



Internal Audit Annual Report for 2016/17

July 2017

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1 THE HEAD OF INTERNAL AUDIT OPINION

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (at Waverley Borough Council this role is fulfilled by the Internal Audit Client Manager) is required to provide an annual audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's Annual Governance Statement.

1.1 The opinion

For the 12 months ended 31 March 2017, the Head of Internal Audits' Opinion for Waverley Borough Council (the Council) is as follows:

Head of internal audit opinion 2016/2017

The organisation has an adequate and effective framework for risk management, governance and internal control.

However, the internal audit work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

Please see Appendix A for the full range of annual opinions available in preparing this report and opinion.

1.2 Scope of the Internal Audit work

The formation of my opinion is achieved through the development of the risk-based audit plan of work, agreed with management and approved by the Audit Committee, to provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that is taken into account by the Management Board in making its Annual Governance Statement (AGS).

The majority of the Internal Audit Plan work is completed by the Internal Audit Contractors. Quarterly contract monitoring meetings take place with the contractor ensuring that reviews are progressed to completion and where issues materialise in the delivery of the plan these are resolved to aid the completion of the plan.

There have been no impairments identified to the independence of the internal auditors during the period 2016/17.

1.3 Factors and findings which have informed my opinion

Based on the work undertaken on the systems of internal control, governance and risk management across the Council, I do not consider that there are any issues that need to be flagged as significant internal control weaknesses.

There were no reviews issued as 'no assurance' (red) opinions.

21 audits have been completed. The 21 reports can be summarised as follows:

- 3 - Substantial assurance
- 8 - Reasonable assurance
- 7 - Partial assurance
- 3 - Reports where a formal opinion was not provided as these were advisory audits

A review of action tracking for the housing void process was also completed on where it was assessed that reasonable progress is being made in embedding the recommendations made for the review that was completed in the previous year financial year. A summary of the internal audit work undertaken, and the resulting conclusions, is provided at Appendix B. As noted above, partial assurance opinions in respect of 7 areas subject to internal audit were provided. The areas for improvement for which management have agreed actions to address for each of these areas are detailed in Appendix B.

1.4 Topics judged relevant for consideration as part of the Annual Governance Statement

There are no areas that I am aware of through the work completed or from wider sector knowledge that have impacted my opinion and therefore this should be flagged in the AGS.

2 THE BASIS OF THE INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform my opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.1 Acceptance of internal audit management actions

Management has agreed actions to address all of the findings reported by the internal audit service during 2016/2017. A sample of these recommendations will be selected at a future date to ensure these have been embedded into the relevant systems.

2.2 Implementation of internal audit management actions

The follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made reasonable progress in implementing the agreed actions.

There are no high rated actions not yet implemented.

There are however medium actions requiring management action, relating to Information Security Governance. I am aware that management action is ongoing to resolve the issues identified.

Recommendation Priority	Number made in 2015/16	Addressed	In Progress or Not Implemented	Ref No.
High	14	14		
Medium	46	43	3	IA16/12.001. IA16/22.001, IA16/22.004,
Low	53	52	1	IA16/22.002
Totals	113	109	4	

2.3 Working with other assurance providers

In forming my opinion I have placed reliance on the internal audit assignments completed on Waverley Borough Council's behalf by the contractor RSM Risk Assurance LLP (RSM) and the IT Auditor at Spelthorne Borough Council, whose services were utilised for the specialist IT Sharepoint Platform audit review which could not be fulfilled RSM.

RSM affirms that its internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under PSIAS, internal audit services are required to have an external quality assessment every five years. RSM commissioned an external independent review of its internal audit services in 2016 to provide assurance whether its approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which RSM believes warrant flagging for our attention as impacting on the quality of the service they provide to us.

RSM has also completed a review of subcontracting controls at Waverley Training Services, in the year in order to allow the Council to report to the Skills Funding Agency regarding its subcontracting arrangements. This was completed as agreed upon procedures work and consequently no opinion for this work was given and I do not consider this represents a conflict of interests.

