

Report Title:	2016/17 Shared Audit and Investigation Service Annual Report and Self-Assessment of Compliance with the Public Sector Internal Audit Standards
Contains Confidential or Exempt Information?	NO - Part I
Member reporting:	Councillor Sayonara Luxton
Meeting and Date:	Audit and Performance Review Panel – 14 June 2017
Responsible Officer(s):	Rob Stubbs, Deputy Director and Head of Finance
Wards affected:	All



### Report Summary

1. This report and supporting appendices summarise the Shared Audit and Investigation Service (SAIS) activity and outline the progress in achieving the 2016/17 Audit and Investigation Plans as at 31 March 2017. In addition, it summarises the outcome of a self-assessment of the Internal Audit Service against the CIPFA/IIA Public Sector Internal Audit Standards (PSIAS). This report compliments the 2016/17 Interim Audit and Investigation Report presented to Audit and Performance Review Panel (A&PRP) on 14<sup>th</sup> December 2016.
2. It recommends that Members note the activity of the Audit and Investigation Service during the 2016/17 financial year.
3. This recommendation is being made to ensure that the Council meets its legislative requirements, as well as the requirements of the A&PRP's Terms of Reference.

### 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION: Option 1 - That A&PRP are asked to note the Shared Audit and Investigation Service activity for the financial year ended 31 March 2017, progress in achieving the 2016/17 Internal Audit Plan and note the outcome of the self-assessment of the Shared Internal Audit Service against the PSIAS.**

### 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 Regulation 6 (1) of the Accounts and Audit (England) Regulations (2015) requires the Council to undertake an adequate and effective internal audit of its accounting records and the system of internal control in accordance with proper internal audit practices.

- 2.2 Proper practices for Internal Audit are defined in the CIPFA/IIA PSIAS and require that the 'Chief Audit Executive' (Service Manager, Shared Audit and Investigation Service) delivers an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). 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 is required to incorporate:-
- the opinion;
  - a summary of the work that supports the opinion;
  - a statement on conformance with the PSIAS and;
  - whether there have been any restrictions imposed on the scope of the work of the Internal Audit function of the Shared Audit and Investigation Service.
- 2.3 The aim of the Report at Appendix A and the supporting appendices is to cover these legislative requirements and those of the A&PRP Terms of Reference.

<b>Option</b>	<b>Comments</b>
Accept the attached report and supporting appendices and note the activity of the Shared Audit and Investigation Service during 2016/17, progress in achieving the Internal Audit and Corporate Fraud Plans and note the outcome of the self-assessment of the Shared Audit and Investigation Service against the PSIAS.  <b>Recommended</b>	This will ensure that the Council meets its statutory requirements. In addition, the A&PRP will comply with its responsibilities as set out within their Terms of Reference.
Accept this report with amendments.	Members may wish to request that this report be amended / altered if they feel that there are material issues which have not received sufficient emphasis or if there are specific issues the report is deficient in.
Not approve this report.	This may expose the Council to unnecessary risks by not having an adequate internal control framework leading to poor performance and poor outcomes for service users/residents.  It may result in a qualification in the External Auditors' Annual Management Letter.

### 3. KEY IMPLICATIONS

Defined Outcomes	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered
Residents have confidence that public funds are being used economically, efficiently and effectively and that Council assets and interests are being safeguarded from misappropriation / loss.	Failure of the Council to meet its statutory requirements and failure of the A&PRP to discharge its responsibilities.	Council meets its statutory requirements to provide an adequate and effective internal audit of its accounting records and system of internal control. A&PRP discharges its responsibilities.	n/a	n/a	31 March 2017
Unqualified External Audit Financial Accounts and Management Letter.	Adverse comment and a qualified External Audit Management Letter if the Council fails to maintain an adequate Internal Audit function.	Unqualified External Audit Management Letter as Council meets its requirements to provide an adequate and effective Internal Audit function.	n/a	n/a	31 March 2017
Residents have confidence that public funds are being used economically, efficiently and effectively and that Council assets and interests are being safeguarded from misappropriation / loss.	Loss of residents' confidence. Council reputation may be affected.	Gain residents' confidence. Council reputation protected.	n/a	n/a	31 March 2017

### 4. FINANCIAL DETAILS / VALUE FOR MONEY

#### 4.1 a) Financial impact on the budget

Revenue - Officer time in dealing with provision of the SAIS  
 Capital – None.

