

## **Audit and Governance Committee**

**30<sup>th</sup> May 2019**

### **INTERNAL AUDIT ANNUAL REPORT 2018/19**

#### **1.0 Introduction**

- 1.1 Internal Audit is committed to examining and reporting on the systems of internal control that support the Council in the achievement of high standards of service delivery, conduct, governance and risk management.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) state that a professional, independent and objective internal audit service is a key element of good governance. Internal Audit discharges this role by:
- providing an independent opinion on the effectiveness of the Council's financial, operational, risk management, governance and control framework;
  - conducting risk-based reviews of internal systems within the Council, reporting to managers on their effectiveness and making recommendations for improvement where appropriate;
  - advising on the adequacy and effectiveness of controls in new and developing systems;
  - advising on the prevention and detection of fraud and investigating where suspected fraud or irregularity has been identified or brought to our attention;
  - undertaking consultancy work where requested; and
  - reviewing internal and external control arrangements operating within the Council's partnerships with external organisations.
- 1.3 The CIPFA Statement on the role of the Head of Internal Audit in Local Government notes that this role is critical to delivery of the organisations strategic objectives.
- 1.4 This report provides the overall opinion of the Head of Internal Audit on the control environment based on the delivery of the audit plan for 2018/19.
- 1.5 In providing this opinion, assurance is sought from the review of the Council's overall governance framework that supports the published Annual Governance Statement. The Council's Primary Assurance Group is central to providing and assessing this assurance.
- 1.6 The work undertaken by Internal Audit is based on the Internal Audit Plan, which in turn is based on a detailed risk assessment. Delivery of the Plan is a fundamental part of the overall control and governance framework.
- 1.7 Internal Audit have also taken account of the annual control, risk and governance assurance statements received from each Strategic Director in relation to their individual service areas.
- 1.8 The ongoing challenges presented by the continued reduction in central government funding and the shift in the balance of financial risk towards local authorities means that control and governance issues are more important than ever.

1.9 In this financial environment, transforming service delivery continues to be important, and alongside this it is essential that management remain vigilant in their responsibility for ensuring stability of their respective control, risk and governance environments.

## 2.0 **Overall Opinion**

2.1 I am satisfied that based on audit work undertaken during the financial year the Council continues to maintain a sound framework of governance, risk management and internal control supporting the achievement of its stated objectives. One key governance issue relating to Children's Services is outlined below.

2.2 I can confirm that there has been no impairment to Internal Audit's independence and objectivity during the year and no limitations have been placed on the scope of Internal Audit work. Whilst the number of available audit days has been reduced as a result of an Auditor post being vacant for the last four months of the year, coverage has been sufficient to provide the overall opinion.

2.3 There were no sufficiently significant control weaknesses identified from our reviews during 2018/19 which fundamentally undermined the control environment. Of the planned audit work completed in 2018/19, audit assurance opinions issued on the adequacy of the internal controls were recorded as substantial or high in 70% of cases. There was however a range of system and operational control weaknesses identified in our reviews, which in all instances have been addressed with agreed action plans for improvement by management.

2.4 The implementation of agreed recommendations is monitored and reported to the Audit and Financial Monitoring Overview and Scrutiny Panel. During the year there have been some issues identified with unsatisfactory progress being made, and these issues have been highlighted, and assurances sought from senior management on a robust process to implement outstanding recommendations.

2.5 In our opinion, none of these control weaknesses constituted a material weakness in our overall control and governance framework.

## 3.0 **Key Governance Issues**

### 3.1 **Children's Services**

3.1.1 There is ongoing action to address significant issues of concern raised in the Ofsted Inspection in July 2018. The Inspection identified significant problems across Children's Services and issued three Priority Action Notices. Progress is being made to ensure that the Improvement Plan is delivered, with oversight being provided by an Improvement Board. The Board convenes monthly to consider progress against the Ofsted recommendations.

