

INTERNAL AUDIT ANNUAL REPORT

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

To summarise the work of the Council's Internal Audit for the year 2018-19 and to provide an opinion from the Executive Head Finance on the adequacy of the Council's systems of internal control

1. Background

- 1.1 The Public Sector Internal Audit Standards require local authorities to report on the work of internal audit on an annual basis. The aims of this report are to:
- provide an opinion from the Council's sec 151 officer 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 highlights any significant matters arising.

- 1.2 This audit report compliments the Annual Governance Statement for 2018-19.

2. Summary of Internal Audit Work for 2018-19

- 2.1 The Internal Audit work programme is prepared with reference to the Council's Audit Strategy and the annual Audit Plan. The annual Audit Plan is agreed by the Audit and Standards Committee in March each year.
- 2.2 In 2018-19 a total of 17 internal audits were completed from the Audit Plan. In addition 5 ad hoc pieces of work were undertaken, the details of which are covered elsewhere in the report. There are also a further two audits which are almost complete and are at the draft report stage.
- 2.3 Audit findings are reported to management together with audit recommendations to strengthen internal controls. All essential recommendations are monitored to ensure that they have been implemented and any that are overdue are reported to the audit and scrutiny committee as appropriate.
- 2.4 As well as carrying out audits Internal Audit staff have also assisted with IR35 assessments, the equalities officer action group, risk management working group, managing the authorised signatories process and assisting with the delivery of two elections in 2019.

2.5 Each written audit report is provided with one of four levels of assurance:

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

2.6 A breakdown of the assurance levels provided for internal audit reports issued in 2018-19 where levels of assurance were provided is shown below. It should be noted that 'full assurance' reports are not issued as we only audit by sampling a certain number of transactions based on risk not the entire population, therefore we cannot guarantee that the remainder of the system is working properly.

- 0 – Full assurance
- 20- Substantial assurance
- 0 - Limited assurance
- 0 - Nil assurance

2.7 Audit recommendations are classified into 3 separate 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

2.8 In total 93 audit recommendations were raised in 2018-19:

- 3 essential
- 81 desirable
- 9 best practice

3. Overdue Essential Audit Recommendations

- 3.1 Internal Audit carries out a bi-annual review of essential audit recommendations to ensure that they have been implemented in the timescales agreed with services. Any essential audit recommendations that remain overdue will be presented to committee.

4. Overall Opinion of the Executive Head Finance

- 4.1 The overall opinion of the Section 151 Officer based the work of the Internal Audit function is that the Council's internal control framework is adequate and effective and is being managed with due care and attention. The audit coverage is proportionate to the risk environment of the Council and the audit resources available.

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 the 2018-19 annual Audit Report.

Background papers: None

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DETAIL OF INTERNAL AUDIT WORK FOR THE YEAR 2018/19

Details of the work programme completed by Internal Audit covering the financial year 2018/19 are set out below:

- Key finance systems
- Scheduled audits from the Audit Plan
- Unplanned pieces of work
- Resources and staffing

KEY FINANCE SYSTEMS

A number of finance audits are carried out annually which the Council's external auditors may wish to review when they are conducting the end of year audit of the authority's financial statements. In completing the work program for the year both the external auditors and Internal Audit will be minded of both the adequacy of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption. The majority of recommendations made in respect of the key finance systems have been implemented.

Treasury Management

This year the audit focused on reviewing the arrangements and safeguards in place for borrowing capital to fund the Council's new investments. The audit also tested short and medium term investments placed with money markets, as well as access and controls around the on line payment portal.

Capital

The audit tested asset valuations, the impairment review, capital budget monitoring, and verifying council assets and equipment held by services around the Council.

Debtors and Income

Checks were carried out to ensure that sundry debts have been raised accurately and on time, and whether bad debts that are no longer recoverable are correctly written off. We also tested the process for chasing and recovering unpaid debts and whether the Council's debt recovery process is being followed.

Creditors and Expenditure

The audit focused on user access to Civica, supplier bank account management processes such as changes to a supplier's bank account number, and processing and paying invoices. In addition we reviewed creditor exception reports that are being run and examined such as payments over £20k.

Main Accounting

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 pre payments, and testing of journals posted to the ledger.

Revenues

The Revenues audit this year examined whether account discounts and exemptions are being applied for and processed correctly. The following discounts were examined: school leavers, hospital patients, annexes, provision of personal care, religious properties, care homes, apprentices and persons in prison. Business rates and council tax refunds were also reviewed as part of the audit.

Housing Benefits

The audit in 18/19 focused on checking whether housing benefit overpayments have been identified, calculated correctly and steps taken to recover them in line with procedures and Council policy. The audit also reviewed reconciliations between the benefits system to the general ledger.

