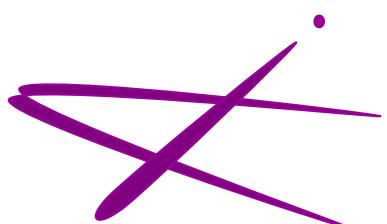




# **Annual Internal Audit Report & Audit Opinion**

## **2017/18**



## EXECUTIVE SUMMARY

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The Head of Audit & Investigations is pleased to report that good levels of internal control were found to be in place and no significant areas of concern were found that could impact on the Council's Financial Statements. This is based on the work of the Internal Audit Team during 2017/18.

The key issues arising from this report are:-

- The Head of Audit & Investigations is able to issue a positive opinion on the systems of Internal Control based on the work carried out in 2017/18 as detailed below.
- Internal Audit did not identify any issues in 2017/18 during the course of their audit work that would have a material effect on the Council's Financial Statements.
- Internal Audit achieved audit plan coverage of 94.12% in 2017/18. This was 3.88% below the annual target of 98%. A contributory factor in this was time lost through sickness and additional leave being taken within the year. However this was also a slight increase on coverage achieved when compared to 2016/17 coverage of 93.69%.
- Production and publication of this report is a requirement of the Public Sector Internal Audit Standards. This report satisfies the requirements for those charged with governance and forms a supplementary piece of evidence to the Annual Governance Statement.

## AUDIT OPINION 2017/18

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All of the work undertaken by Internal Audit during the financial year 2017/18 was in conformance with the Public Sector Internal Audit Standards. The average opinion score in 2017/18 was 1.50 as opposed to 1.63 in 2016/17. This is based on a scale of 1 to 4 where 1 is the highest level of assurance and 4 is the lowest level of assurance.

Therefore the Audit Opinion for 2017/18 is:-

**Substantial assurance:** The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk.

This statement is intended to provide reasonable assurance. There is an on-going process for identifying, evaluating and managing key risks. These risks are reflected in the Internal Audit Plan and are subject to their own reporting process during the course of the year which sits outside the Internal Audit role.

**Opinion Caveat** – Those charged with Governance must remember that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

# ANNUAL INTERNAL AUDIT REPORT & AUDIT OPINION

## PURPOSE & BOUNDARIES

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Management is responsible for the System of Internal Control and must set in place policies and procedures to ensure that the system is functioning correctly. Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during 2017/18 and seeks to:-

- Provide an opinion on the adequacy of the control environment
- Comment on the nature and extent of any significant risk
- Report the incidence of significant control failings or weaknesses

### Requirement for Internal Audit

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities to:

*“...undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

The Public Sector Internal Audit Standards (PSIAS) set out a detailed framework that Internal Audit must conform to. These cover all aspects of Internal Audit from behaviours to the actual way in which audit work should be conducted.

In addition to the PSIAS both the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) produce additional guidance and publications surrounding internal audit, control, governance and Audit Committees etc. One such publication is “The Role of the Head of Internal Audit in Public Service Organisation” published in 2010. This sets out the standards that are expected not only of the Head of Internal Audit but also of the Authority as a whole. This publication compliments the PSIAS and what they aim to achieve.

The role of internal audit is complemented by initiatives aimed at promoting effective corporate governance, risk management, anti-fraud & corruption including bribery, anti-money laundering & proceeds of crime in addition to maintaining probity and value for money.

The guidance accompanying the Accounts and Audit Regulations 2015 also detail the need for sound systems of internal control and set out the basis for the necessity of Internal Audit.

## **Equality & Diversity**

Internal Audit remains committed to the Council's objectives on Equality and Diversity. This is achieved through the way the team is managed, the way staff are trained and by the way processes are put in place to ensure members of the team behave appropriately in their work with staff and management at all levels together with elected Members, members of the public and other external organisations. This again links into the requirements of the PSIAS.

Audit & Investigations teams have received both Equality & Diversity Training in addition to other information supplied e.g. Newsround briefings, team discussions and corporate briefings / training.

## **Declaration of Interests**

Internal Audit must avoid any conflict of interest that could impede any of the audit work carried out or cast doubt over the independence or integrity of the auditor carrying out the engagement. This links in to the 'Due Professional Care & Ethics' elements of the PSIAS.

All members of the audit team are aware that they must declare any interests and sign an annual statement which also states they would inform the Head of Audit & Investigations if any issue became apparent during the year.

The Head of Audit & Investigations can report that no member of the Audit Team had any issues that could have impacted on the integrity, professionalism or quality of the work during 2017/18.

## **THANKYOU**

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The Head of Audit & Investigations and Internal Audit Team would like to express their thanks to Management and all areas of the Council where work was undertaken during 2017/18 for the help afforded to the Audit Team during the course of their work.

