated at the beginning of March and was based on audits recorded at that time as being at 'Final / Draft' Report stage. The Audit Software recorded 7 of the 26 Audits at 'Final / Draft' Report stage not being completed in assigned days.

4.12 For the majority of the 7 audits exceeding the allocated time, the reasons for going over time was considered reasonable by Audit Management. The importance of completing work within assigned number of days has been raised with the audit team and supervisory controls will continue to be monitored by the Management Team.

4.13 CUSTOMER SERVICE

4.14 Customer service and providing value to clients remains at the heart of the Partnership. We are pleased to report the performance remains at 100% and continues to demonstrate extremely high levels of satisfaction.

4.15 We also continue to receive excellent feedback in relation to our non-audit activities and this is demonstrated by the growth achieved in this area.

4.16 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

4.17 The service had focussed resources in this area to ensure that the critical/ high level recommendations have been implemented. These critical/ high level recommendations are ones that have identified key risks, or will best enable the organisation to reach its objectives.

4.18 The dashboard records the implementation of critical / high risk rated recommendations at the time the audit was 'Followed-Up' at 88%. Of the 20 audits 'Followed-Up' during the financial year to the end of February 2016, 12 had critical / high risk rated weaknesses / recommendations. For 7 of the 12 audits all critical / high recommendations were implemented.

4.19 There were therefore 5 audits (IT Procurement, Property Decision Making, Social Care Single Panel Process, Safer Recruitment, and Heritage Income & Ticketing) where the 'Follow-Up' identified that a single high risk recommendation had not been implemented. The management response, agreeing to a revised implementation date was acceptable and the relevant Divisional Director was informed so implementation could be monitored.

4.20 It should also be noted that 100% of audit recommendations proposed within our reviews during the year to date have been accepted and agreed by the respective service managers.

4.21 INVESTIGATIONS/ WHISTLEBLOWING

4.22 During the year 2015/16 the service has been involved in five investigations. Two of these were longstanding police referral cases and this has involved providing support as and when necessary. The three other cases required different levels of support. One went to a formal disciplinary hearing.

4.23 As reported in December, the investigations did identify a breakdown of the system of internal control for certain specific areas however there are not any systemic issues affecting the Council's framework of internal controls and governance. Action has been taken to correct any control weaknesses identified during our work.

4.24 ASSURANCE LEVEL PROVIDED

4.25 In 2015/16 (to the end of February 2016) 73% of 'Final' Audit Reports issued have an audit opinion of satisfactory to excellent (between Assurance Levels 3 and 5).

A single audit - Property Compliance - was allocated Assurance Level 1 'Poor Control Framework'. The audit findings and the response by Property Services Management will be subject of a verbal update at the Committee Meeting. There were also three audits (Heritage Income & Ticketing System, CCTV and Purchase Card Key Controls) which were allocated an Assurance Level 2 'Weak Control Framework' rating.

4.26 As reported to the December meeting of the Committee the Heritage audit focussed on project management (implementation) and security of the Galaxy IT System. The focus on system implementation was informed by the knowledge of delays in implementation and the objective of improving practices for the next phase of the system implementation.

The significant weaknesses were recorded as:

- a) The Business Continuity Plan (including the till system) had not been updated.
- b) The terms and conditions of the contract with the software supplier were not sufficiently detailed to provide assurance that the system would be recovered sufficiently quickly in the event of a business critical disaster
- c) Evidence was not maintained to verify that the system was being backed up by the software supplier.
- d) Too many users had full system access.
- e) Reports on the effectiveness of network security including the firewall were not being received.
- f) Monitoring of the project timetable and review of risks was not on-going.
- g) The latest version of antivirus software was on all terminals on the network.

Senior management agreed to implement all the recommendations by 31 December 2015. The Audit and its recommendations will be followed up in the final quarter of 2015/16.

4.27 The CCTV audit reviewed the management of CCTV including compliance with surveillance camera regulations and relevant legislation. There were 6 'High' risk and 16 'Medium' risk rated recommendations. The high risk weaknesses included:

- a) Contract Management arrangements – there wasn't evidence of regular contract management reviews with the Maintenance contractor.
- b) a CCTV Maintenance Programme had not been agreed with the CCTV Contractor in line with the Contract.
- c) management were not reviewing the 'Disclosure of Images' Log to ensure that CCTV disks provided to the Police and other external organisations were logged as required.
- d) Stored images on a PC were not being controlled or maintained in accordance with the Data Protection Act 1998.

e) movement of cameras from their predefined positions was not effectively controlled.

f) Due to non-centralised procurement of CCTV equipment there is not a governance framework in place to ensure all CCTV schemes are being reviewed in line with the Home Office Surveillance Camera Code of Practice and legislation.

