

Report of:	Chief Internal Auditor & Risk Manager
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Key Decision:	No
Report Track:	Audit & Governance Cttee: 27/06/17

AUDIT & GOVERNANCE COMMITTEE
27 JUNE 2017
INTERNAL AUDIT ANNUAL AUDIT REPORT 2016/17

1 Purpose of Report

- 1.1 To present the Internal Audit Annual Report for 2016-17.

2 Recommendations

- 1.2 That the Committee note the Internal Audit Annual Report for 2016-17.

3 Key Issues and Reasons for Recommendation

- 3.1 Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide reasonable assurance that the Council's governance arrangements including systems of internal control were operating adequately.

4 Relationship to Corporate Priorities

- 4.1 The system of internal control is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

5 Report Detail

- 5.1 Management are responsible for the control environment and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control.

5.2 The Internal Audit Annual Report (attached as Annex 1) is the culmination of the work of the Section during the course of the year and seeks to:-

- provide an opinion on the adequacy of the control environment;
- comment on the nature and extent of significant risks; and
- report the incidence of significant control failings or weaknesses.

5.3 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers. Most of the significant findings from the audits have been reported to the Committee in the Quarterly Progress Reports, the significant findings from the audits issued in Quarter 4 are the exception to this and are attached as Appendix 1 for information.

5.4 The Internal Audit Annual Report is one of the sources of assurance that is used to support the Council's Annual Governance Statement

6 Implications

6.1 **Financial**

None

6.2 **Legal**

None

6.3 **Human Resources**

None

6.4 **Section 17 (Crime Prevention)**

None

6.5 **Human Rights Act**

None

6.6 **Data Protection**

None

6.7 **Risk Management**

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 - Summary of Significant Findings Quarter 4 Audits

Appendix 2 - Internal Audit Annual Report for 2016-17

Previous Consideration

None.

Background Papers

Files held by the Chief Internal Auditor

Appendix 1Summary of Significant Findings for Audits Issued in Quarter 4

A summary of the findings is provided in the quarterly reports for any audits not given Substantial Assurance. As there is no Quarter 4 progress report for consistency a summary of the Quarter 4 audits is included below.

Audit	Service Lead Officer	Number of Recommendations	Assurance	Comments & Key Issues
Civil Contingencies	Head of Governance	3	Partial 	<ul style="list-style-type: none"> • There is a need for a strategy for dealing with Major Incidents to be produced to pull together the existing Incident Response Guides and other procedures • There is a need to review the Local Risk Assessment against the Staffordshire Community Risk Register and to document reasons where the two documents are not in alignment. • There is a need to finalise the review of current Service Business Continuity Plans (BCP) and update the Corporate BCP Strategy. There is a need to carry out a test of the BCP.
Bank Reconciliation	Head of Financial Management	Summary Memo issued	Partial 	The key reason the Bank Reconciliation is Partial is due to the lack of review & sign-off of the reconciliations for April to September 2016. This issues has also been reported to the Audit Committee by the External Auditors
Housing Benefits	Head of Financial Management	2	Partial 	Work was needed to review the level of supervisory review checking that was carried out in relation to claims. This is linked to the finding of the External Auditor in the Grant Claim Audit.

Internal Audit

Quarter 4 Report 2016-17

Audit	Service Lead Officer	Number of Recommendations	Assurance	Comments & Key Issues
Private Sector Housing Grants	Head of Environmental Health	13	Partial 	<ul style="list-style-type: none"> A number of recommendations were made in relation to documentary and policy updates which were needed to be done in preparation for brining the function back in house from April 2017. Other recommendations related to the lack of accuracy and failure to complete forms in full by the Housing Improvement Agency. This arrangement is due to end in March 2017. Funding arrangements from Staffordshire County Council were not finalised at the time of the audit, which led to a lack of clarity over the amount of work, which could be funded in the year.
Stores Function	Head of Housing & Waste Management	Summary Memo Issued	Partial 	<ul style="list-style-type: none"> A number of recommendations were made to improve controls in relation to the operation of the stores following on from the Special Investigation. These included independent stock-takes, regular verification of Van Stocks and improvements in the Intruder Alarm System in the building.
Allocations & Voids	Head of Housing & Waste Management	6	Partial 	<ul style="list-style-type: none"> Work was required to review the processes for dealing with void properties to improve the turnaround times There was a need to review the Decorating Allowance Scheme to ensure all retailers understood to the terms and conditions. Cash handling processes need to be improved.
Pensions Assurance	Head of Human Resources★		Substantial 	