# REVIEW OF INTERNAL CONTROL

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## How Internal Control is Reviewed

- 1.1 During 2017/18 the Authority's risk registers have been continually updated. These form a key factor of Internal Audit's operational plan each financial year. The review process draws on key indicators of risks to the organisation with the aim of ensuring audit resources are allocated to the areas with the highest risk.
- 1.2 Internal Audit uses a 9 point risk analysis matrix for determining the levels of risk as part of the annual audit planning process. Factors considered are:-
  - Audit Area covered by risk(s) in the Risk Registers
  - Have system changes taken place? E.g. to personnel or processes
  - Has the service area been subject to cuts / job losses / restructure?
  - Does External Audit require coverage?
  - Is the Audit b/fwd or deleted from the current audit plan?
  - Does the Audit Area directly affect the Council's financial position?
  - Is it a Council / Management Team / Manager priority?
  - When was the last audit carried out?
  - What is the monetary value / income of the area?
- 1.3 The audit plan includes a 10% contingency provision. Contingency days are utilised in response to unforeseen work demands that arise. In the event that there are contingency days that have not been required, these are used to enable additional audit areas to be covered within the plan as per the risk scoring matrix.
- 1.4 The risk analysis and scoring part of the audit planning process results in a comprehensive range of audit engagements being undertaken during the financial year. These audits support the overall opinion on the control environment. Examples include:-
  - Systems based reviews of fundamental financial systems that could have a material impact on the Council's financial statements e.g. Creditor Payments, Debtors, Housing Benefits, Treasury Management
  - Establishment audits e.g. Environmental Health, Environmental Protection
  - Systems based reviews of departmental systems e.g. Car Allowances, CCTV, Lease Arrangements, Taxi Licensing
  - External Grant Funding
  - ICT audits e.g. ICT Assets, BACS Direct Debits & Credits. PCI & DSS Security (Payment Card Industry & Data Security Standard)
  - Contract audit
  - Fraud Strategy Work

- Responsive fraud and irregularity investigations
- 1.5 Audit work is risk based and the risk registers are cross referenced to the audit plan. Any risks identified within the risk registers that cannot be linked to the audit plan are added to the audit plan during the annual planning process. There were no new risk areas in the risk registers that were not already in the audit plan for 2017/18. Any significant risks are acted upon during the financial year as opposed to waiting until the annual audit planning process which takes place towards the end of each financial year.

## Accounts and Audit Regulations

- 1.6 The Accounts and Audit Regulations 2015 set out clear instructions that Councils must follow. Parts of the regulations detail financial management and the need for Internal Audit
- 1.7 Financial management is covered within part 2 of the 2015 regulations and details what the Authority must have in place regarding:-
- Responsibility for Internal Control
  - Accounting records and control systems
  - Internal Audit
  - Review of Internal Control System
- 1.8 For clarity the specific regulations relating to the above areas are detailed in TABLE 1 below. These detail the key parts of regulations 3 to 6.

Regulation	Requirement
3	A relevant authority must ensure that it has a sound system of internal control which:- <ul style="list-style-type: none"> <li>(a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives;</li> <li>(b) Ensures that the financial and operational management of the authority is effective; and</li> <li>(c) Includes effective arrangements for the management of risk</li> </ul>
4 (4)	The financial control systems determines in accordance with paragraph (1) (b) must include: <ul style="list-style-type: none"> <li>(a) Measures –               <ul style="list-style-type: none"> <li>(i) to ensure the financial transactions of the authority are recorded as soon as, and as accurately as, reasonable practicable;</li> <li>(ii) to enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost record; and</li> <li>(iii) to ensure that risk is appropriately managed;</li> </ul> </li> <li>(b) identification of the duties of officers with financial transactions and division of responsibilities of those officers.</li> </ul>
5 (1)	A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards

	or guidance.
5 (2)	<p>Any officer or member of a relevant authority must, if required to do so for the purpose of the internal audit –</p> <ul style="list-style-type: none"> <li>(a) make available such documents and records; and</li> <li>(b) Supply such information and explanations;</li> </ul> <p>As are considered necessary by those conducting the internal audit.</p>
5 (3)	In this regulation “documents and records” includes information recorded in an electronic form.
6 (1)	<p>A relevant authority must, each financial year –</p> <ul style="list-style-type: none"> <li>(a) Conduct a review of the effectiveness of the system of internal control required by regulation 3; and</li> <li>(b) Prepare an annual governance statement</li> </ul>

## **Annual Governance Statement**

- 1.9 CIPFA guidance states that an Annual Governance Statement (AGS) should be produced to accompany the Council’s Financial Statements.
- 1.10 The AGS is made up of numerous evidence sources from across the Council as a whole that collectively demonstrate why the Council believes it has good governance in place. The Head of Audit & Investigations supplies 5 pieces of evidence each year to show Internal Audit’s contribution to the Council’s governance processes. This report is one of those 5 pieces of evidence.
- 1.11 It must be highlighted that this Annual Internal Audit Report & Audit Opinion is not the AGS and cannot be used to substitute it.

