

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Tuesday 4 June 2019**

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **ANNUAL INTERNAL AUDIT REPORT**

Contact Officer: David Hogan, Head of Audit and Assurance
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Chief Officer: Director of Finance

Ward: (All Wards)

1. Reason for report

This report informs the Audit Sub Committee of Internal Audit activity in 2018/19. It assists the Council in meeting the financial management and internal control requirements of the Accounts and Audit Regulations 2015. In particular it includes:

- an overview of work undertaken and the levels of assurance;
- an analysis of the quality and effectiveness of Internal Audit confirming that the service generally conforms with the Public Sector Internal Audit Standards;
- the Head of Audit's opinion on the internal control environment.

2. **RECOMMENDATION**

Members are asked to note the report and the Head of Audit's opinion on the soundness of the internal control environment within the London Borough of Bromley.

Impact on Vulnerable Adults and Children

1. Summary of Impact: None
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Corporate Policy

1. Policy Status: Not Applicable
 2. BBB Priority: Excellent Council:
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Financial

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: Internal Audit and Assurance
 4. Total current budget for this head: £535k including Internal and External Audit, Fraud Partnership, Insurance Management and Claims handling.
 5. Source of funding: General Fund, Admin Penalties, Legal cost recoveries
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Personnel

1. Number of staff (current and additional): 7.5 FTE including 1 FTE Insurance and Risk Manager
 2. If from existing staff resources, number of staff hours: 2018/19 900 audit days were proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich time.
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Legal

1. Legal Requirement: Non-Statutory - Government Guidance:
 2. Call-in: Not Applicable:
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Procurement

1. Summary of Procurement Implications: None
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A relevant to all stakeholders of the Council
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not Applicable

3. COMMENTARY

3.1 The annual report is for Member information and intended to assist the Council in meeting the requirements of the Accounts & Audit Regulations 2015. The regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account the Public Sector Internal Auditing Standards (PSIAS). The work forms the basis of the annual opinion of the Head of Audit and provides supporting evidence for the Annual Governance Statement, which also is considered on the agenda.

3.2 Internal Audit's objectives have been to assist management and Members in managing risks, maintaining good standards of control and continuously improving service delivery through independent appraisal, review and advice. We have carried this out in 2018/19 by:

- independently reviewing, appraising and providing assurance reports;
- ascertaining the extent of compliance with procedures, policies, regulations and legislation;
- reviewing client contract and monitoring arrangements;
- reviewing and refreshing the arrangements for Risk Management and departmental and corporate risk registers;
- identifying fraud and irregularity and working in partnership with RB Greenwich;
- hosting interactive web training for Officers in Financial Regulations, Risk Management and Fraud Awareness

3.3 Key aspects of our reviews examined controls in place and assessed these together with associated risks to ascertain if they are being followed. Internal audit has ensured that controls operate in an efficient and effective manner, statutory and management requirements are complied with, completeness and accuracy of records are secured and identified weaknesses are corrected.

3.4 Analysis of 2018/19 activity and use of resources

3.4.1 The 2018/19 Audit plan identified a total of 55 separate tasks. In addition 17 audits were carried forward from 2017/18 and finalised in the year. By the end of the year work was either completed or in progress on a total of 49 further projects. 6 have been carried forward to 2019/20. Unplanned investigations were also carried out involving Internal Audit as opposed to the Anti-Fraud work separately completed by the Royal Borough of Greenwich Team.

