Audit Committee

25 July 2019

Title	Annual Internal Audit Summary Report 2018/19		
Purpose of the report	To note		
Report Author	Punita Talwar, Internal Audit Manager		
Cabinet Member	Councillor Tony Harman	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	The Audit Committee notes the Annual Internal Audit Summary Report for 2018/19.		
Reason for Recommendation	Not Applicable		

1.   Key issues

1.1   Internal Audit is defined as "An *independent, objective assurance and consulting activity designed to add value and improve an organisation's 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*."   (Public Sector Internal Audit Standards)

1.2   Internal Audit findings form the basis of the annual audit opinion on the adequacy of the authority's internal control environment, risk management and governance arrangements. The opinion supports the Annual Governance Statement, considered by External Audit and others. This report therefore summarises Internal Audit findings and sets out the independent audit opinion of the Internal Audit Manager for the 2018/19 period, who under Public Sector Internal Audit Standards (PSIAS) represents the Chief Audit Executive at Spelthorne.

1.3   Appendix 1 summarises Internal Audit reviews carried out in 2018/19, highlighting assurance opinions where appropriate. Assignments deferred to Quarter 1 of 2019/20 at the request of Management have also been included for completeness. Audit reports include recommendations aimed at reducing risks and strengthening internal controls. Progress on implementation of audit recommendations together with the direction of travel is provided. Further monitoring of status will be undertaken in October to coincide with issue of the

next progress report (Interim Audit report) to Management Team and Audit Committee.

1.4   In addition to planned assurance reviews, details of other work undertaken (including corporate tasks and quality assurance process for Internal Audit) is outlined at Appendix 1. Some examples of how Internal Audit supports the organisation in achieving its objectives and adds value are set out below:

   (a)   Reactive and pro-active advice provided to services and corporate groups on various risk and control issues

   (b)   Coordination and reporting of counter fraud outcomes/initiatives

   (c)   Investigating suspected fraud and irregularities or providing support to these processes, highlighting any lessons learnt

   (d)   Supporting corporate governance arrangements

   (e)   Corporate Risk Management – see separate report. Audit provides advice to Management Team, Corporate Risk Management Group (CRMG) and co-ordinates the Council's Corporate Risk Register representing the Council's most significant risks

1.5   The Internal Audit function has operated with a significant resource shortage between April and October 2019, essentially a reduction of 1 FTE from a team of 1.75 FTE. These circumstances have inevitably required some reprioritising of the 2018/19 Internal Audit plan. Following a recruitment process to fill the vacant Senior Auditor post, the new post holder commenced in November. In addition the ongoing requirement for Contractor Audit resource to support delivery of planned assignments and specialist areas such as ICT Audit prevails and Spelthorne procure Auditor days as required through the Apex legal Framework.

Annual Audit Opinion

1.6   The Internal Audit Managers opinion on the Council's control environment for 2018/19 (prepared on 22 May 2019) is as follows:

The Internal Audit Managers opinion for 2018/19 is that the Council's internal control environment and systems of internal control in the areas audited were generally adequate, with the exception of the areas where improvements were recommended to address medium to high risks. The following is considered to represent the key themes and issues arising from Internal Audit's work and any planned action to address has been included for completeness (planned actions updated at 1/7/19):

(In the majority of cases Management have agreed to address the improvement actions, or accept the associated risks of not doing so. Some proposed actions are yet to be agreed/confirmed by Management).

Key themes and issues arising from Internal Audit's work 2018/19

Issue Identified/Risk Implication	Planned Action
1.Policies and Procedures There are a number of significantly out of date policies and procedure manuals, many of which relate to core financial systems. Out of date policies and procedures increase the likelihood of practices being applied inconsistently or inefficiently resulting in processing of financial transactions incorrectly, financial loss, and/or breach of legislation. Other associated risks include lack of clarity regarding roles and responsibilities and division of duties across teams, which may also make it more difficult to demonstrate adequate segregation of duties.	Management have agreed to address audit recommendations. Regular review of policies/ procedural and training guidance used across key systems. Where applicable consideration should also be given to aligning these with other policies/regulations to promote consistency. Some policy reviews have recently taken place such as the Corporate Debt Policy. There is scope to introduce action tracking of policy and procedural review to serve as a reminder.
2.Housing Benefit Overpayments (HBO) The Department for Work and Pensions (DWP) policy around recovering older Housing Benefit overpayments (HBO) first (i.e. not simultaneous recovery of old and new debt) and the complexity of recovering HBO due to the different rates of deduction applicable has created limitations in terms of maximising recovery for Housing Benefits Overpayments. The current HBO debt stands at approx. £3m.	The limitations in terms of the recovery approach for Housing Benefit Overpayments (HBO) and amounts that can be recovered represent ongoing uncertainty over recovery of outstanding Housing Benefit debt. This has been highlighted on the Council's Corporate Risk Register. Internal Audit Recommendations relating to the production of aged debt analysis reports, financial breakdowns and issue of management information to the Corporate Debt Group, aimed at substantiating overall figures, improving debt monitoring exercises and enhancing visibility have been implemented.
3.System Administrators An ongoing weakness relating to an absence of segregation of duties prevails as System Administrators have both operational (processing) and administrative involvement in financial transactions. The risk implications include manipulation of data for personal gain - fraud, theft, collusion, and error leading to financial losses and reputational damage.	The Council has highlighted this risk on its Corporate Risk Register to enable monitoring by the Strategic Management Team. The importance of Management implementing compensating controls continues to be highlighted by Internal Audit. Whilst there are some compensating controls in place including the production of system generated exception and activity reports in some areas, independent management review of such reports/logs is required (evidenced) to ensure that this control is operating effectively.