## **Risk Management**

- 1.12 The Council has a well-established risk management process which is monitored and updated on a regular basis and reported to both the Council’s Corporate Management Team and the Audit Committee.
- 1.13 There are 3 risk registers; Strategic, Operational and Generic.
- 1.14 Risk owners and management are proactive in monitoring the tables and ensuring that obsolete risks are deleted and new emerging risks are added in addition to updating existing risks.
- 1.15 The risk management process is subject to auditing by Internal Audit, however this is determined by the audit planning process and specifically the risk scoring matrix.
- 1.16 The Head of Audit & Investigations can confirm that the risk management provides regularly updated risk information to both Corporate Management Team and Elected Members.

## **Fraud**

1.17 Whilst it is not the primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal Audit carry out additional fraud related work at times, although this must not be prejudicial to the primary role of Internal Audit. Examples of the activities that may be carried out include:-

- Investigation work surrounding fraud cases
- Responding to whistle-blowers
- Considering fraud in every audit
- Making recommendations to improve processes
- Review fraud prevention controls and detection processes put in place by management

1.18 Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

## SIGNIFICANT ISSUES ARISING 2017/18

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- 2.1 Each audit report issued is given an audit opinion based on the issues identified and reported by Internal Audit. Table 2 below shows the opinions and how many each was issued in 2017/18:-

TABLE 2

AUDIT REPORT ASSURANCE OPINIONS	Number issued in 2017/18
<b>Comprehensive assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied	8
<b>Substantial assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk	9
<b>Limited assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed weaknesses in the design and / or inconsistent application of controls that put the achievement of the service objectives at risk	0
<b>No assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed weaknesses in controls and / or consistent non-compliance with controls that could result / has resulted in failure to achieve the service objectives	0

- 2.3 This section of the report also details any audit engagements that resulted in 'Limited Assurance' or 'No Assurance' opinions being given.
- 2.4 In 2017/18 no audit engagements were given an opinion of 'Limited Assurance' or 'No Assurance', therefore nothing requires reporting within this section of the Annual Internal Audit Report & Opinion.

# AUDIT PERFORMANCE

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## Assessment of Internal Audit

- 3.1 Internal Audit works closely with the Council's External Auditors, Grant Thornton. External Audit utilise work carried out by Internal Audit, particularly surrounding the fundamental controls of key systems within the Council to give them added assurance those key systems and processes are working effectively. This then enables External Audit to gain additional reliance that the data and information produced by these systems is reliable. Such assurances contribute to the conclusions made by External Audit on the Council's financial statements.
- 3.2 Regular liaison meetings take place between Internal and External Audit which are also an opportunity to review the current position on work and issues facing the Council. External Audit has specific interest on any issue that could impact on the Council's Financial Statements.
- 3.3 The Head of Audit & Investigations is part of the Lancashire Districts' Councils Audit Group. This allows all the Lancashire Heads of Audit to discuss issues and raise matters that could have future impacts. The group meets quarterly but the network is active all year as group members will highlight any issue they become aware of with the rest of the group via email between the quarterly meetings.
- 3.4 Internal Audit must comply with the PSIAS and as part of this process the Head of Audit & Investigations has carried out a self-assessment of the Audit function against the Standards during 2017/18. The Head of Audit & Investigations has also produced a Quality Assurance & Improvement Programme (QAIP) with the self-assessment. This details how those areas partially or not currently compliant will progress to become compliant. Whilst both were reviewed for 2017/18, these are being presented to Audit Committee at their July 2018 meeting. The QAIP is subject to on-going monitoring and revision.

## External Assessment of Internal Audit

- 3.5 The PSIAS also state that an external assessment must be carried out of the audit function and its conformance to the Standards. The Internal Audit function was reviewed in February 2018 in accordance with the PSIAS. This was undertaken as part of an agreement between 9 Lancashire Councils and 1 Cumbrian Council, which is part of the Lancashire Audit Group, to work together and achieve the external assessment through a Peer Review process.

- 3.6 Hyndburn's Internal Audit function was inspected by 2 Lancashire Heads of Audit. This was a thorough process and involved them examining the self-assessment against the PSIAS, supporting evidence, questionnaires and interviews of:-
- Chief Executive
  - Deputy Chief Executive (s151)
  - Executive Director (Monitoring Officer)
  - Chair of Audit Committee
  - A random cross section of 5 Heads of Service
  - Audit Team
  - Head of Audit & Investigations (no questionnaire)
- 3.7 The External Review Team also examined examples of the work carried out by internal audit in addition to processes, policies and procedures used.
- 3.8 The Head of Audit & Investigations is able to report that the Audit function conforms to the PSIAS and the External Review Team stated they only identified 5 points for consideration into the QAIP and that this is a significant and remarkable level of compliance with the Standards of 98%. The External Review Team stated "The service delivers a comprehensive and valued programme of assurance to all auditable activities of the authority. The service is trusted for its independent, challenging, objective, unbiased and reliable approach across the organisation." They went on to say "The service has a positive impact on the ethics, governance, risks and controls at Hyndburn Borough Council."

