

Committee: Governance, Audit and Performance Committee

Date:
Thursday, 26 July 2018

Title: Internal Audit Annual Report and Opinion 2017/18

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Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2017/18 and provide an overall opinion on the Council's control environment for 2017/18. The report also shows the state of compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 01 April 2013 and were revised and updated from 01 April 2017.

Recommendations

2. That Internal Audit coverage, the Internal Audit Opinion and compliance with the Public Sector Internal Audit Standards are noted

Financial Implications

3. None.

Background Papers

4. None.

Impact

- 5.

Communication/Consultation	The Internal Audit Reports referred to in this report have been circulated to Members This report has been discussed with the Corporate Management Team at its meeting 27 June 2018
Community Safety	none
Equalities	none
Health and Safety	none

Human Rights/Legal Implications	none
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

Situation

6. Internal Audit is statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.
7. The Internal Audit coverage for 2017/18 was delivered by the Council's in-house Internal Audit Team, which comprised of the following resource:

	01/04/17 – 31/07/17	01/08/17 - 31/03/18
Internal Audit Manager	FT	0.20 FTE
Internal Auditor	FT	FT
Internal Auditor	0.67 FTE	FT

8. From 01 August 2018, the Internal Audit Manager was seconded to GDPR Project Team Lead Officer; to provide adequate cover for Internal Audit to ensure that the service could continue to give the level of assurance required the part-time auditor post (0.67FTE) has been increased to a full time post for the duration of the secondment.
9. Internal Audit work partly informs the Annual Governance Statement which is published with the Council's Statement of Accounts.
10. Throughout 2017/18 the Internal Audit Manager reported to Members of the Governance, Audit & Performance Committee on details of work undertaken by Internal Audit and on implemented and outstanding Internal Audit recommendations.
11. The Internal Audit Work Programme is a rolling programme of planned audit work subjected to regular reviews and updating at strategic points throughout the year to take into consideration changes in priority, audit resources and additional unplanned time requirement.
12. The initial Internal Work Programme for 2017/18 was drawn up in January 2017 and implemented from 01 April 2017 on the basis of a resource of 1 full-time audit manager, 1 full-time auditor and 1 part-time (0.7 FTE) auditor. This was reviewed and updated to reflect to resource changes from 01 August 2018. The allocation of audit days were calculated as follows:

	Initial April 2017 days	Revised August 2017 days	actual days taken	<i>diff between August 2017 and actual</i>
total days available	694	752	752	
less leave provisions and non-audit time	(253)	(221)	(270)	49
Total available for productive audit work	441	531	462	
Less Internal Audit Manager GDPR time	0	(146)	146	
total audit days available	441	385	336	
<i>programmed 2017/18 audit work</i>	290	254	245	-9
<i>productive Non-specific audit work</i>	151	131	91	-40
total audit days allocated	441	385	336	

2017/18 Leave Provisions & Non-Audit Time

13. At 31 March 2018, Leave Provisions and Non-Audit Time accounted for 270 days against the revised allocated 221 days (+49). This is accounted for by additional management and team meeting time during the secondment period and by sickness absence in quarter 4 of 2017/18.

2017/18 Productive Non-Specific Audit Work

14. At 31 March 2018, Productive Non-Specific Audit Work accounted for 91 days against the allocated 131 days (-40).

	allocated days	actual days taken	diff
contribution to corporate management	38	10	28
Annual Governance Statement	4	4	0
consultancy & general advice	11	15	-4
committee & member related work	13	7	6
fraud related work	7	3	4
irregularity provision	23	18	5
follow-up work	3	2	1
residual 2015/16 audit work	32	32	0
Other- e.g. External Auditor liaison	0	0	0
	131	91	40

2017/18 Planned Audit Work – Revised Internal Audit Programme

15. There were a total of 40 audits on the initial Internal Audit Programme 2017/18, 31 audits plus 8 potential additional audits dependent on the then unknown 2016/17 audit opinions. These were reduced in the Revised Internal Audit Strategy & Work Programme from 01 August 2018 with the overall total of actual audits from 31 to 25.
16. Of the revised 25 audits undertaken in 2017/18:
- 5 were Key Financial Audits;
 - 2 were Corporate Audits;
 - 18 were Other audits.
17. In the Revised Internal Audit Strategy & Work Programme revised 254 days were allocated to these audits as:
- Key Financial Audits - 45 days (10%)
 - Corporate Audits - 25 days (18%)
 - Other Audits - 184 days (72%)
18. At 31 March 2018, planned audit work accounted for 245 days against the revised allocated 254 days.
19. At 31 March 2018, the actual audit days used were
- Key Financial Audits - 40 days (16%)
 - Corporate Audits - 31 days (13%)
 - Other Audits - 174 days (71%)
20. The Internal Audit target was for 90% of planned audits to be completed to at least draft stage by 31 March 2018. Of the revised 25 planned audits, 20 (80%) were completed to at least draft report stage by 31 March 2018.

