

<b>Local Members Interest</b>	
	<b>N/A</b>

## **Audit and Standards Committee – 26th June 2017**

### **Internal Audit Outturn Report 2016/17**

#### **Recommendation**

1. To receive the outturn report containing the annual internal audit opinion for 2016/17.

#### **Report of the Director of Finance and Resources**

#### **Background**

2. This report outlines the work undertaken by Internal Audit in respect of the 2016/17 annual plan.
3. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e. the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.
4. Internal Audit is required by professional standards, i.e. UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
  - The opinion;
  - A summary of the work that supports the opinion; and
  - A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
5. The underlying principles to the 2016/17 plan were outlined in the Audit Plan paper presented to and approved by Members of the Audit & Standards Committee on 27 June 2016. Since the original plan was approved a number of additional audits have been required, whilst some planned reviews were no longer needed and several deferred due to operational requirements. The net effect is that the key performance target has been achieved. Work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore it is not uncommon for reports to be at draft report stage at the end of the audit year.

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<sup>1</sup> Public Sector Internal Audit Standards definition of Internal Auditing.

6. Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in Appendix 1.
- Substantial Assurance
  - Adequate Assurance
  - Limited Assurance
7. Paragraph 9 provides a high level summary of the work undertaken by the Section analysed by the following categories:
- Main Financial Systems
  - High Risk Auditable Areas
  - Systems Audits (reported by exception, i.e. only those with “Limited Assurance” and/or those with a High Level Recommendation)
  - Compliance Reviews
  - Financial Management in Maintained Schools including payroll arrangements
  - Special Investigations/ fraud and corruption arrangements.
8. For those areas awarded ‘Limited Assurance’ action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2016/17 Members of the Audit & Standards Committee have continued to receive full copies of all “Limited Assurance”, High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e. greater than £10,000 financial loss/Significant Corruption issues) once finalised. Relevant managers have attended the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Members of the Audit & Standards Committee have requested, where appropriate for additional follow up work to be included within the 2017/18 plan and the results to be reported back to the Committee. Internal Audit will continue to track and report on the implementation of High Level Recommendations, including those contained within reports awarded “Adequate Assurance”.

## 9. 2016/2017 Audit Plan Outcomes

### 9.1 Main Financial Systems

Coverage of these areas is in line with the audit strategy.

Main Financial System	2013/14 Opinion	2014/15 Opinion	2015/16 Opinion	2016/17 Opinion	Direction of Travel
Payroll – County Council	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance – (HRSCC)	→
				Adequate Assurance (3 <sup>rd</sup> Party Provider)	↓
Pensions Payroll	NA	Adequate Assurance	Substantial Assurance	Adequate Assurance	↓
Pension Fund – Custodian, Investment Managers and	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→

Pensions Property including the Governance arrangements.				Adequate Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Pension Administration	Substantial Assurance	Substantial Assurance	Substantial Assurance	Adequate Assurance	↓
Accounts Payable	Not covered in 13/14	Adequate Assurance	Not covered in 15/16	Adequate Assurance	→
Accounts Receivable	Substantial Assurance	Not covered in 14/15	Adequate Assurance	Limited Assurance	↓
Debt Recovery (Legal Services) now joint with Accounts Receivable in 16/17	Adequate Assurance	Adequate Assurance	Adequate Assurance		
E- Payments	Adequate Assurance	Adequate Assurance	Not covered in 15/16	Not covered in 16/17	→
Cheque Control	Not covered in 13/14	Substantial Assurance	Not covered in 15/16	Not covered in 16/17	→
Main Accounting	Substantial Assurance	Not covered in 14/15	Substantial Assurance	Project work & reported under the High risk areas	→
Fixed Asset Register & Capital Accounting	Substantial Assurance	Not covered in 14/15	Not covered in 15/16	Not covered in 16/17	→
Treasury Management & Financial Director	Substantial Assurance	IT system – Adequate Assurance	Substantial Assurance	Not covered in 16/17	→

There has been one Limited Assurance report issued for the main financial systems areas in 2016/17.