### **Review of the System of Internal Control and Effectiveness of Internal Audit**

- 3.9 The Accounts and Audit Regulations 2015, regulation 5 (1) states that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards or guidance. Regulation 6 (1) (a) states "A relevant authority must, each financial year, conduct a review of the effectiveness of the system of internal control required by regulation 3.
- 3.10 The Internal Audit process is a key part of the annual review of the effectiveness of the system of Internal Control and the Annual Audit Opinion on page 2 of this report reflects that the majority of controls reviewed in 2017/18 were operating effectively.

### **Quality Assurance & Improvement Programme**

- 3.11 As part of the on-going monitoring and assessment of conformance with the PSIAS the Head of Audit & Investigations has a QAIP in place. The QAIP details the steps that are being taken to move the areas of partial or non-compliance to full compliance. The QAIP will be subject to on-going review and will be periodically reported back to Corporate Management Team and Audit Committee so that they can monitor the progress being made.

- 3.12 In the event that any area within the PSIAS changed from full compliance to partial or non-compliance this would then be included in the QAIP detailing what steps will be taken to ultimately make that area fully compliant again. Therefore the QAIP is an evolving document that is subject to change and updates to reflect the actual position with the Council's conformance against the PSIAS.

### **Satisfaction & Quality Questionnaire (S&QQ)**

- 3.13 Assessment of the ongoing performance, standards and seeking improvement is referred to within the PSIAS and is an area that the Head of Audit & Investigations has had processes in place for many years.
- 3.14 The S&QQ asks for the auditee's opinions on 11 questions with each one ranging from strongly agree to strongly disagree. The 12<sup>th</sup> question is a free-form text box allowing comments to be made on whether there is anything that could improve the service and the impact on their service area.
- 3.15 TABLE 3 below details the S&QQ results for 2017/18 and includes the comparative results for the preceding financial years.

**TABLE 3**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>1) The objectives of the audit were clearly communicated to me</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	<b>62.5%</b>	<b>31.25%</b>	<b>6.25%</b>	<b>0</b>	<b>0</b>
<b>2015/16 Comparison</b>	<b>72.73%</b>	<b>27.27%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2) The auditor kept you fully informed at all stages of the audit</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	<b>62.5%</b>	<b>31.25%</b>	<b>6.25%</b>	<b>0</b>	<b>0</b>
<b>2015/16 Comparison</b>	<b>77.27%</b>	<b>18.18%</b>	<b>4.55%</b>	<b>0</b>	<b>0</b>
<b>3) Your concerns and / or issues were adequately considered during the process</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	<b>62.5%</b>	<b>31.25%</b>	<b>6.25%</b>	<b>0</b>	<b>0</b>
<b>2015/16 Comparison</b>	<b>89.36%</b>	<b>13.64%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4) The audit report covered the agreed objectives and was clear and provided adequate information regarding the audit review</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	<b>62.5%</b>	<b>31.25%</b>	<b>6.25%</b>	<b>0</b>	<b>0</b>
<b>2015/16 Comparison</b>	<b>83.36%</b>	<b>9.09%</b>	<b>4.55%</b>	<b>0</b>	<b>0</b>
<b>5) The Auditors were courteous and professional in their dealings with you and your colleagues</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	<b>87.5%</b>	<b>12.5%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2015/16 Comparison</b>	<b>90.91%</b>	<b>9.09%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6) The auditors attended arranged appointments and meetings punctually</b>	77.78%	22.22%	0	0	0

<b>2016/17 Comparison</b>	81.25%	18.75%	0	0	0
<b>2015/16 Comparison</b>	90.91%	9.09%	0	0	0
<b>7) The auditors did not significantly disrupt your service area / function during the audit review</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	75%	25%	0	0	0
<b>2015/16 Comparison</b>	86.36%	13.64%	0	0	0
<b>8) The time span from the start of the audit to the issue of the final audit report was reasonable</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	62.50%	31.25%	6.25%	4.55%	0
<b>2015/16 Comparison</b>	86.36%	9.09%	0	4.55%	0
<b>9) The auditor's conclusions and audit opinion were logical and well documented in the final report</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	75%	18.75%	6.25%	0	0
<b>2015/16 Comparison</b>	81.81%	9.09%	4.55%	4.55%	0
<b>10) The audit review has benefited your area in some way (even if no recommendations / actions agreed, it should still provide management with the necessary assurances</b>	66.67%	33.33%	0	0	0
<b>2016/17 Comparison</b>	50%	31.25%	18.75%	0	0
<b>2015/16 Comparison</b>	59.09%	27.27%	4.55%	9.09%	0
<b>11) The recommendations made were constructive and reasonable</b>	66.67%	22.22%	0	0	0
<b>2016/17 Comparison</b>	56.25%	25%	0	4.55%	0
<b>2015/16 Comparison</b>	72.73%	13.64%	0	4.55%	0

- 3.16 There were 9 completed questionnaires and this equates to 99 potential responses as there are 11 questions on the form. A total of 98 responses were given as 1 person did not feel able to answer question 11.
- 3.17 Of the 98 responses given, 75 (76.53%) were 'strongly agree' and 46 (23.47%) were 'agree'. There were no unsure, disagree or strongly disagree responses. The Head of Audit & Investigations is able to state that there is an overall strong positive perception of the Team and its work based on these responses. The combined strongly agree / agree total has 100% of views given overall.