Internal Audit

Quarter 4 Report 2016-17

Audit	Service Lead Officer	Number of Recommendations	Assurance	Comments & Key Issues
Council Tax	Head of Financial Management		Substantial 	
National Non-Domestic Rates	Head of Financial Management		Substantial 	
Development Control	Head of Economic Development		Substantial 	
Fairer Charging Service	Head of Financial Management		Substantial 	

★ Services led by Stafford Borough Council as part of Shared Services

Audits in Progress

The areas below were in progress but not completed by the end of the year. They will be carried over and completed at the start of the 2017-18 year.

Audit	Head of Service	Comments
Policy Management & Implementation (IT Audit)	Head of Technology	Delays in accessing staff within IT and the scheduling of the work of the IT Contractor meant that this audit was still in progress at the end of the year.
Service Management including Service Desk (IT Audit)	Head of Technology	Delays in accessing staff within IT and the scheduling of the work of the IT Contractor meant that this audit was still in progress at the end of the year.
BACS Application (IT Audit)	Head of Technology/Head of Financial Management★	Delays in accessing staff within IT & Finance and the scheduling of the work of the IT Contractor meant that this audit was still in progress at the end of the year.
Sundry Debtors	Head of Financial Management★	Delays in other audits and obtaining access to Finance Staff at year-end meant that this audit could not be completed by the Year-end.

Cannock Chase District Council Internal Audit Annual Report 2016-17

June 2017



Working together

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**Audits Planned and Completed in 2016-17
by Classification:-**

1a	Limited	9
1b	Partial	10
1c	Substantial	11
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1. INTRODUCTION

- 1.1 The Internal Audit Service is a shared service with Stafford Borough Council. This report highlights the work carried out by Internal Audit to deliver the Annual Audit Opinion for Cannock Chase District Council.

The Annual Reporting Process

- 1.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its governance arrangements, comprising of risk management and internal control. Internal Audit objectively examines, evaluates and reports on the adequacy of the Council's governance arrangements as a contribution to the proper, economic, efficient and effective use of resources. Responsibility for governance rests fully with Managers, who should establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner and on the activities intended.
- 1.3 This report is the culmination of the work of the Internal Audit Section during the course of the year and seeks to:
- provide an opinion on the adequacy of the control environment;
 - comment on the nature and extent of significant risks; and
 - report the incidence of significant control failings or weaknesses.
- 1.4 It provides a summary of the work of the Section throughout 2016-17. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring any relevant areas where significant weaknesses have not been addressed by managers to the attention of the Audit & Governance Committee if and when it is deemed appropriate.
- 1.5 Internal Audit has adopted an exception based reporting methodology, as such only those areas where weaknesses have been identified are reported on.

Requirement for Internal Audit

- 1.6 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration is interpreted in this legislation to include Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance”.

2. REVIEW OF CONTROL ENVIRONMENT

How the Control Environment is Reviewed

- 2.1 Internal Audit operates to a risk based audit plan. The audit plan is risk assessed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk.
- 2.2 This risk based approach to audit planning results in a comprehensive range of audits being undertaken during the course of the year to support the overall opinion on the control environment.

Internal Audit Opinion for 2016-17 and the Annual Governance Statement (AGS)

- 2.3 Regulation 3 of the Accounts & Audit Regulations 2015 require that the Council:-

“must ensure that it has a sound system of internal control which—

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk.*

- 2.4 In addition regulation 6 of the Accounts and Audit Regulations 2015 requires that the Council:-

“must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and*
- (b) prepare an annual governance statement;”*

2.5 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the control environment operating within the Council to feed into this review.

2.6 Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide **partial assurance** that the Council's governance arrangements including risk management and systems of internal control were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy.