## b) Financial Background

Revenue - Officer time in dealing with provision of the SAIS. The proposal relates to existing budgets, no new funds are being sought.

Capital - None

## 5. LEGAL IMPLICATIONS

5.1 Internal Audit carry out their activities under:-

- Regulations 6 (1), 6(3) and (4) of the Accounts and Audit (England) Regulations 2015.
- S151 Local Government Finance Act 1972.
- CIPFA/IIA Public Sector Internal Audit Standards 2013 (Revised 2016).

5.2 Investigatory activities are carried under:-

- Fraud Act 2006
- Criminal Justice Act 1987
- Theft Act 1968
- Forgery and Investigation Act 1981
- Social Security Administration Act 1992.
- Welfare Reform Act 2012.

## 6. RISK MANAGEMENT

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Failure of the SAIS to adequately plan and undertake audit reviews leading to failure of the Council to meet its statutory requirements. The Council's key systems and services are consequently at risk of not achieving their objectives in the most economic, efficient and effective way thus being exposed to misappropriation / loss.	High	Ensure and demonstrate internal audit coverage and compliance with nationally recognised standards for internal audit. Provide a regular written progress report on the work of Internal Audit to those charged with governance for endorsement.  Ensure and demonstrate that corporate investigations are undertaken in accordance with legislation and local approved governance arrangements.	Low

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Failure to provide assurance that the work of the SAIS properly supports the governance framework and the content of the AGS and the requirement for additional External Audit work at an enhanced cost to the Council.	High	Internal audit coverage included as part of the governance assurance framework and informing the AGS.	Low

## **7. POTENTIAL IMPACTS**

7.1 None

## **8. CONSULTATION**

8.1 Consultations were undertaken with both internal stakeholders (Members of the A&PRP, Corporate Management Team, S151 Officer, Directorate Management Teams, Insurance and Risk Manager) and the key external stakeholder of External Audit, KPMG in preparing the 2016/17 Internal Audit and Investigation Plans.

8.2 Management and staff have been consulted prior to and during the course of the audit and investigation reviews to ensure that work is timed to suit both parties, to incorporate managements' priorities and to agree a course of action to implement the outcome of those reviews.

## **9. TIMETABLE FOR IMPLEMENTATION**

9.1 The timetable for completion of the 2016/17 Internal Audit and Investigation Plans was 31 March 2017.

## **10. APPENDICES**

- Appendix A – 2016/17 Shared Audit and Investigation Service Annual Report
- Appendix A(I) – 2016/17 Internal Audit Plan Status as at 31<sup>st</sup> March 2017

## **11. BACKGROUND DOCUMENTS**

11.1 2016/17 Internal Audit and Investigation Plan and working papers.

## 12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Comment & returned
Clr Sayonara Luxton	Chair of Audit and Performance Review Panel		
Alison Alexander	Managing Director	22/05/2017	Accepted with minor comments
Russell O'Keefe	Executive Director	22/05/2017	Accepted with minor comments
Andy Jeffs	Interim Executive Director	22/05/2017	Accepted with minor comments
Rob Stubbs	Deputy Director and Head of Finance	22/05/2017	Accepted with minor comments
Terry Baldwin	Head of HR	22/05/2017	Accepted with minor comments

### REPORT HISTORY

<b>Decision type:</b> Non-key decision	<b>Urgency item?</b> No
Report Author: Catherine Hickman, Service Manager, Shared Audit and Investigation Service	