System Area	Areas for Improvement
Accounts Receivable & Debt Recovery	<ul style="list-style-type: none"> <li>The value of the outstanding debt at the time of the audit (November 2016) has significantly increased since the last audit from £5.9m to £10.3m, with £5.7m relating to debt from Government Bodies. Although the year-end position (as at 31<sup>st</sup> March 2017) improves, the balance of retrievable debts over six months old continues to rise and is significantly over the performance target of £2.25m</li> <li>Progress against debt referred for legal action in 2015/16 and 2016/17 has not been made. This is due to a lack of resource within the debt recovery team. Progress against existing cases is difficult to quantify or monitor, as progress is documented against individual customer accounts. There have been no cases referred to Legal Services in the last two years, but there are 20 cases sitting with Legal Services that are yet to be resolved (still outstanding). This was raised as a high risk recommendation in the 2015/16 Accounts Receivable report.</li> <li>Credit notes are sent out for periods where clients are still receiving care, due to their old care package being closed in the system, and their new care package not authorised. This was the case in one out of the 13 automated credit notes.</li> <li>Credit notes are being raised within Adult and Children Financial Services where the income recorded is valid, but</li> </ul>

	the debt is not deemed to be retrievable. This means that the authorisation process for writing off debt is avoided. This was the case for three of the 27 manual credit notes tested. Credit memos should only be raised if the amount was raised by mistake or the invoice contains incorrect information as per the Credit Management Strategy
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In addition for those reports with an opinion of at least “Adequate” for each financial system, one High Level Recommendations was made as follows:

System Area	Areas for Improvement
Accounts Payable – (Adequate Assurance)	<ul style="list-style-type: none"> <li>The Accounts Payable team do not check that vendors are valid before adding them to SAP. A process needs to be designed in Integra to create a separation of duties from the person requesting a vendor, and the way bank details are obtained.</li> </ul>

*Note: There can be a maximum of one high level recommendation contained in a report awarded Adequate Assurance.*

## 9.2 High Risk Auditable Areas

System Area	2016/17 Opinion	2016/17 Consultancy
Better Care Fund - the Section 256 funding element.		√ - Verification of the section 256 grant monies
SSOPT – ongoing delivery options		Reliance placed on Management Evaluations undertaken in year
SSOPT – transformation programme (Brokerage Project)		√ - ongoing Project Assurance
Infrastructure Plus – Governance & Risk	Adequate Assurance	
Infrastructure + Maintenance & Minor Construction Expenditure	Adequate Assurance	
**Cyber Security	Draft Report with Management.	
Payroll & HR Transformation		√ - ongoing Project Assurance covering both general and ICT controls
Local Enterprise Partnership	Adequate Assurance	
Entrust Payroll Governance Review		Covered under paragraph 9.5.1
SAP Financial System replacement project		√ - ongoing Project Assurance covering both general and ICT controls
Commercial & Service Management incorporating Entrust Partnership Governance review.		Deferred into 2017/18
**Strategic Property Partner Review	Draft Report with Management.	

\*\* Currently at draft report stage, therefore the high level recommendations have not been included within this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

In addition for those reports with an opinion of at least “Adequate” for each financial system, three High Level Recommendations were made as follows.

System Area	Areas for Improvement
Better Care Fund - the Section 256 funding element	Figures within the outturn should be amended to reflect the variations identified during the audit verification and ensure that the figures recorded within the outturn are accurately calculated and recorded to show the actual spend incurred.
Infrastructure Plus – Governance & Risk	The transferred risks may not be being effectively managed as the draft findings of the Council's Highways Network Inspection assurance review indicate that the arrangement for Highways Network Inspections in relation to sample inspections gave limited assurance for the process in place by Amey. The draft findings call into question the accuracy and robustness of the contractor's approach to sample inspections. In addition, the likelihood of an issue arising regarding Inspections is recorded as improbable within the Term Service Contract risk register.
Infrastructure + Maintenance & Minor Construction Expenditure	It is not possible to trace Reactive Maintenance and Winter Maintenance expenditure of £4.7m (9% of annual contract budget) for 2016/17 through to evidence of individual job/work completion as costs are collected at an activity level as opposed to a job level.

