

Internal Audit Annual Report 2015-16

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

This report summarises the work undertaken by Internal Audit for the financial year 15/16 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 In order to comply with the Public Sector Internal Audit Standards which superseded the Code of Practice 2006, the officer responsible for internal audit, in this case the Executive Head Finance, is required to provide a written report to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 2015-16

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 Audit and Standards Committee.
3. In 2015/16, a total of 20 audits were carried out, 18 from the Annual Plan and 2 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 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. In respect of the 2015/16 financial year, internal audit agreed the following final reports, where the audit ended in a formal report:
- 0 - Full assurance
 - 13 - Substantial assurance
 - 0 - Limited assurance
 - 0 - Nil assurance
6. For the financial year a total of 51 recommendations were made of which 15 were classified as essential or high and 36 were classified as desirable or medium priority. 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

Essential recommendations that have not been actioned or implemented without valid business reasons are reported twice yearly to senior management and to Members. A review was carried out of all overdue essential recommendations as at 31 May and it was found that there were none.

Hence as a consequence of this no separate overdue recommendations report is required.

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 2015/16 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 has been undertaken by the internal audit team, and the Council is compliant with the majority of the Code. The team continues to work on developing 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 2015/16 Audit Annual Report.

Background Papers: 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. 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. The introduction of the new financial system in 14/15 brought with it a number of issues. In order to help address these and to prevent them from reoccurring, an action plan on increasing in year assurance for the financial accounts was produced. The audit team has worked with the finance team to deliver this action plan by incorporating new and improved tests in areas such as budget monitoring, accruals, opening financial balances and bank reconciliations.

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 15/16:

Table 1
Key Finance systems work conducted in 15/16

Audit	Summary of areas covered
Debtors and Income	Raising of sundry debts correctly and promptly; debt recovery action and the payment of debtor invoices; cancelling Council debts correctly and the processing of credit notes; reconciliations between the sundry debtor system and the general ledger; reconciliations between debtors and the cash receipting system.
Creditors and Expenditure	A review of the payment run process, including checks on prepayment, post payment and BACS file reports, and the approval process; testing of creditor invoices to see that they are paid promptly, for the correct amount and to the correct supplier; the process for making approved amendments to suppliers bank accounts; review of excepting reports such as high payments to ensure unusual or irregular transactions are being identified and investigated.
Main Accounting	Corporate budget monitoring processes; chart of accounts to trial balance mapping; year end arrangements such as accruals and cut off processes and adherence to statutory deadlines; a check of opening balances on Civica; how access is controlled to the finance system and material feeder systems; testing of journals posted on Civica.
Treasury Management	Examination of treasury investments made in year with money markets, banks, building societies, as well as corporate and government instruments; review of the Council's Treasury strategy and treasury indicators; access to the computer systems used to create and place treasury investments; review of investment performance throughout the year and reporting to senior management and Members.
Revenues	Examination of commercial and council tax refunds processed in year; reconciliations performed between the revenues system and Valuation office records, as well as cash receipting/feeder systems; applying and the administration of various exemptions and discounts to accounts such as single person discount, and exemptions for

	annexes and persons going into care homes.
Payroll	A review of new starters and leavers of the Council to ensure each have been paid correctly and adjustments made correctly to payroll systems; testing of a sample of amendments to pay such as job promotions and changes to working hours; a review of exception reports produced to help verify and confirm accuracy of payroll, such as negative pay, starters and leavers; reviewing arrangements in place to check accuracy of payroll and HR system data via establishment lists.
Housing Benefits	Reperformance of a sample of benefit claims processed and paid in year, including new claims assessments and change in circumstances assessments; review of reconciliations undertaken between finance system and benefits system to check accuracy of payment runs to benefit customers; examination of exception reports used to support benefit assessments from the benefits system such as high value payments, and rejected BACS payments.
Capital Accounting	A review of asset valuations that have been carried out in year on Council assets such as land and property and checking how they have been accounted for; checking that an impairment review has been undertaken in year and whether assets have been adjusted to take account of market events; a review of the capital work programme and spending against various capital projects; checking whether services are keeping their asset inventories up to date, and what processes are in place to determine asset valuations.

SCHEDULED HIGH AND MEDIUM RISK AUDITS

ICT - Substantial Assurance

The audit examined the following areas - the adequacy of IT security arrangements including PC/file/network controls, arrangements in place to manage the authority's confidential waste, a review of the Council's IT equipment management arrangements, including use of control of laptops and iPads, an examination of current building security arrangements to Surrey

Heath House, and finally a review of off-site working particularly home working.

A number of safeguards have been introduced to help manage the risks within the system.

HR – Substantial Assurance

The 2015/16 annual HR audit focused on reviewing and evaluating the authority's recruitment and selection processes, assessing the Council's staff appraisal system to ensure it is effective and staff performance is properly evaluated and training needs identified, the process for dealing with posts that require Data Barring Service checks, testing staff mileage claims for consistency and accuracy, as well as looking at the progress made with the actions identified from the Council's fairness survey.

Information Governance – Substantial Assurance

Internal Audit reviewed the Information Governance Strategy and IT Security Policy, the lines of accountability in relation to information and data, an examination of the authority's document retention and disposal policy, the contractual arrangements in place for the secure disposal of Council records and documents, arrangements in place for data handling and the processes adopted for the transfer of data to/from the Council, and a brief examination of the current arrangements in respect of Freedom of Information and the Data Protection Act.

