Buckinghamshire County Council

Annual Report of the Chief Internal Auditor 2015/16

1 Background

1.1 The Account and Audit Regulations 2015 require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The Public Sector Internal Audit Standards 2013 (the Code), which sets out proper practice for Internal Audit, requires the Chief Internal Auditor to provide an annual report to those charged with governance, which should include an opinion on the overall adequacies of the internal control environment.

2 Responsibilities

2.1 It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control.

2.2 The role of the Internal Audit Service is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the Authority's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:

- The Council can establish the extent to which they can rely on the whole system; and

- Individual managers can establish how reliable the systems and controls for which they are responsible are.

3. Basis of Audit Opinion

3.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards; however, during 2015/16 there were three areas of non-conformance with those standards:-

- The Chief Auditor had operational management responsibility for the Risk Management and Strategic Insurance functions, so is not wholly independent. The risk of conflict of interest is managed through the Risk Management Group who under the direction of the Chairman of the Regulatory and Audit Committee, monitors and reviews the adequacy and effectiveness of the risk management strategy and process; and, where audit activity is undertaken in areas where the Chief Auditor has operational responsibility, the Business Assurance Manager reports directly to the Director of Assurance (S151 Officer). From 1 April 2016, the Chief Auditor responsibilities have been reallocated, so the officer holding to position of Chief Auditor no longer has operational responsibility for Strategic Insurance.

- An Internal Audit Charter is being drafted.; and,

- A Quality Assurance and Improvement Programme is being drafted and will be presented to the Regulatory and Audit Committee with the Internal Audit Charter

3.2 The strategy for delivery of the Internal Audit Service is reviewed annually and subject to the approval of the Regulatory and Audit Committee. Internal Audit is required to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

3.3 The Regulatory & Audit Committee agreed the quarterly Internal Audit Plans, which focussed specifically on financial management, and corporate processes. There were no constraints placed on the scope of audit work.

3.4 A summary of the work undertaken during the year forming the basis of the audit opinion on the internal control environment is shown in Appendix 1.

3.5 The system for the reporting and monitoring of risk management is well embedded into the business management process. The strategic risk register was regularly reviewed by the One Council Board in 2015/16. The risk management system is an embedded part of the Council's Assurance Framework and the profile of the Business Assurance Team who maintains the risk management system remains high through good engagement with the Business Units and HQ. The adequacy and effectiveness of the risk management system is overseen by the Regulatory and Audit Committee through the Risk Management Group. The Business Assurance Manager and Chief Auditor supports the Risk Management Group with agenda setting to ensure focus is on key risk areas, including major projects. The risk management system is used to inform the work of Internal Audit.

3.6 The Internal Audit activity in relation to schools has been reactive in 2015/16, responding to requests from the Finance Director to audit schools where financial management issues have arisen. The planned audit of the schools S151 Officer Assurance Framework has not yet been completed, but will provide an opinion on the adequacy of the management controls over the financial management in schools.

3.7 Contract management is a key control process for the Council. The main source of management assurance will be the Contract Management Application. Following the audit in 2014/15, Internal Audit has been liaising with management on the implementation of the agreed management actions, and management have provided updates to the Regulatory and Audit Committee. Significant improvement has been made to the design of the application, and from 2016/17 it will be generating the management reports to provide assurance over the performance of major contracts, and the commissioning pipeline. Internal Audit has completed a review of commissioning for Children's Residential Placements and is currently undertaking an audit of the Transport for Bucks contract, focussing on

Street Lantern Replacement; this has not yet been concluded. Internal Audit has also completed a follow up review of the Amey contract, and of Payments to Adult Social Care Providers.

3.8 Reliance has been placed on the monitoring of procurement activity by the Commercial Services Team, who report six monthly to the Regulatory and Audit Committee, on compliance with the Contract Standing Orders.

3.9 The Internal Audit Plan has not focussed on governance systems In 2015/16; however the Business Assurance Team, headed by the Chief Auditor has developed the Assurance and Risk Management Strategy which is part of the Council's operating framework, and led on the implementation of "Professional Leads" who provide the second line of assurance in the new framework, providing monitoring and oversight of the key control systems. The BAT Team has assisted the Professional Leads with the development of their assurance maps for each the key systems. The Business Assurance Team has also facilitated a self-assessment by Business Units of compliance with the Operating Framework. This demonstrated a reasonable level of compliance, but also highlighted some areas for improvement, including changes required to the Operating Framework. These have been considered in the OCB commissioned review of the Operating Framework.

3.10 The Professional Leads assessments can be summarised as follows:

Key Control System	Opinion
Asset Management	Limited
Business Continuity Planning	Limited
Commissioning/Contract Management	Reasonable
Communications	Reasonable
Decision Making	Reasonable
Financial Management	Reasonable
Health and Safety	Under Review
Human Resources	Reasonable
ICT	Reasonable
Project Management	Limited
Risk Management	Reasonable

Actions for the three areas of "Limited" assurance have been reported in the Annual Governance Statement.

