

Buckinghamshire County Council

Annual Report of the Chief Internal Auditor 2016/17



Regulatory and Audit Committee

June 2017

1. Introduction

- 1.1 This report outlines the Internal Audit work undertaken by the Business Assurance Team for the year ending 31 March 2017, and seeks to provide an opinion on the adequacy of the control environment detailing the incidence of any significant control failings or weaknesses. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.
- 1.2 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 (PSIAs) require the Head of Internal Audit to provide an annual opinion, based upon, and limited to the work performed, and on the overall adequacy and effectiveness of the organisation's systems of internal control which consist of a framework of governance, risk management and control.

2. Responsibilities

- 2.1 The PSIAs define internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 2.2 Internal Audit is not responsible for the control system. This responsibility sits with management who are to develop, maintain and ensure compliance against the internal control framework.

3. Basis of Audit Opinion

- 3.1 With effect from 1 April 2013, new Public Sector Internal Audit Standards were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector. These standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

3.2 Our Internal Audit Service operated in accordance with these standards; however during 2016/17 there were areas of non-conformance with those standards:

- The Chief Auditor had operational management responsibility for the Risk Management function, 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, and reports directly to the Director of Finance and Assets (S151 Officer) or Assistant Chief Executive.
- A Quality Assurance and Improvement Programme is currently being drafted and will be presented to the Regulatory and Audit Committee in Q3 following the completion of the PSIA's compliance assessment being performed by a neighbouring authority. In the interim the Business Assurance Team is currently reviewing its processes to ensure continuous improvement to the effectiveness of the Internal Audit function, and the outcomes of these reviews will feed into the department's business improvement plan.

3.3 The overall opinion is based on the following:

- The results of all audits undertaken during the year.
- Any follow-up action taken in respect of audits from previous periods.
- 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.
- Consideration of third party assurances.

3.4 The Chief Internal Auditor opinion does not imply that Internal Audit has reviewed all risks relating to the organisation. 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. Chief Internal Auditor Opinion

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 is unqualified for 2016/17.

The Chief Internal Auditor opinion for 2015/16 was qualified, so there has been a positive direction of travel and clear improvements to the internal control environment during 206/17. However, a number of significant weaknesses have been identified which require clear action to address, in particular the robustness of the Council's Contract Management arrangements is in doubt following the failure of the Buckinghamshire Care Contract. A review of all Alternative Delivery Vehicles was commissioned following this failure, and recommendations are being presented to Cabinet in July.

There is no doubt that the Senior Officers in the organisation take governance and internal control very seriously, the Corporate Management Team reviews all limited assurance audits and monitors the progress of implementation of actions. The development of an assurance framework, with clearly defined three lines of assurance, has been further embedded and provides evidence of management oversight and monitoring which is essential in maintaining good governance.

	No/ Qualified	Limited	Reasonable	Substantial
Audit Opinion and Direction of Travel <i>*2015/16 Annual Opinion: Qualified</i>				

5. Commentary on the Opinion

5.1 Key areas which have informed the overall reasonable conclusion are as follows:

5.2 **Internal Audit:** Based on the work completed by Internal Audit; the systems and processes for governance, risk management and control in relation to business critical areas appear to be in place. Examples of good practices were noted through audit work performed this year; however there are some areas of weakness and non-compliance in the framework of governance, risk management and control which could potentially impact the achievement of the Council's objectives.

In the year ending 31 March 2017, 37 internal audit reviews were undertaken. The table below provides a summary comparison of the 2016/17 report ratings with those of 2015/16.

Overall Conclusion	2016/17		2015/16		Direction of Travel
	No.	%	No	%	
Substantial	2	6%	1	5%	
Reasonable	24	72%	8	45%	
Limited	7	22%	9	50%	
Total	33	100%	18	100%	
N/A Management Letter	4	N/A	4	N/A	

** Appendix 1 summaries all the audits performed during the year forming the basis of the opinion on the internal control environment.*

5.3 In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented in a timely manner. The action tracking system is now embedded as a business management tool, maintained by the Business Assurance Team, reviewed periodically by Business Unit Boards and the Corporate Management Team. The implementation of management actions is tracked by Internal Audit and reported to the Regulatory and Audit Committee. Appendix 2 is a summary of audit actions that are currently in progress.

