

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 30 MAY 2019

JOINT REPORT ON THE INTERNAL AUDIT ANNUAL REPORT 2018/19 & THE AUDIT COMMITTEE ANNUAL REPORT 2018/19

1 PURPOSE

- 1.1 To present the 2018/19 Internal Audit Annual Report and the 2018/19 operations of the Audit Committee.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit Annual Report for 2018/19
- 2.2 That members of the Audit Committee note the operations of the Audit Committee for 2018/19.

3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:

1. "The approval (but not direction) of and monitoring of progress against, the Internal Audit Charter and Plan".

9. Consider the effectiveness of the Council's governance processes and their compliance with legislation and best practice including:

This report presents information to meet the requirements of these sections of the terms of reference and to continue to demonstrate good governance and support the Annual Governance Statement (AGS).

The Public Sector Internal Audit Standards are deemed as proper practice under the Accounts and Audit Regulations 2015 for Local Government in England. The standards state:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Public sector requirement

The chief audit executive 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.

This report meets these requirements.

3.2 The Audit Committee is part of the Council's governance and assurance arrangements. The key benefits of the Audit Committee are:

- ✓ raising awareness on the need for and benefits arising from good governance (including risk management) and internal control including the implementation of both internal and external audit recommendations.
- ✓ demonstrating the objectivity and fairness of financial and other reporting.
- ✓ reinforcing the importance and independence of internal and external audit.
- ✓ providing additional assurance through a process of independent and objective review by a cross party group of elected Members who can, and do, challenge Cabinet Members and Senior Officers.

As the key assurance Committee of the Council it is best practice that an Annual Report is presented to the Council on the operations of the Committee during 2018-19. The structure of the report is based on the terms of reference and includes a summary of the business conducted by the Committee during this period (attached as Appendix 2).

4 PREVIOUS MINUTES

Audit Committee - 15th September 2015; 30th June 2016, 20th September 2016; 27th June 2017, 19th September 2017, 24 July 2018

5 2018/19 INTERNAL AUDIT ANNUAL REPORT

5.1 Assurance and Opinion

5.1.1 The Council's section 151 officer's statutory obligation under the Accounts and Audit Regulations 2015 to review the effectiveness of the system of internal control is informed by the work of Internal Audit. The assurance derived from this work forms part of the Council's assurance framework.

5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of the adequacy and effectiveness of the Council's framework of governance, risk management and internal control which is included within the Annual Governance Statement.

5.1.3 The planned Internal Audit resources for 2018/19 was 880 days which included 53 days specialist ICT audit provision provided by the Staffordshire framework contract. The team achieved 85% of the planned work with some items being rescheduled into the 2019/20 plan due to delays in the introduction of new processes following restructures and the change in timetable for the implementation of various IT upgrades. In 18/19 there have also been a number of unplanned audit assignments. Based on the work undertaken during the year (areas attached as **Appendix 1**) and the implementation by management of the agreed recommendations, Internal Audit's annual opinion provides reasonable assurance in respect to the adequacy and effectiveness of the Council's framework of governance, risk management and internal control within the areas of the Council reviewed during the year.

- 5.1.4 As in previous years Senior Management have provided information or updates to the Audit Committee where requested to provide explanations as to why progress on the implementation of recommendations was not as agreed.
- 5.1.5 As in previous years this Annual Report includes information in respect to the type and number of recommendations made during the year (as requested by the Committee). This information is shown below for 2018/19 with comparisons with 2017/18 and 2016/17 shown in brackets.

Number of Recommendations made by Type 2018/19 (2017/18 & 2016/17)

No. of Audit Reports & Grading	Total number of recommendations	Financial Regulation	Legal	Policy & Procedure	Best Practice
36 (52, 71)	269 (413, 682)	54 (82,162)	13 (41,40)	201 (280, 445)	1 (10,35)
15 (13, 3) Green					
14 (29, 50) Yellow					
7 (8, 17) Amber					
4 (2, 1) Red					

*The recommendation split is more than the number of reports issued, this is because two reports have more than one grading, due to the different service areas involved.