3.11 There have been no IT audits in 2015/16.

3.12 The Business Assurance Team receive all referrals of suspected financial irregularity or fraud and will either monitor the outcomes of any management investigations, or undertake the investigations. Following the investigations any control issues are identified and actions plans agreed to address any weaknesses. There has been an increase in the type and scale of referrals. The reason for the increase is unclear, however, whilst the need to investigate any irregularity is clearly undesirable, the management

response has been very positive and demonstrates the anti-fraud policy of zero tolerance.

3.13 Where internal audits identify weaknesses in control, or areas for improvement, management action is agreed. The implementation of management actions is tracked by Internal Audit and reported to the Regulatory and Audit Committee. This relies on receiving positive assurance from the responsible officer reporting that actions have been completed. The action tracking system is now embedded as a business management tool, maintained by the Business Assurance Teams, reviewed quarterly by Business Units. Managers are using the new system, and implementation of actions is generally good.

3.14 There is a demand on internal audit to provide assurance on the use of external grants. In 2015/16 the small number of grants subject to internal audit has been without qualification.

3.15 In arriving at our opinion on the system of internal control, we have taken into account:

- The results of all audits completed in 2015/16

- Whether or not management actions have been agreed for all material areas of weakness identified.

- The effects of any material changes in the Authority's objectives or activities or risk profile.

- Whether any limitations have been placed on the scope of audit.

- The scope of internal control environment - which comprises the whole network of systems and controls established to manage BCC to ensure that its objectives are met.

3.10 In giving our audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit Service can provide to the Accountable Officers and Committee is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

4. **Opinion on the Council's Internal Control Environment Summary**

In my conclusion based on the evidence from the internal audits undertaken, and the assurance work facilitated by the Business Assurance Team my opinion on whether the Council's overall system of internal control facilitates the effective exercise of the Council's functions and provides a reasonable assurance regarding the effective, efficient and economic exercise of the Council's functions has to be qualified for 2015/16.

The system of governance has been strengthened following the Future Shape Programme, with Collaboration and Accountable values demonstrated by the Business Units across the council; however, the improved governance, and new operating framework has exposed some legacy weaknesses in key systems of control. That includes the system of financial control, where areas of non-compliance and weak processes and procedures have been identified. The qualified opinion is evidenced by the outcomes of internal audits, including investigations into financial irregularity; the professional leads assurance frameworks; and, OCB commissioned reviews, i.e. Alternative Delivery Vehicles.

There is however no doubt that the Senior Officers in the organisation take governance and internal control very seriously, and the One Council Board reviews all limited assurance audits. The development of an assurance framework, with clearly defined three lines of assurance, is not yet fully embedded but it has already provided evidence of management oversight and monitoring which is essential in maintaining good governance.

4.2 This opinion is consistent with the outcomes of the individual audits, in which of the 18 opinion based audits completed 50% had opinions of "limited" assurance. It is also consistent with the outcomes of the Professional Leads assurance where three, in the areas of Business Continuity; Property Management; and Project Management reported only "limited" assurance. A summary of the audits and the status of management actions is attached as appendix 1 to this report.

4.3 Whilst it has been necessary to qualify this year's opinion, overall the direction of travel in respect of governance is very positive. The Council, through the leadership of the OCB actively promotes good governance, and has established a robust framework for identifying early any arising issues or concerns. A consequence of such a robust framework, has been legacy issues now being more transparent to Management, which is a positive as it is enabling these issues to be addressed.

5. Anti-Fraud

5.1 The Anti-fraud and corruption strategy remains current and relevant. The internal audit team is notified of instances of suspected fraud, and maintains oversight of the investigations being undertaken, or directly undertakes investigations. There has been an increase in this activity in 2015/16, which has impacted on the delivery of planned audits. The Regulatory and Audit Committee has been kept informed of any investigations. Where the investigations have identified weaknesses in controls these have been reported and actions put in place to address them.

6. The Audit Team

6.1 During 2015/16 the Internal Audit Team was restructured with the appointment of two Audit Managers. The service is now fully resourced by an in house team, which is seeing improvements in the quality of the output from team, and also the relationships with the Business Units.

6.2 For 2016/17 there is a further change to the structure as the collaboration with Oxfordshire County Council for a shared Chief Internal Auditor ends in May 2016. The Business Assurance Manager will take on the role of Interim Chief Auditor for 2016/17

Ian Dyson, *Chief Internal Auditor May 2016.*

Appendix 1 - Summary of audit outcomes for year and implementation status of management actions

Audit Methodology

For each audit an opinion was determined firstly on the framework of controls that exist for that operational area and secondly on compliance with the controls. From this an overall audit opinion is given for each audit. An opinion on the quality of risk management in place is also provided. Work has been planned and performed so as to obtain all the information and explanations which were considered necessary to provide sufficient evidence in forming an audit opinion. The range of overall audit opinions is:-

- **Substantial** - All controls are in place to give assurance that the system's objectives will be met.

- **Reasonable** - Most controls are in place to give assurance that the system's objectives will be met but there are some minor weaknesses.

- **Limited** - There are not the necessary controls in place to give assurance that the system's objectives will be met.