5.4 **Key Financial Systems:** A review of the Councils financial systems is undertaken to ensure that financial controls are robust and adequately support an effective control environment. Our review of seven financial systems identified areas that require improvement, specifically in the operation of key controls in place.

5.5 Below is a summary table of results of the Key Financial Systems reviewed:

Audit Title	2016/17 Opinion	2015/16 Opinion	Direction of Travel
Payroll	Limited	Limited	
Accounts Payable	Reasonable	Limited	
Pensions	Reasonable	Reasonable	
General Ledger	Reasonable	Limited	
Accounts Receivable	Reasonable	Reasonable	
Capital Programme	Reasonable	N/A	
Purchase Cards	Reasonable	N/A	

5.6 **Risk Management:** Reporting and monitoring of risk management is fully embedded into the business management process. A new risk management system has been introduced and the implementation of the system required a comprehensive review and refresh of service and corporate risk registers. The refresh and implementation of the new system led by the Business Assurance Team has been an important exercise that has allowed the organisation to better focus on current risks, develop a consistent systematic escalation mechanism which will ensure that key risks are visible to senior management to enable more effective decision making. The adequacy and effectiveness of the risk management system is overseen by the Regulatory and Audit Committee through the Risk Management Group and the Corporate Management Team review the strategic risks regularly.

5.7 **Governance:** The 2016/17 Internal Audit Plan has not focussed on a specific corporate governance audit, however the Business Assurance Team, headed by the Chief Auditor has continued to embed the combined assurance model which is an integral part of the Assurance and Risk Strategy, with Internal Audit operating as the third line of assurance. As part of the Operating Framework implementation, “Professional Leads” have been identified for each key corporate control process to provide the second line of assurance. Assurance Mapping for TEE and BSP was undertaken as part of the 2015/16 activity and this year we completed the mapping exercise within CHASC and CSC&L (including the new Joint Commissioning unit). The Business Assurance Team has also facilitated a self-assessment by Business Units of compliance with the Operating Framework. Whilst a reasonable level of compliance has been demonstrated, there are some areas for improvement that have been highlighted.

5.8 **Contract Management:** Contract management is a key control process and ensuring value through commissioned services is fundamental to the achievement of the Council’s strategic objectives. The Contract Management Application (CMA) has undergone enhancements to the functionality and improvements to the data that is held in the application, these improvements are supported by a refreshed Supplier Management Policy, which brings the supplier relationship and contract management activities together.

Internal Audit has completed contract audit reviews of Transport for Bucks, Public Health, Public Services Network (PSN) and Buckinghamshire Care. We identified some significant areas of weakness which are being addressed, including the Council’s mechanisms for obtaining assurance over performance information presented by the contractor, financial and risk management. A review of the Corporate Escalation Processes has also been carried out.

5.9 **Schools:** Five school audits were carried out this year, including a review of the schools S151 Officer Assurance Framework. Whilst the work carried out at the schools has not raised any significant issues, the Schools S151 Assurance Framework highlighted key areas of weakness where the systems of internal control are weak and risks are not being managed effectively. Progress is being made to address these weaknesses and Internal Audit will continue to review a sample of schools identified through the risk based annual audit planning process.

5.10 **Information Technology:** There have been three IT audit reviews during the year; IT Asset Management, IT Governance and PSN Contract Management and Performance. The work performed has not highlighted any significant issues; however additional audit activity is planned in this area which will focus on network and data security.

5.11 **Counter Fraud:** The Business Assurance Team procedures alone cannot guarantee the detection of fraud and corruption, therefore management have responsibility for ensuring that there are adequate controls in place to manage the risk of fraud and corruption. A number of referrals were received during the year of suspected financial irregularity or fraud, and based on the nature of the case we monitored the outcomes or investigated the irregularity. Any control issues identified from the investigation were highlighted to management and action plans agreed to address any weaknesses.

6. **Overall Conclusion**

Overall the direction of travel in respect of governance has been positive. The Council, through the leadership of the Corporate Management Team actively promotes good governance, and has established a robust process for monitoring the implementation of actions. There have been a number of significant control failures during the year, but the Corporate Management Team have reacted very quickly to put actions in place to mitigate the risks.

