

BURY COUNCIL INTERNAL AUDIT**ANNUAL REPORT AND OPINION FOR 2016/17****1.0 INTRODUCTION**

- 1.1 The Internal Audit Annual Report provides an opportunity to look at the performance of Internal Audit over the whole financial year, and to take stock of the overall position with regard to systems and controls.
- 1.2 The Council has an obligation to issue an Annual Governance Statement under the provisions of the Accounts and Audit Regulations 2015 which must demonstrate that Members and Officers regularly review, and are satisfied with, the Council's control framework. This report will provide some of the assurances Members and others have to seek, in order to satisfy those requirements. They will also draw upon assurances gathered from a variety of other sources.
- 1.3 Members of the Audit Committee are actively involved in the planning and monitoring of the work of Internal Audit, which focuses on reviewing the corporate governance arrangements of the Council. They achieve this involvement through their approval of the annual plan, scrutiny of reports produced, and regular progress monitoring.
- 1.4 A comprehensive Internal Audit Annual Plan for the financial year 2016/17 was approved by the Audit Committee at its meeting on 25 January, 2016.
- 1.5 Throughout the year Members of the Audit Committee have received regular progress reports which monitor performance and keep them informed of our day to day activities.
- 1.6 Detailed reports of all the audit work carried out by the Section have been circulated to Members of Audit Committee.
- 1.7 This annual report aims to assess overall performance against that original plan, giving additional information about the productivity and costs of the service.
- 1.8 The report details the activities of Internal Audit during 2016/17 comparing the output of work against the approved Audit Plan for the year.
- 1.9 It is particularly concerned with the Authority's control framework and its assessment, which forms the basis of the Audit Opinion.
- 1.10 The stated intention in the plan was that the emphasis of our work would be the examination, review and testing of systems and controls, paying particular attention to the fundamental systems.
- 1.11 This report gives an opinion of the adequacy and effectiveness of those systems and controls, based on our work throughout the year, and our accumulated knowledge of those systems and the control framework within the Authority.

2.0 KEY MESSAGES

- When planning our risk based approach for 2016/17, Internal Audit identified over 600 separate auditable areas within the Council's three Directorates (Resources & Regulation, Communities & Wellbeing, Children, Young People & Culture) plus Six Town Housing. We had selected 54 areas for attention during the year. This objective changed during the year and 53 areas were examined along with participation in 3 investigations.
- We planned to undertake 764 rechargeable working days for the year – our actual output was 808. Our non-rechargeable days were 660 against an original estimate of 668.
- 57 final reports were issued and responded to during the course of the year. Half of these reports were completed within the originally allocated time and 85% issued within 14 days of the audit ending. Whilst we do try to cover additional issues arising during the course of an audit, we also have to ration the time allocated by making a measured judgement.
- In total, 328 recommendations were made in our reports and 99% of them were accepted for implementation, and there were no serious disputes arising.
- Satisfaction rating from our post audit questionnaires was 100%.
- The quality of our work was last reviewed by our external auditors in March 2011. The External Auditors concluded that "Internal Audit have achieved the required standard in all eleven areas set out in the CIPFA Code of Practice on Internal Audit in Local Government in the United Kingdom. (N.B. Standards from the Chartered Institute of Public Accountancy Code of Practice for Internal Audit). The report identified that there were no issues arising from the review.
- An external assessment of the service carried out in October 2016 found the service partially conforms with Public sector Internal Audit Standards. 17 recommendations were made and an action plan has been put in place to implement these.
- 38 specialist audits were conducted; 160 key controls were examined in 10 key control areas; 6 investigations were successfully concluded.
- The cost of the Section was £234,000 i.e. an underspend of £26,000 compared to the budget of £260,000 including recharges), and equates to £159 per rechargeable day.
- Last year we reported the setting up of the Corporate Fraud Team. Since its beginnings the team has investigated cases of fraud across several areas of the Council's services. The ability to work across multiple areas of the Council has proven very useful, with one prosecution case involving the Council and Six Town Housing, joint working at a level not previously carried out. As you would expect from working in new areas, some have proved more productive than others, some requiring further development before results are likely. Close working with Parking Services and NSL has resulted in prosecutions for the misuse of Blue Badges and the abuse of disabled parking spaces. Whilst not of a high monetary value, it was felt that the protection of what amounts to a valuable and limited resource for disabled residents could be secured for a minimal investment in time from officers. Further close working with the Corporate Policy team led to the introduction of additional verification for monies used to purchase Council Housing stock under the Right to Buy scheme, this helps to comply with our duties under Anti Money Laundering Regulations. The team continues to work closely with our