3.4.2 Work in progress and draft reports will, when finalised, be reported to the next meeting of the Committee.

3.4.3 The days allocated to Departments is set out below with a comparison to 2017/18

Table 1

Department	Actual Days 17/18	Actual Days 18/19
Corporate	N/A	264
Chief Executive's	321	180
Education Care and Health Services including Public Health	298	198
Environment and Community Services	124	153
Sub Total	743	795
Anti-Fraud and Investigations	81	79
Total	824	874

3.5 Summary of work undertaken and audit opinions

3.5.1 Audits are conducted in accordance with prescribed standard. Not all tasks result in an opinion.

3.5.2 A summary of work undertaken follows in Table 2 below.

Table 2

Planned tasks 2018/19	55
Deferred as already issued report on same issue this year/moved to next year or cancelled with management agreement	6
Completed tasks including reports at draft stage	38
Work in progress	11
Reports carried forward from 2017/18 and issued in 2018/19	17

3.5.3 Whilst there have been some variances and amendments to the plan, sufficient work has been undertaken to form the Head of Audit's opinion.

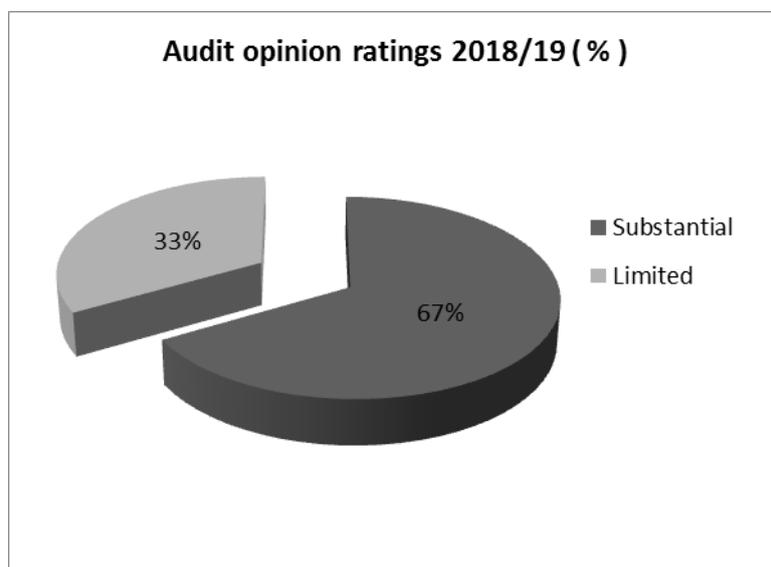
3.5.4 Further analysis is detailed in Appendix A

3.5.5 An Assurance rating was given in respect of 45 reviews at draft or final stage

Table 3

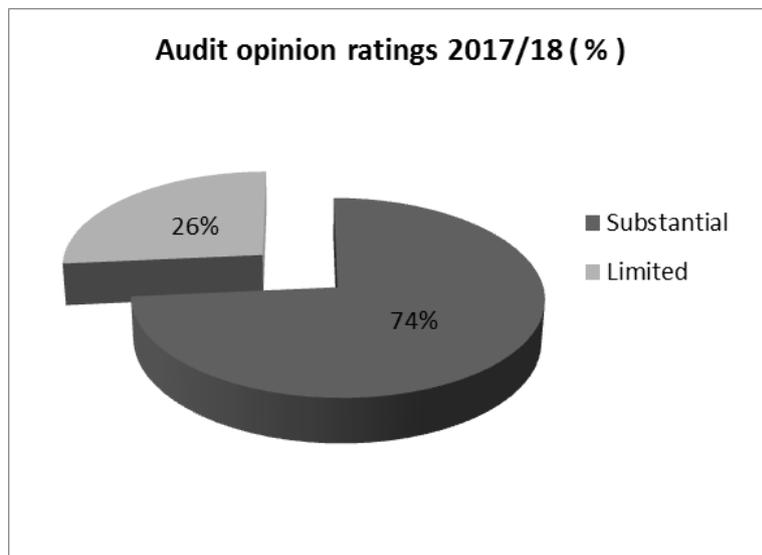
Full Assurance	0
Substantial Assurance	28
Limited Assurance	14
Nil Assurance	0
Sufficient evidence to support grant claims requiring Internal Audit verification	3

Chart 1



This can be compared with the 2017/18 ratings in Chart 2 below

Chart 2



3.5.6 Following an Internal Audit review and after consultation with management, auditors form an overall opinion on the extent that actual controls in existence provide reasonable assurance that significant risks are being managed. They grade the control system accordingly. The opinions given are currently graded according to the criteria in Table 4.