3.1.2 This is also reflected in the Annual Governance Statement for 2018/19.

3.1.3 In consultation with the Strategic Director of People's Services, the Internal Audit Plan 2019/20 includes coverage of key areas.

## 4.0 **Summary Outturn**

### 4.1 **Delivery of the Internal Audit Plan**

4.1.1 The audit plan for 2018/19 was agreed with the Chief Executive and Strategic Directors and subsequently approved by the Audit and Governance Committee on

21<sup>st</sup> March 2018. Performance against the Plan was monitored during the year and a six-month progress report was presented to the Audit and Governance Committee in November 2018.

- 4.1.2 Table 1 below provides outturn information comparing the original Plan to the actual days spent on each portfolio in 2018/19.

**Table 1 Delivery of Internal Audit Plan by Area**

<b>Department/Audit Category</b>	<b>Annual Plan 2018/19</b>	<b>Outturn 2018/19</b>
People's Services	354	353
Place Services	150	120
Corporate Services	70	77
Fundamental Systems	95	81
Merseyside Recycling & Waste Authority	50	51
Partnership / External Funding Reviews	50	52
Consultancy / Management Reviews	25	17
Corporate Governance and Risk Management	50	66
Fraud and Irregularity	260	210
Contract Audit	50	81
ICT Audit & Regulation	337	335
<b>Total</b>	<b>1491</b>	<b>1395</b>

- 4.1.3 The outturn detailed above reflects coverage of 77% of the planned service, fundamental and school audits, with those reviews not completed being carried forward to 2019/20 or deferred due to fundamental service changes within year. Appendix 1 provides performance against individual planned reviews.
- 4.1.4 The number of available days has been reduced as a result of an Auditor post being vacant for the last four months of the year and this has had an impact on the completion of school reviews.

#### **4.2 Summary Audit Outcomes for Service, Fundamental System and School Reviews 2018/19**

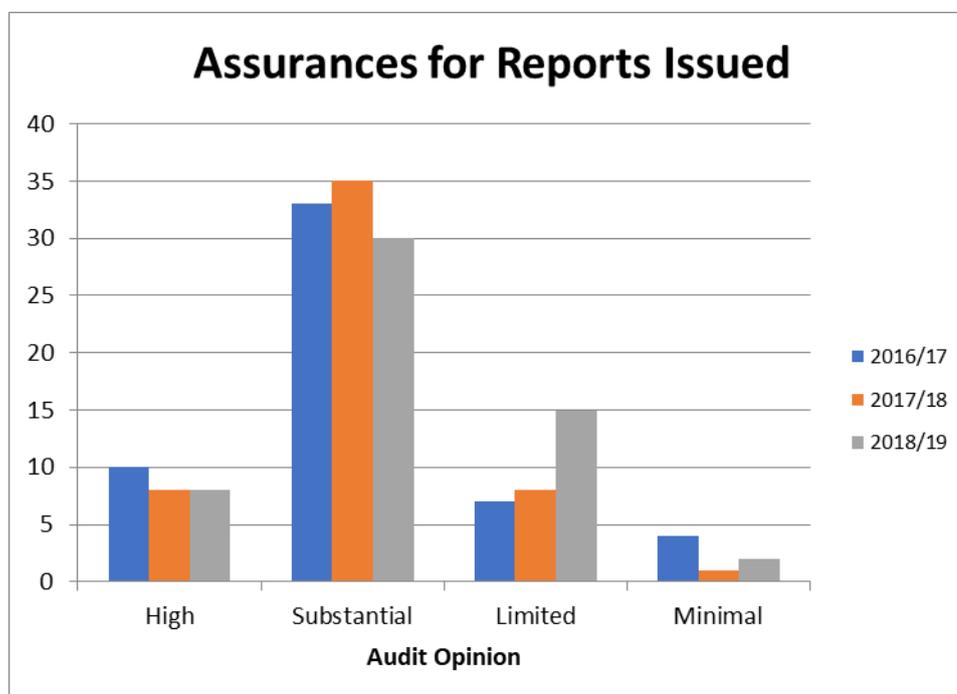
- 4.2.1 A total of 40 service or fundamental system review reports, and 15 school review reports have been published in 2018/19 each including a formal assurance opinion on the adequacy and effectiveness of internal control. Below is a summary of the assurances provided:

