INTERNAL AUDIT ANNUAL REPORT 2015 -16

1   Purpose

1.1   The Head of Internal Audit (Business Assurance Services Manager) is required to provide a written annual report to those charged with governance, timed to support the Annual Governance Statement. This report should be presented to Members and considered separately from the Annual Governance Statement and formal accounts.

1.2   The report summaries the work of Internal Audit for the period 1 April 2015 to 31 March 2016, identifying the areas upon which the audit opinion is based.

2   Recommendations/for decision

2.1   The Committee is requested to note the contents of the Internal Audit Annual Report for the financial year 2015-16.

3   Supporting information

3.1   The Audit Committee's terms of reference include dealing with internal and external audit issues. This report allows formal recognition of the Annual Internal Audit report by a committee of the Council.

3.2   The Council is required to issue a statement of accounts each year. Included in the accounts is a statutory Annual Governance Statement to be signed by the Leader and Chief Executive. This statement gives assurance that matters relating to the Council's operations are being properly managed and controlled.

3.3   The Annual Governance Statement draws upon the management and internal control framework of the Council, especially the work of internal audit and the Council's risk management framework. In particular the independent report of the Council's Business Assurance Services Manager is a significant factor in determining the position to be reported.

3.4   The attached report includes the Business Assurance Services Manager's opinion on the adequacy and effectiveness of the Council's systems of governance, risk management and control.

3.5   In forming this opinion the Business Assurance Manager can confirm that internal audit activity throughout 2015-16 has been independent from the rest of the organisation and has not been subject to interference in the level or scope of the audit work completed.
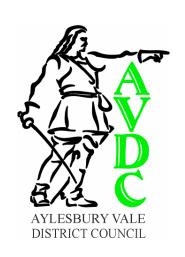
4   Options considered

4.1   None - The Business Assurance Services Manager's report is a statutory requirement.

5   Resource implications

5.1   None

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Background Documents	None

Internal Audit Annual Report

APRIL 2015 – MARCH 2016

Contents

1. Introduction

Internal Audit is a statutory requirement for local authorities under the Accounts & Audit Regulations (2015), which states that a local authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Public Sector Internal Audit Standards require the Head of Internal Audit (Business Assurance Services Manager) to deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the Council's system of internal control). The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

This is achieved through the completion of a risk-based plan of work, agreed with management and approved by the Audit Committee, which is designed to provide a reasonable level of assurance. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

Aylesbury Vale District Council's (AVDC) internal audit is provided by the Business Assurance Service. As part of the Commercial AVDC transformation programme in October 2015 the Business Assurance Manager was seconded to a new role to lead the Vale Commerce venture. This has initially been agreed for a twelve month period. As an interim solution, in November 2015 the Council made arrangements to bring in expertise from PwC, on a part-time secondment basis to fulfil the role of Head of Internal Audit. This includes oversight of delivery of the internal audit plan for the period November 2015 to March 2016 and the provision of the annual internal audit opinion, based on the results of the work performed over the year.

2. Head of Internal Audit Opinion

In giving this opinion, it should be noted that assurance can never be absolute. The work of internal audit can only provide reasonable assurance that there are no major weaknesses in the processes and controls reviewed.

In assessing the level of assurance to be given, I have based my opinion on:

- the results of assurance reviews and consultancy/advisory work undertaken during the year;
- the results of follow-up action taken in respect of assurance reviews, including those from previous years;
- whether or not any limitations have been placed on the scope of internal audit;
- the extent of resources available to deliver the internal audit work;
- the proportion of the Council's assurance needs that have been covered within the period; and
- the quality and performance of the internal audit service and the extent of compliance with the Standards.

I am satisfied that sufficient assurance work has been carried out to allow me to form an opinion on the adequacy and effectiveness of Aylesbury Vale District Council's systems of governance, risk management and control.

My opinion is as follows:

Generally satisfactory with some improvements required to specific systems and processes

Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some weaknesses in the framework of governance, risk management and control which potentially put the achievement of the Councils objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control.

Kate Mulhearn
Business Assurance Services Manager (Interim)
July 2016

For many of the reviews performed during the year we were able to provide substantial or reasonable assurance over the design and operating effectiveness of the controls in place.

The Council implemented a new financial system during the year. Our internal audit work on Accounts Payable, Accounts Receivable and General Ledger, highlighted a number of weaknesses relating to the design and operating effectiveness of financial controls and processes in the new system. Some of the issues identified were relevant to the overall financial control environment.

Please see further detail and the key factors that contributed to my opinion in Section 3.

3.   *Summary of Internal Audit Activity*

Our annual internal audit plan was designed to address the Council's key risks and strategic priorities. During the year any new areas of risk or changes to the plan were reported to the Audit Committee as part of the Progress Report.

At the end of each internal audit review the assurance officer issues a formal "assurance opinion" on the areas examined. There are four standard levels:
- Substantial assurance (highest)
- Reasonable
- Limited
- No Assurance (lowest)

A full definition of the four levels of opinion is attached at Appendix 1.

Overview

A total of 13 assurance reviews were completed in 2015/16 of which 2 were given "substantial" assurance, 8 were given "reasonable" assurance and 3 were given "limited" assurance. This resulted in the identification of 6 high, 22 medium and 9 low priority actions to improve weaknesses in the design and operating effectiveness of controls.

