



Internal Audit Annual Report for 2017/18

July 2018

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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 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 system of internal control. The opinion is incorporated into the councils' Annual Governance Statement.

1.1 The opinion

For the 12 months ended 31 March 2018, the Head of Internal Audit's opinion for Waverley Borough Council (the Council) is as follows:

Head of Internal Audit Opinion 2017/2018

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 2017/18.

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 consider that there are issues relating to the control and ownership of keys relating to properties and garages owned by the council. This review resulted in a 'no assurance' (red) opinion being provided due to the lack of records and control over the issuing and logging of keys. This was an operational review and does not impact on the councils financial management arrangements.

28 audits have been completed. The 28 reports can be summarised as follows:

- 1 - No Assurance
- 6 - Partial assurance
- 13 - Reasonable assurance
- 7 - Substantial assurance
- 1 - Report where a formal opinion was not provided as this was an advisory audit

Monitoring of the action tracking for the review on Housing Management of Keys recommendations made for the review had been implemented. Recommendations relating to previous years re data governance (GDPR) have now been implemented, with the exception of the successful recruitment of a Data Protection Officer. This designated role continues to be assigned to the Borough Solicitor in the interim period. A summary of the internal audit work undertaken in 2017-18 financial year, and the opinions provided, is shown at Appendix B.

A summary of the findings relating to the one 'No assurance' review and six 'partial assurance' opinions in are detailed in Appendix B with the implementation status of the related recommendations.

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 but one of the findings reported by the internal audit service during 2017/2018. 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 internal audit findings shows that the organisation had made progress in implementing the agreed actions.

Recommendation Priority	Number made in 2017/18	Addressed	In Progress/ Not Implemented/Agreed date for implementation not reached (DNR).	Ref No.
High	5	5	0	
Medium	67	64	3, of which 2 (DNR*)	IA18/21.001* IA18/21.005 IA18/24.004*
Low	66	61	5, of which 5 (DNR*)	IA18/19.011* IA18/25.001* IA18/25.002* IA18/26.002* IA18/27.004*
Totals	138	130	8	

Overall internal audit considers that appropriate action has been taken to address recommendations but will continue to monitor and report progress throughout the Audit Committee cycle.

Three advisory reviews were completed by the Internal Audit Manager to enhance the systems in operation with the relevant service areas where concerns were raised that systems were not functioning as originally intended. Enhancements have now been implemented to address issues raised.

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.

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.

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 2017/18	Previous Year 2016/17	Previous Year 2015/16
1. Average no. of days between Contractor exit meeting and the issue of Draft Report (C)	28	26	17	19
2. Average no. of days between the Contractor providing the report to WBC and WBC receiving the file. (C)	5	10	6	15
3. Average number of days between the Internal Audit Client Managers Exit meeting & obtaining management comments and the issuing of Final Report (WBC)	28	19	26	34
4. Average number of days for Heads of Service to return report to Internal Audit Client Manager after signing. (WBC)	5	4	5	13
5. Completion of audit plan by 31 st March (C)	100%	100%	83%	83%

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 2017/2018

Ref	Assignment	Assurance level	Actions agreed		
			L	M	H
(IA18-01)	Recovery of Debts	Reasonable	5	1	-
(IA18-02)	Framework for compliance with the General Data Protection Regulations 2018	Advisory	-	8	1
(IA18-03)	Rent Collection	Reasonable Assurance	2	1	1
(IA18-04)	Treasury Management	Substantial Assurance	1	-	-
(IA18-05)	Main Accounting (Budgetary Control & Ledger)	Reasonable Assurance	1	3	-
(IA18-06)	Petty Cash/Cash Equivalent/Supplier A/Cs	Partial Assurance	5	6	-
(IA18-07)	Management of garages system to include keys to both Housing Properties and Garages	No Assurance	-	5	2
(IA18-08)	Hackney Carriage Licensing	Substantial Assurance	3	-	-
(IA18-09)	Recycling	Substantial Assurance	1	1	-
(IA18-10)	Completeness of Fire Safety Assessment Checks	Reasonable Assurance	1	3	-
(IA18-11)	BACs Electronic System	Substantial Assurance	5	-	-
(IA18-12)	Planning Systems Appeals	Reasonable Assurance	2	1	-
(IA18-13)	Housing Benefit and Council Tax Reduction Scheme	Substantial Assurance	1	2	-
(IA18-14)	Environmental Health Services - Food Inspections	Reasonable Assurance	3	2	-
(IA18-15)	Asbestos Exposure	Reasonable Assurance	2	3	-
(IA18-16)	Tree Management	Reasonable Assurance	1	4	-
(IA18-17)	Payroll	Reasonable Assurance	2	3	-
(IA18-18)	Income Streams	Reasonable Assurance	3	2	-

