

AUDIT COMMITTEE – 20th JULY 2016

INTERNAL AUDIT QUARTERLY REPORT 2016/17 QUARTER ENDED 30th JUNE 2016

Executive Summary

1. Issued reports and the Internal Audit work completed during quarter raised one fundamental recommendation. This related to an information governance issue regarding the monitoring and control of system access. (Para. 4.1).
2. The internal control assurance opinion overall however remains adequate based upon the results of the work undertaken during the quarter (Para. 6.1 / Appendix 1).
3. Of the 6 recommendations followed-up, 1 (17%) had been implemented by the original target date and a further 5 (83%) had not been implemented and have received revised implementation dates by management. (Para. 4.4).
4. In relation to the Barnsley MBC audit plan, actual days delivered is broadly in line with the profiled days at the end of the first quarter (Para.7.7 & Appendix 2).
5. Quarterly performance of the function is generally satisfactory. The PI relating to chargeable time is slightly below profile due to the profile of annual leave taken in the first quarter. (Para. 8.2 and 8.3 & Appendices 3 & 4).

AUDIT COMMITTEE – 20TH JULY 2016

**INTERNAL AUDIT QUARTERLY REPORT 2016/17
QUARTER ENDED 30TH JUNE 2016**

1. Purpose of Report

1.1 This report provides the Audit Committee with a comprehensive overview of the key activities and findings of Internal Audit based on the Division's work to the end of June 2016, being the first quarter of the 2016/17 audit year. This report provides the Audit Committee with information relevant to its responsibilities within its terms of reference (terms of reference items (a), (b), (h), (i) and (k)).

1.2 The report covers:-

- i. The issues arising from completed Internal Audit work in the quarter (section 4 and Appendix 1);
- ii. Matters that have required investigation (section 5);
- iii. An opinion on the ongoing overall assurance Internal Audit is able to provide based on the work undertaken regarding the adequacy and effectiveness of the Authority's internal control environment (section 6);
- iv. Progress on the delivery of the Internal Audit Plan for the period to the end of the first quarter of 2016/17 year (section 7 and Appendix 2);
- v. Details of Internal Audit's performance for the quarter utilising performance indicators (section 8 and Appendices 3 and 4).

2. Recommendations

2.1 It is recommended that the Audit Committee:-

- i. consider the issues arising from completed Internal Audit work in the first quarter along with the responses received from management;**
- ii. note the assurance opinion on the adequacy and effectiveness of the Authority's internal control framework based on the work of Internal Audit in the period to the end of June 2016 of the 2016/17 audit year;**
- iii. note the progress against the Internal Audit plan for 2016/17 for the period to the end of June 2016; and**
- iv. Consider the performance of the Internal Audit Division for the first quarter.**

3. Introduction / Background

- 3.1 Internal Audit is a key contributor to the assurances the Audit Committee requires regarding the adequacy and effectiveness of the internal control, risk and governance environment of the Authority. That assurance is provided through planned work and responding to urgent matters and changes in priority and risk. It is important that all Internal Audit activities are undertaken with due regard to risk and the risk issues prevailing at the time.
- 3.2 In order to fulfil its responsibilities the Audit Committee needs to be satisfied that the Internal Audit Division is undertaking its work as planned, responding appropriately to client demands, operating to the required professional standards and obtaining the necessary responses from management following Internal Audit work.
- 3.3 In accordance with statutory best practice provided by the Public Sector Internal Audit Standards, there is a requirement that the Head of the Internal Audit function prepares an annual report to the appropriate member body. This requirement is best supported through regular reports during the year, providing, amongst other things, ongoing assurances on the adequacy and effectiveness of the Authority's framework of governance, risk management and control.
- 3.4 For the Authority, the appropriate member body is the Audit Committee.

4. Key Issues Arising From Internal Audit Work in the Quarter Ended 30th June 2016

- 4.1 Internal Audit work undertaken during the quarter identified one fundamental recommendation. This related to an information governance issue regarding the monitoring of system access.
- 4.2 It should be noted, that in the process of agreeing a final report, senior officers respond to specific recommendations by identifying relevant actions and agreeing responsible managers and timescales for implementation.

Follow-Up of Report Recommendations

- 4.3 The following protocol is applied to the follow-up of recommendations in audit reports:
- all fundamental and significant recommendations irrespective of the assurance opinion;
 - all recommendations contained within the annual core financial system audit reports and;
 - reports containing a significant number of merits attention recommendations giving rise to a negative assurance opinion.
- 4.4 Table 1A identifies the total number of reports analysed by the assurance opinion given and the total number of recommendations made.

