

Buckinghamshire County Council

Annual Report of the Chief Internal Auditor 2018/19



Regulatory and Audit Committee

June 2019

1. Introduction

- 1.1 This report outlines the Internal Audit work undertaken by the Business Assurance Team for the year ending 31 March 2019, and seeks to provide an opinion on the adequacy of the control environment detailing the incidences of any significant control failings or weaknesses. The overall report will then inform the Annual Governance Statement which is published with 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 2018/19 there were the following 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 partially 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. Regular reporting to the Corporate Management Team of Strategic

Insurance team performance has occurred during 2018/19.

- 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 2018/19 to 2019/20 as the original assessment agreed with another authority was cancelled due to their 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 be included in the team's business improvement plan. The Business Assurance Team performed a self-assessment of 118 standards and confirmed general compliance with 111 and partial compliance with six. The outcome of this self-assessment is being fed into a Quality Assurance and Improvement Programme and will be used to develop a strategy for the new Buckinghamshire Council.

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 the internal control environment - which comprises the Council's policies, procedures, operational systems and processes in place to:
 - Establish and monitor the achievement of BCC objectives;
 - Facilitate policy and decision making;
 - Ensure economic, effective and efficient use of resources;
 - Ensure compliance with set policies, procedures, and regulations;
 - Safeguard the Council's assets and interests from loss, including those arising from fraud, irregularity and corruption.
- Consideration of third party assurances.

3.4 The Chief Internal Auditor's 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

Based on the work performed, our experience and knowledge of previous years' performance and the current climate in which the Council is operating, in my opinion the adequacy and effectiveness of the Council's internal control framework is of **reasonable assurance**. The overall system of internal control continues to facilitate the effective exercise of the Council's functions and provides an **unqualified** opinion regarding the effective, efficient and economic exercise of the Council's functions for 2018/19.

The governance framework has continued to strengthen 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 adequate risk management and monitoring protocols have been lacking and left the Council exposed or too late to react to key risks.

The Chief Internal Auditor is confident that Senior Officers in the organisation take governance and internal control very seriously, as the Corporate Management Team reviews all limited assurance audit reports. Whilst an assurance framework with clearly defined three lines of assurance has not been fully embedded across all areas of the organisation we have been able to place reliance on the risk reporting and escalation framework which has been developed for each Business Unit which has improved the robustness of the Council's risk management; and is critical for an effective assurance framework.

The Financial Management Improvement Programme has been successful in developing a Financial Accountabilities Framework, and strengthening the Finance Business Partnering approach, both of which have contributed to the robustness of the financial control framework.

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

5. Commentary on My Opinion

- 5.1 The Chief Internal Auditor is satisfied that there has been adequate and effective coverage provided to enable a robust audit opinion to be given. Key areas which have informed the overall **reasonable** conclusion are as follows:
- 5.2 **Internal Audit Work:** The internal audit work undertaken has allowed us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council’s system of internal control. Examples of good practices were noted through audit work performed this year; however there are some areas of weakness and non-compliance in the control framework which may put some of the system objectives at risk and could potentially impact the achievement of the Council’s objectives. From the control weaknesses identified none are understood to have had a material impact on the Council’s affairs.
- 5.3 In the year ending 31 March 2019, a total of 38 reviews were undertaken by the Business Assurance Team. 27 reviews resulted in an Internal Audit opinion on the effectiveness of the control environment – see Appendix 1 for a summary of audits performed. The remaining 11 were “other” assurance type reviews such as grant validations or advisory work 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 and delivered one-off assurance work to a local Academy Trust with prospects for additional work in the 2019/20.
- 5.4 The overall ‘reasonable’ opinion reflects the widening scope of the internal activities, with new audit areas being undertaken each year as part of the agreed Internal Audit Plan. Whilst we have an agreed Internal Audit plan which was approved by the Regulatory and Audit Committee, we have continued to adopt a fluid approach in the delivery of the plan such that the Internal Audit activity is continuously reviewed and amended as required; remains flexible to react to emerging issues/risks; and is responsive to senior management assurance and/or consultancy requests.

