

**Committee: PERFORMANCE & AUDIT COMMITTEE**

**Agenda Item**

**Date: 19 May 2016**

**5**

**Title: Internal Audit Annual Report and Opinion  
2015/16**

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Item for Information

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## Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2015/16 and provide an overall opinion on the Council's control environment for 2015/16. 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 04 May 2016
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 2015, regulation 6(1)(a) and (b) 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 2015/16 was delivered by the Council's in-house Internal Audit Team, which comprised of the following resource:
  - 1 x Internal Audit Manager (full-time)
  - 1 x Internal Auditor (full-time)
  - 1 x Internal Auditor (part-time 0.7 FTE)

The part-time post has had a change of personnel during the year with a new trainee Internal Auditor appointed to the post from 01 June 2015.

8. Internal Audit work partly informs the Annual Governance Statement which is published with the Council's Statement of Accounts.
9. Throughout 2015/16 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 2015/16 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 2015 to determine the audit work for quarters 1 & 2 of the new financial year;
  - The second review was undertaken in June 2015 to re-assess potential days for specific audits, to determine audit work for quarters 2 and 3 of the financial year and to take into consideration the resource changes;
  - The third review was undertaken in October 2015 to re-assess potential days for key financial and other 2015/16 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 2016 to determine which audits from the 2015/16 rolling programme would be carried forward to 2016/17 or later.

11. The initial Internal Work Programme for 2015/16 was drawn up in January 2015 and implemented from 01 April 2015 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 15 days	revision June 15 days	revision Oct 15 days	revision Jan 16 days	actual days taken	diff between April 15 actual
<b>total days available</b>	699	699	699	699	699	0
<b>less leave provisions and non-audit time</b>	(250)	(260)	(260)	(260)	(262)	12
<b>total audit days available</b>	449	439	439	439	437	
<i>programmed 2015/16 audit work</i>	305	305	305	305	297	8
<i>productive Non-specific audit work</i>	145	145	145	145	140	-5
<b>total audit days allocated</b>	450				437	

### 2015/16 Leave Provisions & Non-Audit Time

12. At 31 March 2016, Leave Provisions (bank holidays; annual, statutory, study & sick leave) accounted for 106 days against the allocated 121 days (-15).

13. At 31 March 2016, Non-Audit Time (training; CPD; planning & management; administration; appraisals; team meetings etc.) accounted for 156 days against the allocated 129 days (+27).

### 2015/16 Productive Non-Specific Audit Work

14. At 31 March 2016, Productive Non-Specific Audit Work accounted for 140 days against the allocated 145 days (-5).

	allocated days	actual days taken	diff
contribution to corporate management	24	41	17
consultancy & general advice	30	45	15
committee & member related work	20	11	-9
fraud related work	25	8	-17
irregularity provision	20	18	-2
follow-up work	10	5	-5
residual 2014/15 audit work	10	9	-1
Other- e.g. External Auditor liaison	6	3	3
	<b>145</b>	<b>140</b>	<b>-5</b>

### 2015/16 Planned Audit Work – Revised Internal Audit Programme

15. There were a total of 34 audits on the initial Internal Audit Programme 2015/16 which were reviewed and revised:

- April 2015 – overall total of audits remained at 34
- June 2015 – overall total of audits was revised to 35
- October 2015 – overall total of audits was revised to 30
- January 2015 – overall total of audits was revised to 30

16. There were 3 audits identified for potential audit work in the 2015/16 Internal Audit Strategy that were audited (Car Parking Partnership; Licensing; Risk Management)

17. There are 7 audits initially planned for 2015/16 that have been carried forward (Business Continuity; Elections; Electoral Registration; Fraud –non corporate; Members & Allowances & Expenses; Partnerships; Recovery)

18. Of the revised 30 audits undertaken in 2015/16:

- 12 were Key Financial Audits;
- 18 were Other audits.

19. The final revised 305 days were allocated to these audits as:

- Key Financial Audits - 81 days (27%)
- Other Audits - 224 days (73%)

20. At 31 March 2016, planned audit work accounted for 297 days against the revised allocated 305 days.

21. The Internal Audit target was for 90% of planned audits to be completed to at least draft stage by 31 March 2016. Of the revised 30 planned audits, 27 (90%) were completed to at least draft report stage by 31 March 2016.