Table 4

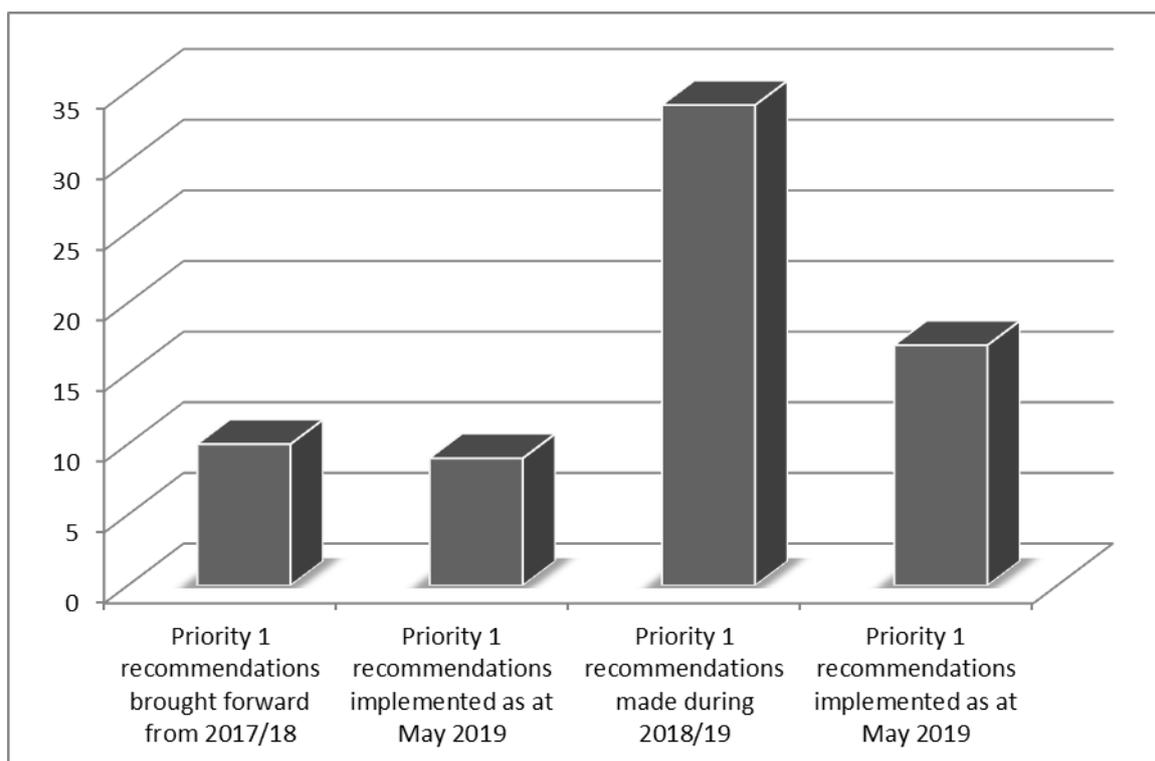
Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound system and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are Priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.

3.5.7 Members will be aware that we will be changing the assurance categories and definitions for these going forward from April 2019. In addition there are some claims for external funding such as The Troubled Families Programme or the Pothole Action Fund where the Internal Auditors of each of the recipient authorities are required to investigate and check that the conditions attached to the specific grants have been complied with.

3.5.8 Summaries of all individual reports have been reported to the Audit Sub-Committee following a formal report to management and it is not necessary to detail them again here. Each audit has agreed terms of reference and is conducted according to the Public Sector Internal Audit Standards. Final reports are agreed with the client prior to release. They are followed up systematically. Finalised audit reports are published on the Council's web site.

