

**LGSS Internal Audit & Risk Management
Annual Report 2016/17**

Milton Keynes Council

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1. INTRODUCTION

1.1. The Annual Reporting Process

The Public Sector Internal Audit Standards (Performance Standard 2450) state that the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. Milton Keynes Council's Chief Audit Executive is the LGSS Chief Internal Auditor.

The annual report is required to incorporate the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement plan.

2. CHIEF INTERNAL AUDITOR OPINION 2016/17

2.1. The Public Sector Internal Audit Standards (Performance Standard 2450) state that 'the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.' This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

2.2. My opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan. This assessment has taken account of the relative materiality of these areas, and management's progress in addressing control weaknesses.

2.3. In 2016/17, the Internal Audit service has operated with an adequate level of resource to deliver an annual audit opinion. Internal Audit operates independent of the organisation, and there have been no compromises of Internal Audit's independence in its operation this year.

*On the basis of the audit work undertaken during the 2016/17 financial year, an opinion of **Substantial** assurance is awarded. The internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. In addition, there are no outstanding significant issues arising from the work undertaken by Internal Audit*

However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The level of assurance therefore remains at a similar level from 2015/16.

3. REVIEW OF INTERNAL CONTROL

3.1. How Internal Control is reviewed

- 3.1.1. In order to support the annual Internal Audit opinion on the internal control environment, each year Internal Audit develops a risk-based Audit Plan. This includes a comprehensive range of work to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.
- 3.1.2. The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the Audit Plan throughout the year. During 2016/17 regular reports have been presented to the Audit Committee to highlight progress towards the delivery of the audit plan, along with details of any proposed amendments to the plan. There were no significant amendments made to the 2016/17 audit plan.
- 3.1.3. Each Internal Audit review has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.
- 3.1.4. However, controls are not always complied with, which will in itself increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
- 3.1.5. Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisation's control environment as a whole.
- 3.1.6. Three assurance opinions are therefore given at the conclusion of each audit: control environment assurance, compliance assurance, and organisational impact. To ensure consistency in reporting, the following definitions of audit assurance are used:

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

- 3.1.7. Organisational impact will be reported as major, moderate or minor. All reports with major organisation impacts are reported to the Corporate Leadership Team (CLT), along with the agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

- 3.1.8. Specifically for the compliance reviews undertaken, the following definitions will be used to assess the level of compliance in each individual reviewed:

Opinion for Compliance Audits – Levels of Compliance	
Level	Definitions
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

3.2. The Basis of Assurance

- 3.2.1. The findings and assurance levels provided by the reviews undertaken throughout 2016/17 by Internal Audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.
- 3.2.2. In 2016/17, the Audit Plan has been based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in-

year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. The Audit Plan is designed to be flexible and reflects the environment in which the public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and making every penny count.

4. INTERNAL AUDIT IN 2016/17

4.1. Overview and Key Findings

4.1.1. This section provides a summary on the audit reviews completed during 2016-17, highlighting any specific areas of concern.

4.1.2. For the reviews undertaken during 2016/17, there were four audits completed and previously reported to the Audit Committee as part of the progress update reports, where an assurance opinion of Limited / Weak has been provided. These related to our audits on:

- Personal Payments (Direct Payments)
- Deprivation of Liberty Safeguarding
- Information Governance and
- The Redway School.

4.1.3. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit have obtained agreed management actions to address the weaknesses identified, to improve the system of control and compliance. Where these management actions are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to Audit Committee in accordance with the reporting timetable. An overview of the implementation of actions in 2016-17 is summarised in Table 1, below:

Table 1: Implementation of Audit Agreed Management Actions 2016-17

Total Agreed Management Actions	214
Actions Confirmed as Implemented	194
Actions Confirmed as Outstanding	20
Implementation %	91%

Table 2: Outstanding Management Actions by Category

Management Action Rating			Total
Essential	Important	Standard	
-	8	12	20

4.2. Financial and Other Key Systems

- 4.2.1. This is the 2016/17 suite of annual core systems reviews, undertaken to provide assurance to management and External Audit that expected controls are in place for key financial systems; that these controls are adequately designed and are routinely complied with in practice. The work is focused on the systems that have the highest financial risk; these are agreed in advance with External Audit and assist in providing assurance to External Audit that systems recording transactions within the 2016/17 financial year are free from material misstatement. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.
- 4.2.2. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice although however there were some areas where improvements have been recommended. It should however be noted that the current SAP ERP solution is to be replaced during 2017 and therefore the agreed management actions reflect the impending change in system. Internal Audit is however involved with the implementation to obtain assurances regarding the design of the proposed system of internal control for the Agresso ERP system.
- 4.2.3. Table 2 below details the assurance levels of all key systems audits undertaken in 2015/16 compared to the assurance levels in 2015/16:

