Report of:	Chief Internal Auditor & Risk Manager
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Key Decision:	No
Report Track:	Audit & Gov Cttee: 19/06/18

AUDIT & GOVERNANCE COMMITTEE

19 JUNE 2018

INTERNAL AUDIT ANNUAL AUDIT REPORT 2017-18

1   Purpose of Report

1.1   To present the Internal Audit Annual Report for 2017-18

2   Recommendations

2.1   That the Committee note the Internal Audit Annual Report for 2017-18.

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 2017-18

Previous Consideration

None.

Background Papers

Files held by the Chief Internal Auditor

Summary 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 High/ Medium Recommendations	Assurance	Comments & Key Issues
Property Management	Housing & Partnerships	13	Limited ❗	The key weaknesses from the review relate to the retaining of evidence of key documents, the lack of documented & monitoring procedures for all aspects of the property rental process and the implementation of rent reviews. This was compounded the absence of a formal database/system recording details of all properties in one place.
Planning - Local Plan/ Forward Planning	Economic Development	2	Partial 🔺	• Some issues were identified in relation to having clear measurable targets within the workplan to ensure the Local Plan is delivered on time. • Staff resources were impacted and conflicting priorities which had an impact on the planned timescales were not always effectively managed or reported
Private Sector Housing Grants	Environment & Healthy Lifestyles	7	Partial 🔺	• Procedures for the revised processes need to be documented • There is a need for an internal checklist to evidence compliance with the process • Cases need independent review rather than being solely handled by one officer. • Procurement of contractors needs to be reviewed • Information and forms need to be held securely due to the sensitive nature of much of the information on file.

Audit	Service Lead Officer	Number of High/ Medium Recommendations	Assurance	Comments & Key Issues
Cemeteries	Environment & Healthy Lifestyles	3	Partial	• Some issues were identified in compliance with the return of certificates where Registrar information was not known. • There was a lack of monitoring and reporting on the scheme in progress to develop new cemetery provision.
Housing Benefits	Financial Management	3	Partial	Some issues were identified in relation to the recovery of overpayments and in particular the lack of write-offs for old/unrecoverable debts which was inflating the outstanding overpayment figures.
E-Payments & residual cash income	Financial Management	2	Partial	The Council did not hold a copy of the contract with the supplier. There is a need to develop a Business Continuity Plan to be used if the e-payments system fails.
Social Media	Governance & Corporate Services	10	Partial	• There is a need to update the social media policy • Access controls for the accounts should be reviewed • Training and guidance needs to be provided for the users including documented roles and responsibilities.
Leaseholder Recharges	Housing & Partnerships	6	Partial	• There was a need to formalise and document procedures to collate and calculate recharges. • A number of discrepancies were identified between the number of properties in the records held by various departments.
Homelessness Provisions & Housing Options Team	Housing & Partnerships	3	Partial	• Procedures needed to be documented and updated following the introduction of the Homelessness Reduction Act. • Ongoing monitoring of the cost and options available for temporary accommodation was required.

Audit	Service Lead Officer	Number of High/ Medium Recommendations	Assurance	Comments & Key Issues
Capital Programme Delivery	Various Heads of Service	6	Partial 🔺	A number of weaknesses were identified in relation to the project management and contract management of Capital projects.
Electoral Registration & Elections	Governance & Corporate Services	0	Substantial ✔	
Payroll	HR★	0	Substantial ✔	
Capital Strategy & Capital Programme Management	Financial Management	0	Substantial ✔	
Landscape Development	Environment & Healthy Lifestyles	0	Substantial ✔	

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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
IT Project Assurance	Head of Technology★	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
General Ledger (Total) IT Application and Management	Head of Technology★	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
Cyber Security	Head of Technology★	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
External Data Transfers	Head of Technology★	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department

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Cannock Chase District Council Internal Audit Annual Report 2017-18

June 2018

working together

INTERNAL AUDIT – ANNUAL REPORT 2017-18

CONTENTS

INTERNAL AUDIT – ANNUAL REPORT 2017-18

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 2017-18. 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.

INTERNAL AUDIT – ANNUAL REPORT 2017-18

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 2017-18 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 2017-18

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

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

	Assurance			
	Substantial	**Partial**	**Limited**	**No Assurance**
Number of Audits	11	15	1	0

3.3 No audits have been classified as No Assurance in the year but 1 area has been classified as Limited Assurance. This is Property Management details of this can be found in Appendix 1b.

INTERNAL AUDIT – ANNUAL REPORT 2017-18

3.4   15 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 1c.

3.5   A list of the 11 audits classified as Substantial Assurance can be found in Appendix 1d

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 2017-18. 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 be in providing assurance to management – this issue has been identified over the last few years and is unlikely to change in the near future.

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 – this is not a new issue but due to time pressures on managers is something that could get worse.

3.9   A number of issues were again identified in relation to Project Management and monitoring particularly in relation to Capital Projects and Contracts. Work has commenced to review and strengthen the arrangements for this across the authority.

3.10   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.

3.11   After the follow-up had been completed all 5 areas followed-up in the year remained Partial Assurance due to insufficient progress being made in implementing the recommendations. The last area Community Infrastructure Levy was revised to Substantial Assurance.

