

## POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	30 <sup>th</sup> May 2017		
TITLE:	Internal Audit Annual Report and Opinion 2016-17		
TYPE OF REPORT:	Scrutiny		
PORTFOLIO(S):	Performance		
REPORT AUTHOR:	Kathy Woodward, Shared Internal Audit Manager		
OPEN		WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

### **REPORT SUMMARY/COVER PAGE**

<b>PURPOSE OF REPORT/SUMMARY:</b>
To provide the Audit Committee with an overview of the work undertaken by Internal Audit during 2016/17 and provide the Audit Managers annual opinion on the system of internal control.
<b>KEY ISSUES:</b>
<p>Under the Accounts and Audit 2015, the Council '<i>must conduct a review of the effectiveness of the system of internal control</i>'. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.</p> <p>Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager '<i>must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement</i>'. This report fulfils that requirement.</p> <p>The report includes consideration of the effectiveness of the internal audit team and the basis of the Audit Manager's opinion.</p>
<b>OPTIONS CONSIDERED:</b>
Not applicable
<b>RECOMMENDATIONS:</b>
To receive the annual audit opinion and note the work of Internal Audit for 2016-17.
<b>REASONS FOR RECOMMENDATIONS:</b>
To comply with the requirements of the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS).

## **REPORT DETAIL**

### **1. Introduction**

- 1.1 Under the Accounts and Audit 2015, the Council '*must conduct a review of the effectiveness of the system of internal control*'. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.
- 1.2 Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager '*must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*'. This report fulfils that requirement.
- 1.3 The Internal Audit Annual Report states the Audit Manager's opinion on the system of internal control and the sources of assurance used to form this opinion.
- 1.4 To support the stated opinion, this report describes the work carried out by Internal Audit during 2016-17 and summarises the resulting findings. It also reflects on the performance against the strategic plan and the effectiveness of the Internal Audit team.

### **2.0 Audit Manager's Opinion**

- 2.1 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However the Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of these systems.
- 2.2 Bearing this in mind, in the Audit Manager's opinion, the Council's control arrangements were adequate and effective in 2016-17, with sound controls in all key areas.

### **3.0 Effectiveness of the Internal Audit team**

- 3.1 During the first three quarters of 2016/17, the Internal Audit team consisted of a full time Audit Manager, 1.8 FTE Auditors and 1 full time Investigation Officer/Internal Auditor. The Audit Manager is a Chartered Member (CMIIA) of the Chartered Institute of Internal Auditors (CIIA). The Internal Auditors have either achieved a Practitioner status of the IIA or hold equivalent qualifications. The Investigation Officer/ Internal Auditor is PINS (Professionalism in Security) qualified and also an Accredited Counter Fraud Manager, and is currently training as an Internal Auditor.
- 3.2 Following the planned retirement of the current Audit Manager a new Shared Internal Audit Manager was appointed in November 2016. The new Shared Internal Audit Manager is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) and has been shadowing the current Audit Manager since recruitment.
- 3.3 At the end of quarter three, one part-time auditor left the Council. This temporary reduction in resource had a minor impact on the planned work that could be completed in the year,

resulting in planned low risk audits being removed from the plan and more work being continued into 2017/18 than previously anticipated. However sufficient work was completed in 2016/17 to enable the Audit Manager to reach a valid conclusion on the effectiveness of the internal control systems. A full-time Internal Auditor has been recruited to join the team early in 2017/18.

- 3.4 All members of the team undertake training as part of their Continued Professional Development (CPD). This can take the form of attending externally run courses or in-house provision. A list of the courses attended is attached as **Appendix 1**. The training covers not only technical audit issues, but also subjects that the team have to consider as part of the various audits. This all forms part of the 'Knowledge of the Business' that is fundamental to the conduct of constructive audits. The team are also expected to be aware of reports going to the various panels and committees.
- 3.5 Where specialist IT audit skills are required the Audit Manager has the facility to use the IT audit services provided under the contract between Eastern Internal Audit Services (formerly the Norfolk Internal Audit Consortium), based at South Norfolk District Council, and TIAA Ltd.
- 3.6 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2016-17 line management was through the Executive Director – Finance Services (s151 Officer), but direct access to the Chief Executive, Leader, or Chair of the Audit and Risk Committee was available if required.
- 3.7 Internal Audit have Terms of Reference which were approved by the Audit and Risk Committee on 25<sup>th</sup> June 2013. These describe the scope and objectives of the service, confirm the independent status, authority and standards by which the team operate, and define the responsibilities. The audit style and content, reporting lines and resources are also included. An update of the Terms of Reference is being completed and will be presented to the Audit Committee for approval in due course.
- 3.8 All work in 2016-17 has been performed according to the Public Sector Internal Audit Standards (PSIAS) which are mandatory. The standards, based on the Chartered Institute of Internal Auditors' (CIIA) International Professional Practices Framework and augmented by the Local Government Application Notes (LGAN), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.9 To ensure the internal audit function meets the PSIAS requirements, an independent external quality assessment is required every five years. Such a review was carried out in 2014 by the CIIA and the next review is due in 2019.
- 3.10 The self-assessment checklist produced by the Chartered Institute of Internal Auditors (CIIA), consisting of 207 questions, is completed in the intervening years to ensure that the team continue to comply. The overall result for 2016/17 was positive. The completed PSIAS Conformance checklist is available to Members of the Audit Committee on InSite.

## 4.0 Basis of Assurance

4.1 Each year a Strategic Audit Plan is prepared by the Audit Manager, showing specific audits for the next financial year and proposals for the next few years. This is then presented to the Audit and Risk Committee to endorse. The plan for 2016-17 was agreed on 13th February 2017.