Ref	Assignment	Assurance level	Actions agreed		
			L	M	H
(IA18-19)	Restaurant (Catering Facilities)	Partial Assurance	4	6	-
(IA18-20)	Production of Final Accounts	Substantial Assurance	3	-	-
(IA18-21)	Contract Final Accounts	Partial Assurance	2	3	-
(IA18-22)	Gifts and Hospitality	Partial Assurance (Staff) Substantial (Members)	1	-	1
(IA18-23)	Gas Maintenance	Reasonable Assurance	4	1	-
(IA18-24)	Removal and Addition of Properties (Sales Of Council owned properties (Inc. RTB) Process, purchases and new build)	Partial Assurance	-	5	-
(IA18-25)	Home Choice (Management of Housing Register)	Reasonable Assurance	6	1	-
(IA18-26)	Reconciliations	Reasonable Assurance	2	1	-
(IA18-27)	Responsive Repairs and Voids	Partial Assurance	5	-	-
(IA18-28)	System Development & Change Control Management	Substantial Assurance	1	-	-
		Total	66	67	5

Detailed audit findings impacting on my overall opinion

The auditors gave a No Assurance opinion in respect of the Council's Management of Keys relating to garages and housing properties (IA18-07). They identified the following areas for improvement which management agreed actions to address:	
Areas identified for improvement	Current Status of related Recommendation
Although a key management process was in place for void to re-let properties this did not include all properties and garages.	Implemented
Records maintained were not adequate to record when keys are transferred within housing or across service lines.	Implemented
No nominated key controller was in place.	Implemented
Keys were being held in key cabinets, but the key to these cabinets were not held in a controlled method.	Implemented
Not all areas had a key log in place, where this was the case, no rationale was give for the use of the key when logged out.	Implemented
Random checks were not in place to verify the whereabouts of keys.	Implemented
Many keys held are now redundant or unidentifiable as to their original use, regular reviews should be completed.	Implemented

The auditors gave a partial opinion in respect of the council's Petty Cash/Cash Equivalentents (IA18-06). They identified the following areas for improvement which management agreed actions to address:	
Areas identified for improvement	Current Status of related recommendation
Standard procedure is not in place, as the number of accounts held has reduced and the change over in staff over the years.	Implemented
Periodic review of the petty cash floats held to determine if still required.	Implemented
Restaurant petty cash to involve 2 people re verification of float contents.	Implemented

Purchases made from Petty cash to have receipts/till rolls presented to the Exchequer before being processed.	Implemented
Borough Hall shift return slips to be complete to identify the personnel on duty and custodian of the petty cash.	Implemented
Housing Petty cash should be reconciled at least once a month.	Implemented
Tenants Panel Petty cash arrangement to be revised and reimbursed directly from Exchequer Services.	Implemented
Arrangements and methods of topping up utility cards to be reviewed.	Implemented
Supplier Accounts to be rationalised, and lead officers identified.	Implemented

The auditors a partial opinion in respect of the council's Restaurant (IA18-19). We identified the following areas for improvement which management agreed actions to address:

Areas identified for improvement	Current Status of related recommendation
Day to day procedure notes to be formally documented.	Implemented
Implementation of the latest Food Inspection recommendations.	Implemented
End of day procedure to be cascaded to all restaurant staff re reconciliation of funds.	Implemented
Recording of cash movements from the petty cash tin.	Implemented
Ordering of goods should comply with corporate procedures.	Implemented
Wastage sheet to be introduced to enable the value of stock disposed of to be quantified.	Implemented
Quarterly stock takes to be reported to Finance.	Implemented
The restaurant manager's job description to be revised to include requirement to complete quarterly stock takes.	Implemented
Yearly analysis of expenditure re assuring that best value price is being achieve for quality produce, review and approval of regular suppliers	30 April 2019

The auditors gave a partial opinion in respect of the council's Contract Final Accounts (IA18-21). They identified the following areas for improvement which management agreed actions to address:

Areas identified for improvement	Current Status of related recommendation
Update of Financial Regulations to include paragraph relating to the requirements and responsibilities re Contract Final Accounts.	Due 04 November 2018
All contracts (including any extensions to a contract) to be held by legal as well as being uploaded to the intend procurement system.	Implemented
Website to be updated with high value contracts.	Implemented
Formal review of final account to be implemented, independent of the team involved with the project.	IA18/21.005

The auditors gave a partial opinion in respect of the council's Removal and addition of properties from Orchard (IA18-24). They identified the following areas for improvement which management agreed actions to address:

Areas identified for improvement	Current Status of related recommendation
Process document to be developed re removal and addition of properties to Orchard.	Implemented
Responsibility for updating key systems to be clearly defined re the addition and removal of properties.	Implemented
Central list of new builds, purchases and sale of housing properties to be maintained.	Implemented
Audit trails to be explored with Orchard and Keystone.	Due 30 July 2018
Reconciliations between systems to provide and maintain accurate and current records.	Implemented

We gave a partial opinion in respect of the council's Responsive Repairs (IA18-27). We identified the following areas for improvement which management agreed actions to address:

Areas identified for improvement	Current Status of related recommendation
Procedural guidance will be created that defines the five types of inspection (including thresholds for High Value and High Variation) and the process for Waverley staff to undertake for each inspection type.	Implemented
Going forwards, rejection notices for voids and responsive repair works will be stored in a dedicated folder on the Council's Sharepoint instead of Inspectors local C:/drives.	Implemented
<p>The Customer Services team will be reminded of the importance of maintaining good records on Orchard.</p> <p>Going forwards it will be a requirement to record the reason for rejection in the notes for the repair job on Orchard.</p>	Implemented
<p>Once improvements are made to the Council's recording of reasons that works are rejected in Orchard, the Council will complete a lessons learnt analysis to identify the common reasons for rejected works and the common reasons for works not being completed within the required 28 day timeframe for routine works.</p> <p>This will then be presented to Mears at the CORE Group so that a plan of action to tackle these areas can be put together.</p>	Due 30 September 2018 (50% complete)
The Council will work with Mears to ensure that when Mears have ordered subcontracted works, that they still record in MCM (and subsequently Orchard) notes confirmation that works by the subcontractor have been completed.	Implemented
The Termination and Void User Guide will be updated to ensure that it is reflective of working practice and then shared with the relevant members of staff.	Implemented
<p>Management will ensure that for every void, Officers are recording the following in Orchard:</p> <p>1) The date that a Gas Safety Inspection has been booked; and</p> <p>2) The date that a Gas Safety Inspection has been completed.</p>	Implemented
The Council will remind Officers of the importance to keep records that a handover form has been completed	Implemented

on Civica and ensure that the status is being correctly amended on Orchard to confirm that a post-inspection has been completed.	
The Council will ensure that spec sheets received by Mears are stored in a dedicated folder on the Council's sharepoint system.	Implemented
The Council will ensure that before a handover pack is sent to a Tenant that the following occurs: 1) The CP12 Gas Safety Certificate will be scanned into Civica; 2) The Asbestos Report will be scanned into Civica; and 3) Orchard will be updated with event codes confirming that inspections have been completed.	Implemented

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

No Assurance

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).

Partial Assurance

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).

Reasonable Assurance

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).

Substantial Assurance

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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