



Report to Audit and Governance Committee

Date: 18 November 2020

Title: BCC 19/20 Annual Report of the Chief Internal Auditor

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Ward(s) affected: N/A

Recommendations: Members are recommended to **note** the report.

Reason for decision: N/A

Executive summary

- 1.1 This report contains the 2019/20 Annual Report of the Chief Internal Auditor for Buckinghamshire County Council.
- 1.2 Any outstanding audit actions from BCC (and all other legacy councils) will be monitored and reported on through Buckinghamshire Council's processes.

Other options considered

- 1.3 N/A

Legal and financial implications

- 1.4 N/A

Corporate implications

- 1.5 None.

Consultation and communication

- 1.6 None.

Next steps and review

Outstanding audit actions to be followed up and reported to Audit and Governance Committee in under the new Buckinghamshire Council's process.

Background papers



Buckinghamshire County Council

Annual Report of the Chief Internal Auditor 2019/20



Regulatory and Audit Committee

October 2020

1. Introduction

- 1.1 This report outlines the Internal Audit work undertaken by the Business Assurance Team for the year ending 31 March 2020 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 2019/20 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 2019/20.

- A Quality Assurance and Improvement Programme has been drafted however remains incomplete, as the planned PSIA compliance assessment that was to be performed by an independent assessor was cancelled due to their capacity issues coupled with covid-19 pressures. In the interim the Business Assurance Team carried out a review of its processes to ensure continuous improvement within the Internal Audit function and as part of the unitary readiness, 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 the areas of partial compliance are not deemed significant and do not compromise the integrity of the Internal Audit function.

3.3 The overall opinion is based on the following:

- The results of all audits undertaken during 2019/20.
- 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.
- On-going advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at Council meetings relating to matters concerning risk, governance and internal control.
- 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 which includes the unitary readiness activity, in my opinion the adequacy and effectiveness of the Council's internal control framework was of **reasonable assurance**. The overall system of internal control facilitated the effective exercise of the Council's functions and provided an **unqualified** opinion regarding the effective, efficient and economic exercise of the Council's functions for 2019/20.

The governance framework remained stable and continued to strengthen with collaboration and accountable values demonstrated by the Business Units across the Council. Although arrangements changed during the latter part of the year as the organisation prepared for the new unitary Council, the improved governance, and the enhanced accountability culture remained and through this sustained scrutiny exposed some legacy weaknesses in key systems of control. Namely, Integrated Transport were significant weaknesses were identified in the financial management, contract management and delivery of the service. A new Corporate Director and a new Service Director were appointed in Q3, following which significant improvements were made.

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 informed the overall **reasonable** conclusion are as follows:

- 5.2 **Internal Audit Work:** The internal audit work undertaken 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. It should however be noted that only 5% of the County's maintained schools were subject to an internal audit review this year, therefore the opinion on the control environment within schools is limited to those that were evaluated. However, an annual report that summaries control weaknesses found from the 5% sample of schools are shared with all schools to enable self-evaluation and ensure that similar control weaknesses do not exist within their schools.
- 5.3 In the year ending 31 March 2020, a total of 44 reviews were undertaken by the Business Assurance Team. 25 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 19 were “other” assurance type reviews such as grant validations or advisory/ assurance 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 demonstrated how the team can add value to the organisation through non-standard audit activity. The team also provided the Internal Audit service to Buckinghamshire and Milton Keynes Fire Authority and to a local Academy Trust.
- 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 had an agreed Internal Audit plan which was approved by the Regulatory and Audit Committee, we continued to adopt a fluid approach in the delivery of the plan such that the Internal Audit activity was continuously reviewed and amended as required; remained flexible to react to emerging issues/risks; and was 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 resulted in a decrease in the number of reports rated 'reasonable' (see Appendix 2 for the assurance opinions and definitions of conclusions).

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

Overall Conclusion	2016/17		2017/18		2018/19		2019/20	
	No	%	No.	%	No.	%	No.	%
Substantial	2	5%	1	3%	4	11%	1	2%
Reasonable	24	65%	20	57%	10	26%	17	38%
Partial	-	-	-	-	9	24%	5	11%
Limited	7	19%	4	11%	4	10%	2	5%
N/A Management Letter <i>(include grant verification work)</i>	4	11%	10	29%	11	29%	19	44%
Total	37	100%	35	100%	38	100%	44	100%

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 was 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 was tracked by Internal Audit and was reported to the Regulatory and Audit Committee. For the year ending 31 March 2020, there were 152 management actions held on the system that related to the year 2018/19 and 2019/20, of which 54 have been completed (36%), 74 are in progress (49%) and 24 are overdue (15%). All open actions will continue to be monitored for implementation as part of the new Council to ensure that control weaknesses are addressed.