In the year RSM has:

- issued 8 local authority news bulletins;
- highlighted actions for management throughout the audit reports based on their knowledge and experience in the local government sector to provide areas for consideration.

2.4 Performance indicators

A number of performance indicators were agreed with the audit committee. Our performance against those indicators is as follows:

Delivery				
Calendar Days	Annual Target	Actual Year 2016/17	Previous Year 2015/16	Previous Year 2014/15
Average no. of days between Contractor exit meeting and the issue of Draft Report (C)	28	17	19	21
Average no. of days between the Contractor providing the report to WBC and WBC receiving the file. (C)	5	6	15	10
Average number of days between the Internal Audit Client Managers Exit meeting & obtaining management comments and the issuing of Final Report (WBC)	28	26	34	35
Average number of days for Heads of Service to return report to Internal Audit Client Manager after signing. (WBC)	5	5	13	12
Completion of audit plan by 31 st March (C)	100%	83%	83%	82%

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to me within my internal audit methodology to provide context regarding my annual internal audit opinion.

Annual opinions

The organisation has an adequate and effective framework for risk management, governance and internal control.

The organisation has an adequate and effective framework for risk management, governance and internal control.

However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

The organisation does not have an adequate framework of risk management, governance or internal control.

APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2016/2017

Assignment	Assurance level	Actions agreed		
		H	M	L
(IA17-01) Recruitment and Performance Management	Reasonable	-	1	2
(IA17-02) Planning & Building Control Applications	Partial	-	7	1
(IA17-03) Action Tracking (Housing Voids)	Reasonable Progress			
(IA17-04) Rent Collection	Substantial	-	-	1
(IA17-05) Risk Management	Partial	-	3	1
(IA17-06) Health and Safety	Partial	-	5	-
(IA17-07) Data Quality	Reasonable	-	4	-
(IA17-08) Licensing – Environmental Services	Reasonable	-	1	5
(IA17-09) Car Parking	Reasonable	-	1	3
(IA17-10) Licensing - Alcohol	Reasonable	-	1	4
(IA17-11) Management of Contractors	Partial	2	6	-
(IA17-12) Accuracy of Tenancy Information	Partial	1	4	3
(IA17-13) Payroll	Substantial	-	2	1
(IA17-14) Health and Safety Compliance - Electrical	Reasonable	-	-	1
(IA17-15) Corporate Governance	Substantial	-	2	1
(IA17-16) Creditors	Reasonable	1	2	2
(IA17-17) Procurement	Partial	1	4	3
(IA17-18) Construction Industry Scheme	Partial	1	2	-
(IA17-19) Emergency Planning and Business Continuity	Reasonable	-	4	1
(IA17-20) Agresso Upgrade	Advisory	-	-	2
(IA17-21) Garden Waste Renewals LEAN review Workshop Outputs	Advisory	-	-	-
(IA17-22) Project Management	Advisory	6 ungraded		

Detailed audit findings impacting on my opinion

The auditors gave a partial opinion in respect of the Council's Planning and Building Control arrangements (IA17-02). The identified the following seven areas for improvement which management agreed actions to address:	
Issues Raised	Current Status of related Recommendation
No trend analysis of building applications which are not processed in time is undertaken.	Implemented
The Council could not provide evidence that all extensions had agreed with the applicant.	Implemented
The figures for Q3 and Q4 for the number of Major applications received per the Community Overview and Scrutiny Committee reflected the cumulative figures to date and not the number for the relevant quarter.	Implemented
The figures reported in the Q1 report to the Community Overview and Scrutiny Committee were not correct due a timing issue and a retrospective 'sent date' being put in.	Implemented
We reviewed Officer Reports where an application was not completed within the agreed timeframes, and in instances tested a rationale was not documented.	Implemented
The Building Control Policies and Procedures are outdated and do not reflect current operating practice.	Implemented
Our review of data reported to the Community Overview and Scrutiny Committee identified inconsistencies when reconciled back to source data.	Implemented