In the previous financial year 9 assurance reviews were completed resulting in 6 high, 24 medium and 12 low priority recommendations for improvement. Due to the different mix and focus of reviews the overall results cannot directly be compared from year to year.

A summary of the reviews undertaken and the opinion given is shown below.

Review Area	Assurance Rating	Recommendations		
		High	Medium	Low
Data Transparency	Limited	1	-	-
Depot Fuel Management	Substantial	-	-	2
S106 Allocations	Reasonable	-	2	-
Enterprise Car Pool	Reasonable	-	-	-
Oculus Income	Reasonable	-	1	-
Fraud Identification – post SFIS	N/A - advisory	-	-	-
Procurement Arrangements	N/A - advisory	-	-	-
Taxi Licensing	Substantial	-	1	-
Housing Allocations	Reasonable	-	1	2
Counter fraud strategy assessment and action plan	N/A - advisory	-	-	-
Core Financial - Payroll	Reasonable	-	2	-
Core Financial - Accounts payable & Accounts Receivable	Limited	2	6	-
Core Financial - General Ledger & Budget Management	Limited	2	2	-
Housing Benefits	Reasonable (DRAFT)	-	2	1
Collection Fund - Council Tax and Business Rates	Reasonable	1	2	1
Data Protection – use of personal devices	Reasonable	-	3	3
Total number of findings 15/16		6	22	9

Significant control weaknesses

A number of weaknesses were identified that should be reported in the Annual Governance Statement. These relate to the limited assurance reports issued for core financial systems.

Accounts Payable, Accounts Receivable and General Ledger
- 4 high priority and 8 medium priority recommendations were identified resulting in limited assurance over the adequacy and performance of the controls relating to Accounts Payable, Accounts Receivable and General Ledger.
- In 2015 the Council implemented a new Finance System, Technology One (T1). The objective was to improve automated work-flow and establish a system which was

widely used by budget managers across the Authority. The system went live in June 2015.

- Internal audit work highlighted a number of issues relating to the design of financial controls and processes in these areas and the way they were operating within the financial system. Some of the issues identified were relevant to the overall financial control environment. Weaknesses were also identified in the reconciliation processes between the financial and other systems, such as those for council tax and business rates, which is reflected in the high priority recommendation for Collection Fund.
- Since completing our internal audit work, prompt action has been taken by management to address the issues. Work has commenced to review the appropriateness of the financial policies and procedures, the design of controls within the finance system and the end-to-end management processes. Progress is being monitored by the Financial Review Programme Board.

Other internal audit work

Risk Management
The risk management arrangements form a key part of the Council's overall internal control framework. Internal audit has not provided any specific assurance over this process during the year but the team has facilitated the regular review of the corporate risks and the annual service risk assurance process.

A revised risk management strategy was presented to Audit Committee in September 2015 and reflected changes in the Council's approach to risk and its changing risk appetite.

The annual service risk assurance process was facilitated by internal audit in March 2016. This process seeks to identify from service managers which policy areas are higher risk to their service by the nature of their activities and what assurance were they giving in terms of responsibilities, training and monitoring.

Data protection
The team has conducted one investigation into a data breach during the year.

Follow up work / outstanding recommendations

Data Transparency
A limited assurance report was issued for data transparency. Work was performed at the start of the year to assess compliance with the Transparency Code. It was found that the code was not being complied with in 5 of the 10 areas, resulting in a limited assurance report. During the course of the year follow up work was conducted and we confirmed that the required information has been updated and published as required. Regular review is needed to ensure ongoing compliance.

Outstanding recommendations
All agreed actions arising from audit reports are kept under review by Internal Audit and regular reports on overdue actions are provided to the Audit Committee. There are no significant issues to report regarding the follow up any audit recommendations.

4. *Review of Effectiveness*

The Council's internal audit function is currently undergoing a review as part of the wider Commercial AVDC transformation programme. The outcome of the review will confirm the new structure and how the services will be delivered. This includes an assessment of internal, external and partner based provision of the function, opportunities to improve

automation of processes, and deliver a short, medium and long term business plan for the function going forward.

In the mean time the function will continue to be delivered within the existing Business Assurance Service, which is a combination of interim staff and contracted work mixed with the existing permanent officers in the team. This situation will remain until the "Business Governance" review has concluded and the new approach agreed.

Compliance with Public Sector Internal Auditing Standards (PSIAS)

A self-assessment against the requirements of the PSIAS was conducted in 2013 and the gap analysis and action plan was last updated in July 2015. During 2016, the requirements of PSIAS have been considered and there are no areas of concern to indicate that the current arrangements are not fully compliant with the Standards.

Compliance with PSIAS will be considered as part of the review of service provision going forward.

Appendix 1 – Assurance Definitions

Substantial Assurance	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. As a guide there are a few low risk / priority actions arising from the review.
Reasonable Assurance	Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low. As a guide there are mostly low risks and a few medium risk/priority actions arising from the review.
Limited Assurance	Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high. As a guide there are mostly medium and a few high risk / priority actions arising from the review.
No Assurance	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of medium and high risks / priority actions arising from the review.