4.Independent Management review Independent review of financial reconciliations undertaken for key financial systems are not consistently evidenced. In the absence of such evidence the expected control cannot be confirmed as operating satisfactorily and the associated risks of error, unresolved discrepancies, miscoding in the Council's accounts and fraud are increased. Absence of periodical management oversight increases risks of error, theft and fraud, resulting in financial losses.	Management have agreed to address audit recommendations and advised that action (i) has been implemented. i.Financial reconciliations to continue to be completed regularly and independently reviewed to ensure any errors and discrepancies are promptly identified, investigated and rectified. Reconciliations between feeder systems to the General Ledger should be signed off electronically by an independent Officer or Manager to provide evidence of this task having been reviewed. ii. Increased management oversight is prudent to promptly identify potential discrepancies/significant errors and/or fraudulent activity.
5.Project Governance 5i.Whilst the Council has a proportionate Project Governance Framework, consistent application of Project Governance arrangements remains outstanding. 5ii.Project Management expertise and skills are limited across the authority, and general understanding around projects including roles and responsibilities needs enhancing. Given the number of projects being undertaken this highlights a need for delivering robust training. 5iii. Whilst monitoring takes place through the Corporate Project Dashboard reporting to MAT / Overview & Scrutiny, this approach is not considered fit for purpose because the RAG ratings are only based on the status of the project and do not take into account whether or not the relevant control processes have been applied to the project to enhance the likelihood of project success e.g. preparation of a business case or project plan etc. 5iv. Current project template documentation could be enhanced further to incorporate a PID and Gantt chart.	Management have agreed in principle to address audit recommendations or consider for 'training' alternative options to address the highlighted risks. 5i.The previous recommendation raised by Internal Audit in the Annual Audit report of July 2018 (relating to the 2017/18 financial year) remains outstanding and therefore should be considered again as follows: "Whilst the Council has a proportionate Project Governance framework, consistent and proportionate application of Project Governance arrangements including methodology and documentation are required to contribute to the likely success of projects whilst reducing potential risks of delays and overspend". 5ii. An assessment of viable training options to better equip Managers with the key tools and techniques to manage projects successfully is to be undertaken which will include consideration of industry standard training, such as Prince2. This would also help the Corporate Projects Team/resource to more effectively assist and support Project Managers. In the meantime general refresher training on Project Management is being arranged to promote the current framework, guidance and key governance processes.

5v. Management should establish a formal control process to ensure that key project managers should ensure that past council learnings are incorporated into the current project.	5iii & iv .A document has been produced (April 2019) which combines the key control processes required to streamline methodology and make it simpler for project managers to understand requirements. A gateway approach can be considered alongside a mechanism to put a project on hold until the documentation is complete. This will require clear and prompt communication to the corporate project team at the outset of projects. Consideration will also be given to introducing a Project Challenger for high value/profile projects (someone independent of the project team) in order to give those involved in the governance of the project independent assessment of the progress and likely success of the project. 5v. Management to advise further.
6. Rent Management System (Bed and Breakfast Accommodation) Poor System Integrity due to increased risk of error, duplication of data, irreconcilable systems and inefficient processes. This has led to significant aged debts and financial losses.	Project set up to address and move forward the operational issues but resourcing, skillset and possibly ownership remains an issue. Weekly payments cycle for Housing Benefits has been agreed with the Council's External Auditors, BDO and is being applied. Utilising the Process mapping resource to drive and support the required change and improvements. A planned internal audit review is underway and any findings/recommendations arising will be reported in due course.
7. Procurement 1. Spelthorne's Contract Standing Orders require contracts over £40,000 to be advertised (Public Contract Regulations). Many procurements potentially valued between £5k and £100k are not e-tendered (or have not gone through a process of seeking alternative quotes), and will therefore not be advertised on Contract Finder (the national portal). 2. Spelthorne is not following the Government's Local Authority	Following the transfer of the Procurement function to Corporate Governance at the beginning of 2019, a revised Procurement Service vision and strategy was issued in February 2019 which sets out a phased approach to developing the Procurement Service. Some planned improvements underway include improved alignment between Procurement and Project Management processes, periodical indicative spend analysis exercises, effective measurement of benefits realisation through robust business cases for procurement activity, increased reporting to Management team on the status of individual procurements.