### 9.3 Systems Audits – (reported by exception, i.e. only those with Limited Assurance and/or those with a High Level Recommendation)

System Area	2016/17 Opinion
Client Contributions Property Cases – Follow Up	Limited Assurance
**County Buildings Income Process	Limited Assurance

*\*\* Currently at draft report stage, therefore the high level recommendations have not been included within this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.*

Assurance could not be provided regarding the operation of the following control objectives:

System Area	Areas for Improvement
Client Contributions Property Cases – Follow Up	<ul style="list-style-type: none"> <li>The action to ensure a process is in place where a service user has capacity issues, or where their representative is seeking deputyship has not been implemented in line with its agreed action date of June 2016, as the process is undergoing a review so that it can be improved going forwards.</li> <li>There has been no progress to complete the agreed action raised in the prior year relating to the annual reconciliation, which has not been undertaken for at least two years. The new responsible officer has only had ownership of this action for the last few months.</li> </ul>

The following table lists those systems audits where High Level Recommendations have been made to address control weaknesses within Adequate Assurance reports.

System Area	Areas for Improvement
Corporate Governance – Schemes of Delegation	<p><b>Schemes of Sub-Delegation</b> – these are not periodically reviewed to ensure they remain appropriate and up-to-date.</p> <p>The recommendation was to review the Core and Operational Schemes of Sub-Delegation every 6 months</p>
Emergency Duty Service	<p><b>Overtime claims</b> – a number of issues with the time records, system segregation of duties, claim forms, accuracy of claims and inputs, verification and authorisation of claims, documentation records, and duplicate claims were noted.</p>

	The recommendation was to review the entire process for completion, verification, and approval of overtime claims.
A50 Corridor Projects	<b>Funding agreements</b> – the Council are not reporting to Highways England when costs have increased by >£1m above target, and those that have been reported have not been approved by Highways England.  The recommendation was to clarify the funding agreement position and expectations in writing with Highways England
Special Education Needs & Disabilities (SEND) Transport Follow Up	<b>DBS checks for drivers of passenger vehicles</b> – a number of issues with the recording of the process, the documentation of DBS certificates, the evidence behind the appeals process, the accuracy of the database, and clarity over training requirements.  The recommendation was to review individuals with failures identified, add missing evidence to the database, remind staff of importance of documentation, complete exercise to review the database contents, and add a timeframe for completion of required training.

*Note: There can be a maximum of one high level recommendation contained in a report awarded adequate assurance.*

## 9.4 Compliance Reviews

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
<b>Compliance - Adults</b>				
Comforts Funds	15	0	0	15
<b>Other Compliance</b>				
Educational Endowment Funds	5	0	0	5
<b>Compliance Reviews</b>	<b>20 (100%)</b>	<b>0 (0%)</b>	<b>0 (0%)</b>	<b>20</b>

*Note: Coverage in this area was significantly reduced in June 2016 in response to the Spending Controls process.*

Above reviews related to the audit of accounts and no issues were identified.

## 9.5 Financial Management in Maintained Schools

### 9.5.1 Schools Payroll

From September 2016 payroll services to Schools have been provided by a number of different bodies. Prior to this HRSSC were responsible for administering all schools payrolls. Internal Audit has undertaken a number of reviews arising from the transfer of school payroll services. Several issues were identified relating to the BACS processing arrangements including non-receipt of documentation on a timely basis and provision of user guidance regarding roles and responsibilities. Positive assurance was given regarding the revised arrangements for the Safeguarding Function. Several areas were raised relating to improving the robustness of the controls operated at a local level. In summary the work of Internal Audit has identified aspects which need to be resolved, subject to ongoing discussion and dialogue, in order to strengthen the internal controls operating within the new Schools payroll control environment.

## 9.5.2 Schools Compliance

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Schools Compliance – High Schools	1	5	0	6
Schools Compliance – All other schools	0	4	2	6
Community Facilities income themed review	3	7	0	10
<b>TOTAL</b>	<b>4 (18%)</b>	<b>16 (73%)</b>	<b>2 (9%)</b>	<b>22</b>

*Note: Coverage in this area was reduced by 50% in June 2016 in response to the Spending Controls process.*

The reviews identified non-compliance with key controls in the following areas:

### Schools – General Compliance

#### Governance

- Scheme of Delegation requires amendment. (ten establishments)
- No debt recovery policy. (two establishments)
- School Fund not audited in accordance with requirements of Financial Regulations. (six establishments)
- Pecuniary interest register not up to date or held in accordance with guidance. (three establishments)
- Access rights to Parent Pay are not controlled appropriately. (one establishment)