**Table 2 – Assurance levels 2018/19**

<b>Assurance Level</b>	<b>Service/ Fundamental</b>	<b>Schools</b>	<b>Total</b>
High	6	2	8
Substantial	24	6	30
Limited	10	5	15
Minimal	0	2	2
<b>Totals</b>	<b>40</b>	<b>15</b>	<b>55</b>

- 4.2.2 Graph 1 below illustrates the risk opinions provided in internal audit reports produced during 2018/19 and the previous two years. These opinions identify the risk to the organisation of the audit findings, with minimal being the most significant and high providing the least risk opinion. There has been an increase this year in the number of reviews with limited assurance, possibly reflecting the current challenging nature of the public sector landscape. The increase does not at this moment in time present any cause for concern, with 70% of opinions within the high and substantial categories, however it does highlight the importance of officers and management maintaining robust systems of control and governance across the Council.
- 4.2.3 For those reviews which have resulted in a Limited or Minimal Assurance level being applied this is due to the number of expected controls that are either not in place, partially in place or not applied consistently. In all instances an Action Plan to make the necessary improvements has been agreed with management and reports have been presented to the Audit and Financial Monitoring Overview and Scrutiny Panel, with officers present to discuss key issues. Although significant to the control environment for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the Council's governance, risk management and control arrangements.
- 4.2.4 Our reviews of the fundamental financial systems support the opinion that, overall, the Council has effective financial governance, risk management and internal control arrangements in place. Audit coverage during the year has provided sufficient evidence to conclude that the fundamental systems are sound and that controls continue to work well in practice. The level of assurance provided for all fundamental system reviews undertaken during the year was either high or substantial.

**Graph 1 – Assurances for Audit Reports**



### **4.3 Partnership Arrangements**

4.3.1 Internal Audit provided assistance and assurance within a number of partnership areas, including the Liverpool City Region Combined Authority Sustainable Transport Enhancement Package (STEP) and Local Growth Fund and Single Investment Fund Programmes. This included the highways developments at Windle Island, the Linkway and the A580.

4.3.2 General grant assurance work has continued, where government grant claims have required certification by the Chief Internal Auditor. In particular, quarterly audit reviews were undertaken in respect of the arrangements and documentation to support the troubled families grant, including support in determining documentation to substantiate eligible claims.

### **4.4 Consultancy / Management Reviews**

4.4.1 Additional assurance has been sought from Internal Audit at the request of Senior Management. This has included advice with regard to the methodology for contractor financial viability checks, development of electronic payment certificates and access rights to the Council's Delegated Executive Decisions database.

### **4.5 Corporate Governance / Risk Management**

4.5.1 Internal audit continued to support corporate governance and risk management arrangements through the Primary Assurance Group and through the provision of information, opinion and support to the Audit and Governance Committee and to the Audit and Financial Monitoring Overview and Scrutiny Panel.

4.5.2 Internal Audit has continued to support the Council's Primary Assurance Group in its work to produce the Annual Governance Statement, including reviewing the Annual Assurance Statements and the Code of Corporate Governance self-assessment.

4.5.3 An audit review of the Council's risk management arrangements was undertaken in 2018/19 and a substantial assurance opinion was given.

### **4.6 Fraud and Irregularity**

4.6.1 Fraud and irregularity and investigative work has been undertaken as required throughout the year. Investigative work is by nature responsive and cannot be estimated with any degree of accuracy. In 2018/19 we undertook 113 days of investigative work against an original allocation of 160 days.

