



central midlands audit partnership

Ashfield District Council – Internal Audit Annual Report 2017-18

Audit Committee: 24th July 2018



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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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Providing Excellent Audit Services in the Public Sector

Introduction

Why an Audit Opinion is required

The Public Sector Internal Audit Standards (PSIAS) states:

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

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 must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extracted from Public Sector Internal Audit Standards Updated March 2016 - 2450 Overall Opinions

In this instance, the Chief Audit Executive is the Audit Manager.

How an Audit Opinion is Formed

Internal Audit's risk-based plan must take into account the requirement to produce an annual internal audit opinion. Accordingly, the Audit Plan must incorporate sufficient work to enable the Audit Manager to give an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.



Possible Overall Opinions

The Audit Manager's opinion relative to the organisation as a whole could fall into one of the following 3 categories:

- **Inadequate System of Internal Control** – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

Quality Assurance and Improvement Programme

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

Public Sector Internal Audit Standards state:

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

Extracted from Public Sector Internal Audit Standards Updated March 2016 - 1320 Reporting on the Quality Assurance and Improvement Programme

Public Sector Internal Audit Standard 1312 also requires that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

Assessments are based on the following 3 ratings:

- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
- **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

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- **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

An external quality assessment of the internal auditing activities of CMAP was undertaken during the period February – April 2017 and identified some opportunities for further improvement and development. The consultant provided an update position on our overall conformance with the Standards in September 2017 and re-assessed our conformance as follows:

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

Audit Opinion 2017-18

Based on the work undertaken during the year, I have reached the overall opinion that there is a **Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

I have arrived at this opinion having regard to the following:

- The level of coverage provided by Internal Audit was considered adequate.
- Regular meetings with the Monitoring Officer to discuss emerging issues, risk, governance and the control environment at the Council.
- All of the issues raised within the internal audit reports have been accepted.
- A significant piece of work has been undertaken by the Council to improve its anti-fraud and corruption framework. This work principally addressed the issues raised by an audit assignment in this area. The audit reviewed the framework for managing anti-fraud and corruption at the Council; it considered strategies, policies, training of officers and Members, and the arrangements for managing fraud. We completed this **Anti-Fraud** audit assignment during 2017-18 and there was 1 moderate risk issue which has been implemented. The other 12 recommendations were all low risk, of which 7 have been implemented, 3 have received a revised implementation date and the 2 remaining recommendations have yet to reach their target implementation date.
- Internal Audit has also been involved in the Council's Anti-Fraud group throughout the year and has observed the progress made against actions deriving from this work. Further work in relation to improving the Council's data matching has also commenced.
- Following the restructure of the Corporate Leadership Team last year, I am still uncertain as to whether the change in the role of the S151 Officer has been effective and will continue to review this role.
- Of the 29 assignments that had been significantly completed, 7 attracted a 'Comprehensive' rating and 15 a 'Reasonable' assurance rating. Of the remaining 7, an assurance rating wasn't applicable to 1 assignment and 6 attracted a 'Limited' assurance rating.
- The following table summarises the number of control issues formally raised by Internal Audit from the audit assignments completed during 2017-18. These are grouped by the type of review undertaken and by the risk rating assigned to each audit recommendation. This table is followed by a summary update position on the significant and moderate risk recommendations.

Type of Review	Recommendations Made			
	Critical Risk	Significant Risk	Moderate Risk	Low Risk
Key Financial System	0	0	6	35
System/Risk	0	2	18	25
Governance/Ethics	0	0	0	5
IT Audit	0	0	12	22
Anti-Fraud	0	0	7	12
Procurement/Contract	0	0	4	3
Totals	0	2	47	102