Cash & Bank

The cash and bank audit looked at income transactions paid into the Council through various sources including the Kiosk, on line, and the ATP telephone systems. The audit also looked into post room procedures and cash security using the safes, cash receipting, bank reconciliations, and the use of bank mandates.

SCHEDULED AUDITS FROM THE AUDIT PLAN

Centres for Older People

This area is reviewed every 3 years and consisted of examining arrangements for accessing the safe and till in operation at Windle Valley, cash handling arrangements, cash collection and banking, a review of the adequacy of the service's policies and procedures. The audit also tested the extent to which income streams are being actively managed and safeguarded, such as client care packages from County, hairdressing services, chiropody and the Saturday club. Most of the actions arising from this report have since been actioned by management.

Democratic Services and Committees

We reviewed several activities that are carried out by the service including the payments of allowances and expenses to Members, administration of the public speaking scheme, member training such as equality training, planning training and licensing training. The audit also considered the Council scheme of delegation, as well as compliance with legislation deadlines in relation to the publication of agendas and key decisions. A number of recommendations have been made these are being addressed as part of a management action plan.

Disabled Facility Grants

A significant amount of income is paid out as DFGs every year so the audit examined a number of important issues. These included a review of policies and procedures governing the administration of DFGs, a review of the application process and how the service applies eligibility criteria, how grants are being assessed and documented. The methodology for short listing and appointing contractors to minimise fraud and ensure value for money was also considered. The service uses a firm of architectural surveyors to survey properties and the audit also considered how this partnership is working.

An action plan has been agreed with the Housing Services Manager which is currently being actioned by the housing team.

Parking

The parking review reported on a number of parking areas including season ticket and permit arrangements, contract management arrangements with Newpark, and paying and processing parking fines. The audit also worked with parking staff to address bank reconciliation processes and errors.

The majority of recommendations that were raised with management have since been addressed.

Information Management

The information audit focused upon data protection and how the Council was seeking to safeguard data security. With the introduction of the new GDPR regulations in 2017 we examined where progress was being made and what controls have been put in place. In addition the audit tested whether PC/file/network controls are in place and working effectively, dealing with confidential waste, and evaluating the Council's clear desk policy. We also looked at reviewing the contract with the supplier for safely disposing of old Council media and ICT equipment and compliance with WEE regulations, and how freedom of information requests are being dealt with by staff.

Most of the action plan has now been implemented by ICT management.

Insurance

An audit of the Council's insurance arrangements is carried out every 3 years. On this occasion the review focused on the arrangements with the London borough of Sutton who provide insurance services for Surrey Heath, an examination of brokerage services with JLT Specialty Limited, and checking premiums paid and associated fees.

The audit also tested a sample of insurance claims that had been assessed by Surrey Heath's partner Sutton. The areas of claims that were reviewed included vehicle claims, public liability claims, property damage claims, and employer liability claims.

Several recommendations were raised including arrangements with our partners and these have all been implemented since the audit.

Camberley Theatre

A number of service records and contracts were examined as part of the audit. We examined petty cash and float arrangements, the operation and access to the safes, ticket sales, cash handling and cashing up arrangements.

We examined arrangements in place for venue hires, as well as sales from the bar and catering offer, and how stock is being controlled.

A review of the theatre show programme was carried out, including a number of show contracts and show settlements were also examined, including ticket sales reports from the box office.

An action plan was prepared and audit will follow up with the service in the summer 2019 to check all actions have been addressed.

Emergency Planning and Business Continuity

The Council continues to work with its business continuity partner Applied Resilience to develop and test its emergency planning and business continuity arrangements. Internal Audit has been involved in this process in 2018 by:

- Preparing and drafting a service level situation report for management part of which considered the financial impacts, the minimum level of services that would be acceptable, the maximum tolerable period of disruption, whether any specialist software or equipment is required, and to what extent home working would be feasible following a major disruption.
- Continuing to develop the service's Business Impact Assessment
- Actively taking part in the case scenarios for business continuity
- Involvement in the report covering the threat and risk assessment for a EU exit

Leisure activities

Audit undertook a review of the recently introduced tennis in the park activity as well as helping to examine a new electronic pitch booking system that was successfully rolled out in 2018.

In partnership with the Lawn Tennis Association the Council has made improvements to the outdoor public tennis facilities within the borough and has introduced an annual membership scheme with a private service provider. The audit reviewed these new arrangements as well as the introduction of a new on line tennis court booking system. Audit will re visit this area once the system has had time to bed in.