**2016/17 SHARED AUDIT AND INVESTIGATION SERVICE ANNUAL REPORT**  
**Service Manager, Shared Audit and Investigation Service**

**Introduction**

1. The 2016/17 Internal Audit Plan was approved by the Audit and Performance Review Panel on 7<sup>th</sup> April 2016. The emphasis on developing the Audit Plan is based on mandatory and legislative requirements and where possible audit place reliance on the risks set out in the Corporate Risk Register (CRR) which are in place to assist the Council in achieving its key objectives.
2. This report has been prepared to meet the requirements of the updated 2016 CIPFA/IIA Public Sector Internal Audit Standards (PSIAS) for the Chief Audit Executive (Service Manager, Shared Audit and Investigation Service) to deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). 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 is required to incorporate:-
  - the opinion;
  - a summary of the work that supports the opinion;
  - a statement on conformance with the PSIAS; and
  - whether there have been any restrictions imposed on the scope of the work of the Internal Audit function of the Shared Audit and Investigation Service.
3. The body of this report also includes a summary of the performance of the Corporate Investigation Team.

**Internal Audit Opinion**

4. During the year, the Internal Audit Team has undertaken audits of key financial systems (in order to compliment the work of External Audit), as well as focusing, where appropriate, on the Council's identified key strategic and key operational risks, as identified in the CRR in addition to assurances required by the S151 Officer and the Service Manager, Shared Audit and Investigation Service.
5. The overall audit opinion, which is largely a reflection of the system and procedural controls against the identified risks and mitigating treatment measures, for the audits that have been completed and a final report issued, is that they are "Substantially Complete and Generally Effective but with some improvements required". Based on the above and taking into account other sources of assurance, including External Audit, most key controls are in place and are operating effectively, with the majority of residual risks being reduced to an acceptable level. A small number of exceptions were identified and these have been summarised in the body of this report. It should be noted that the overall opinion is a statement of the audit view of whether the objectives are being met; it is not a statement of fact.
6. There have been no restrictions imposed on the scope of the work of the Internal Audit function of the Shared Audit and Investigation Service.

## PERFORMANCE SUMMARY

7. Key progress of the Shared Audit and Investigation Service during 2016/17 was:-
- Assurance given to management on the Council's key risks and further strengthening of the CRR through independent verification of risks and treatment measures.
  - Additional management requests for work to be undertaken using audit contingency demonstrating confidence in the work of Internal Audit.
  - Audit resources have been available and able to more readily accommodate management requests for deferral.
  - Skills transfers taking place in relation to Agresso and Schools audits. There has been the ability to undertake direct comparisons between systems and identify existing best practices.
  - The audit process has continued to be refined using Lean principles.
  - On request of management and in specific audit areas, knowledge on common areas is being shared.
  - Increased Audit and Investigation work has been undertaken for Bracknell Forest Council, Rushmoor Borough Council, Buckinghamshire County Council and Oxfordshire County Council, resulting in increased income for the Service and income targets for the year being exceeded.
  - Good results obtained for Investigation activity.
  - Additional management requests for work to be undertaken using audit contingency demonstrating confidence in the work of Internal Audit.
8. 89% of the approved Internal Audit Plan was achieved with the reviews at draft report stage or completed. The remaining 11% consisted of audit reviews with fieldwork in progress which are targeted to be completed early in the 2016/17 financial year, additional work within the area of Corporate Governance and an over allocation for Contingency.
9. Appendix A(I) presents the audit progress made against the 2016/17 Internal Audit Plan and Audit Opinions. It shows audits completed or at draft stage (10 audits at draft report stage) and a list of consultancy reviews.
10. For the reviews completed to final report stage, final audit opinions are awarded after giving management one month to implement the agreed countermeasures as stipulated in the Management Action Plan. The following is a breakdown of classification of audit opinions awarded.

