

Bath & North East Somerset Council

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| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 24th April 2018 | AGENDA ITEM NUMBER |
| TITLE: | Audit & Assurance Annual Report 2017/18 | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 - Audit Plan Position Statement | | |

1 THE ISSUE

- 1.1 This is the Annual Report of the Internal Audit function detailing 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 2017/18 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

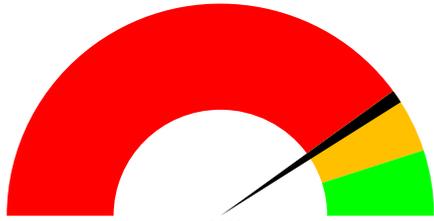
- 4.1 The Annual Internal Audit Plan for 2017/18 was presented to the Corporate Audit Committee on the 13th April 2017. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 4.2 The Committee receives verbal updates at each meeting and a formal update on delivery against the plan on the 5th December 2017. This report builds upon that update and the chart overleaf records the position as at 31st March 2018.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

Client - Bath & North East Somerset

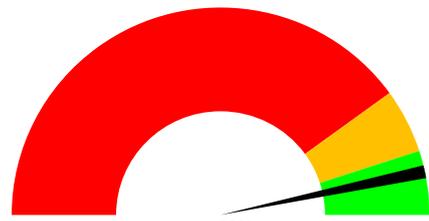
Period - April 2017 - March 2018

1. AUDIT PLAN COMPLETED



80%
Green Target = 90% of annual plan
Amber Target =>80% of annual plan

2. AUDITS COMPLETED IN PLANNED TIME



92%
Green Target = >90%
Amber Target = >80%

3. CUSTOMER SATISFACTION



100%
Green Target = >90%
Amber Target = >80%

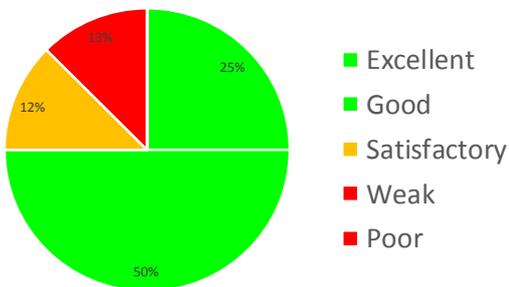
4. IMPLEMENTATION OF RECOMMENDATIONS



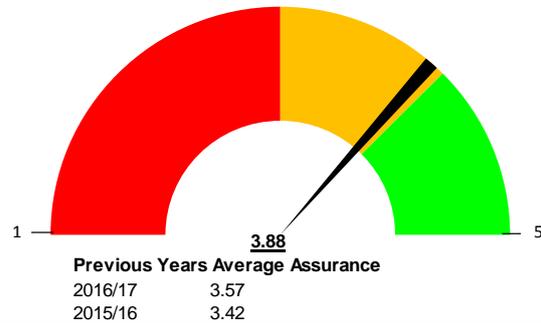
58%
Green Target = >90%
Amber Target = >80%

5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

Current Position



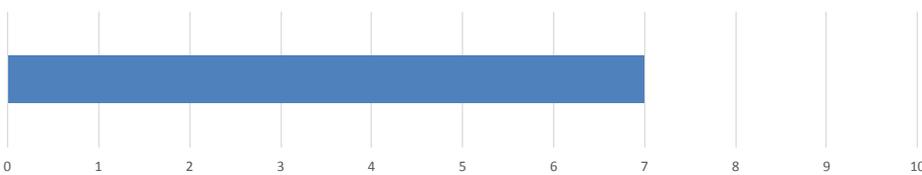
Current Average Assurance Level



6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to
94.8
Audit Days
2017/18

8. NEW UNPLANNED WORK



Equating to
28.7
Audit Days
2017/18

PERFORMANCE SUMMARY

4.3 COMPLETION OF THE INTERNAL AUDIT PLAN

4.3.1 The performance dashboard shows that 80% of the plan is 'substantially completed'. This includes work that is either finalised or at reporting stage.

4.3.2 When the half year position was reported in December we had 'substantially completed' 35% of the Audit Plan and were predicting 80% of the plan would be completed subject to no further unplanned work or vacancies.

4.3.3 Within the last quarter there was another whistleblowing case and investigation but following use of our strategic alliance with the Devon Audit Partnership we were able to ensure at least 80% of the plan was completed at year end.

