

Buckinghamshire County Council

Annual Report of the Chief Internal Auditor 2017/18



Regulatory and Audit Committee

July 2018

1. Introduction

- 1.1 This report outlines the Internal Audit work undertaken by the Business Assurance Team for the year ending 31 March 2018, 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 Chief Auditor 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, the 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.
- 3.2 Our Internal Audit Service operated in accordance with these standards; however during 2017/18 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, reports are sent directly to the Director of Finance and Procurement (S151 Officer) or Monitoring Officer.

- A Quality Assurance and Improvement Programme has been drafted and will be presented to the Audit Board and Regulatory and Audit Committee in Q3 following the completion of the PSIA's compliance assessment being performed by an independent assessor. This assessment has been delayed from 2017/18 to 2018/19 as the original assessment agreed with another authority was cancelled due to capacity issues. In the interim the Business Assurance Team has carried out a review of its processes to ensure continuous improvement within the Internal Audit function, and the outcomes of these reviews will feed into the team's business improvement plan. The self-assessment of 118 standards confirmed general compliance with 111 and partial compliance with six.

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 Regulatory and Audit 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

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 2017/18.

The system of governance has continued to be strengthened with collaboration and accountable values demonstrated by the Business Units across the council; however, the improved governance, and the enhanced accountability culture has exposed some legacy weaknesses in key systems of control. That includes the contract management framework, where areas of non-compliance and weak processes and procedures have been identified.

There is however no doubt that the Senior Officers in the organisation take governance and internal control very seriously, and the Corporate Management Team reviews all limited assurance audit reports. The development of an assurance framework, with clearly defined three lines of assurance, is not yet fully embedded across the organisation as capacity has been concentrated on developing a tailored risk reporting and escalation framework for each Business Unit to improve the robustness of the Council's risk management, which is critical for an effective assurance framework. The next step is to embed the three lines of assurance approach consistently across all Business Units, although this has already provided some evidence of management and corporate oversight and monitoring which is essential in maintaining good governance.

The unqualified opinion is evidenced by the outcomes of internal audits, including investigations into financial irregularity; the Professional Lead's assurance frameworks; the implementation of audit actions and the robustness of the Risk Management Framework.

	No/ Qualified	Limited	Reasonable	Substantial
Audit Opinion and Direction of Travel				

5. Commentary on My 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 2018, a total of 35 reviews were undertaken by the Business Assurance Team. 25 reviews resulted in an Internal Audit opinion on the effectiveness of the control environment. The remaining ten were "other" assurance type reviews such as grant validations where an opinion was not provided but control weaknesses/management actions may have been raised. The Business Assurance Team saw an increase in demand for ad-hoc assurance reviews which has demonstrated how the team can add value to the organisation through non-standard audit activity. The team also provide the Internal Audit service to Buckinghamshire and Milton Keynes Fire Authority.

The table below provides a summary comparison of the 2017/18 report ratings with those of 2016/17.

Overall Conclusion	2016/17		2017/18	
	No	%	No.	%
Substantial	2	5%	1	3%
Reasonable	24	65%	20	57%
Limited	7	19%	4	11%
N/A Management Letter	4	11%	10	29%
Total	37	100%	35	100%

A benchmarking exercise will be carried out in Q2 and reported to the Corporate Management Team and Regulatory and Audit Committee to provide some comparison of audit opinions to other County Councils.

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 and reviewed periodically by Business Units and the Corporate Management Team through the Budget Board. 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 Council's financial systems is undertaken to ensure that financial controls are robust and adequately support an effective control environment. Our review of six financial systems identified areas that require improvement, specifically in the operation of key controls in place. Below is a summary table of results of the Key Financial Systems reviewed:

Audit Title	2016/17 Opinion	2017/18 Opinion	Direction of Travel
Payroll	Limited	Reasonable	
Accounts Payable	Limited	Reasonable	
Pensions	Reasonable	Reasonable	
General Ledger	Limited	Reasonable	
Accounts Receivable	Reasonable	Reasonable	
Capital Programme	Reasonable	N/A	
Purchase Cards	Reasonable	Reasonable	

5.5 **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.

5.6 **Governance:** The 2017/18 Internal Audit Plan included a review of Corporate Governance carried out by our Internal Audit partners, Mazars. This was a high level assessment of the governance arrangements currently in place over the following key core principles as set out in the CIPFA Delivering Good Governance in Local Government Framework 2016:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring Openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability

A total of 91 standards were assessed under the core principle headings, of which 85 were found to be met and the other six partly met with some minor actions to address.

5.7 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. Professional Leads have been identified for each of the key corporate control areas across the Council, however during 2017/18 we experienced a level of churn of senior officers with Professional Lead responsibility which impacted on the effectiveness of this network. This will be reignited for 2018/19. A reasonable level of compliance has been demonstrated across the key control areas but there are some areas for improvement that have been highlighted.