Overall Audit Opinion	Summary of Audit Opinion	No of Audits (2016/17)	No of Audits (2015/16)
1	Complete and Effective	8	3
2	Substantially Complete and Generally Effective	16	16
3	Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated	8	7
4	There is no effective Risk Management process in place	2	0
<b>Total</b>		<b>34</b>	<b>26</b>



11. Of the two reviews receiving the fourth category of audit opinion (There is no effective Risk Management process in place), these were both reported in the 2016/17 Interim Report (Cash and Bank Reconciliation and Contract Management). Members were informed that a full audit of these areas would be undertaken in Quarter 4. The audit of Cash and Bank Reconciliation was completed and resulted in the audit opinion rising to the second category of opinion demonstrating good progress by management. For the review of Contract Management an audit was commenced. However, requested information is awaited.
12. Three of the four audit reviews receiving the third category of audit opinion (Range of Risk Mitigation Controls is incomplete and risks are not effectively Mitigated) completed to Final Report stage are summarised below whilst the fourth (Tree Management) was reported in the 2016/17 Interim Progress Report. Management Action Plans have been agreed for each review which will be followed up in 2017/18 and a summary of the issues are listed below;

#### Cash and Banking Arrangements

The concerns assessed as posing a major risk to the service were in relation to the car park collection contract and included; Delays between collection and banking of cash and some collection sites are not visited as stipulated in the contract.

#### Shared Property Services (SPS)

The extreme risk issue is in regard to:

The risk of RBWM non-compliance with its statutory Health & Safety obligations for all properties, including schools due to the unknown status of the assessments relating to fire risk, asbestos and legionella. Failure to comply with statutory obligations is a Key Operational Risk (BS0014) in the CRR and therefore the treatment measures stated therein are not effective and efficient.

The Major risk concerns relate to:

The absence of current contractual documentation and robust supporting records to determine the veracity of Reactive Maintenance contractor payments. This is to be addressed for future payments with the introduction of a new 'valuation spreadsheet' set up by SPS. Contractors agreement to this new process is being finalised.

A verbal progress update was received from the Shared Building Services Manager on the implementation of the countermeasures for the Extreme and Major issues on 24/05/2017. Progress stated appears appropriate and will be followed up formally in the Shared Property Services follow up review that was approved by the Audit and Performance Review Panel as part of the 2017/18 Internal Audit and Investigation Plan on the 17<sup>th</sup> February 2017.

#### Deputyship and Appointeeship

The concern identified as posing an extreme risk relates to the individual service user balances held in the one Deputyships and Appointeeships (DAT) account which holds all monies relating to DAT cases. The Interim Executive Director confirmed that a new banking system has been introduced that means each service user has their own bank account and therefore government cover will mitigate the risk.

The major concerns relate to:

- Confidential and valuable items held for service users.
- Visits to clients' properties.
- The lack of 1-2-1's, appraisals and Performance Indicators in place.

#### **Outstanding responses as at 13/06/17**

13. There are no remaining outstanding responses awaited from management in respect of 2016/17 audits.
14. Audit reports are presented using lean terminology, using the cause, concern and countermeasure and management are given the opportunity to treat, tolerate, terminate or transfer the concerns and associated risks. Management Action Plans have been put in place to address issues identified during audit work and audit follow up verification will confirm whether agreed countermeasures for Major and Extreme concerns have been actioned within agreed timescales.
15. Where concerns are classified as being Major or Extreme that have been tolerated by management, these are highlighted to the Audit and Performance Review Panel. There are no cases of Major or Extreme concerns being tolerated by management.

#### **Additional Work Requested by Members / Management**

16. Contingency days have been used to respond to fourteen Management requests in respect of the following reviews.
  - Payroll
  - Cash and Bank Reconciliation follow up
  - Social Care Capital, Troubled Families, Disabled Facilities, Integrated Transport and Highways Maintenance Grants
  - Contract Auditing
  - Pensions Board Governance
  - IT Security Incidents
  - Spot checks
  - Highways Infrastructure Assets
  - Manor Green School
  - IG Governance Toolkit

#### **Corporate Investigations**

17. The year 2016/17 was a successful year for the Corporate Investigations element of the Service with total potential financial savings identified of £119,464. The Investigation Team had a total of 120 case referrals received in 2016/17.