4.6.2 During the year a Fraud and Corruption Risk Assessment has been undertaken to further inform planned anti-fraud work which places a greater emphasis on proactive audit work as part of the Anti-Fraud Plan. During the year, we have undertaken counter fraud work on the Capita Travel System, Accounts Payable Feeder Systems, Insurance, Client Finances and Direct Payments. No fraud has been detected, however, the need for some improvements to internal controls has been identified and reported.

4.6.3 In summary our investigative and irregularity work encompassed four main investigations, and a number of minor areas of review. The issues investigated related to non-compliance with Contract Procedure Rules and the Code of Conduct, a whistleblowing concern regarding a social care provider and inappropriate use of the Internet. In summary, and for those investigations which have concluded, this has resulted in:

- one disciplinary hearing resulting in dismissal; and
  - improvements to the control environment where appropriate.
- 4.6.4 During the year, an improved Fraud E-Learning Module has been developed and introduced.
- 4.7 Information Management and ICT Audit and Regulation**
- 4.7.1 The Internal Audit Section is also responsible for ICT Audit and wider ICT regulation which encompasses Information Management, Data Protection and Freedom of Information, in addition to the delivery of the Computer Audit requirements.
- 4.7.2 As in previous years, Salford Internal Audit Services (SIAS) were commissioned to provide specialist IT Audit services and have undertaken two planned reviews in the year, the Service Desk and the Liquid Logic Application.
- 4.7.3 Routine internet, email and USB monitoring has also been undertaken, together with specific monitoring requests from management.
- 4.7.4 In 2018/19 we continued to provide control advice and input in to various new and developing systems in order to ensure that the control environment continues to be robust, for example, the Parental Payment System and the Interpreters Service.
- 4.7.5 Internal Audit has also continued to Chair the IT Policy & Regulation Group and support and advise the IT Programme Board.
- 4.7.6 The information management programme of work has included:
- Providing support and guidance in the investigation of alleged data breaches and requests from the Information Commissioner's Office;
  - A review of the data protection training E-Learning Module;
  - Monitoring and advising Officers in respect of Freedom of Information and Subject Access Requests;
  - Reviewed responses to the Data Protection Checklists to ensure Departments are complying with Data Protection legislation and best practice;
  - Continued support to the Corporate Information Management Group.
- 4.8 Contract Audit Work**
- 4.8.1 Contract Audit reviews were undertaken in year which examined:
- (i) Pre-Contract – contract specification, tendering, selection of Contractor / Partner;
  - (ii) Current Contract – interim payment verification.
- 4.8.2 The contract audit work examined works contracts which are generally those of a building or engineering nature. Individual service contracts funded through revenue are normally covered within the service audit reviews.
- 4.8.3 During the year audit provided advice on general and specific contractual matters, including issues arising on the operation of the Engineering Services Term Maintenance and Framework contracts and implementation of framework contracts

in Asset Management. In addition, contract audit work this year included examination of the operation and management of the Responsive Repairs and Maintenance contract and subsequently the implementation of interim arrangements resulting from notice being served by the incumbent contractor.

- 4.8.4 During the year, revisions to Contract Procedure Rules have required input from Internal Audit to assist in assessing the impact on processes and procedures.
- 4.8.5 Based on the work undertaken we were able to give assurance that the expected controls were found to be operating effectively and there were no significant issues identified, with only minor points for clarification and correction being resolved during the auditing process.

#### 4.9 **Merseyside Recycling and Waste Authority (MRWA)**

- 4.9.1 St Helens is responsible for providing an Internal Audit service for MRWA through a formal Service Level Agreement. This work has been delivered as planned during the year, along with an audit opinion for inclusion with the Authority's Annual Governance Statement.

#### 4.10 **Quality Assurance and Improvement Programme (QAIP) and Compliance with the Public Sector Internal Audit Standards (PSIAS)**

- 4.10.1 The PSIAS require that the results of the Internal Audit QAIP and compliance with the PSIAS are included in the Annual Report.

