

## INTERNAL AUDIT ANNUAL REPORT

Portfolio	Finance
Ward(s) Affected:	n/a

### **Purpose**

To summarise the work of the Council's Internal Audit team for the year 2016-17 and to provide an opinion from the Executive Head Finance on the adequacy of the Council's systems of internal control. The report also provides an update on the status of overdue audit recommendations.

### 1. **Background**

1.1 The Public Sector Internal Audit Standards require local authorities including Surrey Heath to report on the work of its internal audit teams for the preceding year, together with the officer responsible for internal audit, which for Surrey Heath is the Executive Head Finance, to provide a written report to those charged with governance. The aims of the report are 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 2016-17.

### 2. **Summary of Internal Audit Work for 2016-17**

2.1 The Internal Audit team's work programme is directed by the Audit Strategy as well as the Annual Audit Plan. The Audit Plan is a list of audit work scheduled for the forthcoming financial year which is agreed by the Audit and Standards Committee each year.

2.2 In 2016-17 a total of 23 scheduled audits were carried out from the Annual Plan as well as 6 unscheduled pieces of work. The majority of these audits resulted in an audit report to management, highlighting the main findings from each audit. On occasion the main findings from the audit were fed back to management through risk assessments or separate meetings.

2.3 Each internal audit report is supported by a level of assurance, and there are 4 levels that can be provided:

Level of assurance	Definition
<b>FULL(green)</b>	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
<b>SUBSTANTIAL(green)</b>	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
<b>LIMITED (amber)</b>	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
<b>NIL (red)</b>	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 16/17 and the category of assurance level provided is below. It should be noted that audit does not issue full assurance reports as the entire control environment is not normally reviewed and tested, only a sample.

- 0 - Full assurance
- 18- Substantial assurance
- 1 - Limited assurance
- 0 - Nil assurance

\*\* 2 internal audits are on going and have still to be finalised, 2 unscheduled pieces of work resulted in advice and action plans being produced rather than formal audit reports

2.5 In addition to the number of internal audit reports issued to management, there were a number of audit recommendations raised with the aim to help reduce risk and tighten up on areas of weakness. Each recommendation is classified as 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 90 recommendations raised in 2016-17, broken down into the following categories:

- 11 essential
- 64 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.

3.2 As at 31 May 2017 there were no essential recommendations outstanding, and 2 desirable recommendations overdue.

### 4. **Overall Opinion of the Executive Head Finance**

4.1 The overall opinion of the Executive Head of 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.

4.2 A summary of the work undertaken in 2016-17 follows.

### 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 2016-17 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
  - Scheduled audits from the Plan
  - Unscheduled 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. 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 audit team continues to work with finance staff to help deliver improvements that were earmarked as a result of events occurring from the end of year accounts work, such as budget monitoring, accruals, opening finance balances and bank reconciliations.

The following table summarises the key financial audits that were performed in 2016-17:

**Table 1: Key Finance Systems Work - 9 audits**

<b>Audit</b>	<b>Summary of areas covered</b>
<b>Treasury Management – substantial assurance</b>	Examination of treasury investments made in year with institutions such as money markets, banks, building societies, and other local authorities; 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; reviewing of arrangements in place for prudential borrowing for property acquisitions; ascertaining the Council's borrowing strategy and ensuring we have in place a Minimum Revenue Provision (MRP)
<b>Payroll – substantial assurance</b>	A review of new starters and leavers and checking first or final wage payments are correct and adjustments made correctly to the payroll system; a review of exception reports produced to help verify and confirm accuracy of payroll, such as negative pay, starters and leavers, including use of On Base to check reports; reviewing arrangements in place to check accuracy of payroll and HR system data via establishment lists; testing a sample of overtime claims and staff paid by timesheets.

<b>Capital – substantial assurance</b>	A review of asset valuations carried out in year by the Council’s surveyors; 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 whether new assets and assets disposed of are being correctly accounted for.
<b>Debtors and Income – substantial assurance</b>	Raising invoices correctly and promptly; debt recovery action and the payment of debtor invoices; debts passed to the Credit Protection Association and their performance and successful; debt recovery; cancelling incorrectly raised debts and processing credit notes; managing bad debts and debt write offs.
<b>Creditors and Expenditure- substantial assurance</b>	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 check they have been paid promptly and correctly and to the correct supplier; reviewing excepting reports such as high payments to ensure unusual or irregular transactions are being identified and investigated; reviewing bank mandate fraud and allowing changes to the supplier back accounts.
<b>Main Accounting- substantial assurance</b>	Corporate budget monitoring process; chart of accounts to trial balance mapping; year end arrangements including accruals and prepayments; opening balances on Civica; testing control of access to the finance system and material feeder systems; testing of journals processed through Civica.
<b>Revenues – substantial assurance</b>	Review of council tax and business rates accounts; testing a sample of exemptions and discounts applied to revenue accounts, such as single person discounts, second homes, living in care or hospital; reconciliations performed between the revenues system and Valuation office records; processing and approving business rates and council tax refunds.
<b>Housing Benefits- substantial assurance</b>	Reviewing case information held on I World and supporting benefit systems; re performance of a sample of benefit claims processed and paid in year, including new claim assessments and change in circumstances assessments.
<b>Cash &amp; Bank – substantial assurance</b>	Checked bank reconciliation processes; reviewed bank mandates and checked records up to date; checked the cash collection arrangements with the supplier; tested a sample of cash transactions through the Council’s cash receipting system, the Kiosk, the web, ATP as well as real time payments.