- From the 10 **Key Financial System** audits concluded in 2017-18, of the 6 moderate risk recommendations, 4 recommendations have now been implemented, 1 has received a revised implementation date and the 1 remaining recommendation has yet to reach its target implementation date.
- From the 10 **System/Risk** audits concluded in 2017-18, there were 2 significant risk recommendations, both of which have been implemented.
 - One of the **significant** risk recommendations came from the Development Control audit. The issue being that *“The appeal overturn rate was 8.83%: Department for Communities & Local Government requirements specified that at 10% the Council’s Planning process may be placed in special measures.”* Management responded that *“Members were informed in April 2017 and training is being provided as an on-going process.”*
The second **significant** risk recommendation came from the Markets Audit. The issue being: *“The Square system only had one account for all users. This account was unrestricted to all the system settings.”* Management responded that they would create *“Individual log in accounts for users with defined and limited access for each officer dependent on job function.”*
 - There were also 18 moderate risk recommendations, 9 have been implemented, 3 have received revised implementation dates, 5 have yet to reach their target implementation dates and 1 has passed its original action date, but a revised target has not yet been provided.
- From the 2 **Governance/Ethics** audits concluded in 2017-18 there were only 5 low risk recommendations.
- From the 4 **IT Audits** completed during 2017-18 there were 12 moderate risk recommendations, 7 have been implemented and 3 have a future action date and 2 have passed their original action date, but a revised target has not yet been provided.
- A **Procurement/Contract** audit was completed during 2017-18. There were 4 moderate risk recommendations, all of which have future action dates.

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- Internal Audit also completed a whistleblowing investigation and the associated system weakness report. This contained 6 moderate risk recommendations, all of which have a future action date.

This opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is one component that is taken into account when producing the Council's Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

Audit Coverage

Assurances Provided

The following table seeks to summarise the extent of audit coverage provided to Ashfield District Council during 2017-18 and the assurance ratings associated with each audit assignment.

Summary of Audit Plan 2017-18 Results (incl. Jobs B/Fwd)	Type of Review						Totals
	Key Financial System	System/Risk	Governance /Ethics	IT Audit	Anti-Fraud	Procurement /Contract	
Not Yet Complete	1	0	0	0	0	0	1
Comprehensive	3	2	2	0	0	0	7
Reasonable	5	6	0	3	1	0	15
Limited	1	2	0	1	1	1	6
None	0	0	0	0	0	0	0
N/A	1	0	0	0	0	0	1
	11	10	2	4	2	1	30

Assurance Ratings Explained

Comprehensive - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

Reasonable - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

Limited - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

None - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

N/A – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.

These assurance ratings are determined using our bespoke modelling technique which takes into account the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

