

## **INTERNAL AUDIT ANNUAL REPORT 2019/20**

### **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 2019 to 31 March 2020, 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 2019/20. |
|-----|---|

### **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 2019/20 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

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Background Documents

None



# Internal Audit Annual Report

April 2019 – March 2020

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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 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 (AVDC'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**  
**March 2020**

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.
- One high risk finding was identified in the area of Housing and Homelessness Prevention. An overall 'high' risk report was issued.
- Good progress has been made during the year on implementing actions identified during internal audit reviews to strengthen the overall control environment. All high risk actions have been completed.
- The scope of the internal audit plan for 2019/20 reflected the changing nature of AVDC's objectives and risks in the context of transition to the new Buckinghamshire Council. Reviews were identified where they would directly add value to the objectives of achieving an orderly transition, balanced against the desire not to place additional burden on already stretched teams.

Please see further detail in Section 3.

### 3. Summary of Internal Audit Activity

#### Overview

A total of 5 assurance reviews were completed in 2019/20 of which 1 was classified as 'high' risk, 1 was given 'medium' and 3 were given 'low' risk classifications. This resulted in the identification of 1 high, 9 medium and 9 low risk findings relating to weaknesses in the design and operating effectiveness of controls.




In the previous financial year 8 assurance reviews were completed of which 1 was classified as high risk, 5 were medium and 2 were low risk, resulting in 2 high, 12 medium and 25 low risk findings.

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

| Review                          | Report risk rating* | Number of findings |          |          |          |
|---------------------------------|---------------------|--------------------|----------|----------|----------|
|                                 |                     | Critical           | High     | Medium   | Low      |
| HR Management                   | Low                 | -                  | -        | 1        | 2        |
| Council Tax and Business Rates  | Low                 | -                  | -        | 1        | 1        |
| Digital Contact Team            | Low                 | -                  | -        | -        | 3        |
| Taxi Licensing                  | Medium              | -                  | -        | 2        | 1        |
| Housing - Homelessness          | High                | -                  | 1        | 5        | 2        |
| Corporate Fraud Risk Assessment | N/A Advisory        | -                  | -        | -        | -        |
| Pembroke Road Redevelopment     | N/A Advisory        | -                  | -        | -        | -        |
| <b>Total</b>                    |                     | -                  | <b>1</b> | <b>9</b> | <b>9</b> |

\*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 |     |         |     |         |     |         |     |         |     |
|----------------|---|--------------------|-----|---------|-----|---------|-----|---------|-----|---------|-----|
|                |   | 2019/20            |     | 2018/19 |     | 2017/18 |     | 2016/17 |     | 2015/16 |     |
| Critical       | -   | -                  | -   | -       | -   | -       | -   | -       | -   | -       | -   |
| High           |  | 1                  | 6%  | 2       | 5%  | 6       | 14% | 6       | 12% | 6       | 16% |
| Medium         |  | 9                  | 47% | 12      | 31% | 16      | 38% | 19      | 39% | 22      | 58% |
| Low            |  | 9                  | 47% | 25      | 64% | 20      | 48% | 24      | 49% | 9       | 24% |
| <b>Total</b>   |   | 19                 |     | 39      | -   | 42      | -   | 49      | -   | 37      | -   |

Internal audit work is focused 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**

The only area of significant control weakness that should be reported in the Annual Governance Statement relates to the review of Housing – Homelessness.

*Housing - Homelessness*

Homelessness prevention and relief is a statutory function, which falls within the remit of Local Authorities. AVDC's current Homelessness Strategy (approved December 2018) was developed in line with the Homelessness Reduction Act 2017 (HRA) and covers the period 2019-2022. The HRA significantly reformed Homeless legislation, placing duties on local authorities to intervene at earlier stages to prevent homelessness. The Homelessness Code of Guidance provides the framework for practitioners in order to correctly apply the legislation.

The audit review assessed the design and effectiveness of controls in place around the housing application process and whether the authority is acting in accordance with the Act, including acceptance of duty for homelessness prevention or relief, case management, quality and performance monitoring, record keeping and the escalation of potential safeguarding cases.