The business service has also rolled out a new sports pitch booking electronic system, where customers can book sports pitches (football and cricket) in advance and pay on line. The new system also facilitates the automatic checking of sports insurance from clubs and affiliated memberships. Audit raised a number of issues for the team to consider and these have been taken on board by the service.

UNPLANNED PIECES OF WORK

Several additional pieces of work were undertaken that were not scheduled in the Annual Plan.

Heritage Centre

Internal Audit conducted a review of the main activities at the Heritage Centre between October and November 2018. This was not scheduled in the Audit Plan for 2018 but was carried out at the request of management as a separate review, following the service's re location from the Council offices to the Square in Camberley's town centre.

The service receives income from a variety of sources – selling items in the shop to the public, donations from the public and patrons and fees paid for events walks and craft activities. As such the audit focused on a number of income areas namely: cash handling and cashing up, security of income now that the service is operating out of a new location, recording sales accurately, centre policies and procedures, volunteer arrangements and stock controls and carrying out stock takes.

A number of improvements were agreed with service management and are being addressed as part of an improvement plan.

Safeguarding

As in previous years Internal Audit was asked to undertake a Section 11 audit of its child safeguarding arrangements on behalf of the Surrey Safeguarding Children's Board. The audit is designed to allow the SSCB to assure itself that agencies placed under a duty to co-operate by this legislation, are fulfilling their responsibilities to safeguard children and promote their welfare.

The audit consisted of a self-examination of its own safeguarding arrangements at the Council with a view to learning from best practice and to develop our own procedures and processes. We had to rank our overall performance against 10 separate elements ranging from leadership and accountability, training and development, to quality assurance and measuring outcomes. Our main findings were reported back to the SSCB where we have developed an action plan to improve our overall performance and how we can deliver better safeguarding. The overall opinion was that our safeguarding arrangements are adequate.

Off the Grid

The Council in conjunction with the Economic Development team opened a seasonal artisan shop over the Christmas and New Year period called Off The Grid located in one of the vacant units at the Square. The Council partnered with local artisans and artists to develop a seasonal retail offering.

Following the review a number of recommendations were made for improvements and also as learning points for any future venture. The review of the Off The Grid included looking at stock control and stock takes, trading, cash handling and cashing up arrangements, settlements with vendors, initial kitting out of the store, sales reports, VAT and commission arrangements.

Revised Staff Expenses Policy

Audit was tasked with drafting a new and improved staff expenses policy as the previous version was several years old and was in need of bringing up to date to reflect existing Council practices and current legislation and regulations.

Audit researched a number of neighbouring authorities' policies as well as benchmarking our travel and expenses rates. As a result a significant number of changes have been made to reflect current trends and practices. The revised draft policy has now been discussed at a recent equalities and diversity action group and it is understood will be presented to CMT and joint staff before being agreed and adopted.

Peer Review

In line with Public Sector Internal Audit Standards and International Professional Practices Frameworks internal audit should undergo an external assessment at least once every five years by an independent assessor from outside the organisation. The purpose of this EQA is to provide an independent assessment of the extent to which the Internal Audit Service complies with the PSIAS.

Surrey Heath joined 2 neighbouring authorities Spelthorne and Elmbridge borough councils to carry out this peer review as part of a 3-authority wide review. Surrey Heath reviewed the Elmbridge audit function, Spelthorne reviewed the Surrey Heath function, and Elmbridge reviewed the Spelthorne audit team.

The methodology for this EQA took the form of a validated self-assessment which included the following criteria:

- review of the latest self-assessment and supporting evidence provided
- discussions with members of the audit team
- a series of tests using a standard checklist;
- a review of guidance and process documents and a sample of manual/electronic files;
- applying the CIPFA local government application note and checking conformance with the PSIAS and application note.

It was agreed that Spelthorne BC would provide this assessment for Surrey Heath, and we have recently received a report from Spelthorne of their main findings.

Their overall conclusion is that Internal Audit for Surrey Heath generally conforms to the PSIAS requirements. Their assessment reported that Internal Audit at Surrey Heath fully conformed in the following areas: nature of work, engagement planning, performing the engagement, monitoring progress, and communicating risk. The review highlighted some areas where improvements can be made. The main findings will be presented to a future audit committee.

We presented our findings from our assessment of Elmbridge's audit activity to the management team at EBC in the summer of 2018.

RESOURCES AND STAFFING

There were a total of 430 working days available to deliver the Audit Plan. The Plan also allowed for a small element of contingency and management of the team. The 5 unscheduled pieces of audit work necessarily resulted in several audits being unable to be completed and each has been carried forward to 2019/20. These include media and marketing, ICT, family support and property. In addition land charges and payroll have been postponed at the request of management.