4.2 The Strategic Audit Plan for the year is constructed using the Assurance Framework as a basis, with no limitations in scope. The Assurance Framework is a risk based tool that divides the activities of the Council into five high level, and a sixth operational/ service based domains. Within these domains various activities are risk assessed and the frequency of audits for each area is based on the results. The risk assessment includes any assurance that can be gained from external sources such as the internal audit carried out by Bedford Borough Council for payroll processing. Other sources include the work of Health and Safety specialists and Security Industry Authority 'Approved Contractor' status for CCTV.

In addition to the Assurance Framework, the Audit Manager has regard for:

- Corporate Business Plan
- Discussions with the Executive Directors
- Entries on the Corporate Risk register
- Comments from the external auditors

4.3 At the end of each audit a formal report is issued, containing an action plan agreed with the relevant managers to address any control weaknesses identified during the audit. The audit reports are entered in to a restricted area of InSite for members of the Management Team and the Audit and Risk Committee to view.

4.4 Each report attributes a level of assurance gained for the area being audited as below:

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

4.5 During the year 20 internal audit reports have been issued and the results are summarised in the table at **Appendix 2**. Whilst most of the audits indicate a 'Full' or 'Substantial' level of assurance, three cases produced a result of 'Limited Assurance':

- Policies. This was the first time this subject had been audited and there were a number of issues to address, relating to regulation and legislation in order to establish an efficient and effective system of reviewing, approving and publishing corporate policies. A plan of action has been agreed with Management Team and is being implemented.

- Waste and Recycling. This is a complex contract that has been affected by key personnel with detailed knowledge leaving the Council. This has now been addressed and improvements are being made.
- S106 funds, CIL and Habitat Mitigation Levy. Responsibilities for monitoring the application of the agreements has recently been transferred to a new post and the administrative systems are still being established. Progress has been good and it is anticipated that the follow-up will show considerable improvement.

There were no instances of 'No Assurance' reports being issued.

- 4.6 Each audit is followed up approximately six months after the report has been issued to establish if recommendations are being implemented in accordance with the agreed action plan. Follow-up reports for 2016/17 indicate a good level of implementation with no major concerns raised and I would like to thank all managers for being receptive to our comments and recommendations.
- 4.7 Progress against the strategic plan, including summaries of the reports issued and any amendments to the plan were reported to the Audit Committee during the year.

## **5.0 Anti-Fraud and Anti-Corruption Procedures**

- 5.1 Work with the National Fraud Initiative (NFI) has continued this year, with checks on the matches from the 2014/15 exercise and the Flexible Matching Service being completed. In total 3,761 matches were received and a total in excess of £115,000 is being recovered as a result.
- 5.2 Data has been uploaded for the 2016/17 NFI data matching exercise and results received back in January 2017. Work has commenced on investigating the reported matches.
- 5.3 The Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan were reviewed and updated during 2016/17. The subsequent documents were presented to the Audit Committee on 13<sup>th</sup> February 2017 and Cabinet on 28<sup>th</sup> February 2017, and received Council approval on 6<sup>th</sup> April 2017.
- 5.4 The Internal Audit Team did not conduct any internal fraud investigations during 2016/17.

## **6.0 Risk Management**

- 6.1 The process for reviewing and updating the Risk Register was co-ordinated by the Audit Manager, but responsibility for risk management lies with the Senior Management Team (SMT). As well as receiving the Internal Audit reports for their respective areas, which provide an indication of any weaknesses in the control environment, the SMT also review the Corporate Risk register on a 6-monthly basis in April and October. If any significant issues arise in the intervening period, they are discussed at the time and the register amended. The Audit Committee receive the Corporate Risk Register after it has been updated at the regular 6-monthly intervals.
- 6.2 Arrangements have been made for the Performance and Efficiency Manager to co-ordinate the risk register updates from April 2017 following the departure of the full time Audit Manager.

## **7.0 Conclusion**

7.1 The system of internal control is designed to manage risk to a reasonable level, and therefore cannot provide absolute assurance.

7.2 Notwithstanding the above, based on the audit work completed during 2016-17, it is the opinion of the Audit Manager that:

- Adequate assurance can be gained in respect of the overall systems of internal control operating within the council.
- Risk management systems and corporate governance arrangements are satisfactory.

## **8. Background Papers**

Strategic Internal Audit Plan  
Public Sector Internal Audit Standards (PSIAS)  
Half year progress report  
Year end progress report

**Training undertaken by Internal Audit 2016/17 included:**

Appointing Your External Auditors

E-learning - Disability Equality

E-learning – Payment Card Industry Data security

EMT development – Unconscious Bias

Social media – Personal users

Safeguarding Adults Basic Awareness Violence and Aggression – Lone Workers

PACE (Police and Criminal Evidence) Codes C and E

## Audit reports issued during 2016/17 showing assurance levels

<b>Audit title</b>	<b>Full Assurance</b>	<b>Substantial Assurance</b>	<b>Limited Assurance</b>	<b>No Assurance</b>
ICT Disaster recovery		✓		
Housing Benefits	✓			
Business Continuity		✓		
Creditors and Payments		✓		
Asset Register and Inventories		✓		
Council Tax and Business Rates	✓			
Food Hygiene, Health and Safety, and Public Hygiene		✓		
Careline		✓		
Communications - Social Media		✓		
Safeguarding Children		✓		
General Ledger		✓		
Planning Enforcement		✓		
Attendance Management		✓		
Capital Programme		✓		
Transparency and Open Data		✓		
Policies			✓	
Refuse and Recycling			✓	
Housing Options and Allocations		✓		
S106 Funds, CIL and Habitat Mitigation Levy			✓	
Play Areas		✓		