Transparency Code in respect of publishing a list of agreements with a value that exceeds £5,000.The Council needs to be mindful as to how this may be perceived.

3. Refresher training for officers involved in procurement and contract management has become overdue (2014). Documented guidance on procurement processes are due for a refresh to ensure that up to date and relevant practices are being adhered to.

4. There is no central contract register, presenting risks that key contract dates may be missed. Where insufficient time is allowed prior to contract end dates to explore and agree the best course of action, there is a risk that the most effective procurement route may no longer be available. In addition, without a central contract register, the Council will not have an overview of the contracts across different services and this may hinder their ability to take a holistic approach to procurement.

5. The Council uses S&P Global Market Intelligence to assist in evaluating the financial health of tenants in potential commercial investments and to monitor the financial health of tenants in investments assets owned by the Council. However no other formal monitoring of general supplier resilience is carried out.

6. The responsibility of on-going contract management rests with contract managers. However there is no central oversight or outline in terms of how contract managers should monitor contracts and there is no requirement currently to report on large contracts. Without robust contract monitoring, problems with contracts may not be identified on a

Specific actions below to be agreed/confirmed by Management.

1.Contract Standing Orders (CSOs) to be revised and (i) reflect the priorities and objectives stated within the Procurement Strategy, (ii) are coordinated with the Council's financial policies and regulations, and compliant with EU and UK procurement legislation and (iii) are complied with by all service groups within the Council. Monitoring mechanisms need to be set up to measure compliance with the Council's procurement rules.

2. Consideration of the Local Government Transparency code and if Management accept the risks of non-compliance then this should be formally documented.

3. Training has taken place (May 2019) attended by a number of Spelthorne Managers and Service representatives. The external trainer highlighted a number of regulatory requirements (Public Contract Regulations 2015) for further consideration. A further session to outline local procedures and processes in place at Spelthorne seems appropriate to promote awareness and understanding of expectations. This may follow any planned review of procurement guidance documents and checklists to reflect the most current legislative and regulatory changes, made accessible to all staff responsible for procurement.

A Procurement Projects Group was established in April 2019 and recognises that Spelthorne will continue to devolve a lot of buying activity to Services but also that central procurement support will be accessible to improve procurement practice. This coincided with production of a monthly PPG Report to regularly advise stakeholders on the status of a range of procurements.

4. A contract register to be put in place and regularly monitored, clearly listing all Council contracts, their values and expiry dates. An individual or groups should be allocated responsibility for overseeing contract forward planning.

5. The Council's approach to supply chain resilience should be developed beyond existing

timely basis and there is a risk that appropriate corrective action is not taken promptly. This may lead to anticipated outcomes and benefits not being met due to poor performance, which could result in reputational damage.	arrangements. Given the number of suppliers in use it is recognised that any approach to gain assurance needs to be proportionate to the risks involved. 6. Development of a contract management framework with improved control over contractor performance monitoring and a process to facilitate central oversight of this. Introduction of a Contract Management action learning set is due later in 2019 which will assist Services with the management of Contracts once let.
8. Authorisation A large value payment has been issued without appropriate authorisation, increasing risks of error, fraud and financial losses.	Recommendations arising from an audit review underway will be reported further. In particular the following actions require Management attention. (i).Authorisation values established for payments should be reviewed for appropriateness and Managers reminded as to the importance of complying with limits set. (ii).Officers responsible for processing payments should ensure that for non-purchase order payments the PL3 forms are correctly authorised prior to processing payments, supported by appropriate independent scrutiny of all higher value payments.

Issues with a significant level of risk attached have been transferred into the Council's Corporate Risk Register for regular monitoring by Management Team, Cabinet and the Audit Committee.

The above issues are also summarised in the Council's Annual Governance Statement.

2. Options analysis and proposal

2.1 There are no options.

2.2 Implementation of audit recommendations will reduce risks for the authority and enhance the control environment which is acknowledged by the Councils Management Team.

2.3 Failure to undertake internal audit work to the required professional standards would lessen the Council's assurance that effective control systems are in place and could result in an increase in the Council's annual external audit fee.

3. Financial implications

3.1 The Corporate fraud returns collated by the Internal Audit Manager demonstrate the significant cumulative financial returns/savings achieved. From January 2015 to March 2019, notional savings to the public purse

equate to almost £2.5m, of which £482k represents quantifiable cashable savings for Spelthorne. Specifically for the 2018/19 period (rounded to the nearest £1,000), the overall savings to the public purse equated to £890k with cashable savings for Spelthorne amounting to £154k.

4.   Other considerations

4.1   There are none.

5.   Timetable for implementation

5.1   Not applicable.

Background papers:

Appendices: Appendix 1 – Summary of Internal Audit Work for the year 1 April 2018 – 31 March 2019