4.3.4 The primary reasons for the under-performance against the plan was –

- a) Level of Unplanned Work/Investigations exceeding contingency by over 20%
- b) Vacancy of a Senior Auditor for six months
- c) Total Sickness of 73 days

4.3.4 Appendix 1 records the estimated status of each audit review within the 2017/18 Audit Plan (40 audit reviews) at the end of March 2018. It also records the outcome of audits which were 'unplanned' or outside of the agreed audit plan.

4.3.9 The loss of productive auditor days through sickness and the vacancy reconciles to the 7 audits in the Audit Plan which were postponed to 2018/19 or cancelled.

4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

4.4.1 The percentage of audits completed within the initial allocated days is recorded at 92%. This figure was calculated based on audits recorded as being at 'Final' Report stage.

4.4.2 There was a single audit (Salary Sacrifice) at 'Final' Report stage which exceeded the allocated time. In addition there were another 3 audits at or near completion which had exceeded the initial time allocation (Bath Quays South – Governance; Client Charges; and Foster Care).

4.4.3 For all 4 audits, the reason(s) for going over time was considered reasonable by Audit Management. The importance of completing work within assigned number of days is monitored closely by the management team.

4.5 CUSTOMER SERVICE

4.5.1 Customer service and providing value to clients is essential to the provision of a quality internal audit service. We are pleased to report that all questionnaires completed through the Internal Audit Computer System recorded 100% good or excellent responses and this matched feedback received verbally from clients.

4.5.2 Client feedback is initially reviewed by the Audit Manager and the scores and comments are communicated onto the relevant auditor.

4.5.4 A number of comments received from clients are recorded below:

“very fair and the iterative nature of finalising the report enable us to gain comfort in the recommendations”. *WECA Compliance with Procurement Regulations*

“Audit was carried out as contract was coming to an end and service being transferred back in house, but findings would be useful for any future contract of a similar nature.” *Recycling Audit*

“Thorough audit which was professionally handled.” *Salary Sacrifice*

“Tracey was very professional and worked around our day to day delivery of the service. She was very helpful in explaining the audit process and did a thorough job. Her recommendations were delivered in an inclusive and balanced way. Thank you”. Registrars – Income Reconciliation

4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

4.6.1 The dashboard records the implementation of high risk rated recommendations at the time the audit was ‘Followed-Up’ at 58%. Of the 20 audits ‘Followed-Up’ during the financial year, 10 had high risk rated recommendations. For 7 of the 10 audits all high recommendations were implemented.

4.6.2 A summary of the 3 audit reviews where high risk recommendations were not initially implemented is as follows –

4.6.3 **Use of Council Vehicles** – The follow-up results of this audit was discussed at the December 2017 meeting of this Committee.

A further meeting was held with the DD Environmental Services in January 2018 and he confirmed that he stated that the recommendations recorded in ‘Use of Council Vehicles’ and the recent ‘Fleet Management’ Audit will be implemented by the Group Manager – Neighbourhoods. He also agreed to liaise with the Head of Place Directorate Support to ensure that all audit recommendations were incorporated into the Environmental Services Risk Register so actions for implementation can be easily monitored.

4.6.4 **Adult Direct Payments** – A weakness was identified in that one third party, who manages client direct payments, did not have a formal contract which enabled the Council to monitor Direct Payment conditions.

The recommendation was simply for a contract with relevant clauses to be agreed. However, the required action was complicated by the responsibilities being managed by Virgin Care. Management provided an updated position in July 2017 and stated that the plan was for Virgin Care to procure the new Direct Payments support services model which will be in place from 1st April 2018. This area of responsibility will continue to be monitored and an audit of Children Direct Payments is scheduled for 2018/19.

4.6.5 **S106 & Community Infrastructure Levy** – The ‘follow-up’ of the April 2016 report was scheduled for the beginning of 2017/18 based on the schedule of actions agreed by management. However, it was agreed with the Divisional Director Development to provide her with a position statement on the administration of S106 funding throughout the Council.

A Briefing Paper (incorporating the follow-up) was issued in January 2018 and this concluded that whilst some work has been undertaken by Planning Service to improve the management of Section 106 monies there were still concerns with the Council wide approach.

Following a meeting with the DD Development in January 2018 a formal response was received stating that additional work was necessary from the Planning Service jointly working with the Finance Service to monitor the use of S106 funding through the Exacom Computer System and directives being made that all Council Services should make full use of the Exacom system.