## Internal Audit Performance

- 3.18 It is good practice to monitor key performance measures. These can support the PSIAS but are not required for any form of national or mandatory collation. It does also enable the Head of Audit & Investigations together with Management and those charged with Governance to compare year on year performance.
- 3.19 The performance parameters recorded are similar to those maintained by the majority of Audit Teams in Lancashire and the parameters themselves were originally agreed with External Audit.

- 3.20 TABLE 4 below details performance for 2017/18 together with the 2 most recent financial years as a comparison, although older statistical data is held by the Head of Audit & Investigations.

TABLE 4

Performance Measure	2015/16	2016/17	2017/18
No. of Audit Engagements completed compared to those planned in the audit plan	29	19	<b>17</b>
Number of Audit Reports Issued	29	19	<b>17</b>
Percentage of Audits completed within budget time allocation	96.55%	84.21%	<b>76.47%</b>
Number of Audit Recommendations made	32	32	<b>24</b>
Percentage of Audit Recommendations agreed for implementation by Management	100%	100%	<b>100%</b>
Number of Satisfaction & Quality Questionnaires Issued	26	23	<b>15</b>
Number of Satisfaction & Quality Questionnaires Received	22	16	<b>9</b>
Percentage of clients satisfied with the service provided based on the questionnaires returned	100%	100%	<b>100%</b>

- 3.21 The number of completed audit engagements decreased from 19 to 17, a 10.5% decrease on 2016/17. The type and complexity of the engagements being carried out is a factor in this decrease together with investigations work particularly in the last quarter of the financial year. There were 2 audit engagements which were almost complete as at 31<sup>st</sup> March 2017 but these do not reflect in the number which were fully completed and there was another which was at draft report stage which also does not reflect in these figures. These 3 reports will be included in the 2018/19 statistical information. Four audit engagements over-ran their time allocation which is an increase of 1 on 2016/17. There was also a decrease in satisfaction & quality questionnaires being returned. The return rate dropped to 60%, almost 10% lower than 2016/17.
- 3.22 Accountability for the response to Internal Audit's advice and recommendations lies with Management who either accept and implement the advice or recommendations or accept the risks associated with not taking action.

### Follow up Work

- 3.23 Once recommendations become actions agreed with Management in the relevant audit area this does not signify the end of audit involvement until the next time the area is audited.
- 3.24 Internal Audit will revisit the actions agreed at a defined future date, usually around 6 months, to re-examine whether the actions agreed have been implemented as agreed. Internal Audit refer to this action as a 'Follow Up'.

- 3.25 Progress on follow ups is reported to Audit Committee on quarterly basis. The Audit Committee can request full explanation from Management on areas that are not implemented.
- 3.26 During 2017/18 Internal Audit carried out follow up work on 6 audit areas with a total of 15 actions agreed. Follow up work revealed that 11 had been fully implemented, 2 were ongoing changes that would continue to operate and the remaining 2 had not been implemented. The 2 that had not been implemented related to a differing view between a former manager (manager at the time of audit) and current manager of an area regarding the open plan nature of the office, the current manager does not see an issue. The remaining area related to the Retention and Disposal Schedule being out of date. This is being addressed as part of the preparations for the General Data Protection Regulations (GDPR).

### **Internal Audit Team – Staff Turnover**

- 3.27 The level of staffing within the Audit Team remained constant throughout 2017/18 at 3.0 FTE being available.
- 3.28 The Audit Team lost 9 days as a result of sickness absence of one member of the team.

### **Use of Audit Time**

- 3.29 TABLE 5 below shows an analysis of Internal Audit time during 2017/18 with the comparative figures for the previous 2 financial years. This is based on actual time spent excluding both statutory and annual leave together with any other absences such as sickness.

TABLE 5

<b>Analysis of Audit Time</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Audit Days	85.0%	82.9%	<b>81.6%</b>
Training	3.5%	2.8%	<b>3.9%</b>
Management	7.6%	9.5%	<b>9.3%</b>
Other Non-Audit Time	3.9%	4.8%	<b>5.2%</b>

- 3.30 The 2017/18 figures show a slight decrease in the amount of time devoted to audit but an increase in training. The amount of management time has decreased slightly whilst the amount of non-audit time has slightly increased. Members of the Audit Team undertook more training in 2017/18 to reflect preparation for external review of the team under the Public Sector Internal Audit Standards in addition to other initiatives such as General Data Protection Regulations (GDPR).