Business Unit	Audit	Overall Conclusion	No. of Management Actions Agreed	Priority of Management Actions			Implementation Status (where action due date has occurred)
				HIGH	MEDIUM	LOW	
Business Services Plus – **BSP** Children's Social Care and Learning - **CSC&L** Communities, Health and Adult Social Care - **CHASC** Transport, Economy and Environment - **TEE**							
BSP	Financial Management	Audit in Progress	N/A				
BSP	Payroll	Reasonable	10	5	5		Actions not yet due for implementation
BSP	Treasury Management	Substantial	2	1		1	Actions not yet due for implementation
BSP	Pensions	Draft Report	N/A				

		Assurance					
BSP	General Ledger (incl. interfaces)	Limited	20	8	12		Three actions completed. Two medium priority actions overdue for implementation
BSP	Accounts Receivable (incl. cash receipting)	Limited	9	6	3		Actions not yet due for implementation
BSP	Accounts Payable	Draft Report	N/A				
CSC&L	Client Transport – Safeguarding	Limited	3	3		2	Actions not yet due for implementation
CSC&L	BLT Governance	Limited	26	16	10	0	23 actions have been implemented, one is no longer applicable. Two actions remain outstanding.
CSC&L	Commissioning – Residential Placements	Limited	8	7	1	0	Actions not yet due for implementation
CSC&L	Schools S151 Assurance	Audit in Progress	N/A				
CSC&L	Special Education Needs	Limited	7				Actions not yet due for implementation
CSC&L	Beechview School	Limited	37				Actions not yet due for implementation

CSC&L	Hannah Ball School	Limited	21	13	8		Status unknown (to be followed up)
CSC&L	Elmhurst School	Limited	24				Actions not yet due for implementation
CHASC	Financial Management	Audit in Progress	N/A				
CHASC	Direct Payments	Audit in Progress	N/A				
TEE	Financial Management	Reasonable	10	3	6	1	Two actions completed, eight in progress (not yet due)
TEE	TfB Contract (Street Lantern Replacement)	Audit in Progress	N/A				

2015/16 Follow Up Audits

Business Unit	Follow Up Audit	Date of Original Audit / Opinion	No. of Management Actions Agreed	Implementation status			Comments
				Complete	Partially complete	Not completed	
HQ	Contract Management Application	2014/15 Limited	8		8		
CSC&L/TEE	Safeguarding Follow Up	2013/14 Limited	14	7	7		
CSC&L	AMEY Contract Follow Up	2013/14 Limited	19	7	7	2	3 actions no longer applicable
CSC&L	Meadows School	2014/15 Limited	28	20		8	Further update required
CSC&L	Mandeville School	2013/14 Limited	51	36		15	Further update required
CHASC	ASC Payments to Providers	2014/15 Limited	16	13	3		

Management Actions Implemented as at 31 March 2016

Measure	HQ (1)	BSP (2)	CHASC (3)	CSC&L (4)	TEE (5)	TOTAL
# management actions	25	115	83	82	68	373
# completed	9	71	70	38	39	227
% completed	36%	62%	84%	46%	57%	61%
# in progress/outstanding	16	44	13	44	29	146

In Progress and Outstanding Audit Actions as at 31 March 2016

(1) HQ	
	In Progress
Contract Management Application 14/15	8
Governance and Financial Management (BE & BSP) 2014/15	4
Governance and Financial Management (PPC) 2014/15	3
Review of Charges 2013/14	1
Total	**16**

(2) BSP	
	In Progress
Data Security Follow Up 2012/13	1
Governance and Financial Management (BE & BSP) 2014/15	1
Health & Safety 2012/13	1
Accounts Payable 2013/14	3
Accounts Payable 2014/15	5
Accounts Receivable 2014/15	1
Feeder Systems 2014/15	7
General Ledger 2014/15	2
General Ledger 2015/16	16
Payroll 2013/14	2
Payroll 2014/15	2
Pensions 2014/15	3
Grand Total	**44**

(3) CH&ASC		
	In Progress	To Start
AFW Debt Management 2014/15	2	
ASC Payments to Providers Follow Up 2015/16	1	2
Business Continuity Management (BCM) 2014/15	4	
Client Transport Safeguarding 2015/16	2	
Governance and Financial Management AFW 2014/15	2	
Grand Total	**11**	**2**

(4) CSC&L	
	In Progress
Buckinghamshire Learning Trust Governance 2015/16	2
Client Transport Safeguarding 2015/16	3
Commissioning Residential Placements 2015/16	8
CYP Safeguarding 2013/14	15
Governance and Financial Management CYP 2014/15	5
S106 and CIL 2014/15	5
Schools Accounts Payable 2012/13	1
SEN 2012/13	5
Grand Total	**44**

(5) TEE	
	In Progress
Governance and Financial Management (CBE) 2013/14	1
Governance and Financial Management (CBE) 2014/15	1
Planning Application (14/00519/APP) 2014/15	3
Property Contract Process and Procedure 2014/15	7
S106 and CIL 2015/16	9
TEE Financial Management 2015/16	8
Grand Total	**29**