Gradings - Green = good; Yellow = reasonable; Amber = limited; Red = poor

- 5.1.6 36 audit reports were issued during 2018/19, 16 less than 2017/18. Out of the 36 reports 42% (25% & 4%) were green (good), 39% (56%,70%) were yellow (reasonable), 19% (15%, 24%) were amber (limited) and 11% (3%, 2%) were red (poor). The percentage for green, amber & red reports have increased from 17/18 but yellow have decreased.
- 5.1.7 25% of the recommendations were legal/financial regulation and this was the slightly less than 2017/18 (30%) and 27% in 2016/17. 75% of the recommendations were policy and procedure compared to 68% in 2017/18 & 65% in 2016/17. This demonstrates a switch between legal/financial recommendations to more policy & procedures recommendations being made
- 5.1.8 Internal Audit have moved away from best practice recommendations and are now showing these as management advisory points, rather than recommendations. This is the main reason best practice figures shown above have reduced from 10 in 2017/18 to 1 in 2018/19
- 5.1.9 There are a number of reasons why less audit reports were produced in 2018/19, these include:
- The scope of the individual audits reviewed during each audit year are more focused and complex to address the Council's changing risks and priorities.
 - Increased number of days allocated to individual audits therefore reducing the actual number of audit reports issued.

- There has been long term sickness within the Audit & Governance Team resulting in less audit days available.

5.2 Public Sector Internal Audit Standards (PSIAS) and External Assessment

- 5.2.1 The Public Sector Internal Audit Standards (defined proper practice under the Accounts and Audit Regulations 2015) were effective from 1st April 2013 and in January 2017 there was an external assessment undertaken against the standards. This is a requirement that must occur every 5 years.
- 5.2.2 The Quality Assurance & Improvement Programme (QA&IP) was followed during the year and any actions have been fed back to the team, individuals or been used to update the teams processes.
- 5.2.3 Improvements to audit processes and procedures are continually being reviewed and updated to ensure compliance with the standards.

5.3 Performance reviewed by External Audit

- 5.3.1 Grant Thornton (UK) LLP have been appointed as External Auditor for the Council from 2018/19.

5.4 Improvement Activity

- 5.4.1 During the year to improve the team's efficiency, effectiveness and productivity we have held team meetings and development sessions. We have looked to make changes to improve our adherence to the Standards and we have investigated and implement new/alternative ways of service delivery. We share best practice with other local authorities and regularly attend local network groups.
- 5.4.2 The Audit & Governance Team Leader and Principal Auditor regularly attend the Local Authority Chief Auditors Network (LACAN). Other members of the team also attend regional Fraud, Contract and Unitary/Met Authority groups (when relevant) which assist in identifying best practice and different approaches to audit work and information exchange.

5.5 Customer Feedback

- 5.5.1 Internal Audit receives customer feedback in several ways:-

- Informal feedback from auditees during the audit
- Seeking feedback from auditees at draft report discussion meetings
- Completion of a post audit questionnaire

- 5.5.2 The analysis of post audit questionnaire average feedback is shown in the table below and compared to the last two years

POST AUDIT QUESTIONNAIRE FEEDBACK 2018/19 COMPARED TO THE LAST TWO YEARS:

Question	2016/17 From top score of 5	2017/18 From top score of 5	2018/19 From top score of 5	Difference from 17/18 to 18/19
Pre- Audit Arrangements	4.9	4.7	5	+0.3
Audit Visit	4.9	4.9	5	+0.1
Communication	4.6	4.6	4.8	+0.2
Report	4.9	4.6	4.9	+0.3
Is audit a positive support – Yes	100%	100%	100%	No change

The team's customer performance has remained extremely high during 2018/19 with the average score being 4.9 or more. All areas have shown an increase in the scores from 2017/18, we believe this is due to our ongoing improvements to the way we undertake audit assignments.

Our customer feedback has been positive, the maintenance of these scores is a credit to the team and how they have approached their work.

6 CONCLUSIONS FOR 2018/19

- 6.1 Despite limited resources and changes to services during the year and therefore the rescheduling and re- defining of scopes Internal Audit have performed well and made a positive contribution to the governance arrangements within the Council.
- 6.2 The statutory responsibilities of the Council's Chief Financial Officer (section 151 officer) in respect to internal audit and internal control have been met and Internal Audit has provided reasonable assurance to the Council on the Council's internal controls, governance and risk management processes for the areas reviewed in 2018/19.
- 6.3 The Internal Audit team have also continued to provide advice and guidance on governance, procedures, controls, information security and risk management.
- 6.4 However, there are numerous major changes occurring both within and outside the Council during 2019/20 and beyond which could affect the team's future activities e.g. :-
- a) The continued pressure on the Council's budget strategy for 2019/20 and beyond;
 - b) Further service restructures and re-engineering across the Council, revised governance arrangements and reduced supervisory levels;
 - c) The continued development of relationships with revised service delivery areas to ensure the team continues to support the authority in achieving its objectives.
 - d) The Council has recently implemented a new Adult Social Services & Children's Safeguarding system and also a new HR/Payroll system. Audits are planned in these areas for 2019/20