Maggie Gibb, Chief Internal Audit

June 2017

Appendix 1: Summary of Audits Performed Informing the Annual Opinion

Business Unit	Audit Title	Timing	Scope/ Objective of Audit	Assurance Opinion
ALL	Corporate Escalation Processes	Q4	This audit has been added to the plan to provide assurance over the escalation processes within each of the Business Units and HQ to ensure that emerging issues/risks are visible at an appropriate level. This audit was requested by the S151 and Monitoring Officers.	Reasonable
HQ	Decision Making/ Business Cases (Project Management)	Q3	The audit will review the policies and procedures in place to ensure the effective management of projects. This will include a review of the tools that are available, how these are being utilised and the management information that is available to ensure effective and timely decision making.	Delayed to Q1 17/18
HQ	Capital Programme	Q2	The objective of the audit is to ensure that the capital programme effectively links capital expenditure and investments needs and supports the delivery of the Authority's objectives/ priorities.	Reasonable
HQ	Income Generation	Q3	The objective of the audit is to ensure that the Income Generation Strategy has been embedded across the organisation. This will include an understanding of how the Council is maximising its potential to generate income, how income generation opportunities are identified and initiated.	Delayed to Q2 17/18
HQ	Complaints Process	Q3	The audit will review the policies and procedures in place to manage complaints. This will include a review of how complaints are recorded, addressed and reported.	Delayed to Q1 17/18
BSP	P2P - including contract review of e-invoicing service provider and process mapping	Q2	End-to-end review of the P2P system to understand processes in place and adequacy of controls	Reasonable
BSP	General Ledger	Q4	The main objective of the audit is to ensure that quality and integrity of financial data recorded on the General Ledger is accurate and complete to be used to prepare the annual accounts.	Reasonable
BSP	Payroll	Q4	The main objective of the Payroll process is to pay the right person the right amount at the right time, and to produce all the required statutory returns.	Limited
BSP	Pensions	Q4	The main objective of the Pension function is to ensure that the correct employer and employee contributions are received; retirees are paid the right amount at the right time, and the Pension Fund is management effectively and in line with legislative requirements.	Reasonable
BSP	Accounts Receivable/ Accounts Payables	Q4	The Accounts Receivable Audit is concerned with billing, income collection and debt management. The primary objective of the AP function is to provide timely, accurate and efficient disbursement services to the organisation	Reasonable
BSP	P-Cards - System Audit	Q1	To ensure the continued success of the Purchasing Card ("P-Card") Program; to determine if the established policies and procedures are adequate; and to ensure the amounts paid were valid, appropriately reviewed, and properly supported.	Reasonable
BSP	P-Cards & Expenses Continuous Auditing	Q1 - 4	This will entail a review of expense reports and p-card usage for adherence to the Corporate policy	Reasonable

Business Unit	Audit Title	Timing	Scope of Audit	Progress as at 30 January 2017
BSP	Financial Management Audit	Q1	The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.	Reasonable
BSP	PSN Audit (Network security and infrastructure resilience)	Q2	Review project implementation of PSN across the business including a review of expected benefits.	Reasonable
BSP	Shop 4 Support (E-Commerce System), including contract review	Q2/3	Review the new e-commerce system, including understanding the data quality and integrity, PCI compliance, interface feeds to SAP and management reporting.	Reasonable
BSP	PSN Audit (Contract and Performance Management)	Q2	Review contract and performance management, project implementation of PSN across the business and schools; including a review of realised benefits against expected benefits per the initial business	Reasonable
BSP	IT Asset Management	Q2/3	Review of policies and procedures in place to track and monitor IT assets including; hardware, servers, circuits, and software license compliance.	Reasonable
CH & ASC	Public Health Contracts & Commissioning/Payment to Providers	Q2	The objective of the audit is to ascertain service contract management arrangements in place, including reviewing the accuracy, completeness and timeliness of management information to enable effective and efficient decision making	Reasonable
CH & ASC	CHASC - Financial Processes	Q1-2	The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.	Limited
CH & ASC	Client Charging	Q3	The audit will review the arrangements in place for client charging, including policies and procedures, financial assessments, quality of data and governance arrangements.	Reasonable
CH & ASC	Direct Payments*	Q1-2	The audit will cover the arrangements currently in place for the management of direct payments including: Direct Payments Use, Nominated Person, Direct Payments Assessments and Arrangements, Client Contributions and Top Ups. The audit will also follow up on the management actions noted in the previous Direct Payments audit.	Limited
CH & ASC	Better Care Fund	Q4	The audit will review the high level governance arrangements in place to support the management of the Better Care Fund and relationship with the CCGs.	Delayed to 17/18
CH & ASC	Safeguarding*	Q1-2	The audit will evaluate the controls in place over, the Safeguarding Quality Assurance Framework, performance reporting, accuracy of client based information and Governance.	Substantial
CH & ASC	Market Resilience	Q4	This is a cross cutting theme included by Neil Gibson for both Adults and Children's. The purpose of the audit is to focus is on the business continuity, providing assurance that services can continue to be delivered where viability or performance concerns are raised.	Delayed to 17/18
CH & ASC	Buckinghamshire Care Governance and Financial Management	Q2	This audit was an addition to the approved 16/17 Internal Audit Plan following a request from the Managing Director of CH&ASC. The audit focussed on the controls in place over governance and financial management arrangements at Buckinghamshire Care which is one of the Council's alternative delivery vehicles.	Limited