22. Final Reports are expected to be issued for the remaining 6 audits by 31 May 2016.

## **Annual Audit Opinion**

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

24. The table reproduced at appendix A shows the audit work undertaken; the planned audit days from the 2015/16 Revised Internal Audit programme; the actual audit days taken during 2015/16; the audit opinions formed and the number of recommendations made as a result of our audit work.

25. There is no opinion given for the Corporate Governance Audit 2015/16 as all audit work was specifically on production of the Council's Annual Governance Statement.

26. For the 23 completed audits in the 2015/16 audit programme on which an opinion has been given, 44 recommendations have been made to improve the Council's control environment. This is in comparison with the 54 recommendations made in the 30 completed audits in the 2014/15 and the 56 recommendations made in the 25 audits completed in the 2013/14 audit programme.

27. The 44 recommendations arising from our 2015/16 audit work were assessed as follows:

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

28. For the 23 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 3 audits were 'limited assurance';
- the opinions for 5 audits were 'adequate assurance' and
- the opinions for 15 audits were 'substantial assurance'.

29. For the 10 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 'limited assurance' and
- the opinions for 8 audits were 'substantial assurance';

However for 6 of the 'substantial assurance' 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.

30. In addition to the audit opinion of 'limited' assurance for 3 audits, there is a fourth audit currently at draft stage expected to have either 'limited' or 'little' assurance. The 3 completed 'limited' assurance audits are:

- Cash & Bank 2015/16 in which we made two level 4 and one level 3 recommendations; the two level 4 recommendations have been partly implemented and expected to be fully implemented along with the level 3 recommendation in accordance with an agreed timetable.
- Payroll 2015/16 in which we made three level 3 and two level 2 recommendations; one level 3 and one level 2 recommendation have been implemented and the remaining recommendations are being implemented in accordance with an agreed timetable.
- Car Parking (NEPP) 2015/16 in which we made three level 3 recommendations; all recommendations have been being implemented.

Copies of the Final Reports for these audits were circulated to members of the Performance & Audit Committee at the times of issue. On completion of the fourth audit, a copy of the Final Report will be circulated to members of the Performance & Audit Committee.

31. In determining the overall audit opinion for the year, the factors in paragraphs 27 to 30 have been taken into consideration and weighted accordingly.

32. Therefore, our audit opinion on the control environment for 2015/16 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are, on balance, **adequately** managed and controlled. This is in comparison with our audit opinion of Substantial for 2014/15, (there were no 'limited' or 'little' assurance audits during 2014/15).

### **Implementation of Internal Audit Recommendations**

33. 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.

34. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.
35. 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.
36. All audit reports are addressed to the member of CMT responsible for the audited area and copied to the Chief Executive, Section 151 Officer, the Monitoring Officer and the Director of Public Services.
37. Members of the Performance & Audit Committee received copies of all audit reports and Terms of Reference.
38. Of the 44 recommendations made in Audits from the 2015/16 audit programme to date:
  - 26 have been implemented
  - 18 have a due date after 31 March 2016 and will continue to be monitored through Covalent with progress reported to this Committee during 2016/17

## **External Auditors**

39. 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**

40. The PSIAS require that an internal or external review of the Internal Audit Service is conducted annually. During 2015/16 a self-assessment was undertaken to review conformance with the PSIAS.
41. 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

42. This review confirmed that there were no new significant areas of non-conformance but one minor issue previously identified relating to standard 2050 coordination of internal activities with other internal and external assurance providers has not yet been addressed.

43. 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.

44. Of the 3 minor issues identified in the 2014/15 self-assessment:

- 1 has been addressed and there is now full conformance with the standard
- 1 has been partially addressed and full conformance with the standard is expected to be attained during 2016/17
- 1 relating to the External Assessment of Internal Audit was not addressed during 2015/16 as the first External Assessment is expected to be scheduled for completion by 31 March 2017

45. Progress against the revised April 2016 QAIP will be reported to the Performance & Audit in the 2016/17 Internal Audit Annual Report and Opinion.

46. 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.

47. 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 89% for customer satisfaction during 2015/16.
- All Internal Audit 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.

48. 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**

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

50. Based on the information provided in this report on the completion of the 2015/16 Internal Audit Programme, it is considered that the requirements of the Charter were met during the year.

## Risk Analysis

51.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 Internal Audit work programme for 2015/16	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.