Table 2 – Key Financial Systems Audits 2016/17

Key Financial Systems:	Audit Opinion 2016-17	
	Environment	Compliance
Budgetary Control	Good	Good
Purchase to Pay	Satisfactory	Substantial
Accounts Receivable	Substantial	Good
Payroll	Satisfactory	Satisfactory
Treasury Management	Substantial	Substantial
General Ledger	Substantial	Substantial

4.3. Risk-Based Reviews

- 4.3.1. Risk-based reviews have been a key element of the assurance on the systems control environment of the authority in 2016/17. This assurance block includes reviews which have been targeted towards key areas of high risk, as identified through consultation with senior management, review of risk registers, and the Internal Audit risk assessment of the organisation. This approach formed the basis for the creation of the 2016/17 Internal Audit plan.
- 4.3.2. This assurance block includes audit work undertaken using our 'embedded assurance' approach; this applies to reviews where auditors attended Project Boards and/or gave independent advice and support to project or programme work, with periodic reporting as appropriate.
- 4.3.3. The outcomes of all risk-based reviews issued in 2016/17 can be seen at Appendix 1.

4.4. Anti-Fraud and Corruption

4.4.1. There continues to be an increasing high-risk of fraud across the public sector. LGSS Internal Audit Counter Fraud specialists undertakes work on anti-fraud and corruption which includes both reactive and pro-active elements, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place, and pro-active fraud strategy work.

4.4.2. During 2016/17, 45 corporate / internal referrals in respect of alleged fraud and / or code of conduct breaches against MKC were received. Of these 39 cases have been investigated with the outcomes as follows:

▪ Employee disciplinary warning letter	-	1
▪ Employee dismissed	-	4
▪ Employee resigned	-	1
▪ Management letter of Employee File	-	2
▪ Contractor removed from site	-	1
▪ Cases with 'No Further Action'	-	30

4.4.3. In addition to the 73 fraud cases brought forward, a further 572 fraud referrals were made in respect of public investigations into areas such as, Single Person Discount (SPD), Blue Badge and Parking, Housing Tenancy, Council Tax Reduction Scheme (CTRS) frauds and Scholl Admission misrepresentations. Whilst there remains an ongoing caseload for investigations, the sanctions achieved in 2016 / 17 are as follows:

▪ Sub-letting Prosecution	-	1
▪ Social Houses Recovered	-	3
▪ Right to Buy Applications withdrawn	-	14
▪ C/Tax Prosecutions / Fines	-	10
▪ Blue Badge warning letters	-	4
▪ Parking / Car Share Warning letters	-	3
▪ Contract Debt Recovery	-	1
Total	-	36

4.4.4. The results of the National Fraud Initiative (NFI) data matching exercise were received by the Council in February 2015. The 'potential' fraud matches are currently being reviewed and the results will be reported to future meetings of the Committee.

4.5. ICT Audit

4.5.1. During 2016/17 a number of planned ICT based reviews were undertaken in respect of:

- Infrastructure - Backup and Recovery Healthcheck
- Business Critical Application – ALBACS
- Business Critical Application – Integrated System for Parents and Providers
- Network hardware – Storage Infrastructure Risk Assessment
- Project Healthcheck – Data Hosting Project
- Network Hardware – desktop Infrastructure Security Assessment

4.5.2. As highlighted in para 4.1.2 above, the Information Governance audit was given an assurance rating of Limited, however a detailed management action plan was agreed on 12 May 2017. Information Governance (IG) at MKC is

improving from a previous low level of maturity. However key concerns identified within the audit are as summarised below.

- A limited review of contract terms and conditions as it affects Children's and Adults Social Care contracts was completed. It was found that the current approach is to make suppliers responsible for maintaining data up to twelve years after contract expiry (including data subject to the Data Protection Act.) Relying on suppliers to keep MKC data secure after contract expiry is high risk because of a lack of any on-going MKC oversight of how the records are being maintained and potential for changes in the trading status, location and contact details of the supplier.
- There is no corporate requirement that temporary staff should undertake information security/data protection training although there are compensating departmental procedures for some services. The risk is temporary staff with access to sensitive MKC data do not undertake any evidenced data protection training. The agreed management action for this is to link mandatory information security E-learning training to the setting up of new E-mail accounts. This new procedure will cover both permanent and temporary staff. Consideration should also be given to making role based information security training available via E-learning.
- No resource is allocated by IG board to undertaking Information Governance assurance review. The CIM's view is that there are other actions that need to be undertaken first before such reviews can be of value. These including the introduction and communication of the updated Policy Framework and the completion of departmental information asset registers.
- No MKC specific project plan for General Data Protection Regulation compliance has yet been written. As a consequence there will be time pressures on undertaking necessary actions by the implementation date of 25 May 2018.

