Report of:	Chief Internal Auditor
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Portfolio Leader:	
Key Decision:	No
Report Track:	Audit & Governance only

Audit & Governance Committee

25ᵗʰ June 2019

Internal Audit Annual Audit Report 2018-19

1	**Purpose of Report**

1.1   To present the Internal Audit Annual Report for 2018-19

2	**Recommendations**

1.2   That the Committee note the Internal Audit Annual Report for 2018-19

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 Appendix 2) 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

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7   Appendices to the Report

Appendix 1 - Summary of Significant Findings Quarter 4 Audits
Appendix 2 - Internal Audit Annual Report for 2018-19

Previous Consideration

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 work issued in the final quarter is only included in this Annual Report. For consistency, a summary of the Quarter 4 audits is included below.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Staff Timekeeping & Leave	HR★/ Technology★	12	Limited **!**	• A number of issues in relation to compliance with the relevant policies have been identified which suggest a lack of management review • A number of issues have been identified in the operation and set-up of the electronic time recording system being used by the Council.
Fleet Management	Environment & Healthy Lifestyles	4	Limited **!**	It was found that there is not a consistent approach to fleet management across the Council as responsibility for the majority of the fleet is divided over 3 Service Managers. There is a need to define roles and responsibilities for fleet management and to ensure a corporate approach to fleet management is developed to ensure consistency.
Payroll	HR★	1	Partial ▲	The key issue related to a lack of an up-to-date record of authorised signatories which could be used by Payroll to ensure payroll related forms had been signed by appropriate people.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Information Governance	Law & Admin★ / Governance & Corporate Services	9	Partial ▲	• There was a need to formalise the Council's Information Governance Framework and ensure roles and responsibilities were clear. • There was a need to improve record keeping in relation to Freedom of Information responses and Subject Access Requests. • There was a need to review and improve confidential waste storage & disposal processes. • Consideration should be given to the implementation of a Protective Marking Scheme for documents.
IT Project Management	Technology★	6	Partial ▲	A number of issues were identified in the project management processes in use these include • lack of formal business cases for some projects, • lack of clear implementation plans for some projects • lack of a consistent system testing & validation process • limited evidence of contingency planning for missing project delivery dates • project boards not in place or all of the larger projects
Vehicle Workshop	Environment & Healthy Lifestyles	5	Partial ▲	• There is a need to produce comprehensive procedure notes for the workshop. • Spending analysis is required to ensure that appropriate procurement processes have been followed. • There were inconsistencies between the records from job cards and staff timesheets which indicate time is not being recorded effectively against individual jobs.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Housing Rents	Housing & Partnerships	6	Partial	• Change management processes need to be improved as changes had not been supported with signed forms. • Processes for confirming rents were correctly calculated need to be improved in relation to the annual increase and more specifically for verifying changes within the year. • Arrears management processes were not automated and required a significant amount of manual intervention. In addition it is not possible to obtain aged debt reports. • Delegation had been given to the Chief Accountant to approve the write-off of debts but this had not been documented.
Grounds Maintenance	Environment & Healthy Lifestyles	9	Partial	• There is a need to review site-specific risk assessments to ensure they remain appropriate and valid. • Stock records for personal protective equipment held at the depot need to be improved. • Stock records for the pesticides held at the depot need to be improved. • Minor repair works to vehicles carried out by Grounds Maintenance employees need to be recorded and agreed with the Vehicle Workshop.
Housing Benefits	Financial Management		Substantial ✓	
Council Tax	Financial Management		Substantial ✓	
Creditors	Financial Management		Substantial ✓	

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Appendix 3 - 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 2019-20 year.

Audit	Head of Service	Comments
Northgate IT Application (Housing)	Housing / Technology	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
IT Mobile Devices	Technology	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
IT Strategy	Technology	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department

Cannock Chase District Council Internal Audit Annual Report 2018-19

June 2019

working together

CONTENTS

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 2018-19. 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 2018-19 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 has 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 Three systems have been given limited assurance; these are Staff Timekeeping and Fleet Management. Although there are gaps and weaknesses in the controls in these areas as no material discrepancies have been found it is considered that are not a significant governance issue at this stage. None the less it is essential that the deficiencies in these systems are addressed in order to prevent future material discrepancies.

2.8 We have continued to see signs of supervisory/management controls not being applied regularly or at all in some areas – this was a factor in the Limited Assurance given for the Staff-timekeeping & Leave audit although not the sole reason for the assurance rating.

2.9 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.

3. SIGNIFICANT ISSUES ARISING 2018-19

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**	**No Opinion**
Number of Audits	6	17	2	0	1
For further information	See Appendix 1d	See Appendix 1c	See Appendix 1b	See Appendix 1a	See paragraph 3.3

3.3 One area was reviewed but the nature of the work meant that it was not appropriate to issue a formal opinion on the level of assurance – this was in relation to Pensions Assurance work carried out for the County Council.

3.4   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.

3.5   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 2018-19.

3.6   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.

