

Internal Audit Annual Report

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

This report summarises the work undertaken by Internal Audit for the financial year 14/15 and provides the opinion of the Executive Head Finance on the adequacy of the Council's systems of internal control.

Background

1. In order to comply with the Public Sector Internal Audit Standards which superseded the Code of Practice 2006, the officer responsible for internal audit, in this case the Executive Head Finance, is required to provide a written report to those charged with governance. The report should:
 - 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;
 - 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.

Summary of Internal Audit Work for the financial year 2014-15

2. The work programme of Internal Audit is dictated by both the Audit Strategy and the Annual Audit Plan. The Annual Audit Plan consists of a summary of work scheduled for the financial year as agreed by the Performance and Audit Scrutiny Committee.
3. In 14/15, a total of 24 audits were carried out, 19 from the Annual Plan and 5 ad hoc/unscheduled pieces of work. The majority of these resulted in audit reports being issued to management, although in some cases the main findings were fed back to management through risk assessments or separate meetings.
4. Upon the conclusion of an audit, Management is normally 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 there are areas of weakness, 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

5. To date, the following levels of assurance have been provided where final reports have been issued and agreed with senior management:

- 0 - Full assurance
- 9 - Substantial assurance
- 6 - Limited assurance
- 0 - Nil assurance

6. For the financial year a total of 81 recommendations were made of which 38 were classified as essential/high and 35 desirable/medium priority. We are pleased to note that the vast majority of the essential recommendations have been implemented. Overdue high risk recommendations are reported twice yearly to MB and this Committee. Audit recommendations are classified as follows:-

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

Overall Opinion of the Executive Head Finance

7. The overall opinion of the Executive Head Finance 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, as well as the opinions provided in the past by the Council's external auditors and other assurance providers and regulators and the assurances they place on the work of Internal Audit.
8. A summary of the work undertaken in 14/15 follows.

Compliance with the Public Sector Internal Audit Standards

9. CIPFA's Code of Practice has been replaced by the Public Sector Internal Audit Standards from April 2013. A health check against the new Standards was carried out in 2013, which produced an action plan for improvement. Most of these have since been actioned. The team will continue to work on developing other areas of improvement such as customer feedback and developing a quality assurance process.

Resource implications

10. There are no resource implications arising from this report

Recommendations

11. The Audit and Standards Committee is asked to note and comment on the 2014/15 Audit Annual Report.

Background: None

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INTERNAL AUDIT WORK

1. Detail of the work programme completed by Internal Audit is set out below:
 - Key finance systems
 - Other scheduled high and medium risk audits
 - Unplanned audit activity
 - Staffing and resources

KEY FINANCE SYSTEMS

2. A number of key audits are carried out annually on behalf of the Council's external auditors. A protocol has been agreed with KPMG which highlights those key areas where the external auditors seek to rely on the controls operated by the Council over its financial systems. Where the work carried out by Internal Audit can be relied on by KPMG this will avoid duplication of work and increased costs to the Council. 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.
3. Overall the work of Internal Audit was completed in line with the requirements of the external auditors and the agreed protocol. The following table summarises the key financial audits that were performed in 14/15:

Table 1
Key Financial Systems work conducted in 14/15

Audit	Summary of areas covered	Outcome
Debtors and Income	Reconciliations of the debtors system to the Ledger and the cash receipting system; debt recovery; writing off bad debts; accurate raising of debtor invoices; migration of debts to new Civica finance system	Report highlighting a couple of issues for improvement relating to signing off credit notes, using note pad, and managing debt recovery. All in progress or actioned.
Creditors and Expenditure	Sample testing invoices processed and paid on new Civica system; budgetary control; access control and separation of duties; access to the Finance system; changes to bank account details; use of Civica	Suggested improvements to the processing of Purchase Orders, and checking the receipt of goods and evidencing on the finance system using GRNs.