The audit concluded that the Housing Team made appropriate decisions based on documentation received and generally operated in accordance with the Homelessness Code of Guidance. Areas of good practice were identified but there were also a number of areas where improvement to local internal controls and operation of procedures was required to strengthen the management of this inherently high risk service.

The high risk finding relates to exceptions noted in the completion and communication of 'Personal Housing Plans' (PHPs). It is a requirement of the Act that where a person is homeless or threatened with homelessness and eligible, a local authority should draw up a PHP based on its assessment of the applicants need. The plan should contain the steps to be taken to prevent or relieve the applicant's homelessness and should be communicated and agreed with the applicant. The audit noted a lack of clarity over internal processes for the requirements to complete a PHP where housing debt advice is required which was evidenced by inconsistent completion and communication of PHPs.

## Other internal audit work

### *Corporate Fraud Risk Assessment*

A Fraud Risk Assessment was undertaken to identify any areas of fraud, corruption and bribery risks and if necessary prioritise actions to address them. The Fraud Risk Assessment did not identify any 'urgent' priority risks. Overall the results of the assessment indicate that there is an established control environment designed to mitigate the risk of fraud occurring. Officers had good awareness of the fraud risks and internal controls in their area.

Two 'important' priorities were identified relating to training and guidance being provided to staff, and the inherent risk of fraud occurring prior to the transition to the new unitary Buckinghamshire Council in April 2020. One action was raised to address this risk.

### *Pembroke Road Redevelopment*

An advisory review was undertaken to review the governance and control environment of the Pembroke Road Redevelopment project across 6 key focus areas:

- Business case sets out the scope and objectives of the project and had adequate stakeholder involvement and approval
- Governance arrangements are adequate to enable effective decisions and programme oversight
- Programme and budget reporting is adequate to enable visibility of the programme progress and inform decision making
- Risk management processes are in place to ensure identification and recording of risks to allow mitigation
- Contract management procedures support effective scrutiny of contractors
- Ensuring compliance with regulations

The review identified a number of areas of good practice and also some opportunities for improvement. The most significant recommendation relates to the need to revisit the original (2016) business case for the project and create a revised return on investment schedule.

Many of the original assumptions contained in the business case are no longer valid. Changes and opportunities arising from the move to a unitary authority as well as changes in expected future housing numbers and in expected income sources need to be reflected. The financial business case and return on investment schedule should be revised to reflect the current context. Going forward, progress against the benefits and targets identified in the revised business case should be monitored at governance meetings.

### *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 completed and overdue actions are provided to the Audit Committee.

In the context of transition to a unitary authority, follow up work during the final year of AVDC considered, for each action, whether the associated systems, processes and policies will remain post vesting day, and whether or not the level of resource required to complete is proportionate to the risk being addressed. The result of follow up work performed during the year is as follows:

- A total of 86 audit actions have been completed during the year (113 were completed during 2018/19). This includes all actions rated as 'high' risk
- 14 audit actions have been 'closed' as they are no longer considered to be relevant or appropriate for AVDC to complete, or have been superseded by unitary activity
- 15 actions are to be transferred to Buckinghamshire Council for further review and consideration as new controls, processes and systems are developed

There are no issues to report regarding the follow up of any audit recommendations.

## Summary of changes to the 2019/20 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.

In December 2019 an emerging risk was identified in the area of Housing and Homelessness Prevention. No audit had been performed in this area since the introduction of the Homelessness Reduction Act and the adoption of the current Homelessness Strategy (approved December 2018). It was therefore considered to be a priority for internal audit review.

The audit of s106 Agreements, which started in 2018/19 was not concluded. Work performed by BDO internal auditors in 2018/19 was reviewed and this area was no longer considered to be a priority area for internal audit focus.

## ***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  |
|---|---|
| <b>Satisfactory</b>   | <ul style="list-style-type: none"> <li>• 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</li> <li>• None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>  |
| <b>Generally satisfactory with some improvements required</b> | <ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk.</li> </ul>  |
| <b>Major improvement required</b>                             | <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and</li> <li>• A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul> |
| <b>Unsatisfactory</b>   | <ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li>• <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>  |
| <b>Disclaimer opinion</b>                                     | <ul style="list-style-type: none"> <li>• 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"> <li>○ 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</li> <li>○ 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.</li> </ul> </li> </ul>   |

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