

ITEM 12 The Annual Internal Audit Report 2016-17

Report of the Shared Internal Audit Manager (Portfolio: Economic)

Recommended:

That the Members endorse the work performed by the internal audit team over the previous year (April 2016 - March 2017).

SUMMARY:

This report provides an overview of the internal audit work covering the financial year 2016-17.

1 Introduction

1.1 Members of the Overview and Scrutiny Committee have requested an Internal Audit Annual Report. This paper is based on the reports provided by the Shared Internal Manager to the Audit Panel in this period.

1.2 In this period there have been four Audit Panel meetings:

- 13th June 2016
- 19th September 2016
- 12th December 2016
- 20th March 2017

2 Background

2.1 Throughout the year an internal audit monitoring statement for the period was provided to Members of the Audit Panel. In addition, other reports to the Panel, covered statutory reports from External Audit, the effectiveness of the Audit Panel (self assessment), a paper in respect of the draft annual governance statement and a paper on the future internal audit management arrangements with Gosport Borough Council.

2.2 The overall opinion of the Internal Audit Partnership Manager (as reported to the June 2017 Audit Panel meeting) is that a **substantial level of assurance** can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are being applied consistently.

2.3 78 % (32 of the 41 programmed audits) of the original audit plan was delivered to final or draft report stage against a target of 95%. A further 2.5% (1 audit) was in progress as at 31 March 2016. 19.5% (8 of the programmed audits were deferred to the 2017/18 or 2018/19 Audit Plan as approved by the Audit Panel in March 2017. Therefore, after revising the audit plan the team delivered **97%** (32 of the amended target 33 audits).

- 2.4 The team achieved 81.75% productive time against a target of 90% for the period 1 April 2016 to 31 March 2017.
- 2.5 The assurance opinions related to the 27 audits (where an opinion has been given) are summarised as follows:

Opinion	Number	Percentage
Full Assurance	3	11%
Substantial Assurance	21	78%
Limited Assurance	3	11%
No Assurance	0	0%

The Audits that received a limited opinion were as follows:

- Temporary Staff
 - Premises Security
 - Highways (Street & Property Naming)
- 2.6 All actions arising from audit reports are agreed with the management responsible for the area/function. These actions are monitored by each Service's Performance Board and recorded on the performance management system. A review of the system was undertaken to ascertain the status of audit actions as at 31/03/17. The results as at June 2017 are summarised in the table below:

Audit Actions:	Risk	Total	Complete	In Progress	Pending /Slipped
2015-16	High	15	15 (100%)	0 (0%)	0 (0%)
	Med/Low	136	113 (83%)	19 (14%)	4 (3%)
2016-17	High	1	0 (0%)	1 100%)	0 (0%)
	Med/Low	39	26 (66.5%)	5 (13%)	8 (20.5%)
Grand Total		191	154	25	12

- 2.7 2 actions remain in progress from 2012-13. None are high risk.
- 1 action relates to an audit of the Chantry Centre and the establishment of a performance indicator to enable monitoring of the year on year % increase in vacancy running costs. Information to calculate this has now been provided by the managing agent and is currently being reviewed with more detailed work planned once the year end accounting is complete.

- 1 action relates to an income collection audit and centralised post opening which was put back to December 2016 to follow conclusion of the CRM review. The Transformation Board are continuing to set up alternative methods of payment to reduce the number of cheques coming in and therefore reduce the risk of loss or delays in payment.

2.8 5 actions arising from 2013-14 audit reviews are currently in progress. None of these are high risk actions.

- 1 action relates to an audit of Health and Safety and the central coordination of driving licence checks. These checks together with guidance are now being considered as part of a review of the driving at work policy.
- 2 actions refer to a review of Business Continuity Planning (BCP). The coordinated review of service and corporate BCP's has been deferred awaiting the review of the corporate BCP.
- 1 action relates to an audit of Telecommunications and workflow and posting problems with penalty charges. A software upgrade to resolve these issues is currently being implemented.
- 1 action arose from an audit of Licensing and the reconciliation of the Licensing system to NDR records as the rateable value determines the licence cost. Queries arising from the reconciliation are being investigated with just one further to resolve.

2.9 6 actions remain in progress from 2014-15 and 3 have slipped. None are high risk.

- 4 relate to a Code of Conduct audit and include:
 - The establishment of an annual diary prompt to remind Members of their duty to declare interests/receipts.
 - The involvement of Human Resources in the review and update of the Officers Code of Conduct or the Member and Officer Interests Protocol to which it refers.
 - The updating of the Officers Code of Conduct in respect of "Separation of Roles during Tendering" in line with the Council's Contract Standing Orders.
 - The consideration of the Code of Conduct when working within a shared service.
- 3 actions refer to an audit of Capital Accounting and include:
 - The routine examination of IT assets to determine their value for the Fixed Asset Register and reconciliation to IT asset records.
 - The reconciliation of the Fixed Asset Register (Finance) to the Estates Asset Register and insurance policy schedule on an annual basis.
 - Production of written procedures for the Capital Accounting process.
- 1 action relates to an audit of Energy Management and a review of energy suppliers and rates charged. This is pending the release of a new framework agreement.

- 1 action arises from an audit of Playgrounds and refers to the inclusion within the Green Space Strategy of an overall Strategy for the development and replacement of playgrounds. Completion is anticipated by the end of 2017.

2.10 23 actions arising from the 2015-16 audit reviews remain in progress or have slipped. None of these are high risk.

2.11 14 actions arising from the 2016-17 audit reviews remain in progress or have slipped. There is one high risk action in progress and this relates to an audit of Temporary Staff and the establishment of appropriate procurement routes to ensure compliance with procurement regulations.

2.12 All those actions that are in progress and slipped/pending will be followed up during the year by the Performance Boards and by Internal Audit to ensure that control weaknesses are properly addressed.

3 Corporate Objectives and Priorities

3.1 The work of the Internal Audit Function supports the Council's four strategic aims for maintaining and improving quality of life in Test Valley, by ensuring that the Council makes the most of its available resources and transforms the way it works, to provide even better value for money and effective service delivery.

4 Consultation/Communications

4.1 The Internal Audit Plan for 2016/17 involved full consultation with senior management, the Council's External Auditors and the Audit Panel.

5 Options

5.1 In accordance with best professional practice, currently the Public Sector Internal Audit Standards, each year a plan is produced and internal audit resources allocated to the areas of the Council's activity which need to be reviewed during the year.

5.2 The Council has limited options in this matter as without this the Council is at risk of providing inadequate audit coverage on high-risk areas and no assurance on the control environment.

6 Risk Management

6.1 The annual audit plan 2016/17 was based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance.

7 Resource Implications

7.1 The Audit Plan for 2016/17 was based on **2.4 full time** equivalent auditors employed by Test Valley Borough Council and **0.4 full time** of an Audit Manager's time provided in partnership with Gosport Borough Council (extended three years to March 2020).

8 Equality Issues

- 8.1 The report is for information purposes, so the Council's EQIA process does not need to be applied.

9 Conclusion

- 9.1 The review of the effectiveness of Internal Audit has shown that there is **substantial compliance** with the Standards detailed in the Public Sector Internal Audit Standards 2013.
- 9.2 This report outlines the work undertaken by Internal Audit from 1 April 2016 to 31 March 2017 and the overall performance in delivery of the 2016-17 Audit Plan.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	Nil		
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