	exception reports	
Main Accounting	Access to the Finance system; controls over suspense accounts; review of exception reports; journal testing; bank reconciliations	An action plan to make improvements to the way journals are managed and checked, and the process of bank reconciliations as a result of the introduction of the new Civica system. Actioned since.
Treasury Management	Monthly bank reconciliations to treasury records; cash flow; short term investments with counterparties ensuring compliance with Council policy and treasury management strategy; effective operation of bank accounts and bank mandates; access control to Bankline (on line banking system); examining investment performance and return on investments placed	Treasury investments are being placed accurately and in compliance with Council policy and procedures, but improvements over monthly treasury reconciliation processes back to ledger and bank records could be strengthened.
Cash & Bank	Cash collection processes, cash reconciliations, cash receipting system, cash handling and banking processes, bank reconciliations, system access controls, bank mandates	A recommendation was raised regarding the use and access control of the Kiosk self-serve payment system used by the Council. Since actioned.
Collection of Local Taxes (NNDR and Council Tax)	Various reconciliations were checked including Valuation Office records to the Council Revenues system, cash receipting records to the Revenues system; refund processing and approval, discounts and exemptions	Audit findings to be raised with management and report to be issued.
Payroll	Testing on various payroll functions and records including- exception reports; starters and leavers; access to the payroll system; periodic reconciliation of the payroll to the Ledger	No issues reported
Housing Benefits	Checking new assessments and change of circumstances cases; accuracy management checks; various reconciliations	Audit in progress. No issues found to date

	of the Benefits system to the Ledger, and Revenues system	
Capital Accounting	Checking that valuations have been done on council assets; impairment review; verifying existence of fixed assets.	No fundamental issues were reported.

SCHEDULED HIGH AND MEDIUM RISK AUDITS

Waste and Recycling - Substantial Assurance

The audit covered the following areas: appointed contractors, income checking from recycling credits and private sales of recycle, expenditure and spend against Contract 590, assisted collections, garden waste scheme. Contractor performance.

An action plan was agreed with management to address authorisation of contract invoices, incorporating garden waste into any future waste contract plans, waiver administration and better documentation of meetings.

Disabled Facility Grants – Substantial Assurance

The audit focused on ensuring that DFG grants are being paid correctly, for clients in genuine need, and using suitably appointed contractor to undertake the works. The review also looked at the Private Sector Housing Renewal policy.

We discussed areas where management could improve financial controls and governance arrangements, including the use of checklists for grant works, the methodology of short listing contractors, obtaining the appropriate number and type of quotes for works, and carrying out announced and unannounced visits to check on grant work progress.

Travellers Sites – Limited Assurance

The audit reviewed the main elements of travellers' sites including the current management arrangements in place under the agency agreement, plot and licence fee record management, deposits, as well as debt recovery for unpaid fees and utility bills.

Management agreed to raise the agency agreement issues with SCC, tighten up on utility records, and ensure all debt recovery action is taken to address unpaid fees. All of these points have either already been implemented or are currently being worked upon.

Safeguarding Children – no internal report

The audit focused upon reviewing the recently adopted Safeguarding Policy and Procedure and undertaking a comprehensive follow up of the Section 11

audit of the Children's Act 2004, with a self-assessment. We worked closely with representatives from County to ensure that the Council has in place all the necessary arrangements so that children are safeguarded and their welfare is promoted. As a result of the self-assessment the Council scored 'green' in most categories that were being assessed.

HR – Limited Assurance

Mileage claims, travel and expenses claims, HR policies, record keeping, Induction processes, and the selection and delivery of corporate training were examined in detail this time. An action plan was put together with senior management focusing on improving mileage claims and associated procedures- all of which has now been addressed by the HR team.

Community Services – Limited Assurance

The audit considered the following areas: cash handling arrangements for the Council's Dial a Ride and Meals At Home services, cash collection and banking arrangements, but also payment system, invoicing, and staffing.

A number of recommendations were made to put additional safeguards in place and we are pleased to note that many of these have already been actioned. The service have also since undergone a re structure and a management agreement has been set up with Runnymede to deliver a better service in partnership from September 2015.