Table 1B shows the number of recommendations followed-up in the quarter. Of the 6 recommendations followed-up, 1 (17%) had been implemented by the original target date and a further 5 (83%) had not been implemented and have received revised implementation dates by management.

- 4.5 Internal Audit continues to get very good co-operation from management including the Senior Management Team and as such is able to closely monitor any implications that may arise from a delay in the implementation of management action. However, it should be noted that the majority of recommendations followed-up had not been implemented and required a revised implementation date. Internal Audit is working closely with management to monitor this situation and will report to the Audit Committee should any concerns be raised due to any change of implementation date.
- 4.6 As part of the 2016/17 reporting process the criteria and process in respect of the follow-up of audit report recommendations is currently being reviewed and the Audit Committee will receive information in this regard at a future meeting.

5. Fraud, Investigations and the Corporate Anti-Fraud Team

- 5.1 A separate report will be provided to the Audit Committee covering the detail of fraud and irregularity investigations undertaken, the preventative work and the general activities and work plan of the Corporate Anti-Fraud Team.
- 5.2 The overall assurance opinion takes into account any control issues arising from investigations or anti-fraud work. No issues are required to be brought to the Committee's attention at this time.

6. Head of Internal Audit's Internal Control Assurance Opinion

- 6.1 Based on the audits reported in the first quarter, an overall **adequate** assurance opinion remains appropriate. However, Audit Committee Members should note the fundamental report recommendation and the impact on the system of internal control in those areas.
- 6.2 As referred to above, although a small number, the percentage of audit report recommendations not implemented, and requiring a revised implementation is relatively high at 83%. The implementation of recommendations is monitored closely to ensure that there are no serious issues or concerns regarding the effectiveness of the control, risk and governance framework arising from the delay or non-implementation of recommendations.
- 6.3 Where control weaknesses have been identified within procedures or in the provision of advice or 'consultancy' services, these have either been resolved with management through the issue of an audit report and/or correspondence or addressed at the time of the audit.
- 6.4 It does however need to be recognised that Internal Audit coverage cannot guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist. Accordingly only reasonable and not absolute assurance is given.
- 6.5 The assurance opinion is supported by the knowledge that the underlying framework of financial and other controls, encompassing the Council's Financial Regulations, various codes of practice, procedures and other financial governance arrangements, periodically reviewed by both Internal and External Audit, are appropriate and working satisfactorily.

6.6 The general context and impact of the significant savings and service changes that have been implemented arising from Future Council form a core element of Internal Audit work planning to ensure that the control, risk and governance framework remains adequate and effective.

7. Internal Audit Plan 2016/17 - Progress to the end of June 2016

7.1 Internal Audit utilise a risk-informed approach to planning and delivering its work. This approach seeks to ensure that the key risks facing the Authority are considered and covered, where appropriate, by Internal Audit work. In turn the annual work programme is planned indicatively across the year. This enables quarterly monitoring of progress against planned work and the utilisation of Audit resources.

7.2 It is however important to recognise and appreciate that whilst a significant proportion of audit work is planned, there are many ‘external’ factors that can and do impact on precisely when pieces of work are actually undertaken and completed and indeed their detailed scope. For this reason the monitoring of the audit plan in each quarter can only provide an indicative picture of progress overall. Individual jobs are monitored on a job-by-job and week-by-week basis utilising the Division’s computerised management system.

7.3 Appendix 2 shows the progress of the plan up to the end of June 2016, analysed by Directorate / Service.

7.4 Adjustments are made to the days allocated to particular jobs on an on-going basis and so there is naturally only a minor variance between the actual days and those planned. Given the risk basis and responsive nature of audit work, the Audit Committee should be particularly interested in the overall deployment of audit resources rather than necessarily where those resources have been spent.

7.5 At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency.

7.6 The following audits have either been either added or removed from the audit plan, as agreed in conjunction with management:

Directorate / Service	Audit Assignment Title	Removed / Added
Place	Homes and Communities Agency Grant Funding	Removed – An Internal Audit of the grant funding is no longer required by the HCA.
People	Hunningley Primary School (Management Investigation)	Added - Request by the School and the Service Director to provide advice in respect of the control issues identified as part of the management investigation.

