



**ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018-19**

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## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

***‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’***

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

***‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.***

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

## 2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Internal Audit Manager and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Internal Audit Manager is responsible for the delivery of an annual audit opinion and report that can be utilised by the Council to inform its Annual Governance Statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given I have based my opinion on:

- written reports on all internal audit work completed during the course of the year;
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Waverley's audit need that has been covered within the period

#### *Annual Internal Audit Opinion 2018-19*

*"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Waverley Borough Council's internal control environment.*

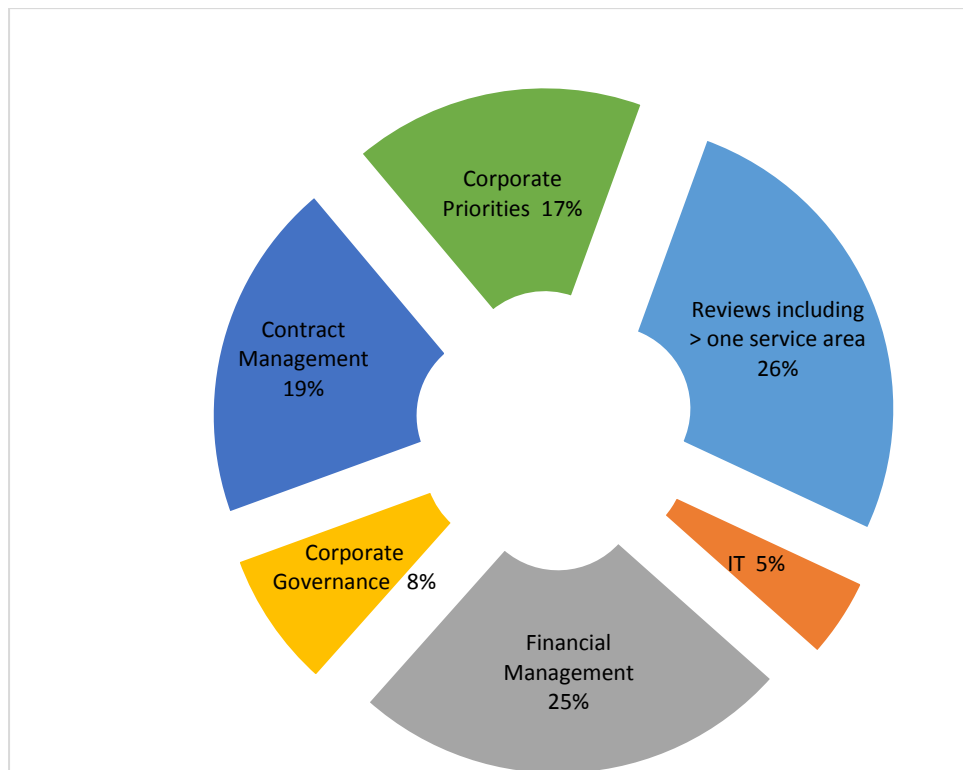
***In my opinion, Waverley Borough Council has an adequate and effective framework for risk management, governance and internal control. However, the internal audit work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.***

*Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

#### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council's activities and to support the preparation of the Annual Governance Statement.

**Percentage of Types of Reviews**



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2018-19 [Internal audit plan](#) approved by the Audit Committee in March 2018, was informed by internal audit's own assessment of risk and materiality. In addition to consultation with management to ensure it aligned to key risks facing the organisation.

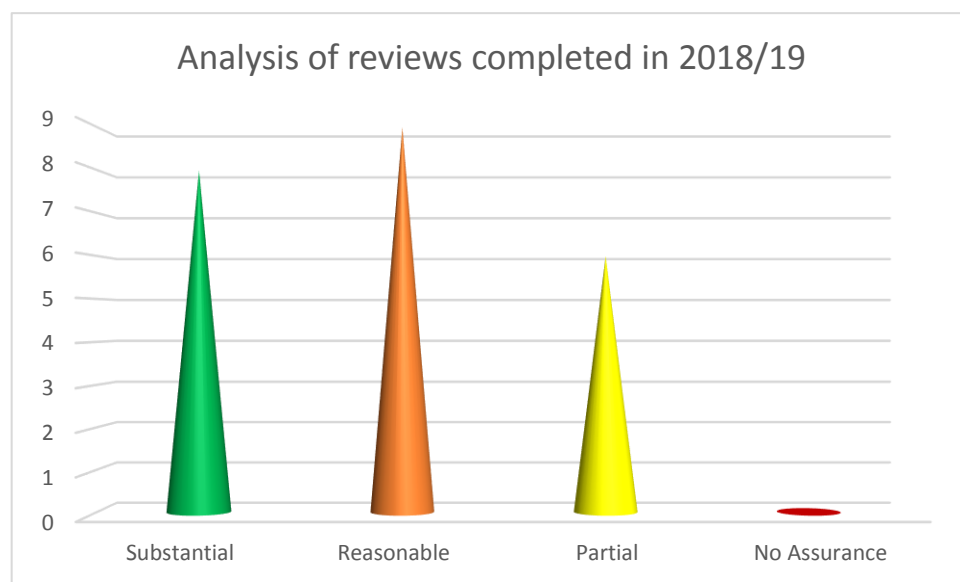
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Internal Audit Service have undertaken 25 reviews during the year ending 31 March 2019.

The 2018-19 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 23 reviews. This includes 2 reports that have not yet been issued as Final reports; but does not include 2 reviews which did not culminate in an audit opinion as they relate to work conducted in respect of advisory reviews on the systems in operation.