#### Income

- Income is not banked promptly and/or intact. (three establishments)
- Income is not receipted in accordance with Financial Regulations. (three establishments)
- There is a lack of separation of duties in the income and banking process. (nine establishments)
- Cash is not held securely and/or may not be held in accordance with SCC Insurers cash holding limits. (five establishments)
- Lettings are not administered appropriately. (ten establishments)
- Lettings charges are not in accordance with policy. (one establishment)
- Unofficial invoices have been raised. (two establishments)

#### Procurement

- No financial limits set for declared pecuniary interest in companies. (one establishment)
- Procurement/procurement card transactions not in accordance with Scheme of Delegation and Procurement Regulations. (ten establishments)
- Purchase card is not used in accordance with the Financial Regulations. (five establishments)
- Incorrect accounting for VAT. (seven establishments)

#### Imprest Accounts

- There is no independent reconciliation of the imprest account. (one establishment)
- Imprest account not administered appropriately. (four establishments)

## Schools - Community Facilities

### Governance

- No approved debt recovery policy. (two establishments)
- Parent Pay not being used correctly or to its full potential. (two establishments)

### Income

- There is a lack of a separation of duties for the receipt and banking of income. (one establishment)
- Income is not being banked promptly. (two establishments)
- Income is not held securely. (one establishment)
- There is no acknowledgement of transfer of income between staff. (three establishments)
- There is no audit trail or independent reconciliation between sessions received to invoices raised and income received. (five establishments)
- Unofficial invoices have been used. (one establishment)
- Charges are not in accordance with charging policy. (two establishments)

### Operational

- Bookings are not administered appropriately. (five establishments)
- Charges and contracts are not reviewed annually and discounts not approved. (three establishments)
- Parents/Carers do not sign their children into and out of Before and After School Clubs. (two establishments)
- Attendance registers are not appropriate or completed accurately. (two establishments)
- There is no audit trail of balances on individual accounts. (one establishment)

## 9.6 Special Investigations/ Fraud & Corruption Arrangements

A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as Appendix 2 in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2016/17 indicated that there are minor lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those investigations which involved confirmed financial loss. Reports have been issued to ensure that the control weaknesses have been addressed and re occurrence prevented.

Area	Financial Value £	Control Objective
<b>Expenditure</b>	4,690	Purchase card transactions
<b>NFI* Identified Losses</b>	52,000	Payments to Care Homes for deceased residents
<b>Total</b>	<b>56,690</b>	

*\*NFI = National Fraud Initiative. This is a national exercise currently administered by the Cabinet Office. Data submitted by the Council which is cross checked against other public sector organisations' data highlighting potential areas of fraud. These are then investigated locally. Detailed reports are regularly reported to Members of the Audit & Standards Committee highlighting the results of this work.*

2016/17 has seen the level of complexity in the nature and type of special investigation and fraud and corruption related work referred to the Section for investigation, reduce from previous years. The level of resource available to perform this work has been limited during the year. This year has seen a reduction in the amount of actual financial loss to the Council. The table below shows the trend of actual financial loss over the last five years. These types of investigation are very resource intensive particularly if the matter is referred



to the Police for criminal action to be taken. In order to evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £250,000 financial loss per annum has been set. When this level is exceeded it is considered to have a material effect on the control environment. This year's level of actual financial loss is not considered to be significant.

Year	Financial Value	Direction of Travel
2010/11	163,932	↑
2011/12	179,312	↑
2012/13	29,831	↓
2013/14	101,753	↑
2014/15	94,140	↓
2015/16	73,115	↓
2016/17	56,690	↓

The special investigations category consists of two elements: firstly financial loss above £250,000 and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements	10%
£50,000 - £100,000 loss	40%	Physical Cash/Asset management arrangements	10%
£100,000 - £150,000 loss	30%	Payment mechanisms	10%
£150,000 - £250,000 loss	20%	Payroll /Expenses	10%
Above £250,000 loss	10%	Income	10%

Based on the above criteria the overall score awarded for this category is 90% (i.e. 40% for the special investigations elements as the actual financial loss incurred is between £50,000 - £100,000 and 50% awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

## 10. Overall Opinion on the Control Environment

Following discussion at the Audit & Standards Committee at its meeting on 30 July 2012, it was agreed to endorse the methodology outlined below which was used as the basis to form the annual assessment of the overall internal control environment. It is not proposed to amend this method for the 2016/17 assessment.