3.7   Follow-ups were completed for 9 areas. After the follow-up had been completed

- 1 area improved from Limited to Partial
- 4 areas improved from Partial to Substantial
- 4 areas remained Partial Assurance.

3.8   In total 40 recommendations were followed-up in relation to Cannock Chase DC work of which 37 or 92.5% had been implemented or were in progress at the time of the follow-up.

3.9   The audits remaining partial were Housing Maintenance, Property Management, Lease Holder Recharges and Homelessness Provisions & Housing Options Team.

3.10   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 2018-19

	2018-19				2017-18
	Planned	**Actual**	**Actual %**	**Target %**	**Actual**
Original Plan	32	**26**	**81%**	90%	97%

4.2   Twenty Six audits were completed in the year out of the Thirty Two planned for in the original 2018-19 Audit Plan. Three audits had commenced but not been completed by the end of the year. These are Northgate IT Application (Housing), IT Mobile Devices and IT Strategy.

4.3   Included in the completed audits figure above are four audits which were originally part of the 2017-18 audit plan but were not completed in that year. The audits completed this year from the 2017-18 Audit Plan were IT Project Assurance, General Ledger (IT Application), Cyber Security and External Data Transfers.

4.4   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 2018-19 matches which were released in January are currently being examined by teams across the Council but limited progress has been made.

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. A very light touch review was carried out at this time as new guidance material has been issued to inform the way Internal Audit operates for the 2019-20 year in the form of a revised Local Government Application Note and a revised Role of the Head of Internal Audit in Local Government document. It is proposed to carry out an analysis against the new guidance material later in the year to ensure the section complies with best practice.

6.2   There were two key elements to the review this year:-

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.   reference to the External Quality Assessment carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017.

6.3   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.

6.4   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".

6.5   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.

6.6   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.

Audits Planned and Completed in 2018-19 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.

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
Fleet Management	Environment & Healthy Lifestyles	4
Staff Timekeeping & Leave	HR★ / Technology★	12

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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
Vehicle Workshop	Environment & Healthy Lifestyles	5
Culture and Leisure Services Contract Monitoring (Client Function)	Environment & Healthy Lifestyles	6
Street Cleansing	Environment & Healthy Lifestyles	8
Miscellaneous Engineering Functions (Public Clocks, Bus Stations, Street Furniture & Land Drainage)	Environment & Healthy Lifestyles	4
Grounds Maintenance	Environment & Healthy Lifestyles	9
National Non Domestic Rates	Financial Management	1
General Ledger (Total) IT Application and Management	Financial Management/ Technology★	4
Insurance	Governance & Corporate Services	2
Public Relations & Marketing including Graphic Design	Governance & Corporate Services	4
Information Governance	Governance & Corporate Services	9
Stores Function	Housing & Partnerships	9
Partnerships & CCTV	Housing & Partnerships	7
Housing Rents	Housing & Partnerships	6
Payroll	HR★	1
IT Project Management	Technology★	6
Cyber Security	Technology★	2
External Data Transfers	Technology★	3

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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
Housing Benefits	Financial Management
Council Tax	Financial Management
Creditors	Financial Management
Banking Arrangements	Financial Management
Customer Services (CRM, Reception, etc.)	Governance & Corporate Services
Sale of Council Houses	Housing & Partnerships

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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		
Property Management	Economic Prosperity	Limited	5	7	2	5	Partial	Some improvements have been made but the systems still remain undocumented and although permission has been given to purchase software to assist in maintaining records this has yet to be implemented. The progress in implementing the recommendations has been affected by capacity issues in the team although this is being addressed via recruitment to the vacant manager post.
Housing Maintenance	Housing & Partnerships	Partial	0	0	2	0	Partial	• The level above which authorisation for variances are required still has not been reviewed and remains excessively high • Performance reporting from the system has still to be developed. Both of these areas are due to technical difficulties with the software.

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Lease Holder Recharges	Housing & Partnerships	Partial ▲	0	5	1	0	Partial ▲	• Work was still needed to document the process used to calculate the recharges. • The Leaseholder records on Northgate are still not complete due to technical issues in relation to the upload of information into Northgate. • Work needs to progress on verifying the Grounds Maintenance costs.
Homelessness Provisions & Housing Options Team	Housing & Partnerships	Partial ▲	1	2	0	1	Partial ▲	• Work was still ongoing to update the policies & procedures following the implementation of the "duty to refer" • Work was still needed to ensure Value for Money was being achieved in relation to temporary accommodation/Bed& Breakfast costs. • The Housing Advice information on the website was still under review.
Planning - Local Plan/Forward Planning	Economic Prosperity	Partial ▲	2	0	0	2	Substantial ✓	
Cemeteries	Environment & Healthy Lifestyles	Partial ▲	2	0	0	2	Substantial ✓	
Community Infrastructure Levy	Economic Prosperity	Partial ▲	10	0	0	10	Substantial ✓	

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Pest Control & Dog Warden	Economic Prosperity	Partial	3	0	0	3	Substantial ✓	