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



**Substantial** - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

**Reasonable** - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

**Partial** - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

**No Assurance** - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

## 5. Key Observations

There were no 'No Assurance' opinions issued during the year. In general, internal audit work found there to be a sound control environment in common themes identified that provide challenge to the organisations risk environment and contributed to a number of 'partial assurance' reviews. A summary of the issues raised is provided below:

**Right to Buy** – Improvements were identified relating to the reviewing and updating of policies and procedures, increasing the utilisation of the Housing Orchard system to ensure that all documentation is retained in one place, parameters in the system are reviewed and checked independently of the operational activity with the monitoring and reporting of timeframe activity.

**Risk Management** – This review highlight areas that would enhance the risk management framework. These outcomes were used to inform the Risk management workshops, that members and officers participated in, to conclude the authorities risk appetite which was approved at the February 2019 Council.

**Safeguarding** – The review identified areas of improvement to enhance the operational requirements for safeguarding. This included the following; revision of the current referral process, enhancing the information held on the incident log, roles and responsibilities clearly defined when roles change, all staff and members are provided with safeguarding training, risk assessments are completed for new roles and the adoption of a robust safeguarding reporting framework to inclusive of all agencies involved.

**Flexi-Time** – The issues raised included the need for a revised policy to be developed and cascaded to existing and new members of staff to provide awareness of the policy and the consistent use of the timesheet to be completed. Improvements were recommended on the reporting functionality from the itrent system and accuracy of allocation for part time employees re pro rata of the hours worked.



**Landlord Guarantee Deposit Bonds** – Our review of Landlord Guarantee Deposit Bonds resulted in a partial assurance opinion. Administered within the Housing Options Team the review found that documentation retained requires improvement to support the decisions made. Improvements in the recovery of debts, supervision of the activities including the release of payments was raised as issues to be addressed. Non-compliant behaviours provide an increased risk and can adversely affect the quality and integrity of management information in addition to leaving the Council and its officers vulnerable and exposed to challenge.

The Council's Strategy for Managing Risk was reviewed in 2018/19, the initial step was to develop and agree on the Council's risk appetite to assist those responsible for risk in their service area to make informed decisions using the level of acceptable risk to manage those risks identified in their operational areas. Thus providing the opportunity to build on this foundation through the coming months and years to consider how best to document and manage risk moving forward to ensure it provides a clear focus and acts as an effective management tool in day-to-day activities.

## **6. Anti-Fraud and Corruption**

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services.

A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (including Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

**National Fraud Initiative (NFI)** - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector bodies are required to submit data to the National Fraud Initiative on a regular basis (every two years). The latest NFI data upload was carried out in October 2018. Matches will be reviewed throughout 2019/20 and progress reported to the Audit Committee.

As a member of the Surrey Counter Fraud Partnership, we work in collaboration as a partnership to share ideas and to implement strategies to raise awareness including a publicity campaign on tenancy fraud and provide opportunities for member of the public to raise concerns.

## **7. Quality Assurance and Improvement**

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of Internal Audit to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on going and periodical and external assessment must be undertaken at least once every five years. For the last 7 years the Council employed the Internal Audit contractors (RSM), including 2018 -19 to complete the operational Internal Audit plan, who were regularly 'External Quality Assessed' and RSM were required to verify this to the External Auditors (Grant Thornton)

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, if any occurred, identifying areas for improvement.

## 8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that:

‘RSM (Waverley’s Internal Audit Contractors for 2018/19) conformed to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

## 9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2018-19 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation, including checking and signing off documents;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

## 10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service, these were previously agreed with the Audit Committee and formed part of the contract with the internal audit contractor who completed the work in 2018/19.

Aspect of service	Target	2017-18 Actual (%)	2018-19 Actual (%)
Audit plan delivered (including 2017-18 c/f)	100%	100%	92%
Average no. of days between Contractor exit meeting and the issue of Draft Report (C)	28 days	26	28
Average number of days between the Internal Audit Managers exit meeting & obtaining management comments and the issuing of Final Report (WBC)	28 days	19	21

## 11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Waverley Borough Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Gail Beaton  
Internal Audit Manager  
July 2019

## 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.

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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.

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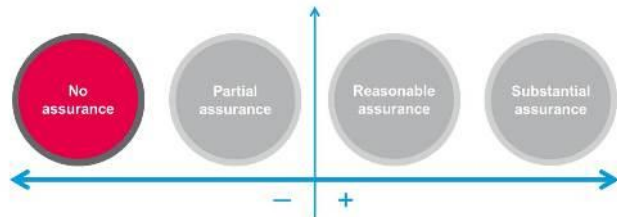
There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

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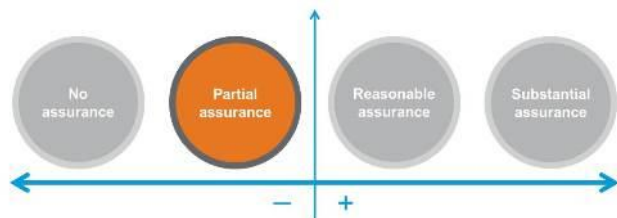
The organisation does not have an adequate framework of risk management, governance or internal control.

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The following levels of opinion classification was used by our contractor for 2018/19 within our internal audit reports. Reflecting the level of assurance the board can take:



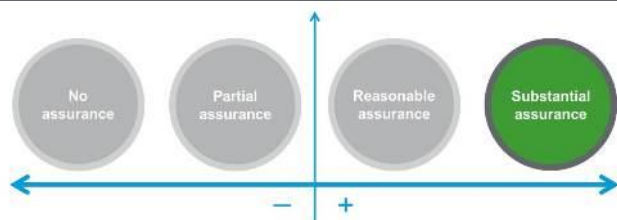
Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



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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