## **SCHEDULED AUDITS FROM THE 2016/17 PLAN**

### **4 Camberley Theatre - Limited Assurance**

- 4.1 The 2016-17 audit reviewed the following areas: safeguards to improve office and building security, arrangements in place for managing CCTV, the number and use of cash floats as well as petty cash, security and use of office safes, end of day cashing up, cash handling and banking processes, credit card processes and transactions, venue hire bookings and income, bar and catering controls and stock takes, show deals contracts and the programme of shows held at the Theatre.
- 4.2 The business service has been subject to a restructure towards the end of 2016 which has resulted in new management at the theatre. The new staff have taken the audit action plan seriously and as a result all essential recommendations have since been implemented, and have helped to address the limited assurance provided at the time.

### **5 Human Resources – Substantial Assurance**

- 5.1 Every 2 years the Council is required to carry out a review of its safeguarding arrangements on behalf of the Surrey Safeguarding Children Board, known as a Section 11 audit. Essentially this is a self-assessment of the Council's processes and procedures for managing vulnerable child and adult safeguarding arrangements.
- 5.2 The internal audit team carried out this review in the summer of 2016 reporting its findings to the Executive Head of Transformation, who is responsible for safeguarding and chairs the safeguarding working group. The audit requires the Council to review a number of Standards such as leadership, recruitment, training, reporting and information sharing. Overall we assessed our arrangements as either meeting or exceeding each Standard although an action plan has been agreed to target those areas where improvements have been identified, and these are being addressed with the SSCB.

### **6 Procurement – Substantial Assurance**

- 6.1 The scope of this year's procurement audit included a review of the current procurement procedures and associated toolkit, testing to check procurement authorised signatory levels, a review of the Council's Contracts Register and sample testing of a number of council wide live contracts, reviewing arrangements for short listing and selecting suppliers for works, and an examination of the supply and use of corporate and procurement credit cards to check card conditions are being followed. The audit also included making recommendations where appropriate to improve controls and procurement processes. All recommendations where the due date has been reached have since been implemented.

### **7 Parking – substantial assurance**

- 7.1 Improvements in the parking operation allowed internal audit to offer a substantial level of assurance for the parking audit, unlike in previous years when only limited assurance could be provided.
- 7.2 The 2016 audit considered the cash collection procedures and operation with the new cash collection company, the reconciliation of parking income back to car park, parking machine and banking date, together with the new arrangements in place with Newpark the parking service provider. The audit evaluated the alternative payment

methods including ticketless parking (Fusion), car park spaces live and Your Parking Space.

- 7.3 Waived or cancelled parking notices were evaluated together with a review of the parking penalty enforcement process which ensures that parking debts are chased until paid or debt recovery processes exhausted. A number of recommendations were raised to improve controls which have all been actioned by the Parking Manager where due.

## **8 Licensing – substantial assurance**

- 8.1 A licensing audit is normally undertaken every 3 years. For the 2016 audit Internal Audit reviewed alcohol and entertainment regulation incorporating Premises Licences, Club Premises Certificates and Personal Licences. The audit also tested a sample of Temporary Event Notices (TENs) and Late TENs. The Gambling Act was also examined including a review of gambling and small society lotteries, regulating gaming machines in pubs and bars, and the licensing of betting shops in the borough. The audit also examined driver and vehicle licensing activities, including hackney carriage and private hire operations. Charity activities including house to house and street collections were also tested.
- 8.2 A number of recommendations were raised, including 1 essential which has since been actioned.

## **9 Grants – Substantial Assurance**

- 9.1 The 2016 grant audit looked at external grants that are paid to the Council as revenue and capital income and which were received from external bodies mostly central government departments. A number of these grants are paid annually such as the revenue support grant and the Council relies on these to help meet its revenue budgets.
- 9.2 The grants audit focused on reviewing grant applications and the senior authority to proceed, sample testing to show that grants have been spent in accordance with grant terms and conditions, and a review of whether grants have improved service delivery and outturn reports and management reports are clear and submitted in a timely manner.

## **10 Complaints – Substantial Assurance**

- 10.1 An audit of the Corporate Complaints system was undertaken which included evaluating a sample of complaint files, to check the effectiveness of the Council's complaints and compliments system. A number of improvements have been introduced over the last couple of years by Contact Centre staff to the way complaints are handled and processed and how customers are treated and these were also included in the audit review.
- 10.2 The audit made a number of recommendations to improve overall control including recommending some changes to the corporate policy, website and associated customer complaints leaflet, action for reducing the response times to customers, electronic computer system improvements, and incorporating complaints into the induction process for new starters.