colleagues in Internal Audit to ensure that information and learning is freely passed between teams, to help target areas worth investigating or possible system weaknesses which can be removed. The results from the work of the team reinforces the view that where a service or asset is of a high value, there are people who will seek to obtain these things through fraudulent activity.

3.0 OPINION

Control Framework

The effectiveness and security of local authority systems and controls are underpinned by the overall governance and control framework. At Bury this is considered to be sound.

Systems and Controls

A major part of our function is to provide a continuous review and appraisal of systems and controls, to report our findings, and to make recommendations where appropriate. I am satisfied with the coverage that we have achieved, and I believe that systems and controls are generally sound. We have singled out weak systems and identified situations where existing systems have been allowed to lapse or fall behind, and where we believe that improvements can be made. We have continued to report on these issues to Executive Directors, Chief Officers and Members, making appropriate recommendations. The Audit Committee has been instrumental in our approach to following up our recommendations.

I believe that we have achieved a good coverage of systems and controls, but as always, I must remind Members that we only ever examine a proportion of the Council's activities (hence the need to focus our attention on "significant" systems and key controls), and that our examination often only represents a "snapshot" in time. Internal Audit is only a part of the Council's control framework, and is not a substitute for management. For this reason we have tried to proactively encourage changes to the culture of the authority in promoting good corporate governance, an anti-fraud and corruption strategy and recognition of the need to build upon the Council's risk management and business continuity arrangements.

4.0 EVIDENCE - FRAMEWORK

My opinion is based on the following:

- 4.1 The Council's Constitution has clear and unambiguous Standing Orders, Financial Regulations and Scheme of Delegated Powers which have been updated, and are subject to continual review.
- 4.2 The Council's Constitution also encompasses codes of conduct for both Members and employees, clearly linked to the appropriate Standing Orders, Financial Regulations etc. The National Code for Members has been adopted at Bury, and the National Code for Employees has been adopted.

- 4.3 The Council updated its Anti-Fraud and Corruption Strategy in December 2014 which was widely publicised. The policy takes a strong line on fraud, which underlines the anti-fraud culture within the authority. Incorporated into the Strategy are its Confidential Reporting (Whistleblowing) Policy, Benefit Fraud Prosecution Policy, Members' Guidance (re outside bodies), and a Local Code of Corporate Governance. Standards of Conduct, Anti-Bribery Policy and an Anti-Money Laundering Guidance are also reiterated here.
- 4.4 The Council has a Standards Committee (supported by the Monitoring Officer), and an Audit Committee (supported by the s151 Officer, Head of Financial Management and the Council's external auditors) promoting the high standards expected. I see this as strengthening the control framework and helping to encourage an anti-fraud and corruption culture throughout the authority.
- 4.5 During 2016/17, the Governance Panel continued to provide a forum to discuss, challenge and improve all aspects of governance in the Council. The panel was made up of four officers whose responsibilities formed the core of the Council's ethical framework (S151 Officer, Monitoring Officer, Head of Financial Management, and the interim Executive Director of Resources & Regulation).
- 4.6 No limits have been placed on the scope of Internal Audit work and as Head of Financial Management I have direct access to the Chief Executive in the capacity of Head of Internal Audit. I report directly to the Interim Executive Director of Resources & Regulation, departmental Executive Directors and to Members, and liaise regularly with the Council's external auditors.
- 4.7 The Accounts and Audit Regulations 2015 par. 6 (1) (a) require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement reporting on the review with any published Statement of Accounts. For a local authority in England the statement is the Annual Governance Statement. Having considered the findings of the review, members are then required to approve the annual governance statement, prepared in accordance with proper practice as in relation to internal control. The review is included in Appendix A to this report. Our approach is to divide the assurance framework into four categories (Audit Committee, Corporate Governance, Internal Audit, and Policies and Procedures) and look at the Controls in place, the purpose of this control, the evidence that this control exists, and the value of the control. I conclude that, in my professional opinion, the Council has a robust internal control framework and ethical governance arrangements.

