

# AUDIT COMMITTEE

## Internal Audit Annual Report and Assurance Statement 2015/16 29 June 2016

### Report of the Internal Audit and Assurance Manager

#### PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2015/16 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 and Assurance Manager's Assurance Statement and Annual Internal Audit Opinion (paragraphs 2.12 to 2.24) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement, which is included elsewhere on this agenda.

#### 1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the Internal Audit Annual Report and annual controls assurance statement.* (the Constitution, part 3 section 8, TOR 8.8).
- 1.2 Professional standards for Internal Audit in local government<sup>1</sup> specify that "*The chief audit executive (the Internal Audit and Assurance 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.*"

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

## 2.0 Report

### Annual Audit Plan 2015/16

- 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 2015/16 Internal Audit Plan was approved by the Audit Committee at its meeting on 17<sup>th</sup> June 2015. Adjustments to the plan were approved by the Committee at its meetings on 16<sup>th</sup> September 2015 and 20<sup>th</sup> January 2016.
- 2.2 The annual outturn position against the 2015/16 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original Plan	Revised Plan (20/01/16)	Actuals
<b>Assurance Audit</b>			
Core Financial Systems	50	30	19
Revenues & Benefits Shared Services	40	26	26
Core Management Arrangements	50	50	30
Risk Based Assurance Audits	170	108	74
Follow-Up Reviews	50	64	63
<b>Sub-Total, Assurance Work</b>	<b>360</b>	<b>278</b>	<b>212</b>
Advice & Support Work	115	85	118
Investigations	30	31	30
Audit Management	50	68	68
Other Duties (Non-Audit)	35	48	67
Work for Other Bodies (LDNPA)	0	0	11
General Contingency	40	0	0
<b>Total Chargeable Days</b>	<b>630</b>	<b>510</b>	<b>506</b>
Non-Chargeable Activities (note1)	113	121	126
<b>Total Available Days</b>	<b>743</b>	<b>631</b>	<b>632</b>

*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 111, this being due to a service review (reported to the January meeting of the Committee) which resulted in the Internal Audit section being reduced from 3.8 FTE staff to 3.0.
- 2.4 In consequence, the number of chargeable days delivered was 506 compared with the original plan of 630. As well as the reduction in resources referred to above, there have been slightly higher levels of non-chargeable work arising mainly from additional staff development time and the need to adapt to changes in working practices.
- 2.5 Most significantly, 148 fewer days than originally planned were delivered on the core programme of assurance audit work. This inevitably diminishes the assurance that the Committee is able to take from Internal Audit's output over the period. This is reflected in the Internal Audit and Assurance Manager's audit opinion.
- 2.6 The heading of non-audit duties has traditionally covered the Internal Audit and Assurance Manager's role as a Deputy Section 151 Officer. During 2015/16, new workload has arisen from the Internal Audit & Assurance Manager's adoption of managerial responsibilities regarding the council's information governance and corporate fraud functions.





- 2.7 In the information governance area in particular, issues surrounding recruitment to new posts have generated a significant demand on resources and has impacted the delivery of Internal Audit services. Whilst this position has to some extent continued into the 2016/17 year, arrangements are in hand to resolve the staffing situation and ensure that an effective level of audit is provided.

### **Review of the Effectiveness of Internal Audit**

- 2.8 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. The conclusions and outcomes from the most recent internal annual review is reported elsewhere on this agenda.
- 2.9 The review concludes that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the Governance Statement.

### **Results of Assurance Work**





- 2.10 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:

<b>Level of assurance</b>	<b>Image</b>	<b>Definition</b>
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.

- 2.11 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31<sup>st</sup> March 2015, and any subsequent changes in assurance level.

### **Assurance Statement**

- 2.12 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.
- 2.13 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				
	2015/16				2014/15
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	0	0	1	1	1
Substantial 	6	0	4	10	17
Limited 	0	0	3	3	5
Minimal 	0	0	0	0	0
Totals	6	0	8	14	23

2.14 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 three audits listed in Appendix A whose assurance ratings stand as “limited”.

2.15 These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

#### Financial Systems Audits

2.16 This relates to six financial system audits. Assurance levels on the Council’s core financial systems remain consistently high. The results include four audits from earlier periods where a follow-up has resulted in the assurance opinion being raised to ‘substantial’. The two new audit reports during the year, those relating to Payroll (15/0925) and Housing Benefit Subsidy – Overpayment Classifications (15/0952) both received a ‘substantial’ assurance opinion.

2.17 Given the work undertaken, it is the Internal Audit and Assurance 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

2.18 No new audit work has been carried out during the year into specific governance arrangements.

2.19 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, but have not yet been fully addressed by, an ongoing reorganisation of the corporate information governance function.

2.20 In the Internal Audit and Assurance Manager’s opinion, at this stage of development, an update on the position regarding information governance should again be included in the annual governance statement.

#### Other Audits

2.21 This section covers eight audits, three of which resulted in a “limited” assurance opinion, these being in relation to:

- Corporate Property Related Service Contracts; and
- CCTV;
- Safeguarding Adults

- 2.22 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.
- 2.23 In the Internal Audit and Assurance 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**

- 2.24 Resourcing issues during 2015/16 and their implications for the provision of assurance 2015/16 Internal Audit Plan have been mentioned in § 2.5. The reduction in the amount of internal audit time spent on assurance work and the associated reduction in the number of assurance opinions issued inevitably has an impact on the level of assurance that the Audit Committee can derive from the work undertaken.
- 2.25 The Internal Audit and Assurance Manager’s opinion is therefore that, whilst the audit work completed has not identified significant issues regarding the council’s framework of governance, risk management and control, reductions in the amount of assurance work mean that only ‘Limited’ assurance can be provided for this particular period.

**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 and Assurance 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 2015/16 financial year, Internal Audit’s work has provided ‘Limited’ assurance.

**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 2015/16

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