##### External Assessment - PSIAS Action Plan 2018/19

- 4.10.2 An independent external assessment of the Internal Audit Service was completed in February 2018, under a Peer Review arrangement facilitated by the North West Chief Audit Executives Group. The subsequent report confirmed that the Service is compliant with the PSIAS and included an action plan which highlighted good practice areas for consideration.
- 4.10.3 All actions included in the report action plan were completed on target, by 30<sup>th</sup> April 2019. (See Appendix 2)

##### Quality Monitoring

- 4.10.4 The Internal Audit process for quality control is further documented within our Quality Assurance and Improvement Programme (QAIP) which provides for ongoing internal assessment. This process ensures that all reports are subject to review to maintain a high and consistent standard. We also continually review our processes to align them with the requirements of the PSIAS.
- 4.10.5 During 2018/19 job reviews have been completed for each audit assignment and issues raised with individual auditors have been recorded in the Audit Management System. Progress against quarterly work allocations and planned days is monitored through monthly one to one meetings with individual members of staff and performance is discussed as part of the corporate appraisal and development process.

##### Post Audit Questionnaires

- 4.10.6 Post Audit Questionnaires are utilised to monitor client perceptions of Internal Audit. These are issued at the close of each audit review and require an assessment to be provided across a range of performance standards including planning and

consultation, communication, reporting, and an overall opinion on the level of added value of the review.

An analysis of all questionnaires returned for the year indicated that:

- 99% of the scores achieved a satisfactory or better rating.

Any less than satisfactory responses are discussed with the relevant service manager to ensure that any areas for improvement are addressed.

### Performance Indicators

4.10.7 As part of the QAIP, a number of performance indicators are in place to monitor the audit reporting process and productivity. Performance against targets for 2018/19 is outlined below, together with the previous year's figures:

	Target	Actual 17/18	Actual 18/19
% of draft internal audit reports sent to the Audit Manager within 10 days of completion of fieldwork	90	91	84
% of draft reports issued within 5 working days of approval by the Audit Manager	100	100	96
% of draft reports finalised within 20 working days of issue of the draft	75	57	53
% of audits completed within allocated days	75	73	60
% of planned audits commenced by 31 <sup>st</sup> March 2019	85	79	77

4.10.8 Performance with regard to finalising reports remains low against target, however, in the main, delays are attributed to waiting for service management responses and consultation with senior managers. There have also been occasions where a change in staff has resulted in delays in the drafting process.

4.10.9 A number of reviews have required more resources than initially planned, which has impacted on the performance with regard to completing audits within allocated days and achievement of the Audit Plan. Notwithstanding this, efforts will be made in 2019/20 to improve performance against this indicator.

To continually improve efficiency, all areas of underperformance are discussed with individual audit team members during one to one sessions and through the appraisal and development process.

### 4.11 Professional Development

4.11.1 In accordance with the PSIAS it is a requirement that audit staff have current and relevant skills and are able to meet the needs of a changing environment.

4.11.2 Specific, tailored training programmes are in place for all audit staff and training and development was undertaken on a range of key areas in 2018/19. These included:

- CIPFA NW Autumn Seminar – current audit topics, including, ethics and the role of internal audit, cyber fraud and data sharing;
- CIPFA NW Audit Risk and Governance Conference – current topics including health and social care integration, fraud/financial investigation, ethics and the war on fraud;
- CIPFA NW workshops, including direct payments and auditing GDPR.

4.11.3 In 2018/19 one of the Auditors successfully achieved the final level of the Association of Accounting Technicians qualification. The new Senior Information Management Officer is currently undertaking data protection and freedom of information practitioner qualifications.

4.11.4 Maintaining an appropriate level of professional qualification and awareness of new and emerging audit practice issues remains an important objective for the Section, in order to ensure that the service continues to add maximum value.

**Caroline Barlow**  
**Deputy Director – Finance and Human Resources**

## Appendix 1

### Progress Against 2018/19 Audit Plan (Service and fundamental reviews)

The table below provides details of the work undertaken against the agreed Plan for 18/19.