5.0 EVIDENCE – SYSTEMS AND CONTROLS

My opinion is based on the following which relate to last year's work:

- 5.1 Throughout the year we have conducted a rigorous examination of the Council's fundamental systems and key controls. This has included work on Debtors, Creditors, Cash Collection, Housing Rents, Payroll, Housing Benefits, the Main Accounting System, Treasury Management, Council Tax and NNDR. Many other systems have also been examined.
- 5.2 We have continued to work closely with the Council's external auditors enabling us to co-ordinate our efforts and achieve maximum coverage in our systems audit work.

- 5.3 In addition to formal examination of systems, we have also carried out a series of random tests throughout the course of the year. For example we regularly check invoices, payroll variations and suchlike, making sure that systems are working in practice and are being adhered to. We have also continued to offer support to inter-departmental working groups, providing advice on new or revised systems. Requests for our advice and involvement at the early stages of schemes continued during 2016/17.
- 5.4 I have been encouraged, once again, by the general acceptance of audit recommendations, and by the support of Members. We have continued to develop our follow-up procedures under the auspices of the Audit Committee, which has led to an improved ratio of implementation. This, in turn, has helped to improve confidence in our systems.
- 5.5 Significant progress has been made with risk management. The Authority now has comprehensive risk registers updated on a quarterly basis, a Member level Group, quarterly reports to Strategic Leadership Team and a full training programme for Members and staff.
- 5.6 Controls often weaken when change has taken place, necessitating a revision of procedures. The authority has been, and still is, undergoing a period of change and innovation. Throughout this period I have continued to constantly remind management and Members of the need to maintain adequate controls in such circumstances.
- 5.7 We have again been directly involved in a number of special investigations, and I have reported individually on these in as much detail as is permissible. The lessons learned from some of these should help us to improve controls and remind us to remain alert.

6.0 ABOUT THE INTERNAL AUDIT SECTION

6.1 Audit Objectives

- The Internal Audit Section is the Council's own directly employed in-house Internal Audit Service, and provides a continuous review in accordance with the Council's obligations under the Local Government Act 1972 and the Accounts and Audit Regulations 2015. It operates under the Audit and Assurance Council, as part of the Financial Reporting Council, and the CIPFA (Chartered Institute of Public Finance and Accountancy) UK Public Sector Internal Audit Standards, as approved by Audit Committee in December 2013. Its objectives are to:
 - independently and objectively review and appraise systems of control throughout the authority and its activities;
 - use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Council;
 - ascertain the extent of compliance with procedures, policies, regulations and legislation;
 - provide reassurance to management that their agreed policies are being carried out effectively;
 - facilitate good practice in managing risks;
 - recommend improvements in control, performance and productivity in achieving corporate objectives;

- review the value for money processes, Best Value arrangements, systems, and units within the authority;
- work in partnership with the external auditors;
- identify fraud as a consequence of its reviews and to deter crime;
- perform its work with integrity, objectivity, confidentiality, competency, proficiency and due professional care;
- ensure the internal audit activity is managed through:
 - risk-based planning and approval of plan by Audit Committee;
 - resource planning and allocation of auditors to engagements;
 - engagement planning, performance, analysis, evaluation and communication;
 - setting, monitoring and reporting of performance standards to Audit Committee,

6.2 Audit Staff

- Internal Audit has a staffing establishment of six. This includes two Auditors, one Senior Auditor, an Audit Apprentice and an Audit Manager in addition to the Chief Internal Auditor.