4.7 INVESTIGATIONS/ WHISTLEBLOWING

4.7.1 During the year 2017/18 the service has been involved in seven formal investigations.

4.7.2 Three of these investigations occurred in the first half of 2017/18 and were reported to Corporate Audit Committee on the 5th December 2017. As stated in the December report two ‘whistleblowing’ cases in the Place Directorate identified that the internal control framework or compliance with procedures needed to be improved and Internal Audit were satisfied that sufficient action has been taken to resolve the issues highlighted. The 3rd investigation considered a series of contracts in the People and Communities Directorate and the controls around payments made against capacity delivered. The 2018/19 Audit Plan will assess actions taken following the investigation report being presented to management in August 2017.

4.7.3 Four investigations commenced in the second half of the financial year.

a) The first considered internal control weaknesses linked to delay in processing the October 2017 B&NES payroll. The payroll payments to Bank Accounts were delayed due to the failure to identify and act on a notification that the BACs file submitted had not been accepted and processed. The Internal Audit work identified the need to improve procedural guidance to ensure that the relevant actions were taken by Payroll staff.

b) The second was related to monies being taken from a school by a member of staff. This case is currently subject to an appeal following a February 2018 Disciplinary Hearing so no further details of the case can be reported at this time.

c) The third related to conflicts of interest and following discussion with the Police no further action was taken.

d) The fourth related to procurement issues surrounding a significant highways contract which could not be substantiated and no further action was taken.

4.8 ASSURANCE LEVEL PROVIDED

4.8.1 Of those audit reports carried out in 2017/18 (planned and unplanned) 87% of 'Final' Audit Reports issued have recorded an audit opinion of satisfactory to excellent (between Assurance Levels 3 and 5) which is an improvement on previous years.

4.8.2 Two audits recorded an Assurance Level 2 'Weak Control Framework' - School Transport (Special Education Need Disability Pupils) and Libraries West (Consortium Contract Management).

4.8.3 School Transport (Special Education Need Disability Pupils) – The Audit identified that –

a) Processes were not in place to consider/review the existing travel recipients entitlement or the full range of entitlement options.

b) A lack of training/procedural guidance for new Officers in post which also impacted on entitlement to transport decisions and compliance with Council Travel Policy/Statutory Guidance.

c) Financial management was considered to be weak due to issues with budget setting, limited involvement of key staff in budget monitoring and insufficient budget updates based on known financial information.

All the Internal Audit recommendations were accepted by management and the audit is due to be 'followed-up' in the first quarter of 2018/19.

4.8.3 Libraries West (Consortium Contract Management) – The Audit identified that –

a) The Lead Authority (Somerset County Council) was not fulfilling its contractual role in administering good governance of Libraries West

b) Council monitoring of the performance of Libraries West was insufficient partly based on the failure of the lead authority to provide adequate, accurate and timely information.

Management agreed to implement the two high level audit recommendations and the 'Follow-Up' exercise has commenced.

4.9 UNPLANNED AUDITS / WORK

4.9.1 The total amount of time spent on unplanned work was 123.5 days which exceeded the planned contingency by over 20%.

4.9.2 This included the seven investigations, referred to in section 4.7; three items of 'unplanned' audit review work, Software Asset Management Licensing; Accountable Body – WECA functions & balances and Public Protection income monitoring along with a number of ad-hoc grant claims which required certification work throughout the year.

4.10 COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

4.10.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards and based on this report the Committee approved a revised Internal Audit Charter.

4.10.2 The Internal Audit Charter states that the Chief Audit Executive will report periodically to the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

4.10.3 The December report also informed the Committee of the internal review / assessment of compliance with the Standards that had been carried out. A formal external independent validation has now been completed and we are pleased to inform the Committee that the validation exercise has concluded general conformance with the Standards, which is the highest rating we can receive.

4.10.4 We are awaiting the final written confirmation from the assessor and will provide a fuller update at the next Committee meeting.

4.11 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

4.10.4 The Chief Audit Executive is required to give an opinion on the internal control framework.

4.10.5 Statement of the Head of Audit West –

In forming an opinion on the internal control framework I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework, other assurances we can place reliance on and performance of the Council.

It is my opinion that at the current time the Council's internal control framework and systems to manage risk are reasonable.

- 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;

The continued reduction on council budgets places further pressure on all services to respond and manage risk in a proportionate way – including Internal Audit - and the Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems

and provides the third and final line of defence in relation to the internal control framework.

The Audit Committee's support in ensuring their support of our work and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.

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.

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| Contact person | <i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i> |
| Background papers | <i>Reports to Corporate Audit Committee – 13th April 2017 Internal Audit Plan - 2017/18 & 5th December 2017 Internal Audit Annual Plan (2017/18) – 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 2018)
Appendix 1

| Ref | Topic | Status | Assurance Level | Recommendations | |
|---------|--|--------------------------|-----------------|-----------------|---------|
| | | | | Made | Agreed |
| 17-001B | Council Companies - Governance | Substantially Completed | | | |
| 17-002B | Your Care Your Way - Transition of Service Provision - Governance / Systems | Briefing Paper | N/A | N/A | N/A |
| 17-003B | Your Care Your Way - Contract Management | Postponed | N/A | N/A | N/A |
| 17-004B | Pension Investments (Project Brunel) - Transition Plan | Substantially Completed | | | |
| 17-005B | Your Care Your Way - Data Management | Postponed | N/A | N/A | N/A |
| 17-006B | Your Care Your Way - Project Plan Implementation | Work In Progress | | | |
| 17-007B | Bath Quays (South) - Governance | Briefing Paper | N/A | N/A | N/A |
| 17-008B | IT - Physical Security | Substantially Completed | | | |
| 17-009B | Business Continuity & Disaster Recovery | Substantially Completed | | | |
| 17-010B | IR35 Compliance | Final Report | 5 | 0 | 0 |
| 17-011B | Bath Quays (North) - Expenditure | Final Report | 5 | 0 | 0 |
| 17-012B | Salary Sacrifice (certification) | Final Report | 4 | 3 | 3 |
| 17-013B | Heritage - Financial Reporting & Monitoring | Final Report | 5 | 0 | 0 |
| 17-014B | Delivery of Council Savings Programme | Substantially Completed | | | |
| 17-015B | Project Initiation Document Process | Postponed | N/A | N/A | N/A |
| 17-016B | School Theme - Procurement / Purchasing Arrangements | Cancelled | N/A | N/A | N/A |
| 17-017B | Liquid Logic - Client Charges | Draft Report | 3 | 9 | Awaited |
| 17-018B | Liquid Logic - Payments to Providers | Final Report | 3 | 8 | 8 |
| 17-019B | Pension Administration - Benefit Calculations (Transfers & Aggregations) | Final Report | 4 | 6 | 6 |
| 17-020B | Libraries - Consortium Contract Management | Final Report | 2 | 2 | 2 |
| 17-021B | iTrent / Payroll - Input and Processing | Final Report | 4 | 2 | 2 |
| 17-022B | GLL Contract Management | Draft Report | 4 | 1 | Awaited |
| 17-023B | Asset Planning - Property | Cancelled | 3 | 7 | 7 |
| 17-024B | Information Governance - General Data Protection Regulation - Readiness Assessment | Draft Report | 4 | 2 | Awaited |
| 17-025B | Purchasing Cards - Policy / Data Analytics | Briefing Paper / Testing | N/A | N/A | N/A |
| 17-026B | Data Analytics | Briefing Paper / Testing | N/A | N/A | N/A |
| 17-027B | School Transport - Special Education Need Disability Pupils | Final Report | 2 | 7 | 7 |
| 17-028B | NNDR Debt Recovery | Substantially Completed | | | |
| 17-029B | IT Asset Management - Inventory & Insurance | Final Report | 4 | 2 | 2 |
| 17-030B | Payroll - Team Redesign and Control Framework | Draft Report | 3 | 5 | Awaited |
| 17-031B | Public Health - Allocation of Funding and Expenditure Certification & Reporting | Postponed | N/A | N/A | N/A |
| 17-032B | Bus Gate Enforcement | Substantially Completed | | | |
| 17-033B | Fleet Management Traded Service | Final Report | 3 | 7 | 7 |
| 17-034B | Housing Services - Disabled Facilities Grants | Final Report | 5 | 2 | 2 |
| 17-035B | Registrars - Income Reconciliation | Final Report | 4 | 3 | 3 |
| 17-036B | Foster Care | Final Report | 4 | 9 | 9 |
| 17-037B | Waste Service | Postponed | N/A | N/A | N/A |
| 17-038B | Local Energy Tariff | Draft Report | 4 | 0 | 0 |
| 17-039B | Children Safeguarding - Child Referrals | Draft Report | 3 | 5 | Awaited |
| 17-040B | Section 106 - Expenditure Records | Briefing Paper | N/A | N/A | N/A |
| 17-202B | Software Asset Management – Licensing | Draft Report | 4 | 4 | Awaited |
| 17-204B | Accountable Body - Transfer of Function & Balances to WECA | Final Report | 4 | 4 | 4 |
| 17-303 | Pensions Governance - Code of Practice 14 | Final Report | 4 | 3 | 3 |
| 17-304 | Pension Administration - Employee Contributions | Draft Report | 4 | 6 | 6 |