2.7 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

2.8 Whilst no material discrepancies have been identified, instances of control weaknesses and gaps in management controls have been found. If these are not addressed they could result in significant failings in the Council's governance arrangements. More details are given in 3.7 - 3.8 below.

3. SIGNIFICANT ISSUES ARISING 2016-17

3.1 Each system/area audited is given a level of assurance based on the presence and effectiveness of the controls in place. Three levels of assurance are currently used and the definitions for each are contained in appendices 1a to 1c.

3.2 A summary of the level of assurance given to each audit is given in the table below.

	Assurance		
	Substantial	Partial	Limited
Number of Audits	5	13	0

3.3 No audits have been classified as Limited Assurance in the year.

3.4 13 areas have been classified as Partial Assurance. Action is planned or in progress in relation to the areas which have been classified as Partial. Details of these audits can be found in Appendix 1b.

- 3.5 A list of the 5 audits classified as Substantial Assurance can be found in Appendix 1c
- 3.6 The quarterly Internal Audit reports provide a commentary on audits classified as Partial or Limited Assurance. An annex accompanying this report contains the commentary for the audits issued in Quarter 4 which have not featured in one of the quarterly reports.
- 3.7 The Internal Audit Section did not identify any significant weaknesses in relation to any of the Council's key financial systems and core governance processes which were examined in 2016-17. However it was identified that due to limitations in resources and narrowing of focus some of the Council's main assurance functions are not operating as effectively as they could do in providing assurance to management about the front-line service delivery functions.
- 3.8 Recurring themes were identified across the year by Internal Audit. The most common of these related to minor compliance issues in low risk systems or where other compensating controls exist. We have also continued to see signs of supervisory/management controls not being applied regularly or at all. Internal Audit are looking to roll-out work to develop an Assurance Framework for the key processes at the Council which will hopefully help to address the weaknesses appearing in these areas. This is currently being trialled with the Technology Service.
- 3.9 In addition to the main audit work the section also followed-up the progress made in relation to Audit Recommendations where the audit was not issued with a Substantial opinion. This usually occurs around 6 months after the report has been finalised.
- 3.10 After the follow-up had been completed all 4 areas followed-up in the year remained Partial Assurance due to insufficient progress being made in implementing the recommendations.
- 3.11 In total 9 recommendations were followed-up in relation to Cannock Chase DC work of which 7 or 78% had been implemented or were in progress at the time of the follow-up and 1 had been superseded.
- 3.12 The audits remaining partial were Leisure & Culture Major Projects, Land Charges, Risk Management and Housing Maintenance. All recommendations were still in progress apart from one on the Leisure and Culture Major Projects which was not going to be implemented – this was a recommendation for the development of a Corporate Project Management methodology to be used for all major projects.
- 3.13 More details on the follow-ups can be found in Appendix 2.

4 AUDIT PERFORMANCE

4.1 The table below indicates the Section’s performance against the audit plan for 2016-17

	2016-17				2015-16
	Planned	Actual	Actual %	Target %	Actual
Original Plan	30	18	60%	90%	89%
Revised Plan	23	18	78%	90%	100%

4.2 Eighteen audits were completed in the year out of the twenty three planned for in the original 2016-17 Audit Plan.

4.3 Seven audits were deferred in consultation with the relevant managers to define a revised audit plan for the year. These were Lease Holder Recharges, Managing Welfare Reform, Non-Housing Maintenance, Residents & Tenants Support & Advice Arrangements, E-Payments and Residual Cash Income, Central Control and Capital Strategy & Capital Programme.

4.4 The Audit & Governance Committee approved the revised audit plan at its March 2017 meeting.

4.5 Some of the ongoing issues remained which meant that four of the audits in progress had not been completed to Draft stage in the year. These will be completed in the 2017-18 year. The audits in progress were Policy Management & Implementation (IT Audit), Service Management including Service Desk (IT Audit), BACS Application (IT Audit) and Sundry Debtors.

4.6 In addition to the audit plan the Section has also carried out a number of other pieces of ad hoc work and minor consultancy exercises.

5 FRAUD & IRREGULARITY WORK

Pro-active Fraud work

5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has:-

- Continued membership of the Midlands Fraud Sub Group;
- Worked to identify best practice contained in the Cipfa Code of Practice on Managing the Risk of Fraud.