## ANALYSIS OF AUDIT ACTIVITY DURING 2017/18

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- 4.1 TABLE 6 below details the work carried out by Internal Audit during 2017/18 and is based on actual time recorded against the original approved time allocated within the Audit Plan for 2017/18.
- 4.2 A total of 532.71 days were delivered against 566 planned audit days. There were 90.55 days recorded in non-audit work as opposed to 64 days allocated in the audit plan. Non-audit work includes management meetings, personal development reviews, regional audit groups, team meetings, timesheets etc. There were 147.30 days recorded in absences as opposed to the 150 days allocated in the audit plan. Absences cover statutory leave, annual leave, sickness etc. Absences in 2017/18 included sickness, special leave, compassionate leave and other leave in addition to annual leave or statutory leave for bank holidays.
- 4.3 TABLE 6 does not include the areas within the audit plan where no time was recorded and therefore the table does not reflect the whole audit plan, only the areas where time was recorded during 2017/18.

TABLE 6

Core Systems	Plan Days	Actual Days	Comments
<b>Systems Based Reviews</b>			
Council Tax		2.31	Audit Completed – 2016/17 W.I.P.
Creditor Payments	18	10.18	Audit Commenced – W.I.P.
Debtors	20		Audit Commenced Apr18 – W.I.P.
General Ledger		6.03	Audit Completed – 2016/17 W.I.P.
Housing Benefits	28	18.99	Audit Commenced – W.I.P.
Treasury Management	12	11.98	Audit Completed
<b>Systems Queries / Work</b>			
Bank Reconciliation		0.07	Audit Query
Cash Receipting		0.84	Audit Query
Council Tax		0.57	Audit Query
General Ledger		0.37	Audit Query
Housing Benefits		0.20	Audit Query
NDR		0.10	Audit Query
<b>TOTAL for Core Systems</b>	<b>78</b>	<b>51.64</b>	<b>Utilised 66.21% of Allocated Audit Days</b>

Non-Core Systems	Plan Days	Actual Days	Comments
Car Allowances	15	14.74	Audit Completed
Cashflow Management	8		Audit C/fwd to 2018/19
CCTV	15	18.75	Audit Completed
Charities		2.79	Audit Work Completed
Drivers Policy & Handbook		0.12	Audit Query
Equalities		0.14	Audit Query

Flexi Scheme		0.51	Audit Queries
Insurance Arrangements		0.07	Audit Query
Lease Arrangements	15	10.86	Audit Completed.
Licences - Taxi	15	17.35	Audit Completed
Officers Imprests & Subsistence		0.20	Audit Queries
P-Card Processes		0.03	Audit Query
Selective Licensing Priv Landlords		0.24	Audit Queries
Separation of Duties – Post Cuts	15	14.61	Audit Completed
Street Traders		0.03	Audit Query
<b>TOTAL for Non-Core Systems</b>	<b>83</b>	<b>80.44</b>	<b>Utilised 96.92% of Allocated Audit Days</b>

Establishments	Plan Days	Actual Days	Comments
Environmental Health	15	0.03	Audit Deferred to 18/19 by Mgt
Howarth Art Gallery	15	13.40	Audit Completed
Fleet Management	15	0.07	Audit Deferred to 18/19 by Mgt
Haworth Art Gallery		0.10	Audit Query
Markets		0.20	Audit Query
<b>TOTAL for Establishments</b>	<b>45</b>	<b>13.80</b>	<b>Utilised 30.67% of Allocated Audit Days</b>

Computer Audit	Plan Days	Actual Days	Comments
Assets	9	9.69	Audit Completed
BACS Direct Debits & Credits	12	12.96	Audit Completed
Data Protection		0.17	Audit Query
Internet / Email	10	0.03	Audit C/fwd to 2018/19
Mobile Telephony		0.03	Audit Query
PCI & DSS Security		3.23	Audit Work Carried Out
System Development		0.95	Audit Advice & Input
<b>TOTAL for Computer Audit</b>	<b>31</b>	<b>27.06</b>	<b>Utilised 87.29% of Allocated Audit Days</b>

Contract Audit	Plan Days	Actual Days	Comments
Contracts CDM + H&S	12		Audit Deferred to 18/19 by Mgt
Lyndon Playing Fields	10		Audit Work C/fwd to 2018/19
Other Contract Issues		2.97	Audit Compliance Work
<b>TOTAL for Contract Audit</b>	<b>22</b>	<b>2.97</b>	<b>Utilised 13.5% of Allocated Audit Days</b>

Grant Funding Initiatives	Plan Days	Actual Days	Comments
NNDR3 Claim	4	2.62	Audit Completed
Other Funding Streams		0.07	Audit Advice
Townscape Heritage Funding	12	0.14	Audit C/fwd to 2018/19
<b>TOTAL for Contract Audit</b>	<b>16</b>	<b>2.83</b>	<b>Utilised 17.69% of Allocated Audit Days</b>

