

INTERNAL AUDIT ANNUAL REPORT 2017/18

Executive Summary

This report contains the Head of Internal Audit's annual assurance opinion on the control environment of the Council based on internal audit work undertaken during the 2017/18 financial year. This opinion forms an essential part of the assurance gathering process used to inform the compilation of the Council's Annual Governance Statement which is included in the annual accounts.

Overall controls are deemed to be effective within the Council. Where weaknesses have been identified, management have either implemented or agreed timescales for implementing Internal Audit recommendations in order to improve the control environment

Recommendations

The Committee is requested to:

RESOLVE That

- (i) the annual assurance opinion of the Head of Internal Audit over the control environment be noted.

The Committee has authority to determine the recommendation(s) set out above.

Background Papers: None.

Reporting Person: James Graham, Head of Internal Audit
Email: james.graham@woking.gov.uk

Contact Person: Leigh Clarke, Finance Director
Ext. 3277, E Mail: Leigh.Clarke@woking.gov.uk

Date Published: 11 July 2018

1.0 Introduction

- 1.1 This report includes the Head of Internal Audit's annual assurance opinion on the control environment of the Council based on internal audit work undertaken for the financial year 2017/18. This opinion forms an essential part of the assurance gathering process used to inform the compilation of the Council's Annual Governance Statement which is included in the annual accounts.
- 1.2 The Standards and Audit Committee approved the 2017/18 Internal Audit plan in March 2017.
- 1.3 The purpose of this report is to outline the following in respect of Audit Activity for 2017/18:
 - the amount of audit days used in the year analysed by review;
 - a list of final reports issued for the 2017/18 financial year;
 - a list of audits and reports in progress (ie in draft form) as at 30 June 2018;
 - The results of follow up work in the year; and
 - the internal audit opinion on the control environment for the year.

2.0 Internal Audit Opinion 2017/18

- 2.1 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2017/18 and taken into account other relevant assurances obtained from internal and external sources.
- 2.2 Arrangements for internal control in individual business areas are generally effective although there are some areas of Council activity where the expected levels of control have not been fully achieved. Where this is the case effective actions have been taken, or are in progress, in response to internal audit recommendations made.
- 2.3 Overall control is deemed to be effective within the Council.

3.0 Review of 2017/18

Delivery of internal audit plan

- 3.1 The Internal Audit function is outsourced to Mazars LLP, with the Head of Audit role being undertaken as a secondment from Mazars. Some IT audit work is undertaken by Spelthorne Borough Council.
- 3.2 The audit plan was agreed by the Committee in March 2017, with 285 audit days allocated. This number also includes the 24 days allocated to the Head of Audit role.
- 3.3 Out of 25 reviews planned for the year (including those carried forward from 2016/17), two audits were cancelled, two were combined and one was carried forward into the 2018/19 year. Of the 20 remaining audits, 16 are finalised, two are at draft report stage and three are in progress as at the end of June 2017. Appendix 1 provides a summary of progress against the 2017/18 audit plan.
- 3.4 The allocation of available Internal Audit resources is summarised below in Table 1. This compares the actual time spent on reviews with the original plan for the year.

Table 1: Breakdown of Use of IA Resources for 2017/18

	Planned Resources 2017/18 (Days)	2017/18 Delivered (Days)	Deferred/ Deleted	In Progress
Reviews of Major Financial Systems	23	23	0	0
Corporate/cross cutting reviews	77	67	0	10
Service based reviews	104	91	0	13
Computer Audit	30	30	0	0
Group companies	0	0	0	0
Follow ups	7	7	0	0
Other	44	44	0	0
Contingency	0	0	0	0
Total	285	262	0	23

- 3.5 As at the time of the report, there are 23 days to be delivered on audits in progress.
- 3.6 An analysis of planned and actual audit time allocated to specific audit work along with the outcomes from the reviews (audit opinion given and number of recommendations made) is provided in **Appendix 1**.

Internal Audit Reviews

- 3.7 Reviews of fundamental financial systems are separately identified in the Internal Audit Plan and include coverage of areas of testing that is made available to our external auditors, KPMG. KPMG are provided a copy of the agreed annual audit plan to allow them to identify any potential duplication or set any requirements they have on the work undertaken.
- 3.8 The remaining audits, which are risk based, comprise a mixture of service specific (operational and financial), corporate wide and IT reviews.
- 3.9 Internal audit recommendations are categorised according to risk. This gives management an indication on the urgency of implementing the suggested control or cost saving measure.
- 3.10 Recommendation classifications are:
- **High risk** – fundamental absence/failure of key control procedures (e.g. breach of legislation, council policies or procedures), immediate action required.
 - **Medium risk** – inadequate management of key risks. Control procedures are in place but are not working effectively. Action is necessary to avoid exposure to risk.
 - **Low risk** – actions merit attention to enhance the control environment, i.e. action is considered desirable
- 3.11 The Council’s improvement tracking tool, Shikari, is used to record all recommendations made in Internal Audit reports and to monitor their implementation status.
- 3.12 In addition to Internal Audit reviews carried out from the Plan, Internal Audit have also given advice/assistance to business areas on issues of risk and control during the year.
- 3.13 Each Internal Audit report gives an overall assurance opinion based on the level of controls found to be in place in the area being reviewed. Internal audit opinions given were as follows:

Table 2: Audit opinions in Final reports issued

	2017-18		2016-17		2015-16	
	Number	%	Number	%	Number	%
Audit Opinion						
Strong controls are in place	1	6%	5	33%	1	6%
Controls are in place, but improvements would be beneficial	10	63%	9	67%	10	67%
Improvements in application of controls are required	2	12%	0	0%	4	27%
Urgent system revision is required	0	0%	0	0%	0	0%
No opinion provided	3	19%	0	0%	0	0%
Total	16	100%	14	100%	15	100%

3.14 A total of 59 internal audit recommendations have been made to date (2016/17 – 35 recommendations; 2015/16 – 77 recommendations).

