

Committee: PERFORMANCE & AUDIT COMMITTEE

Agenda Item

Date: 30 July 2015

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**Title: Internal Audit Annual Report and Opinion
2014/15**

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Item for Information

Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2014/15 and provide an overall opinion on the Council's control environment for 2014/15. The report also shows the state of compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 01 April 2013.

Recommendations

2. That Internal Audit coverage, the Internal Audit opinion and compliance with the Public Sector Internal Audit Standards are noted.

Financial Implications

3. None. There are no costs associated with the recommendations.

Background Papers

4. None.

Impact

- 5.

Communication/Consultation	The Internal Audit Reports referred to in this report have been circulated to Members This report has been discussed with the Corporate Management Team at its meeting 17 June 2015
Community Safety	none
Equalities	none
Health and Safety	none
Human Rights/Legal Implications	This report partly informs the Annual Governance Statement. The Statement is

	published to complement the Council's Statement of Accounts. This is a requirement set out in the Accounts and Audit Regulations 2011, regulation 4(3), that all relevant bodies prepare an annual governance statement.
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

Situation

6. Internal Audit is statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.
7. The Internal Audit coverage for 2014/15 was delivered by the Council's in-house Internal Audit Team, which comprised of the following full-time officers:
 - 1 x Internal Audit Manager (full-time)
 - 1 x Internal Auditor (full-time)
 - 1 x Internal Auditor (part-time 0.7 FTE)
8. Internal Audit work partly informs the Annual Governance Statement which is published with the Council's Statement of Accounts.
9. Throughout 2014/15 the Internal Audit Manager reported to Members of the Performance & Audit Committee on details of work undertaken by Internal Audit and on implemented and outstanding Internal Audit recommendations.
10. The Internal Audit Work Programme 2014/15 was a rolling programme of planned audit work subjected to regular reviews and updating at strategic points throughout the year to take into consideration changes in priority, auditor resource and additional unplanned time requirement.
 - The first review was undertaken in April 2014 to determine the audit work for quarters 1 & 2 of the new financial year;
 - The second review was undertaken in July 2014 to re-assess potential days for specific audits and to determine audit work for quarters 2 and 3 of the financial year;
 - The third review was undertaken in October 2014 to re-assess potential days for key financial work and other 2014/15 audit work to be undertaken by the audit resource available in quarters and 4 of the financial year.

- A further review was undertaken in January 2015 to determine which audits from the 2014/15 rolling programme would be carried forward to 2015/16 or later.

11. The initial Internal Work Programme for 2014/15 was drawn up in January 2014 and implemented from 01 April 2014 on the basis of a resource of 1 full-time audit manager, 1 full-time auditor and 1 part-time (0.7 FTE) auditor. The allocation of audit days are calculated as follows:

	Apr 14 days	<i>revision</i> <i>July 14</i> <i>days</i>	<i>revision</i> <i>Oct 14</i> <i>days</i>	<i>revision</i> <i>Jan 15</i> <i>days</i>	actual days taken	<i>diff</i> <i>between</i> <i>April 14</i> <i>actual</i>
total days available	694	694	694	694	694	0
less leave provisions and non-audit time	(239)	(239)	(239)	(239)	(240)	1
total audit days available	455	455	455	455	454	
<i>programmed 2014/15 audit work</i>	311	311	311	325	319	5
<i>productive Non-specific audit work</i>	145	145	145	145	135	-10
total audit days allocated	456				454	

2014/15 Leave Provisions & Non-Audit Time

12. At 31 March 2015, Leave Provisions (bank holidays; annual, statutory, study & sick leave) accounted for 97 days against the allocated 115 days (-18).

13. At 31 March 2015, Non-Audit Time (training; CPD; planning & management; administration; appraisals; team meetings etc.) accounted for 143 days against the allocated 124 days (+19).

2014/15 Productive Non-Specific Audit Work

14. At 31 March 2015, Productive Non-Specific Audit Work accounted for 135 days against the allocated 145 days (-6).

	allocated days	actual days taken	diff
contribution to corporate management	19	39	20
consultancy & general advice	30	23	-7
committee & member related work	25	19	-6
fraud related work	25	29	4
irregularity provision	20	10	-10
follow-up work	10	5	-5
residual 2013/14 audit work	10	1	-9
Other- e.g. External Auditor liaison	6	9	3
	145	135	-10

2014/15 Planned Audit Work – Revised Internal Audit Programme

15. There were a total of 32 audits on the initial Internal Audit Programme 2014/15 which were reviewed and revised:

- April 2014 – overall total of audits remained at 32
- July 2014 – overall total of audits remained at 32
- October 2014 – overall total of audits was revised to 31
- January 2015 – overall total of audits remained at 31 to be completed by 31 March 2015;

16. There were 3 audits identified for potential audit work in the 2014/15 Internal Audit Strategy that were audited (Taxation; Treasury Management; Street Services - Grounds Maintenance)

17. There are 5 audits initially planned for 2014/15 that have been carried forward (Information Management; Elections; Members & Allowances & Expenses; Planning - Housing Strategy Local Plan).

