

Thurrock Council

Head of Internal Audit's Annual Report Year ended 31st March 2016

Presented at the Standards & Audit Committee meeting of 14th
June 2016

Contents

Section	Page
1. Introduction	1
2. Internal Audit Overall Opinion	2
3. Acceptance of Internal Audit Recommendations	3
4. Implementation of Internal Audit Recommendations	4
5. Internal Audit Performance	5
6. Internal Audit Opinion and Recommendations 2015/16	7

1. Introduction

In April 2015, a decision was made to end the contract with the previous contractor and bring the Internal Audit service back in house. As a result, the Internal Audit Manager currently fulfils the role of the Head of Internal Audit (HoIA) for reporting purposes.

In accordance with Public Sector Internal Audit Standards, the HoIA is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

This is achieved through a risk-based plan of work, agreed with management and approved by the Standards & Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the Council takes into account in making its annual governance statement (AGS).

In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The AGS is an annual statement by the Director of Finance & IT (Section 151 Officer), on behalf of the Council, setting out:

- How the individual responsibilities of the Section 151 Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the assurance framework process; and

- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are, or will be taken where appropriate, to address issues arising.

2. Internal Audit Overall Opinion

The purpose of the annual Head of Internal Audit Opinion is to contribute to the assurances available to the Section 151 Officer and the Council through the Standards & Audit Committee. This opinion will in turn assist the Council in the preparation of its annual governance statement.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Thurrock Council's arrangements.

For the 12 months ended 31 March 2016, based on the work we have undertaken, our opinion below details the adequacy and effectiveness of your organisation's risk management, internal control and governance arrangements. We also show below the direction of travel of our opinions.

Governance

During 2015/16 we conducted a review of the Register of Gifts, Interests and Hospitality for senior officers and members and provided a substantial assurance (Green) opinion. We have also looked at the governance arrangements in specific areas of the Council's operations and where we have identified issues, the Council has reacted swiftly to address them. In addition, the Council had to make a number of difficult decisions around the arrangements with its main strategic partner resulting in the termination of the contract from December 2015. It also looked at options to improve services and reduce costs including partnership working with other local authorities. These decisions were made with the full involvement of both officers and members and showed that governance was robust. Therefore, our overall opinion on Governance remains as **Green**.



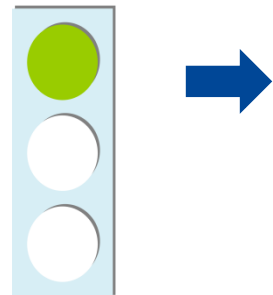
Risk Management

We did not undertake a review of risk management during 2015/16 as the service went through a period of change with the shared management arrangement with the London Borough of Barking and Dagenham being terminated part way through the year. However, it was noted that the results of the annual self-assessment against the CIPFA/SOLACE Risk Management Benchmarking Model showed a continued improvement on the previous year. This was reported to the Standards & Audit Committee on 15th March 2016. Risk management reports are also regularly presented to the Standards & Audit Committee. It has been agreed with the Director of Finance & IT that a review of risk management and insurance will be undertaken once the departmental restructure is completed during 2016/17.

No opinion given

Internal Control

It was agreed with members and the Director of Finance and IT that changes were needed to the assurance opinions provided in 2015/16. Under the previous contractor, Green, Amber/Green and Amber/Red were considered positive opinions, with Red being a negative opinion. However, it was agreed that an Amber/Red opinion should not be positive. On this basis, positive assurance opinions were provided in 24 of the 28 assurance reports issued in 2015/16 (excluding the 1 advisory review). 4 reports were issued with an Amber/Red opinion and no Red reports were issued. Moving forward, this will be used as the benchmark for future annual opinions. However, as these would have all been positive opinions under the previous methodology, the direction of travel is maintained and as a result, the overall opinion on Control remains as **Green**.