21. Although we commenced work on all 25 planned audits, two main factors affected our ability to meet the 90% target. Several audits had required additional time thus delaying starting work on others. Our ability to complete audits was influenced further by reduced audit resource due to staff absence in particular in quarter four of 2017/18.
22. In March 2018 I took the decision to cease audit work on 4 audits which were at the planning stage and carry them forward to the 2018/19 Audit Programme:
- Budgets;
 - HR & Payroll;
 - Equality & Diversity;
 - Legal Services
23. As considerable work had been undertaken on the audit of Council Tax, this audit was to be completed as Residual Work from 2017/18 on the 2018/19 Audit Programme.
24. At 31 March 2018, 15 Final Reports and 1 Interim Report had been issued for audits from the 2017/18 audit programme.
25. Since 31 March 2017, Final Reports have been issued for a further 4 audits from the 2017/18 audit programme; at the time of this report no residual audit work has been done.

Annual Audit Opinion

26. Our audit opinions are formed on the basis of the number of recommendations made and level of risks associated with them.
27. The table reproduced at appendix A shows the audit work undertaken; the planned audit days from the 2017/18 Revised Internal Audit programme; the actual audit days taken during 2017/18; the audit opinions formed and the number of recommendations made as a result of our audit work.
28. For the 20 audits in the 2017/18 audit programme on which an opinion has been given, 70 recommendations have been made to improve the Council's control environment. This is in comparison with the 53 recommendations made in the 20 completed 2016/17 audits and 44 recommendations made in the 23 completed audits in the 2015/16 audit programmes.
29. The 70 recommendations arising from our 2017/18 audit work were assessed as follows:
- 7 recommendations were assessed as level 4
(fundamental and requiring immediate attention and priority action)
 - 21 recommendations were assessed as level 3
(significant that should be addressed within six months)

- 37 recommendations were assessed as level 2
(important that should be addressed within twelve months)
- 5 recommendations were assessed as level 1
(merit attention and would improve overall control)

30. For the 20 audits on which an opinion on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled has been given:

- the opinion for 1 audit was 'little assurance'
- the opinion for 2 audit was 'limited assurance'
- the opinions for 4 audits were 'satisfactory assurance' and
- the opinions for 13 audits were 'substantial assurance'

31. For the 3 Key Financial Audits on which an opinion has been given on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled:

- the opinions for 1 audits were 'satisfactory assurance' and
- the opinions for 2 audits were 'substantial assurance'

32. A 'little assurance' opinion was given in the Interim Report issued for the audit of Street Services - Trade Waste and Income Generating Services 2017/18 in which we made:

6 x level four recommendations
12 x level three recommendations
4 x level two recommendations and
0 x level one recommendation

At 30 April 2018, all recommendations made in the Interim Report have been implemented; further work will be undertaken to completed this audit as part of the 2018/19 Audit Programme.

33. A 'limited assurance' opinion was given in the report issued for the audit of Leisure – PFI 2017/18, in which we made:

1 x level four recommendations
3 x level three recommendations
3 x level two recommendations and
0 x level one recommendation

At 30 June 2018, 1x level four and 1x level two recommendations have been implemented and the remaining 5 are expected to be implemented in accordance with an agreed timetable.

34. A 'limited assurance' opinion was given in the report issued for the audit of Car Parking & NEPP 2017/18, in which we made:

- 0 x level four recommendations
- 3 x level three recommendations
- 2 x level two recommendations and
- 0 x level one recommendation

At 30 June 2018, 1 level two recommendation has been implemented and the remaining 4 recommendations are expected to be implemented in accordance with an agreed timetable.

35. Copies of the Final Reports for completed audits were circulated to Committee Members at the time of issue.

36. In determining the overall audit opinion for the year, the factors in paragraphs 28 to 35 have been taken into consideration and weighted accordingly.

37. Therefore, our audit opinion on the control environment for 2017/18 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are, on balance, **satisfactorily** managed and controlled.