7.7 The position at the end of the first quarter for the audit days allocated to BMBC shows 5 days below profile.

8. Internal Audit Function and Performance

- 8.1 The Division uses a range of performance indicators to monitor operational efficiency. A list of the performance indicators (PIs) for 2016/17 is attached at Appendix 3.
- 8.2 The performance indicators for the first quarter are generally satisfactory at this early stage in the year. The chargeable time indicator is slightly below target but this is due in the main to difficulties / delays in the recruitment of staff and the number of training days being higher than expected.
- 8.3 The analysis of the more detailed feedback received following each audit job is shown in Appendix 4. For the first quarter of the year, at the point of preparing this report 3 feedback sheets have been received out of the 4 final reports issued. All feedback received has been noted as very good.
- 8.4 As reported previously the recruitment exercise to fill the Senior Auditor and Auditor positions resulted in the appointment of an Auditor. The vacant Senior Auditor position is being considered within the savings exercise required for 2017/18.
- 8.5 A savings target has been applied to the Internal Audit function as part of the anticipated 2017/18 budget process. Although detailed structures are currently being developed it is likely that there will be a reduction of up to 2 posts from the current Barnsley MBC audit resource of 8 posts. Part of the restructure process will be to ensure the audit approach provides as much assurance and coverage as possible. Options are currently being developed and the Audit Committee will be apprised of these in due course.

9. Local Area Implications

- 9.1 There are no Local Area Implications arising from this report.

10. Consultations

- 10.1 All audit reports are discussed with the main auditee. Individual audit reports are provided to the appropriate Executive Director and/or Service Director to apprise him/her of key issues raised and remedial actions agreed.
- 10.2 No specific consultation has been necessary in the preparation of this quarterly report.

11. Compatibility with European Convention on Human Rights

- 11.1 In the conduct of audit work and investigations particularly, Internal Audit operates under the provisions of the Data Protection Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

12. Reduction of Crime and Disorder

- 12.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls are made.

Additionally, Internal Audit ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

13. Risk Management Considerations

13.1 The underlying purpose of the work of Internal Audit is to address and advise on key risks facing management and, as such, risk issues are inherent in the body of the report.

13.2 The Division's operational risk register includes the following risks which are relevant to this report:

- Inappropriate use of and management of, information to inform and direct service activities;
- Inability to provide a flexible, high performing and innovative service; and
- Poor levels of customer satisfaction.

All of these risks have been assessed and remain within the tolerance of the Division.

An essential element of the control (and on-going) management of these risks is the provision of update reports to the Audit Committee and the assurance this provides.

14. Employee Implications

14.1 There are no employee implications arising from this report.

15. Financial Implications

15.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function are included within the Authority's base budget.

16. Appendices

- 16.1 Appendix 1 - Key issues arising from completed Internal Audit work
Appendix 2 - Internal Audit Plan 2016/17 – Position as at 30th June 2016
Appendix 3 - Internal Audit Performance Indicators for the Quarter Ended 30th June 2016
Appendix 4 - Analysis of Internal Audit feedback for the first quarter of 2016/17

17. Background Papers

17.1 Various Internal and External Audit reports, files and working papers.

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Date: 8th July 2016

A: Completed Audits / Final Reports Issued During the Quarter Ending 30th June 2016

Appendix 1

KEY – Recommendations - Fundamental ‘F’ Significant ‘S’ Merits Attention ‘MA’

Service / Directorate / Audit Title	Key Issues	Assurance Opinion	No. of Recs.	Date Report Issued	Other Action
Finance, Assets & Information Services: Income System	The review identified issues in respect of the timeliness of monitoring and recovery of debt and the inconsistent application of procedures. This has resulted in some debts having little or no action taken to progress the debt to the next recovery stage.	Adequate	F - 0 S - 3 MA - 3	06.06.16	To follow-up the significant and merits attention report recommendations
Finance: SAP System Access	The key issues relate to the absence of effective management information in order that management can recognise when operational duties have not been adequately segregated along with exception reports and / or independent transaction checks in order to mitigate and monitor key risk areas. The audit was scoped to specifically assist management assess the risks and the mitigating actions following a re-organisation and restructure within the Finance Business Unit.	Limited	F - 1 S - 5 MA - 0	10.06.16	To follow-up the fundamental and significant report recommendations
Finance: Council Tax / NDR	The key issue arising from the audit review relates to entitlements to discounts and exemptions which are not reviewed on a timely basis. It was acknowledged that system improvements arising from the re-design of the Council's debt recovery function should help address the issues identified during the audit.	Adequate	F - 0 S - 3 MA - 3	07.06.16	To follow-up the significant and merits attention report recommendations
Information Services: Data Protection, Freedom of Information, Environmental Information Regulations Data Requests	The key issues raised relate to the delays in responses and approvals from services areas / Service Directors which has resulted in the timescales prescribed by the Information Commissioner not always being achieved.	Adequate	F - 0 S - 1 MA - 5	09.06.16	To follow-up the significant report recommendation