Business Continuity – no internal report

Until 2014, there was little in terms of business continuity arrangements. In 14/15 a number of Business Continuity Champions have been appointed across the organisation including a representative from internal audit. As part of this work stream we have produced the Business Impact Analysis for all of finance – accountancy, revenues & benefits, audit and investigations. We have also drafted the service's Business Continuity Plan which is the document that must be followed in the event of an emergency or disaster, and have participated in a dry run. Our BCP identifies the service recovery team, critical activities, backups, invoking the plan, and the BECC.

Equality and Diversity – no internal report

Internal audit has participated in all the equality and diversity officer working group meetings in 14/15. The group has reviewed a number of policies including the disciplinary policy, smoking policy, grievance policy, family friendly policy, recruitment and anti-social media policies. The group has also successfully been awarded with the 2 ticks disability accreditation.

Camberley Theatre – report for MB only

A new café bar venue opened at the theatre in September 13 which is operated ContractiN a catering contractor. Throughout the 14/15 year, we reviewed the ongoing service delivery of the café bar and associated revenue and costs to the Council. We have assisted with a number of stock takes, reviewed the trading accounts and have commented on the performance against budget of the contractor to MB. A number of issues have been raised with the contractor during the year which have been addressed.

Information Governance – on going

A number of key issues were considered including data protection, document retention and disposal, as well as information security. The audit is in progress.

Grounds Maintenance – on going

The grounds maintenance audit examined the management of the contract with the contractor Glendale and associated performance. The audit has been completed and a report is due to be issued. The processes surrounding variation orders and site inspections are areas which may require improvement.

UNPLANNED AUDIT ACTIVITY

4. The following additional pieces of work were undertaken that were not scheduled in the Annual Plan for 2014/15:

Provided Cars – on going

A review was carried out of the former provided car scheme and the new lease vehicle process that has replaced it. Under the old scheme cars were purchased outright and require selling privately or through auction at the end of their 4 year term. Under the new scheme, vehicles are leased for 3 years and are not owned by the Council. A number of suggestions were made to management to improve current arrangements and these have been taken under advisement.

Events and Business cases –

A variety of Council events have been organised throughout the year, to promote the Council and enhance the local community. Internal audit has played an active role in reviewing the planning and management of these events, including the critical review and analysis of the various business cases that have been put together in support of these events.

Events and ad hoc works that have been reviewed recently include: Surrey Heath Show, Frimley Lodge Live, theatre café bar, new cinema projector capital spend, 3G sports facilities, and the upcoming Christmas Fayre and ice rink offering.

Windle Valley Centre – Limited Assurance

The audit concentrated on financial controls in place at Windle Valley, particularly controls over cash collection, banking, the operation of the tills and safe.

A number of safeguards have since been put in place to minimise the on going risks and audit will be re visiting these changes shortly to check they have been fully implemented.

Parks Income, Frimley Lodge – Limited Assurance

The lease and operation of the café located within Frimley Lodge park was examined in detail. It is currently under franchise to a private café operator. In accordance with the lease, which is up for renewal January 2016, the operator keeps all the revenue generated from café sales, and the Council gets all the income from the golf pitch and putt sales.

A number of concerns have been identified with these arrangements which has resulted in a detailed action plan being agreed between the Council and the operator, a lot of the issues have since been implemented.

Separate theatre review - limited assurance

At the request of senior management we carried out a separate review into the controls and governance arrangements at the theatre. The review identified a number of concerns since which a detailed action plan has been produced and agreed with theatre management. The majority of these actions have already been implemented.

STAFFING AND RESOURCES

5. A total of 522 days were required to deliver the 14/15 Annual Plan and to adequately resource the team. The following resources were available:
 - 1x Senior Auditor (lead internal auditor for the Council)
 - 1x Auditor (started May 2014)
 - 1x agency assistant (April to June 2014)