Implementation of Internal Audit Recommendations

38. To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To encourage the timely implantation of agreed recommendations all management action and timetable for implementation is agreed prior to the issue of the final report.

39. All recommendations, agreed management action and timetable for implementation are input into Pentana for Internal Audit management purposes.

40. Internal Audit manages the follow-up of implementation of recommendations through a combination of updates from responsible officers following automatic trigger notifications sent out by Pentana; regular reporting to meetings of this Committee and a rolling follow up programme at six months after the latest implantation date of the agreed management action or as part of the next audit of an area.

41. All audit reports are addressed to the member of CMT responsible for the audited area and copied to the Chief Executive, the Director of Finance and Corporate Services, the Director of Public Services and the Assistant Director of Governance & Legal.

42. Members of the Governance, Audit & Performance Committee received copies of all audit reports and Terms of Reference.

43. Of the 70 recommendations made in Audits from the 2017/18 audit programme to date:

- 50 have been implemented;
- 20 have yet to reach their due date and will continue to be monitored through Pentana with progress reported to this Committee during 2018/19;

External Auditors

44. Liaison meetings and informal ad hoc meetings were held between the Audit Managers of Internal Audit and the External Auditor to discuss current work being undertaken and future work plans.

Conformance with the Public Sector Internal Audit Standards (PSIAS) and Other Quality Assurance Results

45. The Public Sector Internal Audit Standards (PSIAS) require that an external review of the Internal Audit Service is conducted every five years. In the Internal Audit Annual Report and Opinion presented to this committee at its May 2017 meeting, it was reported that a self-assessment had been undertaken to review the internal audit section's conformance with the PSIAS.

46. This self-assessment was subjected to external verification as part of an External Quality Assessment carried out during the August & September 2017 with the Assessor's final report being issued on 02 October 2017. A copy of the report was circulated to Governance, Audit & Performance Committee members.

47. The External Assessor's overall assessment conclusion is that:

- The internal audit provision within Uttlesford District Council generally conforms with the expectations of the Public Sector Internal Audit Standards.
- The service has responded to the introduction of the standards in 2013 and has developed a robust methodology which is consistently applied to a high standard.
- There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the Council and assist in improving the profile of internal audit and the subsequent feedback that is received from clients.
- The further development of risk management systems to reflect an Assurance Framework within the Council would enable greater recognition of key mitigating controls and the other sources of assurance with which

internal audit effort should be co-ordinated in order to support the Governance Statement process.

- Some revisions to the internal audit process may be beneficial in terms of improving efficiency and transparency of the assurance being provided.

48. Following the External Quality Assessment a Quality Assurance & Improvement Programme (QAIP) has been drawn up to address the 16 recommendations made in the report. However current resource levels within the service have delayed progress towards their implementation during 2017/18.

49. It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports to the Assistant Director of Governance and Legal (Monitoring Officer) but has a direct and unrestricted access to all senior management and the Governance, Audit & Performance Committee.

50. Quality control procedures have been established within the Internal Audit Services as follows:

- Individual Audit Reviews – Working papers and reports are all subject to independent review to ensure that the audit tests undertaken are appropriate, evidenced and the correct conclusions drawn. All reports are reviewed to ensure that they are consistent with working papers and in layout. Whilst these reviews invariably identify issues for clarification, the overall conclusion of the quality assurance checks is that work is being completed and documented thoroughly.
- Customer Satisfaction – A Post Audit Questionnaire form is issued to the main auditees on completion of an audit. This form was revised for 2017/18 seeks the views of auditees on how the audit. Based on the Post Audit Questionnaire forms returned, the average scores for 2017/18 audits completed were:
 - 91% on the audit was conducted, the report, recommendations made and
 - an overall opinion rating of 4.9 out of 5.
- All Internal Audit staff are provided with a copy of the Public Sector Internal Audit Standards and the Internal Audit Manual has been updated to reflect the requirements of the standards.

51. The above quality control procedures have ensured conformance with the PSIAS and that all Internal Audits have been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Review of Performance of the Internal Audit Service Against the Current Internal Audit charter

52. The Internal Audit Charter was reported to and approved by the Performance & Audit Committee on 15 November 2016. An updated Internal Audit Charter will be presented to this committee for approval during 2018/19
53. Based on the information provided in this report on the completion of the 2017/18 Internal Audit Programme, it is considered that the requirements of the Charter were met during the year.