## Current Methodology

Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of “Adequate or above” within each category. For a reason of simplicity, each category attracts equal weighting and a simple pass / fail assessment is used to differentiate the overall opinion between “Substantial, Adequate and Limited” as illustrated below:

<b>Overall Opinion Level</b>	<b>No of categories achieving the 90% benchmark</b>
Substantial Assurance	6 out of the 6 categories
Adequate Assurance	4 or 5 out of the 6 categories
Limited Assurance	3 and below out of the 6 categories

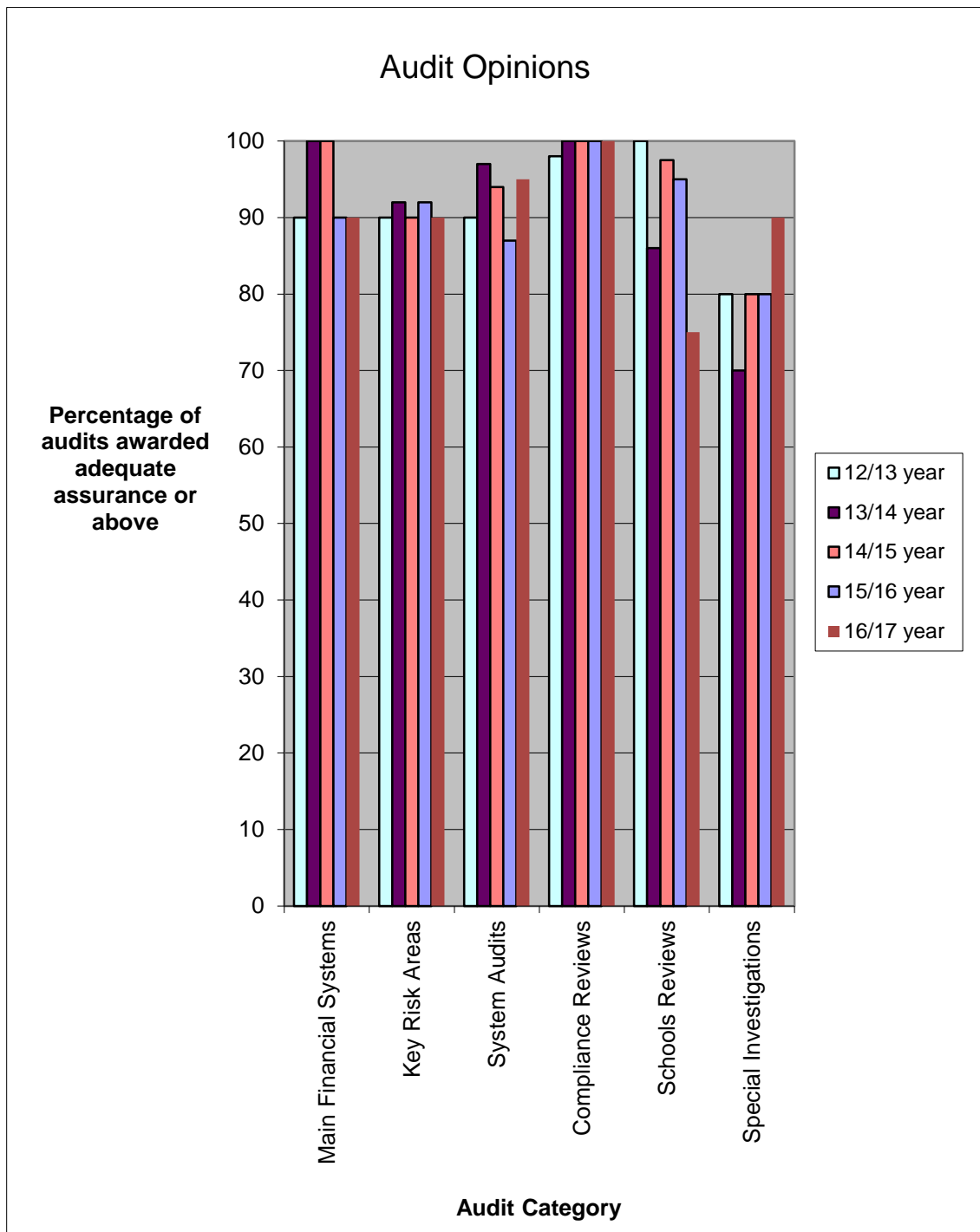
## Implications

The following table details the calculation of the 2016/17 overall assessment.