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

5.5 Table 1 below provides a comparison of assurance levels over the last three years. It should be noted that in 2018/19 the Internal Audit assurance opinions were updated and a new rating (partial) was introduced, which has resulted in a decrease in the number of reports rated 'reasonable' (see Appendix 2 for the assurance opinions and definitions of conclusions). Table 2 is a benchmark of our 2017/18 report assurance opinions the last three years the number against other Authorities of a similar size.

Table1: Comparison of 2018/19 report opinions against previous years

Overall Conclusion	2016/17		2017/18		2018/19	
	No	%	No.	%	No.	%
Substantial	2	5%	1	3%	4	11%
Reasonable	24	65%	20	57%	10	26%
Partial	-	-	-	-	9	24%
Limited	7	19%	4	11%	4	10%
N/A Management Letter	4	11%	10	29%	11	29%
Total	37	100%	35	100%	38	100%

Table 2: Benchmarking of 2017/18 Audit Report Opinions

Overall Conclusion 17/18	Hertfordshire County Council		Surrey County Council		Kent County Council		Buckinghamshire County Council	
	No	%	No.	%	No.	%	No.	%
Substantial/ Full	28	58%	6	12%	2	4%	1	3%
Reasonable	7	15%	27	52%	18	38%	20	57%
Partial/ Limited	-	-	7	13%	21	43%	-	-
Limited/ No/ Unqualified	-	-	-	-	6	13%	4	11%
N/A Management Letter	13	27%	12	23%	1	2%	10	29%
Total	48	100%	52	100%	48	100%	35	100%

**N.B: benchmarking is based on 17/18 data as 18/19 data has not yet been published*

5.6 In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented in a timely manner. The management actions tracking system is now fully embedded as a business management tool maintained by the Business Assurance Team and reviewed periodically by Business Units Leadership Teams 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 3 is a summary report on progress against management actions with a detailed outline of actions that are currently overdue. A total of 373 management actions have been raised during 2018/19, of which 312 have been completed (84%), 55 are in progress (15%) and six are overdue (1%).

5.7 **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. Good progress continues to be made which has provided a better platform for effective risk management, however we identified areas that require improvement, specifically in the operation of key controls in place which may put some of the system objectives at risk. Therefore our opinion based on the financial systems reviewed is ‘reasonable’. The table below is a summary of the key financial systems compared against assurance opinions from previous years.

Table 3: Summary of Key Financial System Audits

Audit Title	2016/17 Opinion	2017/18 Opinion	2018/19	Direction of Travel
Payroll	Limited	Reasonable	Reasonable	
Accounts Payable	Limited	Reasonable	Reasonable	
Pensions	Reasonable	Reasonable	Reasonable	
General Ledger	Limited	Reasonable	Reasonable	
Accounts Receivable	Reasonable	Reasonable	Reasonable	
Capital Programme	Reasonable	N/A	N/A	
Purchase Cards	Reasonable	Reasonable	Reasonable	
Feeder Systems	Reasonable	N/A	Partial	
Treasury Management	Substantial	N/A	Partial	

*N.B: where opinion is N/A this because no audit review was undertaken in that financial year.