Fraud/Irregularity Investigations

- 5.2 The team has been involved in a special investigation relating to a theft from the Council's stores by an employee. This resulted in a dismissal and a criminal conviction. Although the thefts were picked up through existing controls some recommendations have been made to further strengthen the controls in place.
- 5.3 No allegations have been received through the Council's Confidential Reporting or Anti-fraud and Bribery frameworks in the year.

National Fraud Initiative Datamatching

- 5.4 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The 2016-17 matches have recently been received and are being reviewed by the relevant departments.

6 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 6.1 A review of the effectiveness of the system of Internal Audit has been undertaken within the year as part of the Quality Assurance and Improvement Programme as required by PSIAS. There were three key elements to the review:-
- i. the Chief Internal Auditor has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and
 - ii. an independent review of the self-assessment was conducted by the Head of Governance.
 - iii. An External Quality Assessment carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017.
- 6.2 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes. The full results of the review are given in a separate report to the Audit and Governance Committee.
- 6.3 One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require the "Chief Audit Executive" to report functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the Performance Development Review and the Audit Committee setting remuneration for the "Chief Audit Executive".

- 6.4 This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. It is felt that sufficient other safeguards to the independence of Internal Audit are currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is therefore felt that this area of non-conformance does not compromise the effectiveness of Internal Audit although PSIAS/LGAN requires it to be disclosed in the Annual Audit Report.
- 6.5 The External Auditors, Grant Thornton, have concluded that “the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council”.
- 6.6 In order to ensure the quality of each audit, one of the Senior Auditors, the Principal Auditor or the Chief Internal Auditor carries out a file review for each audit prior to the reports being issued. The Chief Internal Auditor also reviews each report to sign it off. These processes form part of the internal quality assurance process and helps to provide a consistent approach between the auditors.

Audits Planned and Completed in 2016-17 by Assurance Level

Limited

Definition



One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks.

Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan

There were no Limited Assurance Audits issued in 2016-17

Partial

Definition



One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks.

Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

Audit Area	Service Lead Officer	No of Recommendations
Civil Contingencies	Head of Governance	3
Bank Reconciliation	Head of Financial Management	Summary Memo issued
Housing Benefits	Head of Financial Management	2
Treasury Management	Head of Financial Management	4
Licensing & Hackney Carriages	Head of Environmental Health	4
Equality & Diversity	Head of Governance	8
Private Sector Housing Grants	Head of Environmental Health	13
Stores Function	Head of Housing & Waste Management	Summary Memo Issued
Allocations & Voids	Head of Housing & Waste Management	6
Housing Maintenance	Head of Housing & Waste Management	3
Payroll	Head of Human Resources★	1
IT Account Management	Head of Technology★	5
High Level IT Security Framework	Head of Technology★	17

★Services led by Stafford Borough Council as part of Shared Services

Substantial

Definition	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
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Audit Area	Service Lead Officer
Pensions Assurance	Head of Human Resources★
Council Tax	Head of Financial Management
National Non-Domestic Rates	Head of Financial Management
Fairer Charging Service	Head of Financial Management
Development Control	Head of Economic Development

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Results of Follow-ups Undertaken in the Year By Assurance Level

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Leisure & Culture Major Projects	Commissioning	Partial 	0	0	1	1	Partial 	The one outstanding recommendation relates to the development of a Corporate Project Management Methodology to be used for all corporate projects. There are not plans currently for this to be produced.
Land Charges	Economic Development	Partial 	0	2	0	2	Partial 	The two outstanding recommendations related to the publishing of information relating to the calculation of the fees and the income/expenditure information of the service. Whilst not completed at the time of the follow-up these were close to being implemented.
Risk Management	Governance	Partial 	1	1	0	2	Partial 	At the time of the follow-up training and awareness raising in relation to the new Risk Management Policy had not been provided.
Housing Maintenance	Housing	Partial 	1	2	0	3	Partial 	The temporary relaxation of authorisation limits while the new software was established were still in effect and the quarterly performance monitoring of operatives had still not recommenced.