

## AUDIT AND RISK COMMITTEE REPORT

<b>TYPE OF REPORT:</b> Audit	<b>Portfolio:</b> Leader
<b>Author Name:</b> Kate Littlewood	<b>CONSULTATIONS:</b>
<b>Tel.:</b> 01553 616252	
<b>Email:</b> <a href="mailto:kate.littlewood@west-norfolk.gov.uk">kate.littlewood@west-norfolk.gov.uk</a>	
If not for publication, the paragraph of Schedule 12A of the 1972 Local Government Act considered to justify that is paragraph 3.	

**Committee:** Resources and Performance – Audit & Risk Committee  
**Date:** 11<sup>th</sup> July 2016  
**Subject:** Internal Audit Annual Report and Opinion 2015-16

**Summary** This report provides Members with an overview of the work undertaken by the Internal Audit Section during the 2015-16 financial year against the Strategic Audit Plan, and provides an assurance opinion to support the Annual Governance Statement

**Recommendation** To note the report.

### 1.0 INTRODUCTION AND BACKGROUND

- 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 describes the work conducted by Internal Audit and 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 2015-16 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 This Internal Audit Annual Report provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control, including in particular:

- the key controls operating within and around the core financial systems
- financial management in each Directorate and corporately
- arrangements for the letting and monitoring of contracts
- controls over information management and security.

- 2.2 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 Internal Control systems are only designed to manage risk to a reasonable, and cost effective, level. Subsequently the Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of these systems.

- 2.3 Bearing this in mind, in the Audit Manager's opinion, the Council's control arrangements were adequate and effective in 2015-16, with sound controls in all key areas.

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

- 3.1 During 2015/16, 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 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.

- 3.3 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. There is budget provision to enable the Audit Manager to call on this resource if required as part of the Strategic Audit plan.
- 3.4 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2015-16 line management was through the Assistant Director (s151 Officer), but direct access to the Chief Executive, Leader, or Chair of the Audit and Risk Committee was available if required.
- 3.5 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.
- 3.6 All work in 2015-16 has been performed according to the PSIAS. The standards, which are based on the mandatory elements of the CIIA's 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.
- 3.7 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 subsequent report was presented to the Audit and Risk Committee on 28<sup>th</sup> October 2014.
- 3.8 Of the 56 standards, Internal Audit was found to be compliant with 50. Recommendations were made in respect of the six standards that were not compliant and subsequent actions taken to correct these were reported to the Committee on 21<sup>st</sup> July 2015.
- 3.9 A self-assessment checklist, consisting of 207 questions, has been completed this year to ensure that the team continue to comply and the overall result was positive. The completed 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 two years. This is then presented to the Audit and Risk Committee to endorse. The plan for 2015-16 was agreed on 23<sup>rd</sup> June 2015.

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.

4.6 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, in one case the audit produced a result of 'No Assurance', and another showed 'Limited Assurance'.

The 'No Assurance' was the result of the Allotments audit and a comprehensive plan of action was put in place. The nature of the required corrective work meant that a longer timescale than normal was necessary but ongoing monitoring by

the auditor has indicated a very good level of implementation. As a result the level of assurance had improved to 'Limited' at the initial follow-up carried out six months after the audit report was issued.

The 'Limited Assurance' result was for the audit of Alive Leisure and Alive Management. The new employment and management structures are still being refined and embedded, and an action plan has been agreed with managers to resolve the issues.

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 2015-16 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 and Risk 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 most of the matches from the 2014/15 exercise and the Flexible Matching Service being completed. In total 3,770 matches were received, of which 3,269 have been processed and 492 are waiting to be processed and a total in excess of £105,000 is being recovered as a result.
- 5.2 The Internal Audit Team did not conduct any internal fraud investigations during 2015/16.

## **6.0 Risk Management**

- 6.1 The process for reviewing and updating the Risk Register is currently 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 and Risk Committee receive the Corporate Risk Register after it has been updated at the regular 6-monthly intervals.
- 6.2 The Council's Risk Management Policy and Strategy were reviewed and the final versions approved by Cabinet in March 2016.

## **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 2015-16, 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.

Training undertaken by Internal Audit 2015/16 included:

- Report writing
- Preventing and Detecting Housing Fraud
- An introduction to Internal Auditing
- Psychology of Criminal Profiling Level 3
- An Introduction to Information Systems Auditing
- Procurement and Contract Management
- Risk Appetite – making it real
- Financial Management Risk and Financial Controls
- Child Protection Training – CSE awareness

In addition more corporate wide training was completed relating to:

- Business Continuity (E-learning)
- VDU (E-learning)
- IT security (E-learning)
- Managing Change
- Data Protection, FOI and EIR (E-learning)

**Audit reports issued during 2015/16 showing assurance levels**

<b>Audit title</b>	<b>Overall Conclusion</b>
Public Open Space – Street Cleansing	Substantial Assurance
Public Open Space – Allotments	No Assurance
General Ledger and Budgetary Control (2014/15)	Substantial Assurance
Resort Services	Full Assurance
Leisure Trust (2014/15)	Substantial Assurance
Council Tax (2014/15)	Substantial Assurance
Creditors and Payments (2014/15)	Full Assurance
Payroll (2014/15)	Full Assurance
Annual Governance Statement Review	Substantial Assurance
Performance and Appraisal	Full Assurance
Non-Domestic Rates and Business Rate Retention Scheme (2014/15).	Substantial Assurance
Recruitment	Full Assurance
Civil Enforcement and Car Parking	Substantial Assurance
Civic Expenses and Administration	Full Assurance
Accounts Receivable	Substantial Assurance
Payroll	Full Assurance
Treasury and Cashflow Management	Substantial Assurance
CCTV	Substantial Assurance
Data Protection, Freedom of Information and Environmental Information Regulations.	Substantial Assurance
Alive Leisure and Alive Management	Limited Assurance