3.5.9 In May 2018, 10 priority 1 recommendations were reported to the Audit Committee, brought forward from 2017-18; 9 of these recommendations were implemented during 2018-19. 34 new priority 1 recommendations were reported during 2018-19 of which 17 were implemented prior to the June 2019 Committee and 17 priority 1 recommendations have been carried forward to 2019/20.

Chart 3



3.5.10 Following a decision by Members, all audit reports suitably redacted, are published on the internet unless exemption is sought. A summary of the key issues and challenges for the authority arising from our work is detailed in the Head of Audit's opinion in para 3.9 to 3.9.4.

3.6 Risk Management

3.6.1 It was agreed by the Committee that Risk Registers would be reviewed at least six monthly, updated and reported first to Audit Sub Committee and then to the respective PDS Committees. The latest iterations of the departmental and corporate risk registers, which formed part of the Corporate Risk Management Group meeting agenda on 1st May 2019 are attached as Appendices B1 – B9 of the Internal Audit Progress Report.

3.6.2 Since the last meeting of the Audit Sub Committee on 26th February 2019, one key amendment has been made, to the Corporate Risk Register, by way of the addition of a risk reflecting the 'Potential detrimental impact of Brexit upon service delivery'.

3.6.3 At the Executive, Resources and Contracts PDS meeting of 5th July 2018, it was requested that the risks marked as 'Red' (High) should be presented to each meeting of the relevant PDS committee and that the 'further action required' column of each Risk Register be kept under review and this process commenced immediately.

3.7 Public Sector Internal Audit Standards (PSIAS)

3.7.1 Internal Audit engagements are subject to a thorough internal review of quality to ensure that its work meets the standards expected from its staff. For example an internal file quality review is carried out to confirm that:

- All work is undertaken in accordance with the PSIAS

- The work is planned and undertaken in accordance with risks associated with the areas under review
- The conclusions are fully supported by detailed work undertaken

3.7.2 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. Under the requirements of the Public Sector Internal Audit Standards (PSIAS) there is a need for an external quality assessment of the service every 5 years. A peer review was carried out in March 2016. The review concluded that the section generally conforms to the standards.

3.7.3 Periodic reviews of compliance to the standards are required and the Head of Audit has reviewed compliance with the standards and the Local Government Application Note. It can be confirmed that the section still generally conforms to the PSIAS. There are no significant findings from Internal Audit's Quality Assurance and Improvement Programme that require reporting to the Audit Sub-Committee or referred to in the Annual Governance Statement.

3.7.4 Last year Members were informed that the Internal Audit team reviewed working practices to develop bespoke systems using MS Word and Excel in house. There was a need to reflect on feedback on how they work in practice and ensure they are consistently applied. There was also a need to update the Internal Audit Manual to reflect these changes. This work has been progressed with new report formats, terms of reference and standard documentation. These are accompanied by guidance documentation which serves as the Audit Manual.

3.7.5 Reporting and management arrangements have been put in place which preserve the Head of Audit's independence and objectivity and it can be confirmed that there have been no impairments or restrictions in scope.

3.8 Head of Audit – Annual Opinion

3.8.1 The Annual assessment is based on the work reported between April 2018 and the date of this report. In formulating this opinion the assurance activity undertaken by the Council and other external assurance providers is taken into account along with the following:

- The Audit work undertaken including the assurance opinion ratings
- The follow up reviews determining how the authority responds to identified weaknesses and in particular priority 1 recommendations
- Its approach to risk management particularly the detailed refresh of the Council's Risk registers
- Internal Audit's review of the supporting evidence for the Annual governance Statement

3.8.2 The work completed to draft or final stage shows that 67% were classified as substantial assurance with 33% limited. In addition the results of follow up work show that audit recommendations are consistently implemented. The concept of continuous improvement is applied in that even in the best performing authorities errors will occur or control failures may result despite good intentions. However the Council should learn from its past performance, rectify defects and not continue along a path when control failure is evident. The Corporate Leadership Team considers priority one recommendations on a regular basis and managers are held to account. Audit reports highlight those areas where internal control systems need to

be improved and the Internal Audit Plan for 2019/20 has time allocated for undertaking follow up work. Internal Audit will pay particular attention to those areas where the Internal Audit opinion was limited and priority one recommendations have been raised.