Audit Area	Status	Assurance Opinion
<b>Corporate Services</b>		
Risk Management	Complete	Substantial
Legal Services	Complete	Substantial
Ethical Governance	Complete	Substantial
Apprenticeship Levy	In progress	
Press and Communication	Not started	
Human Resources	In progress	
<b>Place Services</b>		
Engineering	Complete	Limited
Civils	Complete	Substantial
Street Cleansing	Complete	Substantial
Land Charges	Deferred to 19/20	
Town Centre – Church Square	In progress	
Town Centre – Regeneration	Cfwd to 19/20	
Strategic Investment e.g Parkside	No formal report. Background work only	N/a
Leisure Centres	Complete	Substantial
Street Lighting	Cfwd to 19/20	
Estates Management	Not started	
Waste Collection & Recycling	Not started. Service under review	
Events/Catering	Complete	Substantial
<b>People's Services</b>		
<b>Adults</b>		
Integrated Access (Brookfield)	Complete	Substantial
Local Care System – Financial Framework & Governance	Cfwd to 19/20	
Local Care System – Commissioning and Delivery	Cfwd to 19/20	
Assessment & Care Management	In progress	
Carers Centre	Complete	Substantial
Appraisal and Supervision	Complete	Limited
<b>Public Health</b>		
Music Service	Complete	Limited
CQC Inspection Outcomes	Request by Director. Deferred to 19/20	
<b>Children's</b>		
Secondary Schools	1/1 Completed	Substantial
Primary Schools	9/19 completed	See below

Special Schools	1/1 not started	
Nursery Schools	1/1 completed	Substantial
<b>People's Services Cont.</b>		
Education Psychology	Complete	Limited
Pupil Premium	Complete	Substantial
Care Leavers	Complete	Limited
SEND Inspection Outcomes	Request by Director. Deferred to 19/20	
Transition to Adulthood	Draft Report Issued	
Improvement and Effectiveness Service	In progress	
<b>Fundamental Systems</b>		
Payroll	Complete	High
Creditors	Complete	Substantial
Cash Income	In progress	
Sundry Debtors	Complete	High
Council Tax	Complete	Substantial
Business Rates	In progress	
Housing Benefits	In progress	
Treasury Management	Complete	High
Taxation	Complete	High
<b>IT Audit and Regulation</b>		
Application	Draft Report Issued	
Service Desk	Draft Report Issued	
Environmental Controls	Complete	Substantial
Procurement	In progress	
Information Management –Records Management	Allocated	
Information Management – Data Subjects Rights	Cfwd to 19/20	
<b>Merseyside Recycling &amp; Waste</b>	* Subject to separate audit opinion report	
Waste Contract (1)	Complete	High
Waste Contract (2)	Complete	High
Financial Systems	Complete	High
Resource Recovery Contract	Complete	Substantial
Environmental Monitoring	Complete	Substantial
General Data Protection Regulations	Complete	Substantial
<b>Counter Fraud</b>		
Accounts Payable Feeder Systems	Complete	Substantial
Capita Travel System	Complete	Limited
Client Finances	Complete	High
Insurance	Complete	High
<b>Primary Schools</b>		
Nutgrove Methodist Primary	Complete	Limited

St James' Primary	Complete	Minimal
Corpus Christi	Complete	Limited
St John Vianney	Complete	Minimal
Blackbrook	Complete	High
Lyme	Complete	Limited
Newton	Complete	Substantial
St Anne's	Complete	Limited
Sutton Oak	Complete	Substantial
St Mary's Infants	In progress	
St Mary's Junior	In progress	
Merton Bank	In progress	
Chapel End	In progress	