5.8 Below is a summary of the Professional Leads assessments:

Key Control System	2016/17 Opinion	2017/18 Opinion	Direction of Travel (comments)
Asset Management	Limited	Reasonable	
Business Continuity Planning	Limited	Reasonable	
Commissioning/Contract Management	Reasonable	Limited	
Communications	Reasonable	Reasonable	
Decision Making	Reasonable	Reasonable	
Financial Management	Reasonable	Reasonable	
Health and Safety	Limited	Reasonable	
Human Resources	Reasonable	Reasonable	
ICT	Reasonable	Limited	
Project Management	Limited	Reasonable	
Risk Management	Reasonable	Reasonable	

5.9 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 Professional Lead for this area is the Supplier Relationship Manager. This post was filled by a consultant from August 2015 to July 2017, and during this time he developed the Supplier Management Policy and Framework. The post was vacant from July 2017 to March 2018 and was covered by temporary arrangements to oversee the framework. The post is now filled by a suitably skilled and qualified individual to drive the necessary improvements. The Contract Management Application (CMA) and the required management instructions are being reviewed and rationalised to improve the data that is held in the application and its use, these improvements are being implemented as part of the Supplier Relationship Management Improvement Plan, which brings the supplier relationship and contract management activities together based on the National Audit Office best practice framework.

Internal Audit has completed contract audit reviews of Fremantle, Action for Children and NSL. 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 viability, contract governance and risk management. These revised actions form a much more robust management response with nearly one third of key contracts now financially validated.

5.10 Schools: Five school audits were carried out this year, including a follow-up review of the schools S151 Officer Assurance Framework. Whilst the S151 Officer Assurance Framework review confirmed that the key areas of weakness previously identified have been significantly improved, the work carried out at the schools highlighted numerous issues 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.

5.11 Information Technology: There have been three IT audit reviews during the year; IT Business Continuity and Disaster Recover, Data Security and PCI Compliance. The work performed highlighted a number of significant issues which were known to Council; however additional audit activity is planned in this area which will focus on network and data security.

5.12 **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

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

Maggie Gibb

Chief Internal Auditor

July 2018

Appendix 1: Summary of Audits Performed Informing the Annual Opinion

Business Unit	Audit Title	Audit Opinion	Number of Audit Actions	Report Status
Resources	Medium Term Financial Planning	Reasonable	3	Final
Resources	IR35 Direct Vendor Compliance Readiness Assurance Review	Assurance Management Letter	10	Management Letter issued
Resources	IT Data Security	Reasonable	5	Final
Resources	IT Business Continuity Management (BCM)	Reasonable	6	Final
Resources	PCI DSS Compliance	Reasonable	4	Final
Resources	Corporate Debt Management	Reasonable	11	Final
Resources	Contract Management Audit – Carter Jonas	In progress	-	Report in 18/19
Resources	Pensions	Reasonable	5	Final
Resources	Key Financial Systems	Reasonable	8	Final
Resources	Health and Safety	Reasonable	6	Final

Resources	Business Continuity Management	Reasonable	3	Final
Resources	Payroll Follow Up	Reasonable	9	Final
ACES	Complaints	Reasonable	4	Final
ACES	Corporate Governance	Assurance Management Letter	3	Final
ACES	Contract Management Audit – Harrow Barnet Public Law (Phase 1)	In progress	-	Report in 18/19
TEE	Transport for Bucks TfB – Street Lantern Replacement Scheme Follow Up	Reasonable	5	Final
TEE	Contract Management Audit – NSL	Reasonable	3	Draft
TEE	Waste Management	Reasonable	6	Final
TEE	LEP Growth Hub Grant 16-17	Grant validated	N/A	Grant validation letter issued
TEE	LEP Local Growth Fund Grant 16-17	Grant validated	N/A	Grant validation letter issued
TEE	Bus Subsidy Grant 16-17	Grant validated	N/A	Grant validation letter issued

TEE	One Transport Project Grant 15-17	Grant validated	N/A	Grant validation letter issued
CS	S151 Schools Assurance Follow Up	Reasonable	6	Final
CS	Elmhurst School Follow Up	Reasonable	5	Final
CS	Hannah Ball Follow Up	Limited	14	Final
CS	Mandeville School Follow Up	Reasonable	12	Final
CS	The Downley School	Limited	21	Final
CS	Families First Grant Phase 1	Grant validated	N/A	Grant validation letter issued
CS	Commissioning Residential Placements Follow Up	Reasonable	8	Final
CS	Highworth Combined School and Nursery (Schools Audit Programme – Contracts and Procurement)	Limited	7	Final
CS	Carrington Junior School (Schools Audit Programme – Contracts and Procurement)	Limited	11	Final
CS	NCTL Grant	Grant validated	N/A	Grant validation letter issued

CS	Contract Management Audit – Action for Children	Reasonable	4	Final
CS	Families First Grant Phase 2	Grant validated	N/A	Grant validation letter issued
CHASC	Client Charging 16-17	Reasonable	4	Final
CHASC	Bucks Care Follow Up	Substantial	0	Final
CHASC	Contract Management Audit - Freemantle	In progress	-	Report in 18/19
CHASC	Direct Payments Follow Up	Reasonable	4	Final