5.7 **Key Financial Systems:** A review of the Council's financial systems was undertaken to ensure that financial controls are robust and adequately support an effective control environment. The Internal Audit team worked closely with the Unitary Finance workstreams as a key stakeholder providing assurance on the key processes and controls that were being re-evaluated and developed for the new Council. Table 3. below is a summary of the key financial system that are evaluated annually, however due to close working with finance in readiness for unitary, assurance over these key systems was obtained via follow-up work where the review was limited

to the control areas that had previously been found to be weak or ineffective. The follow-up work identified areas that required 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 Opinion	2019/20 Follow-up Opinion	Direction of Travel
Payroll	Limited	Reasonable	Reasonable	Reasonable	↔
Accounts Payable	Limited	Reasonable	Reasonable	Reasonable	↔
Pensions	Reasonable	Reasonable	Reasonable	Reasonable	↔
General Ledger	Limited	Reasonable	Reasonable	Reasonable	↔
Accounts Receivable	Reasonable	Reasonable	Reasonable	Reasonable	↔
Capital Programme	Reasonable	N/A	N/A	N/A	↔
Purchase Cards	Reasonable	Reasonable	Reasonable	Reasonable	↔
Feeder Systems <i>(based on a review of two feeder systems)</i>	Reasonable	N/A	Partial	Limited	↓
Treasury Management	Substantial	N/A	Partial	Reasonable	↔

*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 were 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. There were twelve planned audits that could not be delivered this year due to changes in priorities; service resources being focussed on unitary readiness; and for the latter part of the financial year resources across the Council were re-deployed to support with the covid-19 response. All cancellations/ postponement of audit engagements were agreed with by the Audit Board.
- 5.9 From the Business Unit system reviews carried out; an overall 'partial' level of assurance has been given in this area. This is due to the two limited assurance and five partial 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 were included in the service specific improvement plans which are 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.

- 5.10 **Risk Management:** Risk management informed the planning for all internal audit work that was undertaken. A risk-based methodology was 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 included an escalation mechanism which ensured that key risks were 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) was used to manage risks for major projects and key programmes.
- 5.12 The adequacy and effectiveness of the risk management system was overseen by the Regulatory and Audit Committee through the Risk Management Group and the Corporate Management Team challenged and reviewed 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 2019/20. 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 2019/20 Annual Governance Statement (AGS), we have placed reliance on the review that was carried out by our Internal Audit partners, Mazars two years ago. 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.

5.15 The Business Assurance Team, headed by the Chief Auditor, 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 were key 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	2019/20 Opinion	Direction of Travel (comments)
Asset Management	Limited	Reasonable	Reasonable	Reasonable	←→
Business Continuity Planning	Limited	Reasonable	Reasonable	Reasonable	←→
Commissioning/Contract Management	Reasonable	Limited	Limited	Limited	↓ This is mainly attributed to the key weaknesses in Integrated Transport
Communications	Reasonable	Reasonable	Reasonable	Reasonable	←→
Decision Making	Reasonable	Reasonable	Reasonable	Reasonable	←→
Financial Management	Reasonable	Reasonable	Reasonable	Reasonable	←→
Health and Safety	Limited	Reasonable	Reasonable	Reasonable	←→
Human Resources	Reasonable	Reasonable	Reasonable	Reasonable	←→
ICT	Reasonable	Limited	Reasonable	Reasonable	←→
Project Management	Limited	Reasonable	Reasonable	Reasonable	←→
Risk Management	Reasonable	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) was widely used across the Council with an estimated compliance rate of 90%. Key champions were identified within each Business Unit to ensure data within CMA was kept up to date and accurate as possible. Whilst the Procurement and Supplier Relationship Manager provides the framework of compliance and best practice, they cannot force the service areas to comply. Consequently, the assurance review undertaken by Internal Audit across each Business Unit identified a significant number of non-compliance, therefore our overall assurance opinion in this area is **'partial'**.

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. For the year 2019/20, the following cases were reported to the team:

- Two social care fraud cases;
- Two supplier fraud and corruption cases;
- One employee fraud case;
- Four school frauds;
- One insurance fraud;
- Five email/ phishing cases; and
- One breach of data.

Any control issues identified from the investigations were highlighted to management and action plans agreed to address any weaknesses. Key stakeholders were consulted during the investigations and progress reported to the respective Service Directors and formally to the Statutory Officers Group. The organisation continued to strength its responses to counter fraud as more cases of suspected fraud were reported to the team. Whilst not all matters reported were frauds, the improved practice of reporting suspected activity provides **'reasonable'** assurance that the organisation is fraud aware.

5.18 Due to the inherent risk of fraud and the obvious costs in countering fraud with heightened pressure on resources, the BAT 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, Senior Management 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 promoted a strong culture of accountability, good governance, anti-fraud and 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 continued to react quickly to put actions in place to mitigate the risks.