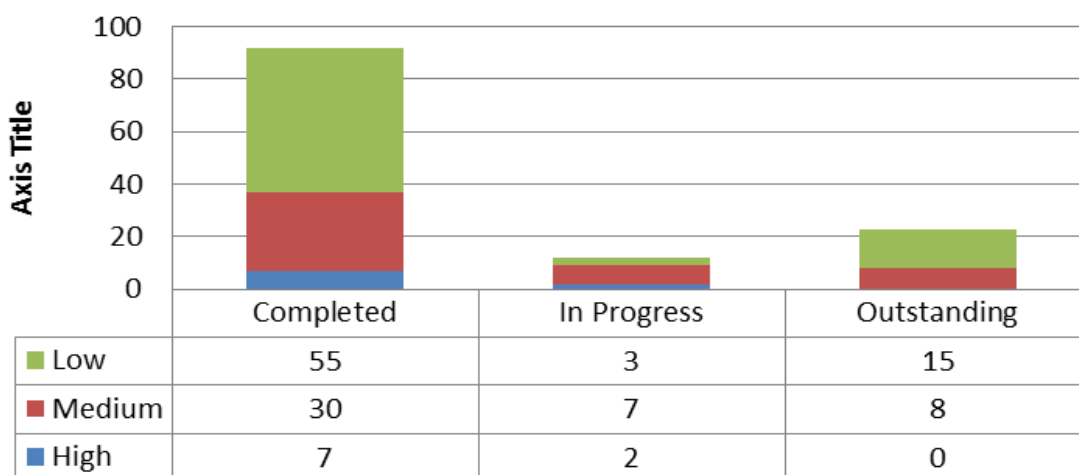
3. Acceptance of Internal Audit Recommendations

All of the recommendations made during the year and included within the agreed action plan were accepted by management. Where recommendations were not accepted due to compensating controls, cost etc., these were captured in the findings and recommendations.

4. Implementation of Internal Audit Recommendations

Our follow up of the recommendations from previous years and current audit assignments where the implementation date has been reached indicate that the Council has made good progress in implementing the agreed actions. This is in line with 2014/15.

Implementation of Recommendations 2015/16



As can be seen from the chart, 92 recommendations had been implemented, 12 had not reached the due date so were in progress and 23 were still outstanding. Of the high and medium recommendations, all the high and 82% of the medium recommendations had been implemented or not reached their due date. Of the 23 medium and low recommendations still outstanding, 6 medium and 6 low related to schools, some of whom have since converted to academies.

5. Internal Audit Performance

Delivery of value-added services

During 2015/16, the Internal Audit team provided significant resources and knowledge in assisting with a number of key investigations involving staff directly employed by the Council or employed as consultants, either directly or through agencies. Some of these cases are on-going investigations so cannot be commented on further.

As a result of the work around consultants, further work has been programmed in for 2016/17 to review contractual arrangements when procuring consultancy services and 2 contractors had their contracts terminated due to the rolling nature of their employment i.e. they moved from one project to another within the same directorate, without any competitive procurement process being undertaken.

At the request of members following the issue of an Amber/Red report on Procurement Cards in May 2015, Internal Audit acted as a facilitator to set up a working group involving Corporate Finance and Procurement, to review the processes around the administration and use of the cards, with input around controls from Internal Audit. A new system is currently being developed which will enhance the controls, improve the administration and monitoring processes and will add additional safeguards around the application process and lockdown the use of the cards based on business need.

Internal Audit was asked to undertake an internal review of the controls in place to manage the user access rights and responsibilities to the Oracle Financials database; including the budget approvals process. A review of the existing user's access rights and responsibilities identified a number of users with high levels of access to purchasing functions within the database; potentially enabling them to set up suppliers and budget approvers, with the potential to pay suppliers. The financial limits applied to those users and budget code ranges were also significant. As a result, additional controls were put in place to provide a greater separation of duties and some access rights were removed so no staff with TC Purchasing Super User access can set up or approve payments.

Conflicts of Interest

Internal Audit staff have not undertaken any work or activity during 2015/16 that would require them to declare any declaration of interest.