18. The audit of Car Parking (NEPP) was carried out undertaken by two auditors, one from UDC and one from Epping Forest District Council's (EFDC) Internal Audit Team as part of the informal audit swap arrangement. During 2014/15 the part-time UDC auditor continued to be employed in Internal Audit at EFDC; the audit swap arrangement was pioneered in 2013/14 to give flexibility to both roles. As a result additional days required at either council were repaid with compensating additional days at the other ensuring a zero balance of days owed at 31 March 2015.

19. Unfortunately due to changes of personnel and resources, this arrangement will not be able to continue in the same manner although it is hoped that

success of the informal audit swap can continue during 2015/16 with further exchanges of staff as skills, expertise and resources dictate.

20. Of the revised 31 audits to be completed in 2014/15:

- 12 were Key Financial Audits;
- 4 were Corporate Audits and
- 15 were Operational audits.

21. The final revised 325 days were allocated to these audits as:

- Key Financial Audits - 104 days (32%)
- Corporate Audits - 45 days (14%)
- Operational Audits - 176 days (54%)

22. At 31 March 2015, planned audit work accounted for 319 days against the revised allocated 325 days.

23. The Internal Audit target was for 90% of planned audits to be completed to draft stage by 31 March 2014. Of the revised 31 planned audits, 30 (97%) were completed to draft report stage by 31 March 2015, (4 of which were awaiting final completion).

24. By 27 May 2015, Final Reports had been issued for all 2014/15 audits.

Annual Audit Opinion

25. Our audit opinions are formed on the basis of the number of recommendations made and level of risks associated with them.

26. The table reproduced at appendix A shows the audit work undertaken; the planned audit days from the 2014/15 Revised Internal Audit programme; the actual audit days taken including any residual audit work in 2014/15; the number of recommendations made as a result of our audit work and the audit opinions formed.

27. There is no opinion given for the Equality & Diversity Audit 2014/15 as no control testing was undertaken during this audit and an interim report issued.

28. For the 30 completed audits in the 2014/15 audit programme on which an opinion has been given, 54 recommendations have been made to improve the Council's control environment. This is in comparison with the 56 recommendations made in the 25 audits completed in the 2013/14 audit programme and the 60 recommendations made in the 33 audits completed in the 2012/13 audit programme.

29. The 54 recommendations arising from our 2014/15 audit work were assessed as follows:

- 1 recommendation was assessed as level 4
(fundamental and requiring immediate attention and priority action)
- 5 recommendations were assessed as level 3
(significant that should be addressed within six months)
- 45 recommendations were assessed as level 2
(important that should be addressed within twelve months);
- 3 recommendations were assessed as level 1
(merit attention and would improve overall control).

30. For the 30 audits on which an opinion on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled has been given:

- the opinions for 0 audits were 'limited or little assurance';
- the opinions for 9 audits were 'adequate assurance' and
- the opinions for 21 audits were 'substantial assurance'.

31. For the 12 Key Financial Audits on which an opinion has been given on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled:

- the opinion for 2 audits was 'adequate assurance' and
- the opinions for 10 audits were 'substantial assurance';

however for 8 of these key financial audits the scope of the audit was limited to revision and updating of systems flowcharts and for testing to be carried out on a limited number of routine risk areas.

32. In determining the overall audit opinion for the year, the factors in paragraphs 29 to 31 have been taken into consideration and weighted accordingly.

33. Therefore, our audit opinion on the control environment for 2014/15 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are, on balance, substantially managed and controlled.

Implementation of Internal Audit Recommendations

34. To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To encourage the

timely implantation of agreed recommendations all management action and timetable for implementation is agreed prior to the issue of the final report.

35. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.
36. Internal Audit manages the follow-up of implementation of recommendations through a combination of updates from responsible officers following automatic trigger notifications sent out by Covalent; regular reporting to meetings of this Committee and a rolling follow up programme at six months after the latest implantation date of the agreed management action or as part of the next audit of an area.
37. All Corporate audit reports are copied to the Corporate Management Team (CMT), all Operational audit reports are addressed to the member of CMT responsible for the audited area and copied to the Chief Executive, Section 151 Officer and the Monitoring Officer.
38. Members of the Performance & Audit Committee received copies of all audit reports and Terms of Reference. All new level 3 and 4 recommendations were reported in detail at each meeting of the Committee.
39. Of the 54 recommendations made in Audits from the 2014/15 audit programme to date:
 - 33 have been implemented
 - 20 have a due date after 31 March 2015 and will continue to be monitored through Covalent with progress reported to this Committee during 2014/15
 - 1 has been cancelled having been superseded by a recommendations made in later audits during the year.