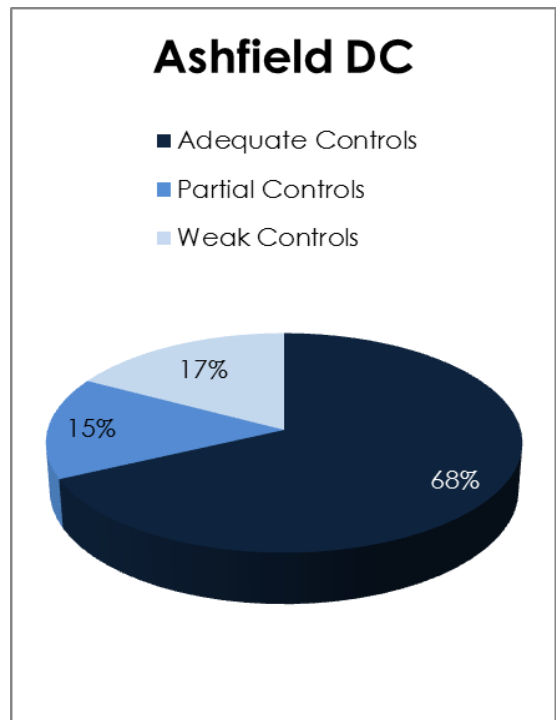
Audit Assignments Completed in 2017-18

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Taxation	Reasonable	0	0	0	5	100%
Universal Credit & Rent Arrears	Comprehensive	0	0	0	1	0%
Main Accounting Systems 2016-17	Reasonable	0	0	0	7	100%
Creditors	Reasonable	0	0	1	3	100%
Housing Benefit & Council Tax Support 2016-17	Reasonable	0	0	1	1	100%
External Wall Insulation Project – Grant Funding	N/A	0	0	0	0	n/a
Capital Accounting	Comprehensive	0	0	0	3	0%
Housing Benefit & Council Tax Support	Comprehensive	0	0	0	3	67%
Depot Income	Limited	0	0	4	7	73%
Right to Buy	Reasonable	0	0	1	4	80%
Development Control	Reasonable	0	1	2	2	80%
Markets	Limited	0	1	3	3	57%
Responsive Maintenance/Voids (Agile Audit)	Comprehensive	0	0	0	4	50%
Gas Safety 2017-18	Reasonable	0	0	2	2	75%
People Management 2017-18	Reasonable	0	0	1	0	100%
Housing Lettings/Allocations	Reasonable	0	0	1	3	75%
Private Sector Housing	Limited	0	0	4	4	88%
Corporate Governance	Comprehensive	0	0	0	4	100%
Data Quality & Performance Management	Comprehensive	0	0	0	1	0%
ECINS Security Assessment	Limited	0	0	4	6	40%
xPress Security Assessment	Reasonable	0	0	2	7	100%
OPEN Housing IT Security Assessment	Reasonable	0	0	3	7	80%
ICT Performance Management	Reasonable	0	0	3	2	0%
Anti-Fraud & Corruption	Reasonable	0	0	1	12	62%
Pest Control	Limited	0	0	6	0	0%
Payroll	Reasonable	0	0	0	5	0%
Health & Safety	Comprehensive	0	0	0	3	0%
Commercial Property Investment	Reasonable	0	0	4	0	0%
Contract Management	Limited	0	0	4	3	0%
TOTALS		0	2	47	102	59%

Internal Controls Examined

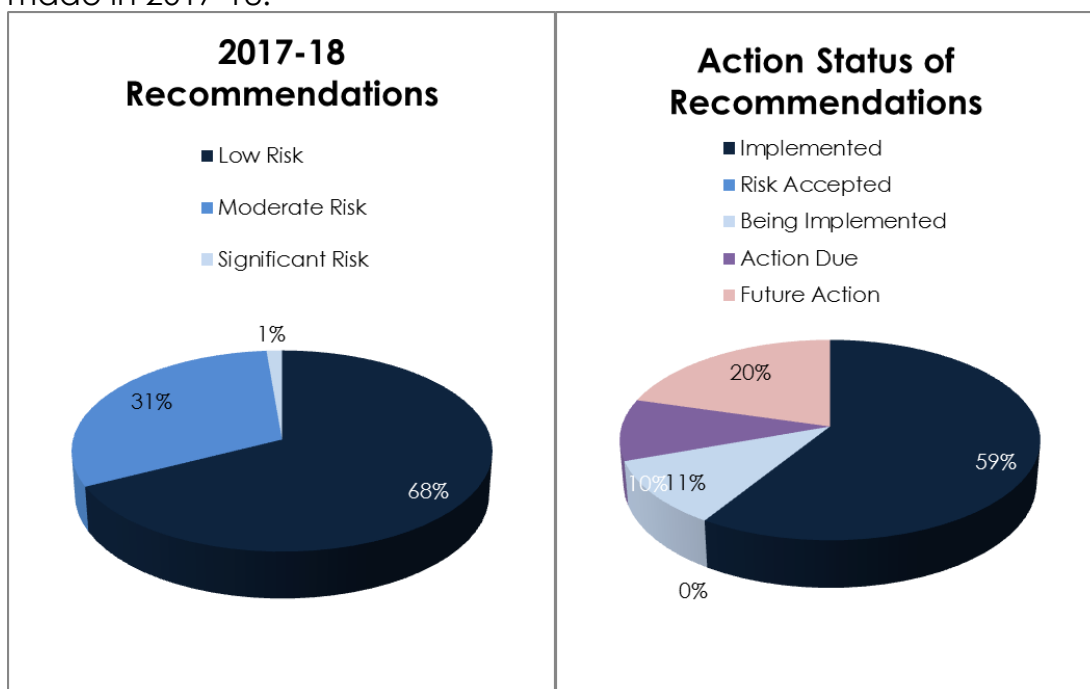
For those audits finalised during 2017-18, we established the following information about the controls examined:

Ashfield DC	2017-18
Evaluated Controls	492
Adequate Controls	334
Partial Controls	74
Weak Controls	84



Recommendations Made

The control weaknesses identified above resulted in 151 recommendations which suggested actions for control improvements. The following charts show the how the recommendations were risk rated and the current status of all recommendations made in 2017-18:



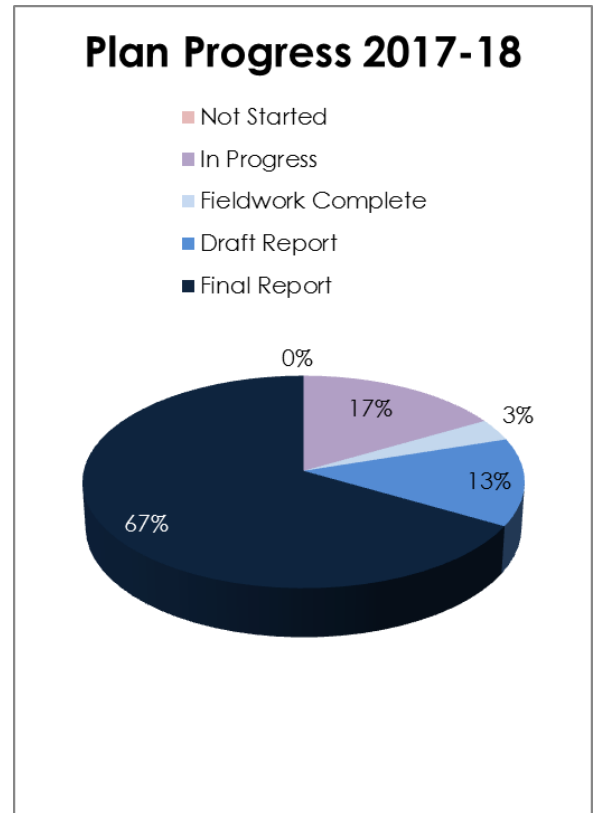
Audit Assignments Completed in Period	Type of Review	Recommendations Status			
		Total Closed	Action Due	Being Implemented	Future Action
Taxation	Key Financial System	5	0	0	0
Universal Credit & Rent Arrears	Key Financial System	0	0	0	1
Main Accounting Systems 2016-17	Key Financial System	7	0	0	0
Creditors	Key Financial System	4	0	0	0
Housing Benefit & Council Tax Support 2016-17	Key Financial System	2	0	0	0
External Wall Insulation Project – Grant Funding	Key Financial System	0	0	0	0
Capital Accounting	Key Financial System	0	0	1	2
Housing Benefit & Council Tax Support	Key Financial System	2	1	0	0
Depot Income	Key Financial System	8	0	2	1
Right to Buy	System/Risk	4	0	1	0
Development Control	System/Risk	4	0	0	1
Markets	System/Risk	4	0	3	0
Responsive Maintenance/Voids (Agile Audit)	System/Risk	2	0	2	0
Gas Safety 2017-18	System/Risk	3	0	1	0
People Management 2017-18	System/Risk	1	0	0	0
Housing Lettings/Allocations	System/Risk	3	0	1	0
Private Sector Housing	System/Risk	7	1	0	0
Corporate Governance	Governance/Ethics	4	0	0	0
Data Quality & Performance Management	Governance/Ethics	0	1	0	0
ECINS Security Assessment	IT Audit	4	5	0	1
xPress Security Assessment	IT Audit	9	0	0	0
OPEN Housing IT Security Assessment	IT Audit	8	0	2	0
ICT Performance Management	IT Audit	0	2	0	3
Anti-Fraud & Corruption	Anti-Fraud	8	0	3	2
Pest Control	Anti-Fraud	0	0	0	6
Payroll	Key Financial System	0	5	0	0
Health & Safety	System/Risk	0	0	0	3
Commercial Property Investment	System/Risk	0	0	0	4
Contract Management	Procurement/Contract	0	0	0	7
TOTALS		89	15	16	31

Performance Measures

Service Delivery (% of Audit Plan Completed)

By the end of the Plan year **91.7%** of the Audit Plan had been completed against a target of 90%.

Plan Progress	As at 31 March 2018
Not Started	0
In Progress	5
Fieldwork Complete	1
Draft Report	4
Final Report	20
Total	30



Customer Satisfaction Returns

The chart below summarises the overall scores from the 13 customer satisfaction survey responses received in 2017-18. Of those responses 10 were scored as excellent and 3 as good. The average score from the surveys was 48.5 out of 55.