- 5.8 **Non-Financial System Audits:** These are operational audits undertaken during the year which were identified during the annual audit planning process by referencing the Strategic and Business Unit Risk Registers and through discussion with the Senior Leadership Teams for each Business Unit. Planned audits that could not be delivered this year due to changes in priorities and other reasons were reported to the Senior Leadership Teams, agreed with by the Audit Board and approved by the Regulatory and Audit Committee.
- 5.9 From the Business Unit system reviews carried out an overall '**partial**' level of assurance has been given in this area, due to the four limited assurance audits where fundamental control weaknesses were identified which expose the system objectives to an unacceptable level of risk. It should be noted that control weaknesses identified have been included in the service specific improvement plans which are being closely monitored by the respective Business Unit Senior Leadership Teams. As part of the internal audit methodology all audits with a limited assurance opinion will be subject to a follow-up audit where substantive testing will be undertaken to ensure that the agreed management actions have been implemented and the risks are being adequately management. A summary of the internal audit reports is included as a private report on the Regulatory and Audit Committee agenda due to the confidential nature of the findings. Full audit reports can be provided to members of the Regulatory and Audit Committee on request.
- 5.10 **Risk Management:** Risk management informs the planning for all internal audit work that is undertaken. A risk-based methodology is applied for the development of the annual audit plan and each audit assignment focused on the key risks in relation to system objectives, with audit work structured to direct audit resource in proportion to risk exposures.
- 5.11 Reporting and monitoring of risk management is fully embedded into the business management process across the Council. The Risk Management Framework includes an escalation mechanism which ensures that key risks are visible to senior management to enable more effective decision making. As well as the management of service and strategic risks, the risk management system (Pentana) is also used to manage risks for major projects within TEE and for key programmes being delivered such as iCares and the Adults Transformation Programme.
- 5.12 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 challenge and review the strategic risks regularly. Based on the operation of the risk management framework observed this year, a '**reasonable**' level of assurance has been given to this area.

- 5.13 **Governance:** Internal Audit did not undertake a specific review of Corporate Governance in 2018/19. However, a number of audits considered the management oversight and decision making processes as part of each audit assignment. Furthermore, as governance framework has largely remained the same as reflected in the 2018/19 Annual Governance Statement (AGS), we have placed reliance on the review that was carried out by our Internal Audit partners, Mazars in 2017/18. The review evaluated the governance arrangements that were in place over the following key core principles as set out in the CIPFA Delivering Good Governance in Local Government Framework 2016. 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.
- 5.14 It is vital that the Council has strong financial governance arrangements in place to ensure public funds are spent appropriately in line with strategic objectives and that value for money is obtained. Across each Business Unit the Council has established budget boards which are attended by Senior Leadership, the Section 151 Officer and the respective Head of Finance to enable close scrutiny and oversight of budget positions with the view of avoiding surprises that lead to overspends. The effectiveness of these boards have been demonstrated by the small overall underspend of £227k reported for 2018/19. In addition, this year we saw the development of the Financial Management Improvement Project (FMIP) which has been working on improving financial management across the Council through better collaborative working between finance and services, clear accountabilities, robust systems and processes and good leadership. The performance of the project is overseen by the Section 151 Officer and there are performance indicators that have been identified that will measure the effectiveness of the business partnering model that has been implemented under this project.
- 5.15 The Business Assurance Team, headed by the Chief Auditor, has continued to embed the combined assurance model which is a vital part of the Assurance and Risk Strategy, with Internal Audit operating as the third line of assurance. Professional Leads across the key corporate control areas have been integral in ensuring the effectiveness of the governance framework (see table 4 below), as such a '**reasonable**' level of compliance has been demonstrated across these key control areas but there are some areas that require improvement; these are being addressed and monitored through the AGS action plan.

Table 4: Summary of Key Corporate Control Areas

Key Control System	2016/17 Opinion	2017/18 Opinion	2018/19 Opinion	Direction of Travel (comments)
Asset Management	Limited	Reasonable	Reasonable	↔
Business Continuity Planning	Limited	Reasonable	Reasonable	↔
Commissioning/Contract Management	Reasonable	Limited	Limited	↔
Communications	Reasonable	Reasonable	Reasonable	↔
Decision Making	Reasonable	Reasonable	Reasonable	↔
Financial Management	Reasonable	Reasonable	Reasonable	↔
Health and Safety	Limited	Reasonable	Reasonable	↔
Human Resources	Reasonable	Reasonable	Reasonable	↔
ICT	Reasonable	Limited	Reasonable	↑
Project Management	Limited	Reasonable	Reasonable	↔
Risk Management	Reasonable	Reasonable	Reasonable	↔