Management agreed to implement all of the audit recommendations and this audit will be followed-up in the early part of 2016/17.

4.28 The audit review of Purchase Card controls concluded that reasonable assurance could not be provided over two of the three key control objectives and based on this a 'Weak' Assurance Level was assigned. This did not mean that there was wide spread misuse of purchase cards. The report highlighted the need to improve the framework of internal control including comprehensive guidance to Managers on what they need to do to monitor card use and how they use the new Barclaycard Spend Management system to do this.

The Head of Strategic Procurement & Commissioning has agreed to implement all the recommendations and within a short period of time it was expected that the control framework would be re-assessed as 'good'.

4.29 **UNPLANNED AUDITS / WORK**

4.30 Ten pieces of unplanned work have required Internal Audit time over the year to date. This included the 5 investigations referred to in para 4.7.1. We have also responded to requests for help and assistance – e.g. 8 days were spent working on cases referred by colleagues supporting the West of England Local Enterprise Partnership Growth Fund. B&NES Council is the lead Authority and the Audit Team provided independent advice on claims submitted by those awarded Growth Fund monies.

4.31 The total amount of time spent on unplanned work was 109 days. The partnership recognises the importance and value to management of being able to respond to these types of requests and thus ensures that contingency is built into resources so that we can be flexible to needs.

4.32 **JOINT WORKING WITH NORTH SOMERSET COUNCIL**

4.33 The Committee has been regularly updated on the joint working arrangements between Bath and North East Somerset Council and North Somerset Council Internal Audit Services.

4.34 A formal proposal was made to the Executive of each council to create a formal partnership for the provision of its Audit & Assurance function and this was endorsed in December 2014.

4.35 The new arrangements formally commenced on the 1st August 2015 under a five year contract, with Bath & North East Somerset acting as host authority for the new 'Audit West' and all officers employed by B&NES in a single integrated structure.

4.36 As part of a formal process the seven existing employees from the North Somerset Internal Audit Team were transferred under TUPE to B&NES on the 1st August 2015.

4.37 In October 2015, the transferred staff from North Somerset were combined into a new structure encompassing the existing Bath & North East Somerset team as well as setting up the new 'Audit West' operating model to meet future expectations and demands under its contractual obligations.

4.38 This process has been challenging for all staff as everyone's role has effectively changed, with new expectations and demands placed upon everyone. The response has however been very positive with limited impact on performance and seven members of staff have been formally appointed to key roles within the new structure.

4.39 NON-CORE SERVICES

4.40 In addition to delivering the Audit and Assurance Plan, the partnership continues to provide a range of other functions which are not part of the core delivery of services to North Somerset Council.

4.41 This also means there has been an increased focus on chargeable work as this delivers the additional revenue to support our own savings plans, this includes selling services for:

- Business Continuity in Schools/Academies
- Internal Audit / Responsible Officer Support Service in Academies
- Business Rates Reviews for other Councils
- Financial Assessments

4.42 Further added value pieces of work were also delivered directly to the Council in 2015/16 including a project on Business Rates and GIS Mapping to create a complete layered map of key business within the area. This has enabled circa £300K of additional business rates billing to be identified and continues to deliver additional added value benefits.

4.43 Formal Opinion on Internal Control Framework –

Comments of the Head of Audit West (Chief Internal Auditor)

4.44 Despite a small number of financial irregularity investigations it is pleasing to note that within the year there were no fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

- Reasonable assurance can be provided over the Council's systems of internal control, helping to ensure corporate priorities can be achieved;

- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;

- Managers throughout the Council are aware of the importance of maintaining

adequate and effective governance arrangements;

- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;

- There were no fundamental system failures or control breakdowns to business critical functions.

4.45 Last year I reported that it was clear that with increased pressure on budgets, choices on the degree of internal control had to be made and the level of risk being accepted by the organisation is imperceptibly rising and this situation continues. This in itself is not a cause of undue concern at this time as the risk appetite level of Local Authorities is still broadly low to medium. Therefore applying a degree of flexibility to what is an acceptable level of risk is a sensible course of action to ensure the organisation's priorities continue to be delivered.