18. The performance of investigations covers the losses identified to the Council see Table 2.

Table 2 Financial results: Identified Losses to 31 March 2017

Area of work	Value (£'s)	Comments
Business Rates Relief/Exemption*	93,722.36	Fraudulent applications for exemptions and reliefs, unlisted properties
Council Tax Reduction Scheme* (CTRS)	16,512.43	Fraudulent applications for Council Tax Reduction
Direct Payments	8,934.66	Overstatement of needs through false declaration
Council Tax - discount/exemption*	295.15	Fraudulent applications for discount/exemption
<b>Total</b>	<b>119,464.60</b>	

\* The amounts are debited from the relevant accounts and then collected in accordance with council tax recovery legislation. Some have been fully paid and others by arrangement.

19. In addition, Corporate Investigations have been involved in the following;

- Collation of Transparency Information on investigations to publish on RBWM's Website.
- Fraud Awareness training prepared for the Senior Leadership Team delivered in April 2016.
- Setting up processes for the reactive investigation of the Council Tax Reduction Scheme cases.
- Development and delivery of pro-active fraud drives in new areas.
- Positive contribution to the New Homes Bonus Grant Scheme.

#### **Regulation of Investigatory Powers Act**

20. No investigations have been undertaken during 2016/17 that has required Regulation of Investigatory Powers Act surveillance approval to be requested.

21. An arms-length inspection has been undertaken by the Office of Surveillance Commissioners. The report is with the Chief Surveillance Commissioner for endorsement.

## **Audit and Investigation - Other Work Areas**

### **Audit**

#### **Public Sector Internal Audit Standards Self-Assessment**

22. Public Sector Internal Audit Standards: A new set of '*Public Sector Internal Audit Standards*' has been developed by CIPFA/IIA, which came into effect from 1 April 2013 and were updated in March 2016. The Standards recognise that a professional, independent and objective internal audit service is one of the key elements of good governance and they encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. During the year, audit documentation and processes have been reviewed and updated, where necessary, and a revised Audit Charter was presented to the 16<sup>th</sup> February 2017 Audit and Performance Review Panel. The Standards recognise that a professional, independent and objective internal audit service is one of the key elements of good governance and they encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework.
23. A self-assessment was undertaken to assess compliance with the Standards and an Action Plan has been developed for areas that require work to fully comply with them. Currently, the Internal Audit Team 'generally conforms'.
24. Improvement opportunities were identified in the following areas; Charter and Protocol, Quality and Assessment Processes and Staff Training and Knowledge.

#### **Corporate Investigations**

25. A proactive exercise on the New Homes Bonus work has taken place that identified 109 properties recorded as empty that have come back in to use. This figure will be included in the New Homes Bonus Grant formula calculation that nets off the difference between those properties recorded as becoming empty in the appropriate period (Oct to Oct) and those that are recorded as empty that have come back in to use.

