

## Internal Audit Service

### Progress report on delivery of the 2018/19 internal audit plan

#### Quarter 2 – July to September

#### 1. Introduction

- 1.1. The Audit and Accounts Committee's terms of reference require it to consider regular performance reports from the internal audit function relating to the council's services and governance arrangements. This report provides information to support that task by reporting progress with delivery of the 2018/19 internal audit plan, which was approved by the Committee in March 2018.

#### 2. Summary of progress against the plan

- 2.1. Work on the 2018/19 audit plan is well in hand. We have issued final reports on audits of environmental health, IT system access controls and follow up work on audits of risk management, performance management and taxi licensing. We have issued a draft report on progress to implement the General Data Protection Regulations (GDPR). Fieldwork on our waste collection audit will start in December, and revenues and benefits testing is complete and a report is being drafted. We have agreed to start our audits of the remaining financial systems from December.
- 2.2. The assurance we provide falls under four categories - substantial, moderate, limited and no assurance - which differ from those used previously. We no longer report 'full' assurance and our highest opinion is now 'substantial'. We have also introduced 'moderate' assurance where we are generally satisfied over the design and effectiveness of controls, but where some action is required to improve it. The assessment criteria are set out in section 5.

#### 3. 2018/19 Internal audit work completed

- 3.1. The table below shows the current status of audits on the 2018/19 audit plan. We have included assurance opinions where final reports have been issued or draft reports have been agreed with senior managers.

Audit title	Audit status	Assurance opinion
<b>Governance and democratic oversight</b>		
Improvement Plan: follow up on 2017/18 audit	Planning	
<b>Business effectiveness</b>		
Performance management (new arrangements)	Final report	N/A
Operation of the risk management strategy	Final report	N/A
<b>Service delivery</b>		
Environmental health service	Final report	Moderate
Licensing taxis: follow up on 2017/18 audit	Final report	N/A
Waste collection service	Fieldwork	

## Internal Audit Service progress report

Audit title	Audit status	Assurance opinion
Licensing alcohol sales: follow up on 2017/18 audit	Not started	
<b>Service Support</b>		
IT system access	Final report	Moderate
Revenues and benefits contract procurement	Started	
Project management	Not started	
<b>Business Processes</b>		
Information security and GDPR	Draft report	Moderate
Business rates/ national non-domestic rates	Fieldwork	
Housing benefits	Fieldwork	
Council tax	Fieldwork	
General ledger, budget setting and monitoring	Planning	
Treasury management	Planning	
Debt management	Not started	
Procurement	Not started	
Accounts payable	Not started	
Income collection and banking	Not started	
Accounts receivable	Not started	
Payroll	Not started	

Stage of audit process	Number	Percentage
Complete	5	23%
At draft report stage	1	5%
Progressing	8	36%
Not yet started	8	36%
<b>Total number of audits</b>	<b>22</b>	<b>100.0%</b>

3.2. Key findings from completed audits are set out below.

### ***Environmental Health Service: moderate assurance***

3.3. We provided moderate assurance to reflect the fact that, while operational processes need to improve, service managers have been working hard to achieve this. The Public Protection Manager (PPM) set out a clear direction for services, additional short term resources have been recruited and improvement actions are being put in place. Reports from the public are administered efficiently and effectively, and are recorded. Action to address environmental crime has been largely reactive due to lack of capacity to support fixed penalties and prosecutions, but developments such as private sector enforcement of fixed penalties, CCTV and

## **Internal Audit Service progress report**

case prioritisation should support a proactive approach. Environmental crime cases are not well recorded but the planned transfer to UNIFORM should improve this.

- 3.4. Partly due to the timing of 2017's restructure, the Public Protection Unit's (PPU) 2018/19 service plan does not yet include environmental health objectives, priorities and deliverables, and these should be agreed and recorded. Policies are being reviewed to ensure they are up to date, and should also include air quality and private water supply procedures.
- 3.5. Two corporate environmental health performance targets, fly tipping and food interventions, were monitored in 2017/18 through quarterly corporate performance reporting. Food intervention targets were discarded for 2018/19 as they are monitored by the Food Standard Agency. There are no service targets for air quality, food inspection and water inspection but these are regulated areas and performance is monitored by other agencies and inspectorates. Consideration should be given to introducing targets to assess the impact of enforcement activity, such as numbers of fixed notice penalties, fly tipping reports or prosecutions.