3.15 Table 3 sets out the split of audit recommendations made by level of risk:

Table 3: Recommendations made in 2017-18 audit reports

Risk rating	2017/18		2016/17		2015/16	
	Number	%	Number	%	Number	%
High	6	10%	0	0%	13	17%
Medium	40	68%	24	65%	48	62%
Low	13	22%	11	35%	16	21%
Total recommendations	59	100%	35	100%	77	100%
Not agreed	0		0		3	

3.16 All recommendations are entered on to an improvement plan in Shikari. The Shikari system automatically reminds managers when recommendation due dates are approaching (note: the target dates are set by managers themselves, not by Internal Audit) and again when the implementation date has been missed. Managers update progress on the system and close down the recommendations on the system once implemented.

3.17 Internal Audit use systems generated reports to monitor levels of implementation. This is supplemented by spot checks in the business area concerned to confirm that the recommendation is being implemented in practice. A procedure is in place to escalate recommendations that have not been implemented as agreed to CMG and finally to this Committee where necessary.

3.18 As at 15 June, there were 12 outstanding medium priority recommendations outstanding. There were no high priority recommendations outstanding (however, see 3.20).

3.19 In 2017/18 12 high priority recommendations due for implementation within the year were followed up to confirm that they had been implemented. Of the 12 recommendations raised 9 (75%) were either considered implemented or no longer applicable. 3 (25%) were not fully implemented.

3.20 Two of the high priority recommendations not implemented related to the update of Contract Standing Orders which is in the forward plan for the Executive on 22 November 2018. The third recommendation related to overdue commercial and investment property risk assessments which have since been confirmed as completed. New deadlines have been set for these recommendations and they will continue to be tracked for implementation.

4.0 Implications

Financial

- 4.1 There are minimal financial implications around the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control

Human Resource/Training and Development

- 4.2 Some audit recommendations need resource to put in place.

Community Safety

- 4.3 None.

Risk Management

- 4.4 Internal Audit identifies weaknesses in the control environment. Implementation of recommendations therefore improves the control environment and hence the management of risk.

Sustainability

- 4.5 There is minimal impact on sustainability issues.

Equalities

- 4.6 There is minimal impact of equalities issues.

5.0 Conclusion

- 5.1 On the basis of work undertaken during 2017/18 the Head of Internal Audit is able to give assurance that controls are generally operating effectively and that, where weaknesses have been identified, actions have been agreed by management to improve controls. In addition, the Head of Internal Audit has concluded that there is reasonable assurance that the Council's governance arrangements are largely compliant with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

- 5.2 During our internal audit work we practice the principles of the Public Sector Internal Audit Standards (PSIAs). A review to confirm that Mazars LLP is in compliance with the PSIAs is undertaken every five years. This was satisfactorily completed in 2016/17.

REPORT ENDS

INTERNAL AUDIT PLAN – WORK UNDERTAKEN 2017/18				
	Revised Budget for year	Progress	Audit Opinion	Number of recommendations
Financial systems - major				
Continuous Auditing – AP, AR, General Ledger, Payroll, Council Tax and NNDR	23	Final report issued	N/A	6
Major Financial Systems - Total	23			6
Corporate/Cross Cutting Reviews				
GDPR	12	In Progress	-	-
Gifts, Hospitality and Declarations of Interest	8	Final report issued	Controls are in place, but improvements would be beneficial.	3
Health and Safety	12	Final report issued	Improvements in the application of controls are required.	4
Project Reviews - Thematic Audits	10	Draft report issued	-	1
Savings Plan, including MTFs, monitoring of budgets	12	Final report issued	N/A	0
Contract Management	18	Draft report issued	-	8
IT Disaster Recovery High Level Review	5	Final report issued	Improvements in the application of controls are required.	4
Corporate/Cross Cutting Reviews-Total	77			20
Service Based Reviews				
Safeguarding - Adults & Children	10	Final report issued	Controls are in place, but improvements would be beneficial	5
S106/CIL	10	Final report issued	Controls are in place, but improvements would be beneficial	2
Health and Wellbeing	12	Final report issued	Controls are in place, but improvements would be beneficial	4
Temporary Accommodation	10	Final report issued	Controls are in place but improvements would be beneficial	2
Parking Services	12	Final report issued	Controls are in place but improvements would be beneficial	3
Planning Services	10	Final report issued	Controls are in place but improvements would be beneficial	4
Planning Complaint	5	Final report issued	N/A	0

Internal Audit Annual Report 2017-18

Commercial Property Estate	12	In progress	-	-
Taxi Licensing	8	Final report issued	Controls are in place, but improvements would be beneficial	6
Victoria Square Development	15	In progress		
Service Based - Total	104			26
Computer Audit				
Cloud Computing	10	Final report issued	Controls are in place, but improvements would be beneficial	3
Cybersecurity	10	Final report issued	Strong controls are in place	0
Sharepoint	10	Final report issued	Controls are in place, but improvements would be beneficial	4
Computer Audit - Total	30			7
2017/18 Total	234			59