Grounds Maintenance – Substantial Assurance

This was largely a contract management audit and the audit sought to review the arrangements in place to monitor the grounds maintenance contract with Glendale. The audit aimed to provide assurance to management that the grounds maintenance contract is being operated and managed properly, and revenue received and payments made by the Council are correct and on time.

Internal audit discussed the contract expenditure against budget, whether poor or non performance was being identified and properly managed including the issue of default notices, the procedures for sports pitch bookings, as well as what arrangements exist for inspecting works and agreeing variations to the contract.

Windle Valley day centre – Substantial Assurance

The audit concentrated on financial controls in place at Windle Valley particularly controls over cash collection, banking, the operation and access to the till and the on site safe. The audit did not review Dial A Ride and the

meals at Home services as these will be subject to separate reviews at some future date. A number of weaknesses were identified in the previous year and the 15/16 audit focused on ensuring action had been taken to fully address these issues.

Overall a number of improvements have been made from the previous year when a limited assurance report was issued. This audit has resulted in a substantial level of assurance being offered.

Business Continuity – no formal report

The Council's Business Continuity Champions, of which internal audit is a part, have continued to build on the successful work carried out in 14/15 when disaster recovery and contingency arrangements were limited.

The group reviewed the key messages as a result of the Crowmarsh, Oxfordshire incident in which the council building became inaccessible for a period time following an emergency situation. SHBC as a result has focused on developing its BC and DR plans, arrangements for contacting staff in an emergency, better consultation with local residents, improved facilities arrangements, improving staff welfare, critical documentation access, and other finance and insurance considerations.

In addition the group has been busy working on updating all the business continuity documents and records, including the BC Strategy and Resilience policy, the authority's Critical Activity list, all the service areas Business Continuity Plans and the Corporate Incident Management Plan. We assisted in service areas BCP validation exercises and the Incident Alert Level table reviews.

Equality and Diversity – no formal report

Internal audit has played an active role of the Equality officer Action Group (EAG) providing a challenge and governance role. The EAG has reviewed a number of policies in 15/16 including the Reservist policy, Information Security policy, Exceptional Payments policy, Disciplinary policy, Smoking policy, Grievance policy, and the Family Friendly policy. The group has also successfully been awarded with the 2 ticks disability accreditation.

Use of Consultants/Professional Advisers – Substantial Assurance

The audit aimed to provide assurance to management that expenditure on professional advisors is regularly monitored by the Council, spend is within budgets sets and consultant engagements create and deliver value.

A number of improvements have been suggested to management which it is hoped will help to deliver better value for money from public sector consultant

engagements and drive a more consistent approach. These include better planning and specification, fully engaging with each consultant, and ensuring project deliverables match the initial project business cases.

It is also envisaged that the main findings of the audit will dovetail in with the project management scheme guidelines currently being developed by the Performance Management Group.

Parks & Open Spaces – Event management – no formal report

A number of marquee events were organised across the borough in 15/16 and the internal audit team have been busy helping review these and making sure effective finance controls are in place, and that all events are being suitably project managed and effective governance arrangements in place. We also helped to produce full risk assessments at each event so that service management were able to fully manage the associated risks.

The events include the Surrey Heath Show, the summer Frimley Lodge Live music festival, and the potential of a winter wonderland event.

Internal audit were also involved reviewing the closing lease with the previous operator of the café at Frimley Lodge, and the security and accounting for parks income.

Camberley Theatre – no formal report

Monthly trading accounts as well as income and expenditure on the catering offering at the theatre were examined in 15/16. Financial assistance was given to theatre staff to help with the termination and closing down arrangements of the previous catering contractor, in June and July 2015. In addition we helped the theatre staff undertake a closing stock of all the catering function, to ensure all stock including stock transferred to the contractor's other site, was fully accounted for and the bar and catering stock up to date and accurate. A full theatre audit is scheduled to be carried out in the summer 2016.

UNPLANNED AUDIT ACTIVITY

The following additional pieces of work were undertaken that were not scheduled in the Annual Plan for 2015/16:

Mytchett Community Association – no formal report

A review of the lease between the Council and Mytchett Community Association was carried out in 15/16. A detailed review was also carried out of the charity's trading and their set of financial accounts. A number of

recommendations were put forward and the team has been working with leisure to improve how the centre has been operating from a financial point of view, and to help ensure compliance with the Charity Commission.

Windlesham Parish Council – no formal report

Internal Audit were engaged by the parish council to review the delivery of its grounds maintenance work programme following the departure of some staff. We carried out a thorough review of the fixed assets owned by the parish and undertook a comprehensive asset inventory of equipment and machinery located at various sites around the parish, in relation to cemeteries, parks and grounds maintenance. The Council has since billed the parish council for this work.

STAFFING AND RESOURCES

A total of 522 days were required to deliver the 15/16 Annual Plan and to adequately resource the team. The following resources were available:

- 1x Senior Auditor – available for the whole year
- 1x Auditor - absent for part of the year due to sickness

The internal audit team operated with limited resources for part in the year, which has resulted in an adjusted work programme.