

AUDIT COMMITTEE

Internal Audit Annual Report and Assurance Statement 2014/15 17 June 2015

Report of the Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2014/15 financial year and to present an annual Statement of Assurance regarding the Council's framework of governance, risk management and control.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit Manager's Assurance Statement and Annual Internal Audit Opinion (paragraphs 2.14 to 2.28) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement, which will be presented to the September meeting of the Committee.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement (the Constitution, part 3 section 8, TOR 11).*
- 1.2 Professional standards for Internal Audit in local government¹ specify that "*The chief audit executive (the Internal Audit Manager) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*", and that "*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.*"

¹ *Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)*

2.0 Report

Annual Audit Plan 2014/15

- 2.1 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2014/15 Internal Audit Plan was approved by the Audit Committee at its meeting on 18th June 2014. Adjustments to the plan were approved by the Committee at its meetings on 17^h September 2014 and 21st January 2015.
- 2.2 The annual outturn position against the 2014/15 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original Plan	Revised Plan (21/01/15)	Actuals
Assurance Audit			
Core Financial Systems	60	40	26
Revenues & Benefits Shared Services	40	60	59
Core Management Arrangements	50	40	32
Risk Based Assurance Audits	180	125	109
Follow-Up Reviews	50	63	79
Sub-Total, Assurance Work	380	328	305
Advice & Support Work	80	109	126
Corporate Service Reviews	50	19	19
Investigations	30	7	7
Audit Management	50	50	51
Other Duties (Non-Audit)	10	19	30
Work for Other Bodies (LDNPA)	50	55	52
General Contingency	40	20	0
Total Chargeable Days	690	587	590
Non-Chargeable Activities (note1)	107	118	119
Total Available Days	797	705	709

Note 1. Non-chargeable activities include team meetings, section and service management, general administration, employee development, regional audit group meetings, etc.

Explanation of Major Variances

- 2.3 The summary shows that the number of available days in the year reduced by 88, this primarily being due to a vacancy following the internal promotion of the Principal Auditor to the post of Exchequer Manager. The Senior Auditor has recently been promoted to the Principal Auditor post and arrangements are in hand to deal with the vacancy that this generated.
- 2.4 The number of chargeable days delivered was 590 compared with the original plan of 690. In addition to the vacancy referred to above, there have been slightly higher levels of non-chargeable work arising mainly from an increase in workload surrounding service wide management and development.
- 2.5 Overall, 75 fewer days than originally planned were delivered on the core programme of assurance audit work. In comparison with previous years, this does to some extent diminish the assurance that the Committee is able to take from Internal Audit. It is the Internal Audit Manager's view that, given the results of the work undertaken, previous experience, and other assurance obtained, this does not invalidate his audit opinion.





- 2.6 Advice and support work increased during the year (by 46 days compared with the original plan), the main items covered in this heading being the review of Financial Regulations (26 days) and work related to arrangements for taking card payments at Salt Ayre Sports Centre.
- 2.7 As a result of the staff vacancy mentioned, there have been fewer opportunities to contribute to the corporate programme of service reviews.
- 2.8 The heading of non-audit duties covers the Internal Audit Manager's role as a Deputy Section 151 Officer. The Internal Audit Manager has spent additional time recently in the development of proposals relating to the council's information governance and corporate fraud functions. This new call on resources will continue into 2015/16 and beyond.
- 2.9 As reported to the Committee during the year, the council's Internal Audit team provided the Lake District National Park Authority (LDNPA) with its internal audit service for 2014/15, this amounting to 55 days of work. Whilst this arrangement has worked well, there are no ongoing commitments following the Authority's appointment of a new Internal Audit provider from 1st April 2015.
- 2.10 Elsewhere in the plan, there has been little call for formal investigative work and no other major variations in workload. The general contingency of 40 days was fully allocated to help cover the changes in the plan.

Review of the Effectiveness of Internal Audit

- 2.11 Professional standards expect that an annual review is undertaken of the effectiveness of internal audit. This process forms part of a Quality Assurance and Improvement Programme (QAIP) which feeds in to the wider annual review of the effectiveness of the system of internal control and governance. These will all be covered in the report on the annual review of governance to be considered at the next meeting of the Committee in September 2015.