- 5.16 **Contract Management:** Effective contract management is a key control process to ensure delivery in a cost-effective manner, timely identification of non-compliance to enable quick resolution and those risks are appropriate and managed accordingly. The Contract Management Application (CMA) is now widely used across the Council with an estimated compliance rate of 90%. Key champions have been identified within each Business Unit to ensure data within CMA is as up to date and accurate as possible; these champions provide a level of assurance and ownership that has not previously existed. Whilst the Procurement and Supplier Relationship Manager provides the framework of compliance and best practice, they cannot force the service areas to comply. Consequently, due a number of significant weaknesses being identified this year, our overall assurance opinion is this area is '**partial**'. These weaknesses which have come to light as part of a major investigation are being managed via Project Turnpike which has encouraged cross departmental working and communication with external third party organisations. The findings from this project have helped develop a lessons learned document which will be shared with CMT for action.
- 5.17 **Counter Fraud:** The Business Assurance Team procedures alone cannot guarantee the detection of fraud and corruption nor can we give an overall assurance opinion on counter fraud, therefore management have responsibility for ensuring that there are adequate controls in place to manage the risk of fraud and corruption. The size and complexity of the County Council means that some irregularities are inevitable, and when these arise Internal Audit have to deploy resources to investigate these. Eight potential fraud cases have been investigated this year, which is a 50% increase in cases compared to the previous year. Any control issues identified from the investigation were highlighted to management and action plans agreed to address any weaknesses. Internal Audit will also continue to monitor the number of alleged irregularities to identify any emerging themes and to ensure there is not an underlying issue developing.
- 5.18 Due to the inherent risk of fraud and the obvious costs in countering fraud with heightened pressure on resources, the BAT have adopted a long term proactive strategy to raise fraud awareness and enhance prevention measures. Part of this plan is to tackle current issues and cases while simultaneously learning lessons, gathering intelligence through detailed post incident reflective risk assessments. Targeted fraud awareness training sessions have been delivered to members and across key risk areas such as procurement, contract management, finance and commissioning.

6 Overall Conclusion

- 6.1 The Internal Audit function has maintained its independence and objectivity in the administration of its activities in accordance with the Audit Charter and Public Sector Internal Audit Standards. The Chief Internal Auditor has performed in accordance with CIPFA's guidance on the Role of the Head of Internal Audit. In giving the audit opinion, it should be noted that assurance can never be absolute. The most that can be provided is a **reasonable** assurance that there are no major weaknesses in risk management, governance and systems of control.
- 6.2 Overall the direction of travel in respect of governance, risk management and internal control has been positive. The Council, through the leadership of the Corporate Management Team actively promotes a strong culture of accountability, good governance, anti-fraud and has established a robust process for monitoring the implementation of actions. There have been a number of control failures during the year, however the Corporate Management Team have continued to react quickly to put actions in place to mitigate the risks.

Maggie Gibb

Chief Internal Auditor

June 2019

APPENDIX 1

Regulatory & Audit Committee July 2019 – Summary of 2018/19 Internal Audit Plan

Audit <small>Pink – new audit added to approved 2018/19 Internal Audit Plan</small> <small>Blue – audit deferred from approved 2018/19 Internal Audit Plan</small>	Timing	Status
Cross Cutting		
National Fraud Initiative	Q1-Q4	On-going
Pro-Active Anti-Fraud Activity (incl. Continuous Auditing)	Q1-Q4	On-going
Contract Audits	Q1-Q4	Completed
Savings/Efficiency Targets Rationalisation and Achievement	Q3	Final Report
Local Government Reorganisation	Q3-Q4	On-going
Resources		
Payroll Follow-up (17/18)	Q1	Final Report
HBPL (Phase 1)	Q2	Final Report
Feeder Systems	Q2-Q3	Final Report
IR35	Q4	Final Report
Pensions	Q4	Final Report
Key Financial Systems	Q4	Final Report
ICT - Delivery of Technology Strategy	Q4	Deferred (agreed by Audit Board)
Cyber Security	Q3	Final Report
Income Generation	Q2	Final Report
Property - Governance and Decision Making	Q4	Deferred (agreed by Audit Board)
HR - DBS Checks	Q4	Final Report

