

INTERNAL AUDIT ANNUAL REPORT 2017/18

1 Purpose

- 1.1 The Head of Internal Audit (Corporate Governance 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 summarises the work of Internal Audit for the period 1 April 2017 to 31 March 2018, identifying the areas upon which the audit opinion is based.

2 Recommendations/for decision

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| 2.1 | The Committee is requested to note the contents of the Internal Audit Annual Report for the financial year 2017/18. |
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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 Head of Internal Audit is a significant factor in determining the position to be reported.
- 3.4 The attached report includes the Head of Internal Audit'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 Head of Internal Audit can confirm that internal audit activity throughout 2017/18 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 Internal Audit Annual report is a statutory requirement.

5 Resource implications

- 5.1 None

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Background Documents	None



Internal Audit Annual Report

April 2017 – March 2018

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1. Introduction

Internal Audit is a statutory requirement for local authorities under the Accounts and 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 (PSIAS) require the Head of Internal Audit (Corporate Governance Manager) to deliver an annual internal audit opinion and report that can be used by the organisation to inform its 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.

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 Council's objectives at risk.

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

Kate Mulhearn
Corporate Governance Manager
July 2018

The key factors that contributed to my opinion are summarised as follows:

- The majority of weaknesses in control design and operating effectiveness identified were medium or low risk. Progress has been made during the year on implementing actions identified during internal audit reviews to strengthen the overall control environment.
- Improvements are still required in a number of areas. High risk reports were issued for General Ledger and Housing Benefits. Action is still required to address some of the issues identified in the prior year Accounts Receivable internal audit report.
- A number of internal audit reports highlighted inadequacies in the level of management information, both at a corporate and service level to enable effective monitoring and oversight of both financial and non-financial performance.

Please see further detail in Section 3.

3. Summary of Internal Audit Activity

Overview

A total of 9 assurance reviews were completed in 2017/18 of which 2 were classified as “high” risk, 6 were given “medium” and 1 was given “low” risk classifications. This resulted in the identification of 6 high, 16 medium and 20 low risk findings relating to weaknesses in the design and operating effectiveness of controls.




In the previous financial year 12 assurance reviews were completed of which 2 were classified as high risk, 5 were medium and 5 were low, resulting in 6 high, 19 medium and 24 low risk findings.

The table below sets out the results of the internal audit work.

Review	Report risk rating*	Number of findings				2016/17 risk rating
		Critical	High	Medium	Low	
General Ledger	High	-	1	3	3	Medium
Payroll	Low	-	-	2	-	Low
Accounts Payable	Medium	-	1	1	1	Low
Housing Benefits	High	-	2	-	2	High
Council Tax & Business Rates	Medium	-	1	-	4	Low
Planning & Planning Enforcement	Medium	-	-	2	3	-
Building Control	Medium	-	-	3	4	-
Taxi Licensing	Medium	-	-	4	1	-
Commercial Property – Service Charges	Medium	-	1	1	2	-
Commercial AVDC Programme Assurance	N/A Advisory	-	-	-	-	-
Company Governance – Aylesbury Vale Broadband	N/A Advisory	-	-	-	-	-
Total		-	6	16	20	-

*A definition of the risk classifications is attached at Appendix 2.

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings					
		2017/18		2016/17		2015/16	
Critical	-	-	-	-	-	-	-
High		6	14%	6	12%	6	16%
Medium		16	38%	19	39%	22	58%
Low		20	48%	24	49%	9	24%
Total		42	-	49	-	37	-

We focus our internal audit work on areas of risk so that maximum value can be achieved through the identification of actions for improvement. Therefore, the results may not be directly comparable year on year due to the different mix and focus of reviews performed.

Significant control weaknesses

A number of weaknesses were identified that should be reported in the Annual Governance Statement. These relate to the “high risk” reports issued for General Ledger and Housing Benefits. Results of follow up work also indicate that, whilst progress has been made, there remain high risk issues in Accounts Receivable. As noted last year, there is a general theme relating to a lack of consistently reported and monitored management information.

General Ledger

A number of audit reports in recent years have highlighted issues with the TechOne finance system including the initial implementation of the system, the design of processes and controls, and poor engagement and speed of response to requests for support. System improvements have also been hindered by internal factors, primarily the level of work required following restructure to remodel the finance structures in line with organisational change and an under resourced team with appropriate expertise. The issues have not had any significant impact on the integrity of the financial accounts, but have resulted in inefficiency, inconsistencies, manual work-arounds and a general lack of reporting to support good financial control.

In recent months much progress has been made to address these issues with additional internal resource and increased TechOne consultant capacity to meet the operational and development needs of AVDC. This has also allowed more focus on month-end control procedures to improve the integrity of financial information and reporting.

Housing Benefits

Since the prior year high risk report significant improvements have been made to processes and controls including increasing the quality checks being performed each month, full team training, and the monitoring of monthly subsidy forecasts to quickly identify any financial concerns and take prompt action to rectify benefit cases.

However, there are still challenges, with the biggest concern being around housing benefit overpayments. Consistent with the national picture, levels of overpayment debt remain high. Since the audit report was issued historic reconciliation issues between the finance and benefits systems have been resolved, but further work is needed to automate the matching

process and establish ongoing reconciliation procedures. Resource has recently been increased to focus specifically on recovery of housing benefit overpayment debt.