4.6. Grants and Other Head of Audit Assurances

- 4.6.1. In 2016/17, 8 grants received by Milton Keynes Council required review and certification by Internal Audit to verify that funds have been spent in accordance with grant conditions. All work completed in this area confirmed the accuracy of the grant submissions and further ascertained that monies received and claimed had been spent in accordance with relevant grant conditions.

4.7. Policies and Procedures

- 4.7.1. In 2016/17, Internal Audit has maintained a focus on review of financial and anti-fraud policies and procedures, to ensure that these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved. Policies have been reviewed as part of the LGSS Shared Service arrangements, in order to benefit from the sharing of good practice.
- 4.7.2. In addition to work which focuses specifically on individual Council policies and procedures, every risk-based audit review undertaken considers the current policies and procedures in the service area under review, and audit

recommendations include suggested revisions or updates to policies as appropriate.

4.8. Schools Audits

4.8.1. During 16/17, 8 schools were subject to an internal audit review. The scope of these reviews covered:

- Safer recruitment controls and other safeguarding procedures;
- Payroll controls;
- Financial responsibilities and accountabilities; and
- Financial controls and reporting.

4.8.2. For every schools report issued an action plan has been agreed with the school. The implementation of these actions will ensure that the control environment at these schools is improved to an appropriate level. Follow-up audits are conducted at schools which have previously achieved low assurance levels, to verify that improvements have been made.

4.8.3. As highlighted in para 4.1.2, the Redway School was given a limited assurance opinion following the completion of the planned audit. The findings of this audit have been reported in detail to previous meetings of the committee.

4.9. Other Work

4.9.1. Internal Audit continues to provide advice and guidance to officers on a wide range of issues, including the interpretation of Council policies and procedures, risks and controls within systems or processes, and ad-hoc guidance on queries relating to projects or transformation. Internal Audit aims to provide clear advice and risk-based recommendations with a view to reducing bureaucracy whilst maintaining a robust control environment. Where appropriate, we also refer queries or concerns on to specialist services such as Information Governance or IT Security.

4.9.2. Internal Audit also leads on co-ordinating risk management and business continuity management activities across Milton Keynes Council.

4.9.3. During 2016/17, work across the organisation has continued to develop and embed effective risk management practices within the Council. This includes the maintenance and the corporate risk management software GRACE and the continued support to CLT in respect of the effective management of the four Corporate Strategic Risks, which are:

1. Organisational capacity at a time of increasing demand and declining resources;
2. Medium term financial challenge;
3. Planning for cohesive growth
4. Protecting and caring for vulnerable people.

4.9.4. In addition to the above, the Corporate Risk Manager has continued to work with Directorates to review and rationalise the large number of risks and risks registers held within GRACE. Further an exercise has been completed to map project risks to register entries within GRACE to ensure the effective alignment of risk management activities.

4.9.5. In respect of business continuity management activities, an extensive programme of work has been completed during 2016/17. This includes the

development of a new Corporate Incident Management Plan. In conjunction with the Emergency Planning Team the Corporate Incident Management plan is to be tested in the autumn. This will ensure the resilience of the Council and its ability to react to unscheduled major potentially disruptive events.

- 4.9.6. The Risk & Business Continuity Team worked with those Services where their continuing ability to function was essential to the Council. These “time critical services” currently have a up to date Business Continuity Plans, which cross cuts with the Corporate Plan and the IT Plan to ensure they have the best possible chance of returning to “business as usual” as quickly as possible following an event.

5. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE

5.1. Delivery of the 2016/17 Internal Audit Plan

- 5.1.1. The Milton Keynes Council Internal Audit Plan was agreed in March 2016 with a target of 95% completion to draft report by 30th April.

- 5.1.2. As at 30th April 93% of the audit plan was complete to at least draft report with all outstanding work at an advanced stage to be issued at draft/ final by 31st May.

5.2. Customer Feedback

- 5.2.1 Continuous development in the quality of the internal audit service remains a key objective, particularly following the collaboration with LGSS. In order to obtain feedback from the organisation, when final reports are issued, a link to an online Customer Feedback Questionnaire is provided to all officers who receive the final report. Respondents are requested to rate the overall satisfaction with regards to audit, with four options from Excellent – Poor. Respondents also have the opportunity to provide more specific detailed feedback.

- 5.2.2 During 2016/17 34 responses were received with 100% positive responses.

5.3. Service Development

- 5.3.1 During 2016/17, the Internal Audit function formed part of the LGSS shared service model which presented the opportunity to enhance the development of the audit team through joint working and the sharing of good practice. The Shared Service arrangement has further provided greater service resilience and the ability to share expertise across the team.