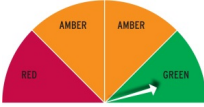
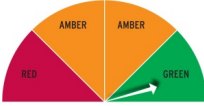
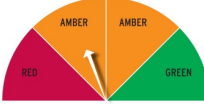
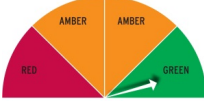
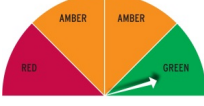
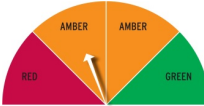
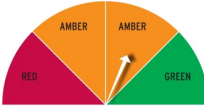
Compliance with Internal Audit Standards

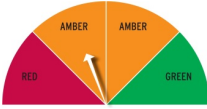
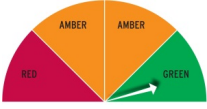
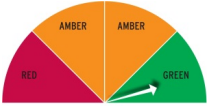
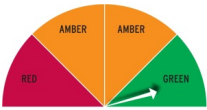
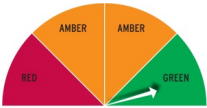
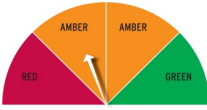
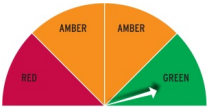
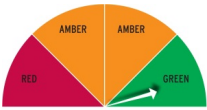
The service came back in-house from April 2015. Under the Public Sector Internal Audit Standards (PSIAS), the Internal Audit service is required to have an external assessment every five years (by March 2020). Whilst the current service is designed to conform to the PSIAS, we will be looking to carry out a self-assessment of our compliance during 2017/18. This will allow us to develop an improvement plan and action any issues before having a formal external assessment in 2018/19.

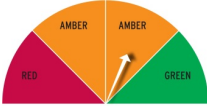
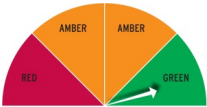
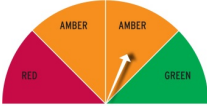
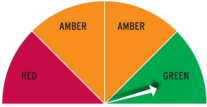
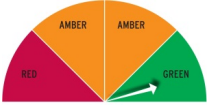
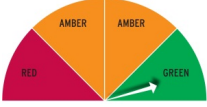
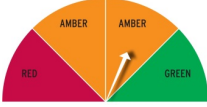
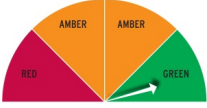
Performance Indicators

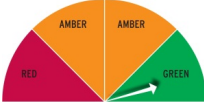
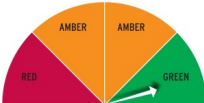
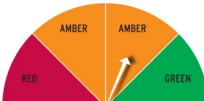
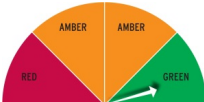
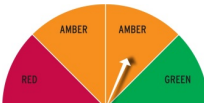
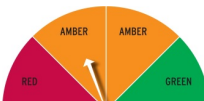
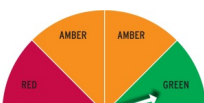
Indicator	Target	Actual	Comments
Audits commenced in line with original timescales	Yes	No	Some reviews deferred by client due to changes to structure and budget cuts.
Draft reports issued within 10 days of debrief	80%	76%	
Management responses received within 10 days of draft report	80%	66%	Slight improvement on 2014/15. Number of issues including restructures, annual leave etc. Regular chasing took place. Audit protocol agreed includes escalation process.
Final report issued within 5 days of management response	90%	90%	
% of high and medium recommendations followed up	95%	93%	
5 of staff with professional qualification or studying towards	>25%	33%	Internal Audit Manager (CMIIA and AAT)
Turnover of staff	<10%	13%	Retirement of member of staff March 2016.
Response time for general enquiries (2 working days)	100%	100%	
Response time for emergencies or potential fraud (1 working day)	100%	100%	