External Auditors

40. Liaison meetings and informal ad hoc meetings were held between the Audit Managers of Internal Audit and the External Auditor to discuss current work being undertaken and future work plans.

Conformance with the Public Sector Internal Audit Standards (PSIAS) and Other Quality Assurance Results

41. The PSIAS require that an internal or external review of the Internal Audit Service is conducted annually. During 2014/15 a self-assessment was undertaken to review conformance with the PSIAS.

42. This review confirmed conformance with:

the four elements of the PSIAS Code of Ethics

- 1 Integrity
- 2 Objectivity
- 3 Confidentiality
- 4 Competency

the Attribute Standards

- 1000 Purpose, Authority and Responsibility
- 1100 Independence and Objectivity
- 1200 Proficiency and Due Professional Care
- 1300 Quality Assurance and Improvement Programme

the Performance Standards

- 2000 Managing the Internal Audit Activity
- 2100 Nature of Work
- 2200 Engagement Planning
- 2300 Performing the Engagement
- 2400 Communicating Results
- 2500 Monitoring Progress
- 2600 Communicating the Acceptance of Risks

43. This review confirmed that there were no significant areas of non-conformance but one new minor issue was identified relating to standard 2050 coordination of internal activities with other internal and external assurance providers.

44. A Quality Assurance & Improvement Programme (QAIP) is in place to address any minor issues identified in the self-assessment and has been reviewed and updated to show the progress on minor issues identified in the previous self-assessment and addition of any new minor issues arising. A copy of the revised QAIP will be made available to Members on request.

45. Of the 9 minor issues identified in the 2013/14 self-assessment:

- 3 have been addressed and there is now full conformance with the standard
- 5 have been partially addressed and full conformance with the standard is expected to be attained during 2015/16
- 1 relating to the External Assessment of Internal Audit will not be addressed during 2015/16 as the first External Assessment is expected to be scheduled for completion by 31 March 2017

46. Progress against the revised June 2015 QAIP will be reported to the Performance & Audit in the 2015/16 Internal Audit Annual Report and Opinion.

47. It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports to the Assistant Chief Executive – Legal but has a direct and unrestricted access to all senior management and the Performance & Audit Committee.

48. Quality control procedures have been established within the Internal Audit Services as follows:

- Individual Audit Reviews – Working papers and reports are all subject to independent review to ensure that the audit tests undertaken are appropriate, evidenced and the correct conclusions drawn. All reports are reviewed to ensure that they are consistent with working papers and in layout. Whilst these reviews invariably identify issues for clarification, the overall conclusion of the quality assurance checks is that work is being completed and documented thoroughly.
- Customer Satisfaction – A Post Audit Questionnaire form is issued to the main auditees on completion of an audit. This form seeks the views of the recipient on how the audit was conducted, the report, recommendations made and overall opinion of the audit. Based on the Post Audit Questionnaire forms returned, the average score was 83% for customer satisfaction during 2014/15.
- All staff are provided with a copy of the Public Sector Internal Audit Standards and the Internal Audit manual has been updated to reflect the requirements of the standards.

49. The above quality control procedures have ensured conformance with the PSIAS and that all Internal Audits have been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Review of Performance of the Internal Audit Service Against the Current Internal Audit charter

50. The Audit Charter was reported to and approved by the Performance & Audit Committee on 12 February 2015.

51. Based on the information provided in this report on the completion of the 2014/15 Internal Audit Programme, it is considered that the requirements of the Charter were met during the year.

Risk Analysis

52.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 Internal Audit work programme for 2014/15	3 Failure to provide internal audit assurance could lead to inability to meet corporate and operational objectives and Adverse External Auditor report and damage to the Authority's reputation	The External Auditor review the outcome of Internal Audit work. The performance of the Internal Audit Section is monitored by senior management and Members.
Those charged with governance do not respond to Internal Audit recommendations.	2 Reports can contain re-iterations of recommendations made during previous audit that have not been implemented.	3 There would be varying levels of impact from any non-implementation of the recommendations given the high significance of the majority of control risks identified.	There is an escalation procedure. Internal audit reports are followed up to ensure compliance. The outcome of Internal Audit work is reviewed by the External Auditor and by the Performance & Audit Committee.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.