7 AUDIT COMMITTEE ANNUAL REPORT

7.1 Internal Audit

- 7.1.1 The Internal Audit team has continued to provide the Committee with reports on work undertaken as outlined in the Public Sector Internal Audit Standards (PSIAS - effective from April 2013) and Constitution, highlighting any areas requiring attention by Members.
- 7.1.2 The Internal Audit Plan for 2018/19 was approved by the Committee at the May 2018 meeting and the Internal Audit Charter for 2018/19 was approved by the Committee at the January 2019 meeting.
- 7.1.3 The Audit Annual Update report was provided to the Committee in May 2018.

7.2 External Audit

- 7.2.1 The External Auditors, Grant Thornton have produced/presented their reports to the Committee as required by legislation, accounting standards and the external audit code of practice.

7.3 Governance

- 7.3.1 The Annual Governance Statement 2017/18 was approved at the May 2018 meeting after consideration of the supporting information. An update on the action plan derived from 2017/18 plan was presented to the Committee in January 2019.
- 7.3.2 The July 2018 meeting reviewed the Council's Strategic Risk Register.
- 7.3.3 The 2017/18 Information Governance annual report was presented to the Committee in May 2019.
- 7.3.4 An Information Governance update report is provided to the Committee at all meetings, with the May 2018 meeting including an updated from the Caldicott Guardian.

7.4 Treasury Management

- 7.4.1 The Committee received the 2017/18 outturn and in year updates for 2018/19. The Treasury Management Strategy 2019/20 was reviewed prior to approval by Cabinet.

7.5 Statement of Accounts 2017/18

- 7.5.1 The Statement of Accounts was approved by the Committee following external audit at the July 2018 meeting. As in previous years the approval meeting was preceded by a training session with key Finance staff who explained the statements and the changes that had occurred

7.6 Anti-Fraud & Corruption

- 7.6.1 The 2017/18 Anti-Fraud & Corruption Annual Report and 2018/19 updated policy was received in May 2018.

7.7 General

7.7.1 The Committee reviewed its Terms of Reference at its first meeting of the municipal year as set out in the Constitution

7.8 Conclusions for 2018/19 and the future 2019/20

7.8.1 The Committee has considered comprehensive agendas in order to provide assurance for Members and the community on the audit, governance (including information governance), risk management, financial statements, treasury management, complaints and anti-fraud and corruption arrangements of the Council. Many challenging questions have been asked by Members who have required Senior Officers to attend and give account for decisions taken and progress in implementing both internal and external audit recommendations.

7.8.2 The Committee recognises that the Council is continuing to experience some significant challenges and that it must continue to seek and provide appropriate assurance during 2018/19. Most notable are the organisational changes, continued significant reductions in resources and the more commercial approach being adopted by the Council.

9 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Internal Audit and Information Governance Teams have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of the Audit and Information Governance Teams are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	<p>The Accounts and Audit Regulations 2015 sets out the detailed requirements for local authorities in relation to keeping adequate accounting records and control systems, preparing, approving and publishing a statement of accounts, and making various documents available for public inspection (note The Local Audit (Public Access to Documents) Act 2017 extends public inspection rights to journalists) and objection and questioning by local electors. The authority “must ensure” that it has (and reviews) a “sound system of internal control”: Regulation 3. It “must undertake an effective internal audit”: Regulation 5. There is a new requirement to prepare and publish a “narrative statement”, commenting on the authority’s financial performance and economy, efficiency and effectiveness in the use of resources over the year.</p> <p>The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>The Public Sector Internal Audit Standards (PSIAS) is mandatory across the whole of the public sector. The purpose of the PSIAS is defined as follows:</p> <ul style="list-style-type: none"> • define the nature of internal auditing within the UK Public Sector; • set basic principles for carrying out Internal Audit in the UK Public Sector; • establish a framework for providing internal audit services in respect of organisational processes and operations;

	<ul style="list-style-type: none"> • facilitate the development of an effective Quality Assurance and Improvement Programme and; • define a mandatory Code of Ethics. <p>Undertaking the audits as set out in the report, and providing updates and an Annual Report to this Committee contributes towards meeting these requirements.</p> <p>Further reference to legal requirements and the implementation of those legal requirements in accordance with CIPFA guidance are contained within the main body of the report. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council’s Legal Services Team for further advice and assistance.</p> <p>.</p>
Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities.
Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	Internal Audit operated within their expenditure budget allocation. There are no direct financial implications anticipated from adopting the recommendation of this report.
Ward Implications	The work of the Audit team encompasses all the Council’s activities across the Borough and therefore it operates within all Council Wards.