Audit	Timing	Status
Procurement	Q4	Deferred (agreed by Audit Board)
Payroll	Q4	Final Report
GDPR	Q4	Final Report
Consultation Strategy	Q4	Deferred (agreed by Audit Board)
HBPL - Contract Management Audit Phase 2	Q3	Cancelled
Partnerships, including Framework Review	Q4	Deferred (agreed by Audit Board)
Respond - System audit (go-live April 2018)	Q4	Deferred (agreed by Audit Board)
TEE		
NSL Contract (17/18)	Q1	Final Report
Safer Roads Fund Grant	Q3	Grant Verification complete
LEP Growth Hub	Q2	Grant Verification complete
LEP Local Growth Fund	Q3	Grant Verification complete
Pot Hole Grant Fund	Q2	Grant Verification complete
Bus Subsidy Grants	Q3	Grant Verification complete
TfB Financial Management	Q2-3	Final Report
Buckinghamshire Pot Hole Grant Fund	Q3	Grant Verification complete
Client Transport Deep Dive Review	Q4	Deferred (agreed by Audit Board)
Highway Infrastructure Projects	Q3/4	Final Report
Growth Strategy - Governance	Q4	Deferred (agreed by Audit Board)

Audit	Timing	Status
Routewise audit	Q4	New audit deferred to 19/20 due to on-going procurement exercise within the service (agreed by Audit Board)
Ringway Jacobs - Themed Audit	Q4	Deferred (agreed by Audit Board)
SALIX Funding	Q4	Deferred due to an external review in progress by SALIX (agreed by Audit Board)
CHASC		
Direct Payments Follow-up (17/18)	Q1	Final Report
Use of Direct Payments	Q3/4	Final Report
CHCs - Application of Criteria	Q2	Final Report
Financial Processes - end to end	Q4	Defer to 19/20 due to the on-going iCares Project focus within the service and the year-end pressures (agreed by Audit Board)
Financial Controls and Forecasting	Q2-3	Final Report
Freemantle Contract (17/18)	Q1	Final Report (Partial) being re-evaluated as part of 19/20 contract audit
Safeguarding	Q4	Defer to 19/20 – Seeley’s audit undertaken on request of the service, will consider this with the new QAF (agreed by Audit Board)
Client Charging	Q3	Final Report
Seeley’s House	Q4	Final Report
Debt Recovery	Q2-3	Final Report
ASC Audit Processes	Q4	Defer to 19/20 due to CQC implementing new framework (agreed by Audit Board)
Medications Policy	Q3	Defer to 19/20 due to current joint review with Health (agreed by Audit Board)
DoLS	Q4	Deferred (agreed by Audit Board)

Audit	Timing	Status
Children's Services		
Children's Services Panel Processes (Children's Care Planning and Resources Panel and Complex Needs Panel)	Q4	Final Report
Financial Controls and Forecasting	Q2-3	Final Report
LADO	Q2	Final Report
NCTL Grant	Q3-4	Grant Verification requiring IA sign off. Ashmead Combined & Bedgrove Infant
Families First – Claim 1	Q2	Grant Verification completed
Families First – Claim 2	Q3	Grant Verification completed
Families First – Claim 3	Q4	Grant Verification completed
Hannah Ball Follow Up	Q3	Final Report
Highworth School Follow Up	Q3	Final Report
Downley School Follow Up	Q3	Final Report
Carrington School Follow Up	Q1	Final Report
Commissioning Placements	Q4	Deferred to 19/20 (agreed by Audit Board)
Special Education Needs	Q4	Final Report
Safeguarding Board	Q4	Deferred to 19/20 as there is new statutory guidance (agreed by Audit Board)