7	The assurance framework currently under development should be completed to evidence the overall approach to using other sources of assurance and inform the Audit Plan.	Deputy Director – Finance and Human Resources	Completed in November 2017, prior to the external assessment, as part of the PSIAS 17/18 Improvement Plan.	Complete
8	In line with PSIAS requirements, and as identified in the self-assessment, a review should be undertaken to evaluate the design, implementation and effectiveness of the Council's ethics related objectives, programmes and activities. An alternative is for ethics related issues to be more explicitly considered and reported on as appropriate within individual audits delivered as part of the risk-based Audit Plan.	Deputy Director – Finance and Human Resources	A review of Ethical Governance is included in the 18/19 Audit Plan. To be completed by 31 <sup>st</sup> March 2019.	Complete
9	Similar to the above, a review should be undertaken to evaluate the effectiveness of the organisation's risk management processes. This will help inform the extent of reliance that can be placed when developing the risk-based Audit Plan. As the Chief Audit executive is responsible for risk management, the review should be subject to independent review by another officer to ensure compliance with the PSIAS.	Deputy Director – Finance and Human Resources	A review of risk management arrangements is included in the 18/19 Audit Plan. To be completed by 31 <sup>st</sup> March 2019.	Complete
10	To assist management in prioritising actions in response to audit reports, action plan recommendations should be prioritised and clearly related to the risk of non-compliance.	Deputy Director – Finance and Human Resources	A new report format to be introduced in 18/19, including the prioritisation of recommendations. To be completed by 31 <sup>st</sup> March 2019.	Complete
11	Consideration should be given to including more detail on the positive aspects of the control environment under review, where applicable, in related audit reports.	Deputy Director – Finance and Human Resources	The new report format will include areas of good practice. As above	Complete

12	The Internal Audit Annual Report should include a comparison of the actual reviews and audit activity carried out relative to the planned coverage and activity originally approved by the Audit and Governance Committee at the start of the year.	Deputy Director – Finance and Human Resources	Included in the 17/18 Annual Internal Audit Report.	Complete
13	The annual opinion should be reworded to make it clearer to the reader where reliance is placed on other assurance providers as well as the impact on the opinion where there is a shortfall in planned audit coverage. This will ensure that the opinion presented is based on the work performed.	Deputy Director – Finance and Human Resources	To review the wording of the opinion in the 18/19 Annual Internal Audit Report. To be completed by 31 <sup>st</sup> May 2019.	Complete

#### St Helens Council Internal Audit Service – Additional Development Action Plan

During the review the following additional points for consideration were discussed with the Chief Audit Executive. Whilst these specific points are out of the scope of the Standards/Local Government Application Note (LGAN) requirements, they are nonetheless contributory to the overall effectiveness and efficiency of the Internal Audit Service and are presented for information and consideration only:

Rec. No.	Points for Consideration	Responsible Officer	Action	Status
14	The Annual Internal Audit Report should include details of any limitations placed on Internal Audit during the year, including impairments in the performance of its work, or restrictions in the scope of any work undertaken, or confirmation that none have occurred.	Deputy Director - Finance and Human Resources	Limitations have always been reported. There have been no restrictions on scope, however, the wording of the 18/19 Annual Report will be reviewed to confirm that none have occurred. By 31 <sup>st</sup> May 2019.	Complete
15	The Audit Manual should be updated to more clearly link to the PSIAS including: <ul style="list-style-type: none"> <li>Inclusion of the Standards of Public Life's Seven Principles.</li> </ul>	Deputy Director - Finance and Human Resources	These areas are referenced in the Audit Manual, however, the Manual will be reviewed in 18/19 and consideration will be given to expanding on these where required. By 31 <sup>st</sup> March 2019.	All elements complete

	<ul style="list-style-type: none"><li>• Expectations of internal auditors in regard to them exercising due professional care when undertaking assignments.</li><li>• The need for auditors to consider the resources required to complete the engagement based on the nature and complexity of the engagement, time constraints and resources available</li><li>• The Standards expected of auditors in regard to identifying, analysing, evaluating and documenting sufficient and adequate information on which to determine the adequacy of the control environment.</li><li>• The need for auditors to remain alert to the possibility of intentional wrongdoing, errors and omissions, poor VFM, non-compliance with policies, conflicts of interest when conducting their individual audits.</li></ul>			
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