Maggie Gibb

Chief Internal Auditor (Buckinghamshire County Council)

November 2020

APPENDIX 1 - Summary of 2019/20 Internal Audit Plan

Audit Title	Timing	Status (opinion)
Cross Cutting		
National Fraud Initiative	Q1-4	On-going
Counter Fraud	Q1-4	On-going
Contracts Audit – Thematic Review	Q1-4	Final Management Letter
Governance	Q2-4	Cancelled - new governance arrangements were being put in place for the new Council
Resources		
K2	Q2	Final Report (Limited Assurance)
HR Income	Q2-Q3	Final Report (Partial Assurance)
Property and Capital Programme Governance	Q3/4	Cancelled - service was focussed on unitary go-live priorities
Procurement	Q4	Cancelled - new Procurement Strategy is being developed for the new Council
Key Financial System Audits – Follow Up	Q4	Final Report
Respond - System audit (go-live April 2018)	Q4	Final Report (Substantial Assurance)
Information Management and Data Quality	Q3	Cancelled - service focussed on unitary go-live priorities
IR35	Q3/4	Advisory work – action plan shared with management
GDPR Follow-up	Q3/4	Final Report
Pensions	Q3/4	Final Report (Reasonable Assurance)
TEE		
LEP Growth Hub Grant	Q1	Grant Verification complete
Bus Subsidy Grant	Q3	Grant Verification complete
Pothole Action Fund	Q3	Grant Verification complete
Safer Roads Fund	Q3	Grant Verification complete
Additional Highway Maintenance Grant	Q3	Grant Verification complete

Local Transport Capital Funding Local Transport Capital Funding	Q3	Grant Verification complete
National Productivity Investment Fund (NPIF)	Q3	Grant Verification complete
Transport for Buckinghamshire (TfB)	Q2	Final Report (Reasonable Assurance)
LEP Governance	Q2	Final Report (Substantial Assurance)
Home to School Transport Review	Q2	Final Management Letter
Routewise	Q1	Final Report (Limited Assurance)
CHASC		
Implementation of Medications Policy	Q2	Final Report (Partial Assurance)
Quality Assurance Framework (QAF)	Q4	Deferred – due to resource pressures within the service
Integrated Commissioning	Q4	Deferred – as service was going through a restructure
Income Processes	Q2	Final Report (Reasonable Assurance)
Virtual Wallet	Q1/2	Final Management Letter
Budget Management	Q2	Final Report (Partial Assurance)
CHC Follow-Up	Q3/4	Final Report
Client Charging Follow-Up	Q3/4	Final Report
Seeley's Follow-Up	Q4	Cancelled - the establishment was closed
Deprivation of Liberty Safeguard - DoLS	Q2/3	Final Report (Partial Assurance)

Audit Title	Timing	Status
Children's Services		
Budget Management	Q2	Final Report
Legal Spend	Q4	Advisory work – action plan shared with management
Housing of Care Leavers	Q3	Deferred - due capacity within the service as they prepared for the Ofsted Inspection
Early Years 3/4yr Entitlement	Q3	Deferred - due capacity within the service
Safeguarding Board	Q3	Deferred - new chair due to join during the year.
Educational Psychologists Process Review	Q3/4	Final Management Letter
Families First – Claim	Q1 – Q4	Four Grant Verifications completed for the year
Quainton Church of England Combined School	Q3/4	Final Report (Reasonable Assurance)
Grendon Underwood Combined School	Q3/4	Final Report (Reasonable Assurance)
Iver Village Infant School	Q3/4	Final Report (Reasonable Assurance)
William Harding Combined School	Q2/3	Final Report (Reasonable Assurance)
St Michaels CofE Combined School (Stewkley)	Q2/3	Final Report (Reasonable Assurance)
East Claydon School	Q2/3	Final Report (Reasonable Assurance)
Millbrook Combined School	Q2/3	Final Report (Reasonable Assurance)
Heritage House School	Q2/3	Final Report (Reasonable Assurance)
NCTL Grant	Q3-4	Two grant verifications requiring IA sign off. Ashmead Combined & Bedgrove Infant
Commissioning Placements	Q4	Deferred - due capacity within the service

APPENDIX 2 - Definition of Conclusions

Key for the Overall Conclusion:

Below are the definitions for the overall conclusion on the system of internal control being maintained.

	Definition	Rating Reason
Substantial	There is a sound system of internal control designed to achieve objectives and minimise risk.	<p>The controls tested are being consistently applied and risks are being effectively managed.</p> <p>Actions are of an advisory nature in context of the systems, operating controls and management of risks. Some medium priority matters may also be present.</p>
Reasonable	There is a good system of internal control in place which should ensure objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Majority of actions are of medium priority, but some high priority actions may be present.</p>
Partial	The system of internal control designed to achieve objectives is inadequate. There are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an inadequate level of internal control in place and/or controls are not being operated effectively and consistently.</p> <p>Actions may include high and medium priority matters to be addressed.</p>
Limited	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>The internal control is generally weak/does not exist. Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Actions will include high priority matters to be actions. Some medium priority matters may also be present.</p>