## **11 Community Transport - Substantial Assurance**

- 11.1 The 2016 transport audit focused on reviewing the operations of the service such as pick-ups, transfers, scheduling and trip cancellations, testing customer eligibility, reviewing payment of fees and charges and setting of fares, checking that community transport drivers have valid driving licences and have undergone required DBS clearances and training, along with health checks of transport vehicles, servicing and trip logs.

## **12 Building Control – substantial assurance**

- 12.1 The building control service was reviewed to check to what extent building control services are carried out accurately, inspections are carried out on time, correct fees are collected from customers, and debts are recovered in line with Council policy. Internal audit also examined the extent to which Completion Certificates have not been issued prior to full fee payments being received.
- 12.2 The building control audit also reviewed Council arrangements for dealing with dangerous structures and responding to incidents out of hours.

## **13 Facilities Management – substantial assurance**

- 13.1 The scope of this year's audit included the following areas: building security procedures and arrangements to manage office security, the work and tasks of the FM officers, Council buildings and facility maintenance procedures and records, together with a review of the arrangements in place with external service suppliers to help deliver such activities as lift and barrier maintenance, external doors and windows, and fire safety.
- 13.2 The audit also considered the cleaning contract, the operation of the FM Helpdesk facility, and office equipment and supplies such as stationery procurement.

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

- 14.1 The Council organised a number of borough wide events in 2016-17 that were reviewed by the internal audit team. These included the Camberley on Ice offering, the Surrey Heath Show and Frimley Lodge Live. A number of areas where improvements could be made were raised with management, such as improved cash handling and banking, record keeping, and staffing procedures. There was no formal report issued as events reviewed were spread throughout the year. However the Internal Audit team did agree separate action plans to help address issues raised with the service.

## **15 Parks & Green spaces – on going**

- 15.1 A number of activities run by the business and green spaces team were examined as part of the 2016-17 audit. The audit considered the grounds maintenance contract and its operation, income generating activities including sports pitch hire, tennis court hire, pitch & putt golf, hall and BBQ hires. The re vamped Lightwater visitor centre café which opened during the audit was reviewed, together with the operation and income generation of the Council's 3G pitch located at Frimley Lodge. The team also examined the operation, maintenance and security checks in relation to the numerous play grounds located across the borough. The audit is almost complete and a report is scheduled to be issued by July 2017.



## **16 Health & Safety – on going**

- 16.1 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.
- 16.2 The scope included a review of the authority's health & safety policies and procedures, the arrangements in place for reporting and recording accidents and incidents such as slips and trips, activity based risk assessments are undertaken and kept up to date, training for existing and new staff. The audit also considered health & safety arrangements in place for the Council's tenants such as the police, as well as in respect of organised events and ad hoc work delivered by the Council. The audit is almost complete, but was interrupted by the previous health & safety officer leaving the Council. A report is scheduled to be issued by July 2017.

## **17 UNSCHEDULED AUDIT ACTIVITY**

- 17.1 Several additional pieces of work were undertaken that were not scheduled in the Annual Plan.
- 17.2 Disabled Facilities Grants – management and operation of DFGs were transferred from Community Services to Regulatory in August 2016, which has resulted in a number of service delivery improvements being required. Internal Audit has been working with the private sector housing team to introduce these improvements, and the work remains on going.
- 17.3 Windlesham Parish Council – some minor works were brought forward from the good work started in partnership with the parish council in 2015/16.
- 17.4 Intermediaries Legislation (IR 35) – a number of key changes have been introduced by HMRC which Internal Audit has worked with HR staff to deliver for the introduction of 2017/18 tax year. These have included training for relevant staff, identification of workers who may be affected by the changes to the legislation, and the introduction of new financial forms and processes that will enable workers to be paid through payroll instead of the Council's creditors system. Internal Audit will continue to work with HR and finance staff to effectively deliver the new IR35 legislation.
- 17.5 Equality Impact Assessments – several equality impact assessments have been prepared for different Council activities including the new complaints and compliments policy.
- 17.6 Performance Management Group - Internal audit sits on and contributes to the work of the performance management group. The PMG examines, challenges and reports on all aspects of the Council performance. Completed audit reports and recommendations are reported to this group for comment. Internal audit has also contributed by reviewing and challenging initial business cases for new projects as well as existing projects and Council performance generally.
- 17.7 In addition to the above pieces of work, Internal Audit has also supported the Elections Team plan and deliver a number of elections in the last 12 months.

## **18 STAFFING AND RESOURCES**

18.1 A total of 430 days were required to deliver the 16/17 Annual Plan which were made up of the following:

- 1x Senior Auditor
- 1x Auditor

18.2 Additional resource was brought in to help provide cover when the auditor was absent due to ill health.