Business Unit	Audit Title	Timing	Scope of Audit	Progress as at 30 January 2017
CH & ASC	Buckinghamshire Care - Contract Management	Q3	This audit was an addition to the approved 16/17 Internal Audit Plan following a request from the Chief Executive to review the robustness of the contract management arrangements for Buckinghamshire Care	Limited
CSC&L	Safeguarding	Q2	The audit will evaluate the controls in place over, the Safeguarding Quality Assurance Framework, performance reporting, accuracy of client based information and Governance. This will take into account the OFSTED Report and the outcome of the last Internal Audit Report.	Follow Up Audit Complete
CSC&L	Schools	Q2-Q4	<p>A sample of schools to be audited based on: limited assurance reports, gaps in financial controls, academy status and/ or other intelligence received from the business.</p> <ol style="list-style-type: none"> 1. Bedgrove Infant – Substantial 2. Buckingham Park Primary - Reasonable 3. Princes Risborough Primary – Reasonable 4. St Joseph's Catholic - Reasonable 5. Wingrave CoE - Reasonable 	Complete
CSC&L	DSG*	Q1-2	This audit will review the assurance on how it is managed, including: allocation, monitoring and how the funds are spent.	Reasonable
CSC&L	Financial Management	Q2	The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.	Limited
CSC&L	Families First - Grant Funding	Q3	This is a review of how the grant is spent and compliances against the terms and conditions.	Reasonable
CSC&L	Transfer Testing	Q4	The audit of eleven-plus (11-plus) was requested by the S151 Officer and Monitoring Officer during 2016/17 due to a high volume of FOI requests and complaints received during an 18 month period. The audit will examine the governance processes, including roles and responsibilities, and payments to schools.	Reasonable
CSC&L	Schools S151 Assurance	Q3	The audit will review the arrangements in place to meet the schools S151 responsibilities including an established framework, defined roles and responsibilities, policies, procedures and guidance, risk and performance management, accountability and communication and effective monitoring and review.	Limited

Business Unit	Audit Title	Timing	Scope of Audit	Progress as at 30 January 2017
TEE	Client Transport	Q3	The objective of the audit is to ascertain service management arrangements in place, including governance (decision making framework), budget monitoring, safeguarding, dispute resolution and reviewing the accuracy, completeness and timeliness of management information (financial and performance) to enable effective and efficient decision making.	Delayed to 17/18
TEE	TfB Contract (Quality of Information/ Open Book Accounting)	Q2	The objective of the audit is to ascertain service contract management arrangements in place, including financial management, reviewing the quality, integrity and timeliness of financial and performance information to enable effective and efficient decision making.	Reasonable
TEE	Waste	Q4	The objective of the audit is to ascertain service contract management arrangements in place, including reviewing the accuracy, completeness and timeliness of management information to enable accurate, effective and efficient payments and management decisions to be made. The review will also consider agreements and relationships in place with other organisations and third parties.	Delayed to 17/18
TEE	Planning and Development Management	Q4	The main objective of the audit is to review the decision making process, roles and responsibilities and interaction with local parishes.	Delayed to 17/18
TEE	LEP Governance Audit	Q3	This audit was included in the plan following a request from the Managing Director of TEE to review the governance arrangements between BCC and the LEP	Reasonable