- 3.8.3 The work reviewing the Annual Governance Statement also clearly demonstrates the range of organisational controls which serve to provide an effective level of governance.
- 3.8.4 From the work undertaken during 2018/19, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the Council's objectives and that controls are applied consistently. Where weaknesses are identified, i.e. Limited Assurance reports and Priority One recommendations are made; these are tracked by the Corporate Leadership Team and the Audit Sub Committee until implemented or discharged. In giving this opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- 3.8.5 As part of our work on risk management and identifying areas for inclusion in the Annual Governance Statement we have identified key areas for management attention over the next year. These are summarised below and further detail is included in the Annual Governance Statement report on the agenda.
- 3.8.6 **Finance**
- 3.8.7 The capacity to make further budget savings and maintain frontline services. The Council has set a balanced budget for 2019/20 without a detrimental impact on key services. There are significant mitigation options to partly offset growth/cost pressures being implemented for 2019/20. Significant challenges remain for 2020/21 and beyond.
- 3.8.8 **Health and Safety/Fire Safety**
- 3.8.9 A need was identified to strengthen the Health and Safety Management systems and processes across the Council ensuring compliance with good practice through compiling a full suite of comprehensive Health and Safety Risk Assessments, demonstrating that Health and Safety Risks have been established and action plans are in place to implement controls. Also in respect of Fire Safety Risk Assessments there was a need to ensure action is being taken to address the site management issues identified in the Operational Property Estate Fire Risk Assessments. In particular there was a need to ensure that a person responsible for fire safety is identified at each building; that contractors occupying buildings are carrying out fire safety properly, if their responsibility; and that suitable training/guidance is delivered either in house or externally, to ensure that responsible personnel are enabled to carry out their duties correctly and with confidence.
- 3.8.10 **Contract Management/Monitoring**
- 3.8.11 There is a need identified to strengthen control arrangements and effectiveness of Contract Management through clarifying and communicating to all staff their roles and responsibilities in respect of the management of key contracts. In addition monitoring compliance against Contract Procedure Rules Contract Monitoring requirements, identifying any issues for action to be taken through the Chief Officers' Executive/Corporate Leadership Team. A newly established Procurement Board will periodically review contract management and contract monitoring issues for key contracts, feeding back any issues/actions to the Chief Officers' Executive/Corporate Leadership Team. The Procurement service will be embedding learning and best practice for contract management via Practice Notes on the Managers' Toolkit and through a quarterly Contract Owners Forum to ensure governance compliance and consistency.

3.9 Counter Fraud

3.9.1 Internal Audit works in partnership with the Royal Borough of Greenwich in respect of Counter Fraud Investigations. In total there were 271 referrals from 01/04/2018 to 31/03/2019. These are detailed in Appendix B of the Fraud Report on the agenda. Since last year's annual report, 85 cases were successfully prosecuted of which 81 cases related to Blue Badge misuse, one prosecution was for Council Tax Fraud, one Business Rate Fraud and two False Rehousing Application Frauds. .

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

4.1 The contents of this report have implications for both adults and children in respect of cost and care requirements.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

6.1 Some of the Internal Audit findings have financial implications.

7. PERSONNEL IMPLICATIONS

7.1 Where appropriate and following a reasonable management investigation, a disciplinary process may be initiated in response to poor practices or/and misconduct.

8. LEGAL IMPLICATIONS

8.1 Internal Audit is a statutory function under the Accounts & Audit Regulations 2015.

9. PROCUREMENT IMPLICATIONS

9.1 The contents of this report have implications for procurement relating to Contract Procedure Rules, Financial Regulations and VFM issues.

Non-Applicable Sections:	Policy
Background Documents: (Access via Contact Officer)	None