Follow Ups	Plan Days	Actual Days	Comments
General Follow Up Work	8	4.64	General Follow Up Work/Admin
<b>TOTAL for Follow Ups</b>	<b>8</b>	<b>4.64</b>	<b>Utilised 58% of Allocated Audit Days</b>

Audit Advice	Plan Days	Actual Days	Comments
Benefit Issues		7.34	Advice & Audit Liaison
Internet		13.29	Advice & Compliance Monitoring
Coaching		0.07	Coaching Employees & Advice
Residual Fraud Issues		0.51	Audit Input & Advice
Ext Audit Governance Questions		0.20	Audit Input
ICO Web Info		2.44	Audit Awareness & Advice
Missing Persons Queries		0.61	Audit Input
Future External Audit Agenda		0.21	Audit Advice
Audit Charter		1.69	Audit Work Carried Out
Ethics		0.10	Audit Input & Advice
BwD Data Protection Query		0.14	Audit Advice
GDPR		9.58	Audit Input & Advice
Safe Key – Contact Centre		0.14	Audit Advice
Transparency Code - Frauds		0.07	Audit Advice
NCA Query		0.07	Audit Advice
ELE Company		0.07	Audit Awareness
Subsidy Auditors		0.24	Audit Input & Advice
HR Self-Serve Query		0.07	Audit Advice
Invoice Payment Query		0.04	Audit Advice
Lift Breakdown		0.27	Audit Input
Planning Enforcement Plan		0.10	Audit Advice
Election Pay Issue - HAG		0.24	Audit Input & Advice
Broadway Fire Security		0.27	Audit Advice
Broadway Windows H&S		0.27	Audit Input & Advice
Taxi Licensing – RVBC Query		0.07	Audit Advice
Emergency Payment Issues		0.24	Audit Advice
Operational Safety Group		0.20	Audit Advice
Document Retention Queries		1.46	Audit Advice
Authorised Signatories Query		0.57	Audit Advice
HAG – Banking Query		0.51	Audit Advice
Broadway Graffiti		0.10	Audit Advice
Alchometer Recalibration		0.13	Audit Input
BACS Card Advice		0.10	Audit Advice
Personnel & Bldg Security B'way		0.41	Audit Input & Advice
Emails Query		0.03	Audit Advice
BODET Query		0.07	Audit Advice
Bank Charges / BACS - Benefits		0.34	Audit Advice
DFG – DCLG Return		0.10	Audit Advice
Big Thankyou		0.88	Audit Input
P-Card Query Re: Dollars		0.10	Audit Advice
Destitute Dead Query		0.14	Audit Advice
CCTV Policy		0.62	Audit Input
Regeneration Ordering System		0.24	Audit Input & Advice
Haworth Art Gallery Board Query		0.10	Audit Advice
Franking Machine Usage		0.74	Audit Advice

Parks – Troughs Disposal		0.07	Audit Advice
Year End Preparations / Advice		0.38	Audit Advice
Pest Control – Damage Query		0.10	Audit Input
Markets – Counterfeit Notes		0.10	Audit Advice
Local Plan		0.14	Audit Awareness
Standby Info Request		0.37	Audit Advice
CCTV Licensing Incident		0.20	Audit Advice
	42		Plan Allocation for Advice
<b>TOTAL for Audit Advice</b>	<b>42</b>	<b>46.54</b>	<b>Utilised 110.81% of Allocated Audit Days</b>

Other Audit Areas	Plan Days	Actual Days	Comments
Anti-Fraud & Corruption Issues		4.38	Audit Input & Queries
Anti-Social Behav – Com Triggers		5.97	Audit Input / Queries / Work
Business Continuity Planning		0.68	Audit Queries
Corporate Strategy	9		Audit C/fwd to 2018/19
FOI Requests		0.58	Audit Work Carried Out
PSIAS		2.89	Audit Input & Queries
Risk Management		0.20	Audit Input & Queries
Safeguarding & Prevent		4.09	Audit Input & Queries
<b>TOTAL for Other Audit Areas</b>	<b>9</b>	<b>18.79</b>	<b>Utilised 208.77% of Allocated Audit Days</b>