Other Completed Work Not Producing a specific Assurance Opinion	
Place – SYMAS 2015/16 Accounts	Validation of the accuracy of the 2015/16 accounts.
Place: Junction 36 Lessons Learnt Review	Internal Audit facilitated a workshop of the key stakeholders to identify the key factors impacting on the delay incurred in the securing of legal agreements with M1 J36 business park developers in order to identify lessons learnt as appropriate.
Place – Trans Pennine Trail 2015/16 Accounts	Validation of the accuracy of the 2015/16 accounts.
Place – Residential Investment Fund	Advisory piece of work in relation to the establishment of a governance and control checklist for use by the service in progressing the Residential Investment Fund.
Place – Local Plan	Advisory piece of work regarding the effectiveness of the risk management arrangements re the development of the Local Plan.
People – Schools	Advice provided to Barugh Green Primary School with regard to the application of contract procedure rules for procuring broadband services.
People – Grant Audit	Validation of the accuracy of the Social Care (Capital) grant.
Berneslai Homes: Information Security	Details of the audit have been reported to the Berneslai Homes Audit Committee meeting to be held on the 26 th May 2016.
Berneslai Homes: Information Governance – Data Protection	Details of the audit have been reported to the Berneslai Homes Audit Committee meeting to be held on the 26 th May 2016.
Berneslai Homes: Shared Core Systems	Details of the audit have been reported to the Berneslai Homes Audit Committee meeting to be held on the 26 th May 2016.
Berneslai Homes: Housing Rents	Details of the audit have been reported to the Berneslai Homes Audit Committee meeting to be held on the 26 th May 2016.

Other Work Undertaken	
Follow-up of Recommendations	Regular work undertaken to follow-up recommendations made.
Attendance at Steering / Working Group	Information Governance Board, Commissioning, Procurement & Contracts Working Group.
Liaison, Planning and Feedback	Meeting and corresponding with Service and Executive Directors and Heads of Service regarding progress of audit work, future planning and general client liaison.
Advice	General advice to services regarding controls, risk or governance matters. Such work often does not require formal reporting but occasionally will escalate into a specific piece of audit work for which a new job will be created.
Audit Committee Support	Time taken in the preparation of Audit Committee reports, Audit Committee Member training, general support and development.
Corporate Whistleblowing	General time taken in providing advice and the initial consideration of matters raised. Also includes the review of arrangements.
Corporate Matters	Covering time required to meet corporate requirements, i.e. corporate document management, service business continuity and health and safety.

Summary Activity

All Audit Reports

Assurance Opinion	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Cumulative
Substantial	0 (0%)				0 (0%)
Adequate	3 (75%)				3 (75%)
Limited	1 (25%)				1 (25%)
None	0 (0%)				0 (0%)
TOTAL REPORTS	4				4
Opinion Not Applicable	12				12

Total Recommendations

Number of Recommendations	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Cumulative
Fundamental	1 (4%)				1 (4%)
Significant	12 (50%)				12 (50%)
Merits Attention	11 (46%)				11 (46%)
TOTAL	24				24

Table 1B**Recommendations Followed-up by Internal Audit**

Quarter 1				
Recommendation Classification	Followed-up	Completed by due date	Completed after target date	Not yet completed – Revised date agreed
Fundamental	1	1	0	0
Significant	1	0	0	1
Merits Attention	4	0	0	4
TOTAL	6	1	0	5

Trend Analysis – First Quarter 2016/17

Assurance Opinions

	2015/16				2016/17				Cumulative	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015/16	2016/17
	%	%	%	%	%	%	%	%	%	%
Substantial	24	0	0	0	0				7	0
Adequate	38	40	43	50	75				41	75
Limited	38	60	57	50	25				52	25
None	0	0	0	0	0				0	0
	100	100	100	100	100				100	100

Implementation of Recommendations

	2015/16				2016/17				Cumulative	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015/16	2016/17
	No.	No.	No.	No.	No.	No.	No.	No.	%	%
Completed by target date	7	13	14	3	1				35	17
Completed after target date	5	6	21	15	0				45	0
Not yet completed – revised date agreed	2	2	6	11	5				20	83
Total followed up	14	21	41	29	6				100	100
% Completed by Original Target Date	50%	62%	34%	10%	17%					
% Completed at time of Follow-up	86%	90%	86%	62%	0%					

