

## **REPORT TO AUDIT & GOVERNANCE**

**Date of Meeting: 21<sup>st</sup> JUNE 2017**

**Report of: AUDIT MANAGERS**

**Title: ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2017**

### **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?**

None identified

#### **7. Monitoring Officer's comments:**

It is the Monitoring Officers view that thorough and regular checks of the council's internal control systems, as recommended to Members in this report, is essential in order to maintain high standards of Corporate Governance.

#### **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 2015 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 2016 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 2017

- the implementation of agreed remedial action 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 where remedial action was not agreed 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 2016/17 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 identified 2016-17**

As a result of the audit work that has been undertaken throughout the year no significant issues have been identified.

However, the Council continues to make enhancements and improvements to its governance arrangements and these key areas are listed in the table below. Progress will be subject to regular monitoring by the Audit and Governance Committee.

- A new performance management framework is currently being developed. The new framework will be presented to SMB once the new appointments to SMB have joined the Council but is hoped that the system will be implemented by October 2017 at the latest.

- Medium Term Financial Plan to be reviewed and updated to link to both corporate priorities and the corporate work programme and to include the Council's Value for Money Strategy
- Services are currently struggling to deliver the capital programme predominantly due to either a lack of resources in some service areas or a skills gap in respect of procurement processes and procedures in other areas.

Lack of resources issues – Members need to make a decision whether to modify the capital programme to fit with resources available or to increase resources in order to meet expectations.

Procurement training issues - once the new Procurement Team is in place, a series of training programmes will be embarked upon to support those staff with procurement responsibilities.

The BID process in respect of the capital programme will be updated for 2017/18

- The Council needs to continue its work to implement processes and procedures to ensure proper governance and management of its information assets. To date, work has been undertaken to draft the Information Governance Framework and a report is due to be considered by SMB which will give approval for the Council to compile an Information Asset Register to enable improved management of risks and security of the Council's information assets.

**e) Update on Areas of Concern identified 2015-16**

- i) STRATA – there are currently no performance measures in place which results in a lack of accountability

Action taken:

The service standards were included as part of the updated business plan, which was approved by Strata JEC on 16/1/17 and full Council 21/2/17.

**Completed – no further action required.**

- 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.

**This continues to be an issue and will be monitored quarterly by Audit and Governance Committee**

- 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.

**This continues to be an issue and will be monitored quarterly by Audit and Governance Committee**

- 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.

Action taken:

New structure to deal with procurement was approved by Executive 11.10.16. AD Finance authorised to proceed to consultation stage in accordance with the Council's organisational change policy.

Procurement Steering Group now in place and meeting monthly

Final business case was approved by Executive 14.02.17.

Job Evaluation forms for the new team have now been drafted and sent to HR. Following JE the posts will be advertised with a view to having the new team in place by September 2017.

**This continues to be an issue and will be monitored quarterly by Audit and Governance Committee**

- 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.

Action taken:

A review of contract regulations has been being undertaken to provide an interim solution to be approved by Executive. A full review will be undertaken following the appointment of the new Procurement team.

**This will continue to be monitored quarterly by Audit and Governance Committee.**

- 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.

Action taken:

Training has now been delivered to all relevant staff and Councillors. The Council has now fulfilled its responsibilities regarding this issue.

**Completed – no further action required.**

**f) Opinion**

From the audit work undertaken during the year, 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 continue to monitor the weaknesses outstanding from 2015-16 and also the key areas that will enhance and improve the Council's corporate governance arrangements.

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 2017.

**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