**2016/17 Royal Borough of Windsor and Maidenhead Internal Audit Plan Status  
(as at 31 March 2017)**

<b>AUDIT TITLE</b>	<b>DIRECTORATE</b>	<b>STATUS</b>	<b>FINAL AUDIT REPORT OPINION</b>
<b>2016/17 Audits*</b>			
Churchmead	Adult, Children & Health Services	FINAL	1
Wraysbury Primary School	Adult, Children & Health Services	FINAL	1
Waltham St Lawrence Primary School	Adult, Children & Health Services	FINAL	1
Creditors	Corporate and Community Services	FINAL	1
General Ledger	Corporate and Community Services	FINAL	1
Cash Flow, Investments, Loans (Treasury Management)	Corporate and Community Services	FINAL	1
Pensions Payroll and Administration including assurance for partners and Pension Governance Arrangements	Corporate and Community Services	FINAL	1
Adult Safeguarding	Adult, Children & Health Services	FINAL	2
School Improvement	Adult, Children & Health Services	FINAL	2
Cookham Dean	Adult, Children & Health Services	FINAL	2
Alexander First School	Adult, Children & Health Services	FINAL	2
Holy Trinity (Sunningdale) Primary School	Adult, Children & Health Services	FINAL	2
South Ascot Primary School	Adult, Children & Health Services	FINAL	2
S106 Agreements	Corporate & Community Services	FINAL	2
Cash and Banking Arrangements	Corporate and Community Services	FINAL	3
Tree Management	Corporate & Community Services	FINAL	3
Shared Property Services	Corporate & Community Services	FINAL	3
Deputyship and Appointeeships	Operations & Customer Services	FINAL	3
Payroll	Adult, Children and Health Services	DRAFT	
Housing Options	Adult, Children & Health Services & Operations and Customer Services	DRAFT	
Debtors	Corporate and Community Services	DRAFT	
Cash and Bank Reconciliation	Corporate and Community Services	DRAFT	
Council Tax	Corporate and Community Services	DRAFT	

NNDR	Corporate and Community Services	DRAFT	
Capital Programme, Accounting, Expenditure Monitoring	Corporate and Community Services	DRAFT	
Financial Management	Corporate and Community Services	DRAFT	
<b>Servicing the Business</b>			
Public Sector Internal Audit Standards Compliance			
<b>Consultancy</b>			
Payroll			
Manor Green School			
Cash & Bank Reconciliation Follow up			
Grant Certification: Social Care Capital			
Grant Certification: Troubled Families			
Grant Certification: Disabled Facilities			
Grant Certification: Integrated Transport & Highways Maintenance			
IG Governance Toolkit			
Pensions Board Governance			
IT Security Incidents			
Spot checks			
Contract Auditing			
Highways Infrastructure Assets			
<b>2015/16 Audits</b>			
Capital Programme, Accounting, Expenditure Monitoring	Corporate & Community Services	FINAL	1
Health and Social Care Act	Adult, Children & Health Services	FINAL	2
Adult Social Care - Demographic Growth	Adult, Children & Health Services	FINAL	2
Creditors	Corporate & Community Services	FINAL	2
Risk Management (follow up)	Corporate & Community Services	FINAL	2
Financial Management (including budget monitoring, budgetary control, Economy outside of MTFP and the MTFP).	Corporate & Community Services	FINAL	2
Housing Benefits/CTRS	Operations & Customer Services	FINAL	2
Council Tax	Operations & Customer Services	FINAL	2
NNDR	Operations & Customer Services	FINAL	2
Payroll	Adult, Children & Health Services	FINAL	3
Children's Safeguarding	Adult, Children & Health Services	FINAL	3
IT Infrastructure Audit	Operations & Customer Services	FINAL	3
Flooding	Operations & Customer Services	FINAL	3
CRSA Courthouse Junior	Adult, Children & Health Services	FINAL	E
CRSA Oakfield First	Adult, Children & Health Services	FINAL	E

Technology Obsolescence	Operations & Customer Services	DRAFT
Waste Management	Operations & Customer Services	DRAFT
Cash & Bank Reconciliation	Corporate & Community Services	Emerging Findings Memo
Contract Management	Cross Cutting	Emerging Findings Memo

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**Audit Opinion Definitions**

- 1 Complete and Effective
  - 2 Substantially Complete and Generally Effective
  - 3 Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated
  - 4 There is no effective Risk Management process in place
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Legend

E - Exempt

\* A new system was introduced in 2016/17 which gives management the opportunity to implement agreed countermeasures within one month of the issue of the draft report that could result in a change to the overall audit opinion awarded at final report stage.