<b>Audit Category</b>	<b>% awarded an opinion of at least “adequate”</b>	<b>Pass/Fail</b>
Main Financial Systems ( <i>paragraph 9.1</i> )	90%	Pass
Key Risk Areas ( <i>paragraph 9.2</i> )	90%	*Pass
System Audits ( <i>paragraph 9.3</i> )	90%	Pass
Compliance Reviews ( <i>paragraph 9.4</i> )	100%	Pass
Financial Management in Schools ( <i>paragraph 9.5</i> )	75%	Fail
Special Investigations/Fraud & Corruption work ( <i>paragraph 9.6</i> )	90%	Pass
<b>Overall Total</b>		<b>5 out of 6 categories passed</b>

*\*Provisional – results of the reports currently with management will need to be incorporated into the calculation once formally agreed.*

The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded in 2012/13, 2013/14, 2014/15 and 2015/16.



Based on the above, an “Adequate Assurance” opinion has been given on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework, i.e. the control environment in 2016/17. Although the main financial systems element of the assessment has achieved the benchmark the direction of travel for a number of aspects has not been maintained particularly regarding the recovery of outstanding debt. The SAP financial system will be replaced during 2017 and a significant amount of work has been undertaken during the year to help support the design and implementation of a robust control environment which will continue in 2017/18. The changing payroll control environment within Schools has caused some problems in the second part of the year. A number of audit reviews during 2016/17 have identified high level issues, which has resulted in the system being awarded a limited assurance opinion. The nature of these reviews and those at draft stage (namely Strategic Property Partner and Cyber Security) the details contained within the reports are currently being considered by management.

Where appropriate, details will be incorporated into the Annual Governance Statement for 2016/17. It is important that the key actions identified are addressed and implemented as agreed and progress monitored to ensure that the necessary steps have been taken to strengthen the control environment. This will be a key focus for the 2017/18 Internal Audit Plan.

## 11. Performance Measures

Key performance indicators (KPI) for the Section are detailed below. The Section has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2016/17. The section continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2014/15 %	2015/16 %	2016/17 %
Reports issued to draft report stage:				
➤ Systems Audits***	90	96***	93	91
➤ Compliance Audits	90	88.5	99	100
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:				
➤ System Audits	90	100	100	100
➤ Compliance Audits	90	100	100	100

\*\*\* The performance management targets have been calculated based on the revised audit plan presented to the Audit & Standards Committee on 8 December 2014.

## 12. Performance against the UK Public Sector Internal Audit Standards

The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. These have been updated periodically since. A Local Government Application Note has also been developed by CIPFA to provide further explanation and practical guidance on how to apply the standards.

The Internal Audit Service works to a Charter regularly approved by the Audit & Standards Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the Section meets the specific requirements of PSIAS & LGAN was presented to the Committee in June 2014. This is the fifth year of assessment and the results of the updated self-assessment exercise against the current standards are summarised below. It can be seen that 93% of the standards are deemed to be fully in place.

Process/Control			
In Place	Partially In Place	Not In Place	Not Applicable
286 (93%)	12 (4%)	7 (2%)	4 (1%)

For those areas of partial/non-compliance a detailed action plan has been produced, although none of these are considered to affect significantly the effectiveness of Internal Audit. The key areas for improvement identified at the June 2014 assessment have continued to be actioned during 2016/17 and progress is reported below:-

