

INTERNAL AUDIT ANNUAL REPORT 2018/19

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 summaries the work of Internal Audit for the period 1 April 2018 to 31 March 2019, 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 2018/19. |
|-----|---|

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 2018/19 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

Contact Officer

Kate Mulhearn, Corporate Governance Manager
01296 585724

Background Documents

None



Internal Audit Annual Report

April 2018 – March 2019

Contents

1. Introduction	2
2. Head of Internal Audit Opinion	3
3. Summary of Internal Audit Activity	4
Overview	4
Direction of control travel.....	5
Significant control weaknesses	5
Other internal audit work	6
Follow up work	7
Summary of changes to the 2018/19 internal audit plan	8
4. Review of Effectiveness	9
Appendix 1: Opinion types	10
Appendix 2: Basis of classification and risk ratings	11

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 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 (fulfilled by AVDC's 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 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 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 2019

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.
- Two high risk findings were identified in the areas of Commercial Waste and General Ledger Reconciliations.
- Good progress has been made during the year on implementing actions identified during internal audit reviews to strengthen the overall control environment.

Please see further detail in Section 3.

3. Summary of Internal Audit Activity

Overview

A total of 8 assurance reviews were completed in 2018/19 of which 1 was classified as “high” risk, 5 were given “medium” and 2 were given “low” risk classifications. This resulted in the identification of 2 high, 12 medium and 25 low risk findings relating to weaknesses in the design and operating effectiveness of controls.




In the previous financial year 9 assurance reviews were completed of which 2 were classified as high risk, 6 were medium and 1 was low, resulting in 6 high, 16 medium and 20 low risk findings.

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

Review	Report risk rating*	Number of findings				2018/19 risk rating
		Critical	High	Medium	Low	
General Ledger	Medium	-	1	1	2	High
Billing and debt management	Low	-	-	1	3	-
Housing Benefits	Medium	-	-	1	6	High
Procurement & Contract Management	Medium	-	-	1	4	-
Health & Safety	Medium	-	-	3	2	-
Customer comments, compliments & complaints	Low	-	-	1	1	-
Commercial Waste	High	-	1	3	2	-
Parking Services	Medium	-	-	1	5	-
Connected Knowledge	N/A Advisory	-	-	-	-	-
Company Governance – Aylesbury Vale Estates	N/A Advisory	-	-	-	-	-
Total		-	2	12	25	-

*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							
		2018/19		2017/18		2016/17		2015/16	
Critical	-	-	-	-	-	-	-	-	-
High		2	5%	6	14%	6	12%	6	16%
Medium		12	31%	16	38%	19	39%	22	58%
Low		25	64%	20	48%	24	49%	9	24%
Total		39	-	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” findings identified in the reviews of General Ledger and Commercial Waste.

General Ledger Reconciliations

Over the last few years AVDCs Connected Knowledge digital strategy has delivered a number of new cloud based systems in core service areas, including Regulatory Services and Waste; plans are in place to migrate Planning and Asset Management in the near future. The scale and pace of system implementation has meant that plans have not always included sufficient detail on financial management and control implications. The lack of automated integration with the General Ledger at the point of go-live has resulted in the need for manual workarounds.

The high risk reflects this, and also notes that in some areas there is either inadequate, or no evidence of, reconciliation being performed. There is therefore some risk to the accuracy and completeness of data held on the finance system. This also creates inefficiency in some of the billing processes whereby Services manually provide information from which finance raise invoices; automated interfaces between these systems and the general ledger would improve accuracy, completeness and efficiency of the billing process.

Work to automate interfaces between TechOne and other systems is taking place under the Connected Knowledge “Finance Process Improvement Project”, but this has not progressed as quickly as would have been anticipated due to factors including the priority of new system implementation projects, system admin/developer resource, finance capacity and more recently the demands of ‘Unitary’ on the teams involved. Progress in this area requires close involvement and monitoring by the Finance team.

The audit also notes that the existing plans for the introduction of the new systems for Asset Management (TechForge) and Planning (Built Environment) require more comprehensive detail on the processes for financial integration.

Commercial Waste

An area of high risk was identified. Site Risk Assessments had not been completed for a large number of commercial waste customers. Each site from which commercial waste is collected should be assessed to identify any risks that may pose a threat to the safety of collection crew and the general public. This should be undertaken prior to the adoption of a new customer and at set intervals thereafter to allow mitigations to be put into place to manage any risk of physical harm. There were also no controls in place to re-assess a site at a set interval and to keep track of when these re-assessments are due.

The Commercial Waste audit was performed during September/October 2018. Action was immediately taken by management to address the risks identified. Follow up work has confirmed that site risk assessments are complete for all customers and a procedure is in place to ensure they are completed before a new account is approved.