6. Internal Audit Opinion and Recommendations 2015/16

Assignment Objective	Client Lead	Opinion	Recommendations		
			H	M	L
Accounts Payable - All expenditure is committed, approved and accounted for in line with the organisation's financial regulations, and creditors are paid in a timely manner in accordance with targets.	Director of Finance & IT		0	1	3
Accounts Receivable - To ensure controls over the debtors function are robust, all monies owed to the organisation are recovered in a timely manner and controls are in place to monitor and reduce levels of outstanding debt.	Director of Finance & IT		0	1	2
Adult's Direct Payments - Direct Payments are managed effectively as per legislation and Council guidance.	Corporate Director of Adults, Housing & Health		1	2	1
Adult Social Care Expenditure - The processes in place to control and manage expenditure on care packages may not be adequate.	Corporate Director of Adults, Housing & Health		0	2	1
Adult Social Care Income - To review the systems and procedures in place to control and manage income received towards the cost of care packages and ensure that debt recovery is robust.	Corporate Director of Adults, Housing & Health		0	2	1
Safeguarding of Assets (Appointeeship and Deputyship) - The Council has a transparent and consistent approach when managing the affairs of vulnerable individuals.	Director of Finance & IT		1	4	2
Arthur Bugler Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	3	4

Assignment Objective	Client Lead	Opinion	Recommendations		
			H	M	L
Bonnygate Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	5	6
Bonnygate Primary School Follow Up – Requested by the headteacher following the Amber/Red report.	Corporate Director – Children's Services		0	1	2
Cash & Banking - To ensure the Council accurately records and accounts for all cash income and the banking arrangements of the organisation are secure.	Director of Finance & IT		0	0	3
Chadwell St Mary Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	1	2
Children's Centres - Following the commissioning out of some Children's Centres, to review the revised strategy and ensure there are processes in place to monitor service provision and ensure the Council is obtaining value for money.	Corporate Director – Children's Services		0	2	2
Children's Direct Payments - Direct Payments are managed effectively as per legislation and Council guidance.	Corporate Director – Children's Services		2	2	0
Council Tax - All properties are recorded on the Council Tax Database completely and accurately, ensuring that all income is collected and receipted for in a timely manner.	Director of Finance & IT		0	0	1
Education Transport (Post 16 and Denominational) - To carry out a review to assess whether new policies and procedures have been implemented properly and are being followed.	Corporate Director of Adults, Housing & Health		0	0	1

Assignment Objective	Client Lead	Opinion	Recommendations		
			H	M	L
Fostering - There are appropriate controls around the appointment of Foster Carers. Allowances and other payments made are appropriate.	Corporate Director – Children's Services		0	3	0
Housing Benefit - To ensure accurate and timely processing and payment of Housing Benefits to eligible claimants.	Director of Finance & IT		0	0	5
Horndon-on-the-Hill Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	2	4
Holy Cross Catholic Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	2	2
Housing Rents - To review the systems and procedures in place relating to the administration and management of housing rents.	Corporate Director of Adults, Housing & Health		0	1	1
NNDR - To ensure the Council provides an effective and efficient Business Rates, Billing, Collection and Recovery operation, and Valuation and Inspections service for Business Rates.	Director of Finance & IT		0	0	0
Orsett Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	3	4
Payroll (including HR) - To ensure that staff are paid correctly each month in a timely manner and that the organisation is correctly recording and accounting for its payroll costs.	Director of HR, OD and Transformation		0	2	2

Assignment Objective	Client Lead	Opinion	Recommendations		
			H	M	L
Register of Gifts, Interests and Hospitality – To ensure compliance with the Council's Constitution and Code of Conduct.	Deputy Head of Legal Services		0	0	2
School Condition Funding - To ensure the processes for the use of School Condition Funding is administered in the most economic, efficient and effective way and benefits those schools in greatest need.	Corporate Director – Children's Services		0	0	0
Somers Heath Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	3	2
Special Guardianship - There are appropriate controls to ensure that payments for Special Guardianship are appropriate.	Corporate Director – Children's Services	Advisory	4	0	0
St Joseph's RC Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	2	2
Street Lighting - To confirm that the procurement of the street lighting contract is in compliance with legislation and the Council's Constitution and backed up by appropriate documentation and evidence.	Head of Transportation and Highways		0	3	1
Supported Living - To confirm that the procurement of contracts is in compliance with legislation and the Council's Constitution and backed up by appropriate documentation and evidence.	Corporate Director of Adults, Housing & Health		1	3	1
Warren Primary School - To ensure the school is administered in the most economic, efficient and effective way possible in accordance with Central Government and Local Authority guidelines.	Corporate Director – Children's Services		0	1	2