10 **BACKGROUND PAPERS**

Annual Audit Plan 2016/17 and Charter
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and External Assessment January 2017
CIPFA Local Government Application Note - April 2013
Accounts and Audit Regulations 2015

Report by
Tracey Drummond, Principal Auditor, 383105

Work undertaken during 2018/19

Audited areas	Days
Advice & Consultancy including org change	
AGS and certification	4
Benefits (2018-19)	9
Benefits 2017/18	1
Burton Borough	12
Bus Subsidy Grant	5
Cash Collection (2018-19)	12
Commercial Projects	4
Core Group	1
Council Tax & NNDR (2018-19)	43
Crudgington Primary School	1
Data retention & disposal	2
Direct Payments	16
Electronic Case File Audit (Care first)	23
Fairshare Credit Union	2
Follow ups	18
General Ledger (2018-19)	30
General Ledger 2017/18	1
HCA Land Deal - Profit Share / Review Processes	5
HR & Payroll 2017/18	1
HR/Payroll (2018-19)	5
John Randall	7
Ladygrove Primary School	11
Local Transport Capital Block Funding grant	2
Madeley Town Council	5
Member reporting	14
My Options (Young Peoples Services)	52
My Options - Comforts fund	2
My View System Testing	5
National Careers contract	2
Oakengates Children's Centre	7
Oakengates Town Council	2
Permit Scheme for working on highways	5
Phoenix Leisure Centre	10
Planning Income	5
Procurement - Contract review process	4
Purchase Ledger (2018-19)	24
Queenswood Primary School	7
Red & Amber Follow up - Core Groups	1
Red & Amber Follow up - Depreciation of Liberty Safeguards	3
Red & Amber Follow up - Direct Payments	1
Red & Amber Follow up - Discharge from Hospital	2
Red & Amber Follow up - My Options (Comfort Funds)	2

Red & Amber Follow up - My Options (Purchasing)	1
Red & Amber Follow up - My Options YP Services Income	1
Red & Amber Follow up - Setting up Home Grant	1
Red & Amber Follow up - Sir Alexander Fleming	1
Red & Amber Follow up - Ski & Snowboard Centre	1
Red & Amber Follow up - Southall	3
Red & Amber Follow up Crudgington Primary School	1
Resourcelink	1
Sales Ledger (2018-19)	15
Sales Ledger 2017/18	1
School Catering	4
School Fund Audit - Dothill Primary	2
School Fund Audit - Holmer Lake	7
School Fund Audit - Muxton Primary	5
Setting up Home Grant	9
Sir Alexander Fleming Primary School	9
Southall School	11
Strengthening Families Grant	5
Stirchley Rec	3
Treasury Management (2018-19)	9

Area	Activity
Internal Audit	Internal Audit Annual Report 2017/18 Internal update reports of work undertaken throughout the year. Internal Audit Plan 2018/16 Changes to Internal Audit Charter for 2019/201
External Audit	External Audit Fee Letter 2018/19 KPMG Interim Report 2017/18 External Audit Plan 2018/19 Grant Report 2017/18
Governance	Annual Governance Statement (AGS) 2017/18 Half yearly progress on the 2017/18 AGS Action Plan Review of the Strategic Risk Register Information Governance Annual Report 2017/18 Information Governance Update Report of work undertaken throughout the year. Information Governance Work programme 2018/19 Caldicott Guardian Annual Report 2018/19 Publication of Information on Councillors who Traded with the Council during 2017/18 Audit Committee Annual Report 2017/18
Treasury Management	Treasury Management Outturn report 2017/18 & 2018/19 update report Draft 2019/20 Treasury Management Strategy and update 2018/19 Verbal presentation from Councils Treasury Advisors
Statement of Accounts	Draft Statement of Accounts 2017/18 Audited Statement of Accounts 2017/18 Capital receipts update
Fraud & Corruption	2017/18 Annual Report on Corporate Anti-Fraud & Corruption Policy and Policy update 2018/19
General	Audit Committee terms of Reference reviewed Audit Committee Annual Report 2017/18