INTERNAL AUDIT PLAN 2015/16 – Position as at 30st June 2016

Directorate	Original 2016/17 Plan	Revised 2016/17 Plan	Actual Days
Communities	50	50	2
People	165	185	78
Place	139	122	45
Public Health	10	10	1
Corporate Services:			
➤ HR, Performance & Communications	122	122	7
➤ Legal & Governance	105	105	4
➤ Finance, Assets & Information Services	430	430	125
Council Wide	265	272	79
Contingency	50	40	0
Berneslai Homes	133	133	22
Sub Total	1,469	1,469	363
Corporate Anti-Fraud Unit	581	581	145
Sub Total	2,050	2,050	508
		Profile	513
		Variance	-5
External Clients	1,653	1,653	334
Total Chargeable Planned Days	3,703	3,703	842

INTERNAL AUDIT PERFORMANCE INDICATORS FOR 2016/17

Ref.	Indicator	Frequency of Report	Target 2015/16	This Period	Year to Date
1.	<u>Customer Perspective:</u>				
1.1	Percentage of questionnaire received noted “good” or “very good” relating to work concluding with an audit report. (3 very good)	Quarterly	95%	100%	100%
2.	<u>Business Process Perspective:</u>				
2.1	Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report. (4/4 reports)	Quarterly	80%	100%	100%
2.2	Percentage of chargeable time against total available.	Quarterly	73%	72%	72%
2.3	Average number of days lost through sickness per FTE (Cumulative 11.5 days in total)	Quarterly	6 days	<1 day	<1 day
3.	<u>Continuous Improvement Perspective:</u>				
3.1	Personal development plans for staff completed within the prescribed timetable.	Annual	100%	100%	100%
4.	<u>Financial Perspective:</u>				
4.1	Total Internal Audit costs v budget.	Quarterly	Within Budget	Within Budget	Within Budget

Performance Indicator Definitions and Supporting Information

PI Ref	Indicator	Comments
1.1	Percentage of favourable auditee questionnaire responses received (noted "good" or "very good") relating to work concluding with an audit report.	Questionnaires are left at the end on each audit job resulting in a formal report. The questionnaire asks 14 specific questions covering the effectiveness of audit planning, communication, timing and quality of the audit report. An overall assessment is sought as to the overall value of the audit. This is the answer used for this PI. All questionnaires are analysed in detail to ensure all aspects of the audit process are monitored and improved.
2.1	Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report.	This is an operational PI to ensure the timely issue of final reports. This PI is influenced by the availability of senior Internal Audit staff to clear the report and any issues the Division's quality assessment process highlights along with the availability of the auditee.
2.2	Percentage of chargeable time against total available.	A key operational measure of the 'productivity' of Audit staff taking into account allowances for administration, general management, training and other absences. This PI will reflect the % chargeable time of staff in post, net of vacancies.
2.3	Average number of days lost through sickness per FTE.	A corporate PI to measure the effectiveness of good absence / attendance management.
3.1	Personal development plans for staff completed within the prescribed timetable.	IA place a high level of importance on staff training and continuous development and are committed to ensure all staff have their own training plans derived from the personal development plan process.
4.1	Total Internal Audit costs v budget.	This is a simple overall measure to note whether the Division's expenditure for the year has been kept within the budget.

Analysis of Internal Audit Feedback Received in the First Quarter of 2016/17

Number of ticks shown against each question

		Very Good	Good	Acceptable	Poor
A	Audit Planning				
1	Relevance of the audit objectives	2	1	0	0
B	Communication				
1	Consultation on scope and objectives of the audit	3	0	0	0
2	Communication during all aspects of the audit	3	0	0	0
3	Helpfulness co-operation of the auditor(s)	3	0	0	0
4	Professionalism of the auditor(s)	3	0	0	0
5	The auditor(s) demonstrated an appreciation of any relevant issues concerning equality and diversity	3	0	0	0
C	Timing				
1	Duration of the audit	2	1	0	0
2	Timeliness of the audit report	3	0	0	0
D	Quality of the audit report				
1	Format and clarity of audit report	3	0	0	0
2	Accuracy of the findings	3	0	0	0
3	Relevance of recommendations	3	0	0	0
4	Overall quality of the report	3	0	0	0
E	Value of the audit				
1	Basic controls assurance the audit has provided	3	0	0	0
2	Added value given beyond basic controls assurance	3	0	0	0
3	Overall value of the audit	3	0	0	0
		100%			
Total Number of 'ticks' (A – E)		43	2	0	0
Percentage		96%	4%	0%	0%
		100%			

Returned Questionnaires:-

Quarter 1 3
 Quarter 2
 Quarter 3
 Quarter 4
Total 3

Auditee Comments (where given) received in the quarter:

Liaison with colleagues from Audit was helpful and supportive. Timely and effective dialogue ensured that service views and suggestions were incorporated into the recommendations. The findings are supportive of improvement activity in service.