Results of Assurance Work





- 2.12 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.13 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2014, and any subsequent changes in assurance level.

Assurance Statement

- 2.14 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that risk is being effectively managed and that control weaknesses or irregularities do not exist.
- 2.15 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's totals, for comparison.

Assurance Level (most recent review)	Number of Audit Opinions				
	2014/15				2013/14
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	1	0	0	1	1
Substantial 	10	1	6	17	18
Limited 	2	0	3	5	9
Minimal 	0	0	0	0	0
Totals	13	1	9	23	28

- 2.16 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the "substantial" assurance level. At present this consists of the five audits listed in Appendix A whose assurance ratings stand as "limited".
- 2.17 These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial Systems Audits

- 2.18 This relates to thirteen financial system audits, including three audits relating to the council's various income streams and the associated fees and charges. Assurance levels on the Council's core financial systems remain consistently high. A "maximum" assurance opinion was issued in relation to the council's arrangement surrounding Housing Benefit and Welfare Reforms. Two audits resulted in a "limited" assurance opinion, these being in relation to:
- Debt Management – Council Housing; and
 - Council Housing Tenancy Fraud.
- 2.19 The Council Housing Debt Management audit dates back to early 2013/14. At that point, a key element related to the systems used for the management of Former Tenant Arrears (FTAs); this was resolved in June 2013. The Housing Manager reports that, since the follow-up review in July 2014, collection arrangements for other sundry debts have been significantly improved, with a fundamental review of leaseholder charging having been carried out. Improvements required in relation to the management of rechargeable repairs and court costs are also currently being addressed.
- 2.20 A follow-up review has just been completed on the Council Housing Tenancy Fraud report. This concludes that the assurance opinion should remain at 'limited' at this stage, on the basis that, whilst gateway checks to verify the identity of tenants at application stage have been improved, new tenancy visits to verify that the lawful tenant is occupying the property are not being carried out. Work to ensure that the

level of resources assigned to council housing tenancy fraud is appropriate, proportionate and targeted is also currently ongoing. It has been agreed to carry out a further follow-up review in August with input from the newly established Corporate Fraud Team, in anticipation that Substantial assurance can be reached and reported to the next Audit Committee in September 2015.

- 2.21 Given the work undertaken, it is the Internal Audit Manager's opinion that effective internal controls exist to ensure the accuracy and integrity of the key financial systems and that no significant unmanaged risks or ongoing control weaknesses have been identified.

Governance Arrangements

- 2.22 An audit of arrangements relating to officer gifts, hospitality and interests which originally resulted in an opinion of "limited", was raised to 'substantial' when followed-up in March 2015, reflecting action taken to strengthen the role of managers, raise awareness generally and promote greater consistency across the authority.
- 2.23 There remain a number of outstanding considerations from earlier audit work relating to the council's information governance arrangements. These considerations are being addressed through an ongoing reorganisation of the corporate information governance function.
- 2.24 In the Internal Audit Manager's opinion, at this stage of development, an update on the position regarding information governance, and recognition of the council's achievements in achieving PSN compliance should again be included in the annual governance statement.

Other Audits

- 2.25 This section covers nine audits, three of which resulted in a "limited" assurance opinion, these being in relation to:
- Corporate Property Related Service Contracts; and
 - CCTV;
 - Salt Ayre Sports Centre – Financial Procedures
- 2.26 In each of these, work is ongoing to implement the action plans. Arrangements are in hand to for Internal Audit to monitor and provide the Audit Committee with updates on the progress made.
- 2.27 In the Internal Audit Manager's opinion, no unmanaged risks or control weaknesses have been identified which are so significant as to warrant disclosure in the Council's Annual Governance Statement. Where weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

Annual Internal Audit Opinion

- 2.28 Drawing on the work undertaken and the above summaries, it is the Internal Audit Manager's opinion that, subject to the individual matters highlighted, the council has reliable and effective framework of governance, risk management and control.

3.0 Details of Consultation

- 3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The proposal is that the Committee accepts the Internal Audit Manager's assurance statement as a contribution to the overall assessment of the internal control environment and the Annual Governance Statement. No alternative options are identified.

5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2014/15 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes and the conduct of service reviews.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2014/15

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