Other internal audit work

Company Governance – Aylesbury Vale Broadband

Last year Internal Audit performed reviews of 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. The results of a further independent review were reported to Audit Committee in June 2018. This report made a series of 22 separate recommendations, drawing out lessons which could be learned from the Council's experience with AVB and that should be applied to other commercial investments in the future.

Internal audit has provided updates to the Audit Committee on the actions taken to implement the recommendations. In January 2019 it was reported that all 22 actions had been implemented and the Audit Committee approved an updated "Guide to Creation and Working with Companies in which AVDC has a Financial Interest"; reflecting the recommendations set out in the AVB report.

Company Governance – Aylesbury Vale Estates

Following the conclusion of the review of Aylesbury Vale Broadband, in March 2019, an advisory review was performed to evaluate the effectiveness of the Council's governance of its investment in the Aylesbury Vale Estates LLP (AVE), based on the expectations set out in the "Guide to creation and working with companies in which AVDC has a financial interest".

We concluded that governance of AVE is compliant with the significant majority of expectations set out in the Guide. However the review highlighted two areas where the application of governance requirements as set out in AVE's Members' Agreement could be strengthened.

Connected Knowledge

An advisory review was undertaken during March 2019 to evaluate the arrangements for measuring and reporting benefits arising from the Connected Knowledge Programme. The review identified a number of areas of good practice in current arrangements but also highlighted opportunities where programme management could be improved across three areas: making benefits more specific and measurable; improving arrangements for tracking delivery of benefits; and closing down projects and learning lessons.

Recommendations have been taken forward by the project team and will be built into the programme 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 assessment of risk and review of the corporate risk register by Strategic Board, Audit Committee and Cabinet. The processes in place are considered to be adequate.

Follow up work

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. A total of 113 audit actions have been completed during the year and progress is being made to address all outstanding actions. There are no significant issues to report regarding the follow up of any audit recommendations. It is pleasing to note significant improvements in the following areas:

Housing benefits

Following the high risk audit report in 2017/18, continued improvements have been made to processes and controls. This has been demonstrated by a significant reduction in processing times for new applications and change of circumstance. There is widespread use of software to data match HMRC details for applicants and targeted projects to undertake 100% checks on identified risk areas. These improvements can be attributed to strength in management and a restructure of staff to ensure specialist benefits officers focus on higher risk cases, a further developed training plan and continued monthly quality checks.

Management Information

In previous years, 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, and to inform decisions. It is noted that significant progress has been made on capturing and reporting corporate level performance indicators and performance dashboards are regularly reviewed by the Corporate Management Team and Cabinet.

Financial management information has also been further developed. As noted in this year's General Ledger report, capacity in the finance team has been strengthened to enable better and more timely reporting from the TechOne system. The Finance Business Partner model is working well and at a service level, improvements have been made with better system reporting and monitoring by managers.

Summary of changes to the 2018/19 internal audit plan

To remain relevant, the annual internal audit plan should be flexible to respond to emerging or changing risks. With budget constraints, there is also a need to ensure prioritisation is given to work which will achieve the greatest value to the organisation. The following changes were made to the 2018/19 plan since it was approved in June 2018:

Name of review	Comment
Accounts Payable	Focus on follow up of prior year outstanding actions.
Payroll	The original plan included a post-implementation review of the new Payroll/HR system, XCD. The implementation was cancelled in November 2018. Existing processes will remain in place and as prior year audits are low risk, no longer considered an area of risk for audit. Days will be reallocated to other reviews.
Tech One	It was intended to review system integration and data transfer controls to ensure the data held in TechOne is complete and accurate. An IT project is underway to look at Council wide data transfers (Uniflow). System integration aspects will be picked up in work on reconciliations as part of GL review and audit days reallocated.
Waste & Recycling - Contracts	The original plan included review of the contracts for Street Cleansing/ Horticulture and Recycling. Street Scene services are coming in-house and the contract will conclude in January 2020. Due to changes in the recycling market, we no longer receive income but pay for waste to be taken to a MRF through a contract with CasePak. For both contracts, management procedures are in place and not considered a high risk for internal audit review. Audit days will be reallocated to allow for more in-depth reviews of Commercial Waste and Parking Services.
Section 106 Agreements	An audit was scoped to assess processes and controls over the allocation, financial management and monitoring of s106 funds. Work was undertaken during December and January by BDO, the contracted service providers, but unfortunately they were unable to complete the review and issue a final report. The status of the review will be further assessed as part of the 2019/20 internal audit plan of work.

4. *Review of Effectiveness*

The Head of Internal Audit role is fulfilled by the Corporate Governance Manager and internal audit work is delivered under a contract with BDO LLP under a co-source arrangement.

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.

I have 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>