### ***IT system access controls: moderate assurance***

- 3.6. We can provide moderate assurance over controls for requesting, approving, monitoring and maintaining access to council systems. The council contract data centres to host systems and store data and the council can take some assurance from ISO 270001 accreditation over information security. Access to the network, terminal service and remote working is well controlled through an approval process, permissions and deletion of redundant accounts. Information security policies are in place but there is no access controls policy, and we have shared a model policy.
- 3.7. Effective network access controls provides some assurance over wider system security. However, the council does not maintain a full list of systems and system owners, restricting its ability to address data security risks. Routing software purchasing through the ICT Service could give some assurance although managers considered that reliance on users to inform ICT make this approach impractical.
- 3.8. Other systems are not as effectively controlled, and most are not supported by written guidance. The Idox system, used by environmental health and licensing, has unclear system ownership and more super users than necessary. Access requests are not consistently recorded though this should be improved by a planned electronic document management system. Access controls for other systems operate informally and inconsistently. Knowledge and understanding of system access varies and is based on corporate information security policy, which does not specifically include access controls.

### ***Information security and GDPR: moderate assurance***

- 3.9. We can provide moderate assurance over the effectiveness of action taken and in hand to implement GDPR. A Senior Information Risk Officer (SIRO) and Data Protection Officer (DPO) have been appointed, heads of service, managers and members have been trained and policies have been drafted and are in the process of being approved. We acknowledge the ICT manager's work to support GDPR, but GDPR guidance state that his operational responsibilities as Head of ICT conflict with a DPO role. We also consider that the SIRO's shared DPO role also conflicts with her role as Monitoring Officer. A new DPO should therefore be appointed.
- 3.10. An e-learning module has been developed and is due to be rolled out in December for mandatory completion, but draft policies need to be finalised and published. Personal data processing audits were carried out but the information recorded is

## **Internal Audit Service progress report**

incomplete and unclear, and we have shared an alternative template. The council should also review supplier contracts to ensure they are GDPR compliant.

- 3.11. A key DPO role is to monitor compliance with data protection obligations and policy, but this is not yet happening. DPO action should include identifying processing activity, checking the extent to which it complies and recommending any changes. Guidance is available covering GDPR implications for new procurements but existing contracts should now be reviewed and amended where necessary.

### ***Taxi licencing - follow up***

- 3.12. Our original audit reported that there is a sound system of internal control which is adequately and consistently applied. Managers agreed medium risk actions on the use of the DBS service, removal of un-progressed applications, enforcement activity reporting and recording of investigations.
- 3.13. We are satisfied that two actions are implemented, two partially implemented and one is no longer applicable. Checks are being introduced to process refunds for license applications that are not being progressed. Managers confirmed that more frequent checks on drivers will be made using the DBS update service. Licenses under investigation will be highlighted on the system to avoid being renewed and information on application numbers, performance and operational activity will be reported to Licencing Committee. Legal advice is that DBS certificates cannot be retained and therefore an action to keep copies on file no longer applies.

### ***Performance management - follow up***

- 3.14. Our audit established that the council was taking positive steps to develop a performance management framework (PMF) to support the Strategic Plan. The PMF was being revised and a new reporting template put in place. Work was in hand to agree performance measures and indicators with service heads and directors.
- 3.15. We agreed three medium risk actions and are satisfied that implementation action is being taken. The PMF is being updated. Updated council priorities, objectives and success measures are set out in the June 2018 Corporate Plan. Quarterly performance reports are submitted to Overview and Scrutiny Committee, with senior manager reports on 'Red' performance indicators and alongside corporate and project risks. Managers were not asked to submit an annual quality assurance certificate for 2017/18 but it is intended to require them for 2018/19.

### ***Risk management - follow up***

- 3.16. Our risk management audit gave limited assurance due to the need for improved management of project risk. The structured approach to managing risks in larger projects, such as those with a direct public impact, was not applied in other projects.
- 3.17. Four medium risk actions were agreed and we can confirm that two have been implemented and two have been partially implemented. A new project management framework, introduced in 2017, included risk management arrangements. A full list of projects was produced in October 2017 and risk assessed to identify projects for reporting to Programme Board, based on a performance dashboard which uses R/A/G rating to rank project risks. Lower risk projects are not routinely overseen by senior managers or members but all projects are now submitted annually to Programme Board to review risk ratings.