The auditors gave a partial opinion in respect of the council's Risk Management arrangements (IA17-05). They identified the following three areas for improvement which management agreed actions to address:	
Issues Raised	Current Status of related recommendation
The risk register and mitigating actions are not up to date and do not incorporate the new corporate plan. If the risk register is not maintained and used as a living document, this increases the risk that risks are not monitored	Implemented

effectively.	
The risk register has not been presented to the Head of Service team meetings in the current financial year. The lack of oversight / review by a Risk Management Group (HoST / MB) increases the likelihood of risks materializing, new risks not being identified and inappropriate mitigating actions being put in place.	Implemented
The risk register has not been presented to the Audit Committee since September 2015. A lack of oversight by the members of the Audit Committee increases the risk that members of the Council are not informed on movements in relation to risks. This may impact on the achievement of the Council's strategic objectives. Additionally, members cannot assure themselves that appropriate actions are being taken by management.	Implemented

The auditors a partial opinion in respect of the council's Health and Safety arrangements systems (IA17-06). We identified the following five areas for improvement which management agreed actions to address:

Issues Raised	Current Status of related recommendation
Where staff have additional health and safety responsibilities, beyond those applicable to all employees, these are not reflected in the employee's job description.	Implemented
There is currently no monitoring system in place to ensure service areas are complying with the Health and Safety Policy and specifically the completion of activity based risk assessments.	Implemented
There are no Key Performance Indicators (KPIs) being produced and reported upon with regards to health and safety. Without KPI's in place, the Council is unable to demonstrate improvement and performance against its strategic aims in relation to health and safety.	Implemented
The Council has in place a draft training matrix to ensure all staff have completed the expected training courses in relation to health and safety however it is currently not ready to be used as a result of a number of staff member's risk assessments which are used to identify training needs being missing from the Risk Assessment Record Centre.	Implemented
In addition to this the Council is unable to determine effectively when staff should have their training refreshed.	Implemented

Without an operational training matrix there is a risk that staff are completing activities without undergoing the required training first.	
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The auditors gave a partial opinion in respect of the council's Management Contractors (IA17-11). They identified the following eight areas for improvement which management agreed actions to address:

Issues Raised	Current Status of related recommendation
Adequate tools, methods, approaches and regular meetings for the managing of contract performance were not detailed within all contracts reviewed.	Implemented
Although actions are output from meetings that do occur, we noted that these are not formally tracked which leads to the risk of outstanding actions not being completed.	Implemented
At present contracts reviewed do not stipulate KPIs, and in one instance where they do these are currently under review by the Council. Due to this there is no approach in place for measuring KPI data received.	Implemented
With regards to contract reviewed, the contract at present does not stipulate the payment terms. Without this there is a risk that the Council may pay for incomplete or inadequate works undertaken.	Implemented
One Contractor reviewed utilised subcontractors. Through reviewing the Contractor's list of subcontractors and the Council's internal tracker we noted unapproved subcontractors being utilised on that contract. For a remaining subcontractor, evidence of Council approval could not be located.	Implemented
For one contract appropriate evidence relating to the original tender and compliance with OJEU regulations could not be located, additionally the Council's current threshold for OJEU regulations is not up to date with current guidance.	Implemented
Reviewing variations for a contract we noted that in two instances approval for the issue of the variation could not be sourced. Both of these instances related to variations resulting in additional payments needing to be paid. It was noted that approval may be held within another member of staff's email.	Implemented

Evidence relating to the training records, DBS clearance and other health and safety documentation could not be located for two contracts. Discussion with staff confirmed this was a pre-requisite to accepting a new contractor.	Implemented
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The auditors gave a partial opinion in respect of the council's Accuracy of Tenancy Information Systems (IA17-12). They identified the following five areas for improvement which management agreed actions to address:

Issues Raised	Current Status of related recommendation
No strategy or plan is in place in relation to home visits for secure / flexible tenancy arrangements. By not having a formal strategy / approach in place in relation to home visits for flexible and secure tenants.	Implemented
We identified an instance where the four and seven month home visits had not been completed in line with timeframes due to paternity leave. We also noted instances where the visit form had not been completed in full.	Implemented
The calculation of the Performance Indicators for monthly reporting to Corporate Management Team is a manual process and access to the excel spreadsheet is not restricted.	Implemented
No formal quality review process for completed home visit forms is in place.	Implemented
A defined process to document, track progress and follow up on actions identified at the home visits is not in place.	Implemented

We gave a partial opinion in respect of the council's Procurement arrangements (IA17-17). We identified the following five areas for improvement which management agreed actions to address:

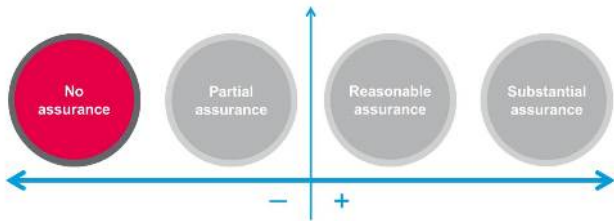
Issues Raised	Current Status of related recommendation
We selected a judgemental sample of contracts in excess of Financial Threshold 2 (£25k) and identified that supplier checks were incomplete and not evidenced on InTend. All had at least one required check	Implemented

completed.	
We reviewed a judgemental sample of payments to contractors and identified that 75% were not supported by a purchase order.	Due 30 Sept 2017
Our review of items of expenditure in excess of £5k identified that 30% were not procured through InTend and 35% were not included on the Council's Contract register.	Due 30 Sept 2017
Our review of awarded contracts identified that an assessment matrix was not uploaded to InTend for any of the instances tested.	Implemented
Our review of awarded contracts identified 25% of instances where the lowest quote / tender was not awarded the contract and no assessment matrix was completed to provide a rationale.	Implemented

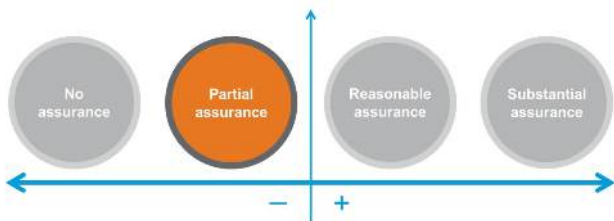
We gave a partial opinion in respect of the Construction Industry Scheme arrangements (IA17-18). We identified the following seven areas for improvement which management agreed actions to address:

Issues Raised	Current Status of related recommendation
We undertook a review of all payments made to the Council's subcontractors in the current financial year and identified that potential deductions were not taken from subcontractors.	Implemented
The CIS procedural documents are not up to date and do not reflect current operating practice.	Implemented
The Council does not maintain its own list of subcontractors who are registered with HMRC for CIS.	Implemented

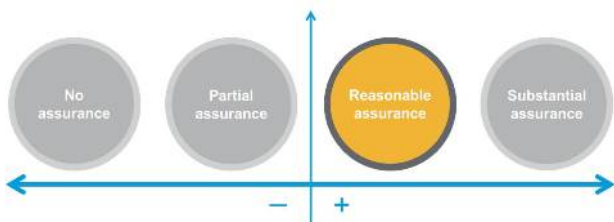
We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the board can take:



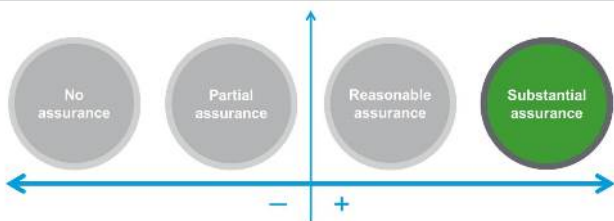
Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take partial assurance that the controls to manage this risk are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).



Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.

FOR FURTHER INFORMATION CONTACT

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