6.3 Audit Skills

- We employ qualified and part qualified staff at either Accountant or Technician level. Additionally, three of our team are also graduates and some hold additional qualifications, e.g. Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Management Accountants (CIMA), Member of the Institute of Internal Auditors (IIA), Qualification in Computer Audit (QiCA) Certificate in Investigative Practices (CIIP).
- We have continued to supplement professional training with on-the-job training, specialist courses and seminars. These are identified mainly through the employee review system and help us to maintain a highly trained team. Two members of the Section have undergone the Senior Management Breakthrough training.
- We also support the activities of professional bodies such as CIPFA and working groups such as the North West Chief Internal Auditors Group, the North West Computer Audit Group, the North West Fraud Group and the North West Contract Audit Group. We have supported the National and Greater Manchester Fraud Initiatives from the outset and have maintained our participation in the ground breaking data matching exercises, which have produced such impressive savings over the years.
- Our broad spread of skills and experience in the section is constantly under review. This year we have purchased additional computer audit expertise, from the Greater Manchester Computer Audit Consortium, to supplement our own. Specialist staff from the Consortium (operated on our behalf by Salford City Council) have worked alongside our own, in-house staff, whilst we continue to develop our in-house capability.
- Appendix D reports the performance management data for Internal Audit for the 2016/17 financial year. This document represents a collation of the regular performance management updates brought before Members of the Audit Committee throughout the year.

7.0 THE PLAN - INPUTS

- We planned to provide 764 days of directly rechargeable work. Our actual output was 808.
- An analysis of time planned and worked can be seen at Appendix C.

8.0 THE PLAN – OUTPUTS

- The analysis at Appendix C shows that targets were generally achieved. It also reflects the fact that some re-scheduling of time has taken place to effect changes in priority and allow for the involvement of auditors on working groups and in conducting investigations.
- Members have been made aware of these changes through regular updates throughout the year.
- We have ensured that the core systems work has been carried out, and any reductions have been limited to the lower risk areas, which we have been able to defer in the short term.

9.0 THE COSTS

- The cost of the Section (including recharges) for the year was £234,000 (against a budget of £260,000). This has been recharged to our clients on an hourly recharge basis in accordance with our Service Level Agreement.
- Average cost per auditor was £42,956 (inclusive of overheads).
- Our recharge rate was £23.00 per hour.
- Our costs/charges have remained amongst the lowest in Greater Manchester for several years. This was confirmed in the July 2010 (most recent figures) CIPFA Benchmarking Club results that revealed the average cost per Auditor in England is £319 per day. Bury's costs amounted to £278 per day placing us in the top performing quartile. Last year we managed to reduce our costs further to £159 per day. However, the cost of participation in the Benchmarking Club has led to the Council taking the decision not to continue our participation. This is in line with most of our AGMA colleagues.
- Our rates compare very favourably with firms in the profession.

10.0 LOOKING AHEAD

10.1 We are now delivering our plan for 2017/18 (approved 25 January, 2017). I will continue to inform Members of progress throughout the year, and will again present an annual report at the year end. The following issues will also impact upon the performance of Internal Audit and its measurement, and are shown for the information of Members:

- Audit Planning – Internal Audit will continue to develop a risk based approach to its planning process.
- Intranet – The Section will continue to develop its entry on the Authority intranet site as a means of promotion.

- Performance Indicators – Internal Audit will continue producing their own key indicators as part of a Performance Management Framework developed by the Section 151 Officer.

10.2 In accordance with the Council's requirement to produce an Annual Governance Statement (Accounts and Audit Regulations 2015), it is hoped that this report, and the work of Internal Audit, will provide some of the assurance needed in supporting the Statement.

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HEAD OF FINANCIAL MANAGEMENT

Background documents:

Internal Audit Plan 2016/17

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