#### 4. Quality assurance and improvement programme

- 4.1. The Internal Audit Service aims to serve the council effectively and efficiently, to meet its professional obligations under applicable professional standards and to continuously improve. A quality assurance and improvement programme enables the Service to evaluate and demonstrate its conformance with the *Public Sector Internal Audit Standards* ('PSIAS') published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It also assesses the efficiency and effectiveness of the Service's work and identifies opportunities for improvement
- 4.2. To support this programme, and as reported in January 2018, an external quality assessment (EQA) of the Service was carried out in November 2017. The EQA confirmed that the Service 'generally conforms' with PSIAS, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the International Professional Practices Framework. The review raised a small number of improvement actions and we are making good progress to implement them, with six actions implemented and eight partially implemented (see table at 7.0 below).

#### 5. Audit assurance

##### *Assurance*

- 5.1. The assurance we can provide over any area of control falls into one of four categories as follows:
- **Substantial assurance:** the framework of control is adequately designed and/or effectively operated.
  - **Moderate assurance:** the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/or ensure that it is effectively operated throughout.
  - **Limited assurance:** there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of its objectives at risk.
  - **No assurance:** there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve its objectives.

#### 6. Update on the National Fraud Initiative (NFI)

- 6.1. Data was uploaded in October 2016 for the 2016/17 NFI exercise. The matches were released in January 2017 and checking of these is progressing. The total savings of £73,655 includes £31,554 due to the Department for Work and Pensions (DWP), but which they have decided not to recover. Details are shown below.

2016/17 biennial exercise	Number				Savings
	Reports	Matches	Frauds	Errors	£
Housing benefit	18	289	4	2	66,768
Payroll	2	16	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	3	8	0	0	0
Council tax reduction scheme	28	464	3	7	6,887
Creditors	6	899	0	0	0

## Internal Audit Service progress report

2016/17 biennial exercise	Number				Savings
Value Added Tax	1	135	0	0	0
Housing tenants	1	2	0	0	0
Procurement – payroll	2	19	0	0	0
Individuals - more than one report	1	148	0	0	0
<b>Total</b>	<b>63</b>	<b>1,971</b>	<b>4</b>	<b>1</b>	<b>73,655</b>

- 6.2. A separate matching process is undertaken to match council tax data to the electoral roll. This data was uploaded in October 2016, the results were released in December 2016 and matches have largely been checked, with minor enquiries ongoing. Earlier this year the DWP also offered a further voluntary release, at cost, comparing against a range of other data sets in all local authorities. The council purchased this service, data sets were uploaded in April and August 2017 and the council are progressing checks. Details of the latest council tax matches and comparison with previous year's results are shown in the table below.

Data categories	Number				Savings
	Reports	Matches	Frauds	Errors	£
Council tax December 2014 release	2	386	1	40	16,885
Council tax December 2015 release	2	370	0	44	16,521
Council tax December 2016 release	2	614	0	103	21,485
Council tax – Other datasets April, August & December 2017 release	7	5220	0	121	34,203

## 7. External quality assessment improvement plan – progress against actions

Reference in PSIAS	Action agreed	Action as at 31 July 2018
'Integrity': one of the four elements of the Code of Ethics.	Include explicit reference to integrity in the Audit Charter at the next update.	<b>Implemented</b> Minor amendments have been made in the Charter to reflect both these points.
'Competency': one of the four elements of the Code of Ethics.	Consider including explicit reference to competence in the Audit Charter at the next update.	
1100: The internal audit activity must be independent and internal auditors must be objective in performing their work.	We are aiming to do more work to understand other sources of assurance within the organisation. This has begun but is not yet sufficiently systematic.	<b>Partially implemented</b> We have explicitly asked council directors and heads of service to consider what other sources of assurance they have available, as part of our planning process for 2018/19. There is more to do on this during 2018/19.
1110: The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.	As the action plan is implemented to enhance the effectiveness of the Audit, Risk and Governance Committee consideration should again be given to ensuring that the head of internal audit (and the external audit director) are able to meet the committee members in private, even if only informally.	<b>Implemented</b> This was not a formal element of the action plan for the committee, but the issue was briefly discussed with the chair of the committee and external audit director on 29 January 2018. Where necessary, both auditors will have private access to the committee's chair and deputy chair.
1220: Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.	As the team settles down and becomes more familiar with internal audit concepts and our methodology, we will be aiming to use computer-assisted audit techniques and IDEA software more effectively.	<b>Partially implemented</b> Work is in hand to develop computer-assisted audit techniques and the use of IDEA software on one of the county council's financial systems audits in early 2018/19.
1230: Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.	Assuming that the service's staff settles down, a longer-term assessment of team members' skills and training attended would be helpful. This could then support a more structured long-term programme of continuing professional development.	<b>Partially implemented</b> All team members have received formal and informal training since they joined the team and all have the opportunity to access training across the region. More will be done in 2018/19 to develop a longer-term training