3.12   In total 33 recommendations were followed-up in relation to Cannock Chase DC work of which 29 or 88% had been implemented or were in progress at the time of the follow-up.

3.13   The audits remaining partial were Safeguarding Children & Vulnerable Adults, Housing Property Services, Equality & Diversity, Allocations & Voids, and Housing Maintenance.

3.14   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 2017-18.

	2017-18				2016-17
	Planned	**Actual**	**Actual %**	**Target %**	**Actual**
Original Plan	28	**27**	**97%**	90%	78%

4.2   Twenty Eight audits were completed in the year out of the twenty three planned for in the original 2017-18 Audit Plan. A further four audits had commenced but not been completed in the year. These are IT Project Assurance, General Ledger (Total) IT Application and Management, Cyber Security and External Data Transfers.

4.3   Two Audits were deferred in consultation with management these were Asset Management and Non-housing Maintenance. These were deferred due to staffing issues within the Property Services function.

4.4   Included in the completed audits figure above are four audits which were originally part of the 2016-17 audit plan but were not completed in that year. The audits completed this year from the 2016-17 Audit Plan were Licensing, Policy Management & Implementation, Service Management including Service Desk, BACS Application and Sundry Debtors.

4.5   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 not been involved in any special investigations relating to fraud or irregularities in the year relating to Cannock Chase DC.

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 been reviewed in part by teams across the Council but only a small number of matches have resulted in detailed investigations.

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 Accounts 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 Review of Audit has led to an update of the Audit Charter with some minor changes and a more significant change to include the safeguards that have been put in place to deal with audits of areas outside of Internal Audit that the Chief Internal Auditor has operational responsibility for.

6.6   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".

6.7   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.

INTERNAL AUDIT – ANNUAL REPORT 2017-18

Audits Planned and Completed in 2017-18 by Assurance Level

No Assurance

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 audits which were classified as No Assurance in the year.

INTERNAL AUDIT – ANNUAL REPORT 2017-18

1b

Limited

Definition	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to mange the risks. The residual risk score for the affected Medium risks are 9 or higher.
	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**
Property Management	Head of Housing & Partnerships	13

INTERNAL AUDIT – ANNUAL REPORT 2017-18

Appendix 1c

Partial

| Definition | One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to mange the risks. The residual risk score for the affected Medium risks are 6 or below.

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 High/Medium Recommendations
Planning - Local Plan/Forward Planning	Economic Development	2
Private Sector Housing Grants	Environment & Healthy Lifestyles	7
Cemeteries	Environment & Healthy Lifestyles	3
Housing Benefits	Financial Management	3
E-Payments & Residual Cash Income	Financial Management	2
Sundry Debtors	Financial Management	2
Capital Programme Delivery	Various Heads of Service	6
Social Media	Governance & Corporate Services	10
Scheme Managers and Sheltered Accommodation	Housing & Partnerships	7
Leaseholder Recharges	Housing & Partnerships	6
Homelessness Provisions & Housing Options Team	Housing & Partnerships	3
Pest & Dog Control	Operations★	4
Policy Management & Implementation (IT Audit)	Technology★	9
Service Management including Service Desk (IT Audit)	Technology★	10
BACS Application (IT Audit)	Technology★	10

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INTERNAL AUDIT – ANNUAL REPORT 2017-18

Appendix 1d

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.

Audit Area	Service Lead Officer
Refuse Collection and Recycling	Environment & Healthy Lifestyles
Car Parking Arrangements	Environment & Healthy Lifestyles
Landscape Development	Environment & Healthy Lifestyles
Electoral Registration & Elections	Governance and Corporate Services
Council Tax	Financial Management
National Non-Domestic Rates	Financial Management
Capital Strategy & Capital Programme Management	Financial Management
General Ledger	Financial Management
Strategic Housing	Housing & Partnerships
Payroll	HR★
Pensions Assurance for the County	HR★

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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		
Safeguarding Children & Vulnerable Adults	Housing & Partnerships	Partial	2	1	0	3	Partial	There is still a need to update and reissue the Criminal Records Bureau Policy to reflect the changes to the Disclosure and Barring Service Regime.
Housing Property Services	Housing & Partnerships	Partial	0	4	0	4	Partial	• Final Accounts relating to 2010/11 were still outstanding • The Quantity Surveyor Contract has not been retendered as the focus was on pulling together the renewals of the main Partnering Contracts • Reporting mechanisms were still under review to evidence compliance with key timescales (eg gas servicing)
Equality and Diversity	Governance & Corporate Service	Partial	0	6	2	8	Partial	• The Equality and Diversity Policy was still in need of updating – although a draft was in progress. • Associated training and awareness needs to be rolled out following the new policy being approved.

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Allocations and Voids	Housing & Partnerships	Partial ▲	4	2	0	6	Partial ▲	• Delays were still occurring in changing locks on void properties once a tenant has moved out • Work was still needed to review processes and planning to reduce the turnaround time for void properties
Housing Maintenance	Housing & Partnerships	Partial ▲	0	0	2	2	Partial ▲	• Authorisation levels for approval of additional work were still set at the temporary high levels introduced whilst the new system was implemented. • Performance monitoring of operatives was still not carried out
Community Infrastructure Levy	Economic Development	Partial ▲	10	0	0	10	Substantial ✔	