Council Tax and Business Rates

Since the internal audit report was issued in January 2018, the high risk issue, relating to a lack of reconciliation between the revenue and finance system, has been addressed.

Commercial Property Service Charges

Since the internal audit report was issued in January 2018, a full review of service charges and commercial property accounting structures has been undertaken. Systems and controls have been improved to address the high risk finding identified in the report.

Accounts Receivable - Follow up

In 2016/17 we issued a high risk report for Accounts Receivable. There had been a lack of oversight of the debt held in each service area and irregular monitoring of the age profile of debt. There was also a lack of clarity over the roles and responsibilities of the Income Team and service areas regarding which team is responsible for debt management and no clear guidance on debt management and recovery.

This year, our internal audit work focussed on monitoring the progress of implementing the agreed actions to improve controls and processes around debt management. A corporate protocol for debt management, recovery and write off has been approved and significant progress made in reporting aged debt. Some further work is required to develop and monitor performance indicators and embed working practices so that debt recovery can be maximised. This will be the focus of internal audit review in 2018/19.

Management Information

Consistent with 2016/17, a number of internal audit reports have again highlighted inadequacies in the level of management information, both at a corporate and service level to enable effective monitoring and oversight of both financial and non-financial performance, and to inform decisions.

Two new posts were created during the restructure to support enhanced Business Intelligence at a corporate level and progress is now being made on capturing and reporting corporate level performance indicators. As noted in the General Ledger report, capacity in the finance team has been strengthened to enable better and more timely reporting from the TechOne system. At a service level, improvements have also been made with better system reporting and monitoring by managers. This remains an area of focus during 2018/19.

Other internal audit work

Company Governance

During the year internal audit reviewed the Council's governance arrangements over its investment in Aylesbury Vale Broadband (AVB). Reports were presented to Audit Committee in March 2017 and September 2017 setting out a number of weaknesses and making recommendations to address them.

In December 2017, AVB's assets were sold to Gigaclear plc, the leading provider of full fibre broadband in rural locations. A motion was passed at Full Council on to perform a further independent review to:

- assess the governance arrangements over AVB from the development of the original proposal through to the position culminating in the decision to sell AVB and the conclusion of the sale
- comment on whether these helped the Council secure value for money and deliver the objectives approved by Full Council resulting from its investment in the company
- draw lessons from the Council's governance arrangements for AVB which could be applied to other commercial undertakings

This was reported to Audit Committee in June 2018. The report highlights some good practice and goes on to make a series of 22 separate recommendations, drawing upon lessons which can be learned from the Council's experience with AVB, that could be applied to commercial investments in the future. Many of the lessons identified were the same as those included in the March 2017 review. The Council has requested the Audit Committee to oversee the implementation of the recommendations.

Commercial AVDC

An advisory review was undertaken in August 2017 to evaluate the Council's approach to tracking financial commitments (savings, efficiencies and income generating opportunities) identified during the Commercial AVDC transformation programme. This report identified a number of areas of good practice in current arrangements and suggested opportunities for how this could be improved. These recommendations were taken forward by the project team and built into the oversight and governance arrangements.

Risk Management

The risk management arrangements form a key part of the Council's overall internal control framework. The Corporate Risk Register (CRR) shows the key risks to the Council and the actions that are being taken to respond to these risks. The CRR is regularly reviewed and updated by Strategic Board. It is also reviewed and challenged by Audit Committee and routinely reported to Cabinet.

Internal audit has not provided any specific assurance over this process during the year but the Corporate Governance Manager has facilitated the regular review of the corporate risk register by Strategic Board, Audit Committee and Cabinet.

Follow up work / outstanding recommendations

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.

Audit recommendations raised during 2016/17 internal audit reviews relating the financial systems have been followed up as part of current year testing. To the extent that issues have not been satisfactorily addressed they have been re-raised in the current year reports.

Progress is being made to address all outstanding actions and there are no significant issues to report regarding the follow up of any audit recommendations.

4. Review of Effectiveness

The Council's internal audit function was restructured during 2016/17 as part of the Commercial AVDC transformation programme. Since September 2016, the Head of Internal Audit role has been fulfilled by the Corporate Governance Manager and work has been performed by an external service provider under a co-source arrangement.

In October 2017, a contract was awarded to BDO LLP to provide co-sourced internal audit services for the period 1 October 2017 to 31 March 2021, with an option to extend for a further two years. All organisations providing Internal Audit Services must be subject to an independent external assessment every five years. In 2015 BDO were subject to an external assessment of compliance to the Public Sector Internal Audit Standards (PSIAS). Across all 58 areas assessed BDO were confirmed as being compliant

A self-assessment against the requirements of the Public Sector Internal Audit Standards (PSIAS) was conducted in 2013 and the gap analysis and action plan were last updated in July 2015. I have further considered the requirements of PSIAS and there are no areas of concern to indicate that the current arrangements are not fully compliant with the Standards.

Appendix 1: Opinion types

At the end of the year, the Head of Internal Audit provides an annual assurance opinion based on the work performed, which is used to inform the Council's Annual Governance Statement. The table below sets out the four types of opinion along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Type of opinion	Indication of when this type of opinion may be given
Satisfactory	<ul style="list-style-type: none"> • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> ○ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or ○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 2: Basis of classification and risk ratings

Report classifications

The overall internal audit report classification is determined by allocating points to each of the individual findings..

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Individual findings are considered against a number of criteria and given a risk rating based on the following:

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>