Appendix 2: Summary of Open Management Actions

The table below provides a summary of the audit reports that currently have on-going management audit actions that require implementation:

Since our last report to the Regulatory and Audit Committee in February 2017 there has been significant progress in the completion of outstanding actions from previous year's audits however there are still actions not yet completed for audits completed prior to 16/17. The audit team recently undertook a comprehensive review of all actions with full support from the audit leads within each of the Business Units. This has resulted in 19 of the 36 audits recorded in the action tracker in February 2017 being fully closed off following completion of all actions raised within the reports.

The current status of audits recorded within the action tracker as at 16 May 2017 is as follows:

- 24 audits currently recorded in the action tracker, comprising of:
 - 16 completed prior to 16/17
 - 8 completed as part of the 16/17 agreed audit plan, 7 of which have been added since our last update report following completion of 16/17 work.
- Of the 24 audits recorded there are a total of 232, (116 High/116 Medium) actions raised of which 81 are not yet completed. 46 of these actions relate to audit work completed between 2012/13 – 2015/16 which have been allocated revised target dates.
- Based on the current target completion dates recorded in the action tracker, none of the 81 actions are yet due for completion and are made up of the following:
 - 37 High Priority actions
 - 43 Medium Priority actions
- In addition it should also be noted that there are currently 7 low priority actions not yet completed.

Table 1 below is a summary of all the audit actions across the 24 audit reports:

Year	BSP - Financial	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
28 Actions in Progress									
2014/15	Pensions 2014/15	Reasonable	1	1		4	1	2	9
2015/16	Accounts Payable 2015/16	Reasonable	2	2	1				5
2015/16	Accounts Receivable 2015/16	Reasonable	5	2		3			10
2015/16	Payroll 2015/16	Reasonable	1	5		1	4		11
2015/16	Pensions 2015/16	Reasonable	1	2			2		5
2016/17	Capital Programme 2016/17	Reasonable				1	1		2
2016/17	General Ledger 2016/17	Reasonable	2	3		4	4		13
2016/17	Purchase Cards 2016/17	Reasonable				3	1		4
			12	15	1	16	13	2	59

Year	BSP Non-Financial	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
2 Actions in Progress									
2012/13	Data Security Follow Up 2012/13	N/A		1				1	2
2014/15	Property Contract Process and Procedure 2014/15	Limited	3			11	1		15
			3	1		11	1	1	17

Year	CH&ASC	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
2 Actions in Progress									
2014/15	Governance and Financial Management (AFW) 2014/15	Reasonable	2	1		1			4
2016/17	ASC Direct Payments 2016/17	Limited				4	1		5
			2	1	0	5	1	0	9

Year	CSC&L	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
9 Actions in Progress									
2012/13	Schools Accounts Payable 2012/13	Reasonable	1	1		2	2		6
2015/16	SEN 2015/16	Limited	7	2		2			11
2016/17	Schools S151 Assurance 2016/17	Limited	2	4		6			12
			10	7	0	10	2	-	29

Year	HQ	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
2 Actions in Progress									
2013/14	Review of Charges 2013/14	Reasonable					1		1
2014/15	Governance and Financial Management (PPC) 2014/15	Reasonable	2	1		3			6
			2	1	0	3	1	0	7

Year	TEE	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
1 Action in Progress									
2015/16	TfB Street Lantern Replacement Scheme 2015/16	Limited	13	1		5			19
			13	1	0	5	0	-	19

Year	Schools	Assurance Opinion	High			Medium			Total
			Completed	In Progress	No longer applicable	Completed	In Progress	No longer applicable	
36 Actions in Progress									
2013/14	Mandeville School 2013/14	Limited	11	2		6	1		20
2014/15	Meadows School 2014/15	Limited	1	1		3			5
2015/16	Hannah Ball School 2015/16	Limited	24	5		5	7		41
2016/17	Bedgrove Infant School 2016/17	Reasonable					4		4
2016/17	St Joseph's Catholic Infant School 2016/17	Reasonable				8	4		12
2016/17	Wingrave Church of England Combined School 2016/17	Reasonable	1	3		1	9		14
			37	11	-	23	25	-	96