

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 22nd JUNE 2016

Report of: AUDIT MANAGERS

Title: ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2016

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

COUNCIL

1. What is the report about?

The annual Internal Audit Report conforming to the Public Sector Internal Audit Standards and timed to inform the Council's Annual Governance Statement, including the quarterly update on the progress of Internal Audit work.

2. Recommendations:

Members are recommended to note the contents of the Annual Internal Audit Report.

3. Reasons for the recommendation:

To comply with the Public Sector Internal Audit Standards and Corporate Governance best practice.

4. What are the resource implications including non financial resources.

None

5. Section 151 Officer Comments:

The issues identified in the report have been included within the Council's Annual Governance Statement and will be monitored to ensure that they are addressed in the current financial year.

6. What are the legal aspects?

The Monitoring Officer has not identified any legal aspects.

7. Monitoring Officer's comments:

Internal Audit raise a number of areas of legitimate concern which require urgent attention.

8. Report details:

- 8.1 The Public Sector Internal Audit Standards (PSAIS), which came into effect in April 2013, require that:

- The Audit Manager must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
- The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

8.2 OPINION ON THE COUNCIL'S CONTROL ENVIRONMENT

a) **Internal Control Statement**

In accordance with the Accounts and Audit Regulations 2011 the Council is responsible for maintaining an adequate and effective system of internal audit.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the effectiveness of these systems. It is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the internal control systems are to ensure:

- compliance with the Council's policies, procedures and directives in order to achieve the Council's objectives
- high standards of Corporate Governance are achieved and maintained throughout the Council
- that assets are safeguarded
- the relevance, reliability and integrity of information, and the completeness and accuracy of records
- compliance with statutory requirements, recognised standards and best practice.

Systems of control can only ever provide reasonable, but not absolute, assurance that control weaknesses and irregularities do not exist, and that there are no risks of material errors, losses, fraud or breaches of laws or regulations. The Council is therefore continually seeking to improve the effectiveness of its systems of internal control.

Internal Audit is charged with continually reviewing the system of internal control system on behalf of the Council and its management. Internal Audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The work of Internal Audit is based upon a risk assessment of the Council's financial and non-financial systems, from which an annual audit plan is established that was referred to the Audit and Governance Committee in March 2015 for approval.

b) **Basis of Opinion**

Our evaluation of the control environment is informed by a number of sources:

- the work undertaken by Internal Audit during the year to 31 March 2016
- the acceptance of significant recommendations by management
- reports issued by the External Auditors
- risks identified in the Council's Corporate risk register
- the review of the adequacy and effectiveness of the Council's system of internal control as it relates to corporate governance, risk management and quality of data arrangements
- other sources of assurance and information

c) Work undertaken in the year

The Audit Progress Table shows the work completed during this year (see Appendix A).

A summary of the work undertaken by Internal Audit in the previous quarter is presented to this committee throughout the year, therefore only a summary of the work undertaken in the last quarter has been included to avoid duplication (see Appendix B). There were no instances of recommendations not being accepted by management during the last quarter that require consideration by this committee.

In addition to the planned work, Internal Audit has also worked on a number of reported concerns and investigations. A summary of this work is included in Appendix C. Appendix C also shows all fraud that has been identified throughout the Council during the year (excluding housing benefits fraud).

Internal Audit is also required to maintain a Quality Assurance Improvement Program which includes details of conformance with the PSIAS. The results of this program are included in Appendix D.

d) Regulation of Investigatory Powers (RIPA)

As co-ordinators of RIPA for Exeter City Council we are required to report to this committee on the use of RIPA by the Council during the year. During 2015/16 RIPA was not used by Exeter City Council. However, during the year refresher training has been provided to all appropriate employees to improve awareness and understanding of this legislation.

e) Areas of Concern

As a result of the audit work that has been undertaken throughout the year some issues, that have an impact on the organisation as a whole, have been identified. The main areas of concern that we wish to highlight are:

- i) STRATA – there are currently no performance measures in place which results in a lack of accountability
- ii) Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern. Internal Audit are aware of some instances where services are having to override separation of duties controls due to either lack of staff because of the reduction in resources or as a result of long term staff sickness. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud. Therefore, it is

important that the introduction of new processes and changes to existing processes i.e. compensating controls are effectively managed to ensure that essential internal controls are not compromised.

- iii) Reduction in resources – general reductions in staffing numbers increase the impact of staff absences and other service interruptions. Absences may also increase owing to greater pressure of work and loss of motivation. As reported above, Internal Audit are aware of instances where long term sickness is impacting on service delivery.
- iv) Procurement – the Council currently does not have a procurement function in place that is fit for purpose. A recent audit of procurement identified a number of shortcuts in the procurement process e.g. extending contracts rather than retendering, a lack of effective contract management. The Interim Procurement Officer left the authority at the end of March and has not been replaced. However, the Council has engaged a consultant to review the current procurement process to help meet the requirements of the Public Contract Regulations 2015 but this review has yet to be finalised.
- v) Contract Regulations – current contract regulations conflict with the legislative requirements of the Public Contract Regulations 2015, therefore the Council is at risk of breaching legislation.
- vi) Increase in commercial activities - as the Council increases the number of new companies that it sets up e.g. Strata, ESCO (District Heating Scheme), there is a requirement for existing staff to act as directors of these new companies, sometimes without training or being fully aware of their responsibilities or liabilities under the role. Staff that take on a Directorship of a Council company have a conflict of interest i.e. they have a legal obligation to work in the interest of the company as a director, but that could mean they then don't work in the best interests of the Council. In addition, with the requirement to increase the Council's commerciality as a response to the current economic climate, staff must not forget the principles of public life and their obligations.

f) Opinion

From the audit work undertaken during the year, and despite the areas of concern that we have identified above, we consider that the key systems are operating satisfactorily and that there are no fundamental breakdowns of controls resulting in material discrepancy. However, we would advise that the Audit and Governance Committee should closely monitor the weaknesses we have identified.

As mentioned above, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is only intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016.

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

N/A

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

Helen Putt & Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275