## Internal Audit Service progress report

Reference in PSIAS	Action agreed	Action as at 31 July 2018
		programme using CIIA apprenticeships.
1300: The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.	The HIA should implement the new concurrent and post-audit file review processes set out in the team's methodology to help test conformance with unit working practices and the quality of work undertaken.	<b>Partially implemented</b> The post-audit compliance review process has been set out and four files were reviewed in February 2018, from which some learning points have already been identified for the team. This work will continue during 2018/19.
1311 (Local Government Advisory Note – additional to PSIAS): Does ongoing performance monitoring include comprehensive performance targets?	The HIA should consider the most appropriate performance monitoring initiatives to enhance internal audit efficiency, quality and delivery.	<b>Implemented</b> Timesheets have been introduced in conjunction with the county council's finance teams from 1 April 2018. Other performance monitoring will follow from this.
2050: The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.	Consider more systematically identifying other assurance providers and determining whether reliance can be placed on their activity.	<b>Partially implemented</b> See 1100 above: work has begun with the county council's heads of service and directors to identify other sources of assurance as part of the planning process for 2018/19.
2050: as above.	Consider developing a fit for purpose assurance map that captures the assurance landscape over key risks.	<b>Partially implemented</b> See 1100 above. This may require the work above to be taken further. The value of further assurance mapping will be considered in light of the assurance volunteered by services.
2120: The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.	The risk of fraud could be emphasised and more routinely brought into an assessment of the risks facing any service, system or process, although many are not focussed on financial matters and this may not be relevant. Consider whether additional resources invested in fraud and investigation may help improve internal audit capability in this and enhance organisational governance, risk and control.	<b>Partially implemented</b> The team is aware of and responds to fraud risk during its audit work and this will be reiterated to the team during the year. No additional resources are available but this will be considered by the Corporate Management Team in 2018 under a re-assessment of corporate support for operational services.



## Internal Audit Service progress report

Reference in PSIAS	Action agreed	Action as at 31 July 2018
<p>2330: Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.</p>	<p>Our guidance addresses information management and sets out the re-performance standard but could potentially set out more explicitly how we document our work and what working papers are expected.</p>	<p><b>Implemented</b></p> <p>This has been discussed with the team collectively and it has been agreed that our methodology sets out our expectations of our documentation sufficiently clearly.</p> <p>Our methodology is continuously discussed and, having been reviewed, minor amendments have been made from 1 April 2018.</p>
<p>2410: Communications must include the engagement's objectives, scope and results.</p>	<p>As a team we are still working on developing our communication of the scope of each audit engagement. We are aiming to be more specific about the boundaries of the work – what elements of the service/ system/ process we have addressed and what we have not.</p>	<p><b>Implemented</b></p> <p>As above, this is a matter that we keep under constant review and our reports are already demonstrating more explicitly the boundaries to the work we are reporting.</p>
<p>2431: When non-conformance with the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:</p> <ul style="list-style-type: none"> <li>• Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.</li> <li>• Reason(s) for non-conformance.</li> <li>• Impact of non-conformance on the engagement and the communicated engagement results.</li> </ul>	<p>Consider updating the audit methodologies or QAIP with a small section covering this particular situation and referencing PS2431 (non-conformance with the Code of Ethics or the Standards, where it impacts a specific engagement).</p>	<p><b>Implemented</b></p> <p>This situation has not knowingly been encountered in respect of an individual audit, but the Quality Assessment and Improvement Programme has been amended for 2018/19.</p>
<p>2500: The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</p>	<p>Consider how best to report outstanding, overdue actions to key stakeholders at regular intervals.</p>	<p><b>Partially implemented</b></p> <p>Outstanding and overdue actions are reported to client audit committees annually. Follow-up work for the County Council is being developed with new corporate KPIs and support from Corporate Management Team.</p>