The 2017/18 Internal Audit plan has also been developed to take advantage of the shared working opportunities available to enhance the efficiency and effectiveness of the internal audit service.

- 5.3.2 Continuous Professional Development continues to be an important focus of the quality assurance programme in 2016/17. Given the restructure of LGSS Internal Audit in-year and the turnover of staff, it has been particularly important to ensure that staff have the skills to carry out their responsibilities with proficiency and deliver work of the required quality.

5.4. Compliance with Public Sector Internal Audit Standards

- 5.4.1 An external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS) was undertaken in 2016/17, which found that the Internal Audit function and management arrangements demonstrated full compliance with the majority of the Standards.
- 5.4.2 Whilst no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity were identified, an action plan of improvement has been agreed and will be implemented during 2017/18.

Summary of Completed Reviews 2016/17

The table below summarises the Internal Audit reviews that were completed during the 2016/17 financial year, excluding counter fraud investigations and schools audits, which are itemised separately in sections 4.6 and 4.10, above.

General Audits	Report Stage	Audit Opinion
Bus Service Operators Grant 1	Final	Good
Bus Service Operators Grant	Final	Good
Strengthening Families Grant 1	Final	Good
Strengthening Families Grant 2	Final	Good
Strengthening Families Grant 3	Final	Good
Strengthening Families Grant 4	Final	Good
Transport Grants - Highways	Final	Good
Bank Reconciliation	Final	Good
Housing Services - Anti-Social Behaviour Team	Final	Good
General Ledger	Final	Good
Paying Provider in Settings	Final	Good
Leisure & Community Facilities and Community Solutions	Final	Good
Registrars	Final	Good
Mayors Charity Accounts	Final	Good
Transport Grant - Autodrive	Final	Good
Business Critical Apps – Accesspay	Final	Good
Legal Services	Final	Good
Community Alarm - Telecare	Final	Good
Special Educational Needs (SEN) (Assessment)	Final	Good
Private Sector Housing	Final	Good
Governors Services	Final	Good
Council Tax	Final	Good
NNDR	Final	Good
Building Control	Final	Good
Attendance Management - ASC Sickness Review	Final	Good

Bridges	Final	Good
Budget Monitoring	Final	Good
School Exclusions	Final	Good
Treasury Management	Final	Good
Contract Review - SCAPE	Final	Good
Better Care Fund	Final	Good
Accounts Payable - Debtors	Final	Good
Business Continuity (also included IT Disaster Recovery Audit)	Final	Satisfactory
Risk Management	Final	Satisfactory
People - Probity Audit (Payments to ASC Providers)	Final	Satisfactory
Transport Strategy	Final	Satisfactory
Councillors' Allowances	Final	Satisfactory
Recruitment (also included Resources - Probity Audit)	Final	Satisfactory
Transport Grants - Bus subsidy	Final	Satisfactory
Project Healthcheck - Brooklands Secondary Campus	Final	Satisfactory
Project Healthcheck - CMK Sports Pavilion	Final	Satisfactory
Project Health check – Data Hosting Project (incl. Storage Infrastructure)	Final	Satisfactory
Housing Options & Homelessness	Final	Satisfactory
Refuse Collection & Street Cleansing	Final	Satisfactory
Housing Contracts Management (inc. Regeneration)	Final	Satisfactory
Section 106	Final	Satisfactory
Benefits	Final	Satisfactory
Intermediate Care	Final	Satisfactory
Cash Handling	Final	Satisfactory
Payroll	Final	Satisfactory
VAT	Final	Substantial
Personal Payments (Direct Payments)	Final	Limited Assurance
Deprivation of Liberty Safeguarding	Final	Weak
Learning and Development	Final	n/a

Networking Hardware – Desktop Infrastructure Security Assessment	Final	n/a
Information Governance	Final	Limited
Children's Commissioning Team	n/a	n/a
Children in Care Team (Corporate Parenting Team)	n/a	n/a
Fostering Services	n/a	n/a
Contract Management of Highways Contract - Ringway	n/a	n/a
Landscape Contract Management	n/a	n/a
Parking Contract	Draft	
Place - Voids and Disposals	Draft	
Zero Waste Strategy	Draft	
AGS and Corporate Governance (incl. LGSS Governance)	Draft	
Resources - Added Value Reviews - HMRC	Draft	
Project Healthcheck - Firststep	Draft	
Autism	Draft	
School Audits		
White Spire School	Final	Good
Pupil Referral Unit	Final	Good
Abbeys Primary School	Final	Good
St Paul's Catholic School	Final	Satisfactory
Jubilee Wood Primary School	Final	Satisfactory
St. Andrew's CE Infant School	Final	Satisfactory
Brooklands Farm Primary School	Final	Satisfactory
The Redway School	Final	Limited Assurance