

Internal Audit Annual Report

Portfolio	Non-executive function
Ward(s) Affected:	n/a

Purpose

To summarise the work of the Council's Internal Audit team for the year 2017-18 and to provide an opinion from the Section 151 Officer on the adequacy of the Council's systems of internal control.

1 Background

- 1.1 The Public Sector Internal Audit Standards require public bodies including local authorities to report on the work of internal audit. Section 151 officers should also provide a written report to those charged with governance. The report for Surrey Heath aims to:
- provide an opinion on the overall adequacy and effectiveness of the Council's control environment and risk landscape;
 - disclose any qualifications to that opinion, with reasons; and
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies; and
 - highlight any significant matters for reporting.
- 1.2 This audit report compliments some of the findings reported in the Annual Governance Statement for 2017-18.

2. Summary of Internal Audit Work for 2017-18

- 2.1 The Internal Audit work programme is led by the Council's Audit Strategy as well as the Annual Audit Plan. The Audit Plan is the programme of audit work scheduled for the year which is agreed by the Audit and Standards Committee each March. A summary of performance against the plan is given in annexe B.
- 2.2 In 2017-18 a total of 21 planned audits were completed from the audit plan. An additional number of unscheduled reviews were also undertaken which were not included in the plan at the start of the year, details are located at Annexe B. The majority of the planned audits resulted in the issue of audit reports to management, highlighting the main findings. Where audit reports were not issued, audit findings were fed back through risk assessments or face to face meetings. Details of these are included in Annex B.
- 2.3 Each internal audit is provided with one of four levels of assurance namely:

Level of assurance	Definition
FULL(green)	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
SUBSTANTIAL(green)	There is basically a sound system of control, but some minor areas of weakness have been identified, which may put some of the systems objectives at risk
LIMITED (amber)	The weaknesses in the system of control are such as to put some of the system objectives at risk, and may affect council income or expenditure
NIL (red)	There are limited or no controls in place. The service poses a significant risk to the Council and there is a risk that business objectives are not met

2.4 A breakdown of the number of internal audit reports issued in 2017-18 and the assurance level provided for each is shown below. It should be noted that internal audit tends not to issue full assurance reports as only a sample of transactions are reviewed not the entire population.

- 0 - Full assurance
- 21 - Substantial assurance
- 0 - Limited assurance
- 0 - Nil assurance

2.5 Each recommendation is classified into 3 categories: essential, desirable, or best practice.

Essential (or high) – normally require immediate attention to address substantial weaknesses and ensure council business objectives are met; could result in financial loss; non-compliance with statutory guidance/legislation.

Desirable (or medium) - contribute to maintaining an effective control environment and ensure policies and procedures are met; help to ensure council priorities and milestones are met; short term implementation.

Best Practice (or low) – industry best practice suggestions; help to improve overall control and efficiency; assist management deliver services; medium to long term implementation.

2.6 In total there were 93 recommendations raised in 2017-18:

- 8 essential
- 70 desirable
- 15 best practice

3. Overdue Audit Recommendations

- 3.1 Internal Audit carries out an exercise to determine the status of overdue audit recommendations every 6 months. This exercise follows up on all audit recommendations including essential, desirable, and best practice, but only overdue essential recommendations are reported to committee.
- 3.2 The status of audit recommendations was last reported to committee back in March 2018. The report stated that there were no essential overdue recommendations outstanding.

4. Overall Opinion of the Section 151 Officer

- 4.1 The overall opinion of the Section 151 Officer is that the Council's internal control framework is adequate and effective and is being managed with due care and attention. This is based on the work undertaken by Internal Audit during the course of the previous year.
- 4.2 A summary of the work undertaken in 2017-18 can be found attached as Annex A.

5. Compliance with the Public Sector Internal Audit Standards

- 5.1 CIPFA's Code of Practice has been replaced by the Public Sector Internal Audit Standards and these Standards should be adopted by all local authorities. The work of the Council's internal audit team continues to demonstrate compliance with these Standards.

6. Resource implications

- 6.1 There are no resource implications arising from this report

7. Recommendations

- 7.1 The Audit and Standards Committee is asked to note and comment on the 2017-18 Annual Audit Report.

Annexes

Annex A - Internal Audit Work for 2017/18
Annex B – Unscheduled Audit Work

Background Papers:

None

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INTERNAL AUDIT WORK FOR 2017/18

Detail of the work programme completed by Internal Audit is set out below:

- Key finance systems
- Scheduled audits from the Plan
- Unscheduled audit activity
- Staffing and resources

KEY FINANCE SYSTEMS

A number of key audits are carried out annually on behalf of the Council's external auditors. In completing the work program for the year both KPMG and Internal Audit will have regard to both the adequacy of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption.

The audit team continues to support the finance team by providing advice on such issues as budget monitoring, accruals, opening balances and bank reconciliations.

The following table summarises the key financial audits that were performed in 2017-18:

Table 1: Key Finance systems work - 8 audits

Audit	Summary of areas covered
Treasury Management – substantial assurance	The audit reviewed short and long-term investments, access and use of bank line, treasury strategy as well as short and long term borrowing in order to help purchase new properties.
Capital – substantial assurance	The annual audit covered asset valuations, the impairment review, capital budget monitoring, and verifying council assets and utilising inventory checks.
Debtors and Income – substantial assurance	The audit checked that debts have been raised accurately and on time, the efficiency of the debt recovery process, an examination of a sample of debts written off, whether debts are cancelled correctly through using credit notes, and monthly reconciliations
Creditors and Expenditure- substantial assurance	The creditors audit looked at access to the finance system, making changes to supplier bank accounts, sample testing of creditor invoices paid through the civica system, a review of creditor exception reports e.g. Payments over £20k, and a review of the payment run process

Main Accounting-substantial assurance	The audit reviewed the council's corporate budget monitoring process, a check of the trial balance to the opening balances, sample checking year end arrangements for dealing with accruals and prep payments, and testing of journals posted to the ledger.
Revenues – substantial assurance	Business rates and council tax refunds were examined as part of the audit, in conjunction with the reconciliation process performed between the revenues system and the Valuation office records, and cash receipting. The audit also looked at accounts with discounts, exemptions and disregards.
Housing Benefits-substantial assurance	The following areas were covered as part of the audit: monthly reconciliations, running and utilising system except reports such as duplicate payments, payments over a given value, re performing a sample of new claims and change in circumstances assessments, examining arrangements made to undertake assessment accuracy, and reviewing checks carried out by benefits staff to check for id and income and capital assessments.
Cash & Bank – substantial assurance	Bank reconciliations, bank mandates, the cash collection process, testing a sample of cash transactions and records through Adelante, Kiosk, the web, ATP and other council systems.

OTHER SCHEDULED AUDITS FROM THE 2017-18 PLAN

ICT audit – substantial assurance

Box which is a cloud based document storage system has recently been introduced to the Council and is set to transform the way in which the Council manages its records and documents. The ICT audit for 17/18 consequently examined the introduction and roll out of the box platform to SHBC users. The audit centred on the production of a risk assessment and a set of recommendations identified from the risk document. Consideration was given to controls in place within box to ensure SHBC data is secure, new policies and procedures in relation to the use of box, training and culture, data security risks arising from box access and file transfers and file storage, and controls over box user accounts.

An action plan has been agreed with Transformation to tackle the issues raised in the audit.

Human Resources – Substantial Assurance

A number of activities are selected each year for review for the human resources audit, and this year those areas selected were: staff mileage claims and payments, section 11 safeguarding action plan, the Council job evaluation process and associated procedures, post entry training, and training courses and the selection process for choosing training providers.

A number of recommendations have been made these are being addressed with a management action plan.

Housing– Substantial Assurance

The internal audit focused on the work carried out by the housing team to prevent homelessness. The audit work specifically concentrated on the following risk areas: the housing register and supporting records and the points allocations; social housing stock allocation ensuring housing is awarded in line with the Joint Housing Allocations Policy and the appropriate awarding of points based on set criteria; bed and breakfast payments and bed and breakfast supplier provision; the Council rent choice scheme ensuring controls are in place to safeguard deposits paid; managing housing debts; revenue outturn reporting; and the provisions within the new Homelessness Act- audit facilitated a risk assessment with housing to assist in preparation for the implementation of the Homelessness Reduction Act 2017.

Internal audit agreed a risk assessment with the team to develop the new homelessness act provisions as well as agreeing a number of recommendations to improve procedures and processes.

Parking – substantial assurance

The parking review for 17/18 focused on income records, including a review of the new Glide payment app and ticket less parking, as well as income reconciliation and banking. The audit also covered management of Penalty Charge Notices (PCNs) and how PCNs were being chased/ progressed until payment is made, or referred to TEC (traffic enforcement agency) or cancelled. The new on line season ticket arrangements were also examined.

A number of recommendations were raised with management and an action plan has been put in place to address these.

Frimley Lodge Golf Review – substantial assurance

The objectives of this review were to provide an independent review of the golf facility located at Frimley Lodge Park, Camberly; to carry out mystery test purchasing at the golf facility; to provide feedback to the Business service and recommend areas for improvement.

Several audit recommendations have been agreed with the Business team to improve processes at the golf facility and most of these have since been implemented to date.

Payroll – Substantial Assurance

The 2017 payroll audit which is an annual review looked at how the Council manages and processes starters, leavers, and amendment to staff such as change in job role, or a change in hours. Overtime claims and staff paid hourly by submitting timesheets were also examined. Establishment lists which are used to verify the integrity of the payroll and HR data such as job grade, number of staff by service etc. were also examined.

The audit resulted in a small number of recommendations being raised to address weaknesses and these have since been addressed.

Corporate Health & Safety – Substantial Assurance

An audit of the corporate health & safety system was started in 16/17 but due to staff sickness was carried over to 17/18. A health & safety audit was carried out to provide assurance to management and to Members that Council staff and contractors are complying with health & safety policies and current legislation to ensure that personnel are protected from injury or harm in the workplace.

A number of issues were identified during the audit which are being addressed through an action plan. These include adoption of a staff road safety and driving improvement measures such as MIDAS training, reviewing and updating service risk assessments to reflect current hazards and risks, risk assessments for public events and for Council tenants, reviewing the H&S committee terms of reference, lone working policy and provision of more lone working devices.

Building Control – substantial assurance

The audit reviewed the mechanisms for monitoring income, the processes for reconciling income reported in the ledger to records held with the service, income is correctly recorded and accounted for, raising Completion Certificates following the payment of invoices, as well as reviewing arrangements in place for dealing with dangerous structures and responding to incidents out of hours. Test findings and resultant recommendations have since been actioned.

Fraud - Substantial Assurance

An audit of the Council's fraud prevention and detection processes was carried out in 17/18. The audit considered the following areas: a review of the anti-fraud and whistleblowing policies, anti-bribery gifts and hospitality policies and registers, ensuring staff are aware of the relevant counter fraud policies and processes and associated training initiatives. The audit resulted in a small number of recommendations which have been agreed and the Council is on schedule to implement the action points raised.

Development Control – substantial assurance

The main processes for dealing with planning applications were reviewed as part of the development control audit. The scope of the audit included procedures for processing planning applications, receipts and recording of planning applications, how planning fees are collected and accounted for, application deadlines and timeframes, performance measures, and making arrangements for the Community Infrastructure Levy.

There were no material weaknesses found in the audit and no recommendations were raised.

Environmental Health – substantial assurance

The environmental health audit focused on food safety and pest control processes for 2017/18. The audit examined the contract for the provision of pest control services, payments to contractors and suppliers, the registration of food businesses, the inspection of food businesses, and the food complaints process. The audit resulted in a number of action points which have been implemented or are on track to be actioned.

Event management – action plans issued in place of a formal report

The Council has organised a number of borough wide events in 2017/18 some of which were reviewed by the internal audit team. The events that were reviewed in 17/18 included the winter festival, Frimley Lodge Live and the Surrey Heath show. Internal audit did not issue any formal reports as it was agreed that our findings would be disseminated through management meetings and email. An events audit is scheduled for the 2018/19 year where we will be following our findings from last year's events.

Drainage – substantial assurance

The drainage audit looked at the grant application process for applying for more funding, Council spend on drainage and flooding works to contractors and suppliers, grant expenditure in year, fee income, the mechanism for short listing and selecting contractors for drainage works, and how various projects are being managed and progressed by the Council drainage officer. The agreed action plan has since been implemented.

UNSCHEDULED AUDIT WORK

Several additional pieces of work were undertaken that were not included in the original plan, the details of which are below:

Disabled Facilities Grants – advice and assistance has been given to the Housing Manager in delivering grant funding following the service re structure.

Intermediaries Legislation (IR35) – internal audit has continued to partner HR in managing IR35 legislation on behalf of the authority. This has included making assessments on a number of contractors or third party workers, engaging with these people and making decisions about their employment status.

Equality Impact Assessments – internal audit continues to engage and contribute to this group and has chaired at least one meeting of the equalities [officer working group]. The senior auditor is the equalities rep for the service.

In addition to the above pieces of work, Internal Audit has also supported the Elections Team plan and deliver 2 separate national elections in the 2017/18 year. Audit has participated in the risk management meetings and project group in helping to deliver these 2 elections.

PERFORMANCE AGAINST THE PLAN

There were a total of 430 working days available to deliver the audit plan. The plan consisted of 28 scheduled audits, 21 of these were completed and reports issued. Another 2 audits were in progress at the time of drafting this report.

In total 5 audits have been deferred to 2018/19 - waste, estates and regeneration, enforcement and media and marketing. All of these audits have been carried over to the plan for 2018/19. This was partly at the request of management and due to the planned work being replaced by several unscheduled audit reviews, such as DFGs and IR35 legislation. There has also been an element of staff absence due to staff sickness and training.