Ad-hoc Work & Investigations	Plan Days	Actual Days	Comments
Benefits Subsidy Issues	15		Audit Deferred to 2018/19 by Mgt
External Body Nominations	10	9.17	Audit Completed
Food Team	12		Audit Deferred to 2018/19 by Mgt
Pest Control Pay Methods	10	7.56	Audit Completed
Project Quillen	10	6.75	Audit Completed
Recovery Processes – CC	12	13.69	Audit Completed
Training Budgets	10		Audit Completed with PDR Audit
Write Off Processes	12	1.05	Audit Deferred to 2018/19 by Mgt
DFGs	13	10.49	Audit Completed
PDR Process	13	21.54	Audit Completed
Overtime / Standby Issue		0.98	Audit Input
Benefits Issue 2		0.10	Audit Input
Markets Issue		0.38	Audit Input
Markets Leases		2.95	Audit Work Carried Out
CVMU Maintenance Schedules		3.18	Audit Completed – 2016/17 W.I.P.
Subsidy Issues		2.52	Audit Work Carried Out
Cyber Security – Ransomware		0.71	Audit Input & Work Carried Out
Licensing Issue		0.10	Audit Input
Communications Policy Update		0.24	Audit Input
Tracker Issue		2.06	Audit Work Carried Out
HR Issue – Willows Lane		1.18	Audit Work Carried Out
NNDR A/cs Issue		15.11	Audit Work Carried Out
Willows Lane Issue		1.79	Audit Work Carried Out
Whistleblowing Issue		12.84	Audit Work Carried Out
Grievance Case		12.67	Audit Work Carried Out
Benefits October Issue		0.87	Audit Input
Regeneration Issue		29.52	Audit Work Carried Out

Contact Centre Issue		1.51	Audit Input
Property Issue		10.10	Audit Work Carried Out
Contingency Allocation	-26		
Contingency	78		Contingency Days
<b>TOTAL for Ad-hoc Work &amp; Investigations</b>	<b>169</b>	<b>169.06</b>	<b>Utilised 100.03% of Allocated Audit Days</b>

Consultancy & Corporate Objectives	Plan Days	Actual Days	Comments
Annual Governance Statement	1	0.47	Audit Work Carried Out
Annual Audit Report	3	3.22	Audit Work Carried Out
Audit Committee	6	3.86	Committee Prep / Mtgs / Training
Audit Plan & Planning	15	16.44	Monitor Plan & Prep of 16/17 Plan
Cabinet		2.82	Support Audit Work / Knowledge
External Audit	3	1.65	Liaison Mtgs & Supply IA Work
Money Launder & Proc of Crime		0.98	Queries dealt with
National Fraud Initiative	8	5.98	Support & Audit Work Carried Out
Peer Review of Internal Audit	10	41.27	Audit Work Completed
RIPA		0.34	Audit Query
Schools Ambassador Scheme		5.62	Support & Mentoring
Service Planning	2	0.14	Audit Work Carried Out
Stage 3 Complaint Investigations		5.47	Work Carried Out
Whistleblowing		0.28	Audit Input
<b>TOTAL for Other Audit Areas</b>	<b>48</b>	<b>88.54</b>	<b>Utilised 184.46% of Allocated Audit Days</b>

Service Improvement	Plan Days	Actual Days	Comments
LDCAG Benchmarking		1.96	Cross Authority Benchmarking
<b>TOTAL for Service Improvement</b>	<b>0</b>	<b>1.96</b>	<b>No Audit Days had been Allocated</b>

Training	Plan Days	Actual Days	Comments
Staff Development & Training	15	24.44	Various Training – mainly in-house
<b>TOTAL for Training</b>	<b>15</b>	<b>17.63</b>	<b>Utilised 162.93% of Allocated Audit Days</b>

- 4.4 There were 3 audit engagements that were in progress at year end but not quite completed, these will all be reported in 2018/19. There were 5 audit engagements that had not been commenced by the end of 2017/18 as a result of direct requests by Management to defer the work to 2018/19 either because changes they were putting in place were not complete or because of changes they were now making which they wanted to be part of the future audit process. There were just 3 outstanding audit engagements which had not been commenced at the end of 2017/18. One of the 3 was due to the key Strategy not being completed until towards the end of the financial year which the audit would have been based around and the other 2 were just due to insufficient time. All of the 5 deferred by Management and the 3 not started have been re-risk assessed as part of the 2018/19 Audit Plan process and all 8 are included in the 2018/19 Audit Plan.

- 4.6 The Audit Plan is monitored monthly by the Head of Audit & Investigations therefore emerging risks are considered and absorbed into the work of the team as required. The Head of Audit & Investigations will seek re-approval of the Audit Plan from Audit Committee if there is major slippage or significant risks arising that result in a major deviation from planned audit work. Long term sickness of a team member can have an impact on the Audit Plan although this did not occur in 2017/18.
- 4.7 Target coverage for the 2017/18 Audit Plan was 98% and 94.12% was achieved. Whilst the out-turn figure was not significantly below the actual target, the Head of Audit & Investigations has carried out additional calculations and established that had there been no sickness, special leave, compassionate leave and other leave then the out-turn figure for the year would have been 96.24% which would have been 1.76% below the target coverage. Therefore the 2018/19 Audit Plan coverage target remains at 98%.

## REPORT DISTRIBUTION

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The report has been distributed to the following:-

- Corporate Management Team
- Members of Audit Committee
- External Audit
- Internal Audit

## REPORT VERSION

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Draft Report Checked & Approved:

30 April 2018

Final Report Issued:

01 May 2018