4.46 This does however place increased pressure on the Internal Audit function to adapt to this changing framework and also provide the right balance of scrutiny and support to management. Ensuring value from the function as well as providing a strong independent voice is a critical check in establishing successful organisational governance.

4.47 It is my view that our new partnership is a necessary step to ensure professional standards can be met, the right level of independence can be adopted and ultimately that the committee can rely on the advice and outcomes from audit work.

4.48 Finally the support of the Audit Committee remains vital to effective corporate governance and I would like to thank all the members of the committee for their input and guidance over the last 12 months.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for Consultation.

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Reports to Corporate Audit Committee – 26th March 2015 Internal Audit Plan - 2015/16 & 8th December 2015 Internal Audit Annual Plan (2015/16) – Six Month Performance Update</i>
Please contact the report author if you need to access this report in an alternative format	

Audit Reviews Position Statement (as at 31st March 2016)

Appendix 1

Audit Review Title	Status	Assurance Level	Recommendations	
			Made	Agreed
NNDR	Final	3	12	12
Lead Local Flood Authority - Flood & Drainage Programme Management	Final	3	8	8
Traffic & Safety (Traffic Signals & Intelligent Transport Systems)	Final	4	7	7
Adult Care - Debt Management	Final	3	8	8
Council Website (Internet Payments & Business Continuity)	Final	4	4	4
Deputyships	Final	4	5	5
Cleansing Enforcement	Complete	N/A	Position	Statement
Bereavement Services	Final	4	7	7
Heritage - Replacement income / ticketing System	Final	2	20	20
Section 106 / Community Infrastructure Levy	Final	4	2	2
School Financial Value Standards – Assessment of Certificates and Assurance to Chief Finance Officer to sign SFVS Annual Assurance Statement	Complete	N/A	Position	Statement
Liquid Logic - System Administration / Information Security	Complete	N/A	Position	Statement
School Theme - Info Security	Final	3	7	7
Property Compliance	Final	1	20	20
CCTV - compliance with Surveillance Camera / RIPA regulations.	Final	4	22	22
Somerset Business Rates Pool	Final	3	3	3
Car Parking Enforcement- Penalty Charge Notices	Final	4	4	4
HB Processing Claims & Subsidy Claim	Final	3	9	9
HB Overpayments	See above			
Payment Card Data Security	Final	3	4	4
Purchasing Card Key Controls Review	Final	2	10	10
Care Packages / Placements – Under the threshold	Draft			
Appointees - Duty of Care Client finances	Draft			
Care Act Implementation (New Liquid Logic IT System – System Development – Deferred Payment Agreements / client expenditure cap; state support asset levels)	Complete	N/A	Position	Statement
School Theme Review - Governance (Incl Saltford).	Draft			
Sexual Health Services Commissioning & Contract Management	Final	4	6	6
Community Transport	Final	3	10	10
Pension Fund - IT Systems	Final	3	10	10
Pensions Administration (Contributions / Membership Records)	Draft			
Revenue Estates - Asset Management Planning including Acquisitions & Disposals - M. Grainger	Draft			
Repairs & Maintenance - Identification / Scheduling of Works	Draft			
Project Delivery Revenue / Small Capital - Miles Barnes. Revenue £1.3m	See above			
Payroll - Itrent - System administration & Information Security	Draft			
Procurement - Pro-Contract	Complete	N/A	Position	Statement
IT Audit Review(s) - ID & Access Controls	See below			
IT Audit Review(s) - Mobile & Remote Working	Draft			
IT Audit Review(s) - Social Media	Complete	N/A	Position	Statement
Care – Contract Payments & Performance Monitoring	Draft			
Deprivation of Liberty Safeguards	Final	3	7	7
Better Care Fund				
Chew Valley Secondary School	Draft			
St.Marks Secondary School	Draft			
St. Gregorys	Draft			
School Theme Self-Assessment Reviews - Financial Planning	Draft			
School Theme Self-Assessment Reviews - Safeguarding	Draft			
Specialist Services - Contract Management (processing payments accurately / timely; pooled budgets - accurate / timely receipt of funding)	Draft			
Recycling				
Leisure Provision	Draft			
Heritage - Cash Collection & Banking Operation	Final	5	2	2
Housing Allocations	Draft			
Regeneration - Enterprise Area - Process Review				
Planning Fees	Draft			
Election Bank Account	Draft			
Members Allowances	Draft			