Action Points	Current Status
Determining the arrangements relating to the future five yearly external assessment;	A partnership approach to obtaining a suitable qualified independent person to conduct the external assessment has been taken with the other Public Sector bodies both within Staffordshire and neighbouring Counties. A suitably qualified external assessor has been appointed

	and detailed terms of reference for the quality assessment review will shortly be drafted and presented to the Audit & Standards Committee in September 2017. It is envisaged that the assessment will not take place before the start of 2018 in order to allow the new Members of the Committee to settle into their roles following the election in May 2017. However this will still meet the PSIAS timescales.
The need to formalise Internal Audit's approach to using other sources of assurance i.e. assurance mapping;	Two pilot exercises have been undertaken, using two external clients to evaluate the approach to ensure that it is fit for purpose and can be rolled out across the client base. A number of refinements have been identified and will be looked into during 2017/18 as part of the approach to be taken for the County Council. This exercise will also need to take account of the work being performed within Risk Management to enhance the Strategic Risk Registers.
The need to review current reporting arrangements including a statement on conformance with the PSIAS on an annual basis.	This has now been implemented and all reports contain the following disclaimer - <i>The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. SCC neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.</i>

A number of areas of non-conformance were highlighted as part of the self-assessment which will not involve any further action being taken namely:

- The Chief Internal Auditor (CIA) reports to the Head of Financial Strategy & Support who in turn reports to the Director of Finance & Resources rather than direct to the Chief Executive. Alternative reporting arrangements are detailed within the Audit Charter, should the need arise.
- The Audit & Standards Committee does not approve the Internal Audit budget. This is the responsibility of the Director of Finance & Resources via Full Council.
- The Audit & Standards Committee does not approve decisions relating to the appointment and removal of the CIA, this responsibility lies with the Head of Financial Strategy & Support in-conjunction with the Director of Finance & Resources.
- Neither the Chief Executive nor the Chair of the Audit & Standards Committee contribute to the performance appraisal of the CIA currently, responsibility for this area will remain with the Head of Financial Strategy & Support.

The work undertaken by the Internal Audit Section during 2016/17 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to the above, at present the Chief Internal Auditor is responsible for co-ordinating and updating the Corporate Risk Register, this also includes the risk management policy document. In addition during 2016/17 the Chief Internal Auditor has assisted the Head of Law & Democratic Services in the preparation of the revised Code of Corporate Governance following the publication of the Delivering Good Governance in Local Government Framework (2016 Edition). She has also assisted in the production of the Annual Governance Statement for 2016/17. These documents are reported to the Corporate Governance Working Group and Audit & Standards Committee. There are no further impairments or restrictions in scope which prohibit the CIA from delivering the annual Head of Internal Audit opinion for 2016/17.

### **13. Equalities Implications**

There are no direct implications arising from this report.

### **14. Legal Implications**

There are no direct implications arising from this report.

### **15. Resource and Value for Money Implications**

The net budget of the Internal Audit Section is estimated at £619,310 of which £49,500 relates to payments to external providers.

### **16. Risk Implications**

Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Corporate Strategic Risk Register.

### **17. Climate Change Implications**

There are no direct implications arising from this report.

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#### **List of Background Papers**

Audit Management System  
Annual Audit Plan & Strategy 2016/17  
2016 Audit Charter  
Progress Reports to Audit Committee  
Various Internal Audit Reports

## Appendix 1

### Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may be adjusted subsequently; for example, in a minor system with a total budget of £100,000, financial loss of £5,000 would be considered more a more significant risk to system objectives than the matrix below would initially suggest.

### Impact Ratings

Risk Type	Marginal	Significant	Fundamental	Catastrophic
	1	2	3	4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal/Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal/Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse affect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

### Likelihood ratings:

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

### Priority Ratings Matrix

Catastrophic	Impact	4	4	8	12	16	20
Fundamental		3	3	6	9	12	15
Significant		2	2	4	6	8	10
Marginal		1	1	2	3	4	5
			1	2	3	4	5
			Likelihood				
			Remote	Unlikely	Possible	Likely	Very Likely

Risk Score		Recommendation Rating
>=	<	
1	5	Minor Priority
6	10	Low Priority
10	13	Medium Priority
15	21	High Priority

### Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of either Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the Internal Audit function may increase or decrease the level of assurance provided. For example a single, very significant control weakness may give rise to only one recommendation but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

<b>Assurance Level</b>	<b>Typical Findings</b>
<b>Limited</b>	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
<b>Adequate</b>	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
<b>Substantial</b>	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations